

ICPAK Public Financial Management (PFM) Conference

PFM reforms in Africa

April 2017



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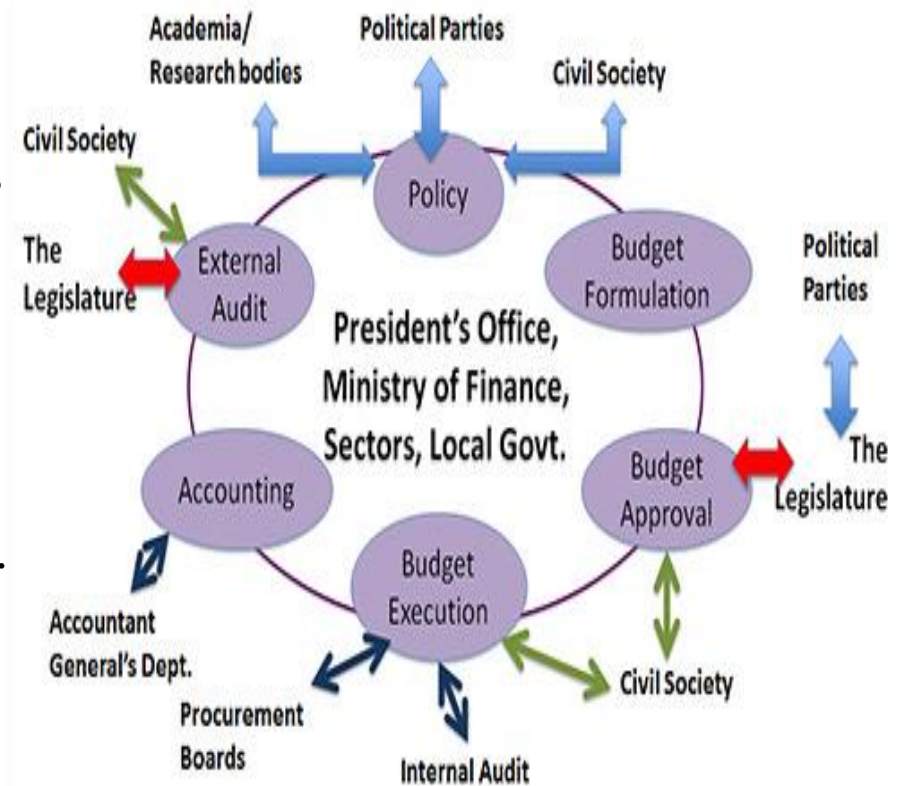
Background

