



PUBLIC FINANCE MANAGEMENT

Module 1:

The Budget Cycle; basics of a PFM system

Housekeeping Notes



Our daily sessions are scheduled to last 3.5 hours (breaks included).



Make sure to have a headphone connected to your computer, the sound will be better.



Please mute yourself when not talking.



During the training, you can use the chat box to drop questions to the trainers.
For all technical related issues, please send a private message to the MKS team.



Keep next to you a good coffee and a bit of patience, sometimes technology is not perfect.

Test-in

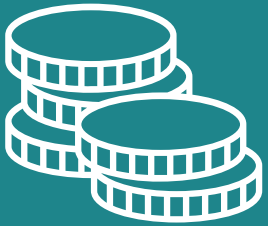
Dear participants,
please refer to chat box for completion of the test-in survey



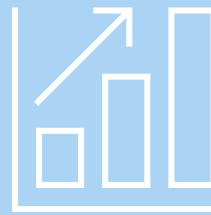
What is PFM?

Public Financial Management deals with the management of public resources: the allocation and use of resources collected from the economy.

3 basic elements of public finance



Government expenditure



Revenues



Government debt

**Expenditure
incl. interest**



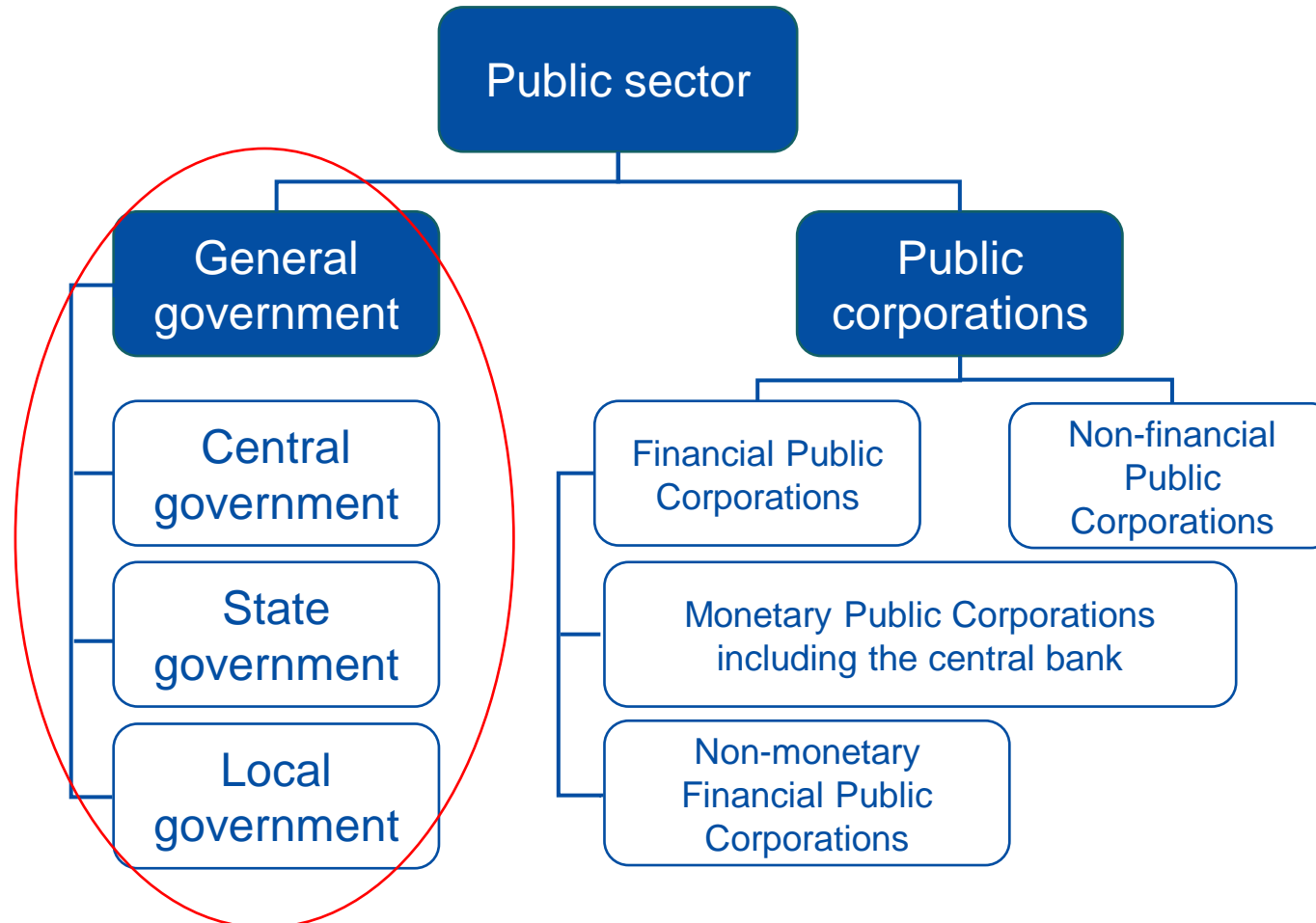
Debt
Revenues

What is PFM?

OECD DAC 2009 Definition:

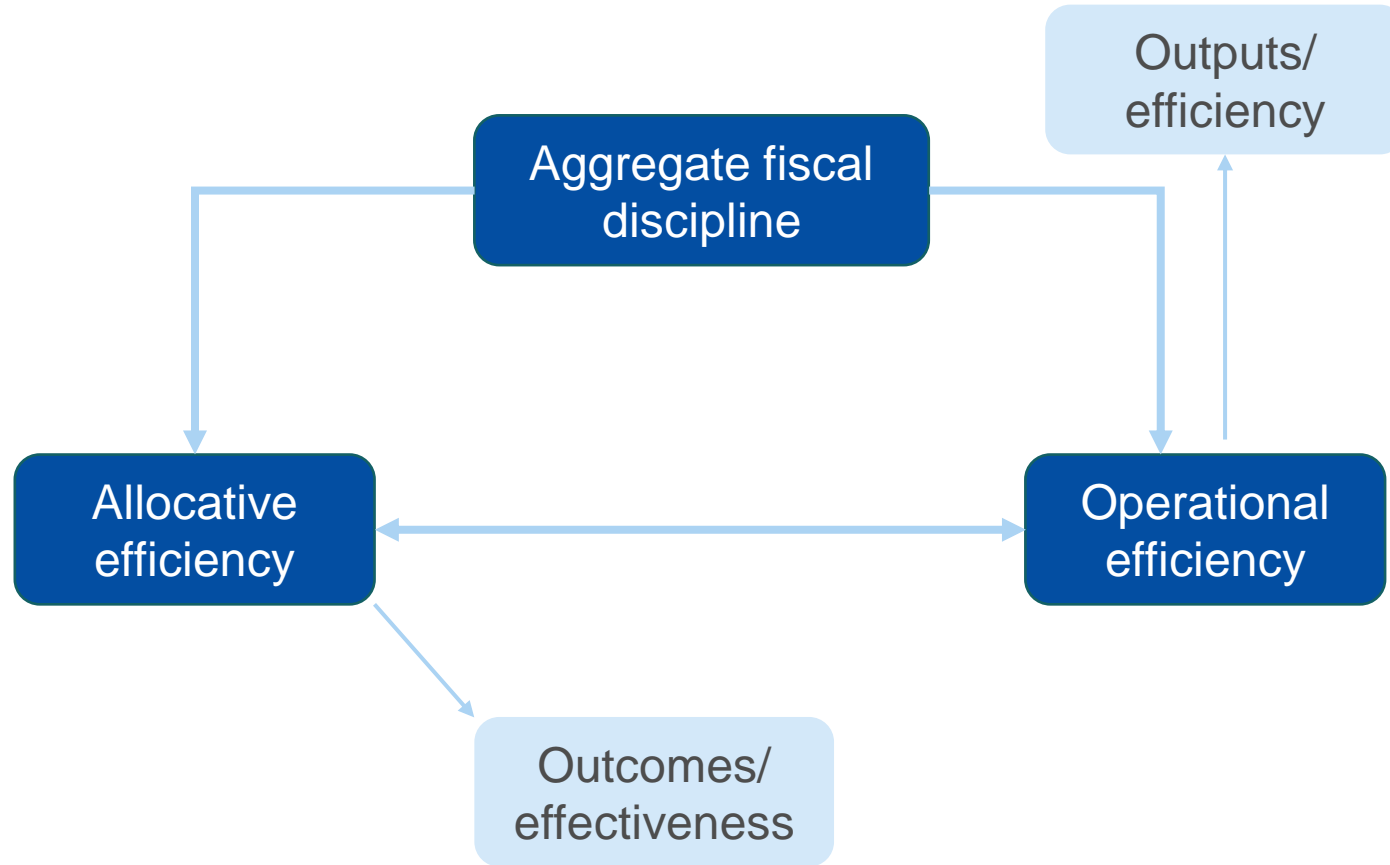
“ It includes all components of a country’s budget process... including strategic planning, medium-term expenditure framework, annual budgeting and also revenue management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight.”

