

INTERNATIONAL MONETARY FUND



# Staff Country Reports

## **Selected African Countries: IMF Technical Assistance Evaluation— Public Expenditure Management Reform**

This report on IMF Technical Assistance Evaluation—Public Expenditure Management Reform in Selected African Countries, was prepared by a staff team of the International Monetary Fund. The report summarizes the IMF's internal evaluation, delivered to a sample of 10 primarily Anglophone-heritage African countries (Ethiopia, The Gambia, Ghana, Kenya, Malawi, Nigeria, Rwanda, Tanzania, Uganda, and Zambia) that have been major recipients of technical assistance in the area of public expenditure management. It is based on the information available at the time it was completed on **August 10, 2005**.

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# **INTERNATIONAL MONETARY FUND**

Fiscal Affairs Department



## **IMF TECHNICAL ASSISTANCE EVALUATION: PUBLIC EXPENDITURE MANAGEMENT REFORM IN SELECTED AFRICAN COUNTRIES**

**Jack Diamond, Matt Davies, Pokar Khemani, Theo Thomas, and Feridoun Sarraf**

**August 10, 2005**

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## ABBREVIATIONS AND ACRONYMS

|         |  |
|---------|--|
| AAP     | Assessment and action plan                                   |
| AfDB    | African Development Bank                                     |
| AFRITAC | African Regional Technical Assistance Center                 |
| AG      | Auditor general  |
| AO      | Accounting officer   |
| BFP     | Budget framework paper                                       |
| BPEMS   | Budget and Public Expenditure Management System              |
| CCO     | Commitment control officer                                   |
| CCS     | Commitment control system                                    |
| DFID    | Department for International Development                     |
| DIG     | Design and Implementation Group                              |
| DRMS    | Debt recording and management system                         |
| EBFs    | Extrabudgetary funds   |
| EU      | European Union   |
| FAD     | Fiscal Affairs Department of the International Monetary Fund |
| FSB     | Fiscal strategy brief  |
| FY      | Fiscal year  |
| GDDS    | General Data Dissemination System                            |
| GFS     | Government Finance Statistics                                |
| GL      | General ledger   |
| HIPC    | Highly indebted poor country                                 |
| IAG     | Internal auditor general                                     |
| IFMIS   | Integrated financial management information system           |
| IMF     | International Monetary Fund                                  |
| IT      | Information technology                                       |
| LG      | Local government   |
| LM      | Line ministry  |
| MFF     | Macro-fiscal Framework                                       |
| MOF     | Ministry of finance  |
| MOFP    | Ministry of finance and planning                             |
| MTEF    | Medium-term Expenditure Framework                            |
| OAG     | Office of the accountant-general                             |
| P1      | Public Expenditure Management Division I                     |
| PEM     | Public expenditure management                                |
| PER     | Public Expenditure Review                                    |
| PIP     | Public investment program                                    |
| PRGF    | Poverty Reduction and Growth Facility                        |
| PRS     | Poverty reduction strategy                                   |
| PRSP    | Poverty reduction strategy paper                             |
| PUFMARP | Public financial management reform program                   |
| ROSC    | Report on the observance of standards and codes              |
| SEFs    | Sectoral Economic Frameworks                                 |
| SIDA    | Swedish International Development Cooperation Agency         |

|        |  |
|--------|--|
| SM     | Spending Ministry  |
| STA    | Statistics Department of the International Monetary Fund |
| TA     | Technical assistance                                     |
| TOR    | Terms of reference                                       |
| TSA    | Treasury single account                                  |
| UNAIDS | Joint United Nations Programme on HIV/AIDS               |
| UNDP   | United Nations Development Programme                     |



## PREFACE

Since its inception, the International Monetary Fund's (IMF) Fiscal Affairs Department (FAD) has supported technical assistance (TA) in the area of public expenditure management (PEM) in sub-Saharan Africa. This report summarizes FAD's internal evaluation of TA in this area, delivered to a sample of 10, mostly Anglophone-heritage African countries that have been major recipients.<sup>1</sup> The evaluation formed part of the Fund-wide Technical Assistance Evaluation Program that was launched in FY2003.

The study is based on standardized reviews of FAD's TA to each of these countries—conducted mainly in 2003—which focused on the principal PEM issues addressed by FAD TA, the problems encountered, successes and failures of the TA, and the main factors that had an impact on the effectiveness of this TA, both positively and negatively. This report highlights the principal findings and the lessons to be learned from the reviews and suggests how these might affect future FAD TA delivery to such countries.

In the sections that follow, Section I reviews the typical problems affecting PEM systems in the selected countries. Section II briefly describes the TA inputs delivered by FAD in the recent past and country experiences in regard to the outputs achieved. This section also discusses the revealed prioritization of FAD's TA and the mode of delivery. Section III evaluates the impact of FAD TA on its main areas of focus—namely, expenditure and commitment control, fiscal reporting, accounting systems, and integrated financial management information systems (IFMIS), as well as budget preparation issues, including support for medium-term expenditure frameworks (MTEFs). This section also considers other relevant areas in PEM that were not substantially addressed by FAD but might be considered priorities in the future. Section IV reviews the delivery of TA in PEM and suggests a number of improvements to the planning and management of TA that would further enhance its effectiveness. Finally, Section V summarizes the lessons learned from this evaluation for FAD's future TA, and offers a possible reformulated strategy that will be more effective in terms both of its focus and mode of delivery.

The authors would like to acknowledge the important contribution to this study by all of their colleagues in the two PEM divisions, and most especially that of Jim Brumby and Ian Lienert, who acted as the team's principal internal referees, as well as Arik De, who provided invaluable research assistance, and Professor Clive Gray, who acted as the group's external peer reviewer.<sup>2</sup> We are also grateful to Carla Cullati, Joyce Nyairo, Vanessa Abrea, Miriam Villarroel, Raquel Malamud, and Victoria Macchi, who, between other heavy demands on their time, so cheerfully worked on many versions of this report.

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<sup>1</sup> Ethiopia, The Gambia, Ghana, Kenya, Malawi, Nigeria, Tanzania, Uganda, and Zambia. The sample of 10 countries also includes Rwanda, which is a member of "La francophone." While acknowledging the considerable diversity among the PEM systems of countries in this study, the term "Anglophone" is used loosely as a generic term to differentiate the PEM systems of the countries being studied from those with a "Francophone" or alternative heritage.

<sup>2</sup> Professor Gray is a retired Fellow of the Harvard Institute for International Development and Senior Fellow in Development at the John F. Kennedy School of Government, Harvard University.

## EXECUTIVE SUMMARY

### Introduction

In the International Monetary Fund, the Fiscal Affairs Department's (FAD's) technical assistance in the area of public expenditure management (PEM) in Africa addresses one source of fiscal imbalance that jeopardizes macroeconomic stability in many of these countries. This report summarizes FAD's internal evaluation of its technical assistance (TA) in this area, delivered to a sample of 10 mostly Anglophone African countries.<sup>3</sup> The evaluation benefited from the advice and comments of an external peer reviewer, Professor Clive Gray.<sup>4</sup>

The study is based on standardized reviews of FAD's TA to each of these countries. The reviews focused on the principal PEM issues addressed by the TA, the problems encountered, successes and failures of the TA, and the main factors that had an impact on the effectiveness of this TA, both positively and negatively. This summary distills the principal findings and the lessons to be learned from the full report, and describes proposals for a reformulated strategy for TA delivery to this group of countries.

A significant share of the TA provided by FAD in the PEM area has been directed to the countries covered by this evaluation (measured in terms of the field time of staff and experts in person-years<sup>5</sup>). Between FY1998 and FY2003, this TA consumed an average of 54 percent of all Fund TA in PEM to the Africa region as a whole. This region has also been the largest single consumer of Fund TA in PEM, consuming an average of 35 percent of the total TA in PEM provided by FAD during the period. The share of Fund TA in PEM provided to Africa has also increased in recent years, averaging over 40 percent of total Fund TA in PEM in FY2002 and FY2003 (this is partly due to the decline in the amount received by the transition countries in Eastern Europe, the Baltics, Russia, and other countries of the former Soviet Union).

There are also some distinctive features in the mix of TA inputs to this group of countries. During the period, there has been a trend to rely more on resident advisors than on missions in the delivery of TA and this, in turn, was reflected in a sharp increase in the amount of TA delivered during the period, as measured in person-years.

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<sup>3</sup> Ethiopia, The Gambia, Ghana, Kenya, Malawi, Nigeria, Rwanda, Tanzania, Uganda, and Zambia.

<sup>4</sup> Professor Gray is a retired Fellow of the Harvard Institute for International Development and Senior Fellow in Development at the John F. Kennedy School of Government, Harvard University.

<sup>5</sup> This measure ignores the considerable resources devoted to TA outside of the field, including activities such as mission preparation and the backstopping of resident advisors.

## Diagnosis of PEM problems

Most of the countries examined were colonies of the United Kingdom, inheriting very similar and relatively simple budget systems based on an interpretation of the “Westminster model” around the time of independence. This generally involved budget laws that were not specific in their requirements regarding budget preparation, execution, and reporting processes, leaving much of this detail to regulations drafted and enforced by the executive branch.<sup>6</sup> The Westminster model also involved substantial devolution of authority for budget management to spending units. While all of the more advanced countries applying the Westminster model have initiated major reforms in their budgetary frameworks during the intervening period, this has not occurred to the same extent in developing countries.

To establish the context within which PEM TA has been designed and delivered, Box 1 summarizes the main shortcomings in the process of budget formulation and execution, as well as the main governance and institutional impediments to improving PEM systems in the countries studied. The shortcomings are not ordered in terms of priority, and there is no suggestion that all shortcomings were equally in evidence in all countries. Many are interrelated, and it should be recognized that governance and institutional issues have implications beyond the realm of PEM.

The country studies suggest that inadequate control and management of public expenditure have often stemmed from two major weaknesses in governance. First, in the name of promoting development, governments—in part with the encouragement of donors—have often assumed functions and tasks beyond their capacity to execute. The problem has worsened as governments have lost qualified staff through declining real compensation and the ravages of HIV/AIDS. Second, political systems have failed to restrain politicians and senior bureaucrats from benefiting personally from lax fiscal controls; hence, fiscal indiscipline has been a common difficulty.

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<sup>6</sup> This placed the executive branch in a very strong position vis-à-vis parliament, with parliament providing the executive branch the legal basis to make the regulations. Parliament had little power to change budgets, and few resources and little information to review budgetary performance.

## **Box 1. Typical Problems Affecting PEM**

### ***The process of budget formulation***

- Annual budgeting is incremental, with no forward medium-term framework;
- Budgets are based on unrealistic revenue and expenditure projections;
- Dual budget systems de-link recurrent and capital and development spending;
- Detailed line item budgeting is the norm, emphasizing inputs without much regard for functions or programs;
- The coverage of the budget is often seriously incomplete; and
- The budget timetable is typically compressed, allowing little time for parliamentary discussion.

### ***The process of budget execution***

- Expenditure control is weak, with associated accumulation of arrears;
- Decentralized PEM systems, where spending ministries often have a large amount of delegated authority over the expenditure process, may complicate modernization efforts associated with computerization or management reforms, compared with more centralized systems;
- Internal control systems and internal audit are often ineffective and compliance is weak;
- The accounting framework, usually cash-based, does not provide useful management information, such as tracking commitments;
- Dispersed government banking arrangements, in the absence of a single treasury account, hinder effective cash management; and
- The external audit is often poorly resourced and lacks trained staff; enforcement is not supported by technical and political institutional arrangements.

### ***Governance and institutional impediments to improving PEM***

- There is a lack of commitment and accountability by high-level authorities, coupled at times with high levels of corruption;
- The ministry of finance is unable to enforce fiscal discipline over spending units, which are often protected through political patronage;
- There is an institutional fragmentation in the finance functions, with poor coordination between budget preparation and budget execution functions; and
- There is a weak legal framework, which presupposes a strong-willed executive branch to enforce good practices through regulations.

## **Overview of FAD's TA**

Country reviews suggest that PEM problems are widespread and that there are few areas in the PEM systems of the countries covered that do not require strengthening in some way. Of course, this observation holds not only for the countries covered in the evaluation but applies generally to all developing countries. For the most part, FAD's TA was preceded by missions that reviewed the entire PEM system. As a TA provider with limited resources, FAD has had to prioritize and concentrate on some areas more than others. However, in doing so, FAD's TA has been exposed to two main risks. First, by concentrating on only one part (or even a few parts) of a larger interrelated system, its efforts in one area may have been undermined by weaknesses in others. Second, the prioritized approach may have been too narrow, not taking account of the wider picture. This underlying dilemma emerges throughout this study and may not be entirely resolvable.

The provision of TA in PEM by FAD was concentrated on budget execution issues and was closely linked with financial programs agreed upon with the IMF. Budget preparation and other issues were often left to other providers. PEM issues were incorporated in the design of Fund programs in a variety of ways, as a combination of prior actions, structural performance criteria, and structural benchmarks. In addition, while not all Fund-supported programs contained *conditionality* relating to PEM reforms, programs routinely highlighted weaknesses in fiscal management, reporting, and related statistical issues that have had important implications for TA. This emphasis on programs could have helped to harness additional support from other providers and authorities in these areas or they may have been viewed as moral suasion to support broader PEM reforms. Letters of intent agreed upon with governments have also often included commitments by governments to improve national statistics in line with the General Data Dissemination System (GDDS), which incorporates the Government Finance Statistics (GFS) as an underpinning to good fiscal reporting.

In sum, FAD's TA has focused, in order of priority, on budget execution, budget preparation, and promoting compliance with budget regulations. Under the general heading of budget execution, the focus has been on improving expenditure control and fiscal reporting. A major focus has been on supplementing cash controls with commitment controls in order to bring expenditures in line with cash availability, and in this way prevent subsequent expenditure control problems, such as payment arrears. *These areas are also emphasized in many country programs and point to the fact that FAD's technical assistance for PEM in this group of countries has often performed a support function for Fund programs.*

Within the area of **budget preparation**, TA focused on the following issues (in order of priority): enhancing budget classifications; improving the realism of budget projections; ending dual budgeting by consolidating recurrent and development budgets; extending budget coverage; supporting the development of a medium-term expenditure framework (MTEF); and reviewing budget procedures, particularly by introducing more realistic budget calendars. TA to promote **compliance with budget regulations** was often undertaken in partnership with the World Bank and other bilateral donors. The other institutions focused on strengthening financial regulations, drafting new laws and regulations, enhancing public procurement, and developing internal and external audit, which were activities not substantially addressed by FAD's TA. The decentralization policies that have emerged in the majority of these countries, and the associated need to revise laws and budget processes, were also largely supported by assistance from other donors. A related area of advice was **improving cash management**, concurrently with reforming government banking arrangements and consolidating cash in a treasury single account (TSA).

The need for more accurate and timely fiscal reporting led to a major effort to improve accounting systems, the source of basic fiscal data. Often, this was associated with support for longer-term projects, such as IFMISs, financed by other donors. In some cases, *FAD TA was explicitly used to fill a temporary gap* in this area while other donors worked on larger and more comprehensive IFMIS programs (which often took substantially longer than envisaged). In response to the enhanced heavily indebted poor country (HIPC) debt relief initiative, FAD has also advised on the development of systems to report on poverty reducing

expenditures in the relevant countries (eight in this group). The consequent establishment and strengthening of reporting systems on pro-poor spending also became a major task for resident advisors toward the end of the sample period.

### **Performance of PEM systems in Selected African Countries**

The joint examination by the World Bank and Fund of the quality of PEM systems in the context of the enhanced HIPC initiative provides a dataset to compare the performance of the Anglophone HIPCs with other HIPCs.<sup>7</sup> This shows that PEM systems in Anglophone Africa have many of the same weaknesses as systems in other HIPCs. While Anglophone systems performed slightly better than other systems in budget reporting—mainly due to more timely final accounts closure and better in-year reporting—they performed considerably less well in budget preparation and slightly less well in execution. The best performing PEM system of any HIPC was in an Anglophone country (Uganda), as was the worst (Ghana).<sup>8</sup>

Data on completed actions to improve PEM systems, also part of the HIPC PEM assessment and action plan exercise, show that Anglophone African HIPCs are implementing actions at about the same pace as other HIPCs. In the first review of the action plans, the eight Anglophone African HIPCs covered in this evaluation were shown to have either fully implemented or initiated about 78 percent of the 116 actions they had specified.<sup>9</sup> This compared to a rate of 79 percent in other HIPCs. However, the Anglophone countries had completed fewer of the actions, at 16 percent, than had the rest of the HIPCs, at 24 percent.

### **Quality of technical assistance provided**

The evaluation reviewed priority subject areas in which FAD had provided TA over the period. The main areas covered were expenditure and commitment control, fiscal reporting, accounting systems and IFMISs, and budget preparation and the MTEF. By its nature, the evaluation focused on areas of potential improvement. FAD experts retain sound reputations for the quality of their advice. This advice benefits from the “backstopping” of all experts by headquarters-based staff, who review the advice being provided by the experts.

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<sup>7</sup> IMF, 2002, *Actions to Strengthen the Tracking of Poverty-Reducing Public Spending*. Available at [www.imf.org/external/np/hipc/2002/track/032202.htm](http://www.imf.org/external/np/hipc/2002/track/032202.htm).

<sup>8</sup> Uganda met 9 of the 15 performance benchmarks, while Ghana met 1. Overall, the mean number of benchmarks met was slightly lower in Anglophone African (5.875) than for the entire set of HIPCs (6). A comprehensive reassessment of HIPC PEM systems was undertaken during 2003 and 2004. The results of this reassessment were reported to the Bank and Fund Boards in early 2005.

<sup>9</sup> IMF, 2003, *Update on Implementation of Action Plans to Strengthen Capacity of HIPCs to Track Poverty-Reducing Public Spending*. Available at [www.imf.org/external/np/hipc/2003/track/030703.htm](http://www.imf.org/external/np/hipc/2003/track/030703.htm).

A theme that emerged was that FAD's procedure for responding to immediate problems in the short-term, without an overall game plan for the country, may not always have been the best approach. Furthermore, too often FAD recommendations were transmitted but lacked adequate follow-up. In some cases, FAD had no reliable information about what had occurred in the country as a result of a TA report. As one would expect, the evaluators found the performance of advisors to be uneven. Advisors with developing country experience and strong interpersonal skills tended to fare better than advisors who had strong technical qualifications, but were less well-rounded.

Specific findings were made about improving TA in each of the four priority areas:

- On commitment controls, FAD advice had remained too focused on technical problems rather than dealing with chronic root causes of payment arrears. Unless these root causes associated with unrealistic budget preparation and ineffective cash planning were addressed, technical advice about compiling and controlling commitments was not likely to be successful.
- In fiscal reporting, two separate needs had to be addressed. The first was to ensure that basic information was available to assist fiscal monitoring, including of payment arrears, in the context of Fund programs. This would include the application of some benchmarked procedures to ensure a minimum level of data quality. The second was the longer-term need to bolster the standing of the accounting function within government and to build accounting capacity.
- In supporting computerization of the accounting system, certain preconditions are required for there to be any chance of success, and an exit point should be agreed upon with the authorities to prevent continued external technical advice from crowding out the creation of local capacity.
- FAD was least well-placed to make a useful contribution on MTEFs, which depend on sectoral specialist expertise. Accordingly, it was better to refocus on aspects of core technical budget preparation, such as budget classifications systems, macro-fiscal analysis, integrating capital and current budgets, and improving forecasting abilities.

### **FAD's mode of TA delivery**

Typically, TA delivery has consisted of infrequent missions and one resident advisor in a central agency. In a budget system where the responsibility for delivering on reforms is largely at the spending ministry (SM) level, it is perhaps not surprising that the limited TA that was provided proved insufficient to address significant system-wide capacity constraints. However, these underlying challenges only reinforce the need for TA to be well-focused to be effective. Sometimes, in the face of widespread problems, an advisor's terms of reference (TOR) were deliberately wide-ranging, which created tendencies for the TA to be

spread rather thinly, and for the advisor to be drawn into keeping inadequate systems running rather than reforming them. Furthermore, given the extent of the capacity constraints, in hindsight, FAD often had unrealistic expectations of the time frame for undertaking reforms. Even in those cases where progress was made, it was generally much slower than expected.

At first glance, *the heavy reliance on resident advisors seems at odds with FAD's desire to remain at the diagnostic or strategic end of TA*, ideally laying out a TA plan, but with implementation being largely the responsibility of other providers with greater resources. The latter approach would have implied, perhaps, shorter-term TA interventions. However, this option was not applicable to many of the countries under review. First, many of FAD's TA interventions were in support of Fund programs, on issues that other providers could not be expected to consider as important as FAD did, partly because of the link to Fund-supported programs. Second, in Anglophone Africa, other providers of TA in the PEM area often already had well-formulated agendas and more resources, so there was little reason for them to recognize FAD as a lead agency or to follow its strategic assessments. Third, given the low administrative capacity in many countries, it was felt that successful implementation of FAD's recommendations required hands-on support from resident advisors, missions, or peripatetic advisors, in order for basic work to be done.

### **The Overall impact of TA**

A review of the impact of Fund TA in the PEM area in mainly Anglophone Africa reveals a distinctly mixed picture. There are some clear successes but also distinct failures. In some cases, there have been some disappointing reversals. On the other hand, there have been some cases where sets of improvements have been put in place after some years of decline. In reviewing country case studies, it is apparent that the wider political and economic environment is a critical factor influencing PEM reforms. Quite simply, good advice is not always acted on. It is worth underscoring that in many ways, and perhaps not surprisingly, FAD's experience mirrors the mixed success of Fund programs in these countries. For the 10 countries covered, the overall evaluations were as follows:

- Two countries had encouraging or very encouraging results.
- Two countries had mixed results.
- Four countries had small or limited results.
- One country had disappointing results.
- One country had extremely disappointing results.



## **Influences on the effectiveness of TA**

The country cases provide evidence of some generic problems that could be addressed, in some manner, by all those involved in PEM TA, in order to improve its effectiveness. These problems can be grouped into four broad categories: (i) an apparent lack of commitment by the authorities to implement PEM reforms; (ii) a lack of local administrative and technical capacity to carry through with reforms; (iii) the reactive, demand-led orientation of Fund TA; and (iv) as discussed briefly above, possibly an excessive dependence on resident advisors with prolonged stays (over two years) as the mode of TA delivery.

### **Apparent lack of commitment by the authorities**

In many cases, the country reviews attribute the failure to sustain PEM reforms to the inability of the authorities—and particularly the ministry of finance—to enforce genuine changes in systems and practices even where the technical and administrative capability was judged to exist. This, in turn, throws into doubt the local ownership of the reforms and, in some cases, the commitment to fiscal discipline at the highest level.