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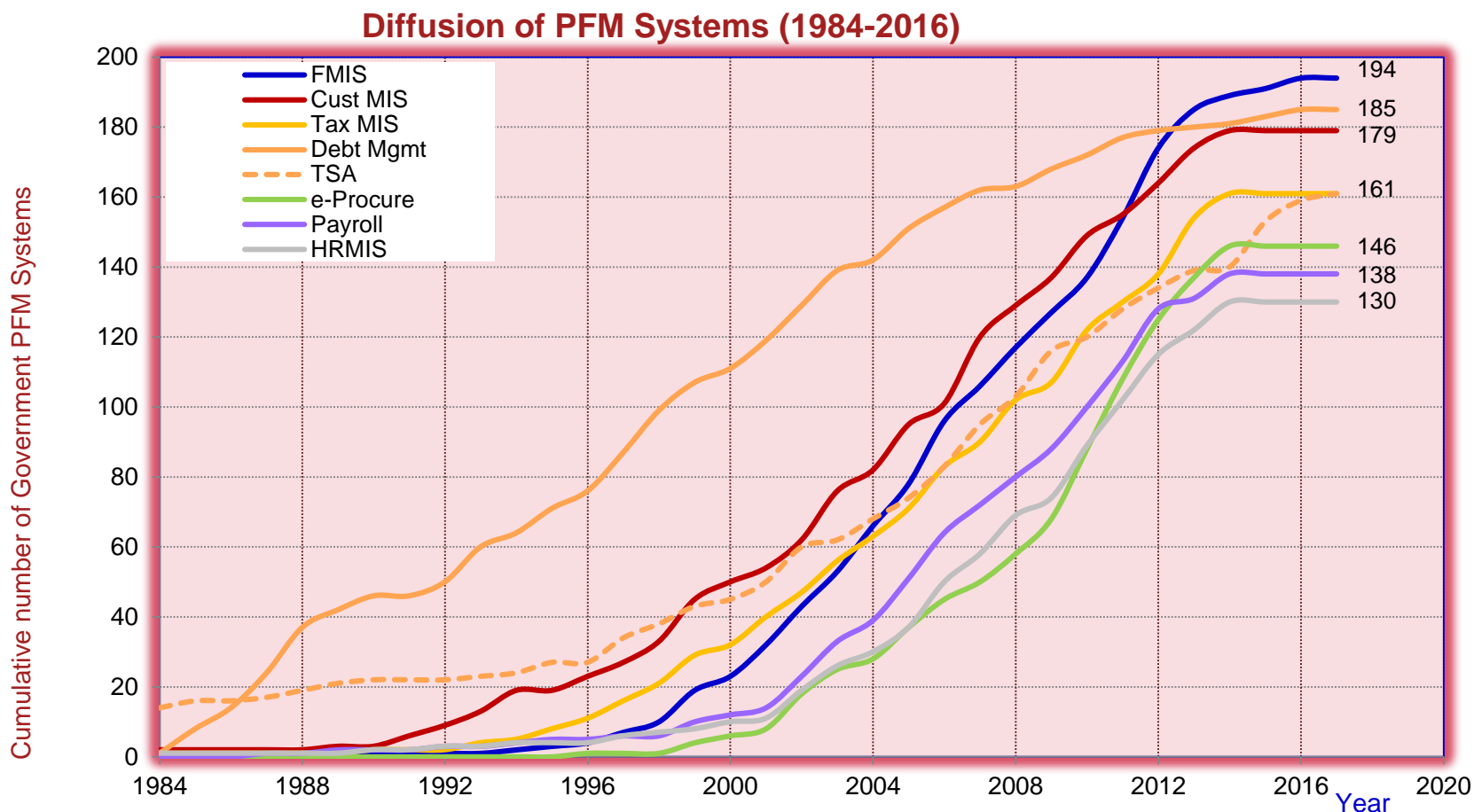


Public Financial Management (PFM) what is it?

- ✓ PFM refers to the set of laws, rules, systems and processes used by sovereign nations (and sub-national governments), to mobilize revenue, allocate public funds, undertake public spending, account for funds and audit results.
- ✓ PFM encompasses a broader set of functions than financial management and is commonly conceived as a cycle of six phases, beginning with policy design and ending with external audit and evaluation.
- ✓ A large number of actors engage in this 'PFM cycle' to ensure it operates effectively and transparently, while preserving accountability

