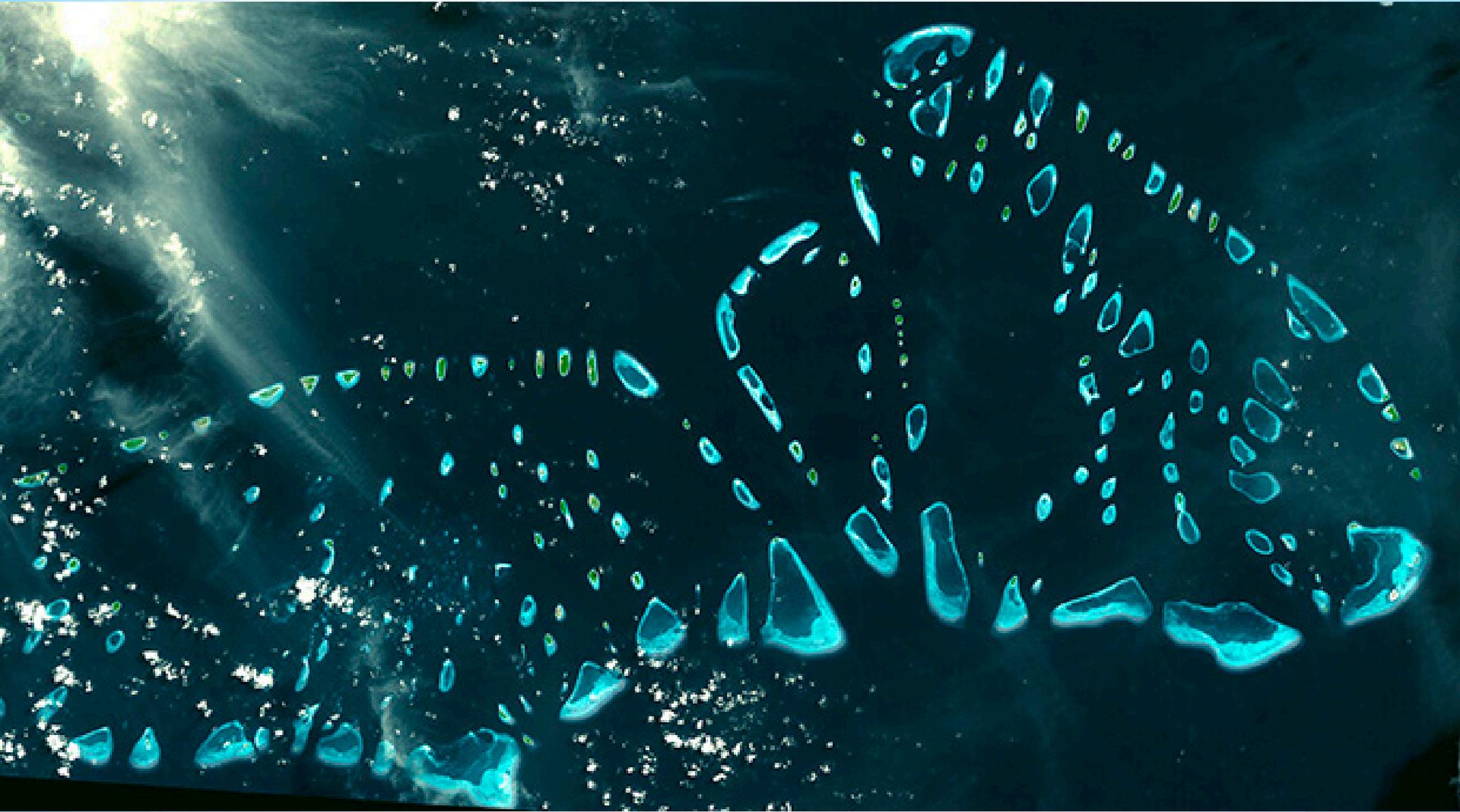


Doing PFM Differently- Using PEFA to Develop PFM Reform Action Plan in Maldives

Asian Regional Seminar on Public Financial Management- *PFM Reforms: The lessons learnt - promises and tears*

