

PFM Issues for DSM Funds

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Topics

- 1 PFM Best Practice for DSM Revenues**
- 2 What can we learn from PEFA assessments?**
- 3 Comprehensiveness & Transparency**
- 4 Policy-based Budgeting**
- 5 External Scrutiny**

Answer:

Basic PFM Best Practice...

but.....

On Steroids

Need particularly strong provisions on:

- **transparency**
- *Integration of planning & budgeting*
- *Budget comprehensiveness*
- *A long-term, and not just “medium-term” focus*

Elected leaders tendencies to want to “spend it all now” will have to be tempered...

by a disciplined, mutually agreed, and consistently implemented strategy to save some of the proceeds so that future investment earnings can take the place of DSM revenues when those are depleted

This will require that the “legacy view” of PFM in the region change from a largely “technical” process to a more inclusive and open process with wider discussions and more deliberative and disciplined approaches to national priority setting...

What can we learn from PEFAs about PIC PFM weaknesses most in need of attention generally?

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- ❑ PEFA = Public Expenditure and Financial Accountability
- ❑ Management tool to assess strengths and weaknesses of PFM systems
- ❑ Developed by: IMF, WB, EC, UK, France, Norway, Switzerland
- ❑ Global, standard set of high-level indicators to measure current status of PFM
- ❑ Based on international best practice
- ❑ Focus is on **PFM systems**, not budget policy or quality of spending

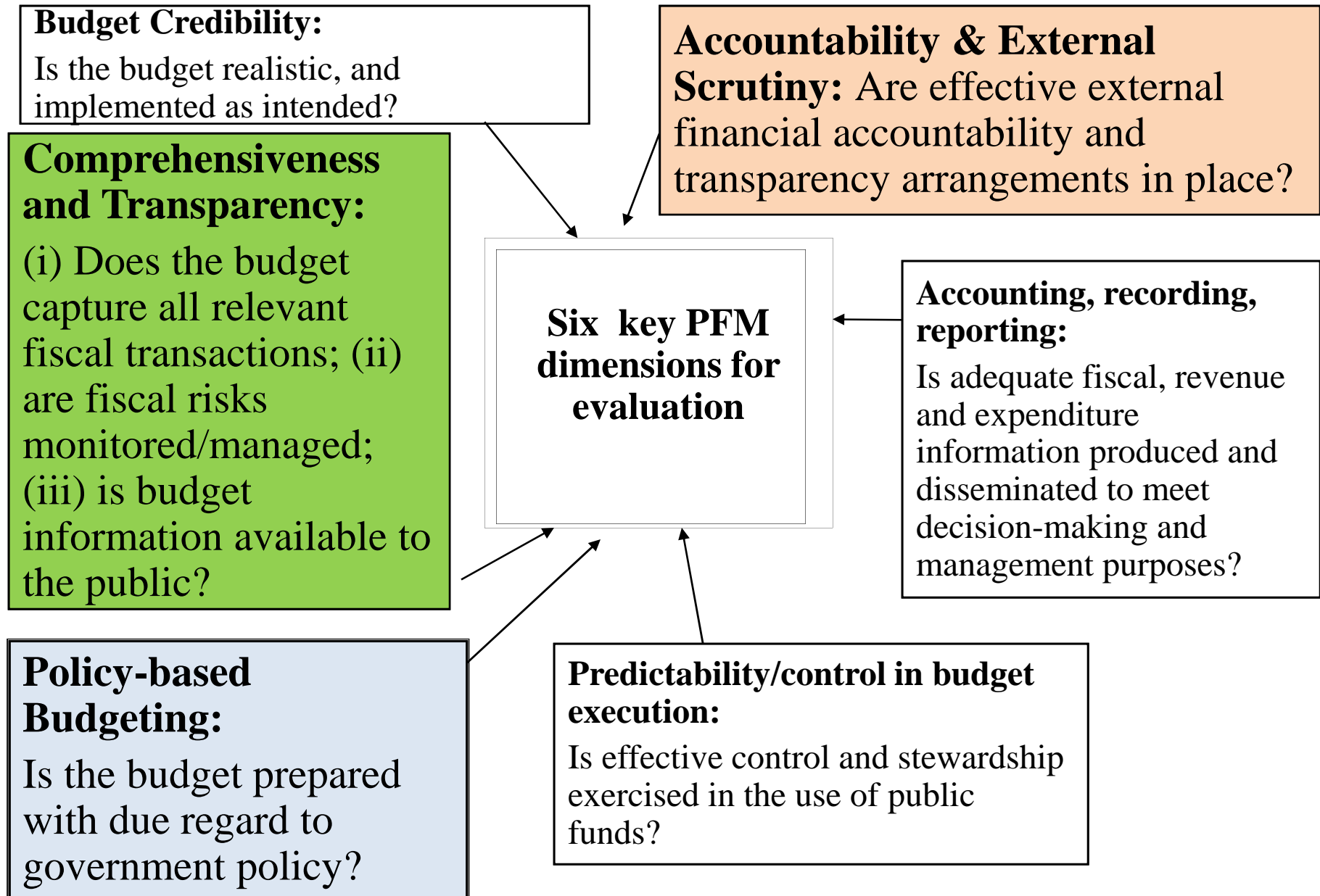
Comprises:

- standard set of **high level indicators** for measuring current status of PFM (baseline)

- **accompanying report** to provide explanation of indicator scores and draw a summary from the analysis

High level measures related to **6 key dimensions of PFM performance**

What are the 6 key dimensions of PFM?



Comprehensiveness & Transparency

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Average PIC PEFA Ratings (May, 2013)

D

C

B

A

PI-6

Comprehensiveness of information included in budget documentation

PI-7

Extent of unreported gov't opertns

PI-7-1

Level of extra-budgetary expenditure not included in fiscal reports.

PI-9

Oversight of aggregate fiscal risk from other public sector entities.

PI-9-1

Extent of central government monitoring of autonomous government agencies & public enterprises.

PI-10

Public access to key fiscal infrmatn

DSM Fund Governance & Transparency

- Very important that “special fund” status does not take the operations of the funds off the public radar
- Public reports (on actual results and forecasts for future, including assumptions) should be part of the regular annual budget documentation
- Should not be a separate budget process for these funds
 - ✓ Separate budget processes used by many PICS today for “recurrent spending” and “development” amply demonstrate the problems that arise from fragmentation/ lack of an integrated process
 - ✓ Resources from DSM funds should only be used as source of revenue for a consolidated fund, or other special funds **that are part of the regular annual budget process and require legislative review and approval**
 - ✓ No direct expenditures for other purposes should be permitted from DSM funds

Average PIC PEFA Ratings (May, 2013)		D				C				B				A			
PI-11	Orderliness/participation in the annual budget process																
PI-11-1	Existence of and adherence to a fixed budget calendar																
PI-11-2	Guidance on the preparation of budget submissions																
PI-12	Multi-year focus: fiscal planning, expenditure policy & budgeting																
PI-12-1	Multi-year fiscal forecasts and functional allocations																
PI-12-2	Debt sustainability analysis																
PI-12-3	Costed sector strategies exist																
PI-12-4	Linkages between invstmnt budgets & forward expenditure estimates																

- Medium to long-range planning for the use of revenues from depletable resources- should be taken very seriously
- Could provide impetus for several reforms to better integrate planning and budgeting:
 - ✓ **Organizational** (separation of planning and budgeting is generally dysfunctional)
 - ✓ **Document integration** (too many separate unconnected documents- national plans, ministry corporate plans, ministry annual plans, sector plans, recurrent budgets, development budgets, medium-term budgets – these all need to be integrated into one annual policy-focused budget for the medium-long term)
 - ✓ A **longer budget preparation process** with earlier engagement of Cabinet to integrate priorities for public services with a realistic revenue envelope
 - ✓ Expanding the annual focus from “just next year” to “**serious medium or longer-term**”
 - ✓ **Reducing number of non-emergency supplemental budgets**, and **requiring fiscal notes** (medium/long term focus) from MOFs for all proposals outside the regular budget process

Accountability & External Scrutiny

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Average PIC PEFA Ratings (May, 2013)		D	C	B	A
PI-27	Legislative scrutiny of the annual budget law				
<i>PI-27-1</i>	<i>Scope of the legislature's scrutiny.</i>				
<i>PI-27-3</i>	<i>Adequacy of time for the legislature to provide a response to budget proposals-- both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle</i>				

- **Time**: Good reviews to integrate thinking about relationship between finance and public policy objectives in the medium/long term will take more time and require more and better information (including perhaps even at the district level)
- **Type of information**: If Legislators are only given line item detail for a one year budget, they will focus only on line item detail for one year. Give them more information with a longer-term focus on integration of finance and policy objectives (**that is released to the public at the same time**) and they will be challenged to respond.
- **Training** Cabinet members & Legislators on their proper role in financial management may need more emphasis. PFM is not just a technical issue → PFTAC's "High Level Dialog" pilot