

# Milestones and Challenges for Treasury Reform

*With some reference to Latin America, South  
Asia, and East Asia Pacific*



**WORLD BANK GROUP**

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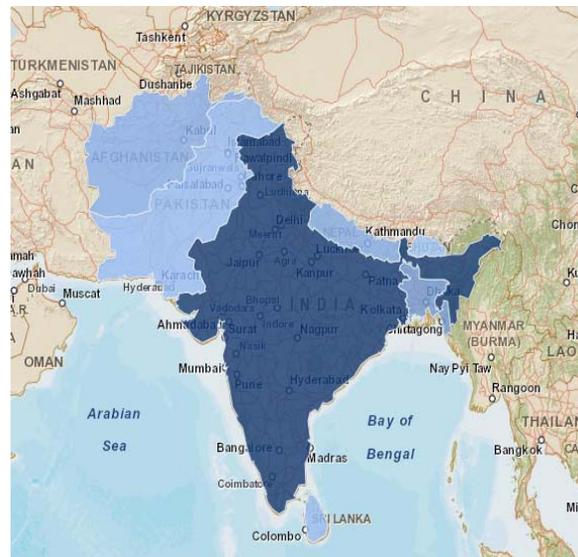
# Context

World Bank global practices on governance and public sector  
Knowledge sharing & reform path in three different regions

## Latin America & Caribbean



## South Asia



## East Asia Pacific



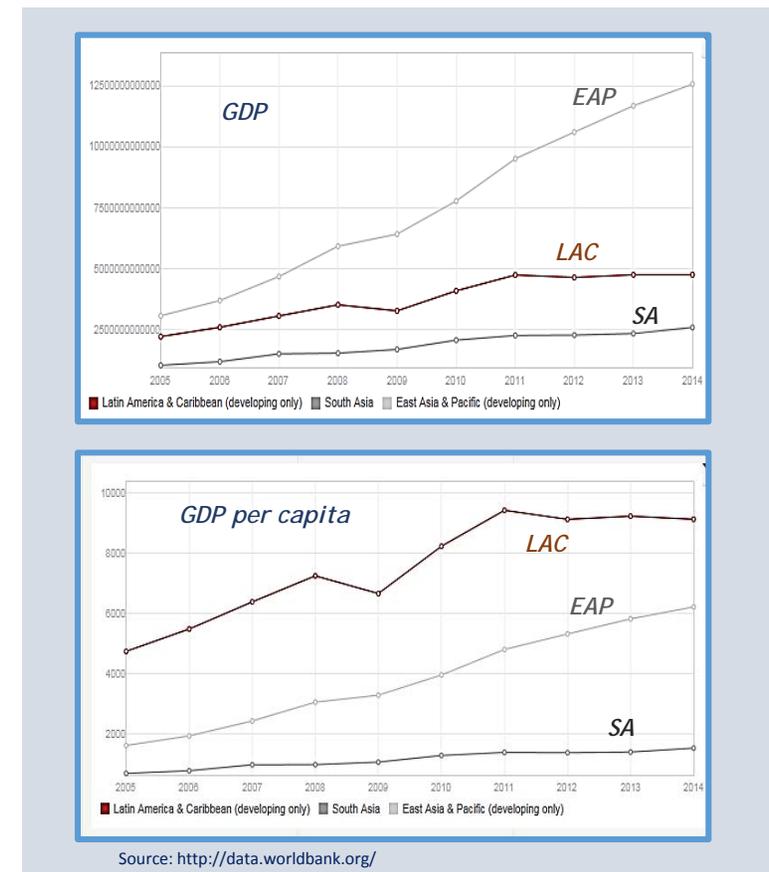
Blue areas reflect countries with World Bank operations  
World Bank Regional Divisions: Current Projects in LAC, SA, & EAP

# Context

## Different development paths make a changing world

- Higher GDP associated with higher degree of institutional development
- LAC countries have higher GDP per capita but the gap is closing with EAP

