

U4 Expert Answer



Public financial management reforms in developing and post-conflict countries

Query

Please provide an overview of: (i) the Public finance management (PFM) reforms most relevant and often used in developing and post-conflict countries to address corruption and fraud, giving country-based examples of where they have been particularly effective or ineffective; (ii) how these measures help to reduce opportunities for corruption and fraud.

Purpose

To assist development practitioners in improving their understanding of how PFM can be used to tackle corruption.

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administrative to political corruption. While PFM reform is a central element of governance reforms in many developing, transition, and post-conflict countries, addressing corruption is rarely an explicit objective of such reforms, especially in post-conflict countries. Experience in this range of countries shows that the impact of PFM reform on anti-corruption parameters is difficult to separate from other factors that may have led to positive anti-corruption outcomes. Countries that have seen substantial improvements in the performance of their PFM systems and have been able to reduce corruption, like Rwanda, Kosovo, Georgia, and West Bank and Gaza, have achieved these positive results within the framework of broader governance reform which were backed by strong political commitment by the national governments.

Summary

The nature and level of corruption risks vary across the individual stages of the PFM cycle, ranging from

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1. The linkages between PFM and anti-corruption reforms

Overview of linkages

Reform of Public Financial Management Systems (PFM) is a central element of governance reforms in many developing, transition, and post-conflict countries and an important area of donor interventions. About 50 different donors are providing PFM support, with on average, seven donors working in each country, which makes coordination across agencies an issue of crucial importance (DFID 2009). Some donors pay more attention to the more technical aspects of PFM reforms, most notably budget implementation, while others focus more on the governance aspects in planning, budgeting and external audit (DFID 2009).

However, anti-corruption is rarely a clearly stated objective for PFM reform, especially in post-conflict countries where the objective of these reforms is primarily to enable the state to perform its basic functions such as regular payment of salaries to civil servants, delivery of public services and the (re-) building of public infrastructure (WB 2012[2]). While donors provide significant levels of support to PFM reforms in such countries, indicators used for the evaluation of PFM reform are often aligned with the indicators of the Public Expenditure and Financial Accountability (PEFA) assessments, which do not contain a separate dimension to assess corruption (ODI 2010[1]; ODI 2010[2]).

In the absence of an explicit anti-corruption objective for PFM reform, the impact of PFM reform tools on reducing fraud and corruption is difficult to assess. While many studies focus on evaluating PFM reform in post-conflict and developing countries, research on the specific impact of PFM reform programmes on corruption remains scarce. Against this backdrop, the link between PFM reforms and anti-corruption progress is assumed to be indirect, with PFM reform expected to contribute to improve a country's overall governance by:

- Providing for a transparent process of allocation of public resources, as well as to clear and non-selective criteria for taxation and customs duties.
- Providing for reliable and predictable (i.e., not depending on the discretion of individual officers) cash management and revenue collection.

- Providing for meaningful audit and oversight of the use of public money (including public spending as a result of public procurement procedures).

This in turn can have an impact on reducing corruption, as evidenced by the correlation between progress in PFM reforms and decreasing levels of corruption identified by a 2012 World Bank study in many post-conflict and developing countries (World Bank 2012[2]). In particular, while the impact of PFM reform on anti-corruption parameters is difficult to clearly isolate from other contributing factors, a number of countries like Rwanda, Kosovo, Georgia, West Bank and Gaza have achieved substantial improvements in the performance of their PFM systems and were able to reduce corruption. Afghanistan constitutes an exception, as the country achieved considerable improvements in the functioning of its PFM system but continues to experience major challenges of rampant corruption and weak governance (cf. Annex 1 - Table 6.2. of WB 2012).

These countries were able to achieve positive anti-corruption outcomes within the framework of broader governance reforms, which were backed by strong political commitment by the national governments. Experience in these countries shows that PFM reform tools have the potential to deliver on anti-corruption and broader governance goals if a number of contributing factors support the effective and sustainable implementation of reforms, including:

- Strong political will, commitment and support by the national government
- Coordination of reform activities (and for this to happen, also coordination of the donor agencies' implementation plans)
- Adaptation of best practices to the specific context in the country
- Domestic ownership of the reform process, including parliament and the public (civil society, business, media).