The constraint imposed by a lack of local ownership was particularly relevant given that FAD's TA was often of a fire-fighting nature. Although FAD's TA recommendations included measures for longer-term development of the PEM systems, often the primary focus was on putting in place immediate measures to relieve urgent problems, typically within the context of a Fund program. Sequencing and prioritization were largely imposed on FAD's TA by the context, usually one of fiscal stress, rather than being decided strategically as part of an optimally designed reform of the PEM process. Certainly, in most countries, if FAD's short-term agenda were to have been achieved, the medium-term impact would have been high, but, equally, to sustain the reforms required a firm commitment on the part of the government and, in some cases, continued cooperation between the national authorities and all TA providers. Unfortunately, the latter features were difficult to achieve, and often complementary programs were seriously delayed or not implemented.

### **Lack of local capacity**

In part, difficulties in sustaining reforms in PEM systems were exacerbated by weaknesses in administrative capacity and technical skills. This, in turn, partly reflected an inability of host country institutions to attract and retain high-quality staff with remuneration packages sufficient to ensure competitive terms for competent local staff. While comprehensive civil service reform may have been the ideal solution, such programs were clearly outside the scope of FAD's remit, although this is one area in which other donors were actively engaged (though again with mixed success).

Ensuring adequate counterpart capacity to make FAD's TA effective is recognized as one of the most important constraints and therefore a challenge for the TA program. However, there is no quick fix to the problem. Methods that circumvent nominal civil service remuneration

scales to attract and retain staff—either through various supplements or direct donor supplementation of local salaries—may soon become generalized or create small islands of excellence that function for a limited period but may dissipate if donor support is withdrawn. Also, there may not be sufficient local expertise with particular skills within the country to satisfy the immediate demand. It must also be remembered that an increasingly important external constraint on administrative capacity in many countries has been the HIV/AIDS pandemic.<sup>10</sup>

### **Demand-determined orientation of FAD TA**

Over the period examined, FAD's approach to supplying TA has been largely demand driven, with assistance provided in response to requests from the authorities, albeit that many of these requests are actively supported by the Fund area department. This has led to the criticism that FAD's TA tended to more of a short-term response to particular urgent needs, rather than an attack on longer-term—and perhaps more fundamental—problems. However, overall, FAD's degree of freedom to be more proactive has not been great, and there are many good reasons for the practice of supplying TA only in response to an official request. In addition, while there is a potential for tension between short-term, often partial, solutions and more comprehensive longer-term solutions, it is often the case that longer-term solutions cannot be introduced unless immediate problems are addressed first.

However, it can be argued with some plausibility that if FAD had been more involved over the longer term, it might have been possible to identify and address problems as they arose and before they reached crisis proportions. However, not only would such an approach have required more of FAD's limited resources, owing to the large demand for TA services from a wider constituency, it also assumes a sustained level of national commitment to ongoing PEM reform. It is unclear whether other providers have had more sustained success with TA in PEM, even with more long-term and comprehensive programs of support.

### **A reformulated TA strategy: learning lessons from past experience**

The difficulties faced in introducing different PEM reforms suggests that FAD's future TA strategy should be more strategically oriented and better coordinated with the medium-term capacity-building efforts of other providers. There is some scope for selectively getting involved in new areas, although this scope is quite limited because of resource constraints.

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<sup>10</sup> Of the sample countries covered in this paper, Zambia has the highest adult infection rate (21.5 percent at end-2001, according to the Joint United Nations Programme on HIV/AIDS (UNAIDS)), with Kenya and Malawi not far behind, at 15 percent each, and Rwanda and Tanzania following with 8.9 and 7.8 percent, respectively.

## **Being more strategic**

*The need for FAD to respond rapidly to requests for short-term assistance, whether program-related or not, is unlikely to diminish over the medium term, given the identified weaknesses of many PEM systems in Anglophone Africa.* In addition, as discussed above, this should be recognized as an essential and valuable role in certain contexts, where fiscal imbalances are acute, and is best suited to the existing mode of FAD TA. However, it should also be noted that FAD is not simply responsive to program-related demands, but often identifies weaknesses and works proactively with governments to reform PEM systems.

*In designing assistance strategies and reviewing requests for TA, FAD should give more consideration to the institutional and governance environment, as well as to the technical deficiencies of the PEM system.* One way to address these challenges and promote ownership is to integrate PEM issues into national poverty reduction strategies (PRSs) and supporting programs such as the Poverty Reduction and Growth Facility (PRGF). The HIPC assessment and action plan process is one potential mechanism for aligning TA in PEM with the national PRS in some countries. The framework provides a comprehensive diagnostic approach that takes account of the priorities and capacity of government to design its own PEM reform plan incorporating all relevant donors. If successful, the approach could be rolled out in some non-HIPC countries and reassessments could be made periodically rather than on an ad hoc basis. However, ensuring that the action plan is adequately reflected in the national PRS or PRGF would require more coordination with national authorities and other donors at the policy level.

In 2002, FAD initiated a series of experimental internal Fiscal Strategy Briefs (FSBs) to better prioritize its TA program. Since then, FSBs have been prepared for more than 40 countries, seven of which are for countries within the review. Early experience suggests that the FSBs may prove a useful instrument, in terms of both contributing to TA prioritization and strengthening FAD's dialogue with the area departments and external partners. In this way reform priorities can be more clearly linked to macroeconomic and institutional vulnerabilities.

*The need for continuing, albeit reduced, reliance on resident advisors to provide TA underscores the importance of FAD's quality assurance processes at headquarters in recruiting, backstopping, and managing these advisors.* Throughout the period, the procedures and processes have been improved in each area on the basis of lessons learned. There has been an increasing emphasis on the advisors' terms of reference and recruitment. Country authorities and area departments are now more involved in drafting the TOR, which stresses clarity in the areas of focus, expected outputs, and detailed work plans of the assignment. This, combined with a greater emphasis on backstopping, impartial inspections, and reporting (technical and personnel), has improved the monitoring and evaluation of advisors' performance and more generally FAD's management of TA.

## **Coordinating our work with other medium-term capacity-building efforts**

In addition to the measures outlined above to improve the coordination and country ownership of a broad PEM strategy, the report also suggests the importance of better coordinating our largely short-term TA interventions with the longer-term TA projects and programs undertaken by other TA providers. Three main areas were identified as important:

- Selective support for the introduction of MTEFs. This would mainly take the form of “nuts-and-bolts” TA on budget preparation (for example, improved budget classification) and ensuring the realism of the macroeconomic envelope within which such exercises are conducted.
- Similarly selective support for IFMISs, in particular at the conceptual design stage. Involvement should be conditional on a judgment that the preconditions for success exist, and should have a well-defined exit point (based on a realistic time frame for implementation).
- Modernization of the legal framework for PEM. FAD’s advice should be directed to ensuring that the underlying budget process that is adopted is realistic and not overly ambitious for the country’s administrative capacity.

## **Areas of specialization**

*The broad categories of FAD TA appear to be in line with the major priorities as reflected in Poverty Reduction Strategy Papers (PRSPs) or Fund programs.* With regard to *budget preparation*, this would imply that FAD should continue its current work in introducing and refining budget classification approaches in line with international standards, strengthening budget processes, improving the budget calendar, and assisting ministries of finance to develop their fiscal analytical capacity (including more realistic revenue and expenditure forecasting). In terms of *budget execution*, this would imply that FAD should continue to strengthen fiscal reporting and, sometimes in conjunction with the IMF Statistics Department (STA), address general data quality issues of concern to Fund program work. However, the priorities in this area should be made more explicit than in the past. In particular, FAD should continue its emphasis on establishing commitment controls and strengthening cash management but should be more selective in the introduction of such systems, which should be seen as involving a package of supporting elements. If these elements cannot be met, FAD should focus first on removing the impediments to their establishment.

With limited resources—and also taking account of the comparative advantage of other providers—there is only a small margin for FAD to undertake TA in new, or relatively new, areas. However, this evaluation, combined with experience from other reviews, suggests some areas where a modest expansion of activities may be considered to support assistance in FAD’s normal areas of specialization: assistance with the quality of data associated with fiscal decentralization, with the development of internal control systems, and with fiscal

sustainability through a focus on debt management (see Box 2). Any TA in these areas would need to be well justified and highly focused.

## **Box 2. Selectively Deepening Technical Assistance**

### ***Improving fiscal data in systems undergoing fiscal decentralization***

The overarching policy goal is having effective fiscal control exercised across general government, with efficient and effective execution of expenditure responsibilities at the subnational level while ensuring that the central government's responsibility in macroeconomic management is not compromised. In the short term this would involve efforts to improve coverage, timeliness, and consolidation of fiscal plans and reports, particularly where these enable compliance with the enhanced HIPC debt relief reporting requirements.

### ***Internal controls***

To date, much of FAD's expenditure control efforts have been dedicated to the management of expenditures on transfers and other recurrent transactions, while leaving aside controls of personnel expenditures that constitute the single most important current expenditure class. Better expenditure control may require strengthening personnel management, bolstering the role of the ministry of finance with respect to personnel, and creating a reliable database of government personnel. Expenditure control benefits will also flow through the introduction of a standardized, computerized human resources management system. FAD should play only a supporting role in this, cooperating with others who are willing to provide the software and bear the considerable implementation and training costs required. Longer term, the goal of better expenditure control will depend on the quality of the internal control and audit process. This would usually involve the following dimensions: a clear and agreed definition of internal auditors' tasks; establishment of line ministry audit committees, with a central audit committee in the MOF; a clear demarcation of responsibilities in relation to external audit; and a restructuring of work practices.

### ***Debt management***

FAD's approach in strengthening debt management would usually follow three main steps: (1) assuring that there is an effective organizational consolidation of debt and aid functions and a restructuring of tasks; (2) creating an integrated debt recording and management system (DRMS) to track all loans, from the time of agreement through the various stages of disbursement and the associated debt service payments (there are some standard software packages to facilitate this); and (3) using the DRMS, with the appropriate upgrading of skills, to assist in implementing debt management strategy with an integrated risk management framework.

## **Summary implications for TA delivery**

Many of the improvements in TA planning, management, and delivery—to which this evaluation points—are to varying degrees already being implemented as a result of changes in FAD's work practices in the recent past. The main operational implications may be summarized as follows:

- **Place PEM TA into a more strategic framework.** Prioritization of TA should be country-specific, and take account of institutional and governance factors as well as technical priorities and assistance from other donors. This suggests more discussion and joint consideration at the outset of what assistance is required and who should

provide it. Ideally the PEM reform strategy would also be reflected in the countries' own poverty reduction strategy. It should, however, be recognized that the degree to which TA can be implemented within the context of a comprehensive, country-led TA strategy will often be constrained by the level of PEM development, domestic capacity, and the state of governance and institutional development. However, FAD's TA should, where possible, still attempt to support and be coordinated with longer-term or more comprehensive reform efforts by national authorities and other donors.

- **Seek national commitment.** Where possible, the strategic framework could provide a basis for mutual commitment—the countries agreeing to put into action appropriate reforms at certain stages, and FAD's advice being similarly shaped. It may be that FAD assistance should be withdrawn when countries fail to put the reform steps into place in a satisfactory manner. This approach will build on the practice now in place, in which resident experts are normally appointed for six-month renewable terms, and inspection missions are fielded before long-term assignments are extended.
- **Pay more attention to follow-up and implementation.** There could be a strengthening in the oversight, support, and follow-up to our recommendations. FAD remains committed to the backstopping role—ensuring that advice is subject to quality assurance by leading experts. When countries lose interest in implementing good advice, FAD should more speedily review its role. Similarly, if FAD fails to address the problems of concern to authorities, then the authorities should be encouraged to advise FAD accordingly.
- **Ensure that TORs are more focused.** This requires that FAD better prepare its missions, with a more deliberate focus on the resources and the information required to deliver the high-quality advice to which FAD aspires. TORs could be more directly negotiated with authorities to ensure a shared and well-informed understanding of the problems being tackled.
- **Apply realistic time frames for PEM reforms.** Such time frames should be adopted in different countries or on different topics, which might require more regular, ongoing involvement over longer periods in some countries. Such involvement should occur in a manner consistent with the strategic framework referred to above.
- **Agree on a division of labor with other providers.** A decision on the best mode of TA delivery should be made in conjunction with other providers and the countries' authorities. Where it can, FAD should support the work of experts engaged by other providers—for instance, through information sharing.

Overall, the approaches outlined imply a more regular interaction with client countries than has been the case in the past, with the aim of diagnosing emerging problems and providing more focused interventions before problems reach crisis proportions. To be effective, this regular interaction should be coordinated with other providers and be nested in an overall country TA strategy, in which the authorities display ownership.

Some of the adaptations just described will add to costs. Given the overall resource constraint, they may therefore need to be accompanied by greater selectivity in responding to new requests—that is, providing assistance to a smaller number of countries in any given period but with a larger commitment to each country served.

## **I. DIAGNOSIS OF THE PEM PROBLEMS IN PRIMARILY ANGLOPHONE AFRICAN COUNTRIES**

Drawing on the past work of Public Expenditure Management I Division (P1), the principal public expenditure management problems encountered in Anglophone African countries are fairly well known, neither are they exclusive to such legacy systems. They can be distilled from the relevant technical assistance reports in the PEM area, and these should be read in conjunction with the IMF Working Paper by Lienert and Sarraf.<sup>11</sup> They are summarized here to give an overview of the range of problems to which FAD's TA efforts have been directed. It should be understood that not all problems exist in all countries, and it should also be acknowledged that many countries have recognized at least some of these problems and have begun to address them with the assistance of TA from FAD and others.

### **A. Budget Preparation Issues**

The process of budget formulation has often suffered from the following weaknesses.

#### **Incremental annual budgeting, no forward medium-term framework**

Typically, Anglophone African budgets are traditional in form and in process. They tend to be incremental in approach, designed to ensure compliance—typically in some detail—with an annual budget appropriation law. The incremental and annual approach often makes it difficult to identify the long-term policies the budget is supposed to support and to design meaningful programs. At the same time, the lack of forward perspective implies there is no basis for making judgments about the future cost implications of present spending decisions and, in particular, the recurrent cost implications of investment spending.

#### **Budget based on unrealistic projections**

Budget preparation is often characterized by poor revenue forecasting, resulting in overambitious expenditure levels. A major feature of Fund programs is to correct for this tendency. Of course, revenue forecasting is not easy in commodity-based economies with a high degree of dependence on trade taxes and sharp fluctuations in the terms of trade. The need for conservatism in the African context is reinforced by the typically narrow tax base and weak tax administration. Unfortunately, the lack of realism of budgets has been reinforced by under-costing of expenditure programs, where typically some line items are consistently under-provisioned. Indeed in the Anglophone system, which typically still operates on the basis of “bottom-up” bids of the spending ministries, it is not clear how these bids are reconciled with top-down macro limits, except during budget implementation, usually by under-provisioning.

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<sup>11</sup> Lienert and Sarraf (2001).



The result of such unrealistic projections has been profound, with important and needed government programs proving to be unsustainable. However, instead of reforming policies and downsizing government operations, governments have tended to overspend, or to maintain projected cash levels but create arrears, or simply to underfund some items. Typically, underfunding has occurred on interest on debt, utilities, and transfers to state-owned enterprises, along with squeezing operation and maintenance spending to cover the cost of wages. The net result has been an inefficient composition of expenditure, and a persistent accumulation of arrears that creates moral hazard and removes the incentive for realistic costing.

### **Dual budgets: recurrent vs. development**

The recent budget reform initiatives, including the MTEF, are designed to move countries away from separate recurrent and development budgets. The latter is one aspect of traditional budgeting wisdom that advanced the “golden rule”—recurrent spending should be covered by revenues, and borrowing should be used only for investment purposes. This underlying premise has been questioned, with the increasing emphasis on the importance of human rather than physical capital in the development process. Additionally, despite the move of donors from project-related to program-related assistance, the split between development and recurrent budgets persists. Indeed, this bifurcation has generally been aggravated by being institutionalized in the functional split of the MOF in charge of the recurrent budget, and the planning ministry or the President’s office in charge of the development budget. Coordination of expenditures between recurrent and development budgets has been made even more difficult by the tendency of donors to dominate the composition and size of investment budgets, and to bypass regular government procedures—the latter ostensibly to speed up disbursement and avoid corrupt practices. Despite such efforts, slow disbursement and lack of administrative capacity have often resulted in underexecution of the development budget. Foreign financing usually requires domestic counterpart expenditures, which has often proved a problem, and the lack of information makes monitoring difficult.

### **Detailed line item budgeting, emphasizing inputs without much regard to functions or programs**

Budgets have been designed for compliance purposes rather than for policy analysis and planning. The traditional budget thus tended to be very detailed, stressing the institutions responsible for spending and the detailed objects of expenditure. The lack of more relevant functional or program classifications means that the policy objectives underlying spending have often been lost in the details. Similarly, it is difficult to distinguish between existing and new policies—complicated by the tendency to introduce new policies during the year.

Without adequate control from top-down limits, these additional commitments have tended to undermine fiscal discipline. Often revenue-raising measures are needed but no new revenues are raised, resulting in supplementary appropriations, arrears, or an explicit widening of the fiscal deficit. The MTEF process has attempted to tackle this feature of

traditional budgets by developing sectoral envelopes based on sector expenditure plans that try to intermediate between macro-fiscal targets and detailed line item expenditures.

### **Coverage often incomplete**

Traditionally, budgets have been designed on a rather centralized view of government; hence the coverage of expenditures is generally limited to the central government plus transfers to local governments and a few major autonomous funds. However, extrabudgetary funds (EBFs) are often excluded, and the budget process still lacks transparency regarding transfers to lower levels of government, and their subsequent accountability for use of funds. This has proved an increasing problem for many countries, as they have pursued a deliberate policy of decentralization, making the operations of lower levels of government increasingly important. Coverage of all government operations is typically incomplete, with autonomous agencies still budgeting on a net basis and “below-the-line funds” often creating several financial management problems (e.g., in The Gambia and Zimbabwe) that are invisible in the budget. Moreover, poor budget execution control has created incentives to evade and hide operations in various ways: implicit subsidies via tax expenditures, uncollected on-lent loans, equity participation and capital injections, and unrecorded quasi-fiscal operations. The consequence is that the budget document is often incomplete in its coverage of government operations.

### **Unrealistic budget timetable**

Arising from the perception that the estimates are unrealistic, the budget has lost its credibility, with some obvious consequences. One of the most obvious symptoms is that the budget timetable does not allow for meaningful policy decision making. Often spending ministries do not comply with the budget department’s call circular. Important political decisions affecting spending may be made late in the budget cycle. Budget preparation allows little time for parliamentary discussion. Budgets are often adopted late, after the new fiscal year has begun.

## **B. Budget Execution Issues**

While problems in budget execution are often merely the consequence of unrealistic budget preparation, there are some distinctive characteristics of implementing budgets in Anglophone Africa that have created their own specific concerns.

### **Expenditure control: a persistent problem**

There are a number of points in the expenditure process at which the MOF can exert central control. The first control point is the issuing of warrants that provide spending agencies the authority to spend—a major instrument of control in countries such as Kenya and Nigeria. This has tended not to work well because it has been based on unrealistic budget estimates. The second control point is on commitments. However, information on commitments generally is not adequately maintained in spending ministries’ vote books, and not reported

centrally to the MOF in a reliable or timely manner. The third control point is cash funding. Often, there is evidence of a resort to “cash budgeting” (e.g., in Kenya, Tanzania, and Zambia in the 1990s) based on cash availability. Usually, the cash releases are below warrant levels, and the latter are often below budget authorizations. Ultimately, these releases represent an attempt to do through budget execution what should have been done in budget preparation—adjust expenditure policies to meet changed resource availability. These attempts have been disruptive to service delivery and, because of poor cash planning, the system of control has reverted to cash rationing—resulting in arrears and nontransparent cash reallocations. In turn, this provides an incentive for ministries to increase their off-budget activities (e.g., not reporting receipts raised by ministries). Of course, the existence of arrears itself can lead to pressure for corruption, because of decisions about who in the queue should be paid first.

### **Modernization not facilitated by the budget management system**

The decentralized nature of PEM systems in Anglophone African countries is often viewed as complicating modernization efforts through computerization or administrative and management reforms, compared with some more centralized systems. Even in those countries that have not decentralized government expenditure to lower levels of government, the expenditure process in Anglophone African countries is typically characterized by a relatively high degree of decentralized management. Spending ministries are mainly responsible for budget execution, with officials in line ministries authorized to initiate and manage each step of the expenditure process. Generally the minister of finance will issue quarterly or annual warrants to the accounting officers (AOs), who are the heads of the line ministries, commonly the Permanent Secretary. When compared with some more centralized PEM systems, this approach can complicate efforts to introduce management or administrative reforms, or to computerize expenditure control and management systems. This is due to both the technical difficulties of linking up many separate units, particularly where infrastructure is poor, and the need for additional coordination among sections of government in an environment where capacity is often extremely weak.

For example, the recent or existing payment systems in many of the countries reviewed in this study were set up for manual operation, and their relative simplicity should be regarded as a great strength. However, this is also a weakness from the wider view of spending control—one that takes more than the last stage of spending into account—and one that views control from a general management viewpoint rather than from the narrow one of financial compliance with the approved budget. The possibility of moving to this wider view of control depends largely on the degree of computerization that is possible. In this regard, it has often been claimed that the budget management found in Anglophone African countries does not support easy computerization.

This may be an oversimplification, since the experience in Anglophone Africa varies significantly. In some countries, payment is carried out by the spending units (e.g., in Malawi and Zambia), but in others it is centralized (e.g., The Gambia, Lesotho, and Tanzania). However, the recording and control of prior stages of the spending process are typically

undertaken in the spending ministries (SMs). These prior stages, in terms of commitments made and pending obligations, cause many spending problems. The need to record more speedily and consolidate this information has led to the development of integrated computerized accounting and payment systems. Of course, there are generally other influential factors in addition to the design of the expenditure management system. Many countries are not able to introduce computerization because of lack of resources and administrative capacity or human resources. This constraint in developing more effective budget controls through computerized FMISs is discussed below.

### **Weak internal control and internal audit**

The internal controls in the Anglophone African system are designed to be decentralized, so the AO in the spending ministry, usually the Permanent Secretary, is made responsible for proper utilization and control of his appropriation. In this, he is typically allowed much discretion. However, in some countries, one finds a centrally administered internal audit function with internal auditors assigned by the MOF to the SMs, ostensibly to assist the AO. Often this centrally controlled audit has been introduced to limit the discretion of AOs, and not surprisingly it is undermined by them. Universally, however, the level of control offered is limited to basic checking for financial compliance, with internal auditors often lacking proper training. In some countries with low salary levels, the internal audit's checking exists only as one extra step for extracting economic rent. Not surprisingly, some countries have had to resort to higher-level investigative units to impose discipline—for example, anticorruption offices or commissions (e.g., Kenya and Uganda). Generally, the case for this extra layer of control is difficult to justify in terms of the results.