What is the Government?



Source: Government Finance Statistics (GFS). IMF

Specific objectives of PFM



Specific objectives of PFM

Aggregate fiscal discipline refers to:

- maintaining **a sustainable balance** between revenues, expenditures and the level of public debts
- respecting the **expenditure ceilings at all levels and by all actors** of the Government administration

Specific objectives of PFM

Allocative efficiency refers to:

Allocating and spending public resources in such a way that attainment of the government objectives is maximised.

Preconditions for optimising allocative efficiency:

- Clearly defined national objectives and priorities
- Existence of effective sector programmes
- Capacity to plan resources
- Information on results and outcomes

Specific objectives of PFM

Operational efficiency refers to the:

Ability to make efficient and effective use of resources in the implementation of strategic priorities.

Key elements

- Resources to **service delivery** units
- Use of liquidity (debt, cash management)
- Reduce leakage

Specific objectives of PFM



PFM is only one of the **instruments** to **implement public policies**, but it is probably the more important.



As an instrument, PFM has specific objectives to properly **implement** policies, which should not be confused with policy objectives.

Policy

PFM

- Aggregate fiscal discipline
- Strategic allocation of resources
- Efficient service delivery

Outcomes

Specific objectives of PFM

PFM is an instrument to deliver public policies, it is **not a policy** as such:

Economic policies

- Tax policy
- Fiscal policy
- Debt policy

National and sector policies

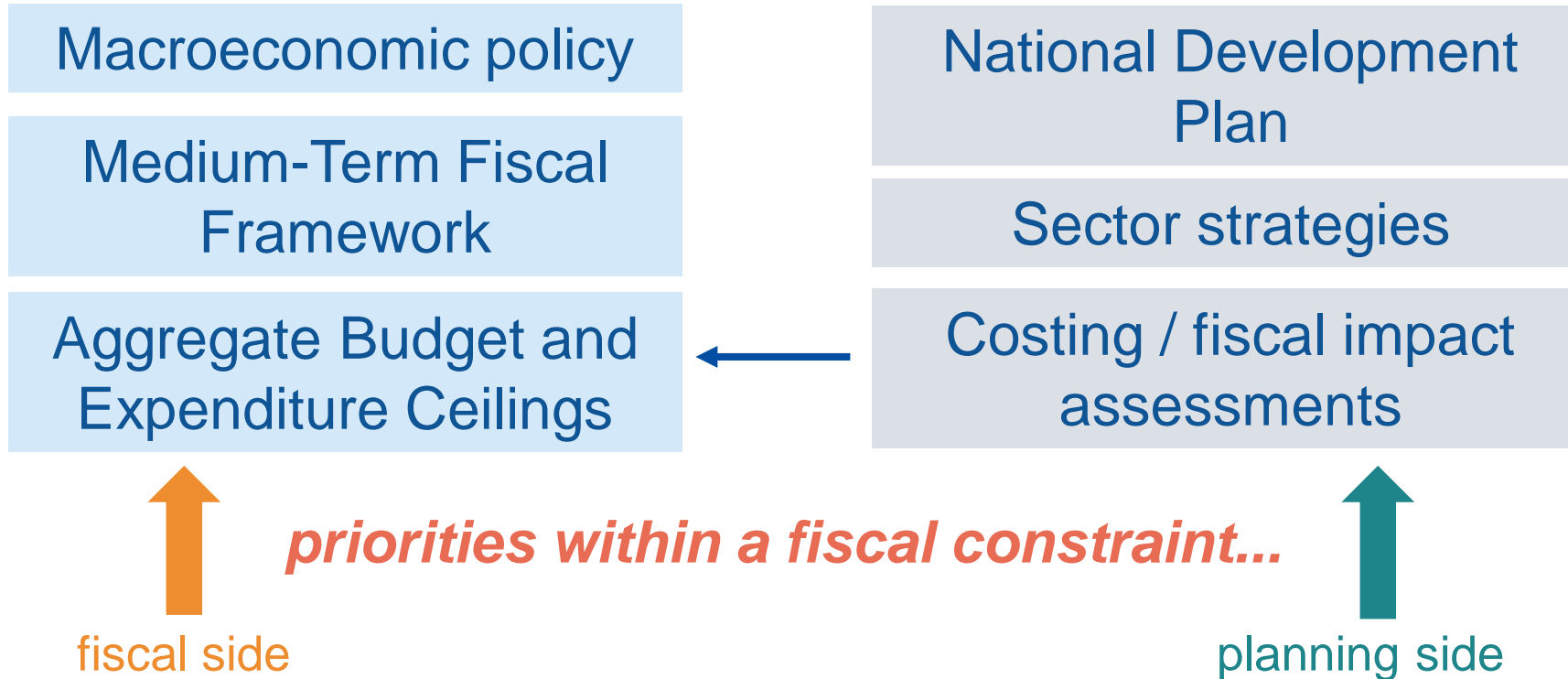
- Poverty Reduction Strategy
- Sector strategies, etc

