The International Handbook of Public Financial Management

Edited by

Richard Allen



1.

Richard Hemming

Barry H. Potter

palgrave macmillan

Contents

•

List of Figures	xviii
List of Tables	xx
List of Boxes	xxii
Foreword	xxvi
Acknowledgments	xxviii
Notes on Contributors	xxix
Acronyms and Abbreviations	xxxix
Introduction: The Meaning, Content and Objectives of Public	
Financial Management	1
Richard Allen, Richard Hemming and Barry H. Potter	
Why this handbook is relevant and important	1
What is public financial management?	2
How has PFM evolved?	3
Key issues and themes of the volume	5
Structure of the book	10
Part I The Institutional and Legal Framework	13
Introduction to Part I	13
1 The Macroeconomic Framework for Managing Public Finances Richard Hemming	17
Fiscal policy and PFM	17
The macroeconomic consequences of fiscal deficits	20
Debt sustainability	24
Fiscal targeting and adjustment	27
Countercyclical fiscal policy	29
Approaches to promoting fiscal discipline	32
Macrofiscal management and PFM	34
Conclusions	36
References	37

2	Public Financial Management Requirements for Effective	
	Implementation of Fiscal Rules	38
	Ana Corbacho and Teresa Ter-Minassian	
	What are fiscal rules?	39
	Objectives of fiscal rules	42
	What PFM conditions are required for the effective	
	implementation of fiscal rules?	44
	Budget formulation consistent with fiscal rules	45
	Robust budget execution, accounting and reporting	48
	External scrutiny	52
	Enforcement and correction mechanisms	53
	Supranational fiscal rules	56
	Main conclusions	58
	References	6 0
3	The Legal Framework for Public Finances and Budget Systems	63
	Ian Lienert	
	Differing objectives for laws relating to the budget system	65
	Cross-country differences in the legal context	65
	Differing political arrangements	67
	Budget authority of the legislature and responsibilities of the executive	68
	Sound principles for a budget system law	70
	What should be the scope and content of a budget system law?	7Q
	The nature, types and duration of annual appropriations for spending	76
	Budget execution and control	77
	Government accounts, reporting to the legislature and external audit	78
	Fiscal responsibility laws and fiscal stability laws	79
	Conclusions	81
	References	82
4	Designing Fiscal Institutions: The Political Economy	
	of PFM Reforms	84
	Joachim Wehner and Paolo de Renzio	
	Theoretical perspectives	85
	Potential trade-offs and pitfalls	89
	The limits of institutional engineering	91
	Conclusions	94
	References	95

r

5	The Role, Responsibilities, Structure and Evolution	
	of Central Finance Agencies	98
	Richard Allen and Philipp Krause	
	Concept of CFAs	98
	How did CFAs evolve over time?	100
	Organizational structure of CFAs	104
	Have CFAs become more or less concentrated?	106
	The fiscal impact of different CFA structures	108
	How can CFAs be strengthened?	110
	References	113
6	Role of the Legislature in Budget Processes Ian Lienert	116
	Constitutional and legal constraints on parliamentary budgeting	118
	Critical dates for parliamentary involvement in the budget process	120
	What should the legislature review and approve?	123
	The provision of fiscal information to the legislature	126
	What support does the legislature need for budgeting?	127
	Developing capacity in the legislature for budgetary oversight	130
	Conclusions	134
	References	135
7	Assessing and Comparing the Quality of Public Financial	
	Management Systems: Theory, History and Evidence Paolo de Renzio	137
	Theorizing and characterizing public financial management	
	systems: principles, policies, processes	138
	Budget principles	138
	Budget policies	140
	Budget processes	141
	Defining the quality of public financial management systems Budget systems and budget reforms in comparative historical	142
	perspective	144
	Budget reforms in developing countries	148
	Measuring the quality of public financial management systems	151
	Conclusions	155
	Websites, resources and datasets	156
	References	156

.

