

MTEF, Performance, and Transparency

Seoul, Korea
March 19, 2004

Bill Dorotinsky
World Bank



Outline

- Transparency – overview
- MTEF Summary
- Performance Budgeting (and management)
- Linkages



Fiscal Transparency

Fiscal transparency is not just about accurate budgeting and reliable public accounts.

Effective public financial management (PFM) requires consideration of:

- **Relations within government and between government and other economic actors**
- **Off-budget fiscal activity**
- **Measures to assess fiscal risks**
- **Fiscal sustainability**
- **Oversight and integrity**

The structure of the IMF fiscal transparency code is designed to cover all such PFM-linked practices



Why Transparency?

Improved transparency is a necessary basis for improving the efficiency and effectiveness of fiscal management through:

- Better and broader information: better decisions
- Broader access to information, better decisions by actors within and outside government
- Stronger public and parliamentary oversight, and potential for improved governance and accountability
- Improve business environment and attractiveness to FDI
- These factors can be reinforced by market analysts and civil society organizations

Broad Objective: create a *virtuous cycle*, whereby better information strengthens policy and leads to demands for continuing improvement in information and policy making.



However, transparency is a public good and merit good—gainers don't

Transparency central to public financial management

Reliable, comprehensive fiscal data an essential element of any PFM reform, and to basic public financial management

- IMF ROSCs can monitor
 - data quality improvement
 - improved definition of fiscal management roles
 - and, combined with TA and policy advice, can build synergies for continuing focus on reform



Basic Principles of the IMF Code

- **Institutional clarity:** government's role and the way its' agencies interact
- **Public information** for fiscal policy—and government's commitment to provide it
- **Open processes** of budget preparation, execution, and reporting
- **Assurance of integrity** of information through data standards and strong oversight

The IMF Code defines good practice in fiscal transparency—under the 4 principles, 10 specific principles, and 37 areas of good practice are identified to help guide reforms in member countries.

Transparency Progress in Russia and Ukraine

Code	Area of Reform	1999	2003
4.1.1 2.1.2 3.1.3 3.1.1 3.1.4 3.1.3 3.1.5	MTF	Unreliable estimates No medium-term,	Reliable estimates, Medium-term initiated
2.1.3	Off-budget activities	Extensive and not reported	Reporting on CL and TE. QFAs less, but not reported
2.1.1 3.2.1 3.3.1 4.1.2	Accounting and data quality	Sound treasury, but coverage limited, no commitments	Reliable reports, coverage near complete Limited commitments
3.3.1 4.2.1	Oversight	Outdated internal control and weak external audit	Internal: some improvement, Weak external audit—particularly Ukraine



Major reform in place



Further work needed



Major continuing reform needed

Links with budget reform — elements of MTEFs in EU-accession and CIS

MTEF Element	Implementation in ROSCs
Reliable annual estimates	EU sound/CIS improved
Macro-framework and rolling 3 year projections	EU most initiated/CIS some initiated
Medium-term targets set ministry/agency ceilings	Some being initiated
Costing of existing policy and distinct new policy submissions	Not done
Integrate recurrent and investment budget decisions	Not done
Accountability for forward estimates	Not done

MTEF Summary

- MTEF is about creating an orderly public financial management process and appropriate incentives, promoting sound decisions and outcomes
- MTEF should support
 - Macrofiscal discipline
 - Strategic allocation of resources
 - Basis for improved operational efficiency



Performance Budgeting and Management

- Trying to assess whether programs are working, or can work better
- Measuring performance, producing information
 - Using the information
- Changing incentives of actors in system
- Performance information kept hidden does not change incentives
 - and multiple actors need the information



Implementing effective performance monitoring requires:

- Setting organizational incentives to support performance monitoring
 - Predictable funding
 - Flexible resource application at program level
- Getting performance monitoring consistent with organizational culture
- Need for central unit to play active and effective leadership role in defining criteria and implementing practical performance monitoring
 - May not be MoF or budget office!! (US NPR, UK)



Integration of performance and financial management is easier where

- strategic/target objective setting is linked to resource allocation
- global or output-based budgeting is in place
- full-cost activity accounting is in place
- programs consist of tangible and measurable products or services
- integration is attempted at the level of program management and operational management
- the impact of programs can be seen soon after delivery
- the results can be attributed to the program with high degree of confidence

“Integrating Financial Management and Performance Management.” OECD PUMA, July 1999. P. 9.



Synergies

- MTEF – promotes fiscal sustainability
 - Removes barrier to program performance
 - Empowers line managers (within limits)
- Performance budgeting -
 - Focuses on program performance
 - Easier where fiscal sustainability exists
- Transparency – tracks MTEF and transparency
 - Broadens constituency for reform
 - Potentially amplifies benefits of MTEF, Performance

Each reform has a synergy with the others to deepen and reinforce reform objectives



Moving forward

Each reform is not a ‘take it or leave it’ proposition

- they can be gradually introduced
- there are elements of each that can be adopted and which provide benefits themselves
- overtime, the reforms can reinforce one another

