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MENA REGION **TRAINING NEEDS** IN PUBLIC FINANCIAL MANAGEMENT

Developing Capacity Building Tools for Sustainable Governance

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INTRODUCTION

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INTRODUCTION

PFM is a very broad concept relating to institutions, processes and arrangements underlying a country's public finances and fiscal policy, including planning, budgeting, accounting, treasury and debt management, reporting, internal control and audit, external audit, legislative oversight and fiscal decentralization. PFM also covers some cross-cutting issues such as budget comprehensiveness, transparency, fiscal discipline and efficient resource allocation to priority needs.

A good PFM system, intended as an effective, efficient, transparent, and rules-based system is an indispensable tool for a government in the implementation of its policy objectives. Specifically, PFM systems stand at the cross-road of three important objectives:

- (i) Aggregate fiscal discipline
- (ii) The efficient use of public funds and their allocation in accordance with strategic priorities
- (iii) Transparency and accountability in the use of public funds

Good financial governance can contribute to reducing poverty and help move countries further toward the Millennium Development Goals (MDGs), as their attainment is not merely a question of spending more, but also of how to use state resources.

Although the specific institutional setting, procedures and arrangement need to be adapted to each country's circumstances, there is broad agreement on the main characteristics of a sound PFM system and on good practices. These include the following:

Clear rules	A clear set of rules, formal and applied, should underpin the budget process, including a budget law specifying fiscal management responsibilities and accounting policies and classifications.
Budget realism	The budget should be realistic and implemented as intended in a predictable manner. The budget outturn should be broadly consistent with the budget.
comprehensive, policy based budget	The budget should capture all general government fiscal transactions, including donor financed, and there should be no extra-budgetary revenues and expenditures.
Medium-term budget orientation	A medium-term budget framework supports policymakers in understanding the realities of what is affordable in the medium-term and to address priorities strategically.
Fiscal management	Aggregate fiscal position and risks should be monitored and managed.
Information	Adequate fiscal, revenue and expenditure records and information have to be produced, maintained and disseminated for decision making, control, management and reporting purposes.
Control	Arrangements should be in place for the exercise of control and stewardship in the use of public funds. These include a single treasury account into which revenues are received and out of which disbursements are made, systems to control payments, the use of competitive tendering in public procurement and effective actions to identify and eliminate corruption, continuous reconciliation of fiscal and bank records.
Accountability and transparency	Arrangements for external transparency and scrutiny of public finances should be in place. They include independent audit of government accounts, submission of audited annual accounts to Parliament, appropriate follow up of recommendations made by auditors and holding government agencies accountable in case of mismanagement.

There is also broad consensus about the need to “get the basics rights” in PFM reforms. Reformers should both focus on the basic principles underpinning reforms –rather than adopt particular techniques- and on tackling the most important issues first while maintaining a pragmatic approach. PFM reforms must also be seen in their broader context. As the budget is part of a broader set of governing and management arrangements, non-budgetary institutional arrangements also need to be supportive in order for PFM reforms to succeed and lead to better budgetary outcomes.

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DIAGNOSTIC REPORT

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1. *Budget preparation*

Current practices

MENA countries need to remedy numerous shortcomings in budget preparation:

1. Many countries follow an accounting process in the preparation of the budget. Staff in ministries simply rolls up the individual, unconstrained, budget submissions from all its budget entities. The aggregate is then submitted to the ministry of finance. Budget preparation, in such cases, is thus a compilation exercise and not a key policy process. It is not guided by a comprehensive strategy. A typical weakness is lack of sufficient analytical skills to debate individual budgets in a structured manner.
2. A number of countries (Lebanon in particular) use a dual budget system. Typically one budget reflects domestic financing and covers most current and capital spending and the other is a foreign financed budget.
3. Many countries don't uphold the principle of unity that requires that all revenue and expenditure be included in the budget.
4. There is an apparent weakness in nearly all MENA countries even when a unified budget is being prepared. The link between the capital budget and the operating budget is not well established. To overcome such a draw back in budgeting, some countries have resorted to establishing earmarked budgets (such as a maintenance budget). Such earmarking helps but also constrains the budgeting process and reduces efficiency in the use of public resources. The problem is often compounded when capital projects are externally financed, and the relevant ministry is not fully informed of the frequency and the maintenance and operating cost. For instance, medical capital equipment is often discarded before their full depreciation as funds are not allocated in a sufficient manner to be fully utilized. One possible solution is to have each line ministry compile a systematic record of all its investments (assets) in order to capture the downstream operating budget costs.

Box 1: Main diagnostic tools for public finance management

Country Financial Accountability Assessment (CFAA)

The WB reviews in depth a country's financial accountability framework, financial management systems and practice and identifies priorities for action, which may lead to capacity-building by the WB. Countries' financial management risks are assessed on a four-point scale. Information obtained is also used by the WB to meet its fiduciary objectives by identifying risks to the use of its loans. The WB may provide budget support to countries in which the level of fiduciary risk is assessed as significant, or even high, provided that there is a strong government commitment to reform and a positive track record.

Public Expenditure Review (PER)

This WB instrument is used to review a country's expenditure policy and practice, including underlying PFM issues. PERs typically review the public-private mix of goods and services provided, evaluate public expenditure priorities and the link between inputs and outcomes and analyze public sector and budgetary institutional arrangements. They may also examine issues such as civil service reforms, whether expenditure policies are pro-poor as well as issues related to revenue policy and administration.

Report on observance of standards and codes (ROSC)

The IMF ROSCs summarise the extent to which a country observes certain internationally recognized standards and codes. Fiscal transparency is one of the 12 areas in which ROSCs are regularly conducted, and this module is drafted in accordance to the IMF Code of Good Practices on Fiscal Transparency of 1998. ROSCs on data dissemination also usually includes some reference to the quality of fiscal data in the countries reviewed.

Other instruments

In addition to those listed above, the WB has developed an array of diagnostic tools addressing specific PFM issues. These include the Country Procurement Assessment Review (CPAR), which examine public procurement institutions and practices in WB borrower countries, and the Institutional and Governance Review (IGR) which evaluates the quality of accountability, policymaking, and service delivery institutions. The WB also carries out Public Expenditure Tracking Surveys (PETS) to explore the relation between public expenditures and the final provision of public goods and services. Together with the OECD, it has developed surveys of budget practices. The WB, IMF, and other donor agencies have developed diagnostic tools for PFM assessments, including the European Commission's ex ante operational assessments of country financial management and the UNDP Country Assessment in Accountability and Transparency (CONTACT).

Public Expenditure and Financial Accountability (PEFA) program

The European Commission, the WB, DFID and other donors launched in 2001 the Public Expenditure and Financial Accountability (PEFA) program to support a harmonized approach to PFM assessments and reforms. Recent work under PEFA has led to the development of a common draft list of indicators to monitor the performance of PFM systems across time and countries, by both domestic and international stakeholders. During 2004, these indicators have been tested across several countries and a final decision on its use by donors as the main tool for PFM assessment was expected in 2005. The unified PEFA diagnostic would help rationalize the present array of PFM assessments by satisfying the fiduciary requirements of as wide a range of donors as possible. The 28 indicators provisionally selected refer to six main objectives of sound PFM systems: budget turnouts, budget realism and comprehensiveness, fiscal management, information availability and control, accountability and transparency in the use public funds. PEFA is intended initially to be applied to selected African and Asian countries, while Mediterranean countries should be covered at a later stage.

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5. Several countries have fragmented and fractured budgets as resources are managed by several entities often due to the presence of earmarked funds, especially common for financing extra budgetary funds. Such practices reduce efficiency and lead as well to the presence of multiple accounts and weaken overall cash management. Fractured budgets preclude effective consideration of plans and evaluation of broad policy tradeoffs.
6. Another typical weakness, budget circulars are not sufficiently regulated and well defined and they vary considerably from one year to the other. In many countries budget circulars don't include a viable macro-economic and a strategic framework that provide the basis for having a hard budget constraint. Budget preparation often takes the form of a bargaining process due to the absence of sufficient top-down guidance. Often, guidance is provided in the middle of budget preparation by line ministries instead of being provided sufficiently in advance.
7. The organic law in many cases has not been updated and in countries where the French system is dominant tends to be based on the old French legislation. In some cases, it allows multiple levels of expenditure control focusing on legality including ex-ante control of commitments by the court of audit.

All MENA countries need to reinforce or introduce a “top-down” approach to budgeting as it strengthens fiscal discipline by establishing a fiscal ceiling. This fiscal ceiling needs not to be uniform but should rather be based on prioritizing broader objectives.

MENA countries have not progressed in moving towards performance budgeting. They need to strengthen performance budgeting at all ministerial levels (see above). The inputs and outputs expected (performance) have to become binding elements to ministries in order to enhance efficiency and accountability, assess outcome and raise effectiveness.

8. Other practices include the following:
- Sectoral priorities are not established early enough in the budgeting process.
 - Lack of sufficient prioritization of expenditure at the ministry level and the unit level.
 - Weak coordination between current and capital spending.
 - Another apparent weakness in indebted countries is in the area of debt management and interest payment forecast specially in cases where market debt is prominent in total debt.
 - The principle of “annuality” is not respected (payments against budget appropriations should be carried out during the year for which they were approved). Public agencies in some cases carry over to the following year committed spending appropriations.

Capacity building needs

There is a need to develop and advance the budget process in MENA countries, and to remedy numerous shortcomings in budget preparation. Notably, budgets need to be unified with enhanced coverage. Extra-budgetary accounts, as the case is in many countries, cloud the fiscal picture, retard comprehensive evaluation of the economy, underestimate financing and debt, weaken auditing, and make fiscal reporting more difficult.

Capacity building needs to be enhanced in broad proper budget preparation and in performance budgeting in particular, including methodology used to develop performance indicators.

Very few countries have started performance budgeting (Jordan, Morocco, Tunisia, UAE and Morocco), and has not become broadly applied.

Most countries (if not all) have limited capacity within the existing civil service, and considering that these functions can rarely be provided by the private sector, training and capacity building in this regard would be valuable to all MENA countries.

2. *Medium-term framework*

Current practices

There is strong evidence that there is an overall weakness in the preparation of medium-term budgets. For instance, very few countries have:

1. a well established medium-term macroeconomic framework for the whole economy
2. a medium-term strategic performance framework for line ministries.

Such a framework would define resource perspective and the sectoral priorities for the budget. Such a process involves key decision-makers early on in the process of budget preparation and allows goals to be reviewed and carefully assessed. Most MENA countries don't allocate sufficient resources to the preparation of a macro-economic and strategic framework, and neither do they include such a framework in their budget circular.

A medium-term framework requires particular skills that entail macroeconomic analysis and financial programming/modeling so as to provide a forward vision of the future fiscal performance and overall economic performance.

Considerable training is provided by the IMF in this area through its financial programming courses. But it needs to be further solidified as the training is general in nature and lacks instruments of relevance to many participating officials. At the national level, countries need to enforce their macroeconomic capacities. Often longer term problems emerge due to considerable weakness in forward looking planning and evaluation.

We have seen several countries advancing their medium-term fiscal outlook during the past decades (Jordan, Lebanon, Egypt, Algeria, Tunisia, Morocco, and Mauritania), but all need to further strengthen their methodology and techniques. Lacking a good fiscal foresight accompanied by an ill perceived outlook could easily derail an economy.

Based on early evidence, none of the MENA countries provide in-depth training in developing medium-term frameworks.

Capacity Building Needs

Capacity building in this domain should encompass building skills in the following areas:

Establish consistency between accounts (national income, fiscal, monetary, and balance of payments)

Generate multi-year fiscal projections as part of procedures to determine fiscal envelopes for main expenditure items

Establish linkages and economic inter-dependencies between macro and fiscal variables

Assess macroeconomic and fiscal effects of different revenue and expenditure policy options

Measure impact and cost/benefit of external exogenous variables (rise/fall in interest rates, international prices, growth in trading partners, exchange rate fluctuations).

Build different scenarios in order to evaluate stress points the economy may face

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Identify major sources for short and medium-term fiscal risks

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Update macroeconomic and budget parameters during the budget execution.

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BUDGET EXECUTION

Several MENA countries follow acceptable steps in budget execution. However, there is a need to enhance management in specific areas. An important element is:

- To enhance efficiency and rapidity in the process
- To avert arrears.

Procurement, auditing, cash and debt planning can certainly improve the execution process.

- 1 . Procurement remains a vulnerable area in many countries.
- 2 . Cash planning should serve to ensure that expenditures are financed on time during the year, to enable budget policy targets (surplus/deficit) to be met, and to contribute to the implementation of fiscal and monetary policies.
- 3 . Debt management entails numerous market risks.

BUDGET EXECUTION

1. Procurement

Current practices

- Many MENA countries continue to manage procurement without an up to date procurement legislation complying with the World Trade Organization's Government Procurement Agreement (GPA) which sets legal obligations for national procurement systems and practices.
- Although most countries have laws and executive statutes that provide guidelines for public procurement, these are not always sufficiently clear for consistent application. Often more than one procurement method is practiced. While some public tenders may follow the principles of open competitive bidding, many are based on negotiations on prices and rebates. The absence of clear guidelines to interpret laws increases the chances of personal discretion, particularly in a decentralized system and detracts, in many cases, from the fact that the legal framework is based on sound concepts.
- Most countries have not established a central procurement body in order to supervise the activities of contracting entities in line ministries (Jordan and Morocco have a central body to supervise procurement).

- Decentralized approaches create ample room for discretionary practices that reduce any efficiency gains expected from decentralization

- Decentralized approaches are usually burdened with multiple checks and balances at every stage and repeated referral to the respective minister in charge

- Centralization of purchasing has the advantage of allowing governments to obtain lower prices by grouping purchases

- It also facilitates keeping track of government assets and facilitates control and audit procedures.

There are several ways that permit increased efficiency in procurement procedures that are being currently practiced in more advanced economies. For instance, purchase orders could be centralized without necessarily creating stockpiling of merchandise.

