

Recent Public Financial Management Publications and other Resources

In this section we review some recent publications which may be of interest to readers of the Journal. We would be pleased to receive reviews and suggestions of other resources which we should refer to in future issues.

CABRI, AFROSAI, ATAF, (2010) *A Status Report on Good Financial Governance in Africa*, CABRI, Pretoria

<http://www.cabri-sbo.org/en/programmes/goodfinancialgovernance>

This report was produced for African Ministers of Finance and is the outcome of a joint research project undertaken by the African Organisation of Supreme Audit Institutions (AFROSAI), the African Tax Administration Forum (ATAF) and the Collaborative Africa Budget Reform Initiative (CABRI) respectively the professional networks of supreme audit institutions, tax administrators and senior budget and planning officials in Africa. The report will inform the production of a Declaration on Good Financial Governance, to be considered by African finance ministers for adoption in 2011. Further background material on this project and the full status report are available from: www.cabri-sbo.org/en/programmes/goodfinancialgovernance

The Status Report is intended to underpin a Declaration on Good Financial Governance for consideration and adoption by African ministers of finance later in 2011. The report recognized that successful financial governance reforms require the full commitment of Africa's leaders and bureaucracies to take charge of reforms.

Good public financial governance is defined as “the legitimate use of power and authority in the management of a country's financial resources with integrity, transparency, accountability, equity and a result orientation to promote development”.

Good financial governance also requires building effective systems (including traditions and institutions) to mobilise resources and manage financial liabilities and assets, as well as building effective budgeting, budget execution, accounting, reporting and audit systems and robust oversight institutions.

The report recognizes that, over the last two decades, many countries have:

successfully reformed their legal frameworks for financial governance, as well as institutions and processes across the public resource management cycle. Tax administration institutions have been reconstituted, fiscal framework processes developed, budget preparation institutions profoundly recast, budget classification dimensions added, systematic performance information collection and procurement laws introduced and audit institutions strengthened. The technical gains from these shifts are evident: there are pockets of the public resource management cycle that are performing better on average, for example tax payer management, fiscal forecasting and budget credibility, central budget planning and in some countries sector planning practices,

internal financial reporting and the timely submission of audit reports to parliaments.

To address the remaining challenges, the report proposes the following core principles for financial governance reforms in Africa.

- *Transparency*: Progress towards good financial governance will be limited unless African governments in general effect significant improvements in fiscal and budget transparency. The study has confirmed the need for Africa's governments to commit themselves unequivocally to being open about decisions in the public resource management cycle.
- *Accountability*: A commitment by African political leaders and senior public servants to restoring and building the functionality of internal and constitutional accountability systems is necessary.
- *Institution building*: African governments need to focus on building transparent, accountable, and effective institutions in the public resource management cycle. This means focusing on the progressive formalisation of institutions, eliminating arbitrary privilege, enforcing the intelligent application of laws and procedures and holding actors accountable for informal practices.
- *Balancing reforms and capacity growth*: Poor human resource and system capacity can derail any reform initiative. When overly complex institutions are attempted in contexts where professional capacity is scarce, countries run the risk of being worse off because of the reforms. Capacity issues need to be taken into account in reform choices at the same time as African governments need to develop measures to train, recruit and retain the necessary skills for financial governance.
- *Autonomy in reform choices*: This means that African countries must decide for themselves what their reform priorities are. Ministers of finance have an important leadership role in this regard, to manage donor demands and proposals for reforms.

So there is much still left for African governments to achieve, but the donor community has yet to live up to its declarations on country led development. The report notes that:

Over the last decades African budgeting systems had to accommodate Public Investment Programmes (PIPs), Poverty Reduction Strategy Papers (PRSPs), arrangements for the flow of HIPC funds and the Millennium Development Goals (MDGs), as well as various ways of delivering aid resources, such as budget support, sector wide approaches and pooled funding arrangements. Furthermore it is difficult to determine whether governments themselves would have embarked on various budget reform approaches, such as Medium Term Expenditure Frameworks (MTEFs), programme budgeting or the introduction of Integrated Financial Management Systems (IFMSs) in the absence of donor pressure to do so (page 27).

