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.

1. A Guide to Transparency in Public Finances: Looking Beyond the Budget - International Budget Partnership

2. Progress in Improving Financial Management in Government – NAO (Britain)

3. Independent Evaluation of the PEFA Program – Andrew Lawson and Alta Folscher

4. A Day in the Life of a Ugandan Tax Payer

5. Tax and Development - Tax Justice Network-Africa

6. Africa's Odious Debts: How Foreign Loans and Capital Flight Bled a Continent - Léonce Ndikumana and James K. Boyce

7. Inequality and Social Justice Roundtable Consultation

8. Chart of Accounts: A Critical Element of the Public Financial Management Framework - Julie Cooper and Sailendra Pattanayak

9. Exiting from the Crisis Towards a Model of More Equitable and Sustainable Growth - Edited by David Coats

10. La Dette ou la Vie – Sous la Direction de Damien Millet et Eric Toussaint

1. A Guide to Transparency in Public Finances: Looking Beyond the Budget - International Budget Partnership

http://internationalbudget.org/2011/10/ibp%92s-open-budget-initiative-shines-light-on-off-budget-activities-in-5-new-transparency-guides/ or http://tinyurl.com/5vz89l3

In a series of five brief guides to a number of issues or activities that are often kept "off-budget" – the *Open Budget Initiative* examines areas of public finance that are less well understood and especially vulnerable to efforts to shield them from public scrutiny.

- Extra-budgetary Funds
- Tax Expenditures
- Quasi-fiscal Activities
- Contingent Liabilities
- Future Liabilities

For each of these areas, the briefs provide answers to the following questions:

a) What are they, and why are they of interest?

b) What information about them should the government include in budget documents and other reports?

c) How can civil society groups use such information to achieve their research and advocacy goals?

d) Where can further information, country examples, and "model reports" be found?

2. National Audit Office (2011) Progress in Improving Financial Management in Government, NAO, London

www.nao.org.uk/Financial-management-in-government-2011 or http://tinyurl.com/ijgfm2011a

This report from the British National Audit Office is a follow-up of reports issued in 2003 and 2008 which covered the introduction of accrual accounting (termed resource accounting in the UK). It was issued around a decade after accrual based financial statements were first produced for the UK central government.

In the report issued in 2003 on the Government's financial management reforms, the UK National Audit Office's conclusion on the move to accrual accounting (first announced ten years earlier) was that:

> *In most cases it is too soon to identify any discernible benefits from better resource management in terms of contributing to improved public services from for example, enhanced efficiency* (Page 31).

The National Audit Office published a follow-up report five years later, in February 2008. On the actual benefits of moving to accrual accounting this report concluded that:

> *Departments have made significant progress in using accruals-based accounting and budgeting systems since our previous study. This has allowed departments to better understand how they are using their financial resources, for example by offering more detailed information to manage their assets and liabilities. Departments have used this information to help identify under-utilised assets and to dispose of those no longer required.* (paragraph 9, page 7)

So the only specific benefit of the move to accrual accounting appeared to be that ministries (called departments in the UK) were able to identify and sell assets (mainly buildings) which were no longer needed!

The 2011 report recognises that accrual based accounting is now well developed, but that senior public sector managers do not appear to be using the information. So in the summary it is stated that “active management of cash flows and the balance sheet remains generally inadequate across government” (page 5).

The summary also makes the following points:

> *It remains unusual for departments to have good information on the unit costs of outputs, measures of productivity or the value of outcomes, especially where outcomes cross departmental boundaries. (page 8)*
>
> *Departments are generally weak at monitoring their overall financial position, including their balance sheets. (page 8)*
>
> *The monitoring of balance sheet information is particularly weak. (page 10).*

The detailed report goes on to explain that:

> *Our financial audit work confirms that the general standard of financial reporting has improved. There is also evidence that departments are gathering information on the working capital aspects of their balance sheets in a more regular and automated way, though they are not generally reporting this information to management or using it to manage the organisation. (page 13)*
>
> *Both non-executive directors and finance directors told us that, in their view, their Boards did not handle or effectively challenge the financial information presented to them as well as they might. One reason is the complexity of the Government accounting framework. (page 17)*
>
> *In practice, however, the activity of producing annual resource accounts remains largely divorced from financial management within departments. Departments rarely prepare*

interim resource accounts, and essentially manage their finances based on cash, adjusted for working capital movements. Full resource-based information is created at the year end for Parliamentary reporting purposes. Resource information is therefore generally not integrated into, and does not drive, management of departments' business. (page 18)

Thus the authoritative objective view of the National Audit Office is that after a decade of accrual accounting the approach is well developed, but the additional information made available is *not* being used by senior managers and the accrual based accounts (resource accounts) are only produced at the year end as a legal obligation.

