PUBLIC FINANCIAL ADMINISTRATION SYSTEM EVOLUTION CASE: ECUADOR

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ECUADOR

LOCATION: South America
POPULATION: 16 million
LANGUAGE: Spanish
CURRENCY: US Dollar
GDP: USD 100 MM (e)2017
CONTENTS

FINANCIAL ADMINISTRATION STAGES

- 1977: Ministry of Finance Leadership - Comptrollership
- 1997: Modernization of the State Process
  - Ministry of Finance Leadership
  - 2000: IT System SIGEF
- 2006: Financial Administration System Reforms
  - 2007: IT System eSIGEF
1977: ORGANIC LAW OF FINANCIAL ADMINISTRATION AND CONTROL (LOAFYC, IN SPANISH)

Financial Administration System Components

- Determination and public funds raising;
- Budget;
- Treasury;
- Government Accounting; and
- Public Resources Control.
GOVERNING BODIES

Ministry of Finance
- Governs funds determination and raising, budget and treasury systems
- Regulatory Power: principles, policies and technical standards
- In charge of the financial administration of the government
- Centralizes financial information of the government

Comptroller General of the State
- Governs governmental accounting and control systems
- Regulatory Power: principles, policies, technical standards, and general and specialized manuals
- Consolidates non financial public sector information
OPERATING MECHANISMS

- Central Bank: official depositary of public funds / manages the interbank payments system (SPI in Spanish)
- Single National Treasury Current Account (CCU) (1975)
- Accounting and Budgetary Implementation Record Effective Method
- Budgetary Implementation Stages
  - Commitment
  - Obligation
  - Payment
1. Commitment
   - Expenditure Quota: Budgetary Availability
   - There is no accounting record or budgetary implementation

2. Obligation
   - Reception of goods, services or implementation of projects
   - Accounting and Budgetary Record

3. Payment
   - National Treasury Authorizations of Orders according to the Cash Management Plan
   - Checks Drawn from CCU (Single Current Account) for the authorized amount

INSTITUTIONAL ACCOUNTING SYSTEMS
- Government Accounting Manual
- Specialized manuals and specific manual
LEGAL REFORMS

- **1992** Public Sector Budgets Law

- **2000** Dollarization of the economy
  - Economic Transformation Law of Ecuador
  - Reforms: Monetary Regime; Public Procurement
  - **Ministry of Finance:** Exclusive power to issue technical standards regarding government accounting
  - Fiscal responsibility principles for the formulation, approval and implementation of the General State Budget

- **2002** Organic Law of the Comptroller General of the State

- **2010** Planning and Public Finances Code
  - Derogating Laws: LOAFYC; LOREYTF; Budgetary Law and chapter I of the Economic Regulation and Public Expenditure Control Law (1983)
1997 MODERNIZATION OF THE STATE PROCESS


Development of the computer system and progressive deployment in the Non Financial Public Sector

- Principles and technical standards of the financial administration, budget, government accounting and treasury system
- Accounting and budget implementation **ACCRUAL BASIS**
2001: THE IT SYSTEM SIGEF

- TECHNOLOGY: Client Architecture - Server with an Oracle database.

- PROCESSES
  + Budget
  + Accounting
  + Treasury.

- COMPONENTS
  + Institutional SIGEF: Deployed in 22 Central Government institutions
  + Global SIGEF: The Ministry of Finance manages added processes
  + Treasury SIGEF: National Treasury budget, treasury and accounting processes
OPERATIONAL LEVELS

- Financial Administration Unit UDAF
  - Coordinates budget programming, formulation, implementation and assessment Governing Body - Implementing Units
  - Institution - Ministry of Finance Coordination.

- Coordinating Unit (Education and Health)
  - Unit under the UDAF
  - Coordination: Implementing Units - Governing Body

- Implementing Unit
  - In charge of financial administration, budget implementation. Creates accounting record
  - Direct relationship with UDAF or Coordinating Unit
MODELO DE GESTIÓN DESCONCENTRADA

MINISTERIO DE ECONOMIA Y FINANZAS

GESTIÓN GERENCIAL
- Techos
- Sol Prog. - Reprog
- Aprobación Modif
- Distribución

INSTITUCION A
- UDAF
- PC

INSTITUCION B
- UDAF
- PC
- UE 1
- UE 2

INSTITUCION C
- UDAF
- COORD 1
- COORD 2
- PC
- UE 1
- UE 2
SIGEF EVOLUTION

IMPROVEMENTS
- New version with web architecture
- Extend coverage to 62 Central Government institutions

WEAKNESSES
- Functional improvements require time and high costs
- Difficulties to extend coverage to the NFPS
- Inter operational limitations
- Limited information for consolidation
2006: FINANCIAL ADMINISTRATION SYSTEM REFORMS

- Accounting and fiscal till centralization, decentralization of budget implementation
- Online operationalization Central Government and FM
- Elimination of Quotas and Money Orders mechanisms
- Payment of obligations: The entity process payments to beneficiaries, NT transfers funds to individual accounts
- Investments program subject to Development Plan
- Programming of cash flow, four month programing of commitment and monthly programming of accrual basis.
- Restrictions
  - **FM** Modify budget limits up to 15%
  - Fiscal Rule
  - Borrowing Limit 40% GDP
NON FINANCIAL PUBLIC SECTOR 1997

- CENTRAL GOVERNMENT 2392
- REGIONAL GOVERNMENTS 1094
- DECENTRALIZED ENTITIES 90
- PUBLIC COMPANIES 73
THE ESIGEF IT SYSTEM

- Ministry of Finance: New conceptual framework
  - Experiences Argentina, Colombia and Guatemala
  - Benchmarking process: Guatemalan system SIAF - SAG
  - Implementation and development: Cooperation and Technical Assistance Agreement Ecuador - Guatemala