Global Integrity (2011) *Information Access in Health and Education Service Delivery: Pilot Project Report on Macedonia*, Washington DC: Global Integrity

<http://commons.globalintegrity.org/2011/01/new-data-information-access-in-health.html>

Information transparency is theorized to be one of the key pillars of good governance in health and education service delivery. Transparency is assumed to empower citizens to demand better service delivery and hold providers to account. To consider this claim in greater detail, Global Integrity embarked on a pilot study of Macedonia in collaboration with a local partner organization by identifying and carrying out fieldwork on four key dimensions of information access in the health and education sectors. These are:

- Basic Issues around the Existence and Usability of Information
- Redress Mechanisms that Enforce Accountability
- Availability of Fiscal/Budget Information with Which to Conduct Citizen Audits of Local Facilities
- Citizen Participation in Local Decision-Making as Influenced by Availability of Information

Institute of Development Studies (IDS) (2010) *An Upside Down View of Governance*, Brighton: IDS Centre for the Future State

www2.ids.ac.uk/gdr/cfs/pdfs/AnUpside-downViewofGovernance.pdf

The report is based on the idea that development practitioners similarly need to close off their mental models about governance and development that are rooted in OECD experience. Instead of prioritizing reform of formal institutions, they should look at the structures, relationships, interests and incentives that underpin them.

This paper draws together findings from a five-year research programme by the Centre for the Future State. It explores in an open-minded way how elements of public authority are being created through complex processes of bargaining between state and society actors, and the interaction of formal and informal institutions.

Informal institutions and personalized relationships are usually seen as governance problems, but the research suggests that they can also be part of the solution.

The research suggests a list of questions that seem particularly salient in understanding causes of bad governance and identifying ways of supporting more constructive bargaining between public and private actors. These are:

- What is shaping the interests of political elites?

- What is shaping relations between politicians and investors, and might they have common interests in supporting productive investment?
- What might stimulate and sustain collective action by social groups to demand better services?
- What informal local institutions are at work, and how are they shaping development outcomes?
- Where does government get its revenue from, and how is that shaping its relationships with citizens?

OECD (2011) Asset Declarations for Public Officials - a tool to prevent corruption, PARIS: OECD

http://www.oecdbookshop.org/oecd/display.asp?k=5KM7L78LLHR3&lang=en&sf1=VersionCode&st1=C,%20P&sf2=AvailabilityCode&st2=50,%2055&ds=A+para%EEtre&sort=sort_date/d&m=3&dc=54

Many countries around the world have introduced systems of asset declarations for public officials in order to prevent corruption. These systems vary greatly from country to country. The impact of such systems on the actual level of corruption is not well known.

This study provides a systematic analysis of the existing practice in the area of asset declarations in Eastern Europe and Central Asia, and in some OECD member states in Western Europe and North America. It examines the key elements of asset declaration systems, such as policy objectives, legal frameworks and the institutional arrangements; the categories of public officials who are required to submit declarations, and types of required information; procedures for verifying declared information, sanctions for violations, and public disclosure.

The study presents policy recommendations on the key elements of asset declaration systems. These recommendations will be useful for national governments and international organizations engaged in development, reform and assessment of asset declarations systems on a country level.

Christian Aid and SOMO (2011) Tax Justice Advocacy: a toolkit for civil society, London: Christian Aid

<http://www.christianaid.org.uk/ActNow/trace-the-tax/toolkit.aspx>

Tax may appear technical, but it is an issue too critical to bypass. Fair and effective tax collection is essential for raising the revenue to deliver services that citizens need. It is a powerful tool for redistributing wealth within society to address poverty and inequality.

The purpose of this toolkit is to strengthen the capacity of civil society organizations to:

- understand and analyze the issues surrounding tax in a given country
- develop advocacy strategies for tax justice
- do tax research
- plan and undertake different advocacy activities (for example lobbying, campaigning and media work)
- learn from the experience of others already doing tax advocacy.