,

	Part II The Allocation of Resources	161 161
		101
8	The Coverage and Classification of the Budget Daniel Tommasi	164
	The budget and its coverage	165
	The budget classification system	171
	Program classification	184
	Conclusion	190
	References	192
9	Policy Formulation and the Budget Process	193
	The budget as a policy document	193
	Constraints imposed by the institutional structure	
	of the budget system	196
	Practical problems of translating policies into budgets	198
	PFM reforms viewed as a move to greater policy relevance	202
	Key features of more policy relevant budgets	205
	Moving to a more decentralized management style	209
	Improving the policy relevance of budgets in	
	developing countries	211
	References	218
10	Medium-Term Expenditure Frameworks	219
	James Brumby and Richard Hemming	
	Some MTEF facts	219
	Do MTEFs work?	221
	Key design issues	223
	MTEFs and the budget process	225
	MTEFs and PFM reform	230
	Some country experiences	233
	Conclusions and general guidance	234
	References	236
11	Performance Budgeting Marc Robinson	237
	What is performance budgeting?	237
	Program budgeting	237
	The relevance of program budgeting	239
	The relevance of program budgeting	277

•

ş

	How useful are the newer performance	
	budgeting mechanisms?	248
	Unit costs and the government-wide budget	249
	Bonus funding	250
	Budget-linked performance targets	251
	Implementation and sequencing of government-wide	
	performance budgeting	252
	Performance budgeting in developing countries	254
	Performance budgeting and the fiscal policy challenge	254
	Conclusions and general guidance	255
	References	257
12	Fiscal Federalism and Intergovernmental	
	Financial Relations	259
	Jamie Boex and Roy Kelly	
	Fiscal federalism	260
	Fiscal federalism and public financial	
	management interactions	263
	Fiscal federalism and public financial management – the	
	management of intergovernmental financial systems	265
	Fiscal federalism and public financial management – the internal	
	management of subnational public finances	272
	Some concluding observations	276
	References	277
	Part III Managing Budget Execution	281
	Introduction to Part III	281
13	The Budget Execution Process	285
	Daniel Tommasi	200
	The budget execution cycle	286
	Key supporting systems	291
	Managing appropriations	294
	Arrears issues	301
	Budget systems and responsibilities for budget execution	303
	Conclusions	309
	References	310
14	The Role of Procurement	312
	Alfonso Sanchez	
	The impact of procurement on PFM	313

	The modern concept of public procurement	320
	Procurement reforms – progress and challenges	324
	Challenges of reforming procurement in developing countries	326
	First-generation systems are underperforming	327
	From fixing the system to transforming the culture	329
	Civil society interest in good procurement	330
	Second-generation reforms	331
	Conclusions and recommendations	332
	References	335
15	Public Sector Payroll Management	336
	Bill Monks	
	Legislative context	338
	Payroll strategy and budget formulation	339
	Payroll calculation	344
	Payroll, budget execution and compliance	346
	Payroll compliance	348
	Post-payroll accounting	349
	Payroll audit	350
	IT software applications for payroll management	351
	Conclusions	353
	References	354
16	The Treasury Function and the Treasury Single Account	355
	Mike Williams	
	Budget execution	356
	Annual appropriations and commitment controls	357
	Cash flow forecasting	358
	Treasury single account	359
	TSA: problems and choices	362
	The TSA and payment systems	364
	Remuneration of banks	366
	Structure of the TSA and accounting issues	367
	Practical guidance	368
	Annex 16A: the characteristics of successful forecasting	
	functions	370
	References	373
17	Internal Control and Internal Audit	374
	Jack Diamond	
	The importance of internal controls in PFM	375

	The role of internal audit	377
	The relevance of international standards for developing	
	countries .	380
	Strategies in developing the internal audit function	383
	Strategic vision for the internal audit function	384
	Provide the correct regulatory framework	
	for internal audit	384
	Decide on the organizational structure of the	
	internal audit function	385
	Restructure work practices	387
	Strengthening internal audit at the ministry level	389
	A clear and agreed definition of the internal auditors' tasks	390
	Establishment of audit committees	390
	External review of the internal audit system	391
	Agreed demarcation of responsibilities in relation	
	to external audit	392
	Well-formulated work plans	392
	References	394
18	Managing Extrabudgetary Funds	396
	Richard Allen	
	How should EBFs be classified?	398
	A suggested typology of EBFs	399
	Why do EBFs exist?	400
	The potential problems created by EBFs	406
	A strengthened approach for managing EBFs	407
	Conclusion and recommendations	410
	References	411
	Part IV Managing Government Revenues	413
	Introduction to Part IV	413
		415
19	Tax Design from a Public Financial Management	
	Perspective	416
	Graham Glenday and Richard Hemming	
	From tax theory to tax policy	417 🗠
	Tax design and revenue	424
	Fiscal stabilization	427
	Explaining differences in tax ratios	429
	Taxation and growth	430

