Module 1

Introduction to Public Financial Management
PFM PUBLIC FINANCIAL MANAGEMENT
PFM in the World

- Sustainable Development Goals
- Management Of Resources
- Financial Crises
- Natural Disasters
- Development Aid
- Natural Resource Management
PFM
PUBLIC
FINANCIAL
MANAGEMENT
PFM is concerned with the laws, organizations, systems and procedures available to governments wanting to secure and use resources effectively, efficiently and transparently.
Public Financial Management

Organizations
Laws
Systems
Procedures

Government

Fiscal Policy
What is Public Financial Management?

Public Financial Management is...

... the management of government finances – both expenditure and revenue.

- Narrow : budget process and cash management
- Broad : all aspects of generating and spending resources
Political Economy Aspects of PFM

- Laws
- Procedures

Political economy

- Cultural norms
- Change Management
- Citizens
Defining Public Financial Management

Public Financial Management
- Laws
- Organizations
- Systems and procedures
- Institutional aspects

Use of resources
- Effective
- Efficient
- Transparent
Public Financial Management in action

OBJECTIVE: Achieve a sustainable fiscal position

What is the desired level of debt?

What?

DESIGN

Adopt an expenditure rule

How?
- Development of a medium term framework
- Link rule to the budget process
- Reporting or monitoring requirements

IMPLEMENTATION

OBJECTIVE: Achieve a sustainable fiscal position

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What?

DESIGN

Adopt an expenditure rule

How?
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IMPLEMENTATION
PFM makes Fiscal Policy work

Fiscal Policy

What to do

How to do

Public Financial Management

How policies should be designed

How policies should be implemented
Public Financial Management

PFM : Management of Government Finances

Laws
Organizations
Systems
Procedures

Government
Fiscal Policy

[How]
Coverage of the Public Sector

- Public Sector
  - General Government
    - Central Government
    - State Governments
    - Local Governments
  - Public Corporations
    - Public Non-financial Corporations
    - Public Financial Corporations
  - Extrabudgetary Central Government
    - Budgetary Central Government
    - Social Security
Public expenditure is a large share of GDP

General government expenditure
(Percent of GDP, latest available*)

Source: IMF WEO database.
* 2014, 2015 or 2016
Why PFM is important

- Sustainability
- Fiscal Space
- Accountability
- Laws and regulations

Public Financial Management
PFM Promotes Sustainability

Sustainable and inclusive economic growth

Fiscal Policy

What?

DESIGN

Public Financial Management

How?

IMPLEMENTATION

Public Financial Management

Sustainable and inclusive economic growth

Fiscal Policy

What?

DESIGN
Fiscal space is...

... the capacity to finance additional or new public spending through increased resources and/or expenditure rationalization or reallocation.
PFM Allocates Resources

- Sustainability of Public Debt
- Fiscal Policy Objectives

Fiscal Space
Accountability

Government Accountability

Stakeholders
- Citizens
- Companies
- Investors

How
- Fiscal reporting
- Transparency standards
- Information
Oversight Mechanisms and Transparency

Fiscal Responsibility:
- Accountability

Executive

Citizens/Voters

Legislature
Role of the Budget in PFM

- Legal framework
- Institutions Systems Processes
- Annual Budget

Use of Resources:
- Effective
- Efficient
- Transparent
The Budget Cycle

1. Fiscal Framework
2. Budget Preparation
3. Budget Execution
4. Accounting and Reporting
5. Control and Audit
The Budget Cycle

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The Fiscal Framework

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Budget Execution

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Accounting and Reporting

- Fiscal Framework
- Control and Audit
- Accounting and Reporting
- Budget Preparation
- Budget Execution
Control and Audit

- Fiscal Framework
- Budget Preparation
- Budget Execution
- Accounting and Reporting
- Control and Audit

Legal Framework
Modern Perspectives of PFM

The Budget as a Strategic Policy Tool

Managing Budgetary Resources Effectively

Strengthening Fiscal Responsibility

PFM Reform Challenges

PFMx: Introduction to PFM
Key Elements of PFM

1. Fiscal Framework
   - Fiscal Policy
   - Fiscal Policy Implementation

2. Budget Preparation
   - Annual Budget
   - MTFs
   - Tax Policy

3. Budget Execution
   - Controls
   - Cash Management
   - PIMA

4. Accounting and Reporting
   - International Standards

5. Control and Audit
   - Supreme Audit Institutions
   - Fiscal Council

Medium term approach
The Budget Cycle

1. Fiscal Framework
2. Budget Preparation
3. Budget Execution
4. Accounting and Reporting
5. Control and Audit
The Legal Basis for PFM

- #1 Fiscal Framework
- #2 Budget Preparation
- #3 Budget Execution
- #4 Accounting and Reporting
- #5 Control and Audit

- Country context
- Laws
- Regulations
- Accounting principles
The Legal Framework

Fiscal Policy

Objective 1:
Fiscal Responsibility and Flexibility

Objective 2:
Expenditure Efficiency and Inclusive Growth
Areas of PFM

- Core
- Specialized
- Other
Specialized Areas of PFM

- Fiscal Councils
- Fiscal risks
- Fiscal rules
- Coverage of Public Sector
- FMIS
- External Aid
Current issues in PFM

1. ‘Good’ practice
2. Country context
3. Pace and sequencing of reform
Public Financial Management

- Organizations
- Laws
- Systems
- Procedures

Public Financial Management

- Sustainability
- Fiscal Space
- Accountability
Legal framework

#1 Fiscal Framework
#2 Budget Preparation
#3 Budget Execution
#4 Accounting and Reporting
#5 Control and Audit