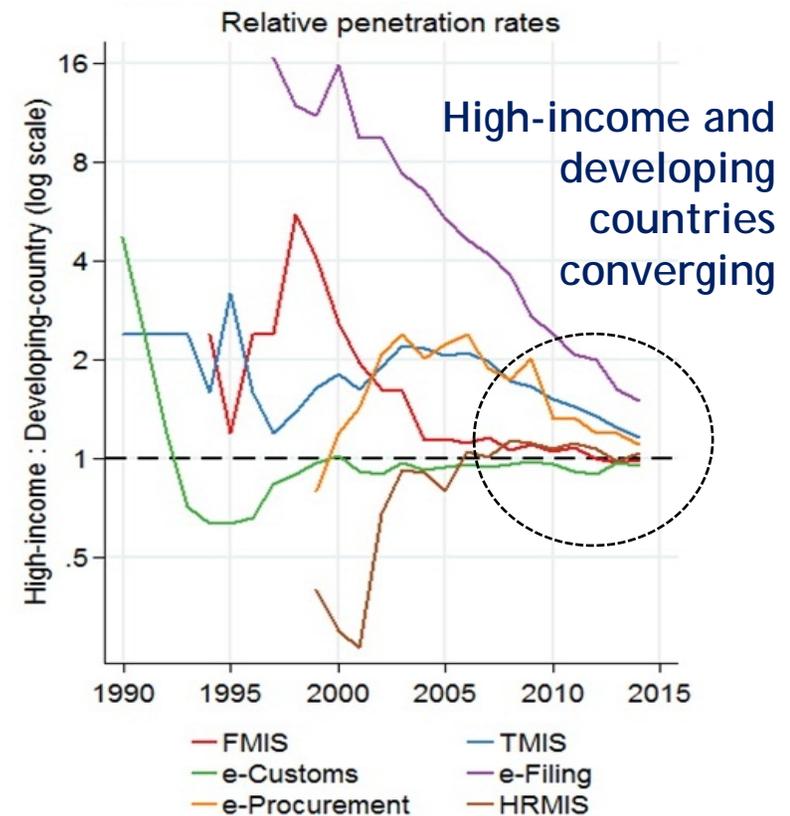
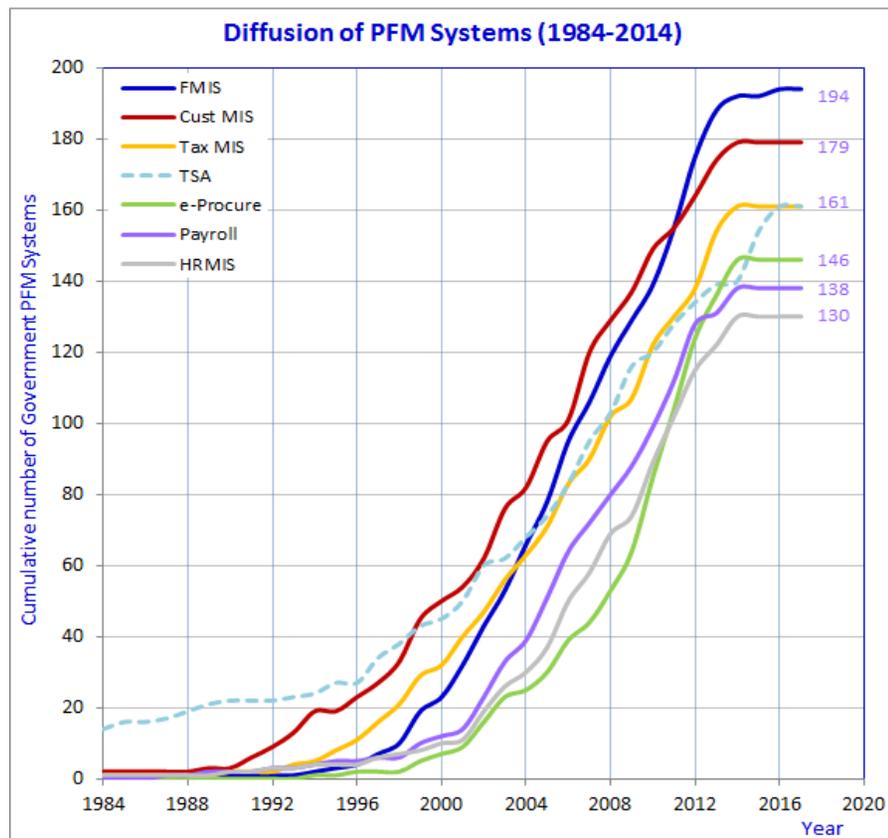
Region	GDP (US\$, 2014)	GDP/capita (US\$, 2014)	Population (billions)
LAC	4.7 trillion	9,051	0.5
South Asia	2.6 trillion	1,541	1.7
East Asia Pacific	12.5 trillion	6,222	2.0