These linkages between PFM and anti-corruption reforms are being acknowledged by the donor community, which increasingly uses elements of PFM reform like public procurement, or taxation as entry-points for donor-supported anti-corruption activities in developing countries (Fjeldstad 2008). Reflecting this trend, anti-corruption indicators are also being increasingly incorporated in the Performance Assessment Frameworks (PAF) which are used to

assess the effectiveness of Budget Support Programmes for developing countries (U4 2012).

Prioritising PFM reforms relevant to anti-corruption

The nature and level of corruption risks vary across the various stages of the PFM cycle, ranging from administrative to political corruption. Generally, and although both administrative and political corruption require similar attention, donor-supported PFM reform projects tend to primarily address (and have a greater impact on) bureaucratic forms of corruption rather than political corruption (Fjeldstad 2008).

The elements of PFM reform that are likely to have the greatest impact on (bureaucratic) corruption are also those that are typically prioritised by PFM reforms and generally aim at improving the performance of the PFM system through improved budget execution and accounting tools. Tools to reform these components of the PFM cycle are very similar across countries.

In terms of sequencing PFM reforms, especially in post-conflict countries which are characterised by weak domestic capacity, there seems to be a theoretical consensus about the need to first “getting the basics right,” i.e., to secure reliable budget implementation and accounting on a day-to-day basis before moving to more performance (value-for-money) oriented PFM reforms (CABRI 2012).

For example, in Cambodia, Sierra Leone and Kosovo a sequenced approach to PFM reform (platform approach) was agreed and implemented in the most credible way. This platform approach prioritises PFM reform interventions that address efficiency and accountability first. The further sequencing of reform interventions is then following a joint problem identification by government and donors (World Bank 2012[2]).

Between the budget execution and accounting reforms, there is a debate which of the functions is actually more important, and should be dealt with first.

In Liberia, accounting was improved before embarking on the reform of the budget execution. A single accounting department has been established, the new chart of accounts is now compatible with internationally recognised standards (Government Finance Statistics Manual, GFSM, 2001), and regular annual fiscal out-turn reports, supplemented by quarterly reports are

published on the website of the Ministry of Finance (WB 2012[2]).

In the DR Congo, on the other hand, sophisticated PFM reforms, including medium-term expenditure frameworks (MTEF), programme-based budgeting (PBB), and external audit (see below) were promoted “in a context where there is virtually no reliable public accounting or fiscal reporting in place.” As a result, “there is no operational accounting framework and no chart of accounts coherent with the budget” (<http://blog-pfm.imf.org/pfmblog/2010/12/the-accounting-first-approach-to-pfm-reform-sequencing-the-case-of-dr-congo.html>).

2. PFM reform tools at the various stages of the PFM cycle and their impact on corruption

The PFM cycle involves several elements which offer opportunities for corruption to flourish, including: 1) the allocation of public resources (strategic planning, budget formulation, and budget implementation); 2) revenue collection and management; 3) cash and expenditure management; 4) accounting and financial reporting; and 5) external audit and public oversight.

Within this framework, governments have been using a variety of tools to strengthen each of these elements that may directly or indirectly have an impact on corruption and fraud reduction:

1) *Allocation of public resources*

The allocation of public resources takes place during the budget process, which is composed of the planning, programming, formulation and adoption stages. It is fundamental that countries establish a clear legal framework that spells out how decisions must be made in each of these stages and determines clear roles and responsibilities for the different actors involved (U4 2005). In particular, to ensure integrity throughout the budget process, it is instrumental that these decisions – from budget planning to adoption – are taken in an open and transparent manner and that civil society participation is encouraged from the beginning and at each stage of the budgetary process.

The different tools often used at the different stages of the budget process are:

- **Strategic planning stage: Medium-term expenditure framework**

Reforms of the budget planning stage typically aim at introducing a multi-year budget framework that allows for the budget to be drafted to reflect political priorities. Heavily based on reliable economic forecasting, this is a technically very demanding task, particularly in the context of post-conflict countries with little stability and capacity in state administration.

