The Crisis – An “Opportunity” to Strengthen PFM Systems?

In a crisis PFM systems are put under pressure as a premium is placed by policy makers on fiscal information, optimization of revenue and cash resources, and prioritization and control of expenditures. Weak PFM systems therefore impede effective implementation of urgent policy measures. This box highlights quick actions that can be undertaken to strengthen crisis-critical areas of PFM systems, as well as longer-term measures which require more time to deliver results, but which will improve the PFM environment in ways that will make it more resilient to future shocks.

**Some immediate measures that could be undertaken or initiated quickly over the first 6-12 months**

- **Establish firm and sustainable fiscal objectives and obtain political buy-in**: objectives should be set for both medium-term and annual budget, buy-in should be Cabinet and Parliament.

- **Establish clear and well understood spending priorities linked to fiscal objectives**: typically publicized priority spending lists approved in cabinet, with MoF established as the gatekeeper.

- **More questioning of spending before it takes place and make better use of limited resources**: increase scrutiny and approval of particular spending lines where savings may be possible; make more effective use of staff; take measures to ensure value for money is evaluated in all contracts.

- **Opportunity to “clean up” payrolls/pensions**: establish strong controls on payroll, including physical head counts, with strict sanctions for cases involving false declarations and ghosts.

- **Take pre-emptive measures to avoid arrears build-up, or at least ensure central control over arrears**: strengthen commitment control, establish stock of arrears, enforce mandatory monthly reporting of arrears to MoF, and include clearance of arrears in budgets.

- **Separate cash from spending rights and regain treasury control over cash**: bring all idle cash balances under Treasury control; establish in-year cash flow planning to provide basis for budget execution, to give assurance of funding to spending agencies, to monitor efficiency of government cash management, and to limit recourse to unnecessary liquidity borrowing.

- **Improve macro-economic and macro-fiscal monitoring**: strengthen MoF capacity to monitor and analyze critical macro-economic and fiscal indicators; establish in-year monitoring that provides early-warning of changes to budgetary assumptions.

- **Ensure fiscal reporting systems are regular, timely and accurate**: establish reliable and timely monthly fiscal reporting preferably based on accounting data – review and resolve reporting bottlenecks, and address coordination issues; introduce flash reporting systems where accounting data is unavailable.

- **Improve the respect of PFM rules and procedures to reduce fiscal indiscipline**: publicize responsibilities and the need to respect procedures in the legal framework; ensure that sanctions are effective, if necessary, by making one or two examples of transgressors or by publishing shame lists.
Medium-term PFM Initiatives: the crisis provides an opportunity for “structural” reforms, requiring more time to deliver results, but which will put the country in a better position in the medium term.

Measures aimed at strengthening macro-fiscal control and budgetary efficiency

- **Make general government the basis of fiscal reporting:** improve regular reporting from local governments and semi-autonomous agencies to ensure MoF role in macro-fiscal control.
- **Halt/Reduce the proliferation of autonomous agencies and extra-budgetary funds which lead to inefficient and non-prioritized spending:** review the need for each and every autonomous agency, and take steps to close those whose purpose has become obsolete, and to limit the creation of new ones; bring autonomous agency banking arrangements under Treasury control (within a TSA if this exists); strengthen budgetary scrutiny of autonomous agency financial plans to ensure that they remain in line with government policy priorities.
- **More rigorous and systematic costing of budgets:** strengthen the budgetary challenge function; develop costing techniques for spending that lends itself to standard costs; compare budget requests with historical accounting data.
- **Better documentation for Parliamentarians to help them understand budgetary constraints:** clearly articulate macro-economic and fiscal framework; highlight costs of continuing existing policies and identify new policy initiatives; provide clear supporting information on revenue measures, including analysis of tax expenditures; identify fiscal risks and contingent liabilities, including those arising from State Owned Enterprises; present general government spending for information/context purposes.

Measures that aim to transform the way the budget is prepared and structured

- **Extend the horizon for annual fiscal framework to 3-4 years:** introduce medium-term context for resource and expenditure planning, starting with a macro-economic and fiscal framework, then expand to a medium term budgetary framework (MTBF) in the first part of the budget cycle; strengthen line ministry capacity to prepare strategic medium-term plans required to underpin the MTBF.
- **More robust, relevant and manageable medium-term forecasting models:** strengthen the quality of macro-economic data, both historical and forecasts; improve techniques/models for forecasting tax and customs revenues; design framework to arrive at realistic and cautious resource envelopes and spending ceilings.
- **Focus on efficiency of budget spending and creating fiscal space for new measures:** include in the budget preparation instructions measures aimed at encouraging line ministries to propose efficiency measures to generate savings in current spending plans; insist on presentation of justifications and costing for all new spending proposals.
- **Systems to improve information on outputs being targeted:** initiate measures to identify and monitor key output indicators for the budget, with a view to eventually moving to program budgeting.

Longer-term resource-dependent and/or capacity building measures:

- **Appropriate and sustainable supporting computerized systems:** acquire/develop/enhance appropriate computerized tools to effectively support budgetary and financial management processes; ensure systems provide effective and efficient controls, generate timely and reliable fiscal reports, and facilitate proper scrutiny of financial transactions.
- **Strengthen accounting, internal and external audit capacities:** establish sustainable long-term training and certification programs for accountants, internal auditors, and external auditors; review salary grading for these skills to ensure retention and career development.