# RMI Expenditure Reforms

*& the Bigger Reform Picture*

## Session 1 Presentation 1a

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# Outline

- Background
- Expenditure Reform Options
- Recent Developments
- The Bigger Reform Picture
- Some Progress Made
- Assistance Needed
- Conclusion

# Background

- Tightening fiscal position, 2008 emergency, other factors highlight need for fiscal rebalancing
- Cabinet formed Comprehensive Adjustment Program (CAP) Advisory Group to identify options
- Advisory Group initial focus on expenditure side adjustment, to complement work of tax/revenue advisory group (established mid 2008)
- Focus on General Fund only
- CAP initial report late 2009

# Expenditure Reform Options

1. The Civil Service
2. Nitijela Compensation
3. Housing Allowances
4. Electricity Allowances
5. Leased and Rental Housing
6. Utility Bills
7. Communications
8. Vehicles
9. Fuel
10. Travel and Per Diem
11. Professional Services
12. Grants and Subsidies
13. Organization/Facilities Consolidation

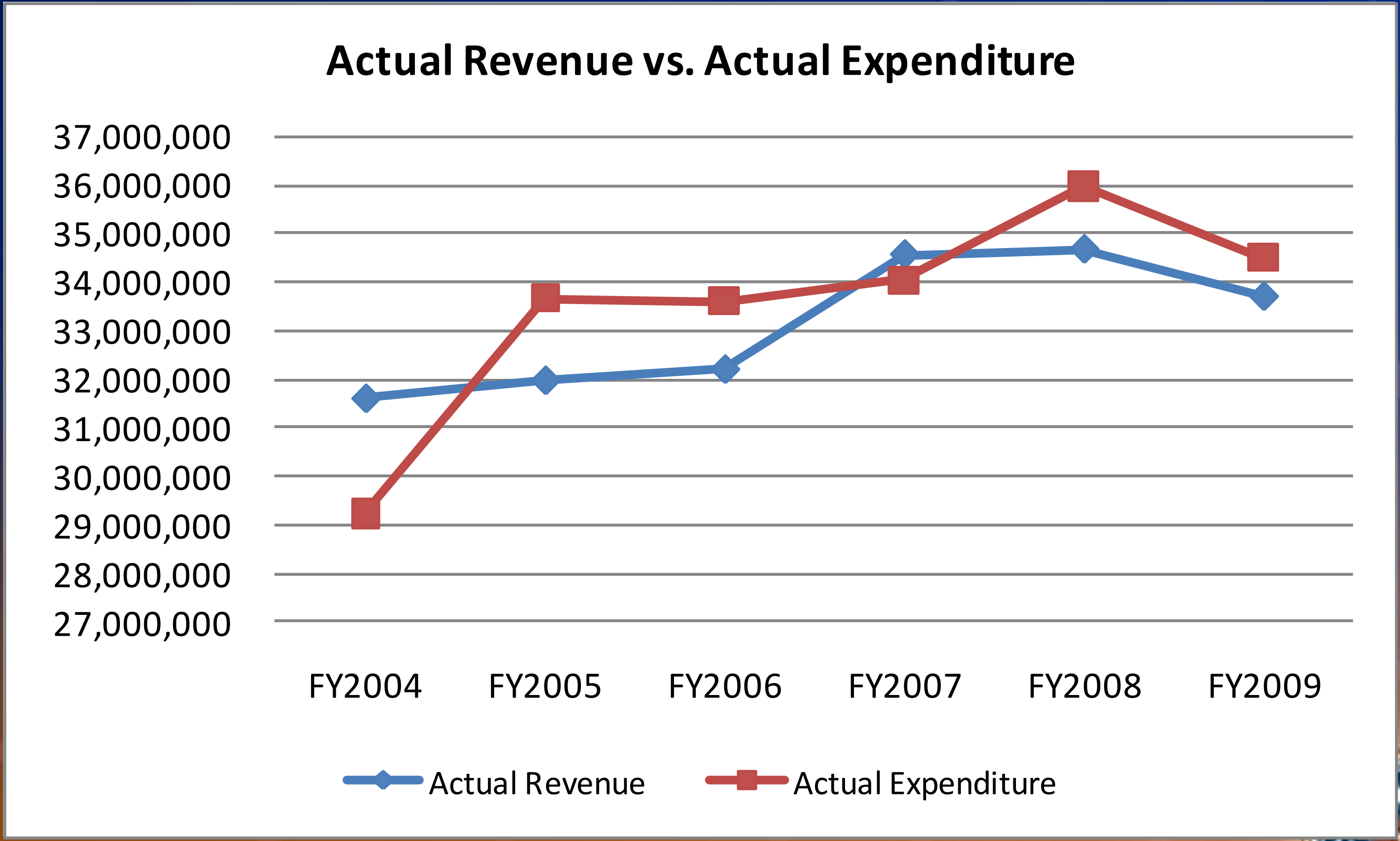
# Recent Developments

- Broad-based expenditure compression has been immediate policy priority
- FY2010 budget bill: 5% across-the-board appropriation cuts
- FY2011 budget bill: 5.5% further cut imposed
- Closer monitoring, tighter control in key areas
- FY09 reductions in travel, rentals, and fuel
- FY09 4% reduction in total General Fund expenditure
- More targeted expenditure reforms now needed

# Recent Developments

- Some General Fund expenditures difficult to contain:
  - loan servicing obligations
  - utility costs
  - need for critical professional services
  - wages and salaries
- Changes in some expenditure areas will first require background analysis and technical assistance:
  - civil service reform (productivity, size of wage bill)
  - SOE subsidies
  - landowner right-of-way easement allowance