The most popular instrument to improve budget planning over a multi-year perspective and to align the budget framework with policy planning is the Medium-Term Expenditure Framework (MTEF) (WB 2012[2]): The MTEF approach typically consists of a definition of top-down (hard) budget envelopes for each policy sector over a period of two to five years. Sectorial expenditure programmes need to be developed to fit into these budget envelopes.

The risks for political corruption are particularly high at this stage. The most prevalent forms of corruption involve lobbying practices and other means of influencing resource allocations. A lack of transparency in budget planning can make it possible to favour certain ethnic groups, business sectors or other interest groups when allocating resources, especially in countries affected by deeply entrenched patronage networks (Doe 2007). This risk is increased in circumstances where capacity is weak and the budget planning is effectively done by a small group of people from the executive branch of government as this exercise may bypass a weak legislature and public completely (U4 2005[2]).

While no direct correlation between the introduction of MTEF and reduced level of corruption can be found, such an approach has the potential to reduce ineffective spending and, potentially also opportunities for corruption, by eliminating spending pressures at the end of the fiscal year and creating more predictability.

Amongst the post-conflict countries considered, credible improvements in forecasting, planning and policy have been achieved most noticeably in Kosovo and Sierra Leone. Progress in these countries was achieved by building institutional capacity and technical skills of staff along with the introduction of the MTEF. Other cases of relatively well-functioning MTEFs amongst developing countries are Burkina Faso, South Africa, Tanzania, and Uganda (DFID 2009).

In addition, some donors have increasingly relied on civil society organisations and citizens to increase transparency in budget planning at the subnational level and ensure that the money is allocated in a fair and effective manner. A widely used form of public participation in budget planning is the so-called participatory or community budget. This allows the public to directly (i.e., not through deputies elected to parliament) participate in the budget planning exercise by jointly deciding over spending priorities. This practice is applied on a local level in more than 1,500 cities in Latin America, North America, Asia, Africa, and Europe, including developed countries

(<http://www.participatorybudgeting.org/about-participatory-budgeting/where-has-it-worked>).

Examples include communities in developing countries, such as Mozambique, Zambia, Yemen, Ecuador, or Peru (<http://tiny.cc/pbmapping>).

In the Philippines, on the other hand, the government invited civil society groups to participate in the national budget planning in six government departments for the first time in 2011. For the preparation of the 2013 national budget, the sector budgets of already 12 departments and six government corporations were decided with the participation of a coalition of Civil Society Organisations (Dressel 2012).

Participatory budgeting is likely to reduce corruption in PFM as it eliminates the opportunity to cut deals about budget allocations amongst insider-officials, and it can also be expected to increase the motivation for the public to monitor the budget implementation more closely (UNHABITAT 2004).

- **Budget formulation stage: Programme-based budgeting**

The budget formulation phase comprises the transfer of political priorities of individual ministries and government units into budget allocation. As this is often done by a limited number of members of the government, there are great risks that the allocation of public resources could be influenced in favour of certain spending programs which suit the interests of top government officials and business groups (U4 2005[2]).

In order to address some of these challenges, countries have formulated their budgets based on the outputs to be achieved by each priority. Therefore, moving from an input-based (line-item) towards an output-based budget (programme-based budget or PBB) is the most widely attempted PFM reform exercise in the budget

formulation stage. The underlying assumption is that public funds can be used more effectively and more efficiently if spending is no longer allocated to purchase an input to a certain public service delivery (e.g., teacher's salaries according to a pupil-per-teacher-quota) but instead to achieve certain outputs of the service delivery (e.g., the budget allocated to a school for the agreed output of XY pupils graduating).

Similar to the experience with introducing the MTEF, moving to PBB is a technically very challenging task which has been attempted in many developing and post-conflict countries, with mixed results. In some countries, attempts to introduce PBB proved to be too challenging and had to be rolled back (this happened in Afghanistan).

From an anti-corruption perspective, as a greater level of managerial discretion is needed at the line-manager's level for implementing PBB, this type of intervention should be met with caution. Rwanda illustrates these corruption related concerns. There, while PBB has been introduced, the process is far from comprehensive and meaningful in terms of budget accountability purposes. The programmes included in the budget are required to have clear identified objectives, outputs and outcome and performance targets. In practice these are not always defined, and if defined are not necessarily following the SMART criteria (ECORYS 2012).

