

FINANCING LOCAL GOVERNEMENTS AND THE ROLE OF PUBLIC SECTOR ACCOUNTANTS

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State of play or the Malagasy paradox

At national level

- Large surface (592, 800Kms²) with **60 million Ha of arable land** out of which only **3% is cultivated**
- **5, 360 km of coastline** out of which **< 15% is monitored**
- **Sources for renewable energy are abundant** (water, wind and sun throughout the year) but **electrification rate is at only 23%**
- **Various natural resources** (mines, hydrocarbons, fish and sea resources, fauna and flora out of which 80% are endemic...) but **revenues of < 1 % GDP both in the case of the central budget and in the case of decentralized local governments (CDT)**
- Population of 22,3 million inhabitants out of which **53% working** (executives with various specializations, competitive and competent employees, but **GDP/inhabitant < USD500/ year** (Least Developed Country))

Switch to local level

- **Almost all decentralized local governments**, depending on their particular features, hold a certain economic potential : agricultural products, mineral resources, forests, touristic sites, sea and fish resources ...
- **Various types of revenues are provided for by legal regulations in force :**
 - ❑ **Fiscal revenues** : synthetic tax (income tax on individuals), property tax, tax on the sale of alcoholic beverages...
 - ❑ **Non-fiscal revenues** : repayment and levies applied to the above-mentioned proceeds, various fees
 - ❑ **Government subsidies**
- **Chronic weakness of budgetary effects from own resources**
 - ❑ Dependence on government subsidies (< 0.5% GDP)
 - ❑ Local governments are ineffective in performing their roles and achieving their objectives: poor quality of public services

Examples



Antanimbary Rural Commune (Betsiboka Region): OR

- Hypothetical revenues according to studies carried out
 - ✓ 1 375 gold washers registered
 - ✓ Median yearly forecast output: 2.8g / gold washer /week
 - ✓ Local median yearly forecast output: 184 800g
 - ✓ Hypothetical turnover: MGA 140 000 000
- **Official output announced in 2011: 763.3g that is 0.56g / gold washer**
- **Revenues of the commune in 2011: MGA 1 439 000, i.e. 1% of the hypothetical turnover**

Vatovavy Fitovinany Region

- **Vast and diverse economic potential**
 - ✓ **Primary sector:** agriculture (rice, coffee, pepper, cloves...), livestock (bovines, swine...), fish (246 km coastline)
 - ✓ **Secondary sector:** mines (rock crystal, gold, emeralds, beryl, quartz)
 - ✓ **Tertiary sector:** tourism
- Analysis of revenues from proceeds

Year	2010	2011	2012
Hypothetical revenues (MGA)	257 760 000	369 120 000	171 600 000
Revenues paid (MGA)	57 642 305	171 106 788	100 425 405
Ratio (%)	22.36	46.36	58.52

Androy Region

- **Semi-arid region that nevertheless features a significant potential: mines (labradorite) and fish (200 Km coastline)**
- **Hypothetical revenues from 2008 to 2012: MGA 143 075 401**
- **Transfer of collected revenues to the Public Treasury : MGA 9 637 950 that is 6.73 %**

Given all this potential, the problem does not reside neither in insufficiency or in lack of knowledge of competence. It is a governance issue.

A governance issue

At global level (national and local)



No coherent benchmark public policy to be cascaded down in policies, strategic plans and sectoral permanent programs (energy, social and economic security, agriculture, tourism, fishing, mines...) :

management depending on context, one-off measures

- ❑ All economic options have been successively adopted (liberalism, nationalization, interventionism, investments and excessive borrowing (debts), structural adjustment)
- ❑ DCPE (Framework Document for Economic Policy), DSRP (Framework Document for Poverty Reduction) and MAP (Madagascar Action Plan)
- ❑ Confusion with respect to the role of the state: regulator, competitor, monopoly holder, support...
- ❑ Unchanged performance: tax load rate < 12%, growth neither steady nor lasting (according to evolution)

• **Non-adherence of stakeholders to results oriented management (GAR), a basis of the 2014 organic law on finances**