- Many countries lack a clear independent protest mechanism.
- Many countries also have been handicapped by shortage of skilled specialists that could manage well both procurement and contracting out. Most purchases require advanced knowledge of product specifications. For instance, the most common implementation problem noted in World Bank financed projects is related to procurement personnel, namely, the difficulty in hiring trained procurement specialists and providing adequate and timely training for procurement staff employed on projects. The World Bank, in particular, and some donor countries, have made significant progress in increasing the capacity of trained procurement specialists in MENA region, but more is needed for sustainable progress.

Capacity building needs

Countries need to bring procurement standards to internationally accepted standards. This process entails reforms at several levels. Even if the legal framework is quite adequate, capacity is needed in order to ensure the proper and uniform application of the legal framework, and as well in the execution process. Countries need to bring up their standards in order to be in line with WTO's Agreement on Government Procurement.

The following areas of capacity building could be enhanced:

Legal framework and national procurement guidelines encompassing:

Procurement financial planning

Procurement methods

Bidding process

Contract award

Protest and appeal mechanism

Arbitration

Banning and restrictions guidelines

Ethical guidelines to prevent conflict of interest

Performance standards

Accountability to the public

Use of internal control and external audits

Procedures to involve stakeholders

A framework for audits and oversight

Overall risk assessment

A model code of conduct/ethics.

Countries need as well a human resource strategy to build up capacity in procurement procedures and contracting-out aimed at enhancing professionalism in procurement.

The objective is finally to reduce procurement risks and delays in the implementation of the procurement process associated with current practices and capacities.

2. *Cash planning and management*

Current practices

Many countries in the MENA region have weak cash planning practices:

Their cash planning is not based on an effective annual cash plan in advance of the fiscal year that determines the projections for monthly cash inflows and outflows

Accounting for seasonal swings in revenue collection is not practiced by agencies

Tax and customs agencies do not update their estimates on regular basis, and in many cases, agencies do not submit forward financial plans

Estimates of external grants and loan disbursements are not based on a thorough analysis of execution capacity and ability to fulfill donors and creditor requirements

In some cases, the timing of payments requests by line ministries is not well controlled, and time lags between commitments and payments are not estimated

In many cases, countries don't have a maximum payment profile that would govern the sequencing of payments of each line ministry.

A successful cash planning can be based on reliable past patterns of month – to – month flows of tax and non-tax receipts, and expenditure patterns can help determine outflows. However, many irregular flows could weaken cash planning. Irregular capital spending combined with less predictable donor disbursement can complicate cash planning and the process (timing) of borrowing. Countries then could be forced to delay the planned commitment of spending, and/or speed up the process of tax collection or borrow. The extent to which a country can succeed in any one of these options will depend on the feasibility and cost of each.

Good planning, adequate information and execution capacity become crucial to avoid the pitfalls of bad cash planning. There are, therefore, a number of prerequisites for good cash management:

- A realistic budget
- Clear procedures for the release of appropriations
- Strict observation of budget execution rules
- Clear borrowing rules
- A centralized information and data system on receipts, and expenditure commitments
- Above all, experienced and skilled staff to prepare and monitor the cash plan is key to successful cash management.

Capacity building needs

The preparation and maintenance of cash plans require good training in financial skills.

Officials have to analyze the available information, make judgments on its reliability, and be able to make realistic projections based on the available information and their past experiences. And as well, officials need to liaise with the central bank to ensure that financing can be met.

Staff needs to assess financing from alternative sources and weigh the cost of each option.

Capacity building is needed in all stages of cash management incorporating all aspects of receipts and payments emanating from the budget process as well as debt service.

Training should be geared toward strengthening the following areas:

Generate short and medium-term cash flow forecasts in order to develop a rolling annual financial plan

Management of government deposits and cash resources

Management of government borrowing and asset operations to meet cash flow imbalances

Enhance spending projections with improved risk assessment.

BUDGET EXECUTION

3. Debt management

Current practices

- Many MENA indebted countries lack a debt strategy. Often the debt issue and risks are played down and forecasts provide a generous look in order to comfort markets that debt does not present a compelling and deterrent risk. Often debt analysis and its implication on the economy are not approached in a comprehensive manner.
- Almost all countries have not addressed in detail the net merit (or lack of it) of public debt. And in particular its net effect on the private sector and social welfare.
- The composition of debt (domestic versus foreign) is not carefully weighed against the risks it could impose. The term structure and the type of holder are not sufficiently evaluated.
- Debt sustainability often reflects overstated growth projectiles, knowing that MENA countries national income accounts are quite poor and don't provide a reliable base for a solid debt sustainability analysis. The emphasis in the debt outlook should rather focus on the primary surplus and interest rate differentials.
- Some countries are burdened by a multi period debt maturity that complicates debt service as the term structure of debt is either not well planned or imposed by circumstances rather than being based on the merits of each alternative.
- Debt management is not well integrated within the overall economic and financial policies. Often, the debt volume is disproportionate to the size of the financial markets (for instance, Lebanon's debt is nearly six times its stock market capitalization). Debt scenarios tend to be based on favorable assumptions and often dodge difficult ones. Some countries, however, have succeeded in reducing their debt with the support of donors' debt reduction plans such as those of the Paris club, and through debt buy backs and swaps.

Capacity building needs

- Debt management needs to be advanced with a strategy integrated with the overall objectives and to become an integral part of public expenditure execution and cash flow management. Capacity building is needed, in particular, in risk management. Risk outlook is impacted by several variables such as interest rate fluctuation, exchange rate changes, maturity rollover, etc.
- Often MENA countries adopt IMF country profile (which is not updated on regular basis) without exploring their own assessment of risk and budget outlook. There is weak perception of the debt reduction process in several MENA countries and the optimal path to attain it. Often privatization and sale of assets is seen as a good route to reduce debt but at the expense of evading the adoption of optimal solutions to public enterprise problems.
- The implications of debt policy and of poorly structured debt on economic and financial performance are often underestimated. In many countries debt management has become a merely accounting process. Unfavorably structured debt in terms of maturity, currency, or interest rate composition and large and unfunded contingent liabilities have been important factors in inducing or propagating economic crises in many countries throughout history.
- In several MENA countries, a government's debt portfolio is usually the largest financial portfolio and often contains complex and risky financial structures that can generate risk to government balance sheets and to the country's financial stability.

Accordingly, a solid base in debt management is essential not only to manage current debt levels but also to avert moving in the direction of high debt profile cases.

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4. Classification and Accounting

Current practices

Very few countries in the MENA region adhere to international financial reporting standards (IPSAS) as issued by IPSAS Board.

The objective of IPSAS is to serve the public interest by developing high quality accounting standards for use by public sector entities in the preparation of general purpose financial statements. It is expected to enhance the quality and transparency of public sector financial reporting and strengthen public confidence in public financial management.

- MENA countries have deficiencies in the scope of recording and reporting and the omission of certain revenues and expenditures. Most countries don't have a GFS 2001 compliant framework to support the move overtime to performance budgeting and to full accrual basis accounting. It would also enable the recognition in the accounts of the economic substance of transactions, and capture new accounts on economic stocks and liabilities in the Chart of Accounts.
- Many countries have a hybrid accounting system based on a combination of cash and accrual accounting principles. Double entry accounting is not used in most cases, and account balances are determined on single entry basis. Often, chart of accounts are not comprehensive enough to encompass all the accounts used to register financial transactions. In many cases accounting procedures are not consistent between the treasury and line ministries.

Capacity building needs

MENA countries need to reform their accounting systems to conform to IPSAS. This will involve the adoption of all IPSAS accrual standards (26 standards). Furthermore, MENA countries need to adopt GFS 2001.

So far few countries are in the planning stages for its adoption. These include Algeria, Jordan and Lebanon. The move toward IPSAS should substantially enhance the accounting standards of countries particularly in the adoption of a general ledger based on a sound chart of accounts. The general ledger should comprise accounts of revenues, expenditures, assets and liabilities of each ministry and department. Such improvements can be facilitated with the introduction of a modern GFMS.

Training in public accounting should bring staff to a level that allows countries to properly introduce the double entry system into their chart of accounts. A double entry system has ledger accounts representing bank accounts that allow transactions to be recorded in bank ledger accounts and in the expenditure ledger account. The process allows reconciling the accounting records against bank statements.

5. *Internal audit and control*

Current practices

- In nearly all MENA countries, the legal basis for internal control is established in their laws on public accounting. Such Laws normally establish the overall framework and the process to be followed for the control of revenues, expenditure and assets. In most cases laws have not evolved over time which underlines the need and the necessity to strengthen the legislative base in order to become compliant with international standards, especially those of the EU and INTOSAI.
- In many MENA countries, internal audit applications entail complex, overlapping and lengthy processes. Internal audits do not perform the internal audit role in the proper sense. Multiple stages of approval erode individual accountability for a given action. Inspection procedures often focus on compliance with laws and procedures only. They consist, in some cases, of regular and routine activities performed by staff to prevent and detect errors in the preparation and recording of financial operations. In many cases, line ministries lack the human capacity to carry out audits and even where the legal structure is in place, ministries do not have sufficient resources that can be deployed to carry such audits. Absence of full computerization further hinders ministries from performing such a task effectively. Furthermore, comprehensive audit guidelines are absent in many countries.

Capacity building needs

The following are key areas that need to be upgraded:

Guidelines for an effective legal framework

Develop audit capacity consistent with international standards

Preparation of financial statements using accepted accounting bases

Develop internal audit manuals

Procedures to conduct internal audit.

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6. Supreme Audit Institutions (SAIs)-External audit

Current practices

According to international standards, SAIs fundamental task is to audit the legality and the regularity of financial management procedures in ministries and other publicly-funded institutions, and to clarify the accuracy and reliability of the final budget accounts. In addition, many SAIs carry out performance audits which aim at assessing efficiency and effectiveness of government operations. Performance audits cover not only financial operations but the full range of government activities including both administrative and organizational procedures and systems.

MENA countries face many weaknesses in the external audit function. The following are some of the drawbacks often cited in IMF and WB relevant reports:

Many have not adopted INTOSAI principles and standards (or similar modern models not judicial based)

SAIs or “court of accounts” in some countries are not guided by an audit law, or a formal code of ethics, although it is a judicial based model. In some cases it is not supported by a well functioning internal audit. SAIs in these cases become obliged to conduct some internal audit as well

The full independence of SAIs is often questionable as in some countries they report to the office of the prime minister instead of the parliament. SAIs should have parliaments as their primary client, as in the case of private sector where an external auditor reports to the board of directors rather than to management

In some cases, internal review guidelines are absent preventing a consistent review process; audit manuals are also dated, and audit evidence not governed by a formal procedure

In some cases, SAIs practice an ex ante approval function which should be terminated

The attest and performance audits don't meet international standards.

- Countries need to advance risk-based selection of entities for an attest audit, and sampling approaches for transaction testing in order to support the expression of an opinion on the fairness of the government's financial statement. Only Tunisia and Morocco have advanced risk-based auditing mechanisms.
- SAIs, in some cases, may not have adequate access to required data and their independence (organizational and functional) may not be guaranteed. Audit staff, in many cases, do not possess a broad range of skills that is required of a well functioning audit system. Most SAIs do not have a long-term training policy and objective. For instance performance auditing requires the skills of economists rather than lawyers or accountants.

Capacity building needs

- Many MENA countries need to upgrade in a broad manner their external auditing capacity. This implies that a diversified approach is needed.
- There is a need to upgrade the legal framework in most countries to INTOSAI standards ensuring independence of SAIs, in particular in regard to reporting obligations. In many cases, SAIs report to the office of the prime minister instead of reporting to the legislative body. In Egypt, for instance, such reports are submitted to the office of the president.
- There is a compelling need to introduce officials with audit functions to the benefits of a modern international standard system such as INTOSAI and the legal framework needed for its proper functioning. While many may have the accounting based auditing, but need to advance performance auditing. Performance auditing is rarely practiced in the region.

Capacity building is needed to upgrade procedures and methodology and in particular risk based auditing which is not practiced up to international standards in most cases.

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7. *Government Financial Management Information Systems (GFMIS)*

Current practices

- In many MENA countries management information systems have been developed within the existing financial and budget process resulting, in most cases, in the continuation of existing paper based procedures involving the same flow of documentation as before automation and duplication of control over spending.

Often line ministries have developed their own financial information systems to meet their operational requirements. These individual systems can't be integrated and are not based on a global system.

Furthermore, the chart of accounts of many countries is not GFS 2001 compliant. The GFS 2001 system, in accordance with accrual accounting standards, divides transactions into operating (revenue and expenditure) and balance sheet items (assets, liabilities and equity).

Most existing systems are not designed to evolve to meet future budget requirements.

In a nutshell, in most cases, the old process was automated.

- GFMIS also include, usually, a module for budget preparation as a core module of the system. It provides the benefit of committing line-ministries at the early stages of the budget process.

Capacity building needs

A core training model would serve to demonstrate the benefits of an integrated financial system in terms of improved productivity, public access and service delivery. It could also provide the prerequisites for applying an integrated approach to financial management.

Emphasis should be placed on ownership in the new financial management framework and its various components in a fast-changing environment. It could provide a basis that could assist in guiding officials in how to design a system that is compliant with their procedures for budget processing, payroll, treasury and tax management. An integrated system could also comprise business management applications used for human resource, procurement and inventory management.

- The training would be intended to guide officials determine what system is best suited for their needs taking into account that it could perform the business accounting processes of government at international accounting and audit standards, rather than having a system adapted to current practices. The core of applications would comprise, normally, accounting modules for accounts payable, accounts receivable, cash management, fixed assets, and general ledger.
- For the application process and as a first step, staff in countries need to be trained to conform to GFS 2001 classification and recording system and how to standardize transactions.

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DIAGNOSTIC REPORT

INSTITUTIONAL TRAINING CAPACITY IN MENA REGION

MENA countries in general have not devised well formulated training programs geared toward providing sustainable capacity building in PFM.