# Reform pathways

Treasury reform have followed PFM (IFMIS) reform in other countries

## Diffusion of PFM Systems and e-Services (1984-2014)

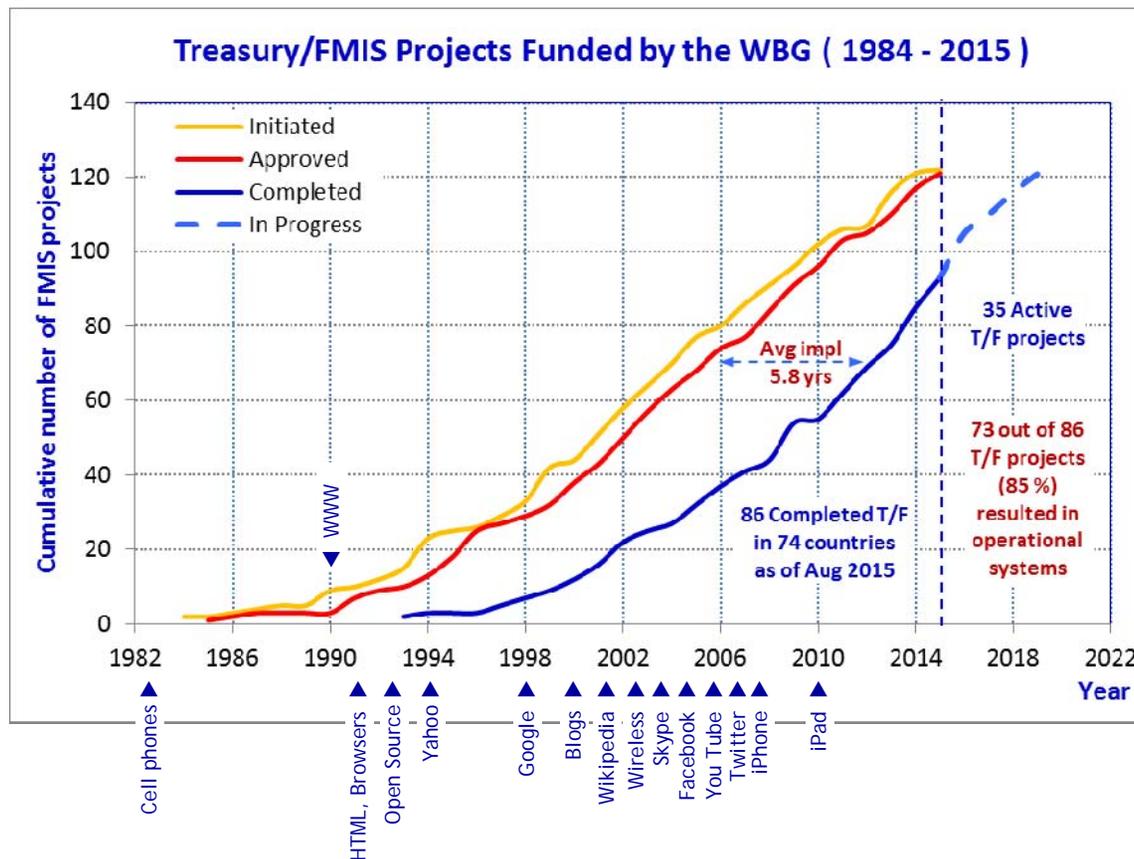


Source: WBG > Global Data Sets (198 economies) on Government Systems and e-Services (Jan'15) + WDR 2016 team presentation on impact of PFM systems