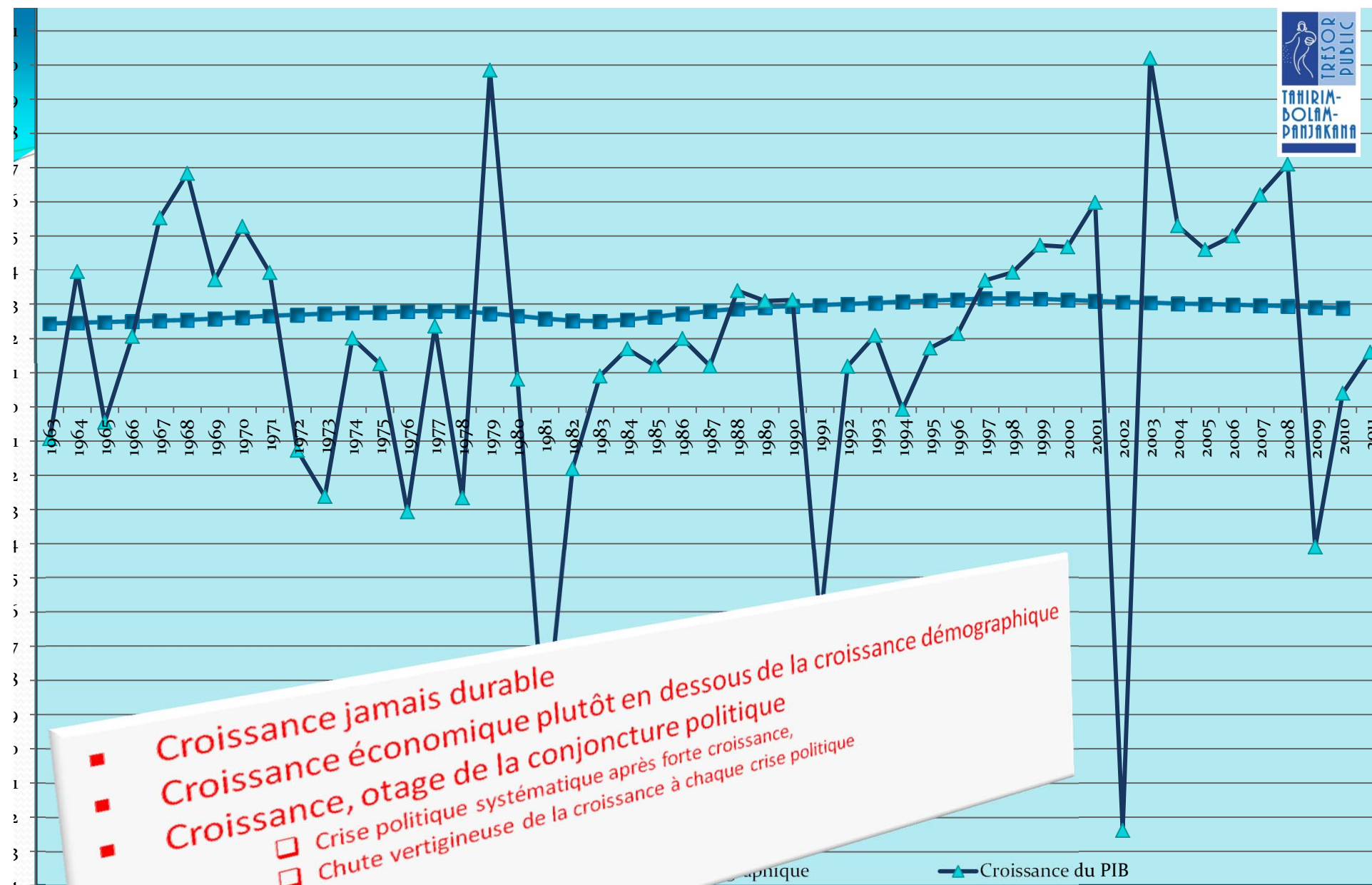
- ❑ Budget planning: constant debates regarding resources (Budget: 63% running costs and 37% investments out of which 30% own internal resources (RPI), no investment synergy)
- ❑ Budget implementation: systematization of exceptions and exemptions
 - ✓ Budgetary rules: annuality, universality, unity
 - ✓ RGCP: singleness of the treasury, expenditure implementation procedure
 - ✓ Public procurement: call for competition and transparency
- ❑ Control: redundancy and ineffectiveness of the system

• **The control system for public finance is inadequate**

- ❑ All control bodies exert the same control: compliance checks usually targeting only documents
- ❑ Some areas are not controlled or insufficiently controlled (high risks of waste and loss)
 - ✓ Programs adequacy (objectives, strategy, indicators and impact)
 - ✓ Fairness of prices
 - ✓ Service fully performed
 - ✓ Effectiveness of expenditure
 - ✓ Efficiency of public services

• **Chronic political instability**

- ❑ Cyclic crisis (5 crises in 40 years)
- ❑ Economic growth, hostage of political circumstances (according to progress of the growth rate)



- Croissance jamais durable
- Croissance économique plutôt en dessous de la croissance démographique
- Croissance, otage de la conjoncture politique
 - Crise politique systématique après forte croissance,
 - Chute vertigineuse de la croissance à chaque crise politique

At local level



The organization of the administration is tortuous and decentralization is not effective