r

	Tax expenditures	431
	Conclusions and general guidance	433
	References	434
20	Revenue Forecasting	435
	Graham Glenday	
	Purposes and importance of revenue forecasting	435
	Basic concepts of revenue measurement,	
	estimation and growth	437
	Determinants of taxes	438
	Tax analysis and tax expenditures	441
	Revenue growth	442
	Types of forecasting models	443
	Application of the models to major tax types	445
	Organization of revenue forecasting	450
	References	452
21	Efficient Revenue Administration	453
	Richard Highfield	
	Why revenue administration efficiency matters	453
	Institutional framework	455
	The organization of revenue bodies	461
	The administrative law framework	464
	The system of governance	469
	Revenue administration, business processes and the deployment	
	of modern information technology systems	474
	Human resource management	477
	Conclusions and guidance	478
	References	479
22	Customs Administration Luc De Wulf	480
	Customs control and clearance procedures	- 481
	Customs administration	486
	Conclusions and general guidance	493
	References	494
23	User Charging	496
	Barry H. Potter	
	User charges for private consumers – principles	· 496
	User charges for private consumers – practicalities	500
	User charges for private consumers – setting charges	502

-

,

	User charges for private consumers – public financial	
	management treatment	505
	User charges – public sector to public sector	509
	Conclusions and general guidance	510
	References	512
24	Managing Non-renewable Resource Revenues Rolando Ossowski	513
	Why is fiscal revenue from non-renewable resources different?	514
	Short-term stabilization and long-term sustainability in RECs	514
	The need to enhance PFM systems	517
	Medium-term expenditure frameworks to help deal with risk	510
	and long-term challenges	519
	Resource funds	523
	Fiscal rules	528
	The resource price in the budget	532
	Key recommendations	533
	References	537
25	Managing Foreign Aid through Country Systems William A. Allan	540
	An overview of the Paris declaration and its implementation	542
	Managing foreign aid: the current arrangements	545
	Using country systems for investment projects	547
	The central role of PFM reform for aid management	550
	Conclusions and guidance for countries and development partners	552
	References	553
	Part V Liability and Asset Management	555
	Introduction to Part V	555
26	The Development and Use of Public Sector Balance Sheets Ken Warren	558
	The evolution of public sector balance sheets	558
	Challenges in developing a balance sheet	559
	Creating an initial balance sheet	563
	Interpreting the balance sheet	564
	Barriers government accountants must overcome	568
	Conclusions	571
	References	572

27	Public Investment Management and Public-Private	
	Partnerships	573
	Jim Brumby, Kai Kaiser and Jay-Hyung Kim	
	Public investment management	574
	Some PIM challenges	576
	Public-private partnerships	580
	Conclusions	587
	References	587
28	Managing Fiscal Risk	5 9 0
	Murray Petrie	
	The objectives of fiscal risk management	592
	The classification and magnitude of fiscal risks	593
	The magnitude of fiscal risks	595
	A conceptual framework for managing fiscal risks	596
	Establishing the context for and identifying fiscal risks	597
	Analyzing risks	599
	Mitigating fiscal risks	601
	Specific techniques of risk mitigation	602
	Risks in debt management	603
	Financial sector risks	604
	Risks from guarantees	605
	Hedging and insurance	605
	Risks from natural disasters	606
	Risks in public investment spending	606
	Incorporating retained risks in fiscal analysis and	
	the budget	607
	Disclosure of fiscal risks	609
	Monitoring, reviewing and communicating risks	612
	Conclusions and general guidance	614
	References	617
29	Sovereign Wealth Funds	619
	Jon Shields	
	What is a sovereign wealth fund?	620
	The fiscal relevance of an SWF	623
	Government objectives for an SWF	625
	Fiscal and macroeconomic policy implications of SWF	
	management	627
	Devising operational rules for an SWF	628
	Management and governance of an SWF	630