# Reform pathways

## Impact of Internet/WWW on FMIS development and treasury functions



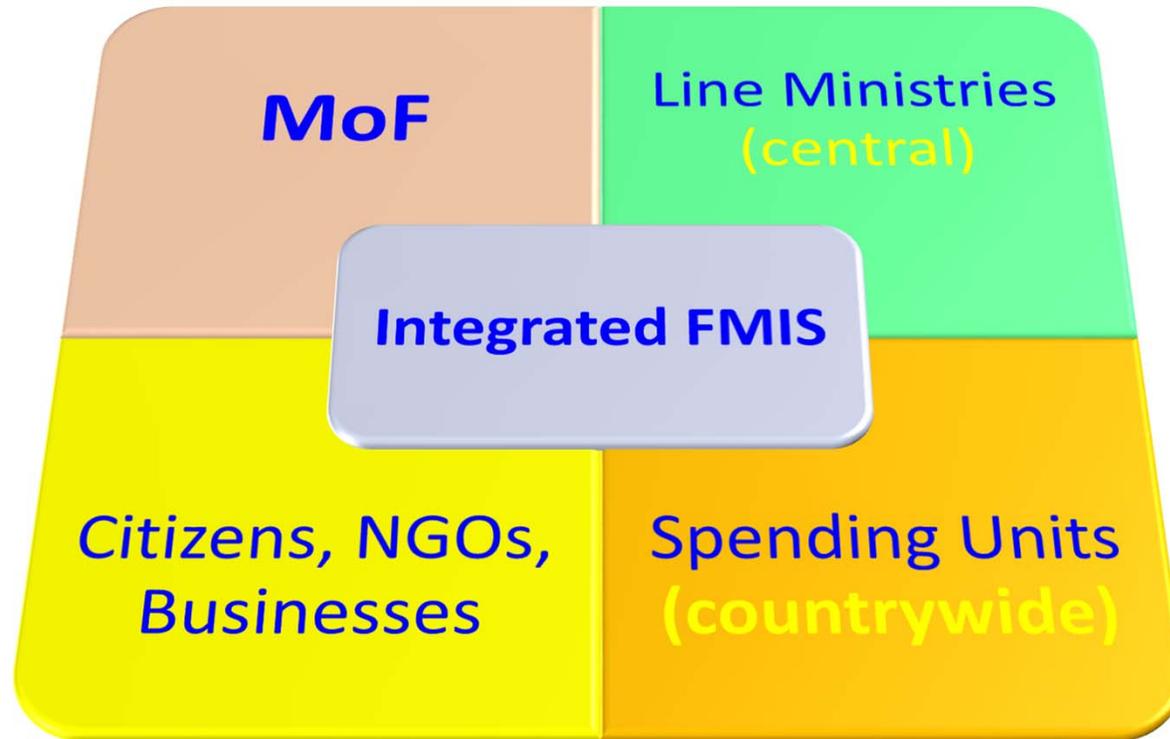
## Observations

- ▶ Transition from fragmented and outdated information systems to modern integrated solutions offers great opportunities for PS reforms.
- ▶ But despite substantial TA and ICT investments, progress in improving public resource mobilization and management, openness, and public services has been slow in many developing countries. Usually more than one political cycle.
- ▶ Its complicated – e.g. there are also risks to be addressed while replacing outdated ICT platforms or integrating existing systems (e.g., privacy and security concerns, financial and technical sustainability, ICT governance).

The World Bank has financed **121 FMIS projects** (86 completed + 35 active) in **74 countries** totaling over 3.5 billion USD (as of Aug 2015).