1. However, MENA countries (to different degrees) have developed in recent years training programs aimed at upgrading overall administrative skills of public servants. These programs tend to provide training in general administration, information technology skills (IT), and language skills. They are normally an integrated part of human resource management and have often been used in the promotion process of civil servants. For instance (in Egypt) to climb up the civil service ladder, civil servants are subjected to a series of training programs commensurate with their grade focused on administrative matters.

Programs such as these normally comprise training in diversified fields pertaining to general civil service administration. A common theme would comprise the following topics:



2. Training in the fiscal area is usually preserved for lower grade technical skills and comprise the following:

Budget preparation: Budget preparation training normally comprises methodology, stages of budget preparation, laws and regulations (including organic law) and budget structures

Public sector accounting: such as current spending accounting and investment accounting

Fiscal auditing

Procurement practices


Contracting practices

Internal auditing.

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These training programs rely to a large extent on in-house skills with the objective of providing capacity building based on ongoing practices. They are intended, and eventually succeed in diffusing current skills rather than upgrading capacity through acquiring new skills and methodology. Typically courses are provided by the training arm of the ministry of civil service or a semi-autonomous training facility attached to the cabinet.

In most cases, programs in PFM are not provided on a recurrent basis and have not aspired to adapt to changes and new approaches in financial management. In addition, training capacity used has to a large extent relied on internal sources. It is quite clear that training provided in PFM reflects to a great extent current practice in MENA countries. Some countries, however, have attempted to give PFM a more focused attention through specialized programs or start up institutions. The following is a brief on developments in three of the four case countries covered by field visits.

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1. Lebanon

Only Lebanon has a full fledged training institute attached to the ministry of finance established in 1996 and has provided introductory training in budgeting and budget execution, and other modern approaches in PFM. It has become a full fledged training arm of the ministry of finance and even a lynch pin for regional training in public financial management. The IOF of Lebanon has gained initially from extensive technical assistance provided by the French government's Agency for International Cooperation of the French Ministry of Finance (ADETEF).

The Institute of Finance of Lebanon-Basil Fuleihan Institute for Economy and Finance (IoF) is a multi purpose autonomous agency, and delivers training and communication services for the ministry of finance. It also provides training services to other ministries and agencies serving the public sector in Lebanon and in Middle East and North Africa (MENA). Its ultimate mission is to support the government reform agenda by building the capacities of the civil servants and future leaders. To fulfill its mission, the IoF focuses its services on:

Capacity building and human resource upgrading for the Lebanese ministry of finance

Improving capacity in financial management of government agencies

Building strong partnerships with regional and international organizations

Acting as a regional hub for training in public financial management.

In capacity building, the IoF has provided a broad array of training in public financial management. The most current training has focused on performance budgeting, auditing, procurement, fiscal laws and other public laws, public accounting, management information systems, and a host of other training programs in revenue administration. It also provides training in enhancing administrative capacity and human resource management.

The IoF has become a platform for debating public issues through a series of workshops and seminars involving NGOs and private sector entities. It has been a major instrument in promoting transparency and public /private sector partnership. It has provided training to a large number of civil servants mostly at mid and entry levels, nearly 25 thousand since its establishment. In the 2008/2009 program, 90 training programs are being offered providing capacity building to over three thousand civil servants.

Its regional reach has covered the provision of support to other national training centers and regional capacity building institutions.

2. Jordan

Jordan has embarked on building up a public finance center attached to the ministry of finance specialized in providing training in public financial management to civil servants involved in this domain. It has provided a limited number of courses in public financial management. So far the center has given 21 offerings.

Many of the programs are quite relevant to public financial management, such as public accounting, auditing, government finance management information systems, and budget classification.

The center has been receiving support from the IoF of Lebanon at the management level. The center is also supported by the National Institute for Training which has the objective of building up capacity in public administration. It provides limited training in PFM in the areas of auditing, public accounting and procurement.

3. Morocco

The Moroccan government has spearheaded training advancement in the North African region in general. The government has two prominent training arms: the Directorate of Administration and General Affairs and the National School of Administration. The Directorate of Administration is part of the ministry of finance and privatization and has a training division geared toward capacity building in areas that pertain to fiscal management. The National School of Administration is a training center for all civil service areas including some programs in public financial management. Both centers have advanced physical capacity to provide training.

Training has been provided in nearly all essential areas in PFM. Recent offerings covered: budget reform, control and audit areas, external audit, procurement, cash/financial management, debt management.

A large portion of these programs are provided at either the entry or intermediate levels. Training in PFM in terms of volume and standards has not caught up with the desired needs. Morocco has also embarked on a rapid modernization and reform plan in public finance that has been constrained by the existing capacity of its civil service in this domain.

Most training in PFM has been provided by national/regional capacities and to some extent international experts. A good amount of the training content has been based or depended on practices in countries where the application has provided tangible positive results.

MENA countries face several challenges in developing sustainable training in capacity building in PFM.

MENA countries need to define their precise needs in PFM in the coming five to ten years. This task will involve a reasonable estimate for their medium-term demand in all PFM areas at all levels (entry to advanced levels).

MENA countries need as well to define the extent of desired reform they can adopt in the short and medium terms. This will be an essential component for the provision of modern training to allow civil servants cope with modern approaches and demands of PFM. Training courses need to be tailored to the extent possible to the expected reforms and future needs of a country or region.

A sustainable capacity building program requires assurances of adequate financing for the short and medium-terms. The project requires a detailed budget linked to its targets and proposal on possible financing sources including self financing. A regional program could benefit from pooling resources and easing the burden on a single country. National capacities such as those available in Lebanon and Morocco could be instrumental in cutting the cost of such a program to a sustainable level that otherwise can not be assured. A challenge for such a program is, therefore, to seek assurances from national finance institutions (ministry of finance of respective MENA countries) that they can provide medium and long-term support to such a program.

National training capacities have to be built up so as to master modern budgeting, accounting, procurement, auditing, cash and debt management, classification and other standards. The ultimate aim would be to develop regional ownership of such programs. This is essential for re-enforcing the sustainability potential of such programs.

The region has to assess existing capacities (which are quite limited currently) that can provide these advanced training programs. Existing capacity could be available in both the public and private sectors. Public sector capacity can best be tapped by having it engaged in capacity building on part time basis. Training programs that create full time trainers often fail to keep up with the constant changes and advances that are being created as part of the dynamic reform process that has been seen in public sector in general and in PFM in particular. One of the best sources of training can be provided by countries that have successfully adopted new systems with a proven record of accomplishment.

A training program can not succeed without qualified trainees. It is essential that countries devote a serious consideration to their capacity building plans and commit civil servants to training who are qualified and recruited for that purpose through a motivating program built on a strong incentive system. Training programs that are not well focused and are only used to shore up indicators (such a percent has been trained), and provide a shelter or a reward system fail and end up in providing another example of badly allocated public resources.

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BUSINESS PLAN

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The MENA region is quite diversified in terms of its needs as progress toward adopting modern PFM practices has not been even. However, and as was previously indicated, there is an urgent need to develop its PFM practices and capacity at all levels in regard to both budget preparation and budget execution. Priorities in some cases can not be uniform. Some MENA countries are net debtors where as some others are net creditors. For the debtor countries such as Jordan and Lebanon debt management may pose a more urgent need than others in ranking priorities.

The following ranking takes into account the durability of needs as the training is perceived to be a sustainable activity aiming at enabling countries adopt modern approaches to PFM rather than being geared toward responding to immediate concerns of countries.

1. In the Near Middle East, a top priority is to advance budget preparation and performance budgeting combined with a medium term expenditure framework (MTEF) based on multi-year programming (Jordan and Morocco). The MTEF has to be based as on macroeconomic and medium-term expenditure frameworks. While some countries have started the process of performance budgeting, the need is not necessarily even for all countries. But a module for budget preparation based on performance budgeting will be beneficial considering that several countries have serious consideration for its application. The difficulty for many is in devising the methodology needed to construct performance indicators, and in devising a performance control and audit processes.
2. In regard to budget execution, cash and debt management is a top priority for several countries. Countries such as Lebanon, Jordan and Egypt have concerns with regard to advancing debt management. Typically, in these countries, a medium debt outlook is not prepared taking into account risks facing debt management. Some face difficulty due to numerous debt issues that have complicated management. Multiple accounts have reduced the effectiveness of deficit financing. For instance, Egypt has few thousand government and semi government accounts. Debt and cash management can be formulated in one module due to the fact that they are intertwined. Cash management appears quite important even in countries where budget management has advanced rapidly in recent years such as in the case of Morocco.
3. Countries visited highlighted the importance of further improving procurement procedures. There is no clear direction or full comprehension on the part of many countries of the merits of a decentralized procurement system compared to a centralized one. Procurement management at all stages poses a certain magnitude of difficulty in nearly all countries. It is also an area where transparency and governance present a more immediate relevance.
4. Financial management information systems in all countries are not fully integrated. A fully integrated GFMS is an inevitable step toward modernizing PFM in every MENA country.
5. Countries feel that analytical capacity needs to be strengthened in budget preparation and expenditure management. This area is more relevant to budget preparation. Building capacity is needed in areas that require expenditure choices and assessment of over all expenditure on the economy including cost/benefit analysis and overall fiscal ramifications. Analytical capacity in most cases is scarce even in countries that possess more abundant civil service skills.
6. Many have felt that control and audit require further advancement in order to reinforce all aspects of public financial management. Often audit is not risk based and in many cases not based on latest international audit standards (INTOSAI)
7. In order to bring accounting practices to ISPASB standards, training should be provided in this area to nearly all countries.

BUDGET PREPARATION

Budget preparation has to be based on a strategy for the economy, what to prioritize globally and at regional levels in order to steer the economy toward higher performance and efficiency.

- Each line ministry has to have a full tally of its assets and inventory, in addition to a comprehensive civil service census based on a headcount.
- Each budget (ministry) has to carefully calculate its obligations based on a strong coordination between current and capital spending, and careful cost calculation of all transactions.

Previous performance could be evaluated in order to attest passed efficacy.

A sound budget process should specify government fiscal policy objectives, budget policies, and identify fiscal risks. It should have hard budget constraints. In most MENA countries a significant deviation is observed between budgets and execution emanating from weak budget preparation.

Box 2: Assessing the Soundness of the Budget

The soundness of budget systems can be judged by the following:

Comprehensiveness

- Is the coverage of government operations complete?
- Are estimates gross or does netting take place?

Transparency

- How useful is the budget classification? Are there separate economic and functional classifications that meet international standards?
- Is it easy to connect policies and expenditures through a program structure?

Realism

- Is the budget based on a realistic macroeconomic framework?
- Are estimates based on reasonable revenue projections? How are these made, and by whom?
- Are the financing provisions realistic?
- Is there a realistic costing of policies and programs and hence expenditures (e.g., assumptions about inflation, exchange rates, etc)?
- How are future cost implications taken into account?
- Is there a clear separation between present and new policies?
- How far are spending priorities determined and agreed under the budget process?

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A well functioning legislative support system is a prerequisite to a well prepared and executed budget. The legislative basis for the budget is important and as well it forms a key in how the budget is prepared. A modern organic law sets appropriations rules and determines the degree of freedom of allocating resources in each ministry. The law should, at least, provide the following:

A clear delineation of the responsibilities between the legislative and the executive branches

Internationally accepted standards of transparency and accountability

Submission of formal, audited accounts according to contemporary standards of integrity, accuracy, and disclosures

The responsibilities and accountability of the ministry of finance

Core provisions regulating budget execution and treasury operations.

BUDGET PREPARATION

An advanced approach to budgeting follows a “top-down” approach in order to guide line ministries in preparing their respective budgets. A “top-down” approach needs to incorporate several viable elements:

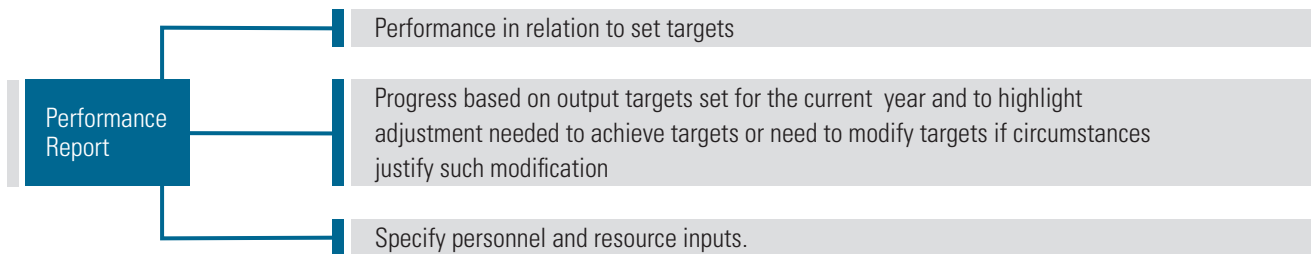
- Incorporation of the macro-framework in the budget circular, and submission of affordable bids by line ministries
 - Prioritization of expenditure at the ministry level and the unit level in each ministry
 - Having a clearly defined budget circular that defines a spending ceiling for each ministry based on a medium-term expenditure framework
 - Ministries should submit bids conforming to limits set in the budget circular
 - Coordination of current and capital expenditure within line ministries
 - A medium-term framework (as noted above) that provides the basis for determining budget targets and hard budget constraints
 - Feasible policy options consistent with macroeconomic objectives
 - Enhanced transparency and accountability
 - Establish a link between budget process and policy options
 - A good legislative authorization including a modern budget organic law
 - The budget needs to be unified without extra-budgetary accounts. As noted above, extra budgetary accounts cloud the fiscal picture, retard comprehensive evaluation of the economy, underestimate financing and debt, and weaken auditing.
-
- Budget coverage is another indicator of proper budgeting (or lack of it). The benefits are clear, it presents a consolidated picture of the size of government presented to government, it reflects the magnitude of the constraint the government is imposing on the economy, and it promotes better efficiency in the allocation of resources.
 - Maintaining dual budgets complicates the task of maintaining control of government expenditure, and clouds government expenditure priorities. Furthermore, it complicates the process of synchronizing capital and current expenditures. Line ministries may not be able to anticipate correctly current spending linked to new investments that come on stream. Thus a completed capital project may not generate an approved operations and maintenance budget. It may as well result in misclassification of certain fiscal transactions on both the current and the capital accounts.
 - Performance budgeting provides several advantages and responds to increasing demands from civil society for a more transparent and efficient public sector. Performance budgeting requires the focus in public budgeting to shift from inputs to outputs and outcomes. It enhances government accountability through developing performance measures and makes program managers in the public sector accountable for their performance against set targets. It increases transparency in the use and impact of public funds. Governments can increase the consciousness of the executives and beneficiaries of public spending, and civil society in general about government objectives, accountability, the output to be produced, and the outcome to be pursued with the use of public resources.

