Experience of Developing and Implementing FMC in the context of EU Accession

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example of Croatia

1. Difficulties that we were facing

2. How we addressed them

3. Degree of success
1. Difficulties that we were facing

*In the beginings of FMC development in 2007…*

1. FMC was seen as something that is „add-on” to the existing system of management in public sector

2. There was no clear links between FMC developments and budget system developments

3. Detailed analysis of current state of FMC were not conducted and therefore it was not easy to determine the priorities and concrete measures for the former situation
1. Difficulties that we were facing

*In the beginings of FMC development in 2007*....

4. FMC in the „legal provisions” had all precondition, but practical implementation had difficulties

5. Practical implementation of FMC at the beginings was focused on the processess

   *(description of processess, defining the objectives of the processess, identifying risk in the processess.... it came that FMC is preparation of the book of processes)*

6. The whole picture of FMC development was not clear enough, as same as the meaning of „value for money” and „managerial accountability” in practice
How we addressed difficulties

• It was recognised that FMC developments require developments of budget system

  from input based budgeting to output based budgeting

• Budget reforms started 2008 and created precondition for FMC development

  Strategy for improvement and modernization of processes in State Treasury (2007 - 2011)
  new Budget Act (2008)

• FMC development from 2009 has been completely putted on the support of budget reforms

  Strategy for PIFC (2009 – 2011)
  Fiscal Responsibility Act 2010
How we addressed difficulties

Integration of FMC tools and technics into budget system

1. Strategic planning (mission, vision, objectives) introduced into budget cycle
   (ministries and counties obliged to prepare strategic plans, to link strategic objectives with budget resources via programmes, strategic plans of the ministries and counties include second level budget users from their competence)

2. Objectives and performance indicators introduced into programme budgeting

3. Risk management introduced into strategic planning and annual planning of activities
How we addressed difficulties

Integration of FMC tools and technics into budget system

4. Decision of the ministers/mayors about responsibilities of managers for achieving objectives and budget resources
   (mechanizam for practical implementation of managerial accountability
   managers – assistant ministers, head of sector are responsible to the minister for achieving strategic objectives and managing of budget resources)

5. Internal procedures for managing liabilities, revenues, assets management

6. Selfassessment questionnaire about functioning FMC in the planning of budget, executing of budget, accounting, procurement, reporting - basis for Fiscal Responsibility Statement that ministers/county prefects/mayors/ is signing
How we addressed difficulties

Integration of FMC tools and technics into budget system

7. Plan for FMC development that budget users prepare every year consist of:
   - measures oriented to solve identified weakness through self-assessment questionnaires, Statement of Fiscal Responsibility, SAO findings, Internal Audit Findings
   - measures for further development

8. The first level budget users (ministries, counties, cities) are obliged to coordinate the activities for FMC with the second level budget users (preparation of strategic plans, consolidation of budget, consolidation of financial reports, risk management...., monitor the level of FMC developments, weaknesses, measures taken for improvements etc.)
How we addressed difficulties

All the previous mentioned activities were needed to show that FMC is not „add-on” to the existing system of management, rather then existing system of management should be improved by integration of FMC tools and technics into them

Budget reforms were needed to create precondition for FMC developments through all of its components

Developments in budgetary system helped us to easier perceive the overall picture for FMC development ....
Development in budgetary system and FMC introduced a systematic approach to management

Up to the organization

Strategic plan

How do we achieve it?

Implementation of planning documents, programs, projects

Working procedures

Mission
Vision
General Objectives
Special objectives

Business Processes

Functional activities (finances, human resources, procurement, IT, assets)

Programs
Projects
Plans
elements from the previous slide should be placed in context of organizational structure at budget users

(who does what? what powers does s/he have? Whom does s/he report to? How successful s/he is in executing the assigned tasks?...)
How we addressed difficulties

FMC can not be successfully implemented just through guidelines, instructions only coming from the CHU!