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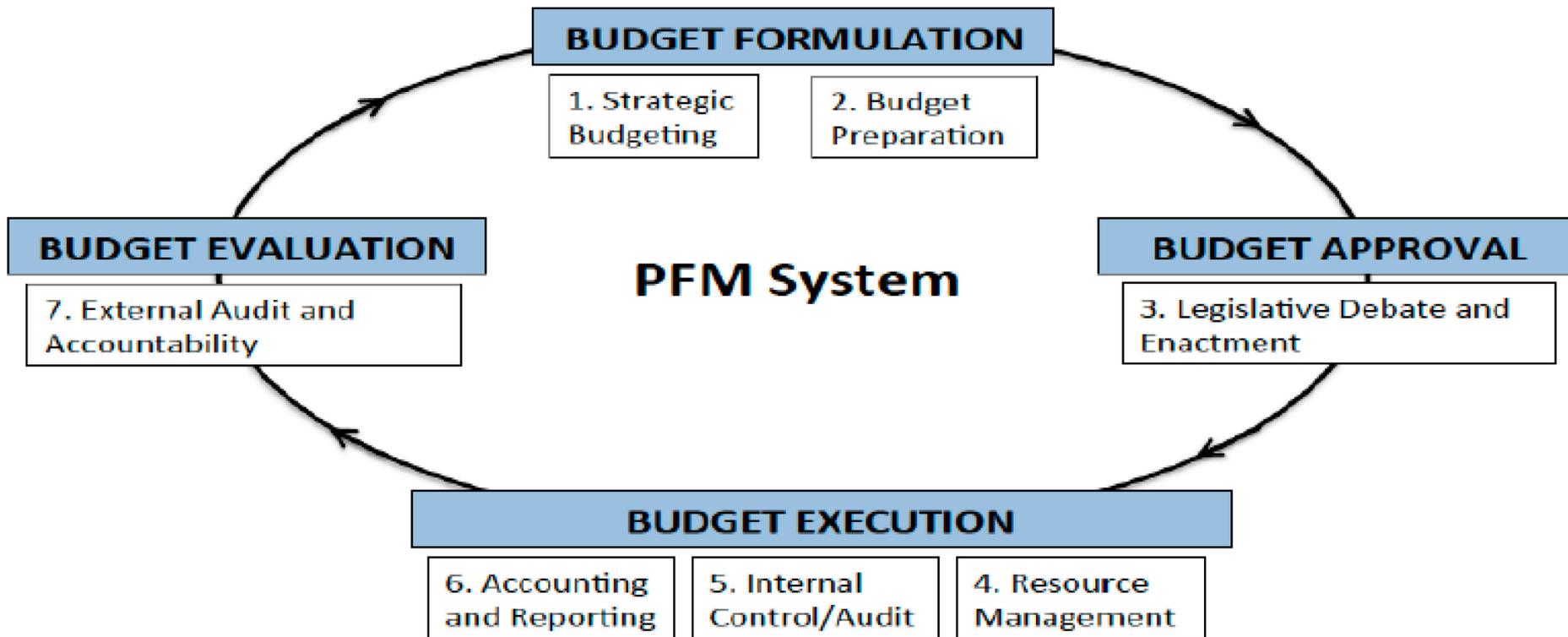
If PEM is an Atoll, ...



PEFA is like an island.



Figure 1. A simplified view of a typical PFM System



Major Changes in Scores- 2009 and 2014

Performance Indicator/Dimension	Initial	Revised
PI 1- aggregate expenditure out-turn compared to original approved budget	A	A-subject to verification of the arrears
PI 7/dimension 1- the level of extra-budgetary expenditure (other than donor-funded projects) which is unreported, i.e. not included in fiscal reports	A	N/R- no data on amount of revenues generated and used by National University and Ministry of Education
PI 8 overall rating- Transparency of inter-governmental fiscal relations	D+	C - using M2 method
PI 21 dimension 2- Frequency and distribution of IA reports	D	C- additional justification
PI 24 dimension 3- quality of information of in-year reports	C	D- several evidence do not merit a C
PI 25 dimension 1- completeness of the financial statements	C	D- lack of cash flow statement
PI 25 dimension 2- timeliness of submission	A	B-lack of cash flow statement
PI 25 dimension 3- accounting standards used	C	D- standards not applied