,

	Alternative institutional approaches	631
	Reporting the finances of an SWF	632
	Conclusions and guidance on good public financial	
	management practices for SWFs	634
	References	636
30	Assessing a Government's Non-debt Liabilities	638
	Peter S. Heller	
	The spectrum of a government's obligations and fiscal risk exposure	
	beyond formal debt obligations	639
	What are the "harder" forms of debt and non-debt among a	
	government's spectrum of obligations?	640
	The middle of the spectrum: into the world of softer non-debt	
	liabilities and constructive budget commitments	641
	The soft end of a government's spectrum of non-debt liabilities	647
	Taking account of the assets of a government	651
	Empirical estimates of government debt and constructive	
	obligations	652
	Conclusions and general guidance	657
	References	659
31	Debt and Cash Management	661
	Mike Williams	
	What is debt management?	661
	The characteristics of sound practice in debt management	663
	Debt management financing operations	672
	Government cash management	677
	Conclusions and guidance	682
	References	684
32	Financial Management and Oversight of State-Owned	
	Enterprises	685
	Richard Allen and Sanjay Vani	
	Definition of state-owned enterprises	685
	The strategic, economic and social role of SOEs	687
	Fiscal risks arising from SOE operations	689
	Strengthening the legal and regulatory framework for SOEs	693
	Role of the government in regulating and managing SOEs	695
	Role of the board of directors	698
	Financial planning, reporting and transparency	700
	External oversight of SOEs	703
	Monitoring the performance of SOEs	704

	Conclusion References	705 706
	Part VI Accounting, Reporting and Oversight	
	of Public Finances	707
	Introduction to Part VI	707
33	Strengthening Fiscal Transparency David Heald	711
	The conceptualization of transparency	712
	How surveillance relates to transparency	720
	Fiscal surveillance	722
	What external fiscal surveillance might realistically achieve	729
	Proposals for strengthening fiscal transparency	732
	References	738
34	Government Accounting Standards and Policies James L. Chan and Qi Zhang	742
	Government accounting: a general framework	742
	Government accounting standards and policies in brief	746
	The development of accrual financial accounting	755
	Assuring the quality of accounting	757
	Conclusion	759
	Recommendations on the transition to accrual accounting	760
	Appendix: IPSAS and related materials	763
	References	765
35	Government Financial Reporting Standards and Practices James L. Chan and Yunxiao Xu	76 7
	An overview of government financial reporting	767
	Basic financial statements	773
	Supplemental statements and disclosures	776
	Budget-related reporting	780
	Component reporting	784
	Statistical reporting	786
	Conclusions and policy recommendations	791
	References	795

36	Government Financial Management Information Systems	797
	William Dorotinsky and Joanna Watkins	
	Concepts and definitions	798
	Benefits of automation	804
	Initiating an FMIS project	805
	Contextual considerations	806
	Technical considerations	808
	Monitoring the success of FMIS projects	812
	Conclusion	813
	References	815
37	External Audit	817
	David Shand	
	The role and nature of external audit	817
	Other characteristics of external audit	819
	Relationship with internal audit	821
	Two institutional models of external auditing	822
	Financial auditing as a profession	823
	Performance auditing	824
	Forms of audit reporting	825
	Pronouncements and standards on external auditing	827
	Components of good external auditing	829
	Conclusion	835
	References	836
38 [.]	The Role of Independent Fiscal Agencies Richard Hemming	837
	Why is independent scrutiny a good idea?	837
	Fiscal authorities	839
	Fiscal councils	840
	Independence and effectiveness	844
	Fiscal policy framework	847
	The impact of fiscal councils	848
	Concluding comments and guidance	849
	References	850
Na	ne Index	851
Subject Index		858