



PERSPECTIVES FOR
THE FUTURE



BROCHURE

DRIVERS OF PUBLIC SECTOR ACCOUNTING REFORMS



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**Centre for Financial
Reporting Reform**



WORLD BANK GROUP

Centre for Financial Reporting Reform (CFRR)

Governance Global Practice, The World Bank

Address: Praterstrasse 31, 1020 Vienna, Austria

Web: www.worldbank.org/cfrr

Email: cfrr@worldbank.org

Phone: +43-1-217-0700

PULSAR

The Public Sector Accounting and Reporting Program

Web: www.pulsarprogram.org

© 2021 International Bank for Reconstruction and Development / The World Bank

1818 H Street NW

Washington DC 20433

Telephone: 202-473-1000

Internet: www.worldbank.org

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BROCHURE ON DRIVERS OF PUBLIC SECTOR ACCOUNTING REFORMS¹

WHY IS PUBLIC SECTOR ACCOUNTING (PSA) AND FINANCIAL REPORTING IMPORTANT?

Governments are entrusted to manage public resources and deliver a wide range of public services in a sound, cost-effective and sustainable manner. Countries face significant deficiencies in financial reporting which affect fiscal sustainability, including opaque reporting of fiscal deficits and sovereign debt.

High-quality financial information produced per a robust set of international standards results in better decision making to support the generation and allocation of resources. It builds accountability, increases fiscal transparency, promotes consistency, and enables comparability with peers both in the region and globally.

The implementation of accruals is a long-term project in the public sector, and clarity of direction is important. None of the countries deciding to initiate PSA reform have the same starting point, capabilities, and drivers. It is important to acknowledge this fact in setting country's reform objectives and paths.

WHAT IS A DRIVER?

Drivers are one of the main things that influence something or cause it to happen, make progress, develop, change or grow stronger. Without a driver, not much happens.

A “right driver” will: (i) cause whole system improvements (ii) be measurable in practice and in results, and, (iii) have a clear link to the transformation strategy. The right drivers – capacity building, group work, instruction, and systemic solutions – are effective because they work directly on changing the culture of the systems (values, norms, skills, practices, relationships).

By contrast, a wrong driver is one that: (i) may sound good but actually does not produce the results it seeks (ii) may make matters worse, and, (iii) on closer scrutiny can never have the impact it promises. Wrong drivers alter procedures and other formal attributes of the system without reaching the internal substance of reform – and that is why they fail.

The glue that binds effective drivers together is the underlying attitude, philosophy, and theory of action. The mindset that works for whole system reform is the one that inevitably generates individual and collective motivation and corresponding skills to transform the system.

¹ Full paper Pulsar – Drivers of Public Sector Accounting Reforms available at <https://cfr.worldbank.org/publications/pulsar-drivers-public-sector-accounting-reforms>

TYPES OF DRIVERS OF PSA REFORM

There are two types of drivers: technical and non-technical.

Technical drivers are grounded in basic principles which are easier to grasp, easier to objectively assess, and can be addressed in a relatively benign and non-confrontational manner.

Non-technical drivers are considerably more nuanced and complex. They are often difficult to identify because they require an understanding of formal and informal

institutions and rules, and as such are more difficult to address without causing possible consternation and even emotional resistance.

Internal drivers are those drivers which originate from within the country.

External drivers are those drivers which originate from outside the country.

DRIVERS OF PUBLIC SECTOR ACCOUNTING REFORM

TECHNICAL DRIVERS

(non-political, tangible, easier to objectively assess and address)

- Drive for better transparency and accountability
- Drive for better management of strategic resources
- Drive for improved awareness and management of costs
- General drivers which require better public sector accounting e.g. drive for better fiscal position, better management of financial risks

NON-TECHNICAL DRIVERS

(political economy, intangible, difficult to objectively assess and address)

- Institutions – government, legislatures, courts, media, NGOs, formal and informal institution
- Interests – including specific objectives of the various actors
- Ideas - policy options and recommendations derived from descriptive research and normative values: what is and what ought to be; windows of opportunity