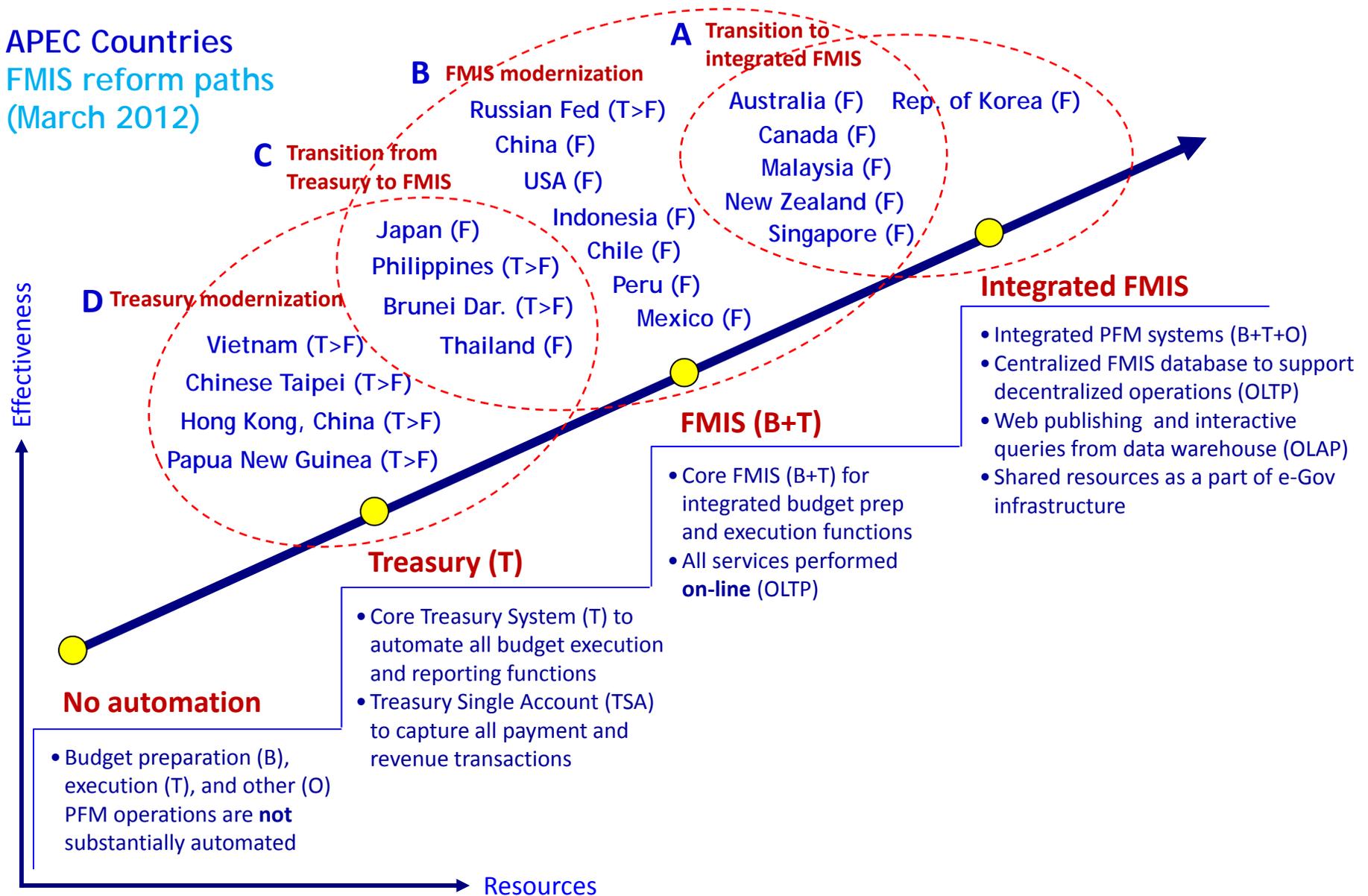
# Reform pathways

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# Reform pathways

APEC Countries  
FMIS reform paths  
(March 2012)



# Reform pathways

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## LAC motivated first by increasing budget control

### I. Government efficacy and budget control in late 90s to 00s, informed by crisis of late 1980s

- Budgetary allocations: Program Based Budget
- PFM: Core Financial Management Systems (FMIS with budget-accounting-treasury)
- Treasury: Payment centralization in a TSA approach (electronic payments to MDA or financial beneficiaries) and revenues are deposited through collection units.

### II. Second-generation reforms in late 00s to 10s

- Budgetary practices: Result Based Budget
- PFM: Transition to Integrated Financial Management Systems (IFMIS including new modules such as commitment control, procurement, payroll, planning, performance monitoring, web publishing)
- Treasury: Coordination with Central Bank, cash optimization/debt management (thought private financial institutions), forecasting.

# Reform pathways

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## A variety of FMIS reform paths and drivers in EAP and SA

### I. Highly fragmented and decentralized platforms (India, China)

- PFM: Established practices and systems at high-income states/provinces level, compared to central government and low-income states
- Treasury: TSA operations are decentralized.

### II. Transition to IFMIS

- PFM: Several advanced PFM practices and systems (Korea, Australia, Singapore, Malaysia, Thailand, New Zealand, Indonesia, Pakistan, etc.). Also, a number of failed attempts (Philippines, Bangladesh, Mongolia, etc.). Some of the countries are introducing new FMIS platforms.
- Treasury: Transition to centralized TSA operations in many countries.