Interestingly, Kosovo did not embark on the PBB-path - regardless of the fact that MTEF and PBB are often seen as a 'package', and despite the fact that Kosovo succeeded quite well in introducing MTEF (WB 2012[2]). It is, however, difficult to say to which extent the avoidance of PBB played a positive role for Kosovo's generally positive progress in both PFM performance and governance/anti-corruption reforms.

- **Adoption of the budget in parliament: Strengthening the technical capacity of MPs and limiting MPs' amendments to the budget**

Normally, parliaments have the constitutional mandate to approve the draft budget, and then, at the end of the fiscal period, to holding the executive accountable. In post-conflict countries, however, parliaments mostly lack the technical and administrative capacity as well as political incentives to perform this function.

To address capacity issues, parliamentary committees are being established in developing countries, and their

capacities to lead the parliamentary debate about the draft budget are being supported in some cases by donor-financed PFM projects. In Ghana for example, the Parliament's Finance Committee managed to require pre-budget consultation with the Ministry of Finance and the Public Account Committee requires receiving quarterly statements on budget execution (U4 2007).

In Liberia, parliamentary budget approval was reintroduced early to establish legitimacy for planned spending (WB 2012[2]). In spite of these efforts, the role of the legislature in scrutinising the budget, let alone in preventing fraud and corruption, plays a minor role, especially in post-conflict countries (WB 2012[2]).

Another problem often encountered during this phase, relates to the possibility (in some countries) of parliamentarians to amend the budget to propose projects not based on an existing need, but on the desire to channel benefits to individuals or organisations, in exchange for bribes or funds for election campaigns, for example. Furthermore, there are many cases of powerful politicians successfully bypassing the public investment approval process and launching projects that were not in the approved public investment plan. The key issue here is the lack of an institution (or organizational unit, for instance in the Ministry of Finance) that serves as a gatekeeper to ensure that only public investment projects that have gone through some form of project appraisal based on cost-benefit analysis are approved and funded. An important reform in this regard is to strengthen the gatekeeper function for introduction of additional public investment projects. In addition, some countries have established restrictions on the number and value of amendments that can be proposed by Parliamentarians (Lienert 2008), this is the case in Brazil, for example.

2) Revenue collection and management

Following the budget planning, formulation and adoption, the implementation stage starts. At this phase, the money which has so far only been allocated and distributed on paper, turns into cash which needs to be delivered to the institutions where it is being spent or collected (tax, custom duties, and other revenues). This is the stage of the PFM cycle where the risk of corruption in form of embezzlement, collusion, kickbacks (related to the spending of public funds), bribery or extortion (in the process of (mis)establishing and collecting tax and customs duties) dominates.

In fact, taxation and customs continues to be one of the most corruption-prone areas in many developing countries. Despite comprehensive tax reforms over the last decade, the tax structures and administrative procedures in many developing countries are still overly complex and time consuming for businesses in many countries and leave discretionary power with tax and customs officials. This encourages corruption and extortion and hampers the process of building a tax culture based on transparency and accountability (Fjeldstad 2013).

Often, smaller and medium-sized enterprises lack the skills to provide acceptable accounts and accurate information on total sales. This is an open invitation for discretion and negotiation by tax officers. In particular, the frontline staff in the customs and the domestic revenue departments is often exposed to and involved in corruption.

Tax reform programmes normally include a wide range of legislative (Tax and Customs Code), institutional (setting up and strengthening revenue authorities) and capacity development measures that are implemented over a long period of time. However, similar to the wide range of objectives for PFM (Budget) reform, the objectives of tax-related PFM reforms often do not explicitly aim at reducing corruption. They primarily aim at solving the most pressing problems, i.e. to increase a country's own (domestic) revenues.

In Georgia, for instance, the reform of the tax and customs system was amongst the top priorities for the new government after the "Rose revolution". Whilst the previous tax and customs administration was notoriously corrupt and had to be reformed quickly, the primary objective of such reform was to broaden the tax base in order to increase budget revenues and finance the significantly raised salaries for civil servants including law enforcement personnel. For this purpose, the government launched a five-pronged approach to improve the tax system which involved changing staff incentives, broadening the tax base, simplifying the tax legislation, and streamlining tax administration (for more details on the Georgian anti-corruption reforms, cf. World Bank 2012[1]; TI 2011 offers a short summary).