Comparisons of Scores- 2009 and 2014

PI-4 Stock and monitoring of expenditure payment arrears (scoring method M1)	PEFA 2009		PEFA 2014	
(i) Stock of expenditure payment arrears (as a percentage of total expenditure for the corresponding fiscal year) and any recent change in stock	A	D+	D	D+
(ii) Availability of data for monitoring the stock of expenditure payment arrears	D		C	

PI-2: Composition of expenditure out-turn compared to original approved budget (Scoring Method M1)	PEFA 2009		PEFA 2014	
(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items ²⁴	D	D 1/	D	D+
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.			A	

Comparisons of Scores- 2009 and 2014

PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting (Scoring Method M-2)	PEFA 2009		PEFA 2014	
(i) Preparation of multi -year fiscal forecasts and functional allocations	D	D	D	D
(ii) Scope and frequency of debt sustainability analysis (DSA)	D		D	
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	D		D	
(iv) Linkages between investment budgets and forward expenditure estimates	D		D	

PI-16 Predictability in the availability of funds for commitment of expenditures (Scoring method M1)	PEFA 2009		PEFA 2014	
(i)Extent to which cash flows are forecast and monitored.	C	D+	C	D+
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	D		D	
(iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of MDAs.	B		C	

Comparisons of Scores- 2009 and 2014

PI-18 Effectiveness of payroll controls (Scoring Method M1)	PEFA 2009		PEFA 2014	
(i) Degree of integration and reconciliation between personnel records and payroll data	D	D+	D	D+
(ii) Timeliness of changes to personnel records and the payroll	B		A	
(iii) Internal controls of changes to personnel records and the payroll	C		C	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	C		C	

PI-19: Competition, value for money and controls in procurement (Method M-2)	PEFA 2009		PEFA 2014	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	N/A	NA	C	D
(ii) Use of competitive procurement methods	N/A		D	
(iii) Public access to complete, reliable and timely procurement information	NA		D	
(iv) Existence of an independent administrative procurement complaints system	N/A		D	

Comparisons of Scores- 2009 and 2014

PI-21 Effectiveness of internal audit (Scoring Method M1)	PEFA 2009		PEFA 2014	
(i) Coverage and quality of the internal audit function	D	D+	D▲	D+
(ii) Frequency and distribution of the reports.	D		C	
(iii) Extent of management response to internal audit findings	C		D	

PI -25: Quality and timeliness of annual financial statements (Scoring Method M1)	2009		2014	
(i) Completeness of the financial statements	D	D	D▲	D+
(ii) Timeliness of submission of the financial statements	D		B	
(iii) Accounting standards used	D		D▲	

Comparisons of Scores- 2009 and 2014

PI-27 Legislative scrutiny of the annual budget law (Scoring Method M1)	PEFA 2009		PEFA 2014	
(i) Scope of the legislature's scrutiny	B	D+	C	D+
(ii) Extent to which the legislature's procedure are well established and respected	C		C	
(iii) Adequacy of time for the legislature to provide a response to budget proposals and, where applicable, on macro-fiscal aggregates earlier in the budget preparation cycle.	C		A	
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	D		D	