The main elements of performance budgeting contribute to enhancement of overall budgeting. These include:

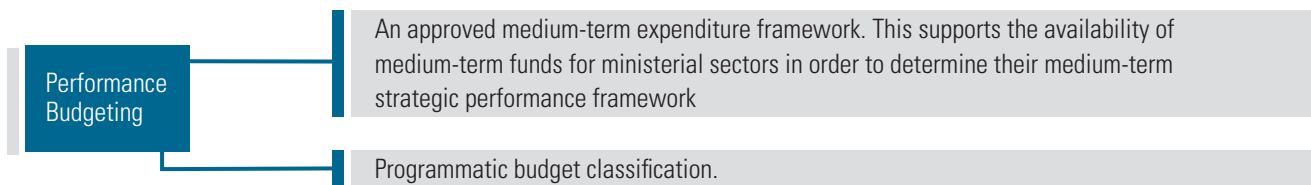
- (i) A medium-term strategic performance framework
- (ii) Performance measurements (input indicators, output indicators, efficiency indicators, outcomes, and effectiveness indicators)
- (iii) Information basis and reporting systems.

- Furthermore, performance budgeting usually adopts performance monitoring systems that are bound to enhance transparency.
- Performance budgeting strengthens discipline by requiring governments to identify the availability of resources for the medium term and their expected macroeconomic impact.
- It, as well, provides a better basis for improving expenditure allocation through increased focus on results rather than cost.
- It contributes more clearly to identification of inputs, problems with program structure, and key external factors.

- An essential element of performance budgeting is reporting of performance indicators (outcomes based on reliable and verifiable information). A legal mandate requiring managers to produce systematic, comprehensive and published performance monitoring report will ensure accountability. Performance reports should include:



- Countries need at first to set the prerequisites for performance budgeting. These comprise the following:



Curriculum for budget preparation:

Curriculum could be based on guidelines in budget preparation. The objective is to enhance capacity in the broad budget preparation process.

- Countries in general need to allocate more resources to capital budgeting at the ministry level and country level
- In the presence of a ministry of planning, line ministries capital budgets need to be integrated and provide assurance that the overall capital budget is harmonized and able to attain the growth targets, sectoral targets, and social objectives
- The integration between the capital budget and current budget needs to be covered in sufficient detail
- Countries need to allocate more resources to capital budgeting. It should be based on the economic merit of each capital project.

Debt management principles can also be briefly covered in the context of debt sustainability framework allowing estimation of interest cost.

Training should cover performance budgeting (strategic performance frameworks, performance measurement, and reporting). It's more likely that performance measurement would need to be strengthened more than other areas as it entails sophistication in performance indicators. (Input-output indicators, efficiency, outcome, and effectiveness indicators)

Curriculum: should cover the following:

- Budget principles
- Budget legal framework
- Steps in budget preparation
 - Current budget
 - Capital budget
- Preconditions for performance budgeting
- Performance framework for line ministries
- Performance measurement-indicators
- Reporting systems
- Case study.

The objective is to provide a thorough training in the principles of performance budgeting that will equip officials with the capacity that allows them to embark on performance budgeting.

Methodology	The focus should be mostly on case study basis that have proven success in implementing performance budgeting. The case study should offer detail on how a performance budget is prepared and how performance indicators are developed. Participants have to gain and master the techniques needed to prepare a performance budget. Delivery could be in the form of workshops, on the job training, and possibly, partially by distance learning
Target audience	Senior directors of ministries bestowed with the responsibility of budget preparation
Number of participants	16-20 participants in each training session
Trainers	Trainers should be of the highest caliber with a proven record in providing training in performance budgeting
Duration	10 working days
Location	The Basil Fuleihan Institute of Finance of Lebanon
Language of instruction	Arabic and French. Both languages could be used when training is targeting mostly North African countries depending on availability of case studies and instructors. For near East and gulf countries training could be conducted in Arabic and English
References	Guidelines for public Expenditure Management, IMF Budget Preparation, OECD. Managing Public Expenditure - A Reference Book for Transition Countries, OECD. Country Financial Accountability Assessment (country series), World Bank. Case studies

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A strong macro-fiscal capacity will enable a country to foresee unfavorable development (such as a build up of short-term debt coupled with high interest debt service cost). Lacking good fiscal foresight accompanied by an ill perceived outlook could easily derail an economy. Some countries for instance attempt to improve their fiscal outlook by limiting salary advances, reaching an intolerable level that eventually wipes out all the gains due to restless labor unions. Such a policy has also implications on inefficiency and productivity.

A medium-term framework will enable the government to target more effectively macroeconomic stability through the containment of public debt, more effective demand management, and pursuit of equity goals through expenditure and tax policies within the overarching macroeconomic objectives. Further, a macro framework permits a more elaborate estimate of tax basis base on the overall objectives and performance of the economy.

- Revenues are closely linked to their statutory tax basis. The most prominent are imports, consumption, and income.
- Its price projections allow the government determine real spending on goods and services, and provide guidance in taking a stance on wage increases.
- Other price estimates, will aid in determining the burden of subsidies.
- The ensuing debt from the fiscal stance permits an estimate of the burden of debt service.

The macro framework provides the basis for a “top-down” approach to budgeting. Based on this framework, the budget directorate could then set a global level of expenditure that would be subsequently distributed among line ministries. Few countries practice a well designed “top-down” approach.

The revenue estimate and the expenditure limits help delineate hard budget constraints that should be explicitly determined upfront. The medium-term macro framework is used to establish both a medium-term fiscal framework as well as a medium-term expenditure framework,

A medium-term framework is prepared on the basis of an interactive process.

- It incorporates all the policy variables (fiscal, monetary, exchange rate) at the disposal of the government as well as exogenous variables that impact the economy in a significant way.
- It may also incorporate variables that have a more direct supply effect and that improve the efficiency of the operations of the economy.
- Furthermore, it is structured in order to attain certain well defined targets such as a growth rate in production, a current account deficit level, and a rate of inflation.
- A macroeconomic framework will allow officials to sense the direction of the economy in the medium-term and evaluate the impact of their own policies and other variables

on the outlook of the economy.

- It is based on an accounting framework complemented by the specification of a set of behavioral relationships that function to indicate the typical response of the economy to changes in variables.
- It permits to give direction to the levels of spending needed and to what extent taxes can be adjusted.
- It also provides a perception of both debt and balance of payments sustainability in the medium-term.

In a nutshell, a medium-term macroeconomic framework is an indispensable prerequisite to proper budgeting.

The IMF has been a leading agency in developing medium-term frameworks for its member countries.

- Its methodology could be adapted to the needs of individual countries. A comprehension of the framework is essential for advancing tailored frameworks reflecting the uniqueness of each MENA country.
- Key officials (such as staff of the budget department) should receive extensive training in this area. Also, the Arab Monetary Fund (AMF) in collaboration with the IMF has provided regular training in this area but not necessarily geared to the needs of individual countries as the case studies have often been outdated and didn't address the current concern in countries, and the applied segment of training was rather limited.

The general perception is that all MENA countries have profound weakness in this area, and often limited to Article IV visits and does not provide continuity. This calls for the importance of having indigenous skills in this area.

Curriculum: Complete curricula in this area will encompass the following topics:

- A coverage of all accounts based on IMF and UN manuals: National income accounts, balance of payments, fiscal accounts, and monetary accounts
- Forecasting techniques applied to all accounts
- Fiscal and monetary policy foundations
- Exchange rate policy
- And most importantly how to construct an integrated financial program that allows a medium term forecast for all accounts and how it impacts on key variables such as growth , inflation, current balance, and debt.

An important outcome is to determine the *overall fiscal balance, current spending, and capital spending*.

Methodology	A step by step approach that guides participants in developing medium-term frameworks for their respective countries
Target audience	Such training has to target mid to senior staff in the ministry of finance. It should include primarily budget directorate, expenditure and revenue directorates, and key officials at the central bank and the ministry of economy. The application and training has to be country specific so that officials can use results obtained and apply them to their circumstances
Number of participants	20
Trainers	Skilled economists with advanced academic background and with a track record in applied financial programming and medium-term forecasting
Duration	A period of a minimum of 8 working days at the initial stage, to be followed by a refresher of 2/3 days after four months. Consideration should be given to establishing a process of continuous consultation following the initial phase of training. This process could ensure that the trained team is maintaining its capacity
Location	Jordan
Language of instruction	Arabic
References	IMF financial programming guidelines.

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BUDGET EXECUTION

Successful budget execution depends on numerous factors such as the ability to deal with changes in the macroeconomic environment, and the implementation capacity of the agencies concerned. It involves a greater number of players than budget preparation. Effective budget execution calls for:

Ensuring that the budget is implemented in line with the legal authorization

Managing the purchase and use of resources effectively

Ensuring rigorous aggregate expenditure control.

Once the budget is approved by parliament. There are usually six spending stages:

1. **Authorization:** the authorization stage follows budget approval, and line ministries become authorized to disburse funds consistent with the legal appropriations for each line item as set in the budget. The authorization stage is normally for one year. Where parliament has not yet approved the budget before the beginning of the fiscal year, it is normal to allow spending on temporary authorization basis, often restricted to one-twelfth per month of previous year's expenditure. In some countries, the authorization stage is set on monthly or quarterly basis by warrant. In the majority of advanced economies, unspent funds in a fiscal year cannot be carried over to the next. In some (OECD) countries unspent operating funds can be carried forward, however, usually specified to a small percentage of total funds (e.g. the UK, Australia, Canada). In some, obligations incurred in one fiscal year but falling due in the next can be carried over. A greater use of carry over is practiced in some advanced economies where multiyear expenditure is well established. Agencies are given greater freedom to manage their resources in order to improve efficiency. However, in such countries, aggregate expenditure control is less of a problem.
2. **Commitment:** commitment arises when a purchase order is made or a contract is signed. Good budget systems maintain data on commitments as they are ultimately reflected in expenditure and accounting records on commitments that will ultimately be reflected in expenditure. Without centralized accounting of commitments, there is a potential of accumulation of payments arrears. To ensure good administrative control over commitments, countries apply dual administrative control over commitments via the line ministry and the ministry of finance.

3. **Verification:** the line ministry or spending agency has normally the administrative responsibility to verify that the supplies are in full compliance with the terms and conditions of the contract. Bills at this stage become a liability of the public sector. Centralizing accrual liabilities is an important process as well as centralized verification as accrual liabilities become cash liabilities (normally) within 30 days.
4. **Payment authorization:** Payment authorization is normally issued by the treasury. For control purposes the functions of purchase orders and payments orders are not bestowed in the same person or institution. From the government perspective a transaction is complete at this stage.
5. **Payment:** the payment that follows should be undertaken through a single entity, normally the ministry of finance through its central bank account. Where payments are made through commercial bank's ministry accounts, it may become more difficult for the ministry of finance to reconcile its accounts with those of the banking sector.
6. **Accounting:** the final stage is the accounting stage; cash transactions are recorded which allows a reconciliation from the cash based "above the line" fiscal accounts with the financing of any deficit below the line. Countries that follow accrual accounting, expenditures and liabilities are accounted for when goods and services are delivered even if payments have not been paid, and revenues and receivables are recorded even if proceeds have not been received. In many countries (including MENA), reliable and comprehensive information is derived from payment orders issued. In such countries, there is a compelling need to improve commitment recording as it provides a basis for accrual accounting. Accrual basis accounting creates more harmony between fiscal and national income accounts.

For many less advanced countries, the more pronounced weakness is evident in procurement of goods and services. Public procurement has been cited as one of the government functions most prone to corruption.

Both lack of transparency and accountability are recognized as the two elements most threatening to the integrity of public procurement. For instance, in the OECD, bribery by international firms is more pervasive in public procurement than in utilities, taxation, and judiciary. Procurement is a main activity of governments, and corruption in procurement has highest impact on tax payers. In 2002 in OECD, public procurement accounted for 15% of GDP. Therefore, any weakness in this area would have a profound impact on the efficiency of use of public resources.

Timely execution of procurement procedures is also crucial for the execution of the budget. A weak linkage between procurement and budget planning is a core issue in most MENA countries leading to a systemic over estimate of capital expenditure. Often a major part of capital expenditure is withdrawn from the budget at the end of the fiscal year unless crossing over mechanisms are in place.

Transparency and accountability are key in promoting integrity and preventing corruption in public procurement. There are many grey areas in public procurement at both the pre-bidding and post bidding phases. The less competitive procedures are the more vulnerable transaction will become to mismanagement and corruption. Limited competition does not require less transparency.

There is a need in most countries in MENA

- (i) To turn public procurement officials into strategic professionals (challenge)
- (ii) To equip procurement managers with adequate tools in planning, management, and information technology.

The role of procurement officials in many advanced economies has evolved from a transactional role to a management role encompassing the whole procurement process from needs assessment to contract management and payment.

PROCUREMENT

Most common risks in Procurement:

Bidding risks

Lack of adequate needs assessment, planning and budgeting of public procurement

Failure to budget realistically

Procurement not well aligned with the overall investment decision

Interference of high level officials

Requirements that is not clearly defined or tailored for one company

Selection not based on performance requirement

Unqualified companies are being licensed

Irregular choice of procedure

Use of non-competitive procedures on the basis of legal exceptions

A time frame that is not consistently applied across bidders

Inconsistent access to information for bidders

Lack of competition or in some cases collusive bidding

Absence of public notice

Conflict of interest

Lack of access to records.