3. Independent Evaluation of the PEFA Program – Andrew Lawson and Alta Folscher

http://siteresources.worldbank.org/PEFA/Resources/PEFAEvaluationRevisedFinalReportJuly2011.pdf or http://tinyurl.com/ijgfm2011b

The PEFA Programme was launched in December 2001 and is now in its third phase, covering the period up to December 2011. The overall evaluation of the performance of the PEFA programme is a resoundingly positive one. Across the world 90 percent of low income, 75 percent of middle income and 8 percent of high income countries had been assessed, were in the process of assessment or were going to be assessed by October 2010.

The PEFA assessment framework is now used by all major development agencies working with PFM systems, either as a tool to support the design and monitoring of PFM reforms or as a key element of fiduciary risk assessment processes. It has been adopted by many governments to inform the design of PFM reforms, to help monitor the progress of PFM reforms over time and to assess the quality of PFM at sub-national levels. The PEFA assessment framework has thus been established as a viable and useful brand.

However, the framework remains vulnerable until a more systematic method to guarantee quality can be established. A second point of concern is that until recently the PEFA Programme has had less impact on its global objectives than had been expected. There was good progress in creating a common pool of information on PFM systems but not in respect of enhanced country ownership of reforms, and improved alignment and coordination of donor support to PFM reform.

A third, but in the medium term less fundamental, risk relates to the need to update the overall PEFA framework and methodology. It is important to ensure over time that all of the PEFA indicators remain relevant, useful and measureable.

4. A Day in the Life of a Ugandan Tax Payer

http://www.taxjusticeafrica.net/attachments/article/44/tax_pay_small.pdf
or http://tinyurl.com/ijgfm2011c

The received wisdom is that the tax base of many developing countries needs to be expanding by taxing the informal sector. However, this cartoon produced in Uganda shows the wider variety of taxes that all Ugandans pay. The example given is of a salaried official, but apart from this salary, the cartoon clearly shows how much tax is already paid by members of the informal economy:

5. Tax and Development

www.taxjusticeafrica.net/index.php?option=com_content&view=category&layout=blog&id=14&Itemid=19&lang=En or http://tinyurl.com/ijgfm2011d

Revenues generated by a fair and efficient tax system have the potential to be a reliable source of financing which governments can use to reduce poverty and develop our countries in a sustainable manner. It has not been until very recently that this important link between taxation and development has been made by policy makers, development partners, and CSOs. Tax Justice Network-Africa continues to draw attention to this relationship and support its members to integrate it in their areas of work. Details of there key publications are found at the website above.

6. Africa's Odious Debts: How Foreign Loans and Capital Flight Bled a Continent- Léonce Ndikumana and James K. Boyce (Zed 2011)

http://zedbooks.co.uk/paperback/africas-odious-debts or http://tinyurl.com/ijgfm2011e

Some people wonder why Sub-Saharan Africa has hardly developed despite significant donor programmes over the last few years. This book provides one of the answers.

Boyce and Ndikumana reveal the shocking fact that, contrary to the popular perception of Africa being a drain on the financial resources of the West, the continent is actually a net creditor to the rest of the world. The extent of capital flight from sub-Saharan Africa is remarkable: more than $700 billion in the past four decades.

In contrast, whereas the debts are owed by the African people through their governments, the associated assets are strictly private, held by wealthy and politically well-connected individuals. Connecting these dots, the authors argue forcefully for selective repudiation of Africa's 'odious debts': external debts incurred by kleptocratic regimes without the consent of their people, from which the people derived no economic benefit. Going further, they demonstrate the devastating effect on the health and development of African nations due to this 'disappearing' wealth.

A paper which includes the authors' main estimates of capital flight from Africa is available from:
http://www.peri.umass.edu/fileadmin/pdf/working_papers/working_papers_151-200/WP166.pdf or http://tinyurl.com/ijgfm2011f

The other key reason for the general lack of economic growth in Sub-Saharan Africa may be the brain drain. An estimated 300,000 African professionals live and work outside the continent. Since 1990, Africa has lost some 20,000 professionals each year. About 30,000 Sub-Saharan Africans holding PhDs now live outside Africa. To fill the gap caused by this brain drain, Africa employs up to 150,000 expatriate professionals at a cost of $4 billion annually (http://sites.google.com/site/davidhshinn/Home/african-migration-and-the-brain-drain).