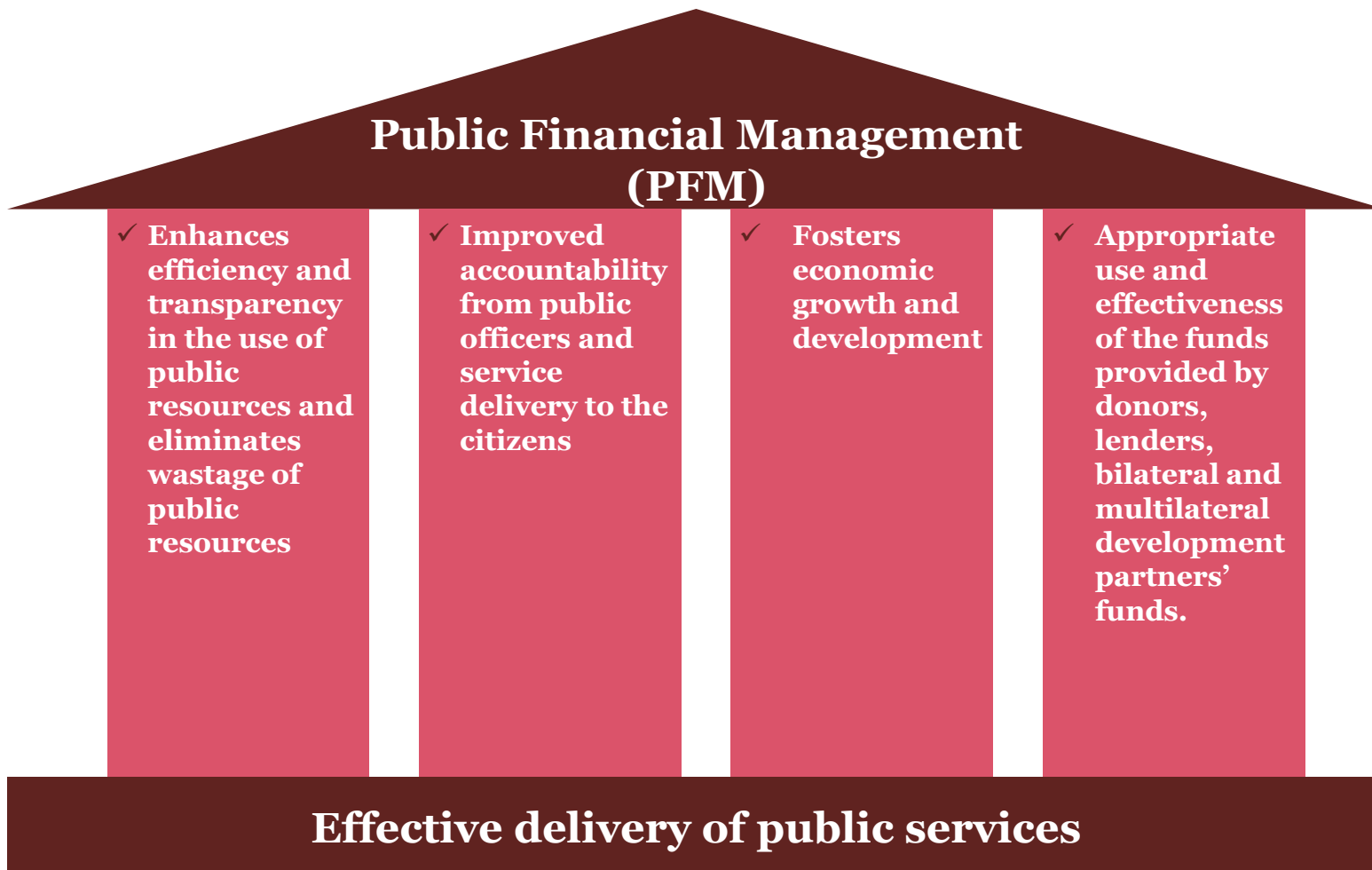


PFM systems globally

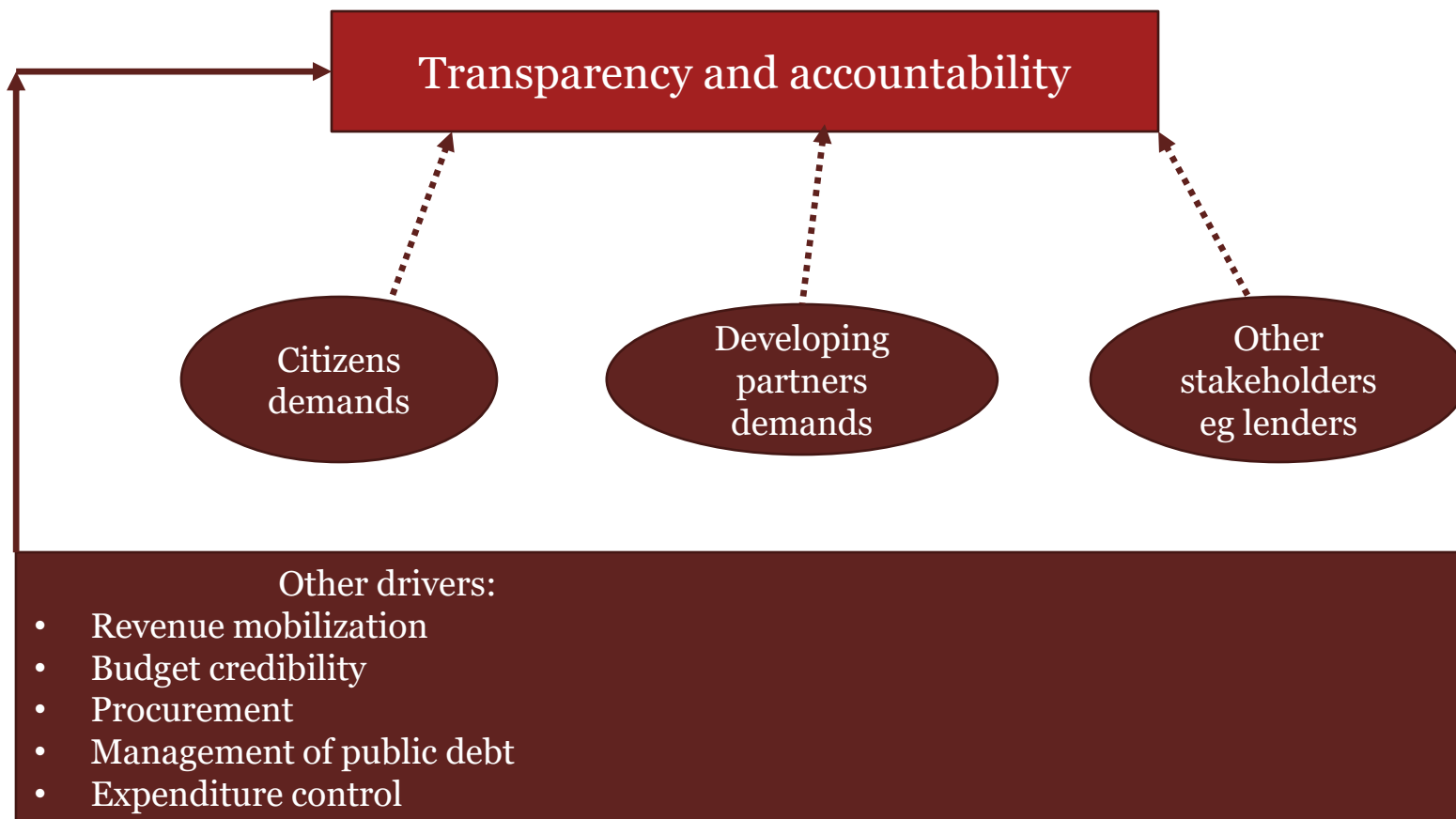


Source: World Bank e-PFM data set

Why PFM agenda



Reforms drivers



Reforms across Africa

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Reforms across Africa

- ✓ Africa has had a turbulent past characterized by wars, conflicts, corruption, mismanagement of public funds, poor service delivery and sluggish economic growth.

- ✓ The last two decades, the continent has experienced some sort of transformation in terms of leadership, economic growth, peace and trade.
- ✓ More countries have embraced democracy, liberalized their economies to allow for a free market.
- ✓ Increased pressure on the government by the citizens and development partners to enhance public accountability, improve service delivery and enhance transparency.

- ✓ These mounting pressures have led to various reforms in the way public finances are managed across the continent.
- ✓ The PFM reforms were previously triggered by international donors and development partners who required certain conditions to be met before sending funds to a country.
- ✓ This was the case in the first major PFM reforms in Africa, the Structural Adjustment Programs, triggered by the International Monetary Fund (IMF).

Key PFM Reforms in Africa



Legal framework - Most of the countries in Africa have enacted Public Finance Management Acts with strong and clear guidelines on PFM.

Institutional reforms - there has been ongoing institutional reforms in Africa to anchor in sound PFM Practices i.e through a Supreme Audit Institution and having competent man power in PFM

Treasury Single Account - A treasury single account (TSA) is an essential tool for consolidating and managing governments' cash resources, thus minimizing borrowing costs. Nigeria is one of the countries in Africa which has successfully implemented the TSA. Other countries, including Kenya, are also looking at ways of operationalizing the TSA as part of the PFM Reforms.

Integrated Financial Management Information System (IFMIS) - an information system that tracks financial events and summarizes financial information to enable the government make macro- economic decisions. Many countries in Africa are implementing IFMIS as part of the PFM reform agenda. Some of these include, Kenya, Tanzania, Uganda, Rwanda, Malawi, Ghana, among others.