### III. Fragile states and islands

- PFM: Introduction of core automation solutions (Afghanistan, Timor-Leste) to improve budget execution and accounting/reporting. Disaster recovery solutions in some islands, or introduction of simple automation solutions in small islands.
- Treasury: Attempts to introduce TSA operations and e-payments.

# Milestones & Challenges

LAC countries are implementing second generation reforms to get the full benefit PFM and IFMIS modernization

MILESTONES	CHALLENGES in LAC
<b>TSA</b>	<ul style="list-style-type: none"><li>• More complete coverage</li><li>• Improve forecasting, programming to increase the ability to meet payments and reduce unplanned debt</li><li>• Reduce cash rationing</li><li>• Improve cash use</li></ul>
<b>Expanding Treasury Functions</b>	<ul style="list-style-type: none"><li>• Debt management conducted externally to treasury</li><li>• Need for strong political commitment and support to implement reforms</li><li>• Liquidity buffers</li></ul>
<b>Macroeconomic Policy &amp; Central Bank Coordination</b>	<ul style="list-style-type: none"><li>• Central Bank role viz a viz treasury functions</li><li>• Lack of contracts or clear frameworks for operations</li><li>• Modernization and institutional capacity gap</li></ul>
<b>IFMIS/SIAF</b>	<ul style="list-style-type: none"><li>• Need to strengthen integration</li><li>• Control of budget commitment</li></ul>

# Milestones & Challenges: Indonesia

MILESTONES	CHALLENGES
<b>Cash management</b>	<ul style="list-style-type: none"><li>• Liquidity buffer: Average cash on hand is still very high, but reducing; average daily balance of about USD9 billion in 2012, reducing to about \$5.8 billion in 2013.</li><li>• Peaks in May-Aug</li><li>• Problems with accuracy of cash needs; rolling out new approach focusing on bigger spenders</li><li>• Two dealing rooms</li></ul>
<b>Expenditure planning</b>	<ul style="list-style-type: none"><li>• Q1 accounts for 11% spending; Q4 accounts for nearly 40%, and nearly 60% capital spending</li><li>• If revenue is short, then capital gets cut</li><li>• Great fear of being caught short</li><li>• But planning and allocation is used to cut budgets, not cash rationing</li><li>• Revenue forecasts typically too generous, as are growth</li></ul>
<b>Implementation</b>	<ul style="list-style-type: none"><li>• Difficult; drawn out</li><li>• Accrual accounting more complicated than foreseen</li><li>• Treasury functions had to be designed and defined (2003)</li></ul>
<b>Benefits</b>	<ul style="list-style-type: none"><li>• Estimation suggests about \$350 million saving in 2012, and maybe \$175 million in 2013.</li><li>• Hard to measure</li></ul>

# Conclusions

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- The LAC region was an early adopter of FMIS solutions because of the relatively early establishment of the treasury organizations (ranging from 1927 in Chile to 1995 in Honduras).
- By the late 1990s the LAC region was well positioned to take advantage of the technological advances (WWW) and introduce Treasury systems for budget execution, accounting and reporting needs (back office).
- In other regions (SAR, EAP, ECA and MNA), modern FMIS platforms emerged within the last two decades initially for budget control, and later on to support performance monitoring and web publishing.
- Innovative solutions to improve budget transparency can be developed rapidly with a modest investment even in difficult settings, if there is a political will and commitment from the government.

# Conclusions

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- Based on the FMIS global data set, 192 out of 198 economies have core PFM information systems nowadays. However, many are highly fragmented and not connected to other government systems.
- LAC is now consolidating first generation reforms and advancing second generation reforms, requiring more active treasuries to achieve successful outcomes.
- LAC also pioneered the introduction of open source FMIS platforms for budget preparation and execution in public sector (e.g. Brazil).
- ECA, EAP, and SAR regions improved their FMIS platforms within the past decade, and are migrating to next generation integrated platforms to support various PFM reforms (performance budgeting, program based budgeting, centralized TSA and e-payments, web publishing, open budget data, and more).

# Finally...

- *Like much of PFM generally...*
- From different starting points and at different speeds, countries are generally moving in the same direction
- The emphasis on different attributes – say, transparency versus control – differs, reflecting economic environment, authorizing environment and legacy issues