Reforming the revenue authorities

Many tax-reform projects in developing countries often focus on the establishment of semi-autonomous revenue authorities (Fjeldstad 2013; Ecorys 2012) to

improve the collection of revenue. A semi-autonomous organisation with more operational autonomy is considered to be more effective for this purpose than a department of a ministry.

In order to reduce corruption, such authorities can establish their own anti-corruption units, and adopt internal codes of ethics. A survey amongst fifteen African countries (Benin, Ethiopia, Botswana, Ghana, Kenya, Malawi, Mauritius, Rwanda, Senegal, Sierra Leone, South Africa, Tanzania, Uganda and Zambia) showed that, by 2010, the revenue authorities of all countries, except Botswana, had developed codes of ethics to promote integrity and prevent corruption involving its employees, and thirteen revenue bodies had set up corruption prevention units (ITD 2010).

Improving the interface with taxpayers

Another feature of donor supported tax administrative reforms in recent years is efforts made to improve the tax administrations' attitudes toward taxpayers, with measures aimed at simplifying procedures, on-line filing of tax declarations, and providing extensive information for taxpayers in printed and digital form. To make registration of businesses and tax payments easier, five African countries (Benin, Mauritius, Sierra Leone, Senegal and South Africa) have established a one-stop-office for this purpose (ITD 2010). It can be expected that corruption will decrease when interaction with tax officers is made more straightforward and executed in a more transparent manner.

The use of technology

The use of technology (in particular, ICT technology, e.g., for cash and revenue management, e-filing of tax declarations, e-procurement, etc.) is a promising approach that has been implemented with some success in countries such as Afghanistan or Kosovo (cash and - in Kosovo - also revenue management) or in Georgia (e-filing of tax declarations). The use of technology in revenue collection and management reduces the involvement of individuals, their discretionary power, and thereby the opportunities for corruption. As with any other reform tool this must, however, be adopted to the specific context to avoid new risks for corruption, for instance, by monopolising access to information and excluding those who are not connected to the new IT-based systems (FreeBalance 2013; U4 2009).

3) Cash and expenditure management

Initiatives to improve cash management are implemented in virtually all PFM reform programmes with the objective of making the PFM system more effective. Typical interventions include: 1) moving to a single treasury account (STA) to replace individual (ministries', other spending units') bank accounts; 2) the introduction of an (IT-based) Integrated Financial Management Information System (IFMIS). STA and IFMIS make accounting, control and oversight easier, and do even allow for automated processes (IFMIS). In addition, it is usually recommended to integrate revenue and expenditure management in a single system.

Integrating expenditure and revenue management reforms

Despite the obvious dependency of the expenditure side from the revenue side of the budget (and vice versa), these two disciplines are often working in some isolation from one another. It is technically feasible and conceptually desirable to manage all cash flows (revenues and expenditures) in one system. Doing so would provide for a greater level of unity of the budget which enhances oversight and control.

However, amongst the post-conflict countries, only in Kosovo the revenue side of the budget was integrated into the public financial management system. This step was taken four years after the initial launch of this system in 2000

(<http://www.freebalance.com/customers/europe.asp>).

In Rwanda, similar plans are on the agenda for the next phase of the PFM reform programme (ECORYS 2012). In the other post-conflict countries, revenue management and cash (expenditure) management still work in processes and IT systems that are largely isolated from each other.

Single Treasury account

The introduction of stable cash management systems which include as many as possible spending (and ideally also revenue) units has an obvious potential to reduce the risk of corruption as it confines the opportunities for fraud by money simply disappearing between the myriad of individual accounts.

Some post-conflict countries such as Rwanda and Kosovo, have improved their governance and anti-corruption efforts more than others and have managed

to effectively introduce STA. In other countries, this process is slower and less comprehensive. In Cambodia, Liberia and Tajikistan a larger number of separate bank accounts next to the STA still exists. In West Bank and Gaza, the STA was first introduced between 2002 and 2005. It was then abandoned by the Hamas government in 2006–07 but reinstated by the Fatah government following 2007 (WB 2012[2]).