### **Accounting framework**

Most of the Anglophone African countries in this review use a cash basis for accounting. While relatively easy to operate, such a system has distinct limitations for compliance purposes and especially for providing useful information for management purposes. For example, a cash-based system does not usually track expenditure commitments. Another limitation is that the general ledger (GL), the principal recording mechanism, typically has incomplete coverage of government operations. While set up to record transactions against appropriations, it covers only the strict budgetary operations. Since the system is decentralized, in that the accounts are kept by the spending ministry and reported to the MOF, this allows some discretion and much leeway for “creative accounting.” Typically, the Office of the Accountant General (OAG) in the MOF consolidates the accounts of the ministries and presents the final accounts to parliament as the Annual Accounts of the government. Unfortunately, this is often viewed as its primary function, and only as a distinctly secondary function, if at all, does the OAG generate reports as an input to in-year fiscal management. A feature of the Anglophone system is that the OAG, although reporting to the Finance Minister, is somewhat independent, and his office is often separated from the core functions of the MOF. Sometimes, this has led to a disconnect between those authorizing payments and the OAG, which must execute and fund the discharge of these authorizations.

## **Government banking arrangements**

Generally, the traditional management of government cash resources has been fragmented. The concept of a consolidated fund, which is close to a TSA, has typically been undermined in a number of ways. As a fiduciary safeguard, donors such as the World Bank have often insisted on special project accounts so they can monitor the inflow and outflow of monies. Often, other special accounts have been maintained outside the regular government account. It has also been common practice in the decentralized Anglophone system for SMs to open accounts in commercial banks for both their receipts and expenditures. The profusion of government accounts means that it is not surprising that problems of idle cash balances, poor cash planning, higher costs of financing, and so on, are encountered. In some Anglophone African countries, government cash management is in any case constrained by a poorly developed banking system unable to operate zero-balance government accounts that would allow the government greater control over cash balances in commercial bank accounts.

## **External audit**

In the Anglophone African system, the external audit function is generally entrusted to an independent Auditor General (AG), reporting to the legislature. A major problem is the delay in the OAG submitting annual accounts to the AG for audit and submission to parliament. The function is typically handicapped by a lack of skills and capacity and hence its inability to audit accounts in a timely way. Because of this, audited accounts are often submitted with a lag of many years and hence lose their relevance. Even when relevant, mechanisms for following up audit recommendations are typically inadequate. In addition, key legislative committees, such as the Public Accounts Committee, are weak. In such an environment, it is perhaps not surprising that the final accounts do not generate much public interest.

### **C. Wider Issues with an Impact on Technical Assistance**

It has been debated whether the problems of PEM systems encountered in Anglophone African countries arise for systemic reasons, or from the way the systems are operated. Probably a mixture of both factors has contributed to these problems; some of the most likely influences are identified here.

#### **Lack of commitment and accountability**

It has been argued that lack of budget discipline within the executive branch and a failure to comply with existing financial regulations have often been at the root of many of the PEM problems of Anglophone African countries. Although AOs are in principle personally financially responsible for ensuring the expenditure control of their votes, they are not usually sanctioned if they fail to abide by the legal framework or financial regulations.

Corruption has been endemic in typically low-paying and bloated civil services. Even today, governments often act as employers of first resort. Over the years, with the resultant rapid expansion in the civil service sector, real wages often fell drastically. Then the managers of

PEM systems and their lower-level staff lost their motivation, and not surprisingly, the systems deteriorated. Low salaries also undoubtedly contributed to the growth of opportunistic corruption.

### **Weak central control by the MOF**

Many of the problems arise from basic organizational weaknesses of the MOF, which has failed to evolve to meet the new economic challenges faced by most of the Anglophone African countries. Expenditure policy and financial controls are largely assigned to SMs, with the AOs having power to make commitments against their approved budget appropriations largely without reference to the MOF. If, for wider fiscal considerations, the MOF tries to exert some pressure on the rate of commitments being made, it is dependent on the timely and accurate reporting of the SMs, which is often deficient. Procurement remains a source of corruption. Accountability at the SM level is generally deficient, so even when accounts are produced and audited, and deficiencies are found, there is typically no follow-up by the MOF or by parliamentary committees. As indicated previously, the AOs are not disciplined by the MOF for overspending and financial irregularities.

### **Institutional fragmentation**

Control suffers owing to the split between budget preparation and budget execution functions in the MOF. The OAG in charge of recording execution of the budget and its cash execution typically operates separately from the rest of the MOF, which is primarily concerned with the annual budget preparation exercise and only secondarily with budget implementation. The consequences of this have had a negative impact on budget management. First, there is a poor flow of financial information on government operations. The OAG produces accounts for compliance purposes but does not primarily supply management information, and is often more concerned with ex post annual accounts than in-year budget execution (see the discussion of the accounting framework above). Second, budget preparation and execution are disconnected: warrants are issued by the budget department without knowing the extent of previous utilization. Since annual accounts are slow to come, the annual budget is usually prepared on the basis of the previous year's budget estimates rather than the provisional outturn, which typically is far different. Third, the financial management function is fragmented, with different departments concerned with debt and aid flows, and typically not integrated with OAG's accounting or the rest of MOF operations. Similarly, those responsible for managing personnel expenditures often do not coordinate closely with personnel managers (either in SMs or in a dedicated central ministry), resulting in poor control over the wage bill.

### **Poor legal framework**

In several cases, the legal framework and its accompanying financial instructions have changed little since independence, and are largely oriented toward creating a compliance and control framework based on traditional line item budgeting. Normally, this framework provides adequate procedures for budget preparation, expenditure control, and fiscal

reporting and auditing. The more pressing need is perhaps not to rewrite existing legislation, but to ensure that there is adherence to its provisions.

On the other hand, with governance issues dominating PEM in African countries, there may be a case for introducing fiscal accountability-type legislation (e.g., as in South Africa). While fiscal responsibility laws have become a feature of some “progressive” middle-income countries, their use in less-developed countries is rare. In the latter countries FAD advice has generally focused on consolidating and improving budget management procedures in the main budget system law. The emphasis has been on introducing a modern Public Finance Act to replace the usually dated legislation inherited from colonial times.

In this context there may also be a case for clarifying the relative powers between the executive branch and the legislature. In principle, the Anglophone budget system centers on the supremacy of the legislature over the executive branch. However, this has been qualified in a number of ways. Most Anglophone African countries after independence saw the rise of strong presidencies, often in the context of a one-party political system, or part of a military regime. The executive branch thus acquired considerable powers. At the same time, treasury control has always been recognized as very important in budget execution, so the MOF is recognized as first among equals in terms of ministerial hierarchy. Sometimes, this is not so clear in a presidential system, with a powerful President’s office or a powerful planning ministry. While in the original Westminster model powerful legislative committees (especially expenditure review committees) backed by external audit countered the executive’s powers, in Anglophone African countries these are often toothless watchdogs. In any case, audit offices generally are weak institutions, with no real independence, and lack expertise and staff. Common problems in audit offices are the poor wage levels and lack of motivation and incentives.

#### **D. Implications for FAD’s Technical Assistance**

The previous review of the PEM problems in Anglophone Africa is worthwhile if only to highlight their widespread nature—for many client countries there are few areas in their PEM system that do not require strengthening in some way. Given the scale and scope of the problems and FAD’s limited resources, there is an obvious need to prioritize, concentrating on some areas more than others. However, it must be recognized that when dealing with a system, one component of the system will impact another. Concentrating on improving one area runs the risk that improvements there will be undermined by weaknesses in another. Moreover, by prioritizing, one can almost never avoid the criticism of being too narrow in focus, and of failing to take into account the wider picture. This underlying dilemma is evident in the next section, where FAD’s experience in providing TA is reviewed.

## II. OVERVIEW OF PAST TECHNICAL ASSISTANCE

### A. Overview of FAD Technical Assistance in PEM Input

For the purposes of this study, a sample of 10 African users of FAD TA in the period FY1998–FY2003 was chosen as a basis of analysis.<sup>12</sup> As is evident from the listing of TA provided since 1997, for the majority of countries in the sample, FAD TA inputs have been provided consistently over the period reviewed (see Figure 1 and Table 1, showing the field time of staff and experts in person-years). A significant share of TA in PEM has been directed to the countries covered by this evaluation. Between 1998 and 2003, they consumed an average of 54 percent of all Fund TA in PEM to the Africa region as a whole. This region has also been the largest single consumer of Fund TA in PEM, consuming an average of 35 percent of the total TA in PEM provided by FAD during the period. The share of Fund TA in PEM going to Africa has also increased in recent years, averaging over 40 percent of total Fund TA in PEM in FY2002 and FY2003 (this is partly due to the decline in the amount received by the transition countries in Eastern Europe). TA in PEM constituted around 50 percent of total TA provided by FAD to Africa during the period.

It is also evident from Table 2 that there has been an increasing trend in TA provided to this sample of countries. Indeed, Table 2 and Figure 1 understate the level of resources directed toward these activities as they refer only to TA field time. It is estimated that FAD's total TA delivery, including headquarters time related to mission and expert assignments, is around 50 percent more than total field time. Apart from the growth in TA, two dimensions of this delivery are worth noting: the mix of TA inputs delivered and the subject areas covered.

#### The mix of technical assistance inputs

Even a cursory examination of Table 2 shows that the mix of TA, between missions and resident advisors, has varied markedly among countries. For the majority of the Anglophone African countries, the most significant TA input has taken the form of resident advisors rather than missions. The details are shown in Figure 1, which gives the distribution over the period FY1998–FY2003 of FAD's TA by these two different modes of delivery. The mix has changed over the years. If one calculates the share in this country sample, the proportion of TA in 1998 delivered by means of missions was 30 percent, whereas in 2002, the last year for which complete data are presented, the proportion of missions in the total had fallen to 15 percent. However, the mix is highly variable, and typically the two forms of delivery are related. FAD's approach throughout the period was to send a diagnostic mission to precede the assignment of an advisor, and thereafter much smaller missions and briefer follow-up or inspection missions were expected. From this perspective, the switch to resident advisors really reflects the sharp increase in TA delivered during this period, especially until 2001.

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<sup>12</sup> The 10 countries were generally the largest consumers of FAD TA covered by one of the two PEM TA divisions within FAD. The more general development and economic context of six of the countries covered in this study is presented in some detail in Devarajan, Dollar, and Holmgren (2001).



### The areas covered in technical assistance




Table 1 indicates the main areas of TA provided to the sample countries, as captured by the major subject area codes. It should be noted that these are highly aggregated and, therefore, are unable to capture the full scope of the work of missions or resident advisors. However, even at this aggregate level, it is evident that FAD's advice focused mainly on budget execution issues: expenditure controls, cash management, and fiscal reporting. It is not surprising that these are issues that also tended to be key aspects of Fund programs and in effect, underline the nature of FAD's technical assistance for PEM as a support function for Fund program operations. At the same time, this approach has raised the question whether, in following this path, PEM TA was applied to short-term problem solving and interim solutions rather than to longer-term reform plans. These TA priorities will be reviewed more fully below.

Table 1. Main Areas of FAD TA and PEM Areas Incorporated into Programs Agreed upon with the Fund (FY1998–FY2002)

| Country/Program   | Budget Preparation |    |      | Budget Execution |    |    |       | Other |
|-------------------|--------------------|----|------|------------------|----|----|-------|-------|
|                   | BF                 | BC | BCo. | EC               | CM | FR | IFMIS |       |
| Ethiopia, 2000/03 |                    |    | X    |                  |    | X  |       | X     |
| Gambia, 1998/01   |                    | X  |      |                  | X  | X  |       |       |
| Ghana, 1995/99    |                    |    |      | X                | X  | X  |       |       |
| 1999/02           |                    |    |      | X                | X  | X  |       |       |
| Kenya, 2000/03    |                    |    |      | X                | X  | X  | X     | X     |
| Malawi, 2000/03   |                    | X  | X    | X                | X  |    | X     |       |
| Nigeria, 2000/01  |                    |    | X    | X                | X  |    | X     |       |
| Rwanda, 2002/03   | X                  | X  | X    | X                |    |    |       |       |
| Tanzania, 2002/03 |                    | X  | X    |                  |    |    |       | X     |
| Uganda, 2002/04   |                    |    |      | X                | X  |    |       | X     |
| Zambia, 2002/04   |                    |    |      | X                | X  | X  |       |       |

X: Main Area of Technical Assistance

Included in IMF program as:

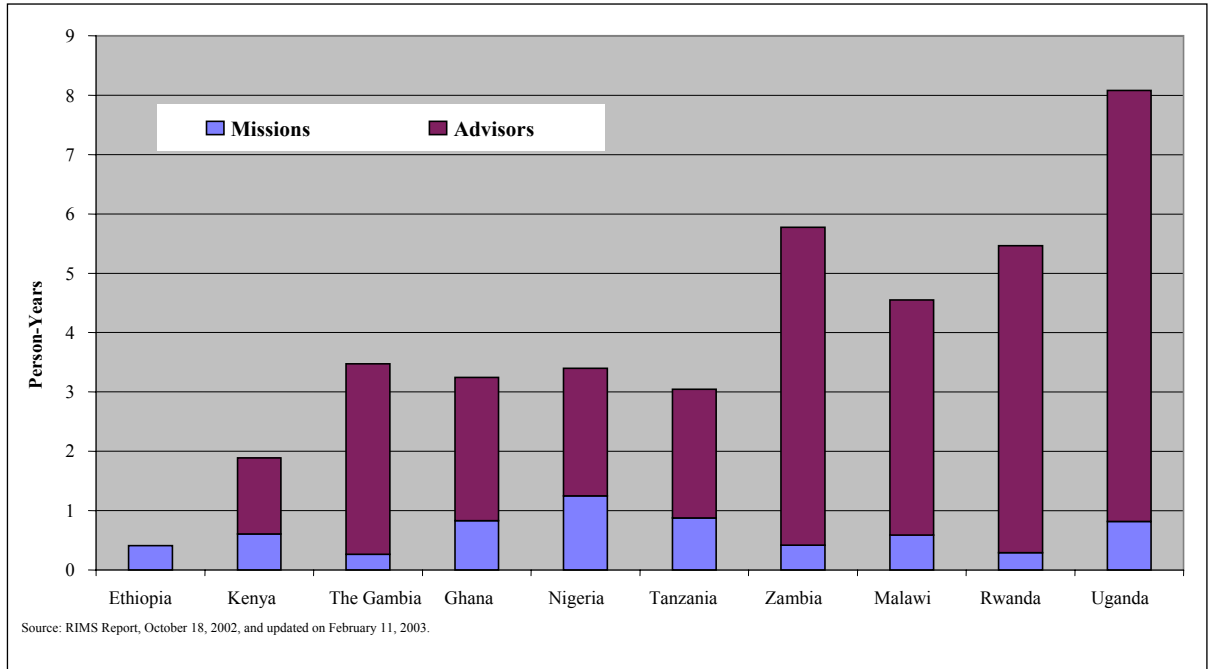
- Prior Action 
- Structural Performance Criteria 
- Structural Benchmark 

Sources: FAD Technical Assistance Reports, 1998–2003; Terms of Reference and Reports of Advisors, 1998–2003; Program documents.

Notes: **BF**, Budget formulation procedures/timetables; **BC**, Budget classification; **BCo.**, Budget coverage and consolidation of recurrent and development budgets; **EC**, Expenditure control–commitment control systems/arrears; **CM**, Cash management: cash release and banking arrangements; **FR**, Fiscal reporting: includes accounting processes and chart of accounts; **IFMIS**, Integrated financial management information systems; **Other**, Fiscal decentralization (Ethiopia and Uganda), debt management, internal control/internal audit (Kenya, Zambia), and macro-fiscal analysis (Tanzania).

The remainder of this section provides an overview of the main features of this TA program by country, by subject matter, and by management of the program.

Figure 1. Distribution of TA in PEM Between FAD Mission and Resident Advisors  
(In person-years of field time, FY1998–FY2003)



## B. Overview of Country Experiences

In **Ethiopia**, FAD was involved in PEM TA only in FY2003; some small inputs were made in the context of an expenditure policy TA mission dealing with intergovernmental fiscal relations. Recently, TA input has started to increase, mainly as a result of the demands of the HIPC initiative, and Ethiopia's inclusion in the Eastern African Regional Technical Assistance Center (AFRITAC East).

In **The Gambia**, FAD input was in two discrete phases, separated by a long break related to a military coup. In the early 1990s, FAD's TA was directed toward integrating budget management with macroeconomic analysis and policy formulation and the development of accounting systems (with some limited computerization). Since the late 1990s, it has been focused on budget execution, specifically improving accounting and fiscal reporting systems (while an IFMIS and MTEF are being developed with World Bank support) and improving the budget classification system. In both phases, TA was provided through stand-alone TA missions and long-term resident advice.

Progress in The Gambia has been hindered by political instability. The military regime abandoned the sound PEM practices built up with the support of TA in the early 1990s. Nevertheless, many of the basic reforms in budget preparation appear to have survived the

period. More serious problems remain in the area of budget execution. Even though this has been the focus of FAD's TA in recent years, progress has been mixed. Limited gains have been made in implementing "flash" fiscal reports and in accounting for HIPC inflows, in streamlining the so-called "below-the-line accounts," and in closing 1992–1999 accounts. These reforms are, however, short term and remedial in nature and need to be replaced by long-term, more sustainable, systemic reform. This task at present falls under a World Bank project.

In **Ghana**, FAD TA was relatively small until very recently. For the major part of the period, other TA providers took the lead in PEM, largely under the ambit of a World Bank reform program. FAD input has increased markedly since 2000, particularly in response to a serious macroeconomic downturn. This revealed a number of weaknesses in the PEM system, in particular in the areas of expenditure control and arrears, the quality of fiscal data, and debt management. In response, FAD fielded a number of TA missions and stationed a resident advisor in Accra. The key responsibilities of the advisor's terms of reference focused on the quantification and control of expenditure arrears. Associated reforms in accounting, fiscal reporting, and cash and debt management have also been pursued.

Table 2. Technical Assistance in PEM: Input Summary of Person-Years of Field Time)<sup>1</sup>

|                               | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | Total  |
|-------------------------------|-------|-------|-------|-------|-------|-------|--------|
| <b>Ethiopia</b>               |       |       |       |       |       |       |        |
| Missions                      | -     | -     | -     | -     | -     | 0.412 | 0.412  |
| Advisors                      | -     | -     | 0.000 | 0.000 | 0.000 | 0.000 | 0.000  |
| <b>TOTAL</b>                  | -     | -     | 0.000 | 0.000 | 0.000 | 0.412 | 0.412  |
| <b>The Gambia</b>             |       |       |       |       |       |       |        |
| Missions                      | -     | -     | 0.162 | -     | 0.058 | 0.05  | 0.265  |
| Advisors                      | -     | -     | 0.115 | 0.997 | 1.097 | 0.997 | 3.207  |
| <b>TOTAL</b>                  | -     | -     | 0.277 | 0.997 | 1.155 | 1.043 | 3.473  |
| <b>Ghana</b>                  |       |       |       |       |       |       |        |
| Missions                      | -     | -     | -     | 0.373 | 0.350 | 0.108 | 0.831  |
| Advisors                      | -     | -     | -     | -     | 1.499 | 0.912 | 2.411  |
| <b>TOTAL</b>                  | -     | -     | -     | 0.373 | 1.849 | 1.020 | 3.242  |
| <b>Kenya</b>                  |       |       |       |       |       |       |        |
| Missions                      | 0.119 | -     | 0.327 | 0.162 | -     | -     | 0.608  |
| Advisors                      | -     | -     | -     | 1.097 | 0.185 | 0.000 | 1.282  |
| <b>TOTAL</b>                  | 0.119 | -     | 0.327 | 1.259 | 0.185 | 0.000 | 1.890  |
| <b>Malawi</b>                 |       |       |       |       |       |       |        |
| Missions                      | 0.019 | -     | 0.088 | 0.335 | 0.096 | 0.046 | 0.585  |
| Advisors                      | 0.997 | 1.008 | 0.611 | 0.499 | -     | 0.85  | 3.962  |
| <b>TOTAL</b>                  | 1.016 | 1.008 | 0.699 | 0.833 | 0.096 | 0.894 | 4.547  |
| <b>Nigeria</b>                |       |       |       |       |       |       |        |
| Missions                      | -     | 0.054 | 0.512 | 0.492 | 0.192 | 0.000 | 1.250  |
| Advisors                      | -     | -     | 0.015 | 0.733 | 0.496 | 0.904 | 2.149  |
| <b>TOTAL</b>                  | -     | 0.054 | 0.527 | 1.226 | 0.688 | 0.904 | 3.399  |
| <b>Rwanda</b>                 |       |       |       |       |       |       |        |
| Missions                      | 0.081 | -     | 0.015 | 0.054 | 0.142 | 0.000 | 0.292  |
| Advisors                      | 0.815 | 0.615 | 1.800 | 1.247 | 0.655 | 0.042 | 5.174  |
| <b>TOTAL</b>                  | 0.896 | 0.615 | 1.815 | 1.300 | 0.797 | 0.042 | 5.466  |
| <b>Tanzania</b>               |       |       |       |       |       |       |        |
| Missions                      | 0.188 | 0.000 | -     | 0.531 | 0.158 | 0.000 | 0.877  |
| Advisors                      | 0.023 | 1.086 | 0.771 | 0.164 | 0.123 | 0.000 | 2.167  |
| <b>TOTAL</b>                  | 0.212 | 1.086 | 0.771 | 0.695 | 0.281 | 0.000 | 3.044  |
| <b>Uganda</b>                 |       |       |       |       |       |       |        |
| Missions                      | 0.673 | -     | 0.019 | 0.073 | 0.027 | 0.023 | 0.815  |
| Advisors                      | 0.000 | 1.488 | 2.302 | 1.861 | 1.499 | 0.115 | 7.266  |
| <b>TOTAL</b>                  | 0.673 | 1.488 | 2.322 | 1.935 | 1.526 | 0.138 | 8.081  |
| <b>Zambia</b>                 |       |       |       |       |       |       |        |
| Missions                      | 0.004 | -     | 0.085 | 0.127 | 0.135 | 0.069 | 0.419  |
| Advisors                      | 0.782 | 0.997 | 0.585 | 0.997 | 0.997 | 0.997 | 5.356  |
| <b>TOTAL</b>                  | 0.786 | 0.997 | 0.669 | 1.124 | 1.132 | 1.066 | 5.775  |
| <b>TOTAL OF ALL COUNTRIES</b> |       |       |       |       |       |       |        |
| Missions                      | 1.085 | 0.054 | 1.208 | 2.146 | 1.158 | 0.704 | 6.354  |
| Advisors                      | 2.617 | 5.194 | 6.199 | 7.596 | 6.550 | 4.816 | 32.974 |
| <b>GRAND TOTAL</b>            | 3.702 | 5.248 | 7.407 | 9.742 | 7.708 | 5.520 | 39.327 |

Source: IMF internal reports for fiscal years 1998 to 2003; fiscal year begins May 1.