PFM reforms – a journey through Africa

| Country | PFM reforms | Accounting Framework | Key PFM reforms drivers |
|----------|---|---|--|
| Tanzania | <ul style="list-style-type: none"> Since the commencement of the 5th Administration of His Excellency Dr Magufuli in November 2015, the Government started the process of re-writing the Public Procurement Act and its Regulations. Most likely the new law will come into effect in the middle of his 5 years tenure. IFMIS is used by the Central Government, Ministries and its Agencies. The future plan is to roll out IFMIS to Regional Administration and Local Government. | IPSAS Cash basis with plans to move to accrual | <ul style="list-style-type: none"> The President focus in fighting corruption, improving infrastructure and ensuring the economic growth trickles down and uplifts the life of poor people. |
| Ghana | <ul style="list-style-type: none"> New PFM Act enacted on 3 August 2016 to replace the Financial Management Act, 2003. Among other things, the new PFM Act contains requirements for a robust and comprehensive financial reporting framework based on an accrual basis accounting system IPSAS is the framework that the Act envisages will be used for government reporting. Has implemented Ghana Integrated Financial Management and Information System (GIFMIS). | IPSAS Cash since 2007, but adopted IPSAS accrual in 2014 budget statement. Implementation of accrual ongoing. | <ul style="list-style-type: none"> Revenue mobilization Expenditure controls around procurements and payroll Budget credibility Managing public debt |

Selected countries PFM reforms

| Country | PFM reforms | Accounting Framework | Key PFM reforms drivers |
|--------------|--|--|---|
| Rwanda | <ul style="list-style-type: none"> The most recent development is rolling out IFMIS to sub national level, below district level and more specifically at district hospital level to improve accountability and reporting. The next major reform is moving to accrual basis IPSAS. Rwanda has an in-house developed IFMIS system which mainly captures expenditure against the budget and is web based/on line. | <p>The Government is using modified cash basis of accounting and now plans to move to accrual basis IPSAS by 30 June 2022.</p> <p>They are in the process of tendering for development of a road map to achieve full compliance with accrual basis IPSAS by this date.</p> | The Ministry of Finance and Economic Planning |
| South Africa | <ul style="list-style-type: none"> Legislation that includes Public Management Finance Act -1999; Municipal Finance Management Act-mainly for local government; Preferential procurement policy framework ;Various regulations including Treasury Regulations; Various practice notes; Budgetary frameworks; Reporting frameworks; and Monitoring and Evaluation Frameworks-this is mainly relating to performance against strategy. Three separate revenue forecast models, one by the South African Reserve Bank, the second by the South African Revenue Service, and the third by the Tax Policy Unit of the National Treasury, provides adequate checks and balances IFMIS implementation underway | <p>National and provincial departments use a modified cash basis of accounting. The NT-OAG is on transition to the accrual basis for the departments. Public entities (autonomous government agencies and public enterprises) use the accrual basis.</p> | <ul style="list-style-type: none"> Legislation |

Selected countries PFM reforms

| Country | PFM reforms | Accounting Framework | Key PFM reforms drivers |
|---------|--|----------------------|--|
| Malawi | <ul style="list-style-type: none"> • His Excellency, Professor Arthur Peter Mutharika officially launched the Public Sector Reform agenda on 11 February 2015 whose theme was 'Making Malawi work'. The key driver was need for a critical civil service that is professional, efficient, and effective and ready to meet current and future challenges of Malawi. • Public Services Reforms Commission (PSRC) was mandated to provide strategic leadership in the implementation of Public Sector Reforms for efficient provision of high quality public service. • The Central Government, Ministries and 28 District Councils are using IFMIS. The district councils are managed under the National Local Government Finance Committee (NLGFC). IFMIS at district level became operational in 2008. There are currently different accounting software or platforms in use at both central and decentralized levels. At district level, Serenic Navigator tailored to suit Central Government requirements is used and at central level EPICOR is in use. | IPSAS Cash basis. | <ul style="list-style-type: none"> • The President and his Administration is focused in fighting corruption and restoring donor confidence. • The Cash gate Scandal (revelation of massive theft of public resources in September 2013), impacted negatively on confidence of the public and development partners • Political good will |