Budget Cycle Exercise

Match **Tasks** and **Institutions** in public finance the six main **Stages** of the Budget Cycle – 45 mins

Phase 1. Strategic Planning

Conversion of economic and social policies into a medium-term programme of action, taking into account available resources



Phase 2. Budget Preparation

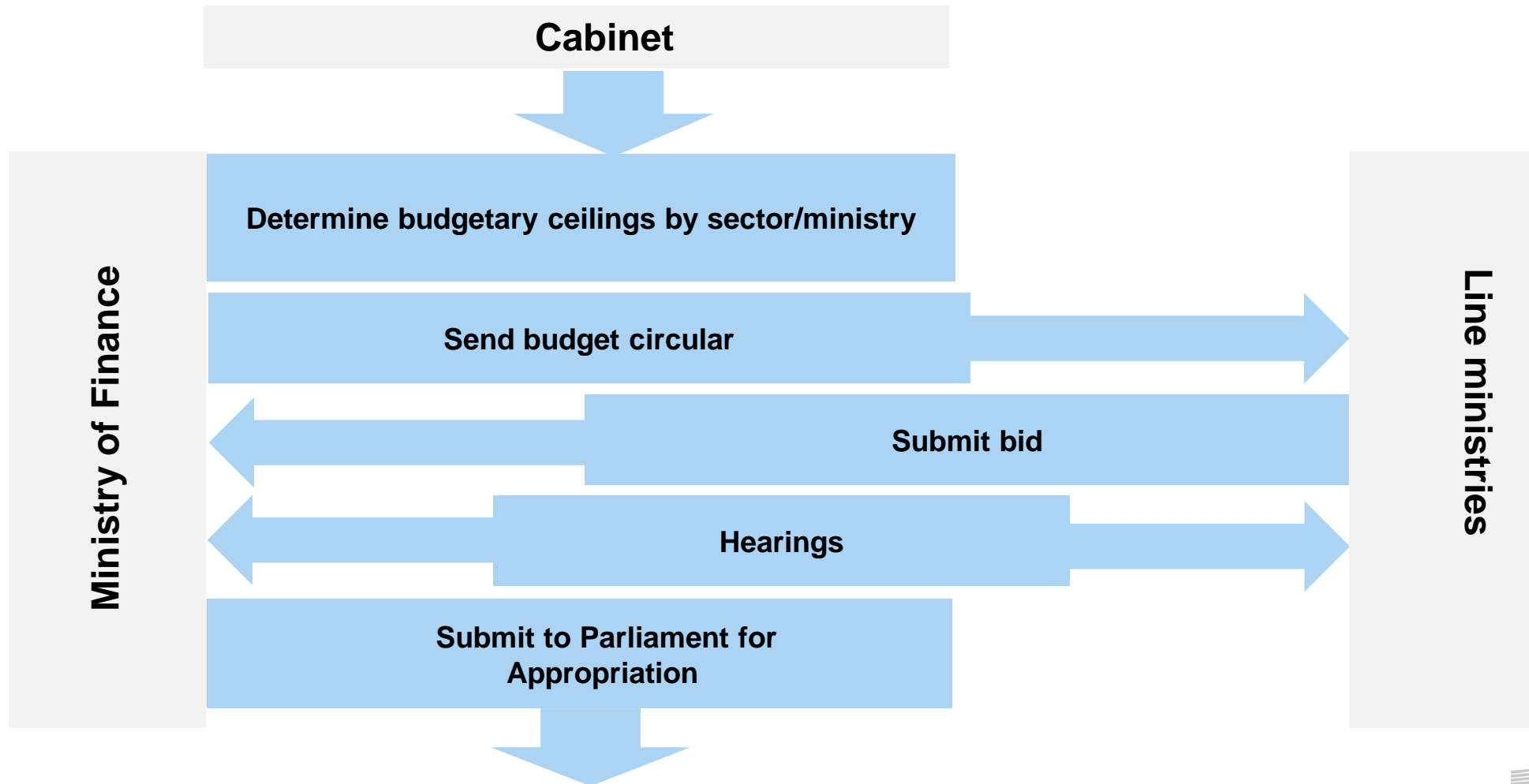
Budget preparation is the process of **converting strategic plans** into public spending.