- 2007: The system is production-ready: Budget formulation and programming module
  - Web technology
  - Central Government online (2392 entities)
  - Budget by results Model

- 2009: Incorporation of decentralized and autonomous entities
SYSTEM CHARACTERISTICS

- Interaction with FM internal systems: SIGADE Public Debt; SNIP Public Investment; and, SIPREM Remunerations;

- External interoperability
  - Internal Tax Systems SRI
  - Central Bank’s Interbank Payments System SPI
  - Public Procurement Service SERCOP
  - Comptroller General of the State Control System

- MODULES
  - Budget Programming and Formulation
  - Budgetary Implementation
  - Government Accounting
  - Treasury
OPERATIONAL LEVELS

- Financial Administration Unit UDAF
  - No operational character
  - Coordinates budget programming, formulation, implementation and assessment: Governing Body - Decentralized Operating Entities
  - Institution - Ministry of Finance Coordination.

- Decentralized Operating Entities EOD (in Spanish)
  - Operational level of recording, authorization and certification
  - In charge of financial administration, budget implementation.
  - Direct relationship with UDAF
MINISTRY OF FINANCE

Leader
- Consolidating
- Distributing
- Returning

Operational
- Formulation
- Recording
- Authorization
- Certification
Financial Programming - Articulated to the programming of Fiscal Till
- Annual Indicative Programming PIA
- Quarterly Commitment Programming PCC
- Accrual Basis Monthly Programming PMD

Budgetary Certification

Commitment

Obligation

Budgetary Modifications: EOD requests and records; UDAF consolidates; FM validates

Collection and Payment
- Single Registration Record of Income and Expenditure
TREASURY MANAGEMENT

- Programming of Till: income, expenditure and financing
- Management of payments through the Interbank Payments System SPI
- Short-term liquidity deficiencies: Issuance of Treasury Certificates (CETs, in Spanish)
- There are no stabilization or contingent funds
- CCU (Single Current Account): Single Accounts System
  - Fiscal Resources
  - Self-management Resources
  - Pre-allocated Resources
  - Special Funds
  - Third-Party Funds
  - Accounts for the provision of public debt repayment
ACCOUNTING COMPONENT

- Accounting Record: Accrual Basis Start
- Guidelines for the close of the fiscal year and opening of the subsequent year
- Central Government Consolidated Financial Statements
- The consolidation of the NFPS is created outside the eSIGEF

Types of Records
- **Monetary Rights**: Earned and Received Revenue:
- **Monetary Obligations**: Accrued expenses
- **Non Budgetary Operations**: Other economic facts with no budgetary affectation
- Accounting Opening and Close
# Accounting Integration - Budget

<table>
<thead>
<tr>
<th>CHART OF ACCOUNTS</th>
<th>BUDGET CLASSIFIER</th>
<th>NON RELATED</th>
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<tbody>
<tr>
<td>Asset</td>
<td>Capital Inflows</td>
<td>Advancements Disbursed Accounting Regulations and Adjustments</td>
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<tr>
<td></td>
<td>Capital Expenditures</td>
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<td></td>
<td>Investment Expenditures</td>
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<td>Production Expenditures</td>
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<tr>
<td>Liabilities</td>
<td>Financing Inflows</td>
<td>Third-Party Funds Accounting Regulations and Adjustments</td>
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<td>Inflows</td>
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<td></td>
<td>Debt Repayment</td>
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<tr>
<td>Equity</td>
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<td>Accounting Regulations and Adjustments</td>
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<tr>
<td>Revenues</td>
<td>Current Revenue</td>
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<tr>
<td>Expenditure</td>
<td>Current Expenditure</td>
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<tr>
<td>Memorandum Accounts</td>
<td></td>
<td>Non related</td>
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</tbody>
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ESIGEF SCOPE

- Central Administration of the State: 1329 institutions and 1903 Decentralized Operating Entities
- 32 Higher Education Entities
- 98 Social Security Medical Units
- 1 Provincial Government
- 1 Municipal Government
- 4 National Public Companies
TRANSPARENCY FOR CITIZEN OVERSIGHT

- **Budgetary Information**
  - **Budget Outline**: 2013 – 2016
  - **Budgetary Implementation**: Not Available
  - **Equity Reports**: Unavailable
  - **Remunerations Information**: Not Available

- **Financial Statements**: 2010 – 2013

- **Public Debt**: 1990 – 2017

- **Fiscal Indicators**
  - **Historic Non Financial Public Sector Information**: 2000 – 2012
  - **Quadrennial Budget Planning**: 2012 – 2015
  - **Macroeconomic Indicators**: 2006 – 2013

- **Public Companies**: Not Available
CONCLUSIONS

Public financial administration has improved in certain aspects

**Budget**
- Budgetary classifier related to chart of accounts
- Budget by results
- Budget programming and formulation linked to the goals of the development plan.

**Treasury**
- Single National Treasury Current Account
- Reduction of NT collection periods
- Direct payments to beneficiaries system through SPI

**Government Accounting**
- Accrual based accounting
- Single Accounts System linked to budget
QUESTIONS

- Are there legal provisions to set public borrowing limit?
- Which components of public borrowing are considered in the Public Debt/GDP relationship?
- Are set borrowing limits respected?
- Who enforces this provision?
- Which institutions approves reforms to budgetary limits approved by the legislature and up to what amounts?
- Are there public sector consolidated financial statements available, is that information reliable and timely?
- Is financial information for citizens created online?
- Do governments keep stabilization and contingency funds?
- What are the source and destination of these funds?
- How are fiscal till short-term liquidity periods financed?