It must be integrated also into legislation/guidelines/instructions that are coming from other actors of key reforms in public sector (in case of Croatia - State Treasury, Ministry of Administration, Ministry of Regional Development and EU funds)

This is the way how we are changing preconception of FMC as something that is „add-on” instead of integrative part of management function

*for example: we are developing risk management as integrative part of planning and decision making process*
How we addressed difficulties

example: Risk management implementation

<table>
<thead>
<tr>
<th>Year</th>
<th>Actor</th>
<th>Instructions for risk management implementation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>CHU</td>
<td>Guidelines for risk management process</td>
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</table>
| 2011 | State Treasury and CHU | Instructions for producing of strategic plans
embeded the part related to risk management |
| 2011 | Ministry of Administration And CHU | Decree on the principles for the internal organization of state administration
embeded the part related to risk identification in annual work plans for the organizational units |
| 2012 | CHU   | Instructions for producing the risk management strategy |

CHU is promoting risk management developments, giving overview of direction of development, exapling the crucial steps that should be taken, organising seminars and workshops for managers, monitoring risk management developments

Cooperation with the State Treasury and Ministry of Administration helped us to integrate risk management process into day-to-day activities where this process belong – planning and decision making
How we addressed difficulties

It is important that CHU plays a very active coordinative role and to harmonise development of FMC with other areas such as budget system and public reforms.

**CHU in Croatia developed active cooperation with:**

- State Treasury
- Ministry of Administration
- Ministry of Regional Development and EU funds and other institutions involved in EU funds management
- State Audit Office
- Budget users (state and local level)
- PIFC council

Cooperation is accomplished through: regular meetings, involvement in the preparation of legal acts, organisation of common trainings etc.

We used support of DG Budget, SIGMA, projects – recommendations of EC, SIGMA reports, progress reports
Government of Croatia
Pifo Council
State Audit Office

Central Harmonisation Unit

EU stand. and best practices
European Commission
International projects
CRO institutions involved in EU funds management

State Treasury
Ministry of Public Administration
Ministry of Regional Development and EU Funds

reform holders

Central level ministries, state offices, extra-budgetary users...
2nd level agencies, institutes, centres
Majority government-owned companies

Local level counties cities, municipalities
2nd level schools, kindergartens, health institutions...
Majority government-owned companies

Public administration reform
budget reforms
alignment with the best EU practices
support
uniform approach
system development coordination with budget users
local level reforms
3. Degree of success

✓ FMC is integrated into the budget system

✓ FMC is incorporated into public reforms and anticorruption programmes

✓ we have a firm framework for FMC development (legal basis, rulebooks, manuals, guidelines….)

✓ FMC tools and technics implemented into practice
  (improved strategic planning, programme budgeting, risk management, developed internal procedures, reporting system, self-assessment, questionnaires and strengthened the links between first and second level budget users…..)
Challenges in front of us…

✓ FMC requires continuous development

✓ *FMC tools and technics require managers in public sector who will know how to use these tools and who will play active role in FMC implementation*

✓ *well educated managers in public sector are crucial precondition for successful implementation of FMC*

✓ *managers need to understand „the substance of the FMC” rather then „a form of its implementation”*

✓ we have to improve the quality of strategic planning, programme budgeting, risk management, further development of control mechanizam for acheiving better efficiency and effectiveness in managing of budget resources
Instead of conclusion

01.07.2013. - Croatia is becoming member state of EU

EU funds allocated to Croatia 11,5 bilion EUR !!!!
(for period 2014-2020)

We have opportunity to use that money for our economy, infrastructure, society, agriculture, building roads, railways, investing in tourism......

To use that opportunity we need sound FMC in practice
Instead of conclusion

We have to know what are our objectives, priorities

**strategic thinking**

We have to be aware of our risks, possible problems that can come

**risk management**

We need proper controls to prevent that risk happen and to minimize impacts

**controls/procedures**

We need regular assessing of the controls, in order to avoid problems on time

**internal audit**

That is why is we are putting lots of efforts in developing these new elements that FMC brought in the public sector management!

We see that as a common task of CHU and our partners!
• Thank you for your attention!