INTERNAL

EXTERNAL

- To monitor compliance with EU's Article 126 excessive government deficit obligations
- To comply with ESA2010 reporting requirements and Council Directive 2011/85/EU
- Regional or international accounting standards such as IPSAS, EPSAS initiatives
- Fiscal rules, indicators,
- Public Finance Assessment – REPF, PEFA, OBI etc
- Enterprise Resource Software (ERP) solutions

- Aid, donors, international financial institutions
- Credit rating agencies
- Commercial creditors, bondholders of public debt
- Global drivers i.e. non-aid external drivers of accountability and governance

MAIN OBJECTIVES AND DRIVERS FOR PSA REFORMS IN SELECTED COUNTRIES²



FRANCE

- Budget reform (budgetary process, internal controls, performance orientation) was the main driver although the reform recognises value of accounting information for purposes of computation of debt, current debt and KPIs.
- There was a strong political support including the Prime Minister involvement and parliamentary consensus that accounting should provide reliable information to confirm and justify the use of public funds is a democratic imperative.
- The legal basis for reform was included in the constitutional bylaw on budget (LOLF).
- Parliamentary commission (MILOLF) created to hold MOF to account on reform.
- Developed French public sector accounting standards taking into account IFRS and IPSAS.



PORTUGAL

- Driver for reform was Economic Assistance Program which required better financial information including of net worth, debt, consolidated net debt, consolidated EBITDA, bottom line surplus/deficit. To dispel fiscal illusion.
- The Ministry of Finance is the leader of the reform, based on CNC (Public Sector Accounting Body) advice and proposals (where DGO takes place, together with other public and professional bodies).
- Political commitment and cooperation between different stakeholders are pivotal to start and continue the reform path.



SWITZERLAND (FEDERATION)

- Driver for reform was to catch up with cantons' public sector budgeting and accounting standards.
- Main player was the Federal Finance Department in consultation with Court of Auditors.
- Need to include "true and fair" in legislation.



SWITZERLAND (ZÜRICH CANTON)

- Driver for reform was demand from the [part-time] politicians for better financial information and in particular their demand for information comparable to that which they were and are used to getting in the private sector.
- Main player was Canton finance department.
- Need to include "true and fair" in legislation.
- Support needed from top management
- Communicate too much not too little
- Training (at start and regular ongoing)
- Close cooperation with financial auditing and financial supervision



AUSTRIA

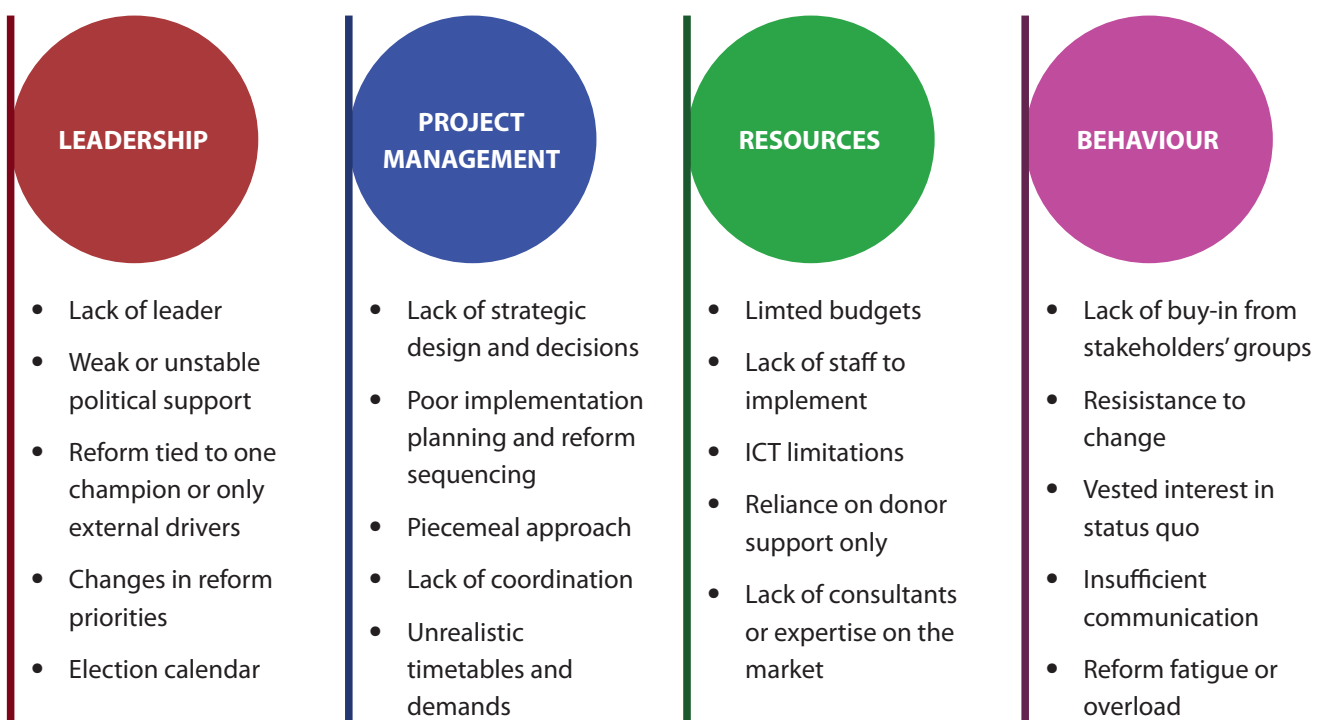
- Driver for reform was 65 years of budget deficits and wanting to implement a longer term perspective, an MTEF, to counter fiscal illusions.
- Reform led by MOF but included Court of Audit.
- Need to include basis for reform in legislation ("true and fair" included in constitution) to implement and make it irreversible.