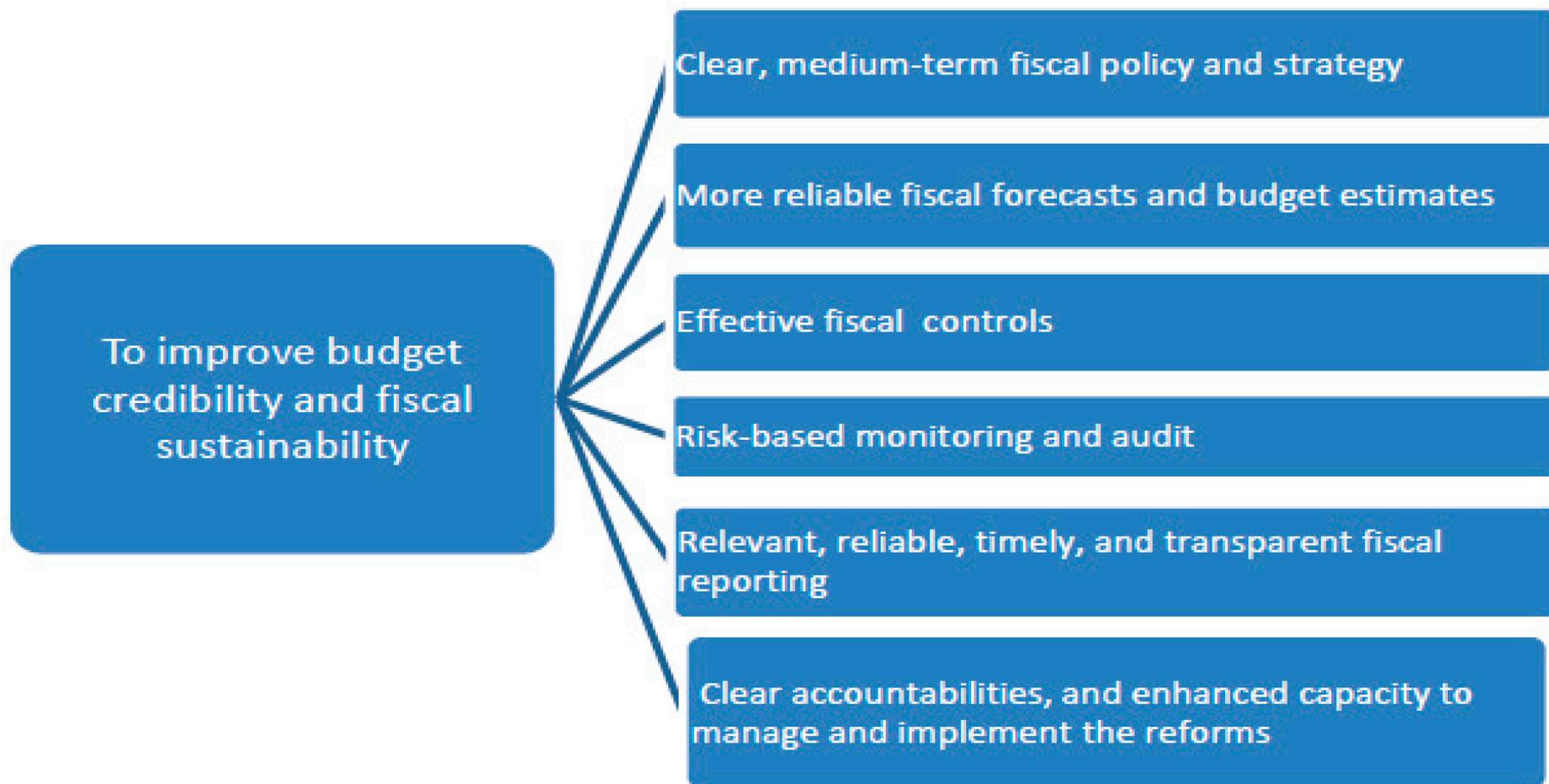
198. As requested by the authorities, an assessment of the transparency of expenditure arrears and public debt using the new IMF Fiscal Transparency Code, was carried out. This assessment benefited from the PEFA assessment particularly on PI 4 and 16. The findings of this assessment (see Annex 3) also validated some of the PEFA assessment particularly on PI 9, 24 and 25.

Fiscal Transparency Principle	Evaluation	Comments
The government regularly reports on the main specific risks to its fiscal forecasts, such as contingent liabilities	Not met	Balances of contingent liabilities, arrears, and other fiscal risks, are not reported.
Risks relating to major assets and liabilities are disclosed and managed.	Not Met	All borrowing is authorized by the Parliament. The MoFT relies on the DSA done by the IMF. However, this is not disclosed in the budget document.
Government guarantees and their management policy are regularly disclosed	Not met	There is no complete picture of total guarantees. Criteria and policy is also not disclosed. However, the annual financial statements include an annex of guarantees issued during the year.