WB Score on key indicators

| Country | Level | Population-millions | FMIS Solution | WB Score (max 22) |
|--------------|-------|---------------------|--|-------------------|
| Ghana | LMIC | 27,410 | Ghana Integrated Financial Management Information System (GIFMIS) | 14.00 |
| Kenya | LMIC | 46,050 | Integrated Financial Management Information System (IFMIS) | 15.00 |
| Malawi | LIC | 17,215 | Integrated Financial Management Information System (IFMIS) | 15.00 |
| Nigeria | LMIC | 182,202 | Government Integrated Financial Management Information System (GIFMIS) | 14.00 |
| Rwanda | LIC | 11,610 | Integrated Financial Management Information System (Smart FMS) | 15.00 |
| South Africa | UMIC | 54,490 | Integrated Financial Management System (IFMIS) | 16.00 |
| Tanzania | LIC | 53,470 | Integrated Financial Management System | 15.00 |
| Uganda | LIC | 39,032 | Integrated Financial Management System (IFMIS) | 16.00 |

Case for Kenya

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Case for Kenya

The PFM reforms in Kenya revolve around the following:

Integrated Financial Management Information System (IFMIS)

Budgeting

Financial Reporting (Application of IPSAS)

Procurement practices

Public Finance Management Act.

Case for Kenya

Integrated Financial Management Information System (IFMIS) – this is being used in the National Government and roll out to the County governments is ongoing

Integration of IFMIS with other government systems such as I-TAX for Kenya Revenue Authority (KRA) and internet banking by the Central Bank of Kenya (CBK) is also ongoing

Enactment of legislation eg the Public Procurement and Disposal Act, the Public Finance Management Act, the Public Finance Management regulations 2015, the Public Audit Act

Office of the Auditor General and Office of the Controller of Budget

Establishment of audit committees in government entities

Application of International Public Sector Accounting Standards (IPSAS) in preparing the financial statements of the government

Public participation in the budget making process

E-procurement – this has been integrated in IFMIS to allow for online procurement of goods and services

Institutional reforms – The National Treasury has undergone reforms with the filling of critical positions for Directors and Director Generals with competent staff.

Kenya PFM reform status

- ✓ Integrated Financial Management Information System (IFMIS) – this is being used in the National Government and roll out to the County governments is ongoing.
- ✓ Integration of IFMIS with other government systems such as I-TAX for Kenya Revenue Authority (KRA) and internet banking by the Central Bank of Kenya (CBK) is also ongoing;
- ✓ Enactment of legal legislation including the Public Procurement and Disposal Act, the Public Finance Management Act, the public finance management (national government) regulations and the public finance management (county governments) regulations, 2015;
- ✓ **Enriching the Office of the Auditor General in the constitution and Office of the Controller Budget**
- ✓ Establishment of audit committees in government entities – all government entities are now required to have an audit committee to monitor the use of public finances in that entity. This requirement has seen the County Governments establish the audit committees so as to comply with the law. It is yet to be seen the impact that these committees will have on PFM in the country;
- ✓ Application of International Public Sector Accounting Standards (IPSAS) in preparing the financial statements of the government – the national government ministries, departments and agencies and the County Governments are using IPSAS Cash Basis in preparing the financial statements, with additional disclosures on pending bills, receivables and fixed assets. The aim is to transition to the accrual basis of accounting with time;
- ✓ Public participation in the budget making process – the budget making is now subject to public participation. The Treasury Cabinet Secretary has to get public views during the budget making process;
- ✓ E-procurement – this has been integrated in IFMIS to allow for online procurement of goods and services;
- ✓ Institutional reforms – The National Treasury has undergone reforms with the filling of critical positions for Directors and Director Generals with competent staff. This will go a long way in ensuring that a requisite skill set is built in order to enhance PFM.

Conclusion

Increasingly, African governments are seeing the value in reforming public financial management as a way of instilling discipline in public finance management, curbing corruption, improving service delivery, stimulate economic growth and development, ensuring transparency and accountability, and facilitating access to funds.



Questions and Answers

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