² Full cases studies are included in the paper "PULSAR Drivers of Public Sector Accounting Reforms"

MAIN CHALLENGES AND OBSTACLES OF PSA

Often, public sector accounting reform takes many, many years. This is not necessarily because the technical aspects of public sector accounting reform are particularly difficult to conceive or address. Rather, it is often because people are familiar and comfortable with the status quo and may even benefit from keeping things the way they are. Like all reforms, successful public sector accounting reform needs right and strong drivers to make the reform happen and overcome challenges and obstacles.

Figure illustrates how challenges to reform might be characterized in four areas: Leadership, Project Management, Resources, and Behaviour. A challenge or obstacle may appear in one or more of these areas and may evolve over time. Identification of the type of challenge(s) is very useful so that an approach to the challenge can be developed.



PRACTICAL OBSERVATIONS TO ADDRESS DRIVERS OF PSA REFORM

The best results for PSA reforms seem to be achieved if there is a good mix of internal, external, technical as well as non-technical drivers that can support not only the start but also the full implementation of the PSA reform.

In ECA Countries PSA reforms have been initiated by external technical drivers rather than domestic internal drivers. While external drivers are effective in starting the reform, they are insufficient to sustain implementation and produce results that are useful for decision-makers.

The encouragement of development partners, PSA reform has often been included within governments' broader PFM reform strategies.

Internal technical drivers such as those embedded in laws and regulations, are not sufficient to implement PSA reform without political support and buy-in from groups of key stakeholders.

TOOLS TO ASSESS DRIVERS OF PSA REFORM

An ideal tool to support public accounting reform should include not only a diagnosis of current framework, capacity and practice, guide on formulation of reform roadmaps but should also identify drivers and obstacles to the reform and propose how to address them

The World Bank's diagnostic tool, the Report on the Enhancement of Public Sector Financial Reporting (REPF) – Diagnostic Tool supports such assessments which can inform further reform plans.

Next generation assessment tool should also facilitate preparation of the reform plans, identification of drivers and obstacles of reforms or political economy aspects which can either support or hinder reforms.

There are no neat and easy methods of assessing non-technical drivers. The earlier World Bank tool, Institutional and Governance Reviews, focused on the functioning of key public institutions and analysed the feasibility of reform. Refer to the report's case studies and annexed examples.

Windows of opportunity are important in terms of and as a strategy to address non-technical drivers.

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