An innovative approach to increase credibility of expenditure was taken by the Governance and Economic Management Assistance Programme (GEMAP) in Liberia. There, international experts had co-signature authority at key Ministries and the Central Bank (USIP 2008). Whilst this may have contributed to reducing corruption, this approach has also been criticised for preventing local capacities to sustainably be developed (WB 2012[2]).

Integrated Financial Management Information System (IFMIS)

IFMIS consists of introducing a specialised software to track all individual payments made by the public purse in an automated manner. A positive correlation between introducing IFMIS and reduced corruption can be safely assumed (Free-Balance 2013), as the software allows for a faster, and more comprehensive data processing as individual balance-sheets, or even paper-based files could do. However, IFMIS alone will not lead to a significant reduction of corruption if introduced in an overall corrupt environment where many corrupt schemes may still remain outside the system (U4 2009).

The recently reported case of massive shadow-financing of the President's Administration of Afghanistan, indicates that in spite of the successful implementation of an IFMIS, corruption challenges remain, suggesting that there are still opportunities to circumvent the system. It is easy to imagine how corruption remains every-day practice when substantial inflows of cash are being turned over without ever entering the systems created for the purpose of effective and transparent PFM (The New York Times 2013).

The introduction of the software is a hugely complex undertaking which takes several years to complete, which involves adapting the software to the local circumstances, changing the underlying processes as well as substantial investments in communication

infrastructure to connect the individual front-end computers.

In spite of such challenges, an IFMIS was successfully implemented in at least four post-conflict countries, including Afghanistan, Kosovo, Sierra Leone, and West Bank and Gaza (WB 2012). Timor Leste has also introduced an IFMIS in 24 central government agencies since 2000; the roll-out to the subnational level is the objective for the next implementation phase (www.governmentresults.gov.tl/publicGoals/showDetails/22). Rwanda is introducing an IFMIS in the scope of their –medium-term PFM reform programme (ECORYS 2012).

Transparency of public procurement

From a PFM reform perspective, the reform of public procurement systems is often treated as a separate discipline and will not be fully developed in this answer. However, as large shares of budget expenditure are executed by using forms of public procurement, the importance of public procurement reform for reaching anti-corruption objectives still needs to be stressed.

Public procurement is often referred to as one of the most corruption-prone areas. Corruption in public procurement can manifest itself in the forms of bribery, kickbacks, and various forms of bid rigging, collusion, and influence peddling (U4 2010). Within this framework, one of the central activities to improve both transparency and the integrity of the procurement process is the establishing of a central procurement agency, which was done, for instance, in Liberia, Rwanda, and Serbia (TI UK 2011). Another important reform is introduction of actionable governance indicators in public procurement to measuring value-for-money and compliance with procurement law and regulations (Uganda).

Other reform activities comprise the training and development of procurement professionals and the adoption of dedicated procurement legislation as in Rwanda (ECORYS 2012). Developing countries apply a range of tools to improve integrity in public procurement, including integrity pacts, monitoring and capacity building, in countries such as Liberia, Sierra Leone, Rwanda, Kenya and others (examples can be found in TI 2012, or on [the website of the community of practitioners on open contracting](#)).

4) Accounting and financial reporting

Improving the accounting standards is the most widely applied tool of PFM reform programs next to the improvement of budget implementation through STA and IFMIS. Steve Symanski, a PFM expert who has worked in Timor Leste, Kosovo, and Afghanistan argues that while the focus on strengthening budget execution is likely to enhance transparency and reduce opportunities for corruption in post-conflict countries, strong audit and legal systems also need to be put in place to combat corruption (Symanski 2010).

Accounting and financial reporting

The introduction of accounting standards may help to increase discretion, transparency and accountability. It also helps to increase the likelihood that fraud, corruption and other wrongdoings are identified.

Adoption of international accounting standards

The typical PFM reform intervention on the accounting side is the adoption of modern and internationally comparable accounting and financial reporting standards. This includes making government accounting compliant with International Public Sector Accounting Standards (IPSAS).

Accrual accounting

Another trend of PFM reform is the move towards accrual accounting. Contrary to traditional cash-based accounting, accrual accounting applies the principles of private sector accounting to the public sector. It takes note of the actual consumption of a good or service and no longer only of the fact and date of payment of the corresponding expenditure. This is conceptually related to Programme-based budgeting and similar concerns about the benefits or drawbacks for combating corruption apply.