Principle		Assessment	Remarks
1.1.3	Fiscal reports should include a balance sheet of public assets, liabilities, and net worth;	Basic	The annual financial statements do not include a balance sheet. It includes only a statement of income and expenditures and ending balance of the Public Bank Account. However, it includes an annex on details of public debt transactions—borrowings and repayments broken down into external and domestic.
1.1.4	Fiscal reports should cover all public revenues, expenditures, and financing	Basic	The budget statistics and annual financial statements cover all revenues, expenditures, and financing that are included in the budget document.
3.1.2	The government regularly reports on the main specific risks to its fiscal forecasts, such as contingent liabilities	Not met	Balances of contingent liabilities, arrears, and other fiscal risks, are not reported.
3.2.2	Risks relating to major assets and liabilities are disclosed and managed.	Not met	All borrowing is authorized by the Parliament. The MoFT relies on the DSA done by the IMF. However, this is not disclosed in the budget document.
3.2.5	Government guarantees and their management policy are regularly disclosed	Not met	There is no complete picture of total guarantees. However, the annual financial statements include an annex of guarantees issued during the year.

- The PEFA mission reviewed arrears and debt using the new Fiscal Transparency code at the request of government

Figure 1. PFMRP Vision and Strategy Framework, 2014–18



Box 1. PFMRP Priority Actions

A. Short-term (2014–16)

- Formulate a PFMRP accountability framework, and establish regular monitoring and coordination mechanisms to keep implementation on track;
- Formulate a clear and well-coordinated fiscal strategy framework; (MTFSF) to be agreed at the Cabinet and Public Accounts Committee;
- Develop reliable fiscal frameworks indicating baseline ceilings and fiscal envelope for both recurrent and capital expenditures by improving the budget analytical process;
- Implement a quarterly cash flow forecasting to guide the in-year budget allocation;
- Institutionalize commitment control in all accountable government agencies;
- Formulate and implement a policy on arrears settlement and prevention;
- Strengthen financial regulations focusing on high risk areas such as payroll, procurement, subsidies, bank reconciliation, and loans;
- Prepare a comprehensive and reliable report of cash balances and arrears at least on monthly and annual basis;
- Establish a system of monitoring the financial performance of key SOEs, identifying the risk areas;
- Strengthen audit strategy by focusing on risk areas and clarifying the role of internal audit.

B. Medium-term (2017–18)

- Update PFM legal frameworks to make them more strategic and consistent;
- Develop a medium-term fiscal framework;
- Integrate the budget processes of recurrent and capital spending;
- Continue consolidation of revenue administration reforms according to the new strategic plan;
- Continue strengthening capacity for Debt Sustainability Analyses (DSA);
- Continue enhancing capacity for a more reliable cash management;
- Improve key business processes including the Public Accounting System and strengthen on internal controls;
- Strengthen fiscal oversight of SOEs and local councils (LCs);
- Compile and disclose more relevant information details in the annual financial statements such as on government investments, releases from contingency fund, and explanations of major deviations from the budget;
- Continue enhancing capacity to conduct risk-based audit;
- Evaluate the progress and remaining challenges, and update the PFM RP.

Examples from Action Plan 2014-18

Short-term (2014–16):

Priority Results:

- Commitment module of PAS completely rolled-out to all AGAs;
- Key accounts are reconciled more frequently to provide more reliable information;
- All liabilities and arrears reported on monthly basis and disclosed in the financial statements;
- Mix of capacity-development measures undertaken.

131. **TPAD in consultation with the Accounting and Reporting Committee to improve the Chart of Accounts (CoA) and its consistency with the budget classification.** TPAD would also need an expert on this. Once a harmonized reporting framework has been approved, the accounting committee shall review and improve the CoA structure in 2016, starting with the economic classification. The economic classification should be consistent with the proposed improvements in the budget classification. The official adoption of the CoA should also be approved by the Minister of Finance.

Medium-term (2017–18):

Priority Result:

- Accounting and reporting policies, classifications, roles and responsibilities are clarified, harmonized, and disseminated;
- Improved relevance, reliability, timeliness, and accessibility of financial statements and key fiscal reports according to approved accounting and reporting policy frameworks, and standards.

Finance Minister: 'For the Waste unit we will give GDP growth as a ceiling this year'

Line Minister: 'But the waste dump does not know GDP, it keeps growing and growing'



Short-term (2014–16):

Priority Result:

- Strengthened basis for establishing AGA ceilings and macrofiscal forecasts covering both recurrent and investment expenditures;

World Bank PFM Reform Project, 2014

36. The proposed project development objective (PDO) is to enhance budget credibility, transparency, and financial reporting of central government finances.