Bid rigging risks

In OECD, for the purpose of preventing procurement officials from getting involved in bid rigging, the act on Elimination and Prevention of Involvement in Bid Rigging came into force in January 2003. In Japan, anti-monopoly act was enforced in January 2006. In France, bids above € 90,000 should be published in the official bulletin. France applies the principle of proportionality which requires that information be made public based on the size of the project. Poland adopted the 2004 public procurement law. Ex-ante controls by the public procurement office for large projects (public works) above € 20 million and for € 10 million for public supplies are practiced. The objective is to prevent infringements before the conclusion of contracts. Such as:

Negligent preparation of contract

Incorrect evaluation

Definition of terms of participation

Failure to abide by conditions by a bidder

Failure to exclude a bidder when warranted

Findings of infringements are made public

Insufficient monitoring of contractors and public officials

Change in contract conditions to allow more time and higher prices

Product substitution to lower standard

False invoices

False accounting.

Transparency risks

Transparency and governance are key to improvement in procurement procedures. Transparency has to cover all stages of the process of procurement, before, during, and after bidding:

Provide a clear view of public sector demand

Engage the private sector in initial studies and evaluation and have a view of the industry. Early classification of criteria to select bidders

Give out clear documentation on bids- model documents

Criteria should clear as to the qualifications of bidders

Provide sufficient time to prepare bids

Communicate award results- debriefing

Risk management of projects

Restrictions and controls over change in the terms of contracts

Timely supervision

Accountability.

Enhancing professionalism

Public procurement is increasingly recognized as a profession that plays a successful role in management of public resources and viewed as a supply chain management.

Examples of good practices

- Procurement is no longer treated as a technical process. Procurement specialists work along side other leading officials and their responsibilities have been elevated to contract managers. Transparency and openness are key actors for the credibility of the public procurement body
- Attracting professionals with adequate skills and in particular in commercial know-how is a core challenge for governments
- Norms of good conduct involve quarantine time in which public officials are not allowed to work before the lapse of a sufficiently long period of time. Some countries instituted a conflict of interest bill
- Prevention of conflict of interest and corruption
- Separation of duties and authorization and between entities' functions, stages of procurement process, commercial and technical duties, and financial duties.
- Ethical standards for public service; laws and regulations, code of conduct guidelines.

Curriculum for procurement course:

- Principles of public procurement
- Linkage between annual budget planning and procurement plan
- Institutional models
- Code of conduct and ethical guidelines
- Procurement methods
- Elements of bid submission
- Procurement benchmarks
- Procurement audit

Methodology	Workshop detailing steps to construct a procurement system and a case study of a successful procurement program such as the United Nations (UNCITRAL) system
Target audience	Centralized procurement agency and line ministries procurement managers
Number of participants	16
Trainers	Procurement experts
Duration	10 days
Location	Lebanon and Morocco
Language of instruction	Arabic and French
References	Procurement laws of OECD countries World Bank procurement guideline (CPAR)

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CASH PLANNING AND CASH MANAGEMENT

As an integral element of public expenditure management, governments need:

- (i) To develop cash planning and management to keep within budgeted expenditure in cash terms
- (ii) To prevent unanticipated borrowing that might disrupt monetary policies
- (iii) To help identify the need for in-year remedial fiscal action.

Variations in in-year actual versus planned patterns of expenditure are not without cost. Even if the total limit on borrowing were not exceeded over a fiscal year, higher-than-planned expenditures within the fiscal year may lead to a surge in borrowing and could prevent the achievement of monetary policy objectives. It may lead to arrears and thus jeopardizing government commitment to domestic and international suppliers and contractors.

Therefore, careful financial planning and efficient in-year management of budget delivery are essential. But both cash planning and management will work well only if the budget information systems are comprehensive, timely, accurate, and reliable and if all departments involved, both inside and outside the ministry of finance, cooperate closely. These conditions are rarely fulfilled in developing countries, making monitoring the fiscal program difficult and cash management more challenging.

To weigh countries success in effectively using cash planning, one can assess the extent to which the main objectives of cash planning are attained. Cash planning has three prime objectives:

- (i) To ensure the smooth financing and minimize borrowing cost
- (ii) To facilitate the attainment of the budget targets in terms of the surplus or deficit
- (iii) To contribute to the smooth implementation of fiscal and monetary policies.

Developing countries' governments often do not pay enough attention to issues related to cash management. Budget execution procedures and the management of cash flows focus on compliance issues, while daily cash needs are met at low cost by the central bank. Spending units are not concerned with borrowing costs since their interests are already taken into account in the budget prepared by the Ministry of Finance. However, the costs of borrowing, and the increasing separation between the activities of the central bank and the government budget make cash management more important. Performance concerns have also had an impact on cash management. Some countries have implemented reforms to make spending agencies more responsible for cash, while maintaining instruments to ensure fiscal discipline. A decentralized system of payments complicates cash management and it's not recommended by best international practices.

1 . *Control of cash flows*

Inflows

It is necessary to minimize the interval between the time when cash is received and the time it is available for carrying out expenditure programs. Collected revenues need to be processed promptly and made available for use.

Outflows

The control of cash outflows, which is directly related to budget execution, can pose more difficulties than the control of cash inflows. However, issues related to cash management should not be confused with issues related to the distribution of responsibilities for accounting control and administration of the payment system. The major purpose of controlling cash outflows is to ensure that there will be enough cash until the date payments are due and to minimize the costs of transactions, while keeping cash outflows compatible with cash inflows and fiscal constraints.

The first condition for ensuring that cash outflows fit fiscal constraints is good budget preparation and budget implementation covering both cash and obligations. However, during budget implementation, cash outflows must also be regulated through cash plans to smooth cash outflows.

2 . *Payment techniques*

Payment methods affect the transaction costs of cash outflows. Depending on the banking infrastructure and the nature of expenditures, various payment methods may be considered (check, cash, electronic transfer, debit card, etc.). Modern methods of payment, for example, payment through electronic transfers instead of through checks or cash, allow the government to plan its cash flow more accurately, expedite payments, and simplify administrative and accounting procedures. However, whether one mode of payment is preferable to another depends on many factors, such as the degree of economic development of the country, the banking network, and the status of computerization. For payments within government (when an agency provides services to another agency), a number of countries use non-payable checks, while others make book adjustments. Using non-payable checks has the advantage of avoiding delays in preparation of accounts. In some aid-dependent countries non-payable checks are used to pay taxes related to imports financed with external aid, to avoid loopholes in the tax system created by duty-free imports.

CASH PLANNING AND CASH MANAGEMENT

3. Centralization of cash balances and Treasury single accounts

To minimize borrowing costs or maximize interest-bearing deposits, operating cash balances should be kept to a minimum. In countries where funds are released through an “imprest” system, spending agencies often accumulate idle balances in their bank accounts. These idle balances increase the borrowing needs of the government, which must borrow to finance the payments of some agencies. Where “imprest” accounts are held at a commercial bank, the idle balances can help loosen constraints on credit, by giving the banking sector additional resources for credit.

Cash balances are efficiently centralized through a Treasury Single Account. This is an account or set of linked accounts through which the government transacts all payments.

A standard Treasury Single Account is organized along the following lines:

- (i) Line ministries hold accounts at the Central Bank, which are subsidiary accounts of the treasury’s account
- (ii) Spending agencies under the line ministries hold accounts either at the Central Bank or, for banking convenience, with commercial banks; in both cases, the accounts must be authorized by the Treasury
- (iii) Spending agencies’ accounts are zero-balance accounts, with money being transferred to these accounts as specific approved payments are made
- (iv) Spending agencies’ accounts are automatically swept at the end of each day (where the banking infrastructure allows daily clearing)
- (v) The central bank consolidates the government position at the end of each day including balances in all the government accounts.

In practice under the notion of a Treasury Single Account, there are a variety of methods of centralizing transactions and cash flows. These can be grouped very broadly into two categories:

Treasury Single Account

Treasury Single Account and centralized accounting controls. Requests for Payments are sent to the Treasury which controls them and plans their payment. The Treasury manages the float of outstanding invoices. This solution seems more efficient both for cash management and expenditure control. However, the centralization of accounting controls and the central management of float lead to inefficiencies, and even corruption, in countries where the Treasury Department selects the suppliers to be paid

Passive Treasury Single Account. Payments are made directly by spending agencies, but through a Treasury Single Account. The Treasury, or the budget implementation plan, sets cash limits for the total amount of transactions, but the Treasury does not control individual transactions. In practice, the Treasury Single Account consists of several bank accounts.

These accounts may be held only at the Central Bank or also in several other banks. This variant has the advantage of making the spending agency responsible for internal management, while keeping central control of cash.

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4 . *Management of government bank accounts*

From a cash management point of view, these modes of centralizing cash balances give identical results.

- The feasibility of their implementation depends on the level of technological development of the banking sector and the government.
- Modern technology allows electronic links between spending agencies, the Central Bank (or the commercial banks), and the offices of the Treasury.
- Actually the concept of a General Ledger System, which is a system into which all transactions are recorded can fit either decentralized or centralized accounting controls and payment processing systems. Countries with centralized controls have set up a General Ledger System into which not only payment transactions but also commitments are posted. The GLS can also be linked with the accounting and management information systems maintained at the agency level.

In countries with an underdeveloped banking infrastructure, daily clearing of accounts with various banks could be more difficult than daily settlement within a set of accounts at the central bank. Maintaining a large number of accounts could therefore hinder the implementation of appropriate clearing and consolidation procedures. For policy analysis and management, it is important to record each transaction and to classify it along functional and economic categories. Thereby centralizing cash balances are not sufficient for this purpose. Information on transactions must also be centralized.

Processing payment transactions within the Treasury could facilitate monitoring. However, experience shows that this does not automatically guarantee that monitoring will be satisfactory. Generally in developing countries, the Treasury centralizes its internal cash balances and global information on cash outflows and inflows, but the centralization of payment transactions is not systematic or the data are too much aggregated to allow a sound analysis of budget execution.

Reform of the cash management system must take into account its possible impact on budget management within spending agencies must also be cost effective. Often, developing countries have different arrangements within their payment system according to the location of spending agencies. This can be seen as a fragmentation of the system.

- Whatever the organization of tax collection or expenditure payment, the Treasury must be responsible for supervising all central government bank accounts, including any extra-budgetary funds.
- When commercial banks are involved in revenue collection or expenditure payments, the banking arrangements must be negotiated and contracted by the Treasury. This will enable the government to negotiate better arrangements and to ensure that requirements for cash and budget management are appropriately taken into account.
- Besides using bank accounts for budget management, the Treasury may have deposit accounts with commercial banks, which should be selected on a competitive basis to get higher-yielding terms.

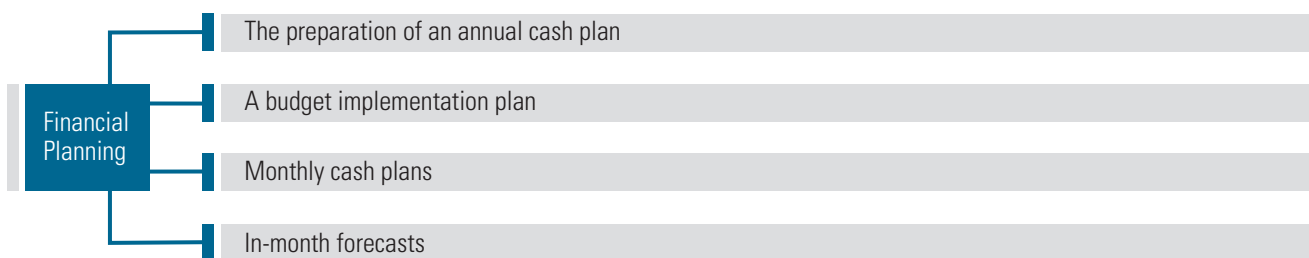
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5. *Financial planning and forecasts*

Financial planning and cash flow forecasts are needed both to ensure that cash outflows are compatible with cash inflows and to prepare borrowing plans. Cash planning must be done in advance and communicated to spending agencies to allow them to implement their budgets efficiently. Moreover, reducing uncertainty about the borrower debt program is generally rewarded with lower borrowing charges. Therefore, it is also important to prepare and announce borrowing plans in advance. Financial planning includes:



- Often, the treasury department prepares both the budget implementation plan and the overall cash plan on a pure-cash basis.
- However, in some countries, the budget department prepares a budget implementation plan, which can include gross flows (e.g., wages, including income taxes), and then the treasury department prepares a cash plan showing cash flows.
- In a number of countries, this budget implementation plan is a requirement for commitments or requests for payment, rather than a form of cash control. In other cases, the budget implementation plan merely divides appropriations by four (for quarterly disbursements) or by twelve (for monthly disbursements), but in practice the budget is implemented through cash rationing.

Close coordination between the budget department and the treasury department is required when planning budget implementation. The budget implementation plan and the cash plan must be fully compatible.

The preparation of monthly revenue forecasts requires economic as well as management expertise, to factor in changes in the tax administration system. This exercise should be carried out by the tax and customs administration departments in close cooperation with the treasury and the departments responsible for macroeconomic analysis. In several developing countries, monthly forecasts prepared by the tax administration departments are more administrative than economic. They show the distribution of budgeted revenues over the fiscal year but do not take into account fiscal and economic developments after the budget preparation. The treasury may therefore have to strengthen the forecasting capacities of tax administration departments.

A good monitoring system is a prerequisite for forecasting. Thus, revenue collection needs to be monitored along the major tax categories and adjusted to reflect changes in the assumptions underlying the forecasts.

- In-year revenue forecasts must be based on revenue assessment and tax collection reports, and results of economic surveys.
- Short-term forecasting tools, such as short-term macroeconomic models and tax forecasting models, are also helpful.