5) External audit and parliamentary oversight

Contrary to reforms of the accounting function, the external audit stage of the PFM cycle receives less attention in PFM reform programmes. Reforms usually aim at strengthening the functions and capacities of supreme audit institutions as well as of parliament oversight committees. In addition, civil society may also play an instrumental role in overseeing the activities of these bodies.

Strengthening Supreme Audit Institutions

Where donors support the development of the Supreme Audit Institutions (SAI), this is most typically done by capacity development (training of staff, conducting pilot audits in tandem with an SAI from more advanced countries, and provision of equipment and infrastructure). In some post-conflict countries, the initial phase of SAI support has involved appointing expatriate individuals to act as the Auditor General (in Kosovo), or to appoint an Auditor General locally, but contracted and salary paid by a donor-agency (in Liberia) (ODI 2012; WB 2012). Based on experience gained in Eastern Europe, Brazil and several other countries, a number of potential quick wins for SAI support has been identified. These include enhancing transparency by improving the SAI's work with the public and writing better recommendations and more user-friendly reports (DFID 2009; U4 2008).

Whilst there are some good practice examples in developing countries of SAIs involving civil society in audit planning which results in audits that more effectively address corruption risks (IBP undated; U4 2008), the weak capacity and relative lack of independence of SAI in post-conflict countries does not yet allow for a comparable interaction of civil society with the work of SAI there (WB, 2012[2]; Annex 2).

The INTOSAI Development Initiative (IDI) maintains a comprehensive database of donor-supported SAI support projects that provides detailed information about the tools and approaches deployed in individual countries in a very user-friendly format (www.SAIdevelopment.org). Generally speaking it must be stated, however, that in post-conflict countries progress in the development of the external audit of public finances was more limited than progress in the administration and execution of PFM in the executive branch of government. (WB 2012) From an anti-corruption viewpoint, more importance should be given to the external audit function and the public oversight by both parliament and civil society.

Parliamentary oversight

Audit reports produced by the SAI need to be submitted in a timely manner to, and be used by, parliaments to hold government to account for the use of public finances. The capacity of parliaments to effectively execute their role of doing so appears to be severely limited throughout the world of developing and post-conflict countries. In a meeting of parliamentarians of

10 West-African countries (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo, Cape Verde and Guinea) in 2011 to discuss parliament's oversight role, it was concluded that effective control over public expenditures is hampered by the insufficient level of collaboration of SAIs with parliament.

Further reasons for weak execution of the parliaments' oversight role were found to be: budgetary debates were held only in a few countries; the parliamentary commissions in charge of the investigation and information lacked substantive power; audits were only followed by scarce or inappropriate sanctions; and follow up on the recommendations expressed were not effectively monitored. In terms of capacity, parliamentarians reported that their know-how on public finance was inadequate, and of technical support to the parliament to fill this knowledge gap was lacking (<http://blog-pfm.imf.org/pfmblog/2011/11/budget-oversight-in-the-waemu-area-a-challenge-for-parliaments>).

This pessimistic picture is supported by the assessments of the Parliamentary Oversight Task Force of the Global Organization of Parliamentarians Against Corruption (GOPAC) which also conclude that a lack of MPs' resources - both in terms of time as well as in terms of technical know-how - to deal with rather technically challenging and complex PFM audit reports explains the poor status of parliamentary oversight over public finance (<http://www.gopacnetwork.org/programs/parliamentary-oversight/>).

Overall, capacity building and further reforms such as increased resource availability, strengthened independence of SAIs from the executive, and improved collaboration by SAIs with Parliament are necessary to guarantee that a proper system of checks and balances is in place.

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4. Further resources

Community of practitioners on open contracting (promoting transparency in public procurement). www.pro-act.org

IMF PFM Blog. <http://blog-pfm.imf.org/> or <http://blog-pfm.imf.org/pfmblog/anticorruption/>

INTOSAI Development Initiative (IDI) SAI Capacity Development Database. www.SAIdevelopment.org.