<sup>1</sup> In Table 1 and Figure 1, for missions and advisors whose term encompassed more than one fiscal year (FY), the data for the duration of the assignment, excluding extensions, are reflected in the FY when the corresponding mission or advisors' contract commenced. This, combined with the report of February 11, 2003, results in only partial coverage for FY2003.

Progress in Ghana, both during and before FAD's intensive involvement, has been quite limited. Although adverse economic conditions have periodically complicated the task of reform, political neglect and institutional capacity have also undermined reform efforts. FAD's recent TA strategy has been in response to sequential crises rather than in guiding a reform process. In its areas of focus, some progress has been made but implementation has generally been slow and partial, and the basic order in the budget system that was sought has not yet been established. In the broader context, sound medium-term reform initiatives have tended to divert attention from ensuring that the existing PEM system continues to function adequately.

In **Kenya**, FAD has been involved sporadically in delivering TA throughout most of the period, with a short period of resident advice in the mid-1990s and a longer period throughout 2001. FAD has concentrated its advice on expenditure control. In the latter period, the focus was on three main areas: reorganizing the institutional framework for PEM (including those required to accommodate the MTEF initiative); improving expenditure control through control of commitments, managing personnel expenditures, and internal audit (with the latter being the subject of a dedicated TA mission); and improving financial management.

Overall, the impact of TA was disappointing, indicating the low level of commitment from the authorities across the different areas reflected in the advisor's TOR. In some cases, the authorities chose to ignore Fund advice and continued with a poor management approach—for example, in introducing separate bank accounts for ministries at the district level, and the rejection of virtually all recommendations on the reorganization of the Ministry of Finance and Planning (MOFP). In other cases, changes in personnel affected the response of the authorities. Political factors, such as endemic corruption and the run-up to elections in 2002, also complicated TA delivery.

In **Malawi**, FAD has been intensively involved over many years. During the period reviewed in this study, FAD devoted three years of resident advice with substantial headquarters-based support. The primary focus of the TA has been to establish budget execution and reporting systems that enable expenditure control to be meaningfully applied. However, the advisors' TORs have been wide ranging. In particular, they have consistently included substantial elements relating to budget preparation. Prior to 1998, this assistance focused on budget classification issues and advice on the development of the MTEF. The TA on the MTEF, however, was predominantly delivered by the World Bank and, lately, by the Department for International Development (DFID).

Some changes to systems and procedures have been introduced with the assistance of FAD TA. However, despite these improvements, the basic performance of the system remains poor, in part owing to political factors. Expenditure indiscipline is still rife, new arrears continue to be built up, fiscal reporting is weak, the MTEF is still not a credible prioritization tool, and the IFMIS has yet to be rolled out. In the early years of TA delivery, significant progress was made in the area of budget classification, including the development of a basic program format that could be used for constructing realistic budget estimates of government

activities. In the area of budget execution, however, progress was more limited. Cash rationing never developed into a cash management system based on forward planning, and commitment controls have been very slow to take hold. Fiscal reporting has been a continual problem, and while progress has been made in reforming the formal processes and introducing reporting formats, there has been difficulty in enforcing these new systems. Action on a number of reforms was neglected in order to allow the development of an IFMIS. However, this project has been plagued by bureaucratic delay and weak implementation.

In **Nigeria**, FAD's input has been mostly concentrated in the period since 1999, with a number of TA missions supplemented with three short-term experts within the MOF and the OAG. The demand for these missions largely originated from difficulties arising in area department surveillance and programs. TA missions covered all aspects of the PEM system, including budget preparation, organization of the budget management, cash management and government banking arrangements, government accounting, payroll auditing, fiscal reporting, computerization of the financial management system, and finally fiscal federalism with emphasis on PEM issues. However, FAD's resident advisor's work focused on improving budget execution, including accounting and fiscal reporting.

Progress in Nigeria has been mixed, with very little impact on budget preparation, primarily owing to the authorities' reluctance to accept and act on FAD recommendations. Internal dissatisfaction with budget preparation initially focused on institutional issues, which delayed the adoption of technical changes, such as a proposal to move the budget office from the MOF to the President's Office. The proposal was later rejected but only after the appointment of a reform-minded finance minister and director of the Budget Office. FAD is currently assisting the authorities to strengthen the Budget Office. Greater impact has been observed on the budget execution side, in particular on the closure of annual accounts, improving expenditure reporting, and establishing the groundwork for computerization. This reflects personnel changes that have led to more openness to reform. However, even here, progress remains slow, with generally weak commitment at lower management levels.

In **Rwanda**, FAD has provided substantial PEM TA in recent years. This has included almost three years of resident advice supplemented with a large input from headquarters. The coverage of the TA has been broad based, covering budget preparation, budget classification, and budget execution; cash planning and management; fiscal reporting, including flash reporting; drafting of the organic budget law; and financial instructions. Many other TA providers were active in the area during this period, most notably the DFID, the European Union (EU), the United National Development Programme (UNDP), and the African Development Bank (AfDB).

The devastating events of 1994 profoundly affected the workings of government. Despite this, Rwanda now has, by African standards, a relatively well-functioning PEM system. Its centralized computerized budget system provides relatively sound expenditure control and fiscal reporting. However, the system still relies on advisors and consultants, with local management and administrative capacity remaining weak. The overall impact of FAD's input

has been small. This is largely owing to the wide-ranging nature of FAD's work, which was dwarfed by the input of others in the overall TA picture.

In **Tanzania**, FAD TA in the PEM area has moved from a wide-ranging diagnostic approach to a focus on strengthening budget execution processes. The most intensive period, in the late 1990s, featured a resident advisor with a TOR that focused on the most pressing issues in this area: the prevention of expenditure arrears, the absence of recording and monitoring of expenditure commitments, and weaknesses in cash management. However, with the development of an IFMIS, supported by the Swedish International Development Cooperation Agency (SIDA), many of these tasks were viewed as redundant, and the focus of the advisor's work became the introduction of a GFS-based classification system to be integrated with the IFMIS. Input was also provided on the legal framework. Through a multi donor project, FAD has also supported a macro-fiscal advisor in the MOF. This work, although not strictly regarded as PEM, has obvious implications for the quality of budget preparation.

Overall, progress in Tanzania has been encouraging. Reforms in the classification system have been well integrated with the IFMIS project and have facilitated revised methods of budget preparation and accounting. The IFMIS has yielded benefits, in terms of expenditure control and fiscal reporting, although more progress remains to be made in this area. Tanzania now has one of the best performing PEM systems in sub-Saharan Africa.<sup>13</sup> FAD TA had only a limited role in the overall reform program, primarily owing to the large-scale TA effort from other providers. The most important factor in this success has been a strong and unified commitment from the leadership and senior management of the MOF that has maintained firm control of its reform program and associated TA.

Since 1998, **Uganda** has received substantial TA through missions, as well as resident advisors. FAD's TA has covered two key areas: (i) expenditure control at the central government level; and (ii) budget formulation and fiscal reporting system at the local government level. Budget execution at the central government level has been considerably strengthened by the implementation of a commitment control system (CCS) for nonwage recurrent expenditure and development expenditure, supported by quarterly expenditure ceilings fully backed by monthly cash releases. In addition, the modalities for the comprehensive audit of the accumulated arrears by the AG have been refined and a database for the tracking of arrears established. At the local government level, the most significant reform has been in budget preparation, supported by a macroeconomic framework and a medium-term plan for the district budgets.

Overall progress in Uganda has been very encouraging. At the end of the first year of the implementation of the commitment control reforms, new nonwage arrears were reduced by nearly 70 percent compared with the previous financial year; and it appears these gains have been maintained. However, there are a few areas of concern: some powerful ministries continue to have a tendency to overcommit, and the timeliness and accuracy of data need to

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<sup>13</sup> Tanzania got one of the best ratings in the Assessment and Action Plan (AAP) exercise.

be improved. FAD's TA at the local government level had limited success, and some of the tasks in the TOR of the resident advisor could not be accomplished, partly due to limited capacity in the MOF. The most important influence for the success of FAD's TA has been the strong and unified commitment of the leadership and senior management of the MOF to the PEM reforms.

**Zambia** has been one of the most intensive users of FAD TA over the period. Input began with a mission in 1995; resident advice has been almost constant since late 1997. Throughout the period, TA was narrowly directed to the needs of the Fund's lending program. It focused on expenditure control and fiscal reporting and, specifically, on the introduction of a system of commitment control to try to bring the endemic arrears problem under control. TA missions, also frequent over the period, recognized that this problem extends beyond the budget execution system and made recommendations covering a wide range of PEM issues. However, FAD's focus has remained squarely on the budget execution system. Other donors have also been active in this and other areas. In particular, the World Bank has a large TA program, including the development of an IFMIS and an MTEF.

Despite the intensive TA effort, progress up to mid-2002 in Zambia had been extremely disappointing. Only a few of the recommendations made by FAD were implemented by the authorities, and some of those reforms could not be sustained. The entire period was characterized by expenditure overruns, the continuing accumulation of unpaid bills, and the nonavailability of reliable and timely expenditure data for budget planning and execution. Since mid-2002, there have been some tentative signs of improvement in the areas of commitment control, arrears, expenditure tracking, and reporting that FAD TA has continued to address, although many issues remain unresolved. Despite the lack of unambiguous success, FAD has been under pressure to maintain TA, both to support the often struggling Fund programs, and in response to changes of government and personnel that were thought to herald a change in reform direction.

### **Summary of country experiences**

This review indicates that the overall impact of Fund TA in the PEM area has been quite mixed. Two countries showed clear signs of success while two were distinct failures. There have also been some disappointing reversals in the reform process. On the other hand, improvements have occurred in some places after prolonged periods of decline.<sup>14</sup> In reviewing country case studies, it is apparent that the wider political and economic environment is a critical factor influencing PEM reforms. Quite simply, good advice is not always acted on. It is worth underscoring that in many ways, and perhaps not surprisingly, FAD's experience mirrors the mixed success of Fund programs in these countries.

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<sup>14</sup> For example, Ghana's PEM systems have begun to improve significantly in recent years.



### C. FAD's Revealed Technical Assistance Priorities

From this overview, FAD's TA priorities in the PEM area can be summarized:

- First, on budget execution issues (the focus of Fund programs);
- Second, on budget preparation (largely shared with the World Bank); and
- Third, to promote compliance with budget regulations (mainly left to others).

#### **Budget execution issues: focus of Fund programs**

Of the countries in this sample, some have had Fund-supported programs during the study period. Not unexpectedly, in countries that have been heavy users of Fund resources, FAD's TA has been substantially influenced by budget execution issues, which are main concerns in the implementation of Fund programs.<sup>15</sup> This has caused FAD's TA to focus on issues that were essential for successful program implementation—primarily, expenditure control issues and improved fiscal reporting. Thus, in the sample countries, the main areas addressed by TA were expenditure control (seven countries), payment process (eight countries), and government banking arrangements (seven countries).

#### **Improving expenditure control and fiscal reporting**

FAD's approach to expenditure control has focused on moving away from cash controls alone to the first stage of the spending process—**controlling commitments** to bring them in line with cash availability in order to prevent expenditure control problems such as arrears.<sup>16</sup> In three of the sample countries, FAD's resident expert had, as a central component of his TOR, the task of setting up a CCS.

Another aspect of FAD's TA advice was to **improve cash management** concurrently with reforming banking arrangements focused on a TSA, to optimize the use of government cash. In some cases, it was recognized that this also involved debt management to be integrated with the cash planning. In six countries in this sample, FAD's resident advisors had cash management issues among the stated tasks of their TOR.

The need for better quality and timelier **fiscal reporting** in Fund programs led to a major effort in trying to **improve the accounting systems** that provided the raw data for fiscal reports. Attempts to improve accounting were often associated with longer-term projects to introduce IFMISs.

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<sup>15</sup> For a more detailed discussion of PEM measures in Poverty Reduction and Growth Facility (PRGF)-supported programs, see Gupta, et al. (2002); for an overview of some PEM implications of structural adjustment, see Diamond (1996).

<sup>16</sup> Increasingly, this approach has been shared with the World Bank and other TA providers.

Despite FAD's TA, the persistent poor quality of the data has made fiscal reporting difficult. The HIPC initiative, which required many of these sample countries (Ethiopia, The Gambia, Ghana, Malawi, Rwanda, Tanzania, Uganda, and Zambia) to **report on their poverty-related expenditures**, exposed the basic weaknesses. Indeed, of the eight HIPC countries in the review group, only half passed the average benchmark in fiscal reporting. In part, the problem was an inadequate classification system to identify and tag poverty-related expenditures, but in part there has been a failure of the system to report in an accurate and timely manner. In response, the authorities were encouraged to develop action plans to overcome PEM weaknesses, in coordination with TA from donors. FAD, in collaboration with the World Bank, carried out an assessment of 24 HIPC countries to identify major PEM weakness, helped the authorities develop action plans to address these weaknesses, and also provided TA to implement these action plans. Thus, HIPC-related reporting on poverty-related expenditures formed part of the work program for FAD's resident advisors in all eight HIPC countries included in this sample.

### **Budget preparation issues: largely shared with the World Bank**

The principal issues that FAD's TA addressed in this area were, in order of priority, improved classifications; greater realism in budget projections; ending dual budgeting by consolidating recurrent and development budgets; extending budget coverage; supporting development of an MTEF; and reviewing budget procedures, most particularly, introducing more realistic budget calendars.

In four countries (Malawi, Nigeria, Rwanda, and Tanzania), FAD's advisors addressed issues related to the budget consolidation and coordination of recurrent and development budgets. In three countries (The Gambia, Malawi, and Tanzania), budget classification was the main area of FAD's TA. In Rwanda, FAD assisted in improving budgeting procedures and budget preparation timetables, and, finally, in Tanzania FAD helped in extending the budget's coverage.

### **Issues not substantially addressed by FAD TA**

There were a number of areas in PEM that were largely left to other providers, but where FAD felt obliged to enter if no other donor was available. One area was in strengthening existing financial regulations or drafting new budget management laws and regulations. Another area that preoccupied many Anglophone African countries during the period examined was the policy to decentralize and the implications of this policy for PEM. Missions to Ethiopia, Tanzania, and Uganda examined this issue. FAD's approach has been to treat this topic as benefiting from a multidisciplinary approach, arising from its revenue as well as expenditure dimensions. For this reason, it has not been a central element of PEM TA.

Also, increasingly, attention has been paid to supporting public commitments to transparency, and by so doing improving accountability and countering corruption. Much of this effort took place through missions that prepared a Report on the Observance of Standards and Codes (ROSC), which in the African context had a strong component of

indirect TA. Out of the sample countries, only Malawi and Tanzania received ROSC missions, and their reports have been published. Occasionally, FAD provided one-off missions to assist functions such as internal audit (Kenya), but these were regarded as noncore TA areas by FAD. Other areas, such as strengthening the AG's office, and any form of TA with a strong training element, while recognized as important, were largely left to others.

#### **D. Mode of Technical Assistance Delivery**

Two issues in FAD's mode of TA delivery in these countries should be noted: first, the heavy dependence on longer-term resident advisors; second, its demand-determined orientation.

FAD's basic approach to TA delivery in this set of countries, based on a comparatively heavier weight given to resident advisors, could be questioned. It is sometimes argued that rather than investing so many resources in resident advisors, FAD should remain at the diagnostic and strategic end of TA, laying out a TA plan for others to fill in behind it. Although this approach has been followed successfully in other geographic regions, in Anglophone Africa, this approach did not appear appropriate in many of these countries for a number of reasons.

First, many of the TA interventions were directed at resolving problems encountered in Fund programs, where other providers could not be expected to attach the same level of importance as FAD did. Second, in the sample countries, there were many other providers of TA in the PEM area (such as the World Bank and the DFID) whose resources were a great deal larger than FAD's input. These agencies had long been in the field in the PEM area, typically having regional offices, and already having a well-formulated TA agenda for these countries (often directed by TA policy from their headquarters). There was no reason for them to recognize FAD as the lead agency in this area and to be prepared to fill in after FAD's strategic assessments. Third, given the administrative capacity in many of these countries, it was felt that implementation of FAD's recommendations would require hands-on support by resident advisors, and missions could not be expected to do this basic work. Of course, the danger of this approach was that FAD's resident advisors could quite easily become line officers, moving TA downstream. This danger was often confronted, and required vigilant backstopping to minimize it. While there is a certain attraction in sticking solely to the top strategic end of TA advice, given these basic realities of TA delivery in the African context, it is unlikely FAD had much option in choosing this more basic approach to TA delivery. Moreover, since these conditions are likely to change only slowly in the near future, it is doubtful if this approach can be substantially modified. Issues regarding FAD's comparative advantage in PEM TA, as well as the relationship with other providers and area departments, will be discussed more fully below.

Over the period, FAD's approach to TA delivery has been largely demand-determined, with FAD responding to requests from the authorities for advice to meet their PEM requirements. Many of these requests were made at the instigation of the area department, so that it was possible for FAD to influence the nature of the request. However, the degree of freedom for FAD to be proactive has not been great. The result has been that in responding to demands, the specific need that was being satisfied did not necessarily fit into any coherent plan for the

development of the country's PEM system. Moreover, there is a suspicion that, in this way, FAD's TA tended to be a short-term response to a particular urgent need rather than addressing longer-term, and perhaps more fundamental, problems.

It is important to recognize that there was often a **tension between short-term and more long-term solutions** that has been reflected in the mode of delivery. As indicated, FAD TA often focused almost exclusively on short-term or interim solutions in the strengthening of the present system and purging it of abuses; improving monthly reports (coverage, timeliness, quality or reconciliations, etc.); recording, reporting, and monitoring of expenditure arrears; and closing annual accounts (catching up with backlogs). The longer-term reforms were largely left to others—for example, in developing an integrated IFMIS (sometimes FAD assumed some form of support or oversight role, but generally these were developed by other donors' TA). Given the limited absorptive capacity in these countries, this meant that there were often tensions between FAD's TA and the TA of others. Throughout the period examined, this raised broader questions of the division of labor in TA provision, and of the degree of TA collaboration that was possible in the PEM area.<sup>17</sup>

In reviewing the TA provided, the issues that were its focus, and the approach to delivery adopted, it is important not to forget that this TA effort represented only a small part of the overall TA provided in the PEM area to these countries. FAD's TA for this group of countries during this time period generally took place against a backdrop of increasing TA in the PEM area, with a growing number of other TA providers, who often occupied more central positions in these countries than did FAD. In Anglophone Africa, this is especially true of the World Bank and the United Kingdom's DFID. Apart from its size, the Fund's short-term approach was often seen as “fire-fighting” rather than capacity building. While it was not disputed that FAD focused on areas where the problems were most acute, it is also true it often entered these areas only when the problems had already reached intolerable levels. For example, in countries like Ghana, FAD clearly intervened with TA after the crisis point had been reached. FAD's TA advice cannot be divorced from this “emergency” aspect of FAD's TA delivery. In Ghana, for example, it is a debatable question whether the TA story would have been substantially different if FAD had stayed more engaged over the longer term.

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<sup>17</sup> For example see: “The IMF and the World Bank Group: An Enhanced Partnership for Sustainable Growth and Poverty Reduction, Joint Statement by Horst Köhler and James Wolfensohn,” September 5, 2000, available at: <http://www.imf.org/external/np/omd/2000/part.htm>; and “Policy Statement on IMF Technical Assistance,” April 1, 2001, available at: <http://www.imf.org/external/pubs/ft/psta/index.htm>.

### **III. EVALUATION OF PEM TECHNICAL ASSISTANCE**

It is clear, from the above review, that there are some lessons to be learned not only for FAD's future work in the way FAD delivers TA, but also from the experience of different countries in the impact this has made as well as the problems that have been encountered. A theme emerging from this review is that FAD's past approach of responding to short-term problems in a short-term way, without an overall "game plan" for the country, might not have been the most productive approach. Often it appears that, in response to an identified problem, FAD offered a set of prescriptions, generally aimed at ameliorating the identified problem, but recognizing that a fundamental cure would require substantially more resources, especially on the side of the country authorities, and take much more time. Perhaps FAD should have stepped back and looked at the nature of the reforms based on a broad strategic overview. If this work were to be done now, with hindsight, what would FAD have done that was different? Would FAD have chosen to focus on the same problem areas and, if so, offered the same prescriptions? Would other areas have perhaps been included that were neglected in the past or left to others? Would FAD have attempted to integrate its work better with the work of others, or chosen to be more directly involved in some areas?

Squarely addressing these key questions will allow a reshaping of FAD's overall strategy toward this group of countries in the PEM area. This section of the report is thus structured to answer these three sets of questions. First is an examination of the priority areas for FAD's past TA, to assess what went wrong as well as what went right. Second is a review of other areas that perhaps FAD might have emphasized more. Third is an examination of how FAD advice was coordinated with that of other TA providers, and the way that conflicts arose and how they might be resolved in the future.

Accordingly, this section analyzes the features of the FAD TA program described at the end of Section II to identify the strengths and weaknesses of the approach taken. In doing so, it addresses, in turn, the individual areas of focus identified in Section II: expenditure and commitment control; fiscal reporting; accounting systems and IFMISs; budget preparation and MTEFs; issues not substantially addressed by FAD TA; and, finally, in Section IV, issues concerning the mode of TA delivery. In each area, the analysis considers the appropriateness of the subjects chosen and the solutions recommended, assesses the reasons for success or lack of it, and discusses alternative solutions or areas that could have been emphasized more. Specific country examples are identified where relevant. The proposals made in each section form the basis of the summary future strategy in Section V.

#### **A. Expenditure and Commitment Control**

##### **Analysis**

Section II identified that, in the latter part of the 1990s, FAD's TA in the PEM area stressed the importance of commitment controls as essential to controlling expenditures (see Box 3). Certainly, even in those countries where FAD has provided extensive TA on this issue, one can ask why arrears continue to be a major problem. Box 4 provides a more detailed account of the problems encountered in implementing commitment controls in one set of countries.

Although this experience may not directly apply to the other countries in the study, it does provide an illustration of the wide range of factors that appear to have contributed to the disappointing results in this area. These are detailed below.

### **Box 3. The Approach to Commitment Controls**

Since all commitments result in future cash payments, control of commitments is essential for controlling expenditure. FAD's TA assisted a number of countries to set up commitment control regimes—including Ghana, Malawi, Tanzania, Uganda, and Zambia. The key objective of such regimes is to require SMs to focus on controlling the initial incurrence of liabilities rather than the subsequent cash payments.

A commitment occurs when a formal action is taken, such as placing an order or awarding a contract that renders the government liable to pay either immediately or sometime in future. In cases where expenditure does not involve a specific contract (e.g., wages, utilities, rent, debt service), but where there is an obligation for the government to meet the expenditure, then a reasonable estimate of these expenditures must be made and should be treated as commitments.