Revenue forecasts must also include forecasts of non-tax revenues to be prepared by the treasury in close coordination with the agencies responsible for their management.

Curriculum

- Cash Inflows: tax revenue, non-tax revenue, and borrowing.
- Cash Outflows: payments against commitments, interest and debt payments and other outflows (execution related payments such as project implementation).
- Single treasury account role
- Donors' disbursement projections linked to conditionality and other constraints.
- Risk assessment of interest rates and exchange rate fluctuations on receipts and payments.

Methodology	Workshop based on a cash planning model
Target audience	Treasury department staff
Number of participants	20
Trainers	Experienced cash planner with public experience cash planning or corporate sector experience
Duration	8 days
Location	Jordan
Language of instruction	Arabic/English
References	Case study

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The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. Prudent risk management to avoid dangerous debt structures and strategies (including monetary financing of the government's debt) is crucial, given the cost consequences of sovereign debt default.

Debt management could have two main aspects:

- (i) Central bank borrowing operations as part of monetary policy
- (ii) Government borrowing to finance the fiscal deficit.

The use of government securities as instruments of monetary policy could contribute to the development of financial markets. However, it requires adequate support arrangements, such as coordination between monetary and fiscal authorities regarding the amounts to be issued; protection against over funding of the government budget for the purpose of monetary management; and sharing the cost of this funding.

The initial step in formulating debt policy for financing the budget deficit is to set borrowing objectives in conformity with fiscal targets

The second step is to determining strategic choices.

The objectives of the debt management policy should be clearly stated and made public. The basic objectives are to finance the budget deficit, or specific projects (for project loans), and to minimize the costs of borrowing. Governments also pursue other objectives in debt management (as noted above), such as the development of financial markets, support monetary policy implementation, and encouragement of savings.

Box 3: Risks Encountered in Sovereign Debt Management

RISK	DESCRIPTION
Market Risk	Refers to the risks associated with changes in market prices, such as interest rates, exchange rates, commodity prices, on the cost of the government's debt servicing. For both domestic and foreign currency debt, changes in interest rates affect debt servicing costs on new issues when fixed-rate debt is refinanced and on floating-rate debt at the rate reset dates
Rollover Risk	The risk that debt will have to be rolled over at an unusually high cost or, in extreme cases, cannot be rolled over at all. To the extent that rollover risk is limited to the risk that debt might have to be rolled over at higher interest rates, including changes in credit spreads, it may be considered a type of market risk
Liquidity Risk	There are two types of liquidity risk. One refers to the cost or penalty investors face in trying to exit a position when the number of transactors has markedly decreased or because of the lack of depth of a particular market. This risk is particularly relevant in cases where debt management includes the management of liquid assets or the use of derivatives contracts. The other form of liquidity risk, for a borrower, refers to a situation where the volume of liquid assets can diminish quickly in the face of unanticipated cash flow obligations and/or a possible difficulty in raising cash through borrowing in a short period of time
Credit Risk	The risk of non performance by borrowers on loans or other financial assets or by a counterparty on financial contracts. This risk is particularly relevant in cases where debt management includes the management of liquid assets
Settlement Risk	Refers to the potential loss that the government, as a counter party, could suffer as a result of failure to settle, for whatever reason other than default, by another counter party
Operational Risk	This includes a range of different types of risks, including transaction errors in the various stages of executing and recording transactions; inadequacies or failures in internal controls, or in systems and services; reputation risk; legal risk; security breaches; or natural disasters that affect business activity.

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DEBT MANAGEMENT

As indicated previously, reduced uncertainty about a country's debt program is generally rewarded with lower borrowing charges. Many countries announce their borrowing plans in advance. Taking into account uncertainty in revenue collection, the amount of future auctions can be presented in public borrowing plans within a range of more or less 10 to 20 percent, and for example, the precise characteristics of a particular auction can be announced the week before it takes place. Issuance and pricing results should be published shortly after auctions. The government should provide parliament with regular and detailed reports on its indebtedness and its debt policy, and publish statistics on the government debt, including guarantees.

To avoid uncontrolled indebtedness, only one government authority should be authorized to borrow. It must be the authority responsible for fiscal management (i.e. the ministry of finance). Regulations can also provide for the amount of borrowing, which must conform to the annual budget, as it should outline the annual borrowing plan.

A public debt act can also provide guidance on the types of instruments and selling techniques that the government can use. However, such an act should be flexible enough to adapt to developments in the financial market and to the level of technological sophistication.

Concerning borrowing in the financial markets, the formulation of debt policy includes strategic and tactical policy choices that concern the choice of instruments, currency, targeted markets, etc.

The choice of instruments and the establishment of an adequate mix of these instruments must be based on the:

Needs of investors

Risk factors

Objective of promoting the liquidity and the overall development of the market.

The choice of maturity is important in balancing the debt profile, adjusting the volatility of debt, and exploiting investor preferences. Targeting the wholesale domestic market reduces interest costs, but the development of the retail market may promote household savings.

In developing countries as well as in transition economies, caution is required before considering certain instruments that increase volatility in debt service (such as index-linked rate instruments and currency-linked instruments). Borrowing in foreign currency could eventually present higher risks and costs in most developing countries, although it could be initially seen as a way to diversify risk and reduce cost. The use of derivatives requires high degree of expertise and should generally not be considered in developing countries.

The formulation of debt policy, for financing the budget deficit, should rest with the ministry of finance, but close coordination with the central bank is required, and the effects on monetary policy should be considered.

The distribution of responsibility for implementing the debt policy should be established according to:

Technical capacities within the ministry of finance

The degree of development of the financial markets

The objectives pursued.

In several developing countries, the central bank is responsible for implementing the debt policy and securities management as usually the central banks are more knowledgeable about the functioning of the financial markets. In developed countries, there is currently a move toward placing debt management fully under the responsibility of the ministry of finance, with a view to avoiding any policy conflict between debt and monetary management.

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DEBT MANAGEMENT

1 . Contracting loans

Only one government authority should be authorized to contract external loans and grant guarantees.

- Program loans (support for the balance of payments and/or the budget) should be included in the financial plan annexed to the budget. In some countries the signing of these loans is subject to the approval of Parliament. This increases transparency, but may cause delays. Global authorization of the financing plans might be preferable, but this depends on circumstances and the legal and constitutional framework of the country.
- Project loans should finance only projects included in the public investment program. The total amount of project loans should be presented in these documents. However, the amount of a loan under negotiation cannot be determined precisely.

2 . Recording transactions

Every loan transaction should be recorded, including loans contracted and guaranteed, disbursements, payments due, payments, rescheduling, debt remission, and cancellation of the non-disbursed part of a loan, and change in the terms of loans.

- To facilitate comparison and accounting, it is better to register individual transactions than aggregated data. For example, it is easier to compare individual drawings expressed in foreign currency with actual expenditures expressed in domestic currency than to compare monthly aggregated data. The average exchange rate for a month is rarely equal to the exchange rate weighted by drawings made within the month.
- A crucial problem is the collection of information. In many developing countries, information on drawings is not readily available. The debt management office often records disbursements only on the basis of information communicated by lenders, but not every lender transmits this information in a timely manner. Consequently, national auditors cannot perform audits satisfactorily since data on debt cannot be compared with budget execution reports. Information dissemination between line ministries, project managers, and the debt management office is often inadequate.

3 . Reporting

- Payment forecasts are based on the terms of the agreements. But determining exactly the amount of payments due requires additional information. Many countries rely solely on the claims from lenders. Often the debt management office does not know exactly how lenders calculate payments for example, when the amount of payments depends on the value of a currency pool. Debt accountants must be trained, and basic information on methods of calculating payments must be obtained from lenders.
- In the same way, some debt management offices in developing countries do not take full control of the payment schedules for rescheduling agreements. To forecast rescheduling, a simple spreadsheet model is sufficient. To manage rescheduling, the schedule of payments related to the rescheduling agreements must be calculated accurately. This problem is currently being addressed through the implementation of debt management systems that incorporate the management of rescheduling.

The reporting system for debt transactions should fit the needs of macro analysis, negotiations with lenders or with countries, the preparation of financial programs, budget monitoring, etc. For this purpose, lenders, countries, etc., must appropriately classify loans. The system of notification to the World Bank gives a basic framework for debt reporting, but must be supplemented to take into account other needs related to financial monitoring and forecasting, notably for the preparation of financial programs or debt negotiations.

DEBT MANAGEMENT

4 . *Debt accounting*

- Developing countries with a cash accounting system generally also monitor debt service obligations, but this is not sufficient. A double-entry accrual accounting system should be required. Payments are made not only in cash from government bank accounts, but also through debt operations (rescheduling, remissions, etc.). An increase in liabilities (e.g., drawings from external loans) may correspond to an increase in assets (e.g. through a non-lending operation). The risks related to guarantees and on-lending should be assessed and accounted for. Accounting should be based on accounting standards, not on debt policy. For example, an expected rescheduling may be taken into account in a financial program, but should be included in the accounts only when it takes effect.
- Noncompliance with accounting standards, confusion between forecasted data or policy objectives and actual data, and confusion between new operations (such as debt remission) and revisions in actual data create difficulties in the interpretation of many debt reports. Accounting methods used for specific operations, such as debt remissions, should be indicated in the debt reports.
- In several countries, organizational arrangements for the management of external debt are fragmented. The ministry of finance, the ministry of planning, the financial controller, the ministry of foreign Affairs, etc, may all be involved in debt management.

5 . *Management responsibility of debt*

- The Ministry of Finance, which is responsible for fiscal management, should be responsible for debt management and should determine the debt policy, review draft agreements, verify whether the loan terms fit debt policy and whether its purpose fits the budgetary policy, assess the future impact on the debt service, conduct financial negotiations, and keep books and the debt recording system.
- In several countries, statistics on debt are kept by the central bank, although the government is responsible and accountable for debt management. This organizational arrangement is generally acceptable. It could ensure more comprehensive coverage of transactions, since every payment is made through the central bank.
- However, where such distribution of responsibilities is made, the statistics unit of the central bank must also be made to report to the Ministry of Finance, which is responsible for managing and implementing the medium-term external debt policy. The existence of two statistics units, one at the central bank and one within the ministry of finance, is generally a source of confusion.
- Concerning external borrowing, central coordination of the external debt policy is required. Its impact on the balance of payments must be taken into account. Approaching foreign markets and negotiating with international financial institutions need to be coordinated well. Moreover, foreign lenders, when lending to local governments, generally count on an explicit or implicit guarantee from the central government.

Curriculum

Debt management:

- Maturity implications
- Currency composition
- Interest rate composition
- Contingent liabilities
- Debt sustainability models.

Debt risk management:

- Vulnerability to contagion and financial shocks
- Market risk: movements in interest, exchange rates and commodity prices:

This entails development of a framework to enable debt managers to identify and manage the trade-offs between expected cost and risk in the government debt portfolio in the following areas:

- Rollover risk
- Liquidity risk
- Credit risk
- Settlement risk
- Operational risk

Methodology	Applied workshop-case study
Target audience	Directors of debt departments
Number of participants	16
Trainers	UNCTAD experts/consultants, and possibly World Bank and IMF staff
Duration	10 days
Location	Lebanon
Language of instruction	English
References	UNCTAD or WB Debt management modules

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Many countries (as noted earlier) continue to follow the GFS 1986 classification. Furthermore, most continue to record transactions on cash basis. The GFS 2001 classification is both an ex-ante and ex-post reporting mechanism and renders public finances more comprehensive and useful for management purposes.

The International Federation of Accountants and its regulatory arm the International Public Sector Accounting Standards Board (IPSASB) has been promoting the adoption of standardization in financial reporting. IPSASB recognizes the significant benefits of achieving consistent and comparable financial information across countries and it believes that the IPSASs will play a key role in enabling these benefits to be realized.

The IPSAS Board issues IPSASs dealing with financial reporting under the accrual basis and the cash basis of accounting. The accrual basis IPSASs are based on the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) where the requirements of those standards are applicable to the public sector. They also deal with public sector specific financial reporting issues that are not dealt with in IFRSs. The adoption of IPSASs by governments will improve both the quality and comparability of financial information reported by public sector entities around the world.

Financial statements for a government prepared in accordance with IPSAS provide an overview of the assets controlled and the liabilities incurred by the government, the cost of services provided, and the taxation and other revenues generated to fund the provision of these services through controlled entities.

IPSAS also serve broader objectives when compared to the statistical bases of financial reporting. The objectives of financial statements prepared in accordance with IPSAS are to provide information useful for decision-making and to demonstrate the accountability of the government for the resources entrusted to it and which it controls. Financial statements, on the other hand, prepared in accordance with statistical basis of financial reporting provide information suitable for analyzing and evaluating fiscal policy, especially the performance of general government sector.

