

**Opening Remarks by Mr. D. Paligadu, Director
MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT
Opening Address**

**Seminar on Prevention and Management of Government Expenditure Arrears:
Theory and Practice**

Distinguished Guests

PFM Experts

Ladies and Gentlemen

It is an immense pleasure for me to welcome you, on behalf of the Government of Mauritius, to this seminar on **Prevention and Management of Government Expenditure Arrears**. I hope that you had a nice trip to Mauritius.

At the very outset, I would like to convey my deep appreciation for the excellent works being undertaken by AFRITAC South since its operation in Mauritius as from June 2011.

As you may be aware, AFRITAC South is a collaborative effort between the International Monetary Fund and several bilateral and multilateral donors. Its main objectives are:

- to assist countries in their efforts to strengthen financial governance and build effective institutions;
- to provide technical advice in core macroeconomic and financial management areas; and
- to facilitate the reform process in member countries.

It is indeed a bold initiative undertaken by AFRITAC South to organize such an important seminar at time when many countries are facing economic difficulties due to both internal and external factors and are accumulating expenditure arrears.

You will agree with me that accumulation of huge expenditure arrears is a matter of growing concern for many countries and is a symptom of underlying weaknesses in a country's PFM system.

In a nutshell, Government expenditure arrears are financial obligations that have been incurred by any level of the public sector for which payments have not been made by the due date.

It can arise at any stage of the budget cycle due to inadequate legal frameworks, unrealistic budgeting, cumbersome expenditure controls, inefficient cash management and problems with a financial management information system.

Recent studies have also revealed that in some countries accumulation of expenditure arrears have been due to deliberate deferral of payments, inadequate sanctions and no reporting requirements especially for countries operating on a cash-based budgeting and accounting system.

In some cases, reporting is restricted to the central government budget, while arrears may be building up in extra-budgetary units, subnational governments, and state-owned enterprises.

Such accumulation can have serious negative effect on an economy. A large flow of arrears may disguise the true size of the budget deficits and public sector debt, significantly reduce the impact of fiscal policy on aggregate demand and potentially undermine macroeconomic stability.

Apart from additional costs to government in terms of interest payments and penalties, expenditure arrears may also result in delays in the implementation of important growth enhancing investment projects.

Countries which have been successful in managing the risk of expenditure arrears are the ones which have over the time:

- Strengthened their legal and regulatory framework;
- Enhanced credibility and realism of their budget;
- Improved their budget execution;
- Upgraded their financial management information systems and
- Enhanced oversight of subnational governments and state-owned enterprises

Ladies and Gentleman

Let me now share with you the Mauritian Experience on the topic of the day.

Over the years, we have put in place systems and procedures through various PFM reforms. This has enabled us to mitigate accumulation of expenditure arrears.

Today we can confidently say that there is almost no Government expenditure arrears in Mauritius. However, in a few exceptional cases, there might be slight delays in payment which is mainly due to the normal time requirement for processing and certification of claims.

Let me now briefly mention some of the reforms and measures that have helped us in this achievement.

- We have introduced a performance based budgeting embedded with three year expenditure framework. We have adopted a prudent fiscal policy management approach. We are conservative on our revenue projections while our expenditure projections are based on realistic assumptions;
- Aggregate expenditure ceilings are communicated to each Ministry based on an updated fiscal framework. Ministries, in turn, allocate resources by first giving priority to existing expenditure commitments and projects. Then they distribute remaining balances to new programmes and schemes.
- Outstanding commitments of multi-year investment projects including their associated recurrent costs are also included in the budget and outer-year forecasts;
- We have also introduced provision for Contingencies and Reserves in our Annual Estimates. It is meant for to cater for unforeseen expenses or under provision in some votes of expenditure;
- Expenditures relating to debt charges and public service pensions are charged directly to the Consolidated Fund without requiring appropriations by parliament. Thus, avoiding any possibility of deferral of such expenses;

- Ministries and other institutions financially dependent on Government are not allowed to take additional financial commitments prior to the approval of Ministry of Finance. In fact, commitment controls are part of the internal control system that prevent public entities from initiating expenditure without available budget and cash.
- We have developed a Public Sector Investment Programme (PSIP) to ensure strategic and coherent approach for investment planning and financing;
- We have just reviewed our capital project process manual, which now clearly specify the processes to be followed for increase in project values and approval of new capital projects;
- We have introduced the concept of Carry Over Provisions for capital projects to enable ministries to settle commitments within three months after the closure of accounts;
- Assessment of the PFM systems has been carried out using the PEFA Methodology and recommendations have been implemented.
- The financial management manual including financial instructions are consistently being updated in line international best practices;
- The financial instruction on virement allows ministries and departments to reallocate funds within a vote expenditure; thus allowing them to meet expenditure commitments from other items where under spending is expected;
- The Treasury issues a circular to all ministries and department, one month before the closure of accounts, to ensure all outstanding claims are processed on time.
- The mandate of the Director of Audit has been extended to cater for performance audit. As regard cash and debt management, there is proper coordination between line ministries, Treasury and Ministry of Finance. Ministries are required to submit their forecast of expenditure on a weekly basis to the Treasury.

- As regard cash management, the Subcommittee on Borrowing Requirements of Government meets on a weekly basis to decide on the amount of money to be raised on the market to finance government's operations.

You will agree with me that PFM reform is a never ending journey. Mauritius is not an exception. In fact, the Government of Mauritius is fully committed to further modernise and improve its Public Financial Management System.

In this context, we are working on a series of reforms that include the following:

- preparation and submission of annual performance report by each ministry as from this year;
- Introduction of e-budgeting whereby budget preparation and monitoring process has been computerized;
- Parastatal Bodies with similar roles and functions is being consolidated for greater synergies and more effective service delivery;
- Loss making and heavily indebted public sector bodies are being required to prepare and implement a turnaround plan to remediate the financial health; and

At the same time, we are working on the introduction of accrual accounting.

We are thankful to the AFRITAC South that had assisted us in this endeavour. In fact, AFRITAC South has already submitted its report entitled 'Mauritius: Towards Accrual Accounting and the Adoption of International Standards'.

We also intend to develop a framework for reporting fiscal risks and assessing their potential impact on budget. I must add that a lot of works still remain to be done in this area.

Ladies and Gentlemen

I hope that by the end of this seminar, you will learn more about different countries experiences and be acquainted with the most effective approach to deal with the expenditure arrears.

With these words, I wish you all an enriching seminar and a pleasant stay in Mauritius.

Thank you very much for your attention.