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Debt Management and Integrated Public Financial Management: Experiences and Implications for the Debt Manager?

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD



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Debt Management and Integrated Public Financial Management:

***Experiences and implications for the
Debt Manager ?***



Format of Presentation

- **Background- need for PFMS**
- **Zimbabwe's experience- PFMS & DMFAS**
- **Main modules- PFMS & DMFAS**
- **Advantages of Integration**
- **Challenges for the Debt Manager**
- **Conclusion**



Background – need for PFMS

- Integrated Public Financial Management ((PFM) systems enhance the effective control and transparent management of public resources.
- It promotes transparency, accountability, efficiency, security of financial data and ensures comprehensive financial reporting of revenues ,expenditures ,assets and liabilities of Government.



Background- need for PFMS

- PFM encompasses accounting, budgeting, cash management, asset and liability management and core treasury functions.
- The integration of PFM systems across Government ensures that all system users adhere to common standards, rules and procedures, with the objective of getting value for money and reducing risks of mismanagement of public resources.



Background – need for PFMS

- Financial management and reporting challenges – regular overspending against budget allocations , failure or late submissions of financial reports.
- Persistent carry over of expenditure.
- Increased financial related frauds and misconduct.
- Failure to pay suppliers on time.



Background – need for PFMS

- ***Cash management short comings:***
 - Lack of cash flow forecasts
 - Lack of overall financial strategy & planning
 - Inadequate budget releases to line Ministries
 - Lack of control of budgetary commitments



Background – need for PFMS

- Lack of modern technology
- No existence of online systems services and support
- Old generation system languages and out dated ICT infrastructure.



Background – need for PFMS

- Reform initiatives that led to PFMS:
 - Economic reform programs
 - Governance reforms, transparency & accountability reforms
 - Public Service Reforms – Results Based Budgeting
 - Decentralisation of operations



Zimbabwe's experience

- PFMS was implemented in 1999 and the system was rolled out live in 2000
- PFMS connects Treasury to all line ministries, making monitoring and supervision easier
- PFM Act of April 2010 governs the overall framework & responsibilities



Zimbabwe's experience

- ***Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy approved in November 2010 sets out the following:***
- Setting up of Zimbabwe Aid and Debt Management Office (ZADMO);
- Reconciliation and validation of Zimbabwe's external debt with all creditors;
- Negotiating for arrears clearance, new financing and comprehensive debt relief; and
- Leveraging Zimbabwe's natural resources in pursuit of debt relief and development.



Zimbabwe's experience

- ZADMO's functions and structure based on international best practices:
 - Front office (resource mobilisation)
 - Middle office (debt portfolio analysis, policy advice & debt strategy)
 - Back office (recording of debt statistics and all debt transactions and settlements)
 - Partnership with MEFMI and UNCTAD
 - Computerised UNCTAD's debt management system being used to record Zimbabwe's debt



- **Main PFMS Modules:**

- Revenue & expenditure management
- Asset & liability management
- Cash management
- Financial accounting & reporting

- **Main DMFAS Modules:**

- External debt recording including transactions, disbursements & debt service
- Aid inflows recording



Advantages of Integration of the two systems for a Debt Manager

- Integrating Debt Management with PFMS
- provides numerous advantages:
 - **Reliable information** – sharing of information on revenue , expenditures, resource mobilisation & allocation enables realistic budgets
 - **Improved Budgeting processes** – enhanced revenue and expenditure controls, easier decision making due to ready access of reliable information



Advantages for a Debt Manager

- **Monitoring & reporting** – auditable financial statements, resulting in the reduction of fraud and corruption control.
- **Linkage of core transactions** – estimates for revenue expenditure, debt service payments for external loans and debt service payments for on lending agreements.
- **Reporting** - comprehensive and timely reporting of transactions related to loans and aid inflows



Advantages for a Debt Manager

- **Effective cash budgeting process -** allocating expenditures based on priorities of the annual budget and the available cash in the Consolidated Revenue Fund.



Advantages for a Debt Manager

- **Accurate forecasts** – these forecasts minimise accumulation of arrears.
- **Eliminate lags in reporting** - this maximises the benefits of cash management.



Advantages for a Debt Manager

- **Access to information-** allows for easy access to information & eliminates duplication data entry
- **Reduction in administration costs-** man hours , paper work & returns
- Improved service delivery.
- **Real-time information** – improves on decision making.



Advantages for a Debt Manager

- **Improved productivity and better planning**
- **Development of modern ICT infrastructure**
- **Improved communication – especially between government entities and various stakeholders.**



Challenges for a Debt Manager

- Lack of high level commitment at both political and administrative levels
- Inadequacy of credible institutional and legal frameworks
- Human resources skills gap:
 - key skills, right attitude and knowledge gap
 - Capacity building and continuous training
 - Strategies for staff retention



Debt Manager Challenges

- Lack of appropriate technical infrastructure
- System security issues and business continuity arrangements
- Lack of clarity of business processes to allow future system modifications and interfaces
- Shortage of management capacity and other financial resources



Debt Manager Challenges

- Transformation of existing culture and change management
- Lack of inter-departmental coordination and user involvement
- Fragmentation of debt management and financial management activities which slows the decision making process
- Absence of an enabling debt management legal framework



Conclusion

- One can not separate the debt management function from the overall financial management framework, there is need to re-engineer Government's business processes
- Technology, security issues and all business processes must be tied together to maximise benefits
- Gaining stakeholder confidence in government's ability to manage public resources is critical to improve the country's credit risk



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