

2010 6th ANNUAL CABRI SEMINAR

GOOD FINANCIAL GOVERNANCE: Towards Modern Budgeting

Session 2: Good Financial Governance (Budget Execution)

MAURITIUS 18TH – 20TH MAY,

CABRI annual Seminar 6/3/10

TASK OF BUDGET EXECUTION

- GOOD FINANCIAL GOVERNANCE IN BUDGET EXECUTION WOULD HAVE THE FOLLOWING OUTCOMES
 1. Compliance/rule of law: Ensure compliance with annual budget law; protect integrity
 2. Stabilization: Ensure timely adjustment of fiscal aggregation driving budget execution
 3. Efficiency and Effectiveness: Ensure resources are best employed to meet government policy objectives

AREA OF RESEARCH: BUDGET EXECUTION

- ▶ Desired outcomes require range of systems and rules to be in place. Research will look at the systems required and the degree to which they are in place
- ▶ Systems collectively contribute to / influence the outcomes, but some are essential for some outcomes
 - Eg cash management essential for fiscal discipline, how it is done affect effectiveness and efficiency of resource use
- ▶ Research will look at
 - Degree to which systems anchored in legal framework
 - Degree of compliance with rules

AREA OF RESEARCH: BUDGET EXECUTION

- ▶ **Necessary institutions for fiscal discipline and stabilisation**
 - CASH MANAGEMENT
 - COMMITMENT CONTROL
- ▶ **Necessary institutions for effective and efficient use of resources**
 - RULES DETERMINING FLEXIBILITY vs COMPLIANCE WITH ANNUAL FINANCE LAW
 - PROCUREMENT
 - MONITORING PERFORMANCE
- ▶ **Necessary institutions protecting rule of law and integrity**
 - CHECKS and BALANCES in EXPENDITURE CHAIN, eg PAYMENT CONTROLS

SYSTEMS REQUIRED FOR AGGREGATE FISCAL STABILISATION

AREAS OF RESEARCH:

- ▶ Cash Management
 - Financial planning , forecasting and cash plans
- ▶ Treasury Management
 - Management of government bank accounts
 - Treasury Single Account
- ▶ Commitment control
 - Bottom up systems to align resources and spending
 - Staying within available resources, rule of law, avoiding arrears
- ▶ Requires systems at central and spending agency level / arranged differently in different countries

Budget Execution: What do we like to see?

- ▶ **Effective cash management**
 - Smooth out gaps between inflows/outflows
 - Minimize cost of government financing
- ▶ **Broader financial management to coordinate with monetary, BOP policies**
 - Institutional mechanism of coordination
 - Forward projections of cash flows
- ▶ **Timely and comprehensive monitoring**
 - Transparency on decisions made through reporting

CASH MANAGEMENT OBJECTIVES

- Ensure government obligations can be met as they fall due
- Avoid expenditure arrears
- Minimise idle cash balance
- Enhance transparency of government flows
- Contributes to development of short-term money market

Cash Management - Requirement

- ▶ Effective Government Banking Arrangement
- ▶ A Treasury Single Account (TSA)
- ▶ No account outside the Treasury control
- ▶ All revenue flows into and all expenditures are made from the TSA
- ▶ Budget Units do not keep separate bank accounts
- ▶ All monies seen as fungible to prevent inefficient use of public cash resources

Commitment Control – Requirement

- ▶ Rules for control against voted funds and available resources
- ▶ Transparency and reporting

BUDGET EXECUTION - CHALLENGES

- ▶ Capacity to adjust with minimum impact on allocative efficiency
- ▶ Authority to reduce spending
- ▶ Capacity to record/control expenditure at each stage
- ▶ Capacity to report

Existing standards and research to draw on

- ▶ IMF Code of Good Practices on Fiscal Transparency
- ▶ World Governance and AfDB Country Policy and Institutional Assessment – CPIA
- ▶ OECD: Best Practices in Fiscal Transparency
- ▶ G8 Action Plan for Good Financial Governance
- ▶ Africa Peer Review Mechanism and Governance Reports
- ▶ CABRI Budget procedures and practices report
- ▶ WB – CFAA
- ▶ WB: CPAR
- ▶ IMF ROSC Reports
- ▶ PEFA

SYSTEMS ESSENTIAL TO EFFECTIVE AND EFFICIENT USE OF RESOURCES

Areas of Research:

- ▶ Rules to balance flexibility and budget discipline/rule of law
- ▶ Procurement
- ▶ Monitoring for performance

CONTENT – KEY POINTS

- ▶ EFFICIENT BUDGET IMPLEMENTATION
 - Timely release of funds
 - Internal controls (ministerial) preferred to ex-ante control (centralized)
 - Rules for virement should allow for flexibility and control over major items
 - Regulations on overspending and supplementary budget
 - Availability of and Rules on the use of contingency to meet unforeseen / unavoidable expenditures

CONTENT – KEY POINTS

- ▶ Efficient & transparent procurement system
- Government should obtain goods and services
 - of required quality
 - at a competitive price
- Fair opportunity to all bidders
- Assure value for money
- Minimize risks of corruption and patronage
- Foster competitive market

Budget Execution: What do we like to see?

- ▶ Timely and comprehensive monitoring
 - Coverage complete
 - Lags minimized in reporting and action
 - Flexibility in Execution with full transparency
 - Good ratio in implementation enhances budget credibility

REFORM INITIATIVES

- ▶ Budget execution generally needs to be improved:
 - Enhancing expenditure control and;
- ▶ Creating conditions for increased efficiency in public spending
- ▶ QUESTIONS:
- ▶ What basic requirements need to be met?
- ▶ How do we improve efficiency in the system?

SYSTEMS TO ENSURE INTEGRITY IN BUDGET EXECUTION

- ▶ EXPENDITURE CONTROL for INTEGRITY
 - Complete system of budget rules needed (commitment , verification and payment controls)
 - Transparency in management of procurement

Existing standards and research to draw on

- ▶ World Governance Indicators
- ▶ ADB – CPIA
- ▶ IMF Technical Assistance Evaluation: Public Expenditure management Reform in selected African countries
- ▶ PEFA
- ▶ WB – CFAA
- ▶ WB: CPAR
- ▶ G8 Action Plan for Good Financial Governance
- ▶ The Abuja Commitment to Action

Questions for discussion

▶ Focus questions :

- Are all important factors covered for achievement of GFG in Africa through credible budget execution?
 - ▢ Are some factors more important than others?
- Against which aspects of the research framework has progress been made?
 - ▢ Has this facilitated GFG? If not, why not?
- What prevents progress in developing the necessary technical systems for GFG in budget execution?
- What should be the priorities for a GFG-oriented reform agenda in budget execution?