7. Inequality and Social Justice Roundtable Consultation

www.ids.ac.uk/idspublication/inequality-and-social-justice-roundtable-consultation
or http://tinyurl.com/ijgfm2011g

Amid growing concern within the development sector that inequality urgently needed to be placed at the heart of development agendas, IDS and the UN Millennium Achievement Fund joined forces once again to hold a high-level roundtable Consultation in London on the theme of rising inequalities. This is the report of that meeting.

One of the key recommendations coming out of the meeting was the need to:

> Advocate for balancing strong economic growth with an even stronger drive for equity. A new development narrative must show that a more equal distribution of income is supportive of, not antagonistic to, economic growth. Focusing on the poorest, hardest to reach communities is both the 'most effective way of making lasting progress and the right thing to do on grounds of cost-effectiveness. Providing services to the poorest constitutes the investments with the highest 'returns' in terms of averted morbidity and mortality.

In the medium term, the organisers intend to produce:

- a pamphlet aimed at policymaking audiences that puts forward the inequality agenda, and
- a web-based platform for hosting materials and discussing the inequality agenda.

Finally, they intend to build an informal network or coalition to prioritise reducing inequalities and enhancing social justice, and to take forward the recommendations set out in this report. To join this network contact Dolf at: d.telintelo@ids.ac.uk

8. Chart of Accounts: A Critical Element of the Public Financial Management Framework - Julie Cooper and Sailendra Pattanayak

http://blog-pfm.imf.org/files/tnm_2011-03_web-1.pdf or http://tinyurl.com/ijgfm2011h

The publication attempts to demystify the chart of accounts for government systems. We define the concept of chart of accounts and shed light on its role in the public financial management framework, including budget preparation, execution and reporting, and the key principles and factors that need to be taken into consideration in designing a chart of accounts for government. The publication also discusses the specific issues associated with budgetary and financial accounting in governments and their impact on the chart of accounts. The publication stresses that the chart of accounts, although it appears to be just concerned with classifying and recording financial transactions, is critical for effective budget management. The publication concludes by drawing some considerations on developing and implementing a chart of accounts and its relationship with a government financial management information system.

9. Exiting from the crisis: towards a model of more equitable and sustainable growth - Edited by David Coats

Despite another European agreement and holders of Greek debt receiving a haircut of 50%, prospects for the European and world economy look non too rosy, the British economy, for example, is expected to re-enter recession before the end of the year. So this book by European trade unions is a timely collection of alternatives to the dominant ideology of the last few decades of deregulation, privatisation and balanced budgets. Below we provide a few extracts, but the full volume is freely available from:
http://www.etui.org/Publications2/Books/Exiting-from-the-crisis-towards-a-model-of-more-equitable-and-sustainable-growth or http://tinyurl.com/ijgfm

The lessons of recent experience need to be learned and a new model of growth developed based on a more balanced relationship between government and the economy. Governments must ensure that banks return to their core task of allocating capital efficiently, and that corporations recognise their responsibilities to their customers, employees and the wider community. Governments must ensure that the growth process emerging from the crisis is both socially just and environmental sustainable.

To provide a forum for debate, TUAC, the European Trade Union Institute, the Global Union Research Network and the ITUC created a Task Force to define the parameters of a new growth model. This report is the initial result of the Task Force's work. The report consists of contributions by more than 30 authors from both industrialised and developing countries. The report has been edited by David Coats, Research Fellow at the Smith Institute, supported by John Evans, Andrew Watt and Frank Hoffer.

As the report's conclusion states, faith in unconstrained markets should have been undermined by the collapse of the banking sector and the ensuing global crash, but it now appears that policymakers are retreating to the comforting nostrums of economic orthodoxy. This would be a strategic error. Returning to policies that failed in the run-up to the crisis cannot be expected to return the global economy to growth following a very deep recession. (pages 17/18)

[This volume] *draws together the best thinking from across the world, with contributions from trade unions themselves and commentators sympathetic to the labour agenda. Far from being a restatement of entrenched trade union positions, this volume also seeks to generate fresh insights that are relevant to contemporary debates. The issues covered are wide-ranging – from* *monetary and fiscal policy, to income inequality, industrial policy, the role of public services, the regulation of financial markets, the importance of labour standards, the role of global institutions, and the transition to a sustainable growth model. The scope is ambitious, but the recommendations are designed to be practical. They start with the world as it is, not the world as we would wish it to be, and they are rooted in evidence, not the wishful thinking of which trade unions are so often wrongly accused.* (pages 20/21)

More than anything else, the objective of this volume is to offer a clear description of an alternative. The goals of the trade union movement remain the same: to give working people a voice in determining their futures; to guarantee sustainable, decent jobs for all those who wish to work; to ensure that developing nations can experience rising incomes and rising labour standards; to establish a growth model consistent with environmental responsibility; and to secure greater income equality as the best route to social cohesion. Nonetheless, simply to call for a return to the policies of the post-war boom period would be a catastrophic mistake. The world has changed and the trade union movement has changed with it. The arguments presented here are designed to show that both unions and other progressive voices linked to the labour movement have new, relevant and credible policies for the difficult period ahead. It is for others to judge whether we have succeeded. (page 24)