Since commitments mature as payments, control of commitments is essential for expenditure control. If commitments are not controlled, expenditures or arrears cannot be controlled. The key elements of a CCS are:

- Each line ministry (LM) sends to the MOF a quarterly expenditure plan supported by projected monthly cash requirements. Based on annual and quarterly cash plans, the MOF issues quarterly expenditure ceilings along with the projected amounts of monthly cash release to SMs, before the beginning of each quarter.
- The SM must limit the commitments to the level of quarterly expenditure ceilings and keep planned payments within monthly cash release.
- A monthly report on outstanding commitments and unpaid bills is prepared and submitted by the SMs to the MOF.

Each LM should have a commitment control officer (CCO), usually the controlling/accounting officer, who is responsible for managing the system. Detailed procedures for approval of commitments, payment, and accounting are issued. The onus is on the CCO to ensure that commitments entered into are consistent with the quarterly ceilings—without incurring any payment arrears.

### ***Accounting framework gives low priority to commitment control***

In most Anglophone African countries, the requirement to control commitments is reflected in the structure of records that should be maintained by budget institutions (typically, in a column in a basic “vote book” or “commitment and expenditure ledger”). These ledgers are typically manual and are poorly maintained. At the same time, statutory requirements focus almost exclusively on controlling expenditures with respect to budget appropriations.

Accountability to parliament is through annual appropriations that expire at the end of each financial year, and financial reports reflect cash execution of the expenditure plan approved by parliament. The budget office in the MOF focuses on presenting the next budget, and in satisfying government and political pressures for cash. In this way, commitments made and

coming due have taken a distant second place to the immediate cash position, even though they can seriously distort that position.

***The budget as the basis for commitments is not credible***

Budgets have often been based on an incremental approach and unrealistic projections of revenues. Typically, expenditures are underestimated or omitted. To this can be added contingencies, genuine national emergencies, and inevitable presidential and cabinet office extrabudgetary decisions. All this means that the budget loses its credibility as an expenditure plan. In turn, politically powerful SMs will accept lower provisions than they believe are required because they know that they will be able to recover their position during the year through the cash release process and budget supplementaries. In this way, the budget does not have credibility and, without this, can provide no basis for disciplined implementation.

***Authority to spend is not fully backed by cash***

Many Anglophone African countries use a warrant system for authorizing spending, to allow tranches of the budget to be released throughout the year. Cash releases are often below warrant levels, and the latter are also often below budget authorizations. Thus, if SMs base their commitments on budget authorizations, arrears are inevitable. This explains why, for many of these countries, budget execution has been driven by a cash-rationing system that is used to reconcile internal inconsistencies in the approved budget, as well as to meet new (unbudgeted) expenditures arising during the year. Decisions on cash releases are typically made by a small group in the MOF in a nontransparent way. This can generate widespread mistrust in SMs and promote the idea of a lack of discipline in the MOF. Cash releases are suspected of being driven by decisions made for political and other reasons unconnected to the budget. Generally, it is very disruptive to orderly operations of government—some weak SMs are deprived of cash for regular recurrent expenditures, and cash releases for capital expenditures are even more sporadic, usually receiving the lowest priority.

This system allows SMs to deny their accountability under the claim that their arrears are not their fault, nor do they arise from their lack of effort to control commitments—the arrears are simply caused by the MOF's cash releases not matching budget provisions.

***Cash management is poor***

FAD's TA did address cash management as a separate but related aspect of commitment control in some, but not in all, countries. The need to pursue this issue was clear, although recognized as difficult. For those countries that followed a decentralized system that is associated with multiple bank accounts, the desired consolidation of these bank accounts inevitably ran against current accepted practices, and hence encountered more than the usual opposition from SMs. In some of these countries, the move to a TSA was constrained by the banking system. In the absence of adequate electronic networks in the banking system, the consolidation of accounts was difficult, and the use of zero-balance accounts in the commercial banks that could be swept by the MOF was impossible. At the same time, because of the lack of any tradition of centralized cash management, cash-planning skills

remained at a basic level in the MOF, and the importance of the TSA for financial planning was not fully appreciated by top management.

***Corruption is a factor***

When someone controls cash releases in a nontransparent way, opportunities for diversion into activity not approved by the budget are encouraged. This diversion, by reducing the funds available for legitimate requirements, contributes to arrears. It also encourages SMs to view arrears as an option for funding legitimate activities. The problem tends to be exacerbated by weak internal controls: for example, internal audit is geared to a retrospective approach and it is typically underfunded. Successful prosecution of fraud is low, and there are inadequate accounting and purchasing controls. In addition, the problem is almost legitimized by the inadequacy of civil servant remuneration.



#### **Box 4. The Commitment Control Systems in Malawi, Uganda, and Zambia**

In the mid-1990s, the PEM system in Uganda was characterized by (i) expenditure overruns, particularly in the nonwage recurrent budget; (ii) lack of an adequate system to monitor and control commitments; and (iii) accumulation of expenditure arrears by the central spending agencies. In 1997, the government of Uganda requested FAD's TA on expenditure control and monitoring. FAD started providing TA through a resident advisor, beginning in November 1998.

FAD TA to the government of Uganda consisted of (i) designing and implementing a CCS for controlling commitments; (ii) closely monitoring commitments and expenditures, and avoiding the buildup of new arrears; (iii) verifying the accumulated stock of arrears by the AG; and (iv) training and capacity building to ensure sustainability of these reforms. The approach to the CCS is described in Box 3.

The package of measures included (i) implementing the CCS for nonwage recurrent expenditures for all central ministries and departments in July 1999; (ii) introducing the CCS for development expenditure effective October 2000; (iii) maintaining quarterly expenditure ceilings fully backed by monthly cash releases, based on improved cash management; (iv) providing adequate funds for priority and essential budget items and more realistic budget estimates; (v) creating public awareness through the media about the CCS and the responsibility of accounting officers to pay bills within 30 days; (vi) strengthening internal audit and inspection to enforce compliance and improve the quality of commitment data; and (vii) comprehensively auditing the stock of arrears by the AG and implementing a strategy for their liquidation.

At the end of the first year of the implementation of the above measures, new nonwage arrears were reduced by nearly 70 percent compared with the previous financial year; and in the subsequent years the gains were maintained. However, there were a few areas of concern: some power ministries had a tendency to overcommit and accumulate unpaid bills, and the timeliness and accuracy of data needed to be enhanced. The system needs to be consolidated and strengthened further to ensure its long-term sustainability. The most important reason for the success has been the very strong and unified commitment of the leadership and senior management of the MOF to the commitment control reforms.

Compared with Uganda, there were considerable difficulties in implementing a CCS in Zambia and Malawi. In Zambia, the CCS did not prove to be effective as it was difficult to get beyond the recording and monitoring of outstanding commitments and unpaid bills, which were needed to control commitments; and it was not combined with other supporting measures as in Uganda. The latter country introduced a system of quarterly expenditure ceilings fully backed by monthly cash releases, along with an inspection process to enforce compliance and improve the quality of commitment data. This limited approach in Zambia was a symptom of an MOF that was unable or unwilling to impose financial discipline.

In Malawi, the CCS introduced was very similar to the one in Uganda. Despite some initial progress in recording and reporting expenditure commitments and audit of arrears, there was no impact on the accumulation of new arrears. The system has not progressed further due to noncompliance by the spending agencies and lack of enforcement and penalties by the MOF. Political neglect and lack of institutional capacity have also undermined reform efforts.

#### ***Separating stock and flow solutions to arrears is impossible***

The above features undermine the usual approach to arrears. Typically, the recommended solution to arrears problems is to tighten controls to prevent new arrears while paying off the old stock. However, special budget provisions for paying off existing arrears usually assume that no new arrears are created. Unfortunately, these special provisions may create moral hazard, encouraging SMs—whether suffering cash shortages or not—to use the special

“arrears” releases to meet ongoing and new commitments. The existence of such provisions is simply an incentive to create new arrears in order to acquire cash that is not otherwise provided.

### ***Sanctions for noncompliance are absent***

Often, there is an absence of sanctions against ministers, AOs, or chief accountants who consistently ignore the requirements placed on them by the MOF to control commitments and eliminate arrears, even though they exist in financial regulations. This is partly a result of the power structure in ministries. Often, the MOF does not have sufficient power to confront other SMs and, if it does so, would risk being thrown into conflict with the president, who appoints ministers and AOs. However, the problem is typically more basic than this—a lack of enforced financial discipline throughout government. In the decentralized Anglophone environment, change can come about only by forcing AOs to be fully accountable for the funds they manage—not only actual payments made but also all arrears accumulated.

### ***Leadership and management shortfalls hinder success***

A number of other factors work against successful reform. First, a typical state of perpetual crisis exists so that few reforms are properly managed and even fewer are implemented through to their conclusion. Crisis management and damage control overtake good budget management. Second, inadequate management skills and reluctance to delegate authority impede or delay decision making. Third, poor basic wages are out of proportion with allowances that have arisen to compensate for poor pay. The reward system is skewed toward attending workshops and seminars, and obtaining status symbols, such as cars and mobile phones, rather than being based on achievement. Fourth, job insecurity and reliance on patronage and political and other connections, together with large extended families, make it difficult for individuals to resist pressure from above or to make hard decisions. Not surprisingly, directives, guidelines on processes, and procedures are often overlooked, overridden, or ignored.

### **Future options**

The factors described above strike at the heart of PEM problems in Anglophone African countries. They suggest that commitment control efforts might have been better applied at the root cause of the problem. Moreover, in practice, commitment controls often cover only a small part of the budget. Important components such as wages, interest, and even spending on utilities have been excluded as “fixed” commitments. It is apparent that, for commitment control to be effective, it cannot simply be considered a technical problem, but requires the active backing of the authorities at the highest level. Often this appeared lacking and undermined the successful application of FAD’s TA in this area. Even when this backing was present, the technical problems appeared quite fundamental. Any proposed solution confronted the basic endemic problem of poor record keeping and data quality in these countries (see Section B below). Without the basic records being adequately maintained within the SMs, the task of introducing commitment reporting and controls was problematic. Also, to move from commitment recording and reporting to commitment control, although

possible manually (e.g., in Uganda), ideally requires computerization, which has proved difficult to introduce in the African context (also discussed below).

*Given this general environment, what should FAD's approach be?*

Before advancing on establishing a CCS, a review of four main aspects of the expenditure control problem should be undertaken.

- First, an assessment should be made of the realism of budget estimates on which commitments will be based and, if they are not credible, FAD should refrain from emphasizing a CCS as a solution. Rather, the focus should be on improved budget preparation.
- Second, an assessment should be made of the quality of the cash planning that underlies the cash release system. If deficient, it should be strengthened before a CCS is put in place.
- Third, an assessment should be made of whether it is possible to identify and monitor the present stock of arrears, and to develop reporting mechanisms that will capture the incurrence of new arrears.
- Fourth, there should be adequate assurances of political commitment to enforce accountability, so that if AOs are discovered to be deficient in their responsibilities they will be sanctioned.

All of these requirements should be viewed as components of an effective CCS. If deficient, these aspects should be strengthened simultaneously, or even viewed as preconditions, for the introduction of a CCS.

## **B. Fiscal Reporting**

### **Analysis**

As indicated from the above review of FAD's TA inputs, much of the work has focused on improving fiscal data and its reporting. The experience of the countries reviewed in this study would suggest that perhaps the problems in this area have tended to be underestimated.

The disappointing record in this area largely reflects the fact that poor fiscal reporting stems from weaknesses throughout the PEM system (see Box 5). This diffusion of contributing factors is difficult to address when central reporting of different stages of the expenditure process requires inputs from many units. Inevitably, there has been a relative paucity of resources directed to this underlying problem. The responsibility for delivering any reform has to be the SM's—and, in the past, a sufficient volume of TA resources was not directed there. In many cases, FAD's TA was applied to improving procedures in the OAG. However, at this central level, the focus was mainly on the last stage of spending—cash transactions

and their reconciliation with bank accounts. A single FAD TA advisor placed at the center, in the MOF, could not be considered as adequate to address this problem.

### **Box 5. Sources of Poor Data Quality and Fiscal Reporting**

- **Incomplete coverage**
  - Extrabudgetary funds.
  - Lower levels of government.
  - Information on donor-funded projects.
- **Cash reporting**
  - Hence no expenditure and taxation arrears data.
  - Other noncash fiscal impacts absent.
- **Gaps in important fiscal information**
  - Government guarantees.
  - Quasi-fiscal activities.
  - Contingent liabilities.
- **Data inconsistencies**
  - Coverage of government accounts in monetary survey not the same as above-the-line fiscal data.
  - No reconciliation of debt stocks with financing flows.
  - No reconciliation of accounting ledger data with bank account records, undermining reliability.
  - Budget and outturn data are very different because of poor revenue forecasting techniques, weak expenditure controls, and poor cost estimation.
  - Fiscal programs not the same as represented by budget approved by parliament.
- **Lags in reporting**
  - In-year reports slow or incomplete.
  - End-year accounts and audited accounts delayed.

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Source: Craig (2002).

Unfortunately, often other donors have not seen the value in applying resources at this stage of the spending cycle. Inputs provided by other donors tend to be aimed mostly at more “upstream,” and probably less resource-intensive, reforms in budget preparation (see Malawi). A major effort is required to promote greater donor participation in building up capacity in the SMs to strengthen data recording and reporting and in establishing solid internal management controls. The focus of FAD’s TA in fiscal reporting, and some examples of its application, is reviewed in Box 6.

### **Box 6. The Focus on Fiscal Reporting**

The fiscal reporting system in most of the sample countries is inadequate and weak. The sources of available data are quite scattered and are not easily integrated. The large discrepancies in fiscal data negatively impact Fund program design, implementation, and monitoring.

The budgeting and accounting systems do not provide (i) information on costs of policies and programs for planning and budgeting; (ii) financial information for budget management; and (iii) reliable data on revenue, expenditures, and financing for monitoring economic performance. The banking information in the revenue and expenditure bank accounts is mainly used for monitoring program targets. The fiscal situation is derived from the books of the central bank.

There are serious concerns about the quality and consistency of the fiscal data, which result in a sizable discrepancy between the above- and below-the-line data. It becomes very difficult to assess and monitor fiscal deficit. Another major factor contributing to this problem is that government policymakers and financial managers at various levels do not seem to be interested in using fiscal data for monitoring, controlling, and decision making. The dissemination of fiscal data to the legislature and the public is very limited. Often, fiscal reports are produced to meet requirements of international organizations and bilateral donors rather than as a key tool to set fiscal policy and monitor fiscal targets.

Much of FAD's TA input has been directed toward improving the availability and quality of fiscal data. FAD's recent TA in The Gambia has helped in the closure of past annual accounts, the recording of loan and grant transactions, and the development of a flash reporting system in the absence of a timely general ledger in the Accountant General Department. In Nigeria, FAD's TA has assisted in developing interim software applications for recording the warrants, cash releases, and maintenance of the cash book; this has improved the monitoring of budget implementation. FAD's TA in Malawi also worked on improving the consistency and quality of the various sources of fiscal data.

The impact of FAD's TA on improving fiscal reporting has been inevitably limited in the countries reviewed. FAD's TA has focused on interim solutions to address the immediate problems in fiscal reporting; the ultimate solution lies in establishing IFMISs, which is largely being addressed by the World Bank.

### **Responding to fiscal reporting needs from a short-term perspective**

The question has been raised that by concentrating on data quality and fiscal reporting FAD may have adopted a short-sighted "Band-Aid" approach to this problem. Could we have taken a more structural approach that would have yielded more sustained improvements?

### **Future options**

If we examine the usual problems confronted in the African context when attempting to improve fiscal reporting, their causes are so diverse that they cover almost all PEM areas. It could be argued that any effective solution to data reporting problems must be sought in addressing the fundamentals, not the symptoms. This could be viewed as a medium- to long-term solution running counter to the Fund's short-term data requirements and program orientation. At the same time, the short-term need of the area department for reasonably reliable data cannot be ignored. **What is the basic minimum interim solution to a**

## **country's data problems that must be established before addressing required longer-term reforms?**

First, support should be provided to the area department in ensuring that the coverage of fiscal reports meets the requirements of the Fund's program. In terms of HIPC countries, this means the ability to track poverty-related spending, even if it takes place at lower levels of government.

Second, assistance should be provided in setting up reporting mechanisms for tracking the level of arrears, and subsidiary procedures are needed to allow an audit of at least the most substantial of these arrears. Given their interrelation, care should be taken to include both expenditure and tax arrears.

Third, some benchmark procedures should be put in place to assure some basic minimum level in the data quality reached. This will involve procedures for

- Checking that the government bank accounts included in the fiscal reports match those for the government sector in the monetary survey.
- Closing all below-the-line accounts used for evading financial controls.
- Reconciling changes in debt stocks with financing flows.
- Reconciling accounting ledger data with bank account records.

In addressing weaknesses in the accounting system that underlies the fiscal reporting system, there are two particular areas that should be focused on:

**Stress the importance of the accounting function.** An essential element in good reporting is timely record keeping and accounting in the SMs and the OAG. Clearly, government accounting has been an important focus of FAD TA. Even so, perhaps FAD could play a more proactive role in stressing to MOF managers the importance of the accounting function. The aim should be to counter the tendency often found in the Anglophone African system for the OAG to be the "poor relative" of the MOF's top management, or else divorced from direct MOF involvement.

**Stress the timelier closing of accounts.** The weakness of the accounting function has been manifested in many Anglophone African countries by the failure to close government accounts in a timely fashion after the fiscal year ends. This is a widespread problem in Africa, and has led FAD to provide recent technical support to complete this task (e.g., in The Gambia and Lesotho). This approach could be regarded as too downstream, yet at the same time, it addresses area department program needs. Given the importance of closing accounts to ensure the quality and timeliness of fiscal data, perhaps FAD should develop a general position on how to treat lack of production of historical accounts. This would involve a twofold approach: an immediate injection of TA to help close the accounts,

and a strategy to strengthen the OAGs to prevent a recurrence of the problem—that is, a combination of downstream and upstream technical advice.

### **C. Accounting Systems and IFMISs**

FAD's advice on accounting systems tended to focus on the immediate problem of rectifying weaknesses in the presently functioning accounting systems. This largely stemmed from FAD's focus on improving fiscal data in the short term (see Section B above). From this perspective, two problems were often encountered: local capacity constraints and the need to accommodate medium-term computerized solutions.

Even in improving basic manual accounting systems, the limited capacity of the OAGs in these countries constrained the progress that was possible. Almost universally, FAD's TA efforts have come face-to-face with a basic constraint in the African context: a general shortage of accounting skills. Moreover, efforts to improve these skills in government have often been frustrated by the migration of skilled labor to the private sector for higher pay—another endemic problem of the government sector in most of these countries.

At the same time, FAD advisors have often been assigned to countries that are undertaking large donor-supported computerized projects, such as IFMISs, and find themselves unable to avoid being drawn into supporting these projects. When FAD's TA has been used to support IFMIS development—not just in Africa—the experience has not generally been good. All these projects have taken considerably more time and resources than initial project estimates. Many have tended to be a time-consuming distraction for FAD's advisors, although peripheral to their TOR (see Box 7).

However, the fact remains that there are very few successful projects to be shown for all the TA effort and financial resources that have been applied by other donors in this PEM area. There are a number of reasons for this, many of which are common to implementing large projects in other areas.

#### **Computerization cannot be the solution if fundamental preconditions are lacking**

Since the accounting system is the backbone of the IFMIS, to successfully develop an IFMIS, accounting procedures must be adequate. Often, there is a low level of computer literacy in the country, which must first be built up before such projects are truly viable, especially when applied government-wide. A computerized system's greater reliance on communications systems, which are admittedly poor in Africa, may be another constraint. Also, the Anglophone system may be at a disadvantage in this regard, since it is more difficult to computerize a system that has spread between OAGs and SMs. Thus, while IFMISs may be the medium-term solution to many PEM problems, it is most important to be realistic about the time horizon in which they can be implemented.

### **Box 7. Implementation of IFMISs**

In the early 1990s, developing countries in Africa began focusing on budget and expenditure management reforms. A new element was added to the PEM reform agenda—the introduction of an IFMIS to improve the quality of public finance, particularly budgeting, accounting, and fiscal reporting. Among various African countries involved in the process of developing and implementing an IFMIS, Tanzania is well advanced and has successfully implemented a core budgeting and accounting system in central ministries and departments. Many other countries under review, notably, The Gambia, Ghana, Kenya, Malawi, and Uganda, are still struggling to get their IFMISs up and running.

Ghana has been implementing an ambitious multifaceted Public Financial Management Reform Program (PUFMARP) since 1996. The development of the IFMIS (referred to as the Budget and Public Expenditure Management System, or BPEMS, in Ghana) is ongoing, and the pilot implementation started in January 2003. Similarly, Malawi initiated budget reforms in 1995 with an MTEF and an IFMIS; the IFMIS is still under pilot implementation at four selected sites. Uganda and Kenya are still in the process of procuring the hardware and software for their IFMISs. The IFMIS project in The Gambia has not even entered the design phase after more than two years of “development” work.

The track record of financial management reform programs, including the introduction of an IFMIS, has been rather disappointing. These reform programs were basically donor-driven, with limited commitment and involvement of the political directorate and local officials. The development of the IFMIS, which has been a component of overly ambitious and complex reform projects with a broad range of interrelated interventions in budget preparation and execution, has encountered design and implementation problems, which resulted in substantial delays. The necessary capacity to manage and implement IFMISs has not been adequate. The management capacities for this major change and the development of a conducive environment to digest the reforms have been missing.

The substantial delays in the introduction of IFMISs have raised other problems. In Ghana, the MTEF took off as planned, and a new budget classification was introduced, for which the IFMIS (BPEMS) was not ready to record expenditure transactions; as a result, there were no accounts for almost two years, and the government had to develop an interim system to record transactions to conform to the new budget classification. This has raised the issue of the interdependency of project components and subcomponents; in a system, implementation problems in one area impact other related project areas.

As indicated, FAD advisors have been assigned to countries that are undertaking large donor-supported IFMIS projects, and often find they are drawn into supporting these projects. In Malawi, the slow implementation of the IFMIS project has been a recurrent problem throughout the stay of FAD’s resident advisors. In the interim period of four to five years prior to the full implementation of IFMIS, FAD has tried to ensure that the present accounting and reporting systems are maintained, and that business practices in the MOF are adjusted to the new computerized environment.

### **Leadership of politicians and top bureaucrats is weak**

To get IFMIS reforms accepted, decision makers must be sold the idea that the benefits exceed risk. However, officials tend to be risk averse—introducing computer technology is an innovation that is perceived as risky. It is complex, it demands skilled staff, and it needs procedural changes. There is plenty of evidence of past failure. At the same time, decision makers often lack the necessary background: the information technology (IT) is usually introduced by expatriates, so there is room for distrust, even hostility. Second, decision makers must be convinced it is needed—that is, that the problem exists and,



therefore, is in need of reform. Basing a reform on conditions imposed by donors, as has sometimes been the case in Africa, does not increase the success rate. Third, decision makers should recognize the urgency of the reform or the need for prompt implementation—often this perception is lacking at the top.