In addition to guidelines for preparing financial statements the IPSASB has issued other standards encompassing many aspects of treating public sector transactions: In total IPSASB issued 26 standards encompassing all aspects of government financial and non-financial transactions. (Box 4)

Box 4:

IPSASB standards

- **IPSAS 1**, Presentation of Financial Statements, sets out the overall considerations for the presentation of financial statements, guidance for the structure of those statements and minimum requirements for their content under the accrual basis of accounting.
- **IPSAS 2**, Cash Flow Statements, requires the provision of information about the changes in cash and cash equivalents during the period from operating, investing and financing activities.
- **IPSAS 3**, Net Surplus or Deficit for the Period, Fundamental Errors and Changes in Accounting Policies, specifies the accounting treatment for changes in accounting estimates, changes in accounting policies and the correction of fundamental errors, defines extraordinary items and requires the separate disclosure of certain items in the financial statements.
- **IPSAS 4**, The Effects of Changes in Foreign Exchange Rates, deals with accounting for foreign currency transactions and foreign operations. IPSAS 4 sets out the requirements for determining which exchange rate to use for the recognition of certain transactions and balances and how to recognize in the financial statements the financial effect of changes in exchange rates.
- **IPSAS 5**, Borrowing Costs, prescribes the accounting treatment for borrowing costs and requires either the immediate expensing of borrowing costs or, as an allowed alternative treatment, the capitalization of borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset.
- **IPSAS 6**, Consolidated Financial Statements and Accounting for Controlled Entities, requires all controlling entities to prepare consolidated financial statements which consolidate all controlled entities on a line by line basis. The Standard also contains a detailed discussion of the concept of control as it applies in the public sector and guidance on determining whether control exists for financial reporting purposes.
- **IPSAS 7**, Accounting for Investments in Associates, requires all investments in associates to be accounted for in the consolidated financial statements using the equity method of accounting, except when the investment is acquired and held exclusively with a view to its disposal in the near future in which case the cost method is required.
- **IPSAS 8**, Financial Reporting of Interests in Joint Ventures, requires proportionate consolidation to be adopted as the benchmark treatment for accounting for such joint ventures entered into by public sector entities. However, IPSAS 8 also permits - as an allowed alternative - joint ventures to be accounted for using the equity method of accounting.
- **IPSAS 9**, Revenue from Exchange Transactions, establishes requirements for the accounting treatment of revenue from exchange transactions. Non-exchange revenue, such as taxation, is not addressed in this standard.
- **IPSAS 10**, Financial Reporting in Hyperinflationary Economies, describes characteristics of an economy that indicate whether it is experiencing a period of hyperinflation and provides guidance on restating the financial statements in a hyperinflationary environment to ensure useful information is provided.
- **IPSAS 11**, Construction Contracts, deals with both commercial and non-commercial contracts and provides guidance on the allocation of contract costs and, where applicable, contract revenue to the reporting periods in which construction work is performed.
- **IPSAS 12**, Inventories, establishes the accounting treatment of inventories held by public sector entities and deals with inventories held for sale in an exchange transaction and certain inventories held for distribution at no or nominal charge. The IPSAS excludes from its scope work-in progress of services to be provided at no or nominal charge from recipients because they are not dealt with by IAS 2 Inventories and because they involve public sector specific issues which require further consideration.
- **IPSAS 13**, Leases. This IPSAS is based on IAS 17 Leases. The IPSAS establishes requirements for financial reporting of leases and sale and leaseback transactions by public sector entities, whether as lessee or lessor. The PSC decided that because the IPSAS on Leases and the proposed IPSAS on Property, Plant and Equipment are closely related, it was preferable that the two IPSASs be released at the same time. Accordingly, the release of this IPSAS has been deferred to later in 2001. (See the section on Work in Progress below for a report on progress on the IPSAS on Property, Plant and Equipment.)

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- **IPSAS 14**, Events After the Reporting Date. IPSAS 14 is based on IAS 10, events after the balance sheet date (revised 1999) but has been amended where necessary to reflect the public sector operating environment. The Standard establishes criteria for deciding whether the financial statements should be adjusted for an event occurring after the reporting date. It distinguishes between adjustable events (those that provide evidence of conditions that existed at the reporting date) and non-adjustable events (those that are indicative of conditions that arose after the reporting date).
- **IPSAS 15**, Financial Instruments: Disclosure and Presentation. IPSAS 15 is based on IAS 32, Financial Instruments: Disclosure and Presentation (Revised 1998). The standard includes requirements for disclosures about both on-balance sheet and off-balance sheet (statement of financial position) instruments, and the classification of financial instruments as financial assets, liabilities or equity. Some respondents noted that the IPSAS would have only limited application for public sector entities which did not hold financial assets, liabilities or equity. The PSC has included as an appendix to the IPSAS a guide to assist entities in identifying the requirements of the Standard that will apply to them.
- **IPSAS 16**, Investment Property. IPSAS 16 Investment Property is based on IAS 40, Investment Property (issued 2000) and provides guidance on identifying investment properties in the public sector. The Standard:
 - requires that investment property initially be recognized at cost and explains that where an asset is acquired at no or nominal cost, its cost is its fair value as at the date it is first recognized in the financial statements;
 - requires that subsequent to initial recognition, investment property be measured consistent with either the fair value model or the cost model.
- **IPSAS 17**, Property, Plant and Equipment. IPSAS 17 Property, Plant and Equipment, establishes the accounting treatment for property, plant and equipment, including the basis and timing of their initial recognition, and the determination of their ongoing carrying amounts and related depreciation. It does not require or prohibit the recognition of heritage assets.
- **IPSAS 18**, Segment Reporting. Establishes principles for reporting financial information about distinguishable activities of a government or other public sector entity appropriate for evaluating the entity's past performance in achieving its objectives and for making decisions about the future allocation of resources.
- **IPSAS 19**, Provisions, Contingent Liabilities and Contingent Assets. This Standard defines provisions, contingent liabilities and contingent assets; and identifies the circumstances in which provisions should be recognized, how they should be measured and the disclosures that should be made about them. The Standard also requires that certain information be disclosed about contingent liabilities and contingent assets in the notes to the financial statements to enable users to understand their nature, timing, and amount.
- **IPSAS 20**, Related Party Disclosures. IPSAS 20 requires the disclosure of the existence of related party relationships where control exists and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are identifying which parties control or significantly influence the reporting entity and determining what information should be disclosed about transactions with those parties.
- **IPSAS 21**, Impairment of Non-Cash-Generating Assets. IPSAS 21 prescribes the procedures that an entity applies to determine whether a non-cash-generating asset is impaired and to ensure that impairment losses are recognized. The standard also specifies when an entity would reverse an impairment loss and prescribes disclosures.
- **IPSAS 22**, Disclosure of Financial Information about the General Government Sector IPSAS 22 establishes requirements for governments that choose to disclose information about the general government sector and that prepare their financial statements under the accrual basis of accounting.

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- **IPSAS 23**, Revenue from Non-Exchange Transactions (Taxes and Transfers). IPSAS 23 addresses:
 - Recognition and measurement of revenue from taxes.
 - Recognition of revenue from transfers, which include grants from other governments and international organizations, gifts and donations.
 - How conditions and restrictions on the use of transferred resources are to be reflected in the financial statements.
- **IPSAS 24**, Presentation of Budget Information in Financial Statements. IPSAS 24 applies to entities that adopt the accrual basis of financial reporting. It identifies disclosures to be made by governments and other public sector entities that make their approved budgets publicly available. Also, it requires public sector entities to include a comparison of budget and actual amounts in the financial reports and an explanation of any material differences between budget and actual amounts.
- **IPSAS 25**, Employee Benefits. IPSAS 25 sets out the reporting requirements for the four categories of employee benefits dealt with in the IASB's IAS 19 Employee Benefits. These are short-term employee benefits, such as wages and social security contributions; post-employment benefits, including pensions and other retirement benefits; other long-term employee benefits; and termination benefits. The new IPSAS also deals with specific issues for the public sector, including the discount rate related to post-employment benefits, treatment of post-employment benefits provided through composite social security programs, and long-term disability benefits. IPSAS 25 is effective for reporting periods beginning on or after 1 January 2011.
- **IPSAS 26**, Impairment of Cash-Generating Assets. Some public sector entities (other than government business enterprises, which would already be using full IFRSs) may operate assets with the main purpose of generating a commercial return (rather than providing a public service). IPSAS 26, which is based on IAS 36 Impairment of Assets, applies to such assets. It sets out the procedures for a public sector entity to determine whether a cash-generating asset has lost future economic benefit or service potential and to ensure that impairment losses are recognized in its financial reports. Non cash-generating assets, those used primarily for service delivery, are addressed separately in IPSAS 21 Impairment of Non-Cash-Generating Assets. IPSAS 26 is effective for reporting periods beginning on or after 1 April 2009.

Curriculum IPSASB accounting standards

Methodology	Applied workshop based on case studies in economies that fully adhere to IPSAS standards in accounting procedures
Target audience	Public sector accountants of the treasury departments and treasury staff
Number of participants	20
Trainers	Certified public accountants/controllers
Duration	5-7 working days
Location	Jordan
Language of instruction	English © Institut Des Finances Basil Fuleihan
References	IPSAS standards This document was downloaded from the website of Institut Des Finances Basil Fuleihan

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INTERNAL AUDIT AND CONTROL

Financial control refers to the financial aspect of internal control and could be either ex-ante or ex-post. It covers both internal and external control with the latter taking the form of audit which is more strictly ex-post and conducted usually by supreme audit institutions (SAIs).

Based on countries practices (globally speaking), there is a great deal of variety in methods used to exercise effective audit. However, there are recurring features in countries' practices. It is also observed that the similarity between private sector audit procedures and those of the public sector is very striking. Both systems of control have, therefore, a number of common essential features. These are as follows:

Identification of risk

Identification of internal control systems and procedures to counter perceived risk.

Risks cover: misuse of financial, human, and technical resources; failure to execute budgetary and other policy decisions; fraud and error; deficient accounting records; and failure to produce reliable financial information.

Internal control systems are established by countries to counter such perceived risks. While control procedures may vary from one country to the other, there are primarily two systems that provide effective control.

One system places emphasis on the controls that are exercised by a third parity organization such as an agency of the ministry of finance. In this case, the ministry intervenes with ex-ante control by itself

A second approach delegates responsibility to the heads of line ministries or officials in the budget and finance departments of those ministries.

Some countries practice a mixture of both approaches.

It is generally accepted that effective control should incorporate the following control procedures:

Clear instructions and appropriate training, policies and codes of conduct

A clear definition of the responsibilities of involved staff

Clear separation of functions between staff members involved in handling financial transactions

Strong external oversight

Comprehensive and transparent procedures for financial reporting.

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Internal controls, in addition to the above mentioned effectiveness requirements, demand as well many prerequisites.

- Strong management of controls is essential
- Controls should be set to be cost effective and should not impede or paralyze the operations of an entity
- And control process has to be distinguished by the tasks involved in each step.

Controls encompass the following:

Physical controls

Accounting controls

Process controls

Procurement controls

Separation of duties

Internal audit.

While no system of control can provide an absolute guarantee against the risk of wrong doing without imposing costs that are out of proportion to the risks. The goal of controls is to provide "reasonable" assurance that improprieties will not occur or that if they were to occur they will be revealed and dealt with. Therefore, authorities should be aware of possible flaws in building and maintaining management control systems.

INTERNAL AUDIT AND CONTROL

Internal audits help governments accomplish their objectives by introducing a systematic and disciplined approach to evaluate and improve effectiveness of risk management control and governance process. Governments can follow either a centralized or localized audits. In either case, audit bureaus are responsible for ex-post financial control of all public expenditure and revenues of the government administration. In some countries, instead of carrying full audits of departments, audit bureaus are engaged in ensuring the proper enforcement of internal control systems in line ministries.

An internal audit service should cover two main functions:

Financial audits comprise audit of budgetary and financial systems based on compliance and substantive tests of actual transactions. They also involve assessment of the effectiveness of accounting systems

Performance audits on the other hand cover the extent to which established objectives and specific programs of a ministry have been achieved or implemented efficiently. The concern of the auditor is that systems and procedures are in place to ensure that resources are used in accordance with rules and regulations. Audit procedures are thus based on a sample of transactions rather than being comprehensive as in the case of internal control.

Independence of auditors is of paramount importance and it varies between countries. In some countries, a ministry auditor reports to that ministry. In other cases auditors report to the ministry of finance and thus granted greater independence.

Curriculum (auditing procedures applied in OECD with the objective to demonstrate a fully effective financial control system)

Methodology	Case studies of practices
Target audience	Financial controllers of the ministries of finance
Number of participants	20
Trainers	Seasoned financial controller from a reputed audit firm with public sector experience- CPA or certified chartered accountant
Duration	7 days
Location	Morocco
Language of instruction	Arabic/French
References	Standards of internal control developed by the EC for Eastern European countries, Public Internal Financial Control (PIFC, as well as COSO norm).

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EXTERNAL AUDITING- SUPREME AUDIT INSTITUTIONS (SAIS)

Guidelines and recommendations

Supreme audit institution's main task is to audit the legality and the regularity of financial management procedures in ministries and to certify the accuracy and reliability of the final budget accounts. SAIs could also carry out audits and performance audits of publicly funded institutions with a view to assess their efficiency and effectiveness. Performance covers both financial operations and the full range of government activities including administrative and organizational procedures and systems.

External audit is distinguished from internal audit by its degree of independence. For external audit to be effective, carry its function properly, be fully independent, its reports should be addressed to entities that are separate from the bodies being audited.

The guidelines of the International Organization of Supreme Audit Institutions (INTOSAI) stress that supreme audit is an indispensable part of a regulatory system whose aim is to reveal deviations from accepted standards and violations of the principles of legality, efficiency, effectiveness, and economy of financial management. It should have the capacity to detect irregularities early enough to make it possible to take corrective action in order to make those responsible accountable for any breaches of standard principles. Sound external audit is perceived to contribute to the effective management of government finances and assures parliaments and citizens that public funds have been well spent.

The objectives of external audit by SAI are the following:

- To detect irregularities involving the misuse of public funds
- Determine the reliability of reports on budget execution
- Identify instances and patterns of waste and inefficiency
- Provide reliable data about program results as a basis for future adjustments in laws, policies, and budget allocation
- Enhance social accountability.



Prerequisites for effective audit

INTOSAI has promulgated principles and standards for the audit of government organizations and operations. These principles have gained general acceptance and have become the benchmark for a successful SAI structure. Many countries have incorporated these principles and standards in their audit laws. The standards have focused on three main elements:

Independence: Independence is accomplished by creating an SAI as an entity apart from the government with its mandate and scope of work laid down in the constitution or laws, and its reports become the national legislator.

Audit coverage (risk based): The audit coverage of SAIs should comprise all state financial operations, and shall be empowered to audit taxes including the examination of individual tax files.

Professional skills: A country needs to ensure that the proper skills are possessed by the staff of its SAI. Many countries (particularly with advanced economies) embark on and adopt training programs geared toward this objective, in order to ensure that the skills of its staff are updated and meet the needs of different audit assignments. SAIs should be entitled to conduct all audit functions: ex-ante audit, ex-post audit, compliance audit, and performance audit.

