Foreword

In its *World Economic Outlook* (September 2011), the IMF stated that:

The global economy is in a dangerous new phase. Global activity has weakened and become more uneven, confidence has fallen sharply recently, and downside risks are growing. Against a backdrop of unresolved structural fragilities, a barrage of shocks hit the international economy this year.

In addition, the Arab Spring, whilst continuing to bring an end to more dictators across the region, appears to have sparked a global protest movement. Occupy Wall Street spread to many cities across the US, but also to the steps of St Paul's Cathedral in London, Australia, India and Pakistan. Whilst in Chile hundreds of thousands are demanding free, high quality education; in Greece the general strikes have now extended to two days; and popular unrest has swept across many countries in sub-Saharan Africa.

All this is leading to a continued questioning of the received wisdom. If privatisation, deregulation and free trade do not appear to be working at the economic level; is New Public Management with its balanced budgets and standard set of reforms really delivering the claimed benefits? So what are the alternatives? Perhaps public financial management reforms in developing countries should be based on the following principles:

- *organic and incremental change* – reforms should build on and improve existing systems and procedures rather than the more risky approach of major reforms and fundamental change

- *tried and tested reforms* – one of the few benefits of being a developing country should be that it is not necessary to experiment, but only reforms which evidence clearly show have worked in a similar environment should be adopted

- *support for alternatives* – one size does not fit all jurisdictions, there are different approaches to public financial management and variation is healthy; genetic variation is essential for the future of a species, similarly novel procedures, processes and institutions can provide for healthier public finances

- *use of local experts rather than international consultants* – it is only the local public financial management officials that really understand their systems; international consultants fresh off the plane, whatever their CVs say, can never have the detailed knowledge of the local context, culture and history of reform that is needed.

Applying these principles to the standard public financial management reform agenda, rather than thinking about accrual accounting, which does not appear to bring the claimed benefits, we need to think about simple and clear financial statements that parliamentarians and the public can understand. Accounting standards should be based on existing good practice. As a recent study by the Africa Capacity Building Foundation has shown, many governments in Sub-Saharan Africa display aspects of good practice in their annual financial statements which are not necessarily included in existing international accounting standards.

The Medium Term Expenditure Framework (MTEF) still appears to be part of the standard donor reform package despite making little progress in many countries. Incremental reforms may be more effective, especially if they are able to gradually extend the effective budgetary horizon and recognise the political economy reality that many presidents want to retain the power to direct resources during the financial year.

It is now accepted that in many developing countries new public financial management laws are in advance of actual practice. In this situation it may be more effective for Auditors General to improve their approaches to regulatory audit rather than struggling to introduce performance audit. For years donors have tried to replace pre-audit with systems or even risk-based audit. However, at a recent audit conference in Nigeria, a presenter received a round of spontaneous applause when they suggested it would be better to have effective pre-audit to prevent fraud and corruption before it has even taken place.

Many countries are still struggling to implement comprehensive Integrated Financial Management Information Systems (IFMIS) when smaller systems have far lower risks. The Federal Government of Nigeria, for example, recently signed a $29million contract for an IFMIS with only just over two months to go before the 'go live' date of 1st January 2012. IT can be useful, but small, smart applications (for example, www.topgov.org) may be far more effective than dreams of being able to monitor the finances of a whole government 'at the touch of a button'.

Decentralisation is still being pushed in many countries, even quite small ones, but centralisation and regionalisation may be more appropriate in many cases. Some small island states in the Pacific are implementing co-operative audits between countries to access the skills and experience they need. The Federal Government in Nigeria, for example, is successfully centralising the payment of salaries and other payments.

Contracting and procurement are recognised as high-risk areas in terms of bribery and corruption. So perhaps more governments need to consider the direct provision of services rather than entertaining the risks associated with out-sourcing. Where external procurement is considered necessary, social and environmental factors should be considered to ensure that 'whole life costs' and externalities are taken into account. Sustainable public procurement is a tool which allows governments to use public spending in order to promote the country's social, environmental and economic policies – see: www.unep.fr/scp/procurement/

As we publish this issued the donor community is planning for its 4th High Level Forum on Aid Effectiveness in Busan, Korea. The results of its review of the targets set at previous forums in Paris and Accra "are sobering. At the global level, only one out of the 13 targets established for 2010… has been met, albeit by a narrow margin". We hope that the Forum in Busan will provide a further opportunity to reconsider the agenda for public financial management reforms in developing countries.

In the first paper of this issue, David Hall provides the second half of his study on public finance. David notes that taxation tends to increase as a proportion of GDP as countries develop, but also that the burden of taxation has become less fair, because countries have moved towards regressive taxes such as value added tax (VAT), which hit lower incomes harder. He also argues that rather than reducing public sector spending as many European countries, for example, are now being encouraged to do, the better alternative is to develop stronger and fairer taxation systems and to continue to grow public spending to meet the challenges of the future, including climate change.

In our second paper, Michael Parry reviews and compares the financial reporting (IPSAS) and statistical standards for financial information about public sector institutions – particularly sovereign governments. He concludes that there appears to be a general acceptance that statistical reports and financial statements have different objectives and will never be fully harmonised.

In the next paper, Robert Quaye and Hugh Coombs investigate Ghana's organised economic crime legislation strategy and the extent to which it has met international requirements in respect of anti money laundering measures. The research objective was to acquire a bottom up and comprehensive picture of Ghana's experience of such legislation and associated regulation. The paper discovered there was general agreement amongst practitioners that, while Ghana had passed relevant legislation relatively quickly, there was concern over how the legislation worked in practice and the cultural acceptance of corrupt behaviour.

In our fourth paper, Sidhakam Bhattacharyya and Gautam Bandyopadhyay consider the background to urban local bodies in India. In particular they consider imbalances between their constitutional responsibilities, their financial resources and the impact of certain financial controls on the performance of these bodies as measured by their annual level of recurrent surplus of deficit.

In our final paper, Mohamed Moindze reviews the modernisation of internal control of public expenditure in francophone African countries. He concludes that it would be unrealistic to establish an internal control system that aims to eliminate any risk of loss. But the costs of any internal control system should be balanced with the benefits of reduced errors, fraud and corruption (this paper is in French).

We again end this issue with a section reviewing recent public financial management publications and other resources which we hope will 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.

Finally we have included a short questionnaire with this issue. The aim is to consider how well the Journal is meeting the needs of its readers and contributors and what further improvements may be made.

If you would like to continue the debates raised in this issue please start thinking about contributions for the next issue of this Journal, the ICGFM blog or attend future ICGFM events. We look forward to hearing from you!

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