### **Institutional constraints must be overcome**

The introduction of an IFMIS is not just a technical effort; it is a change in the traditional way of “doing business.” Hence, the reform of business practices should be a top priority, but too often there exists a blind belief that computers will solve all problems. For an IFMIS project to succeed, substantial groundwork is needed to standardize and modify the manual procedures, including documentation used and procedural rules across all ministries, and redesignation and strengthening of internal controls, to provide the basis for an enduring system design. As a result, while computerization significantly improves data processing, the greatest benefit may simply be in improving the manual system. The introduction of computers and the discipline of data processing tend to highlight the incompleteness of a manual system. Accordingly, it makes sense to first strengthen the manual accounting system, with minimal electronic data processing. A robust manual system promotes a robust computerized system by providing an accurate paper trail that encourages accountability.

### **Project management and coordination mechanisms must be strengthened**

In the African context, available information is often inadequate as a basis for sound IFMIS project decisions. A leading cause of this inadequacy is more fundamental: the lack of capacity within implementing agencies. Senior staff in bureaucracies of African countries rarely delegate responsibility and frequently are overloaded with work. They lack the time and resources to lead reform even if they accept the need. To be successful, the IFMIS should not place extensive demands on the overburdened senior staff. Often, in the past, this has not been the case. While there is no doubt that the MOF should take a lead as the central agency, other ministries should also be given the opportunity for full participation in system development.

Often it is not sufficiently recognized that adequate training efforts are necessary to gain the SM finance managers’ acceptance of the reforms. In Anglophone Africa, an added problem has been that such IFMIS projects have been centered in OAGs, which, as previously indicated, are often a little disconnected from other MOF departments (see Section I).

### **Time frames adopted need to be feasible and realistic**

In the past, there has been a tendency to tell those in top management what they want to hear. This is reinforced by their short political time horizon when judging reform payoffs. The time and cost estimates for all types of computer system development and installation have almost universally been understated, partly due to the red tape of development agency bureaucracies, coupled with delays inherent in the implementation of IT systems. Moreover, the latter is magnified by the human resource shortages faced by these countries, so that it will take them much longer to introduce IT systems than in more advanced countries—experience suggests perhaps two to three times as long.

### **Ensure IFMIS projects involve users**

Owing to the lack of local IT expertise, there has been a tendency to leave system development to private consultants or the computer supplier, with little user involvement. Hence, no user expertise is developed in utilizing, maintaining, or modifying the system. Often this is reinforced by inappropriate or nonexistent user manuals, and typically not enough emphasis has been placed on documentation, nor on training based on that documentation.

### **More time should be spent on the design phase**

The functional requirements document that serves as the blueprint for later phases of the system project is critical—if wrong, it is difficult to remedy the situation later. Requirements analysis is important but tends to be an often neglected step. It also takes time: a detailed analysis can take three months to a year for the accounting function alone.

While it is important to appreciate the problems faced in their implementation, it is also important to be aware of the dangers IFMIS projects can pose. Concentrating on IT solutions may have undermined manual systems (e.g., in The Gambia and Ghana). In Malawi, the slow implementation of the IFMIS project was a recurrent issue and problem throughout the stay of FAD's advisors; while in many respects it is a case study in failure, at the same time, it absorbed much of authorities' as well as experts' efforts. The experience of Malawi is one that has been unfolding elsewhere, with FAD's advisors identifying problems after the fact (with consultants' products, with poor pilots, etc.). In The Gambia, for example, an unrealistic delivery date for the IFMIS actually closed down the manual general ledger entries. In some cases the need to support such projects has most likely detracted from the advisor's effectiveness in other areas.

### **Future strategy**

Having recognized the magnitude of the problems TA faces in this area, it would also appear that FAD has little choice but to be involved in such projects for some time. The IFMISs will remain important to a longer-term PEM reform agenda, and FAD should be involved if only to avoid the problems that could arise if they are poorly designed and implemented. The question concerns the optimal way of getting involved in their development. Most important for FAD's TA is that, even if they are accepted as a longer-term solution, the IFMISs do not address the problem of the interim period of, say, four to five years prior to the full implementation of the IFMIS. In this period, FAD's role should be to see that the present accounting and reporting systems are maintained, and business practices in the MOF are adjusted to function in the new computerized environment, and to ensure that the desired functionality of the IFMIS is incorporated in its design.

Certainly, given the time frame of such reform, FAD needs to be particularly cautious in the commitment of TA in this area. FAD's role is, therefore, proposed to be along the following lines:

- First, before offering support, a judgment should be made that the preconditions are suitable: the commitment of top managers and adequate project management capability and coordination mechanisms.
- Second, a well-defined exit point should be established. Broadly, there are three stages of the IFMIS: design, adoption, and institutionalization. Design involves determining the information needs of the client and developing user-friendly software that will process the information and produce the necessary reports. At the adoption stage, the computerized system operates parallel to manual systems, and it is important to ensure that the system performs as expected and any required modifications are made. Institutionalization is the point at which the computer system is fully combined with government financial operations and is fully managed and operated by government staff. It is recommended that FAD participate in only the initial design and testing stage.
- Third, in that design work FAD should pay attention to key concerns—namely, it should ensure that there is a reform of work practices and that the project is not simply computerizing the existing procedures; that the accounting core of the IFMIS is sound and will generate the information required for MOF management and fiscal analysis; that the general functionality requirements are comprehensive enough to accommodate not just present but also future needs; and that the timetable for implementation is realistic.

#### **D. Budget Preparation and the MTEF**

##### **Has the MTEF undermined more basic work in budget preparation?**

It seems clear that FAD's work in the budget preparation area has been dwarfed in the period under review by the promotion of the MTEFs by the World Bank (see Table 3). Most of FAD's usual advice in this area has been subsumed into, and overshadowed by, the MTEF process. In this process, FAD has made valuable, but limited contributions—for example, in budget classification in Malawi and Tanzania, in the reorganization and strengthening of functions of the Ministry of Finance and Planning in Kenya, and in the introduction of top-down ceilings and more realistic costing of expenditure policies in Uganda. However, for FAD's future work there are some deeper questions regarding the impact of the MTEFs and their sustainability.

Table 3. Medium-Term Expenditure Frameworks in Selected African Countries

| Country | Scope  | Format   | Government Levels  | Length of Period  | Budget Process Status   | Management Structure   | Dissemination  |
|---------|--|--|--|---|---|--|--|
| Ghana   | <ul style="list-style-type: none"> <li>• Nominally all sectors included</li> <li>• Recurrent and capital expenditures included</li> </ul>                                  | <ul style="list-style-type: none"> <li>• Economic, functional, and organizational classifications</li> </ul> | <ul style="list-style-type: none"> <li>• Primarily central (though some extension to subnational level)</li> </ul> | <ul style="list-style-type: none"> <li>• Three years</li> </ul> | <ul style="list-style-type: none"> <li>• MTEF is formally part of budget process</li> <li>• Not subject to formal approval by either cabinet or parliament</li> </ul>   | <ul style="list-style-type: none"> <li>• MOF manages process</li> <li>• Macroeconomic working group prepares Macro-fiscal Framework (MFF)</li> <li>• Ministries prepare Sectoral Economic Frameworks (SEFs)</li> <li>• No civil society input</li> </ul>   | <ul style="list-style-type: none"> <li>• Disseminated as part of budget</li> </ul>   |
| Kenya   | <ul style="list-style-type: none"> <li>• Nominally all sectors included</li> <li>• Recurrent and capital expenditures included</li> </ul>                                  | <ul style="list-style-type: none"> <li>• Economic, functional, and organizational classifications</li> </ul> | <ul style="list-style-type: none"> <li>• Central only</li> </ul>   | <ul style="list-style-type: none"> <li>• Three years</li> </ul> | <ul style="list-style-type: none"> <li>• MTEF released a few months before budget approved</li> <li>• Cabinet approves MTEF and sends to parliament for approval</li> </ul>   | <ul style="list-style-type: none"> <li>• MTEF Secretariat coordinates process</li> <li>• Macroeconomic working group prepares MFF</li> <li>• Sector working groups (six) prepare SEFs</li> <li>• No formal civil society input</li> </ul>  | <ul style="list-style-type: none"> <li>• Disseminated internally by MOF</li> <li>• Dissemination to parliament raises profile of MTEF</li> </ul> |
| Malawi  | <ul style="list-style-type: none"> <li>• Nominally all sectors included</li> <li>• Recurrent and capital expenditures included (though separate capital budget)</li> </ul> | <ul style="list-style-type: none"> <li>• Functional classification</li> </ul>                                | <ul style="list-style-type: none"> <li>• Central only</li> </ul>   | <ul style="list-style-type: none"> <li>• Three years</li> </ul> | <ul style="list-style-type: none"> <li>• Not yet fully implemented into budget process</li> <li>• Not submitted to cabinet for approval</li> </ul>  | <ul style="list-style-type: none"> <li>• Budget office manages MTEF process</li> <li>• Sectoral participation is minimal</li> <li>• No civil society input</li> </ul>  | <ul style="list-style-type: none"> <li>• Internal dissemination</li> <li>• No external dissemination</li> </ul>                                  |
| Rwanda  | <ul style="list-style-type: none"> <li>• Nominally 15 (out of 20) ministries included</li> <li>• Recurrent expenditures only (capital in separate budget)</li> </ul>       | <ul style="list-style-type: none"> <li>• Functional classification</li> </ul>                                | <ul style="list-style-type: none"> <li>• Central and regional (prefecture) levels</li> </ul>                       | <ul style="list-style-type: none"> <li>• Three years</li> </ul> | <ul style="list-style-type: none"> <li>• MTEF has not yet been fully integrated into the budget process (timing problems)</li> <li>• In 2001 MTEF is to replace old budget process</li> <li>• MTEF approved by cabinet as part of the Budget Framework Paper (BFP)</li> </ul> | <ul style="list-style-type: none"> <li>• MTEF Design and Implementation Group (DIG) manages process; headed by budget office and includes other MOF directors</li> <li>• Ministerial budget committees prepare SEFs (only half of ministries have committees)</li> <li>• No civil society input</li> </ul> | <ul style="list-style-type: none"> <li>• Disseminated internally by DIG</li> <li>• No external dissemination</li> </ul>                          |

Table 3. Medium-Term Expenditure Frameworks in Selected African Countries (*concluded*)

|          |  |  |   |  |   |   |  |
|----------|--|--|---|--|---|---|--|
| Tanzania | <ul style="list-style-type: none"> <li>• Seven sectors included (education, health, water, roads, agriculture, judiciary, land)</li> <li>• Recurrent and capital expenditures included (though separate capital budget)</li> </ul> | <ul style="list-style-type: none"> <li>• Economic, organizational, and functional (subsector) classifications</li> </ul>               | <ul style="list-style-type: none"> <li>• Central only</li> </ul>                          | <ul style="list-style-type: none"> <li>• Three years (Public expenditure review as of January 2001)</li> </ul> | <ul style="list-style-type: none"> <li>• MTEF not completely integrated into FY1999/2000 budget process (Public Expenditure Review [PER] 1/01), though situation has improved recently</li> <li>• MTEF not formally submitted to cabinet or parliament</li> </ul> | <ul style="list-style-type: none"> <li>• MOF, supported by PER working group, manages process</li> <li>• Budget guidelines committee, supported by macroeconomic group, prepares MFF</li> <li>• Sector working groups prepare SEFs</li> <li>• Working groups are composed of government officials, donors, international financial institutions, academia, private sector, giving civil society official status in the process</li> </ul> | <ul style="list-style-type: none"> <li>• MTEF is discussed in detail in the PER consultative meetings and minutes are circulated as part of the PER</li> </ul> |
| Uganda   | <ul style="list-style-type: none"> <li>• All eight sectors included</li> <li>• Recurrent and capital expenditures included</li> </ul>  | <ul style="list-style-type: none"> <li>• Economic, functional, and organizational (major spending agencies) classifications</li> </ul> | <ul style="list-style-type: none"> <li>• Central and local (as of 2000) levels</li> </ul> | <ul style="list-style-type: none"> <li>• Three years</li> </ul>  | <ul style="list-style-type: none"> <li>• MTEF is integral part of the budget process</li> <li>• Presented as part of the BFP</li> <li>• BFP approved by cabinet and parliament</li> </ul>   | <ul style="list-style-type: none"> <li>• MOF manages process</li> <li>• Participatory process of arriving at sector ceilings through “budget workshops”</li> <li>• MOF macro unit prepares MFF</li> <li>• Sector working groups (composed of sector specialists, MOF, World Bank, donors, nongovernmental organizations) develop SEFs</li> <li>• Formal civil society input</li> </ul>  | <ul style="list-style-type: none"> <li>• Disseminated internally through working groups</li> <li>• Disseminated externally through parliament</li> </ul>       |

Source: Le Houerou and Taliercio (2002).

Note: Budget offices and ministries of finance are referred to generically.

This section analyzes whether MTEFs can be implemented in advance of basic capabilities in budget execution, reporting, and cash management. If the answer is negative, the potential impact of FAD's TA in support of MTEFs would be ineffective. The World Bank has been promoting MTEFs in most African countries. This has replaced the previous emphasis on Public Investment Programs (PIPs), which have fallen from favor in recognition of the dangers of separating recurrent and development expenditures in overall expenditure plans. The MTEFs have received even more attention in the context of integrating the PRSPs into a coherent multiyear public expenditure program. Recently, the value of MTEFs in the African context has been questioned, even within the World Bank. It is beginning to be recognized that in countries where other key aspects of budget management remain weak, an MTEF alone cannot deliver improved PEM. In some country contexts, MTEFs are suspected of being counterproductive, diverting attention away from more basic reforms and tying up limited administrative capacity.

The key attraction of the MTEF is its approach to integrating the top-down resource envelope with bottom-up sector programs (or SEFs). The sector review presupposes either a program-based budget structure or, at least, detailed functional and organizational budget classification systems. Often the functional basis of the budget is not adequate, so that not much can be said about intrasectoral resource allocation. Moreover, for most African countries, the focus has been exclusively on the central government level, despite an increasing trend for fiscal decentralization in the majority of these countries. Sometimes, the MTEF exists as a parallel exercise rather than being integrated into the budget process. The result is that it is difficult to fully operationalize the theoretical design, or fully implement MTEFs, which then consequently remain partial in their approach. Moreover, at best, the MTEF represents a reform of budget preparation, or the preparation of the government's socioeconomic plan. However, it could be argued that key issues in African countries revolve around budget execution, reporting, and expenditure controls. If isolated from these other reforms, the MTEF cannot deliver what it is supposed to deliver and the government's socioeconomic plan cannot be implemented (see Box 8).

### **Options for FAD's TA**

If it is believed that MTEFs are useful and here to stay, then the question of how they should be integrated into the larger PEM reform program should be addressed. If their ultimate usefulness is doubted, they will die like the PIPs before them, and FAD should not expend its limited resources on them but return to basic budget preparation work. This would help to develop macroeconomic policy and analysis capacity; improve budget classification; improve the realism of budget estimates, enhancing forecasting capabilities and the systems that provide the relevant information within government; and assist in the integration of recurrent and development budgets. On balance, the latter approach is favored in this report, based on experience regarding the best sequencing of reforms and the presumption that MTEFs should be anchored in solid budget preparation techniques. Since the latter are often lacking or weak, this report takes the position that the ultimate viability of the MTEF approach is not proven for any but the most advanced developing countries. For those countries that appear to have viable MTEFs, FAD should be involved, especially in ensuring

that the process generates suitable overall envelopes to ensure macroeconomic stability. For the other countries, FAD should return to the more basic “nuts-and-bolts” work on budget preparation previously indicated—for example, to ensure an adequate economic and functional basis for the budget.

### **Box 8. Introducing MTEFs in Africa**

Both the Bank and the Fund have an active interest in implementing PEM reforms in developing countries. Generally, the two institutions tend to reinforce one another in providing TA in the PEM area. In Africa, collaboration has been hampered at times by the failure to coordinate the Fund’s short-term objectives for strengthening treasury and fiscal reporting systems with the Bank’s ambitious medium-term reforms, particularly the introduction of MTEFs and development of IFMISs for improving PEM systems.

Developing comprehensive MTEFs can be effective when circumstances and capacities permit. Otherwise, it can be a great consumer of time and resources and might distract attention from the immediate needs for improving the annual budget and budget execution processes. The MTEF, as a feasible means of improving budgeting, requires the following:

- Reliable macroeconomic projections, linked to fiscal targets in a stable economic environment.
- A satisfactory budget classification and accurate and timely accounting to produce a detailed pattern of expenditures over a past period of time.
- Technical capacity for separating the cost of policy changes from that of continuing policies and disciplined policy decision making.
- Budgetary discipline—large deviations between what is budgeted and what is spent tend to undermine the usefulness of multiyear budgeting.
- Strong institutional support and political discipline for fiscal management.

Before introducing an MTEF, one should raise a question: Is the country ready for such an exercise in the sense of having adequate support for the above preconditions? When this support was not adequate in a number of African countries, the MTEF was introduced prematurely and is turning out to be merely a paper exercise. The MTEF concept was often cited as a tool for creating resources and to meet demands of all spending agencies. Not surprisingly, it was oversold at inception, and is now getting increasingly discredited when it is not able to deliver this worthy objective.

In principal, the MTEF is a sound tool; a number of countries have prepared rolling multiyear expenditure programs since 1960. A multiyear perspective is especially important in developing countries the only question is when and how it is implemented. A reform process typically entails complex technical, procedural, institutional, and political adjustments. In Africa, one neglects these dimensions at one’s peril.

## **E. Issues Not Substantially Addressed by FAD Technical Assistance**

### **Fiscal decentralization**

Decentralization of government operations is an increasing trend in all of Africa, not just in Anglophone African countries. Since the mid-1980s, most African countries started to transfer responsibilities and resources to subnational governments (see Table 4). Despite this trend, in terms of TA in the PEM area, FAD has made only a limited contribution thus far: Tanzania (mission), Uganda (mission and resident advisor for two years), and, quite recently, Ethiopia (two missions). The main attempt to address the specific PEM issues in Uganda, through TA provided by an advisor, yielded limited success.

FAD did confront directly the scope of the problems created by decentralization when examining the means of tracking poverty-related spending through the HIPC AAP (Assessment and Action Plan) exercise. This examination identified a need for the central government to develop reporting and monitoring mechanisms for decentralized expenditures. However, the more general problem of what can be expected to be delivered from one advisor centrally located in the MOF in addressing this issue remains to be determined. Given the resource implications, obviously FAD needs to be very selective, say, focusing on a few issues—reporting, consolidation problems of budgets—and leaving the rest of this very large area to others. The following provides a brief review of the main issues.

While some Anglophone African countries are only beginning to adopt legislation required for this move to decentralize government operations, others have progressed much further—for example, Ethiopia, Tanzania, and Uganda. This was largely precipitated by a return to democracy for some countries, but other factors have played a part. Donors promoted decentralization as a practical way of reaching the poor, and bringing government services to neglected areas of the country, whereas before they had been concentrated in urban areas, particularly in the capital city. At the same time, this is seen as an important step toward better governance away from administrative centralization operating within nondemocratic political regimes that in most cases were unaccountable and corrupt.

Most of these countries have low levels of tax collection and large central government deficits, and, even with decentralization, the level of services supplied by lower-level governments can be expected to be very low. However, the World Bank has argued that with decentralization, information to target services will be superior and will make them more effective. Local monitoring will increase awareness of local needs and keep local officials on their toes. There are some doubters, however, who point to the deadweight cost of different layers of bureaucracy, which may be greater than the centralized bureaucracy that they replaced (or more likely they have been added to that central bureaucracy). Services produced at the local level may have a tendency to increase personnel costs, and there is some empirical evidence that, with decentralization, wages begin to absorb a larger share of total expenditures.



Table 4. Decentralization in Selected African Countries: Institutional and Political Reforms

| Countries                   | Institutional Reform   | Political Reform  | Functional Responsibilities  | Revenue  | Decentralization<br>(Percentage of Subnational Expenditure in Total Public Expenditure) |
|-----------------------------|--|---|--|--|---|
| <b>A. AFRITAC Countries</b> |  |   |  |  |   |
| <b>Eritrea</b>              | Quite centralized: a central government and local government. Municipalities are under LGs.  | 1995, 1997: major restructuring of the local level.           | Education, health, agriculture, trade and industry, public works, courts.  | LGs are supported entirely by the central budget and have no taxing rights. Municipalities do have some meager revenues. |   |
| <b>Ethiopia</b>             | Introduced federal system (Proclamations of 1992/93 and Constitutions of 1994).  | Introduced elections of regional councils (last one in 1995). | Education, health, and roads transferred to regions.   | Introduced revenue sharing.  | 45 percent (1995/96).   |
| <b>Kenya</b>                | Has a highly centralized system. No decentralization process is on the agenda.   |   |  |  |   |
| <b>Rwanda</b>               | Centralized system.  | Elections of submunicipalities held in March 1999.            |  |  |   |
| <b>Tanzania</b>             | Reinstated in 1984 a two-tiered system based on urban and rural authorities. Intends to strengthen local government (Government Reform Agenda, 1996–2000). | Has held local elections since 1983.                          | Locals governments (LGs) have typical urban services, plus primary schools, health, development and physical planning. | Property, business, fuel, and other minor taxes  | N.A.  |

Table 4. Decentralization in Selected African Countries: Institutional and Political Reforms (*continued*)

| Countries                          | Institutional Reform  | Political Reform   | Functional Responsibilities   | Revenue  | Decentralization<br>(Percentage of Subnational<br>Expenditure in Total Public<br>Expenditure) |
|------------------------------------|---|--|---|--|---|
| <b>B. Other Selected Countries</b> |   |  |   |  |   |
| <b>Botswana</b>                    | Districts (9); town councils (5).   | Holds local elections.   | Primary education, urban services, rural roads, minor development projects.                               | LG tax (personal income tax), school fees, and grants (7 percent of central government expected in 1990).                                  | N.A.  |
| <b>The Gambia</b>                  | Recently returned to democracy with multiparty elections.   |  |   |  |   |
| <b>Ghana</b>                       | Replaced (1989) deconcentrated system with a decentralized one: districts (110); regions (10) are still deconcentrated. | Introduced elections in Districts (since 1988).                    | Regions coordinate with districts for typical urban services, local roads, primary education, and health. | Property tax, minor taxes, fees. Central government transfers. District Assembly Common Fund (at least 5 percent of domestic tax revenue). | Approximately 10 percent.   |
| <b>Malawi</b>                      | Introduced (law of 1998) decentralized system based on districts, cities, towns, and municipal assemblies.              | Intends to introduce elections of assemblies after September 2000. | LGs have typical urban services, plus primary schools, health, development, and physical planning.        | Property taxes, fees, ceded revenues, block grants of no less than 5 percent of national revenue, distributed on selected criteria.        | N.A.  |

Table 4. Decentralization in Selected African Countries: Institutional and Political Reforms (*concluded*)

| <b>Countries</b>    | <b>Institutional Reform</b>   | <b>Political Reform</b>   | <b>Functional Responsibilities</b>   | <b>Revenue</b>  | <b>Decentralization<br/>(Percentage of Subnational Expenditure in Total Public Expenditure)</b> |
|---------------------|---|---|--|---|---|
| <b>Namibia</b>      | Regions (13); local authorities.  | Holds elections for regional councils and local authorities.                      | Typical local services, local roads, electricity distribution.                         | Share of property taxes, electricity and water fees, and central transfers.   | 13.6 percent (1993/94).   |
| <b>Nigeria</b>      | Has a federal system. States have been increased to 36. 774 municipalities. Federal capital territory: Abuja.   | Introduced elections of state and local councils.                                 | Education, health, and welfare to states. Typical urban services to municipalities.    | Revenue sharing: 24 percent of federation revenue to states; 20 percent to LGs. VAT: 50/50 to states and LGs.             | States: 12.6 percent (1998)<br>LGs: 3.9 percent (1998).   |
| <b>Sierra Leone</b> | Intended to proceed to a reform of its decentralized system but civil war delayed plan.   | Intended to introduce elections of districts councils, but prevented by conflict. |  |   |   |
| <b>South Africa</b> | Constitution of 1996 introduced a quasi-federal system: Provinces (9); local government (800 to 300).   | Introduced elections of municipal and provincial councils (1994 and 1999).        | Education, health, and welfare to provinces. Typical urban services to municipalities. | No major taxes to provinces. Introduced unconditional grant for provinces. Property and business taxes to municipalities. | 50 percent (1998/99).   |
| <b>Zimbabwe</b>     | Has a deconcentrated system with 8 provinces and a decentralized one based on Urban and Rural Districts (57 have been created by amalgamation in 1987). | Holds local elections regularly.  | Typical urban services, plus health care services to districts.                        | Property tax, vehicle tax, poll tax, fees account for most of revenue (similar to South Africa).                          | 20 percent (early 1990s).   |

Source: See Brosio (2000).