Open Budget Survey by the International Budget Partnership. <http://internationalbudget.org/what-we-do/open-budget-survey/>

Public Expenditure and Financial Accountability (PEFA) assessments by country. <http://www.pefa.org/en/dashboard>

5. Annexes

Annex 1 – Table 6.2 of World Bank 2012[2]

	PFM reform progress	Overall government effectiveness (by 2010)	Control of corruption (by 2010)	Consistency between PFM progress and trajectory of government effectiveness and control of corruption?
Afghanistan	Substantial	Weak	Poor	No
Cambodia	Intermediate	Weak to intermediate	Poor	Yes (although limited)
DR Congo	Limited	Extremely weak	Poor	Yes
Kosovo	Substantial	Intermediate	Intermediate	Yes
Liberia	Intermediate	Weak to intermediate	Intermediate	Yes
Sierra Leone	Substantial	Weak to intermediate	Intermediate	Yes
Tajikistan	Limited	Weak	Poor	Yes
West Bank and Gaza	Substantial	Intermediate	Intermediate	Yes

Sources: PFM reform progress was assessed as part of the review; the assessments for overall government effectiveness and control of corruption summarize the WGI and BTI data reflected in Figures 6.4 a–c.

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U4 is a web-based resource centre for development practitioners who wish to effectively address corruption challenges in their work. Expert Answers are produced by the U4 Helpdesk – operated by Transparency International – as quick responses to operational and policy questions from U4 Partner Agency staff.

Annex 2 – Table 5.9 of World Bank, 2012[2]

TABLE 5.9. PROGRESS WITH DEVELOPMENT OF EXTERNAL AUDIT AND SUPREME AUDIT INSTITUTIONS

Country	Development of supreme audit institution (SAI) and external audit function
Afghanistan	Control and Audit Office established in pre-conflict period. No constitutional provision for an independent SAI and limited independence from the executive; Auditor General may be removed by the President without reference to legislature/judiciary. Support provided to CAO through international-local 'joint audits' with international specialists leading CAO teams. Drafting of new legislation has started, but has not been adopted.
Cambodia	National Audit Authority (NAA), reporting to the National Assembly established in 2000 by the Audit Law. Independence from the executive still limited. The number of annual audits performed has risen from single digits to over 90 in 2010. A first summary report (covering 2006) was published in 2009; another, for 2007, was published in October 2011. The law stipulates that publication of reports is at the discretion of the auditor general and that public or commercial interests should not be negatively affected by any published details. Still in early stages of development.
DR Congo	Permanent judicial control of public finance by SAI. Lack of financial autonomy and lack of political independence. Government accounts audited and presented to Parliament, but not voted. Recommendations by SAI usually not published and with little follow-up.
Kosovo	External audit outsourced to Netherlands 1999–2003. Office of the Auditor-General established in 2003, with successive International Auditors General under EU funding. Improvements in number and timeliness of audits but use of audit information weak. Lack of parliamentary follow-up.
Liberia	General Auditing Commission replaced the General Auditing Office in 2007. Commission legally independent of executive, with reporting line to the legislature. Auditor General appointed in 2007 under EU contract for salary costs. Use of staff from other African SAIs on secondment basis through INTOSAI contacts, and international specialists to lead General Auditing Office teams.
Sierra Leone	Audit Services Act adopted prior to the end of conflict (1998). Backlog of audits cleared and reports published. Improvement in follow-up on recommendations. Partnership with AFROSAI. Development of new terms and conditions of service. 2009 removal of embargo on publishing auditor general reports before Public Accounts Committee report. Progress Assessment Framework review 2010 found significant improvements in external audit.
Tajikistan	State Financial Control Committee formed 2001 but operating under president and not independent. Lack of clear differentiation between internal and external audit. Dissolution of Committee in 2006 and establishment of State Committee on Financial Control and Fighting Corruption (SCFCFC) to supervise revenue/expenditure. No public access to SCFCFC reports.
West Bank and Gaza	External audit law passed 2004. SAI established in 2005 but only operational from 2008 and slowly building capacity. First audit of final accounts for FY08 but initially outsourced to private sector. Key mechanisms of formal democratic accountability are suspended—no quorum in legislative council.

Source: Compiled by the authors, based on the case study reports.