[W]*hile it would be absurd to suggest that a return toa stable growth path can take place with high budget deficits or rising debt-to-GDP ratios, there is a strong belief – shared by the contributors to this volume – that governments, running in fear from the bond markets (and the credit rating agencies) are cutting spending too far, too fast, putting the fragile recovery at risk. It is one thing to call for 'growth-friendly deficit reduction' and quite another for governments to cut public investment in science, research and higher education when the dominant knowledge economy narrative tells us that such things are indispensible in successful dynamic economies. Put crudely, growth-friendly deficit reduction can rapidly metamorphose into a conventional austerity programme.* (page 262)

10. La Dette ou la Vie – sous la direction de Damien Millet et Eric Toussaint (Debt or Life - edited by Damien Millet and Eric Toussaint)

www.cadtm.org/La-Dette-ou-la-Vie or http://tinyurl.com/ijgfm2011dette

En 2007-2008 éclate la crise la plus importante depuis celle de 1929. Les banques sont sauvées à coup de centaines de milliards de dollars et d'euros par les petits soldats du G20 aux ordres de la finance mondiale et les États financent ce sauvetage en appliquant au Nord l'équivalent des plans d'ajustement structurel de sinistre mémoire au Sud. Cet ouvrage analyse méticuleusement l'enchaînement des processus ayant submergé le Nord à cette occasion, des États-Unis à la Grèce, de l'Islande aux pays d'Europe de l'Est, du Japon à la zone euro, tout en examinant les conséquences pour le Sud.

Il y avait le premier monde, celui du bloc occidental sous la guerre froide ; le deuxième monde, celui du bloc soviétique ; le tiers-monde regroupant les peuples du Sud soumis aux diktats des deux autres mondes. Le deuxième monde s'est effondré au début des années 1990 avec la chute du Mur de Berlin. Aujourd'hui, avec la crise qui a éclaté aux États-Unis en 2007-2008, c'est le premier monde qui bascule. La face de la planète entière s'en trouve durablement changée. Il reste deux catégories principales : la poignée de ceux qui profitent de ce capitalisme inique, et la grande majorité qui le subit. Cet ouvrage veut expliquer ce changement fondamental et apporter des alternatives radicales pour s'attaquer à cette logique dont nous ne voulons pas.

Réaliser un audit de la dette publique afin d'annuler la partie illégitime – Stopper les plans d'austérité, ils sont injustes et approfondissent la crise - Instaurer une véritable justice fiscale européenne et une juste redistribution de la richesse. Interdire les transactions avec les paradis judiciaires et fiscaux. Lutter contre la fraude fiscale massive des grandes entreprises et des plus riches – Remettre au pas les marchés financiers, notamment par la création d'un registre des propriétaires de titres, par l'interdiction des ventes à découvert et de la spéculation dans une série de domaines. Créer une agence publique européenne de notation – Transférer sous contrôle citoyen les banques au secteur public – Socialiser les nombreuses entreprises et services privatisés depuis 1980 – Réduire radicalement le temps de travail pour créer des emplois tout en augmentant les salaires et les retraites – Refonder démocratiquement une autre Union européenne basée sur la solidarité.

In 2007-2008, the largest economic crisis since 1929 hit. Following the orders of global finance, the tin soldiers of the G20 saved their banks with multi-billion dollar rescue plans. Governments financed these rescues by applying to the North the very same structural adjustment strategies that had led to such disastrous consequences in the South. This book provides a meticulous study of how one thing led to another in the North –from the United States to Greece, Iceland, Eastern Europe, on to Japan and back to the Euro zone – and what repercussions this had in the South.

During the Cold War, the first world was the Western bloc; the second world was the Soviet bloc; the third world was made up of the peoples of the South, and was subjected to the dictates of the two other worlds. The second world collapsed in the early 1990's after the fall of the Berlin wall. Now, with the 2007-2008 crisis, the first world is reeling, and the face of the world has changed for good as a result of it. There remains two main categories: a handful of people who benefit from this unjust form of capitalism and the overwhelming majority who are victims of it.

This book seeks to explain this major change and offers radical alternatives to the current paradigm.

Price: €20, 384 pages, ISBN CADTM : 978-2-930443-16-4 It can be ordered from CADTM (www.cadtm.org) or through ADEN - www.aden.be/index.php?aden=la-dette-ou-la-vie