In some countries, a substantial share of subnational expenditures is covered by donors. If it is not well managed, this creates problems: expenditures tend to be concentrated in some “favored” regions, raising interregional equity issues; they tend not to be well coordinated with central and subnational recipient government budgets; and no allowance is made for the recurrent cost implications of investments. Part of the information problem is insufficient reporting of donors’ operations at the local level to the central government and often insufficient recording by subnational governments of these expenditures. One approach would be to include donors’ contributions in the country’s general-purpose, unconditional transfers system, so that the transfer to each region is adjusted by the amounts it receives from donors.

Tax effort—as measured by the share of taxes in GDP—is generally low in Africa and concentrated heavily on foreign trade, with weak tax administration. Typically, this implies that the only tax sources for subnational governments are user charges and property taxes. In the absence of substantial new tax sources, huge vertical imbalances are likely. As a consequence, transfers will be an important part of the decentralization picture, at least in the near future. It will be important that their distribution formulas take into account the actual budget implications of devolution of functions and, at the same time, address the problem of reduction of disparity in poverty levels among areas. Specific purpose grants are difficult to employ because of the greater administrative capacity required.

There is a general problem of establishing reporting systems to provide information to meet the various needs of the users on subnational government operations. In particular, in the context of HIPC debt relief, there will be the need to assess the extent to which government expenditures at all levels are pro-poor. The authorities will have to produce consolidated budget reports, which are one of the trigger points for reaching the HIPC completion points.

*It is recommended that FAD’s approach be selective in this area*

First, the focus should not be policy-oriented—for instance, finding the right mix of transfer and own revenue assignments or the most appropriate division of expenditure responsibilities should be left to others in FAD, or other TA providers. Rather, in PEM TA, the focus should be on how the PEM system can allow effective fiscal control to be exercised across general government. It should:

- Facilitate efficient and effective execution of expenditure responsibilities at the subnational level.
- Ensure that the central government’s responsibility in macroeconomic management is not compromised.

Second, within this overall framework, the following approach should be considered:

- In the short term, improve coverage, timeliness, and consolidation of fiscal plans and reports to enable them to meet the HIPC-reporting commitments. In this context, an

effective medium-term planning function that incorporates expenditures at the local level is important.

- Ensure that a consolidated budget in a standard format can be constructed. This should include adequate detail on revenues and expenditures, using GFS classification principles, and incorporating all external assistance. This requires a common chart of accounts and budget classification.
- Rationalize the financial management systems at the subnational levels: standardize accounting procedures, consolidate bank accounts to a subnational TSA, and incorporate extrabudgetary fiscal operations in the budgets. It will be essential to clearly account for the fiscal flows between tiers of government.
- Support regular in-year and end-year reporting from all subnational governments and EBFs to ensure overall expenditure and borrowing control. This is also important when central transfers are conditional. It is therefore necessary to ensure that adequate procedures are in place and that data are routinely provided to determine central transfers to subnational units.
- Ensure that a suitable legal framework and associated regulations are put in place to support the fiscal decentralization process.

### **Internal audit**

Internal management control systems describe a range of management tools aimed at different broad objectives: first and foremost, to ensure compliance with laws and regulations; second, to ensure the reliability of financial data and reports; and, third, to facilitate the efficiency and effectiveness of government operations.<sup>18</sup> In this way, a sound internal control framework is designed to assure the public that these operations attain some basic fiduciary standards. As such, internal controls can be regarded as one of the foundations of good governance in a country, the first line of defense against improprieties, and as providing the public with “reasonable assurance” that if they do occur they will be made transparent and appropriately addressed. In such safeguards the government’s internal audit function has always been viewed as central.

The Anglophone African countries inherited a budget management model that allows some flexibility in internal audit arrangements. The internal audit function is usually established in accordance with the powers and functions bestowed upon the treasury with regard to the responsibility for management, supervision, control, and direction of all matters related to the financial affairs of the government. The internal audit function can be viewed as support to

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<sup>18</sup> A more general description of the functions of internal controls in public expenditure management, and the specific tasks of internal audit, are contained in Diamond (1994).

the MOF, assisting it in the monitoring of compliance by ministries and departments with various financial regulations, instructions, and accounting procedures. Alternatively, it can be viewed as assisting all levels of management in the effective discharge of their responsibilities through the submission of reports on their examinations and, when justified, appropriate action-oriented recommendations for corrective action. The demarcation between these views depends on the importance attached to the delegated responsibility given to AOs.

Many Anglophone African countries have adopted a quite centralized approach to internal audit. Kenya, Malawi, and Uganda can be classified in this group, though in Malawi internal audit is very weak and is still in the process of being established. The MOF has an office of internal audit, which has a centrally managed cadre of auditors. These internal auditors are posted in the ministries but their personnel are based in the MOF and their work is managed there. The report of the internal auditor is given to the ministry AO and to the MOF. For example, in Kenya internal auditors report directly to the Office of the Internal Auditor General (IAG) in the MOF, with copies sent to their AO. Their work programs are determined by the IAG, and are funded from the IAG's budget. Unlike other centrally administered cadres seconded to the ministries, the ministry views the internal auditors as part of the MOF administration. In the Nigerian federal government, internal auditors are part of the same service as accountants under the Accountant General of the Federation, and are posted to the various line ministries. Recently, a central inspectorate was created in the Accountant General's office to supervise this work.

In other Anglophone African countries, internal auditors are envisaged as providing the AO with a service and are part of his management team. They report directly to the AO and only provide copies to the MOF. In this way, they are on par with the other MOF centralized cadres seconded to ministries. In South Africa and Ghana,<sup>19</sup> internal auditors are recruited and managed by the ministries, with no central MOF guidance or control on the internal auditors. There is always a certain tension in the Anglophone system arising from the need to strike a balance between the centralized responsibilities of the MOF and the internal management requirements of the AO. Over time, some of these countries, such as Kenya, have oscillated between the centralized inspectorate approach and the decentralized service approach.

Whatever the model employed, there is ample evidence, as previously indicated in Section I, that this important function is in need of strengthening. FAD's country experience strongly suggests that the management of the internal audit function is critical to its effectiveness but it is often weak and suffers from poor work practices, lack of planning and personnel management, and little support from the external audit. Despite the importance of internal audit as a fundamental element of PEM, it is clear that in many of the countries in this sample adequate resourcing for the function has often been neglected.

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<sup>19</sup> In Ghana, the system was recently decentralized under a World Bank initiative.

FAD's advice in this area should be at the strategic end of TA in the design and development of the internal audit function. This will involve a number of dimensions:

- A clear and agreed upon definition of the internal auditors' tasks.

This is a way of clarifying the place of the internal audit function in the work of the budget institution, dispelling ambiguities and avoiding disputes when the internal auditor carries out these tasks.

- Establishment of line ministry audit committees.

These should be formed from the top management of the institution and technical experts in the accounting and budget fields. The aim is to act as a steering committee for the work of internal audit, identifying problems as well as the corrective or preventive action. Not only does this act to strengthen the role of internal audit within the agency in enforcing financial discipline, but it also places some distance between the agency's regular operations and internal audit evaluations.

- **A central audit committee in the MOF.** Similarly, to enforce this distance from day-to-day management and offer some external support, a central audit committee in the MOF should review the findings of the internal audit units and pursue remedial action. Another possible mechanism is to have outside professionals perform an independent external review of internal audit practices every two or three years, countering any tendency for agency managers to interfere with the internal audit function.
- **Clear demarcation of responsibilities in relation to external audit.** In some ways, this can be addressed by a clear and well-documented definition of the duties of internal auditors. At the same time, the relationship between the two functions should be recognized as symbiotic—it is important for the internal audit that there be a strong external audit, and vice versa. The external audit should use the work of the internal audit, and the latter should be guided by the findings of the external audit.
- **Restructuring work practices.** A strategic decision to be made in many Anglophone African countries is where best to deploy scarce audit skills. Ways to economize on the use of these scarce audit resources include the following:
- **Prioritize to extend the scope of the internal audit.** Improved work practices, say by moving away from extensive pre-audit of vouchers to a sampling approach, can often offer significant savings, as can improved management of the audit function through focusing on priority areas and the key weaknesses identified. One typical weakness that may benefit from internal audit review is the adequacy and effectiveness of internal controls in the existing systems. New systems should also be evaluated.

- **Create special teams.** In examining the internal audit function in Anglophone African countries, it is not unusual to discover that there are many functions that are either not being performed or the coverage of which is superficial because of inadequate staff, lack of specialized skills, and so on. Often the most productive use of limited audit staff is in special central teams earmarked for conducting audits in government agencies with the assistance of internal audit staff already stationed there.
- **Formulate work plans more efficiently.** Existing operational standards for internal audit require that the internal auditor adequately plan, control, and record his work. Such planning should be done not only for individual audit assignments but also for varying time periods such as a quarter, a year, and even longer periods.

### **Debt management**

The HIPC initiative recently has reemphasized the importance of debt management in developing countries. Insufficient attention to debt management has been argued as being a significant factor contributing to the accumulation of unsustainable levels of debt in these countries. The assessments undertaken by the World Bank and the IMF reinforced the need to strengthen the debt management capacity in HIPCs. The assessments identified weaknesses in the legal and institutional framework for debt management, noting in particular the lack of close coordination among the budget, cash management and financial planning functions, and debt management operations.

In African countries in general, there has been a tendency for MOFs to divorce debt management from aid management, with a different unit from the unit responsible for paying the subsequent debt service negotiating, contracting, and registering loans. Often, the management of the foreign debt has been separated institutionally from domestic debt, and, in many countries the central bank has played an important role in both. It is not uncommon for central banks to take an active role in debt servicing, calculating the amount due in debt service and debiting the government account. Unfortunately, the role of the central bank as a fiscal agent and as manager of monetary policy sometimes is not distinguished. The issuance of government paper to mop up excess liquidity is a monetary policy action, and in principle the cost of such action should be borne by the central bank and not by the government. In the distribution of responsibilities, there is often a need to distinguish between the strategic and operational aspects of debt management.

In none of the countries in the sample did FAD's advisor have debt management as a significant aspect of his TOR, even though it was a recognized problem in some of them. Even when cash management was included in the TOR, the coordination of cash with debt management was not highlighted. There is perhaps a case for redressing this imbalance in the future.



*FAD's approach in strengthening debt management usually should follow three main steps*

First, ensure that there is an effective organizational consolidation of debt and aid functions and a restructuring of tasks. Debt and aid management should be viewed as an integrated process, centered in one institution. There should be less emphasis on data processing and more on management and follow-up. These tasks should be fully integrated in government cash management, with emphasis on debt management, whose primary function is that of financing government operations at minimum cost and with the least disruption. This is accomplished by establishing a transparent and well-planned annual debt management strategy to prevent surprises in the course of budget implementation. The debt management strategy should be integrated with cash planning and hence would be better able to protect against disruption to public services.

Second, create an integrated database to track all loans, from the time of agreement through the various stages of disbursement and the associated debt service payments. This should allow full reconciliation with bank statements and should be able to generate standard and diagnostic reports on all aspects of government loans and debt, including on-lending and guarantees. In Anglophone Africa, the World Bank and the Commonwealth Secretariat have developed such software and have assisted countries in introducing it.

Third, using such a database, the government's debt management skills should be upgraded. This typically requires improved methods of debt contracting, risk analysis (including contingent liabilities), improved controls, and follow-up on on-lending agreements and government guarantees. In addition, there is also usually a need to develop effective procedures to handle commodity aid, direct payments to suppliers, and reimbursements so that they are fully accounted for and adequately managed.

## **Legal framework**

The Anglophone African countries generally inherited a legal framework, often called the Accounts and Audit Act, which provided a simplified view of the obligations of various participants in the budget process, usually supplemented with a wide range of financial regulations. Over time, layers of financial regulations have often obscured and even overtaken the basic legal framework. As the operations of government have expanded, and the presidential system of government has become more pronounced, many of these countries have sought to change their basic legislation. South Africa was first, followed by Tanzania (Public Finance Management Act, 2000), Malawi (in the process of revising its law), Sierra Leone (recently submitted a draft organic budget law to the legislature), and The Gambia and Rwanda (seriously considering establishing a completely new legal framework). Uganda's MTEF framework was introduced by a 2000 law.

*What should FAD's approach be?*

This report largely supports FAD's past approach in this area, to actively encourage and assist in reforming the legal and institutional bases of budget management in the Anglophone

African countries. When drafting organic budget laws, among other issues, special provisions need to be made to balance the fiscal powers between the legislative and the executive branches, and to ensure consistency with fiscal democracy and transparency principles. These include the timely submission of the budget to parliament, enhanced data presentation in the budget documents, and the rationalization of appropriation structures with a view to increasing legislations' power in the original appropriations and virements during the year. The new legislation should prohibit the initiation of unbudgeted expenditures by the executive branch in the course of budget execution, except through supplementary appropriations. Moreover, new provisions should be made for management of different types of external grants and loans and full integration of recurrent and development budgets. Last but not least, provisions are needed to transform OAGs into modern treasury departments, fully integrated into the organizational structure of MOFs.

The need to more clearly define fiscal relationships among the different tiers of government and to strengthen macro-fiscal discipline—in some cases in response to the aforementioned trend toward fiscal decentralization—suggests that FAD could also continue to help governments redraft their legal framework, which at times could entail the adoption of fiscal responsibility legislation.

## IV. PLANNING AND MANAGING TECHNICAL ASSISTANCE DELIVERY

### A. Review of Technical Assistance Delivery

A number of clear issues relating to the manner in which FAD TA was delivered emerged from this study. This section describes the main issues and how FAD is already seeking to address at least some of them.

#### **“Authorities’ commitment” has always been stressed as key—but is often difficult to gauge**

Strong commitment by the MOF is essential to initiate and sustain reforms, particularly in environments where legislative scrutiny and accountability are typically weak. Even when commitment is evident in the MOF, this can sometimes be undermined by poor support from the President’s Office. Sometimes it has been clear that the real decision makers may not necessarily be the immediate counterpart to FAD’s advisors or that the counterparts do not have the full confidence of the minister. In deciding whether to initiate TA, or to continue an assignment, FAD has perpetually had to make judgment calls on whether the lack of progress is evidence of the lack of commitment or the lack of capacity, or both. On the whole, the authorities have generally been given the benefit of the doubt and FAD tended toward agreeing that there was an acceptable level of commitment. Greater emphasis on the authorities’ track record in implementing recommendations, when considering TA requests, is a new trend that should be emphasized.

However, this will remain a difficult judgment, particularly where the governance environment is unstable, where there is a high turnover of both senior policymakers and officials, and where intermittent crises may require urgent assistance and could provide a spur to the reform effort. Consequently, a more chaotic environment may require the use of more strongly enforced performance milestones, initially giving the authorities the benefit of the doubt to commence the TA, but making further support contingent on achieving a series of realistic reform milestones, which would demonstrate the authorities’ ongoing commitment.

#### **Ensuring that capacity preconditions exist**

The basis of FAD’s technical advice should be solidly grounded in what can be realistically implemented. This is a dimension that should also be more seriously considered in FAD’s TA planning. In the past, in responding to requests, FAD’s advice has often aimed to patch up deficient systems operated by weak administrations, which then proved unsustainable when FAD’s advisors left. Not only does this imply that increased attention should be paid to the development of human and institutional capacities in TA recipient countries, but it also suggests that FAD should spend more resources in diagnosing these weaknesses and in developing a strategy that is viable within such constraints.

### **Importance of quality and stability of counterparts**

The stability, rather than the quality, of counterparts has been a continuous problem in many African countries, where the career development of public officials is viewed as giving them a variety of assignments. For example, in Malawi counterparts turned over regularly (about every 18 months). Certainly, when a strong or knowledgeable budget director or permanent secretary is in place, progress appears more noticeable and vice versa.

Perhaps not surprisingly, when wages are low and working conditions poor, so is morale. It is difficult to ignore MOF salary structures and relativities, which are often a key constraint on expanding human capacity and maintaining staff at the management level. In many countries, the incentive is for key officials to travel and supplement their low basic salaries with more generous travel allowances. Apart from remuneration, another problem is that staff training and human resources development tend to be minimal in these countries. A case can be made that in order for a country to receive a resident advisor, FAD should insist on a designated counterpart who will remain on the job at least for the duration of the advisor's assignment, to ensure some minimal transfer of expertise.

The HIV/AIDS pandemic that is afflicting many African countries is putting a severe strain on human capacity as it tends to be most prevalent in the most economically active members of society. Of the sample countries covered in this paper, Zambia has the highest adult infection rate (21.5 percent at end-2001, according to UNAIDS), with Kenya and Malawi not far behind, at 15 percent each, and Rwanda and Tanzania following with 8.9 and 7.8 percent, respectively. Various studies have noted that this is becoming an increasingly important external constraint on efforts to build, or even maintain, administrative capacity.

### **Institutional change has been difficult to achieve**

FAD's TA advice has chosen to concentrate more on PEM functions than on the institutions that operationalize them. However, often it must be recognized that what can be achieved technically is constrained by existing institutional structures that need to be reformed. At the same time, it is recognized that in all countries, and not only in African ones, institutional change is difficult to bring about. For example, in Malawi, the MOF structure was identified as inappropriate early on in FAD's TA, but despite lengthy recommendations in this area, little change was accomplished.

For most countries, it has been accepted that advisors and missions will have to work within the institutional structure available, and, accordingly, FAD has tended to focus advice on more obvious inefficiencies. For example, in human-resource-poor countries, it is undesirable to have unnecessary duplication of functions, and, in order to fully exploit information technology, usually some reorganization is required both in work practices and within institutions. While pushing at the margin, central institutional issues that have weakened PEM systems have not been adequately addressed, including, as identified previously, the institutional split between development and recurrent budgets, the lack of full

integration of the OAG in the MOF, and the role of the MOF as financial manager when the President's Office has wide financial decision-making powers.

### **Adopting a realistic timetable**

In the past, FAD may have had unrealistic expectations of how fast reforms could be undertaken and produce results. At the same time, FAD has learned how quickly progress can be reversed. Certainly, in the African context, TA always seems to be a long-term task. This must be balanced by the fact that FAD's resources are not infinite, and Fund programs are geared to results within a relatively short time frame. Accordingly, something of a conundrum is posed for FAD's TA: whether to risk "placing the bar high enough to challenge" and getting no, or poor, results, or setting it at a lower level in the hope of at least making some useful short-term progress. The danger with the latter strategy is that it is possible to get trapped into a perpetual "Band-Aid" short-term approach. For some of the countries in the sample, there is a suspicion that this already is the case. Thus, there is a need to reassess the timetable for TA impact, while at the same time not neglecting to apply pressure on the authorities and FAD's advisors to produce results.

### **FAD's collaboration with other TA providers is not always well coordinated with the deliverables**

In many countries of the sample, FAD has been only a minor TA provider compared with others. Often, the effectiveness of FAD's advice has been reduced because it has been crowded out by the actions of other providers. For example, FAD's insistence that for good cash management it is important to consolidate accounts and move to a TSA concept has often gone against donor insistence on separate project accounts for the donor's fiduciary requirements. The focus of the World Bank on MTEF has often diverted the administration's attention toward planning activities at the expense of more immediate budget execution problems, which were usually FAD's primary concern. The focus on developing IFMISs has led to the premature abandonment of manual reporting systems, with a subsequent loss of information, at least in the short term, and has led us into a "Band-Aid" type of TA to improve data quality. Offering advice and technical support to a country's authorities has often led FAD's advisors to spend increasing amounts of their time in support of such medium-term initiatives and dissipated FAD's central short-term advice. This approach has in many cases diverted the focus of FAD's TA from other pressing priorities in order to respond to issues raised by other donors' lending strategies, reinforcing the need for FAD's recommendations to be discussed and accepted not merely by the authorities but by other TA providers and to coordinate FAD's work more closely with theirs. Increasingly, missions and advisors have been encouraged to do this.

### **FAD's lack of follow-up**

Scarce resources have often resulted in a lack of follow-up to FAD's TA advice. FAD has considered the idea of a simple follow-up letter to TA reports, sometime after the report is sent, inquiring as to the use the authorities have made of FAD's recommendations. This has

never been fully pursued, but there seems to be a very strong case for some follow-up to TA reports when there is no subsequent resident advisor. Similarly, provided conditions are right—namely, that authorities are genuinely willing, or the country is in an active Fund program—there also seems to be a case for FAD to provide regular follow-up TA when resident advisors are withdrawn. Certainly, in the case of a core group of African countries that over the years have had substantial TA from FAD and have been in and out of Fund programs, there is a clear case for more regular interaction. In this way, FAD can be made more aware of likely future TA demands and emerging problems before they reach a crisis point. This is an idea that has already been mentioned in the discussion of TA planning.