The Budget preparation process must:

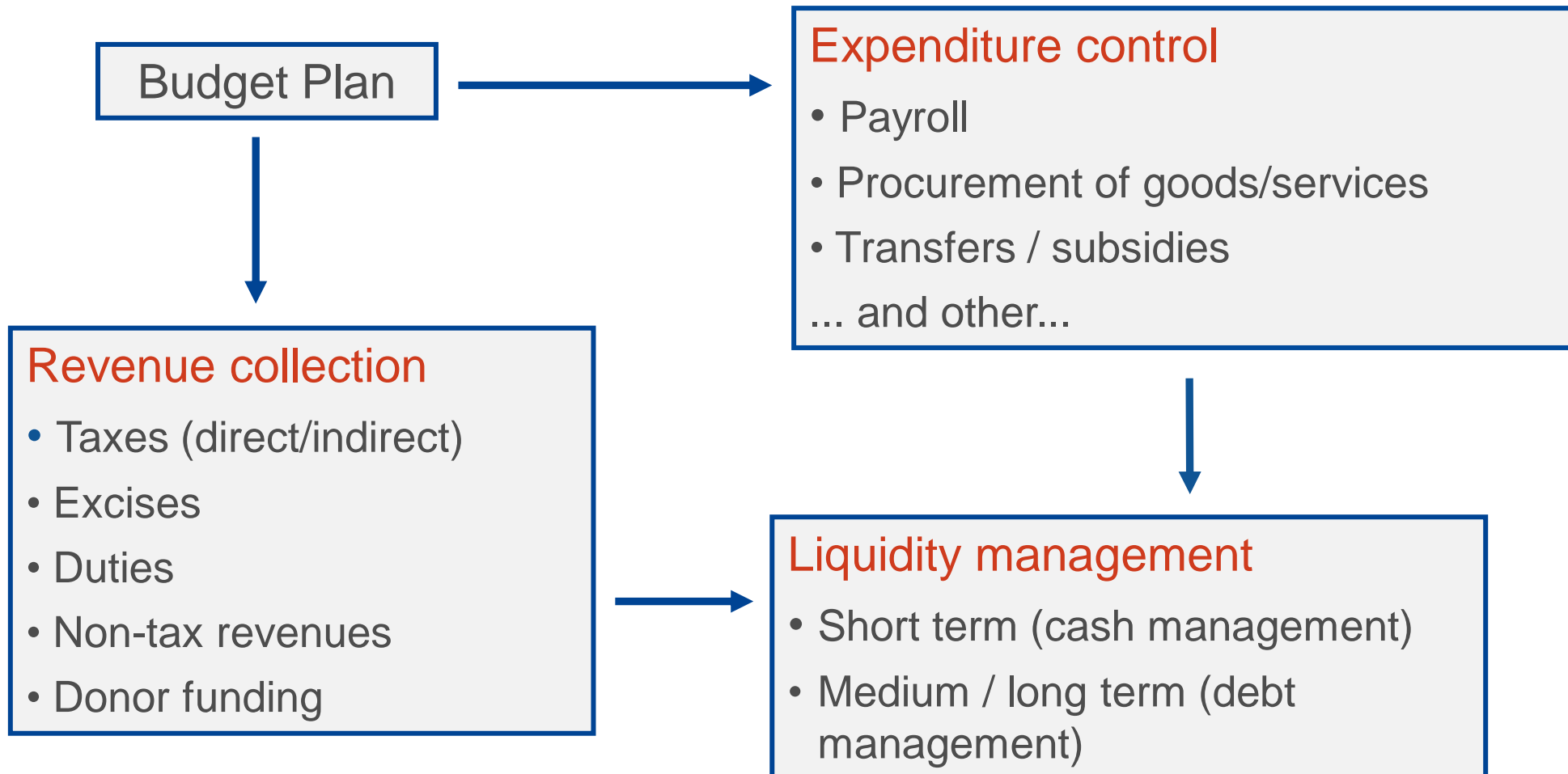
- ✓ Be defined in the **legislative framework**: the Constitution, the *Organic Budget Law or PFM Act*, financial regulations and administrative procedures;
- ✓ Should **integrate a medium-term rolling** process with the annual Budget;
- ✓ Ultimately lead to the executive receiving “authority to spend” by the legislature in the *Annual Budget Law* – known as *appropriations*.