Table A3.1 Project Responsibility

<i>Subcomponent</i>	<i>Responsible departments at MOFT</i>
1.1 Strengthening the legislative and institutional framework for PFM	<ul style="list-style-type: none"> • Legal Affairs Division • Permanent Secretary's Office.
1.2 Enhancing the medium-term macro fiscal framework	<ul style="list-style-type: none"> • Fiscal Affairs and Economic Policy Division <ul style="list-style-type: none"> ➢ Economic Policy Planning Section ➢ National Budget Formulation and Analysis Section
1.3 Strengthening debt and cash management	<ul style="list-style-type: none"> • Debt Management Division • TPAD
2.1 Strengthening the public accounting system	<ul style="list-style-type: none"> • TPAD (functional and technical teams)
2.2 Enhancing the control environment	<ul style="list-style-type: none"> • Permanent Secretary's Office • TPAD • Internal Audit Section, • TES/National Procurement Division • Secretariat of Privatization and Corporatization Board

World Bank PFM Reform Project, 2014

- (a) Development of a master plan for PFM related systems that will give a comprehensive overview of the short- and medium-term changes necessary to develop the interfaces between the various systems and indicate the sequencing of the technical improvements.

Business process design weakness. Lack of clarity and consensus on these issues has also contributed to limited benefits from PAS implementation.

Payroll controls

24. One major area of process weakness is in payroll controls associated with establishment registers. With salaries being approximately 14 percent of GDP, this becomes a high priority area of focus. Ministries use separate HR databases to update employee information. Typically, each ministry has 3 HR systems: (a) stand-alone leave and time management systems acquired locally by many ministries; (b) Position Management System, called VIUGA, a be-spoke web-based centralized application developed and rolled-out by the Civil Service Commission to the ministries to manage positions/establishment; and (c) SAP-based payroll system rolled out to around 77 spending units/agencies. Ministries maintain employee information in the 3 systems, leading to duplication of efforts, redundant systems, and associated control weaknesses due to disintegrated HR systems. An integration of HR and payroll databases are needed to strengthen controls and to avoid maintenance overheads associated with multiple systems and duplication of efforts by the ministry staff.

PEFA 2014 update - some lessons

1. Provide a baseline of where PFM is when a new administration come

2. The Good

self assessment and ownership of reform plan at operational level

World Bank funded new PFM Project- most indicators based on PEFA

3. The Bad

co-ordination across donors

the action plan - was it too much bottom up?

Some of the indicators not directly comparable - like the procurement

4. Should we use other tools- DeMPA already carried out, PIM tool, Procurement tool, Fiscal Transparency code,

5. Is PDIA the way forward

Is PDIA the way forward?

"What problems do these reforms try to solve? Quite a few, potentially. They could try to solve problems of governments overspending, or problems of governments not using money in the most efficient and effective manner (and ensuring services are delivered), or of governments using money in ways that erode trust between the state and citizens (and more).

Now, let me ask how many reforms actually examine whether they solve these problems? Very few, actually. Mostly, reforms ask about whether a government has introduced a new multi-year budget or an integrated financial management system. Or a new law on fiscal rules, or a new procurement system.

Sometimes the reforms will ask questions about whether fiscal discipline is improved (largely because this is something outsiders like the IMF focus on) but I seldom see any reforms—or any PFM assessments (like PEFA or even the assessments of transparency) asking if services are better delivered after reforms, or if reforms enhance trust between citizens and the state. I don't even see efforts to systematically capture information about intermediate products that might lead to these 'solved problems'."-

Matt Andrews

Hirschman, “men engage successfully in problem-solving [when] they take up problems which *they think* they can solve, find them more difficult *than* expected, but then, being stuck with them, attack willy-nilly the unsuspected difficulties - and sometimes even succeed.”

<http://buildingstatecapability.com/>

There are many ways to fish, some more sustainable than others.



Using PEFA as a basis, developing a PFM reform may be more sustainable.- thank you