### **FAD's advice often did not fit into an overall TA plan**

In many ways the above issues revolve around FAD's strategy for delivering TA in the PEM area, and evolving that strategy to make FAD's TA more effective. Because in the past the approach has been to respond to immediate problems, and operate on more and more specific TOR for FAD's advisor, there has been some difficulty in ensuring that the advisor's work fitted into some overall reform plan, or TA strategy. This approach has also meant that FAD has relied on the authorities to determine the role, and set the work plans, of advisors. Often, the dangers of the resident advisors viewing their role as a hand-holding function became evident. For example, one can question whether this approach really builds capacity rather than dependence. In more than one case, after some time in a country, the advisor became virtually a top-level line official. In addition, this created the tendency of moving FAD's TA more and more downstream. In some countries, it appears clear that a more viable long-term strategy could have been encouraged had the advisors made more of an effort to engage other TA providers who had more resources at their disposal than were available to FAD.

It also raises a more general issue of whether FAD should be aiming to hand off responsibility to other TA providers sooner. On many occasions, FAD has exhibited an ambiguous position in this regard. On the one hand, FAD recognized the need for more resources to implement recommendations and actively encouraged others' participation. On the other hand, FAD often expressed doubts as to whether other donors could be relied upon to take up the slack in specific TA areas, the speed at which they would respond, or even the type of advice they might give. Certainly, if the country requested program-related TA, FAD's first reaction was to try to do this with internal resources. Underlying this approach appears to be the lack of a coordinated TA plan for the country, and a lack of ongoing collaboration with other donors, that would make any handoff to other providers much smoother. The development of country-specific TA plans, in collaboration with other providers, is one area that is being pursued more rigorously, and will be discussed below.

## **B. Implications for FAD's Technical Assistance Delivery**

A number of improvements to the planning and management of TA that would further increase the effectiveness of FAD's individual inputs are listed below.

### **A more comprehensive and strategic approach in planning TA**

As implied above, FAD's TA has often lacked strategic vision, especially one that was aligned to a country's own strategic priorities. In the past, FAD's approach has been largely determined by demand, with FAD responding to requests from the authorities for advice to meet their PEM requirements. Many of these requests were made at the instigation of the area department, so that it was possible for FAD to influence the nature of the request. However, the degree of freedom for FAD to be proactive has not been great. The result has been that, in responding to demands, the particular need that was being satisfied did not necessarily fit into any coherent plan for the development of the country's PEM system. Moreover, there is a suspicion that, in this way, FAD's TA tended to provide a short-term response to a particular urgent need, rather than address longer-term, and perhaps more fundamental, problems.

An essential element in improving this situation is to expend more resources in planning FAD's TA strategy. In Fund area departments, there has already been some movement in this direction with FAD's efforts to provide more realistic annual plans for regional TA allocation. However, to be effective, planning must be wider than this and, ideally, should be closely aligned with a country's own broader reform strategy. The aim should be to promote a country-centered comprehensive approach to FAD's TA delivery and, in collaboration with member countries, draw a country-specific PEM reform strategy supported by a concrete short- and medium-term reform plan. While many countries in Africa will inevitably continue to experience short-term shocks that will often require immediate TA assistance, the move toward a more strategic country-led approach should still be the focus of discussions with the country authorities to enlist their support and ownership.

*Therefore, when designing assistance strategies and reviewing requests for TA, FAD needs to give more consideration to the institutional and governance environment, as well as the technical deficiencies of the PEM system. One way to address these challenges and promote ownership is to integrate PEM issues into national PRSs and supporting programs such as the PRGF. One potential mechanism for aligning TA in PEM with the national PRSs in some countries is the HIPC Assessment and Action Plan (AAP) process, conducted by the World Bank and IMF in close collaboration with the government (see Box 9 for a full description). Although the AAP was designed for a specific purpose—tracking the effectiveness of commitments made in the context of HIPC debt relief—and is not necessarily applicable to all situations, it is highly relevant to the African context, regardless of whether a country is eligible for HIPC debt relief. The AAP framework addresses many of the weaknesses identified in the management of Fund TA in the past. The AAP framework is a comprehensive diagnostic approach that takes account of the priorities and capacity of a government to assist in the design of its own PEM reform plan, incorporating all relevant*

donors.<sup>20</sup> *However, to ensure that the AAP (or a similar instrument) is adequately reflected in the national PRS or PRGF requires more coordination with the authorities and donors at the policy level.*

In 2002, FAD initiated a series of experimental internal Fiscal Strategy Briefs (FSBs) in an effort to strengthen its internal ability to prioritize its TA program. Since then, FSBs have been prepared for 41 countries, seven of which are for countries within this review. Despite the limited time frame, early experience suggests that the FSBs may prove to be a useful instrument, in terms of both contributing to TA prioritization and strengthening FAD's dialogue with the area departments and external partners. The FSBs have three distinctive features. First, they prioritize across traditional TA areas, as well as within each of them. Second, they involve a more proactive view of what are considered the main reform needs and provide a basis for focused discussion with the area departments and others. Third, reform priorities and needs are more clearly linked to macroeconomic and institutional vulnerabilities, which cover such aspects as the commitment and capacity of the authorities.

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<sup>20</sup> This approach is not exclusive to the AAP process or HIPC countries. Similar approaches have been developed by bodies such as the multidonor Public Expenditure and Financial Accountability (PEFA) group, which is developing a standardized PEM assessment framework. See Allen, Schiavo-Campo, and Garrity (2004).



### **Box 9. HIPC Expenditure Tracking Assessment and Action Plans: Toward a Comprehensive Country-Centered TA Strategy**

Debt relief under the enhanced HIPC initiative places considerable emphasis on recipients demonstrating an increasing share of poverty-reducing expenditures in their budgets as well as accounting for the additional funds provided by the initiative. This is expected to be a key feature of each country's poverty reduction strategy. In order to assess the capacity of individual countries to track and report on poverty-reducing spending, the Boards of the Bank and Fund introduced the HIPC expenditure tracking Assessment and Action Plan (AAP): a tool that aims to assess the capacity of the PEM system to deliver and report on the implementation of a country's poverty reduction strategy. The assessment, which is done jointly by the World Bank, the IMF, and the government, leads directly to an action plan, supported by development partners where necessary, that is designed to address the priority weaknesses of the PEM system. AAPs have been agreed upon with each of the HIPC-eligible countries. The main features of the AAP are the following:

- **An assessment framework**—a questionnaire leads to 15 indicators representative of a well-functioning PEM system.\* The indicators consider both performance (e.g., level of arrears, timeliness of reporting, etc.) and institutional dimensions (internal audit, medium-term expenditure framework). They cover all elements of the budget system—coverage, preparation, execution, and reporting—with a particular focus on the ability to plan, monitor, and track poverty-related spending. Countries are assessed against a minimum benchmark standard for each indicator.
- **An action plan**—an articulation of the short- and medium-term measures required to develop the PEM system so that it demonstrates the basic characteristics of a well-functioning PEM system. The action plan is regularly monitored, with reports included in IMF Article IV consultations.
- **A technical assistance plan**—a mapping of donor programs for the measures identified in the action plan and identification of areas where further support is needed.

The first assessments were conducted in 2001 and reported to the Boards of the Bank and Fund in 2002. The results of a second round of AAPs will be reported to the Boards of the Bank and Fund in early 2005.

\*An additional indicator was added for the second round of assessments in 2003/04, relating specifically to the adequacy of the procurement system.

### **A more coordinated approach**

By adopting a short-term and supply-on-demand approach, perhaps not enough attention was paid to ongoing TA being provided by others or broader-ranging local reform efforts. The fact is that, over recent years, there has been a substantial increase in TA provided by various donors in the PEM area, many of which have long-term reform programs or projects that have impacted FAD's own TA provision. The need to coordinate better with other TA providers and other government initiatives has often not been fully recognized. The possibility of a duplication of effort, or of conflicting advice, was always a danger, and the obvious lack of coordination often sent conflicting signals to the authorities. Not only were TA priorities occasionally confused, but it was difficult to enforce country ownership and accountability.

To address this, and to establish countries' ownership and responsibility for the implementation of TA advice, greater effort needs to be made to fit FAD's TA into an overall government reform plan that allows better coordinated delivery of TA by the Fund and other TA providers. FAD's past attempts to coordinate in the PEM area have shown that this is not easy or costless. Government institutions responsible for coordination are often extremely weak and as a relatively small provider, FAD often lacks the influence or resources to assist this coordination effort. Donors are also often responding not only to the priorities established in the country but also to those in their own headquarters.

However, as a relatively small provider, FAD should recognize that the onus is on it to promote better coordination of its efforts with others. In this FAD is somewhat handicapped. Typically the large providers, often running large-scale programs and projects, have important and influential field offices that direct their TA. For an IMF division in Washington this presents substantial coordination problems and extra costs.

*One approach that has some potential in addressing the problem of local coordination is the regional approach of the African technical assistance centers (AFRITACs), which offer FAD the opportunity to liaise with governments and other TA donors on an ongoing basis in the field through regional advisors. It should also help to promote sharing technical best practices and other lessons of PEM reform within the region. The first AFRITAC was set up in Tanzania in November 2002, followed the next year by an AFRITAC in West Africa. The role of the AFRITACs will soon be subject to external evaluation that will allow firmer conclusions on whether this approach can satisfy these coordination needs.*

### **Enhanced headquarters management of TA**

Adopting a more strategic approach to TA delivery and better coordinating with other providers, in turn, has important implications for the role of FAD headquarters in TA delivery. Often, in the past, FAD headquarters' support has been viewed as primarily technical, focused on backstopping expert advice in the field. The approach envisaged here would require much more effort at headquarters in the planning of TA and in the coordination efforts with other donors. Substantially more resources will need to be invested in oversight and support from headquarters to ensure that implementation of TA advice is timely, effective, and compatible with that of other providers.

At the same time it will require greater investment in managing TA, especially the human resource element. It has been noted that the TA provided to this group of countries has been primarily through the assignment of resident advisors. The preponderance of advisors indicates that one of the important aspects of FAD's TA has been the work at headquarters in recruiting, backstopping, and managing these advisors to maintain the quality of TA advice. Throughout the period, FAD has tightened this quality assurance in a number of ways.

The first assurance of quality has always been to attempt to recruit only the best advisors. FAD has made a substantial effort to ensure that each potential advisor is enlisted onto the panel of experts only after being interviewed by senior FAD staff in the same discipline, and has been offered an advisor's position only after having been tried out on mission. Second, there has been an increasing tightening of the advisor's TOR. The inclusion of the country authorities and area departments has been encouraged in drafting the TOR, as has the trend to clarify the areas of focus, and expected outputs, of the assignment. This has allowed the TOR to be more easily translated into detailed work plans against which TA progress can be monitored. Third, the importance of backstopping has been increasingly stressed, and alternates have been assigned primary backstoppers to act on behalf of advisors who are traveling. The discipline of monthly reporting by the advisors was enforced, as was the attempt to cut down on the lag in responding to their reports.

In addition, the practice of inspecting advisors was enhanced, so that the standard time was shortened from annually to six months. Moreover, to give a fresh and less-biased view of the work, the inspection was carried out by staff other than the backstopper. Recently the role of advisors and their backstoppers and a clear statement of their respective responsibilities was incorporated into FAD's TA manual. Fourth, an annual review of advisor performance was introduced, to allow the backstoppers to undertake a systematic assessment of each advisor's performance in relation to his or her output objectives. Typically, this involved some ex post evaluation of the reasons for success and failure, which often gave rise to some corrective measures. Cases where there was clear evidence of under-performance led to early termination of the advisor's contract.

Despite this system of internal controls, not all advisors performed as expected. In reviewing the individual country experiences, performance was mixed. Perhaps this is not surprising. In the African environment the advisor's job is not an easy one. With a joint subordination to the authorities and the IMF, the advisor is officially employed by the IMF but is the authorities' advisor and, as such, is expected to provide them with the best advice. Implicitly it is assumed that there will be no conflict between this duty and the obligation of reporting to the IMF, but in reality there are many gray areas where advisors risk their longer-term relationship with the authorities by being seen as too much of an agent for implementing Fund program conditionality or as inflexible in not supporting initiatives that the IMF opposed.

In countries with weak administrative capacity it is undoubtedly difficult to maintain an advisory role at all times—that is, in assisting counterparts in carrying out their line duties and not replacing them. In the absence of suitable counterparts, some advisors definitely drifted toward the latter approach and had to be corrected by their backstoppers. In this environment, the past experience of the advisors—especially in the context of developing countries—appeared critical. Often, advisors with much stronger qualifications on paper but without this type of experience proved disappointing. Similarly, those less technically qualified but with good “people skills” did much better than expected. It is difficult to separate such intangible factors in judging the quality of the advisor's TA advice.

However, there are obvious areas for improvement. FAD should spend more time and resources in the recruitment process. This has in the past been considered a task to be carried out back-to-back with other work, as a sideline rather than important in its own right. Moreover, recruitment has become increasingly important as the available pool of advisor talent has been tapped into by other TA providers, including the private consulting firms that have expanded their work in the PEM area. Bilateral TA has also increased in this area, so OECD nationals are increasingly recruited by their own governments for TA. FAD must work harder and invest more in maintaining its roster of fiscal experts.

Second, there is still room for tightening the backstopping function, following trends that are already visible—for example, increasing the focus of TORs, formulating more detailed advisor work plans, and updating according to discussions with the authorities. There is room for increased contact with the advisor by telephone and electronic means.<sup>21</sup> Other options include in-field workshops with several resident advisors to discuss common problems and their solutions, and perhaps also with their counterparts to ensure better feedback from the authorities. Rather than inspection missions, more frequent backup missions could monitor and evaluate progress and set new work plans. This would reinforce the status of the advisor in the eyes of the authorities and, by increasing the authorities' dialogue with FAD, enhance ownership. There is also room for strengthening the contacts between the backstopper and an FAD economist and the area department team. Last, but not least, more frequent in-depth reviews of FAD's TA, like this study, followed by specific TA country strategies, seem called for to improve the quality of TA advice.

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<sup>21</sup> For example, FAD has experimented recently with an “e-room” approach to allow PEM advisors in the field access to headquarters information and to share information with other advisors.

## V. SUMMARY OF A REFORMULATED TECHNICAL ASSISTANCE STRATEGY

To improve FAD's TA delivery in a situation of limited resources, it is necessary to be more selective, while at the same time improving the management of TA. To accomplish this, FAD needs to prioritize better and learn from past experience.

For many of the Anglophone African countries, which have been long-term clients of the Fund, there is a clear case for more regular interaction than in the past—to diagnose emerging problems before they reach crisis proportions. To be effective, this regular interaction should be coordinated with other TA providers and be nested in an overall TA country strategy in which the authorities have some ownership. Much of this agenda neatly dovetails with the regional approach of the AFRITACs currently being implemented, the initial performance of which will be reviewed in the near future. FAD is also taking a number of steps to improve its management processes, including experimenting with internal Fiscal Strategy Briefs to help coordinate, prioritize, and manage its TA.

This report review of the difficulties involved in introducing different PEM reforms suggests that FAD's future TA strategy should be modified to be more strategic in the type and mode of TA delivered, to better coordinate work with the medium-term capacity-building efforts of other providers, and to selectively get involved in new areas.

As indicated at the outset of this study, FAD's TA in the PEM area has tended to be geared to the short-term needs of area department programs. In many ways, this has created pressure for a more downstream form of TA delivery: providing experts to design and implement fiscal reporting systems; improving data quality; and strengthening expenditure control mechanisms, most particularly through introducing CCSs. This report sees future TA being strengthened by the following:

- Placing PEM TA into a more strategic framework. The internal prioritization and management of the TA provided should be more suited to country circumstances, institutions, governance factors, and capacity. FAD also needs to consider the assistance strategies of other donors and providers. Where possible FAD should fit its TA into a nationally owned overall PEM TA plan, based on a country-specific comprehensive strategy for TA. This should be agreed upon with authorities and other donors and be closely coordinated with IMF country teams. The HIPC AAP process is one initiative, among others, that could help to determine a country's priorities in PEM, coordinate government and other providers, and determine the best mode of delivery. TA would then be provided only where it is consistent with this framework or is required following a shock to the PEM system.
- Seeking national commitment. For those countries where it is judged that the ongoing commitment to improve PEM is problematic and capacity is low, preconditions must be agreed upon for PEM reform performance milestones, to justify new and ongoing TA as well as to identify good or stable counterparts. FAD should consider withdrawing its assistance when countries fail to put into place the mutually agreed

upon reform steps in a satisfactory manner. This approach builds on current practices, under which resident experts are normally appointed for six-month renewable terms, and inspection missions are fielded before long-term assignments are extended.

- Paying more attention to follow-up and implementation. There could be a strengthening in the oversight, support, and follow-up to our recommendations. FAD remains committed to the backstopping role—ensuring that advice is subject to quality assurance by leading experts. When countries lose interest in implementing good advice, FAD should review its role. Similarly, if FAD fails to address the problems of concern to authorities, then the authorities should advise FAD accordingly. Where possible this would include strengthened oversight, support, and follow-up to FAD’s recommendations.
- Ensuring that TORs are more focused. FAD is putting greater emphasis on ensuring (i) that TORs are well-researched and informed; (ii) that they concentrate on priority issues, with clearly defined outcomes; and (iii) that they are more directly negotiated with the authorities and with other donors where appropriate. This is reinforced with more ongoing involvement in oversight and backstopping from headquarters. The result is to place a greater emphasis on mission preparation, with a deliberate focus on the resources and information required to deliver high-quality advice.
- Applying realistic timetables for PEM reforms. This will often imply adopting different timetables for TA delivery for different countries or topics. It also recognizes the potential requirement for more regular, ongoing involvement for longer time periods than was previously considered in some countries.
- Agreeing on division of labor with other providers. This review has revealed the importance of better coordinating FAD’s largely short-term TA interventions with the longer-term TA projects and programs of governments and other TA providers. It does not suggest that FAD has a comparative advantage in replacing these other providers or national initiatives, but it does suggest both the areas where FAD might focus its TA and the best mode of TA delivery. These decisions should be made in conjunction with other providers and the country authorities. Where it can, FAD should support the work of experts engaged by other providers, for instance through information sharing.

**FAD should continue its efforts at strengthening core PEM operations**, maintaining a balance between downstream TA (data quality and more direct links with IMF program needs) and upstream TA (focused on diagnostic and strategic reform overviews). **In budget preparation, FAD should** continue its current work in introducing or refining budget classification in line with international standards and in strengthening budget processes, the budget timetable, and MOF analytical capacity. **In budget execution**, there should be a continued focus on fiscal reporting, mainly from a short-term perspective and aimed at tackling general data quality issues that are of concern for Fund program work. However, FAD’s priorities should be made more explicit, namely by ensuring that:

- Coverage in reporting is adequate for Fund programs.
- Tracking of poverty-reducing expenditures, as specified in PRSPs, is effective, as a subset of fiscal reporting.
- Mechanisms are in place to track arrears (stock and flow).
- Basic benchmarks for data quality are met: reports are timely; coverage of government bank accounts matches that of the monetary survey; below-the-line accounts are closed; changes in debt stock are reconciled with financing flow data; and below- and above-the-line data are reconciled.

**FAD should continue its emphasis on establishing commitment controls** but should be more selective in the introduction of such systems, which should be seen as involving a package of supporting elements. The feasibility of introducing a CCS should be gauged by:

- Undertaking an assessment of the adequate realism of budget estimates.
- Ensuring a minimum cash-planning capacity underlying the cash-release system.
- Assessing the feasibility of putting in place arrears-monitoring mechanisms.

If these elements cannot be met, FAD's TA should be redirected toward removing these impediments to establishing a comprehensive CCS.

The case studies suggest three priority areas for enhanced coordination with other medium-term capacity-building efforts:

### **(1) The introduction of MTEFs**

FAD's support needs to be selective among countries. For those countries where the MTEF has strained administrative and technical capacity, FAD should offer only "nuts-and-bolts" TA, which, in any case, should be the basis of a sound MTEF—namely:

- Develop macroeconomic policy and analysis.
- Improve budget classification.
- Assist in integration of recurrent and development budgets.

For those countries where MTEFs appear more viable, FAD's involvement should focus on ensuring the realism of the resulting macroeconomic envelope.

## **(2) Support of IFMISs**

FAD's support should be limited only to the first stages of what are generally very lengthy projects in the African context. It should be based on a judgment that preconditions for success exist and should have a well-defined exit point. The focus should be on the design and test stage (which could include pilot implementation) to ensure sound functionality of the system. Given the importance of these core systems to PEM, if the judgment on the preconditions is negative, an effort should still be made at some level to engage the country authorities and sponsor-donor(s) to address the main impediments and ensure that existing systems are not compromised (or perhaps even that they be strengthened) during the development work.

## **(3) Modernizing the legal framework**

FAD's advice should be directed to ensure that the underlying budget process adopted in any revised legislation is realistic and not overly ambitious for the country's administrative capacity. This also entails pressing for required institutional changes to make the legislation effective.

## **Selectively getting involved in new areas**

With limited resources, there is no large margin for FAD to undertake more extensive TA. Nonetheless this study has highlighted additional areas of PEM that have grown in importance over the last decade. FAD could consider addressing these priorities only if they are considered to be urgent and of strategic importance to achieving broader macroeconomic goals, such as those set out in the PRSP; if firm country ownership can be demonstrated; or if TA gaps develop because there are no other donors. Under these conditions, three areas have been identified as possible candidates for more extensive TA:

### **(1) Decentralization issues, with a focus on Fund program needs:**

- Ensure that the country's intergovernmental relations are designed to allow efficient execution of all expenditure responsibilities, and macroeconomic management is not compromised.
- Allow countries to meet HIPC-reporting commitments.
- Ensure that a consolidated budget in a standard format can be constructed.
- Rationalize and standardize financial management functions at the subnational level.
- Ensure regular in- and end-year reporting from all subnational governments.
- Ensure that adequate data reporting and procedures are in place to determine and execute central transfers to subnational levels.



Ultimately, to meet these needs, it is recognized that good budget formulation and execution processes need to be developed at the subnational level. However, given FAD's resources, it can only expect to have a minimal direct input at this level.

**(2) Internal audit:**

- Clarify and strengthen internal audit tasks.
- Introduce supporting institutional arrangements.
- Restructure work practices to increase audit effectiveness.

**(3) Debt management, especially for HIPC countries:**

- Assure an effective organizational consolidation of debt and aid functions, and corresponding restructuring of tasks.
- Create an integrated database to track all loans, including on-lending, from the time of agreement through debt service payments.
- Use such a database to promote debt management skills (debt contracting; risk analysis; improved controls, especially on on-lending; guarantees; commodity aid; and reimbursements).

**Concluding observation**

Overall, the approaches outlined imply a more regular interaction with client countries than has been the case in the past, with the aim of diagnosing emerging problems and providing more focused interventions before problems reach crisis proportions. To be effective, this regular interaction should be coordinated with other providers and nested in an overall country TA strategy, in which the country authorities display ownership.

Some of the adaptations just described will add to costs. Given the overall resource constraints, they may therefore need to be accompanied by greater selectivity in responding to new requests—that is, providing assistance to a smaller number of countries in any given period but with a larger commitment to each country served.

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