NB: *Changes in the Budget Law require supplementary appropriations*

Phase 2. Budget Preparation

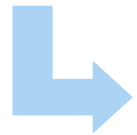


Phase 3. Budget Execution



Phase 3. Budget Execution

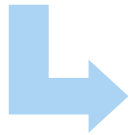
Authorisation by the Ministry of Finance or Line Ministry



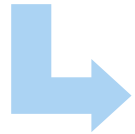
Commitment to undertake future payment: contract



Verification of delivery to spending unit: liability



Payment Authorisation by Ministry of Finance



Cash Payment by Treasury or Line Ministry

Phase 4. Accounting & Reporting

Budgetary Accounting

Definition

Maintaining records and reporting on the execution of the budget.

Aim

Monitor and control compliance with budget appropriations.

Accounting basis

(Cash or accrual, same as the budgeting basis).

Phase 4. Accounting & Reporting

Financial Accounting

Definition

Maintaining records and reporting on revenues and expenditure, assets and liabilities.

Aim

Annual Financial Statements;
Revenues and expenditures;
Balance sheet (assets and liabilities).

Accounting basis

(Cash or accrual, does not depend on the budgeting basis).

Phase 4. Accounting & Reporting

Coding Structure

Chart of Accounts (CoA)

Coding framework
for financial
transactions.

Aim

Recording each
financial transaction
for purposes of
expenditure control,
costing, and
economic and
statistical analysis.

Phase 5. External Audit

Supreme Audit Institution (SAI):

The institution of the State responsible for **public external scrutiny** of the government's Annual Financial Statements

“The principal task of SAs is to examine whether public funds are spent economically, efficiently and effectively in compliance with existing rules and regulations.”

INTOSAI (2009)

International standards require...

- ✓ Independence from executive;
- ✓ Legislative mandate enshrined in Constitution

Phase 6. Policy Review

- Assessment of actual versus desired government policy outcomes;
- Ex-post analysis of impact of government policy programmes;
- Is there a Performance Assessment Framework (PAF) for monitoring and evaluation?
- Adaptation of Strategic Planning on the basis of analysis of policy implementation.

NB: ... should be integrated with the Strategic Planning Phase of the Budget Cycle

Key message...



Key message...

Fiscal Year:

Budget T-1	Strat. Planning & Budget Prep.	Budget Execution Account. & Rep.	External Audit Policy Review		
Budget T		Strat. Planning & Budget Prep.	Budget Execution Account. & Rep.	External Audit Policy Review	
Budget T+1			Strat. Planning & Budget Prep.	Budget Execution Account. & Rep.	External Audit Policy Review
	t-2	t-1	t	t+1	t+2

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Thank you



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