

Mainstreaming the Public Financial Accountability Framework (PEFA) and sequencing PFM Reforms Cook Islands

Presentation to the PFTAC Steering Committee

Honiara

Solomon Islands

16 March 2017

A Quick Historical Context

The Cook Islands is no stranger to PFM reform. In 1996 after some years of poor PFM the country had a major economic crisis which forced significant changes to the economy and Public Sector, this included:

- a loss of 25% of population to outward migration and halving of public sector numbers in a very short space of time,
- Loss of public confidence in government
- An economic reform program that included
 - introduction of accrual accounting:
 - a significant reduction in the budget and personnel
 - a wholesale reform to the tax regime; and
 - A new focus on promoting the private sector.

The need for change

The major lesson for the Cook Islands is that a country needs to properly manage its public finance processes, ensuring their sustainability and live within its means.

Ultimately – A country needs to adapt the way it manages its economy and its public finances at a sustainable pace which is suited to its circumstances or do nothing and face collapse.

Good political leadership

A combative opposition?

Strong (brave) impartial public service leadership

Good legislation and policy

Check and balances in place

A demanding and vigilant general public

Mainstreaming

Following on from the events of the mid nineties there was greater public awareness of the need to ensure sustainability of the country's public finances.

“MFEM shall be a competent and professional organization, inspiring public trust in managing public finances in pursuit of our national development aspirations” Pre 2017/18

“MFEM shall be a competent and professional organisation, inspiring public trust and confidence to meet evolving challenges” 2017/18

Cook Islands and PEFA's

The Cook Islands has done two full PEFA's both are accessible on the PEFA website and a self assessment.

The Cook Islands has had two PFM roadmaps.

The 2011 PEFA – Why we did it

The 2011 PEFA was conducted to provide a stock take of where the Cook Islands were placed 16 years after the initial reforms.

Identify where there were gaps with best practice.

Enable MFEM to identify which gaps were important to address.

We published the results and the subsequent roadmap:

- To demonstrate to some uninformed critics that some of our processes were reasonable
- To identify areas where improvements needed to be made

The first Roadmap

Outlined a wide range of changes which were required to be undertaken in key areas, some were:

- simply a change in the process, for example, adjusting the timing on bank reconciliations;
- more comprehensive, reviewing the procurement processes;
- out of our direct control, for example, the Audit Office and Parliamentary processes.

The first roadmap

The roadmap was approved by Cabinet and published.

Staff were identified against certain actions

The roadmap tracking report was released regularly outlining what had been progressed

The 2013 PEFA self assessment

Conducted with a view to donor money, we needed to ensure we had a robust position for discussing:

- Direct budget support; and
- Climate change financing as an NIE.

The Self assessment enabled us to see where progress had been made and what things we could do quickly in time for a full PEFA in 2015.

Signaling a continuing commitment to reforms.

The 2015 PEFA the motivation

The 2015 PEFA outlined some significant improvements, these led to us

- Being in a position for budget support from our primary DP, New Zealand; and
- Being in a position to successfully attain NIE status for the Adaptation Fund;
- Being in a position to focus on the next wave of change.

The 2016-2020 Roadmap – Signed Statement of Commitment and Responsibility – reflecting wholesale support to improving PFM

- Minister of Finance
- Financial Secretary
- CEO of the Public Service Commission
- Secretary of Health (As a rep of all the agencies)
- The Managers within MFEM
- Clerk of Parliament
- Ombudsman
- Director of Audit

The 2016-2020 Roadmap

- In the last PEFA assessment, CI G improved its performance in 22 of 31 performance indicators with the balance being stable.
- The next three to five years, our intention is to consolidate the improvements made, and address a smaller number of key initiatives that Government believes are important to overall Public Financial Management.

The 2016-2020 Roadmap

The agreed actions focus on:

- improving measures of transparency and accountability across Government; (closing gap between national planning and budget)
- improving the timeliness of financial reporting;(FMIS)
- further reducing systemic vulnerabilities to corruption; (Procurement Policy strengthening)
- greater involvement of the legislature in scrutinizing public finances and the annual budget law.(New Public Finance legislation)
- Improved control in budget execution and improving public financial management across government (FMIS and Internal audit)

Challenges

- Small size of public service – major capacity constraints
- Centralized capacity building in MFEM post 1996, leaving line agencies with limited capacity
- Expansion of roles of MFEM to compensate e.g major infrastructure projects water and sanitation.
- Limited scope for tight specialization in a small public service
- Turn over of key staff leaving skills deficits and loss of institutional knowledge.
- Heavy work loads – basic PFM functions and tasks, non core work and unexpected events plus PFM reform work -> extremely difficult to manage.
- Poor perception of PFM in line agencies? - reforms are donor driven or another MFEM obstacle course.

Managing Challenges

- Tight prioritizing of reform program to country realities – capacity constraints, cultural context. (More attention to country realities)
- Scarce capacity is targeted at areas with highest return. (e.g. FMIS project)
- Capacity building to include line agencies – all new programs fully costed for capacity building and ‘hand holding’ period.
- Increased cooperation between central agencies (MFEM, National Planning, PSC) to share expertise/technical capacity.
- Additional staffing positions in critical areas and more investment in human capital to address the skills deficits. (RMD and Statistics)
- Rebranding of PFM reforms – to meet the information needs of our communities (not only DPs) , communication strategy that shows value adding of PFM.
- Better consultation processes and awareness for key stakeholders, more outreach and training for line agencies, and other stakeholders.

Moving Forward

- We remain committed to continue PFM reforms.
- We will ensure reforms reflect realities on the ground.
- We are likely to do less but deeper reforms to embed into our key institutions.
- We will work with a variety of DPs and we have a willingness to invest more of our own resources into reforms.
- We are likely rebrand reforms to increase ownership and value adding.

THANKS

- <http://www.mfem.gov.ck/news1/120-development-news/732-2016-2020-cig-pfm-roadmap>