# Recent Developments



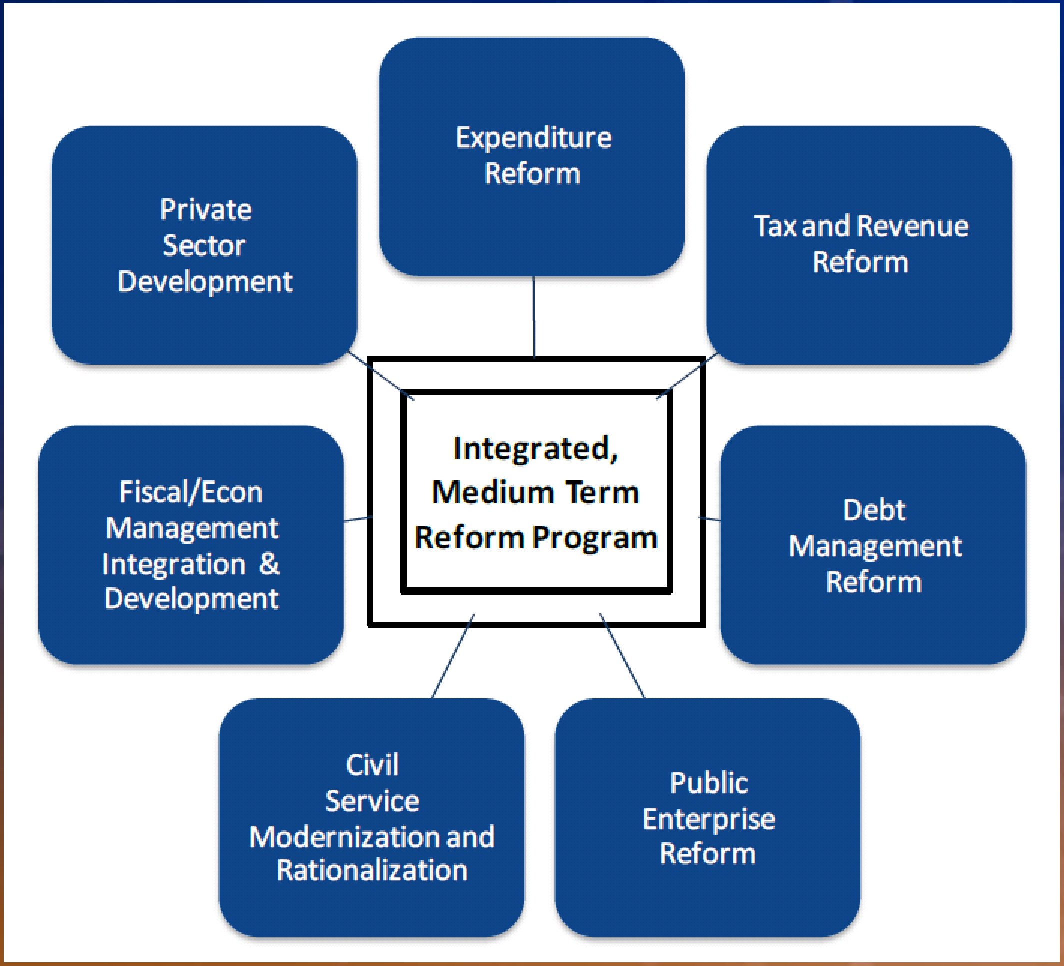
# The Bigger Reform Picture

- While CAP's initial focus on expenditure reform…
- Expenditure reform just one component of what the CAP Advisory Group recommends should be a broader reform program or framework
- Advisory Group recommends an integrated, medium-term reform approach, addressing the most critical areas in need of reform revisiting
- Advisory Group recommends that three over-arching goals of an integrated reform program should be, to:

# The Bigger Reform Picture

1. Stabilize the fiscal position in the short term, ensure longer term structural stability and sustainability of public finances;
2. Strengthen public sector management capacity, particularly in the core areas of civil service, fiscal and economic management; and
3. Continue to improve the environment for private sector development to encourage broader based economic growth.

# The Bigger Reform Picture



# Some Progress Has Been Made

- Much work to do, but some progress has been made:
  - On the expenditure side:
    - Broad expenditure compression imposed through FY10 and FY11 appropriations
    - Targeted cuts/control in some key areas
  - On the revenue side:
    - New Tax and Revenue Reform and Modernization Plan developed, ready to move forward
    - Continued efforts to strengthen collections through audits and other means

# Some Progress Has Been Made

- In the SOE Sector:
  - MEC Comprehensive Recovery Plan in full swing (as part of broader Energy Sector and SOE reforms)
  - Financial review of next-priority (high-risk) SOEs and options for reform underway
  - Mid-2010 Cabinet adoption of SOE ‘good practices’ principles, including call for new SOE Act in 2011
- In the Civil Service:
  - Initial ‘Limited’ Personnel Audit in three largest ministries conducted in late 2009

# Some Progress Has Been Made

- Private Sector Development:
  - Passage of Secured Transactions Act and establishment of online Secured Transactions Registry
  - Sector-specific reform efforts ongoing (e.g. fisheries, tourism)
- Debt Management:
  - Debt arrears cleared, payments now back on track
  - Debt servicing ‘sinking fund’ established to service new loan (and possible expansion of its scope)

# Assistance Needed

- Technical assistance and possible financing required in all of the major reform areas identified
- Help needed even in areas where reforms already underway (e.g. MEC and Energy)
- On expenditure side, technical assistance can help accelerate civil service (and wage bill) reforms, landowner easement allowance reform, SOE reforms (subsidies)
- Detailed reform cooperation discussions can take place during bilateral sessions (Day 2)

# Conclusion

- CAP initially focused on expenditure-side reforms
- But Advisory Group recommends a ‘big picture’ reform approach be taken
- CAP ‘framework’ identifies the major areas where reforms should be considered
- Advisory Group recommends that this framework be used to guide RMI and development partner reform cooperation in the coming years
- Broad-based expenditure compression helped, but more targeted expenditure cuts now needed

# Conclusion

- Some reform progress has been made in some areas
- But much more is needed and can be done within the 2011 and 2012 time frame
- RMI should continue to refine the reform agenda if it is to ensure fiscal and economic stability and encourage economic growth
- Development partner support can help accelerate progress where it has been made, or help RMI make progress in areas of slow (or no) reform thus far
- Kommool tata