ARABOSOI has as well contributed to enhancing external auditing standards in MENA countries.

It is quite perceived that few SAIs have enough resources to examine every unit of government. SAIs rather depend on risk oriented audits by identifying and concentrating on high risk areas where frequent irregularities are known to occur.

Curriculum supreme audit manuals and legal frameworks

Methodology	Applied case study workshop
Target audience	Supreme audit institutions auditors
Number of participants	20
Trainers	Seasoned auditors with experience in risk based supreme audit, and extensive experience in public sector risk auditing
Duration	7 days
Location	Jordan
Language of instruction	Arabic/English
References	© Institut Des Finances Basil Fuleihan INTOSAI standards for auditing and case studies provided by the British NAO, and the French Court of Accounts.

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GOVERNMENT FINANCIAL MANAGEMENT INFORMATION SYSTEMS (GFMIS)

- Advanced and modern computer based information systems contribute to overall fiscal control and operational efficiency. It aids decision makers in government in consolidating and accessing large amounts of data across dispersed locations. Countries (more advanced), in today's more complex financial management, opt for an integrated model of financial management systems. It generally consists of the following:

A group of interrelated, interdependent and interacting financial management components

A group of procedures that have a built-in system of checks and balances to ensure transparency and accountability

A group of procedures based on a decentralized approach to implementation within a centralized framework of objectives and operating principles.

- Integrated systems are more advantageous than systems that are implemented through separate projects in response to specific needs. An integrated approach eliminates the need for duplication in gathering and preserving information, and enables all agencies to work with a common set of data. Data entered by one agency become accessible to other agencies involved in budget and financial management.
- A main task is to unify classification of transactions; without it, exchange of data and integration can be problematic. In this regard, the budget classification system and chart of accounts are essential elements in linking or consolidating different data bases.

The initial step, therefore, in developing an integrated approach should be to adopt standards for all systems in terms of reporting requirements and classification. The ministry of finance should coordinate the implementation of the financial management systems and should be responsible for their regulation and effectiveness. Line ministries should, however, participate in designing and implementing these systems.

- Budget preparation systems should allow for an iterative process involving line ministries and the ministry of finance. Its main function would be:

To record and evaluate budget proposals and income estimates

To prepare budget scenarios

To produce the draft budget documents.

- Accounting and budget execution systems maintain data on approved appropriations, fund release, commitments, accrued expenditure and payments against budget allocations
- Management of payables should be implemented within spending agencies, whereas personnel and payroll management systems keep data on civil service, salaries, and other employment cost
- The revenue administration system assists the tax and customs in their administration and control activities
- Debt systems are used for debt accounting and have also forecasting functions
- Cash planning systems are generally simple (though accurate estimates could be complex) but must rely on data input from other systems.

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Curriculum

Systems of financial information should at least comprise the following:

- Budget preparation
- Accounting
- Budget execution including payments and procurement
- Control and Auditing
- Cash planning
- Revenue administration
- Debt management.

The curriculum should focus on providing training in developing the prerequisites for a successful implementation of GFMIS. For instance, it has to address sequencing of tasks and adequate preparatory work to facilitate an orderly and successful implementation. Such preparatory work includes:

- Selection of appropriate accounting basis (cash/accrual) and a transition plan
- Development of a conceptual framework of which the GFMIS is to be integral part
- Specification of the budget classification and the chart of accounts to be used in the GFMIS
- Development of a realistic project plan to assist with the management of the project.

Other prerequisites for reform include developed budget classification and chart of accounts.

Methodology	Applied workshop and case study
Target audience	Staff engaged in budget preparation and execution from all finance and line ministries
Number of participants	20
Trainers	Consultants/experts previously involved in successfully introducing an integrated GFMIS
Duration	5 working days
Location	Jordan
Language of instruction	Arabic/English
References	Cases where GFMIS has been successfully applied.

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BUSINESS PLAN

BUDGET COST PER MODULE

Cost of each module could differ according to the location of the training, the experts recruited for each particular course, and the cost of living of each location. A preliminary estimate for each module would be close to USD 100 thousand , broken down as follows:

Instructors:

Instructor's fees	USD 725 per day
Per diem lodging and meals	USD 250
Travel	USD 300 per day
Total daily cost	USD 1325

Participants:

Per diem	USD 250
Travel	USD 100
Total daily cost	USD 350.

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CONCLUDING REMARKS

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CONCLUDING REMARKS

Countries in the MENA region have introduced over time new procedures and reforms in order to raise their performance in public financial management. The extent of reform and commitment varied across countries. In spite of this initiative, countries still have a long way to reach recommended and advanced standards in PFM.

Budget preparation in many remains a simple input-based budget system that is inefficient and prone to bargaining year after year. Very few countries base their budget on a medium- term macroeconomic and expenditure frameworks. Fiscal policy is executed in the absence of guidelines, not only for line ministries but also for the whole economy. The fiscal impact has not been optimal in most cases. Some of the serious weaknesses in budget preparation is evident in the discrepancy between the budget and its executions which emerges not from unforeseen circumstances but from loose commitment to a hard budget constraint and a weak execution process. Performance budgeting is another challenge and has not been implemented except in very few cases and even then, partially.

Budget execution is hampered by many deficiencies: accounting, procurement, audit and control, cash and debt management practices. Very few, if any, practice risk based auditing. Countries rely to a disproportionate level on ex-ante rather than ex-post controls.

The GFMS system in most cases is fragmented and prevents it from attaining its aspired objective of enhancing PFM. Based on the reports on countries of MENA, an important factor behind delays in reforms is absence of strong political commitment to reform. Countries, above all are constrained by scarcity of skilled civil servants who can apply and manage intended reforms and recommendations proposed by IF's and specialized institutions. The public sector in many cases is not an attractive employer for skilled manpower, particularly in the last eight years when the region had been experiencing rapid growth fueled by high oil prices. Opportunities created in the private sector have hindered government capacity in retaining many needed skills and in recruiting staff with strong potentials. While governments may outsource some activities, often the specificity and nature of public service may prevent such a trade off from being very beneficial, and may weigh against sustainability.

The MENA region is in dire need for skills across a broad range of PFM. It is urgent to improve capacity in budgeting in terms of the level and structure of expenditure (including coordination between capital and current spending), and take concrete steps toward introducing performance budgeting. Budget execution capacity improvement is as well needed in most areas: coverage, accounting, cash and management. Accounting standards based on a double entry system need to be adopted for flows and assets and liabilities in accordance with GFS 2001 and ISPAS. Internal and external auditing practices are not up to international standards. External auditing is not practiced in many cases. The legal framework does not subscribe to international standards. The legal framework should make core provisions encompassing the full range of government financial operations.

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The field visits together with questionnaire responses helped define the immediate needs in capacity building. As expected, authorities were hesitant in some cases to rank their priorities as it may convey a preference to building capacity in one particular area. Officials (met in field visits) were very candid and defined the impediments and constraints encountered in building PFM on modern and transparent basis.

The prioritized ranking provided earlier took into account a progressive approach to reform and capacity building, and as well highest needs assessed in this context. The region's capacity can provide a sustainable regional training program. However, a number of challenges could be encountered. These (delineated in chapter II) should be taken into account in defining the pre-requisites for a successful initiation of this project. Of foremost importance is to assess the political willingness to introduce, continue and support the reform process. The training is geared toward having countries adopt new and transparent approaches. In many countries delay and hesitance often prevail. Under such circumstances, benefits from the capacity building in the context of this program could be diluted.

Training initially could be geared toward countries that have a proven record of successfully introducing and committing to reform. A strategy of cooperation could be established among these countries on the basis of a partnership to support the process. Lebanon, Jordan and Morocco are good candidates as the three have been pioneers in adopting reform and supporting capacity building institutions. The three have specialized institutes that are already providing some PFM training. They have part of a core capacity in certain areas that can take the form of sharing experience in building capacity.

A key question is what form should the training take? Conventional training of the workshop type (hands on) can be commenced within a reasonable time frame. Such training can be supported with local and foreign expertise. However, the potential, for instance, of providing on the job training can be explored. This latter approach could be based on sharing expertise aiming at building capacity as in the case of budget performance.

The constraints cited (and possible other constraint) should be carefully weighed in order to assess the sustainability and the benefits expected. Training programs like this particular one normally contribute to genuine results even if they were below the targeted or expected level. The Institute of Finance of Lebanon, partner countries, and the World Bank need to make a strong commitment to make the follow up phases successful and aid MENA countries overcome many ineffective PFM practices.

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APPENDIX I.

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APPENDIX

I.

METHODOLOGY

The main objective of this project is to build capacity in public financial management through developing and providing a sustainable source of high quality specialized training in public financial management for the MENA region. It aims at improving overall public sector governance, transparency as well as the performance of current staff, and helps prepare the next generation of leaders.

The first phase aims at developing modules in public financial management covering the following areas:

- Budget preparation
- Accounting
- Internal control and audit
- Risk-oriented audit
- Information technology in public financial management

Based on initial findings from the first phase, these modules could be expanded and/or modified.

The target audience will be civil servants in countries of the MENA region engaged in public financial management, financial auditors in inspection boards and supreme audit institutions, and staff involved in execution of donor financed projects.

The first task toward completing this project involved preparing a diagnostic report and a business plan.

The diagnostic report describes the current situation in the MENA region. It assesses existing and emerging regional offerings, their format and curricula to the extent of availability of such detailed information. It attempts to evaluate the level of satisfaction from these offerings and highlights major challenges that face the establishment of a regional training program in public financial management. The business plan section includes recommendations on the design of training courses, delivery modes, and insights into how to carry the offerings of courses in a sustainable way. The plan addresses for each course, the following points:

Prioritized need per region

The methodology to be used to deliver training

The duration of each course

The criteria for selection of trainers

Timing to deliver the training

The target audience

The location of the training

The language of the training

The potential institutions in the MENA countries, which the Institute of Finance of Lebanon (IOF) can partner with.

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The methodology used to carry out this assignment is based on the following:

Review of relevant existing studies on capacity building in MENA

A comprehensive questionnaire to survey training needs

Field visits to a selected number of MENA countries

Interviews with officials from MENA countries and experts in institutions involved in public financial management.

The report is divided into two main sections, a diagnostic report and a business plan.

The diagnostic part focuses on current practices and capacity building needs in public financial management. Current practices reveal the extent to which countries perform public financial management in line with accepted guidelines promulgated by specialized international and regional institutions that have gained exceptional expertise in this field (World Bank, OECD, and International Monetary Fund). It reveals as well the extent to which countries require training in the main public financial management domains. The business plan section provides proposals on prioritization in capacity building, and guidelines that could form the basis for devising training curricula. While convergence of views on prioritization within a country and across countries is not expected, an attempt has been made to capture officials' insights, and shortcomings facing countries at the execution level. Responses to the questionnaire were quite limited which necessitated dependence in drawing a prioritized order on field visits and specialized reports such as those of World Bank's Country Financial Accountability Assessment reports and IMF's technical reports on public financial management in member countries.

Work on this assignment commenced in September 2008. The first phase was devoted to developing the questionnaire and to the review of the relevant literature and case studies. The questionnaire is designed to capture existing human capacity, need to upgrade capacity, and existing facilities. Field visits were conducted in December, and February. Officials in countries visited were very supportive of the project and underlined the urgency and relevance of capacity building in this domain to the reforms being implemented in their respective countries.

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APPENDIX II.

LIST OF OFFICIALS

List of officials met during field missions

Jordan

Mr. Izzeddin Kanakrieh, Secretary General, Ministry of Finance.
Mr. Essa Saleh yasein, Assistant Secretary General for Financial Affairs, Ministry of Finance.
Mr. Osamah Jaradat, Director General, National Institute for Training, Ministry of Finance.
Mr. Ayman Yousef Khalailleh, Director of Studies and Economic Policies, Ministry of Finance.
Mr. Hazem Khasawneh, Director, Training Center, Ministry of Finance.
Mr. Qassem M. Bashabsheh, General Accounts Manager, Ministry of Finance.
Dr. Ismail Zaghoul, Director General of Budget Department, Ministry of Finance.
Mr. Sami Abdallah Toughoz, Director of Public Debt Department, Ministry of Finance.

Egypt

Ms. Salwa Awadallah, Director of Center for Leadership Training for the Public Sector.
Ms Nawal Bayoumi, Director of Training Sector.
Dr. Iman Abed Al Muhsin, Trainer, Center for Leadership Training for the Public Sector.
Ms. Manal AL Hinawi, Advisor to the Minister of Finance.
Ms. Doaa Fikry Ahmed, Economist, Assistant to the Advisor to the Minister of Finance.
Mr. George Atallah, Principal Officer, Booz & Co.
Ms. Saida El Harakany, Booz & Co.

Morocco

Ms. Rabha ZEIDGUY, Director of the Modernization of the Administration, Ministry of Modernization of Public Sector
Mr. Omar Faraj, Director of Administrative Affairs, Ministry of Economy and Finance
Mr. Mohammad Samir Tazi, Assistant to Director of Budget, Ministry of Economy and Finance.
Mr. Nabi Zniber, Advisor to the Minister of Finance and Economy.
Mr. Mohammad Haddad, Director of Budget Reform Division, Ministry of Economy and Finance.
Mr. Aziz Bouazzaoui, Director of Resource Management, General Treasury
Mr. Ahmad Zoubane, Chief, External Debt Management Division, Ministry of Finance and Economy.
Mr. Ali Bedrane, Assistant Director of Treasury, Ministry of Finance and Economy.
Mr. Nustapha Taimi, General Inspector, in charge of National Institute of Public Administration.
Dr. Chafika Ageznay Haddy, Director of Administrative Research Center, National Institute of Administration.

Lebanon

Mr. Alain Bifani, General Director, Ministry of Finance.
Mr. Christian De clerq, Director of UNDP project.
Ms. Kawthar Dara, Public Finance Coordinator, Ministry of Finance.
Ms. Huda Saigh, Senior Economic Officer, UNDP project, Ministry of Finance.

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APPENDIX III.

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