- ❑ **3 levels of decentralization and issues related to the allotment of resources** (little impact for public budgets from revenues derived from natural resources)
- ❑ **6 theoretically autonomous provinces**
- ❑ **22 regions operating more as de-concentrated bodies and mere contact point for the Public Treasury** (appointed executives, no legislative body, budget secured mainly from government transfers...)
- ❑ **1 549 Communes that depend on government subsidies** that account only for < 0.5% of GDP (structural imbalance of local finances)

• Limitations of the Public Treasury

- ❑ 2 specific points
 - ✓ Accounting implementation is decentralized: 2 classes of accountants
 - ✓ Principal accountants: Treasury
 - ✓ Secondary accountants: Treasury and Agencies for Financial Administration (Régies des Administrations Financières RAF)
 - ✓ Accounting is consolidated at the end of the financial year: 2 levels of accounts' consolidation
 - ✓ Level consisting of principal accountants
 - ✓ ACCT Level
- ❑ **Only 7% of communes are covered by the network of the Public Treasury** (2nd class rural communes are not covered)

• Actual risks

- **With respect to the resources of the communes:**
 - **Low technical competence of accountants designated by Mayors** to ensure collection and stability of revenues
 - Tax non-compliance reaches 90% of economic undertakings
- **With respect to jobs**
 - **Infringement of the principle of separation of duties between authorizing officers/accountants:** no reciprocal control
 - **Chronic imbalance of budgets:** running expenses especially staff payments and accessories (> 80%)
 - **Dependence on subsidies, poor quality of public services and lack of investments**

Other factors hindering the intervention of the public sector accountant

Political and administrative factors



- **Quasi-ineffectiveness of controls exerted on the activity of decentralized local governments (CDT)**
 - **Legality checks for budget related acts are insufficiently rigorous**
 - ✓ Revenues: forecasts are not accurate and reasonable
 - ✓ Expenditure: forecasts are too ambitious and not realistic enough
 - ✓ Chronic imbalances and insufficient cash flow
 - **Administrative check is insufficient (IGE – Central Government Inspectors) or utterly lacking (CDBF – Council for Financial and Economic Discipline)**
 - **Late judicial review** (after $n + 1$)
 - **Insufficiently controlled areas** (i.e. a governance issue): adequacy of programs, fairness of prices, service fully performed, effectiveness of expenditure, efficiency of decentralized local governments (CTD)
- **The statute of the authorizing officer and of the public sector accountant are contradictory**
 - Elected Mayor (Municipal Council too): legitimacy and representativeness
 - Accountant designated by the Ministry of Finance : advisory role, control authority, implementation body
 - Often, contentious relationships

Institutional and technical factors



- The little resources (human, financial and logistical) that the Public Treasury holds make it impossible to integrate all decentralized local governments (CTD) in its reach
- Vastness and depth of tax noncompliance
- Insufficiently developed IT system
- The role of the other budget stakeholders is not as clearly established as that of public sector accountants

Reform towards a revolution in government financial control

Effective and comprehensive implementation of the principles of the Organic Law on Finance



- **The framework and culture of public finance need to progress at the same time:** results need to become particularly important as well as social and economic effects of programs and projects
- **The Government needs to come up with a real public policy that would serve as benchmark for all development stakeholders:**
 - ❑ Clarify its role as booster of growth and “dispatcher” of wealth
 - ❑ Set priorities, objectives, strategies , global and sectoral, national and local development and investment plans
 - ❑ Set a schedule and a permanent monitoring and assessment system
- **Public budgets (central and local) need to be seen as annual tools serving to implement the public policy**
- **Investments need to become a priority as they would enable a quicker and more efficient progress:**
 - ❑ The need to do away with losses and to strengthen public investments with the savings made
 - ❑ Implementation of a more incentivizing fiscal policy and of a business climate favorable to private investments.

Adequate control system of public budgets



- **The public finance control system needs a total reform so that a stronger cooperation and coordination between control bodies should exist which shall do-away with uncontrolled economic areas**
- **The public sector accountant's mission and action (the public sector accountant being the guardian and last defense of public funds) needs to follow the GAR guidelines**
 - ❑ **Promotion of the financial consultant role** (especially for budget planning)
 - ❑ **Evolution towards a more adequate control of the program-budget**
 - ❑ Input-based budget: check on documents compliance (type and availability of funds, supporting documents for expenses)
 - ❑ **Program-budget: checking the expense nature against its volume and checking the program, controlling the expenditure efficacy and the efficiency of each spending unit.**
- **Implementation of a personnel scheme so that staff tasked directly with public finance missions (reporting to a technical Ministry and to the Ministry of Finance) can be found within decentralized local governments (CTD) while waiting that all CTD be covered by the Public Treasury network.**

Thank you for your attention...