Peterson, Stephen (2010) 'Reforming Public Financial Management in Africa,' Faculty Research Working Paper Series, Harvard Kennedy School

<http://web.hks.harvard.edu/publications/citation.aspx?PubId=7510>

There are many technical and management lessons from Ethiopia, but it also provides a framework for understanding public financial management reform. Peterson argues that the key lesson is the need to ignore the summits of public financial management, but to establish firm plateaus in key areas of reform.

In recent years, public financial management summits in Africa have included several techniques that governments and their technical advisors have slipped on—Medium Term Expenditure Frameworks, performance/programme budgeting, IFMIS, accrual accounting, and business process reengineering to name just a few. The summit strategy and the techniques that underpin it are inappropriate for most, if not all, African governments.

Ownership is the defining variable of financial reform and it connotes property—physical and intellectual. To capture the qualities of property and ownership it is useful to think about a PFM system as a plateau. A well-established PFM plateau has an array of the basic *systems* of financial control (budgets, accounts, audit) that are adequately *executed* with government resources (funding, staffing, organizations, institutions). Only after a government has a financial plateau that is stable and sustainable, should it consider building a higher (more sophisticated) plateau. Plateaus not summits are what Africa needs.

ACP-EU Water Partnerships

<http://www.acp-eu-waterpartnerships.org/>

This website helps water utilities, local authorities and civil society organizations use EU aid to build not-for-profit water partnerships for African, Caribbean and Pacific countries.

The EU has earmarked €40 million of its Water Facility to support water partnership projects which are intended to: "develop capacity in the ACP water & sanitation sector, leading to better

water and sanitation governance and management, and to the sustainable development and maintenance of infrastructure"

This website has been created by PSIRU at the University of Greenwich to assist water and sanitation utilities in EU and African, Caribbean and Pacific (ACP) countries in forming partnerships to support the development of water services in ACP countries.

Accruals accounting in the public sector: a road not always taken

Hyndman, N. and Connolly, C. (2011), 'Accruals accounting in the public sector: a road not always taken', *Management Accounting Research*, Special Issue: Accounting and the State, Vol. 22, No. 1, pp. 36-45.

www.sciencedirect.com/science/journal/10445005

"The move from cash to accruals accounting... is viewed as an aspect of an ongoing New Public Management agenda designed to achieve a more business-like and performance-focused public sector. Proponents argue that accruals accounting provides more appropriate information for decision makers and ultimately leads to a more efficient and effective public sector. The transition from cash to accruals accounting for UK central government departments was announced in the early 1990s and was embedded within approximately ten years. At that time there were clear indications that analogous changes, following a similar timeline, would occur in the Republic of Ireland. In reality, the changes were significantly less extensive. Utilizing document analysis and interviews with key actors, this paper considers why a functioning accruals system was established in the UK whereas in the Republic of Ireland the change to accruals accounting was a 'road not taken'" (page 36).

Many countries, especially in Eastern Europe, but also middle-income countries across the world are still being encouraged to adopt accrual accounting. This is despite the fact that "an increasing body of literature has criticized the adoption of accruals accounting by public sector organizations on both theoretical and practical grounds" (page 37). Those countries which are still considering a move to accrual accounting should carefully consider the evidence of the few countries that have actually made this move.

The authors of this paper have reviewed the experience of the UK central government which moved to accrual accounting almost a decade ago and the Republic of Ireland which decided not to. Being based in Northern Ireland (a region of the UK) they had ease of access to reform participants in both countries and so have a unique perspective on the actual costs and benefits of this reform.

The paper concludes by saying that in the UK with accruals, "the accounting information is complex, few managers understand it and there is limited conviction that its provision has

resulted in improved decision making. Moreover, the introduction of RAB [accrual accounting] has led to significant cost increases” (page 40). As a result, some years after it went live in the UK, “all interviewees questioned the value of the changes to the accounting system” (page 40) and they also, “all acknowledged that no costing of the system change had occurred, [but that] the cost was considered to be substantial” (page 40). Based on this experience, public officials in the neighboring Republic of Ireland have “considered and discarded” (page 44) a major move to accrual accounting. They have contented themselves with “more modest accruals adjustments” (page 44) to the annual financial statements.