A guide to public financial management literature

For practitioners in developing countries

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Abbreviations

ADB	Asian Development Bank
CABRI	Collaborative Africa Budget Reform Initiative
CFAA	Country Financial Accountability Assessment
CPIA	Country Policy and Institutional Assessment
CSO	Civil Society Organisation
DFID	Department for International Development
EU	European Union
FMIS	Financial Management Information System
HIPC	Heavily Indebted Poor Country
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSASB	International Public Sector Accounting Standards Board
IT	Information Technology
M&E	Monitoring and Evaluation
MTEF	Medium-term Expenditure Framework
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PEM	Public Expenditure Management
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	Public Financial Management
PIP	Public Investment Planning
PREM	Poverty Reduction and Economic Management
PRSP	Poverty Reduction Strategy Paper
ROSC	Report on Observance of Standards and Codes
SAI	Supreme Audit Institution
Sida	Swedish International Development Cooperation Agency
USAID	United States Agency for International Development

Introduction

This guide has been prepared for people seeking to deepen their knowledge on public financial management (PFM) in developing countries. It caters to the needs of newcomers to the field who want to familiarise themselves with the introductory PFM literature, as well as practitioners broadening their PFM knowledge beyond their own area of expertise.

The world of PFM literature can be daunting, ranging from heavy handbooks on PFM reform and theoretical academic papers by economists and political scientists to country-specific evaluations and case studies. Navigating this sea of material can be difficult and time-consuming. In this guide, we have selected handbooks, guidance notes and articles that we think would be useful to the people implementing PFM systems: recommended readings are practical, concise, user-friendly and focused primarily on PFM systems in developing countries. As our objective is to save the reader time, we have consciously kept the lists short. Most of the recommended readings are available free online.

The paper is divided into two main parts. Part I provides an overview of the budget cycle architecture and recommends literature that describes what a sound PFM system looks like and explains why. It also highlights specific areas where there is disagreement about the best approach, or where implementation practices differ widely between countries.

Part II sheds light on the gap between theory and practice, tackling the challenges low capacity and political and economic realities pose for the ideal PFM system. The literature covers PFM reform strategies on how to prioritise and phase reforms and what preconditions are required for reforms to be successful. It also discusses PFM diagnostic tools and some findings from evaluations of PFM programmes.

Each part is divided into two sections. The first gives a brief overview of the topic: it introduces the reader to the concepts and issues covered in the recommended reading. The second lists readings by topic. It briefly describes the material and indicates what situations the reference will be useful in and why. Links to country examples and case studies are also provided.

This guide is primarily aimed at PFM practice in fragile or low-income countries, but much of the recommended reading is also applicable to developing and transition countries. This is not to deny that fragile, conflict-affected or poor countries may face specific challenges that make some of the traditional recommendations inappropriate, or to suggest that all countries should be moving linearly towards PFM valedictorian status. To highlight some of the unique challenges facing post-conflict and fragile states, we have included a section in Part II that speaks to specific issues faced in these contexts. Meanwhile, engagement with the basic PFM concepts and traditional models is important for practitioners in all settings to be able to follow current PFM debates, understand and critique donor recommendations and analyse how and why practices in a given country diverge from 'best practice'. It is up to country practitioners to thereafter determine what recommendations are relevant and implementable in their respective countries.

The majority of recommended readings in this guide are produced by international development agencies, particularly the World Bank and the International Monetary Fund (IMF). These are the most comprehensive and accessible international guides available. While some of the readings in Part II of the paper provide interesting critiques of the Bretton Woods approach, ultimately this guide presents established development thinking rather than critiques of it. Again, it is up to the reader to remain critical and determine whether the international advice is appropriate to specific country contexts.

This guide will be made available online and updated regularly in response to user feedback and as new material becomes available. We therefore welcome comments on the recommended readings. We would particularly appreciate feedback on the literature's relevance and usability from practitioners working in developing country government ministries.

What is PFM?

PFM underlies all government activity. It encompasses the mobilisation of revenue;[1] the allocation of these funds to various activities; expenditure; and accounting for spent funds. Although the PFM discipline may be new to some readers, most will have encountered many of the concepts and processes in the course of their professional lives. Public servants will have participated in the steps of the budget cycle when they budgeted for a programme, raised a purchase order, reviewed an expenditure report or prepared documents for external audit scrutiny. Readers who have not worked for a public institution may notice that PFM has much in common with 'private' financial management. Many of the principles of budgeting, expenditure and reporting also hold true for firms and private organisations.

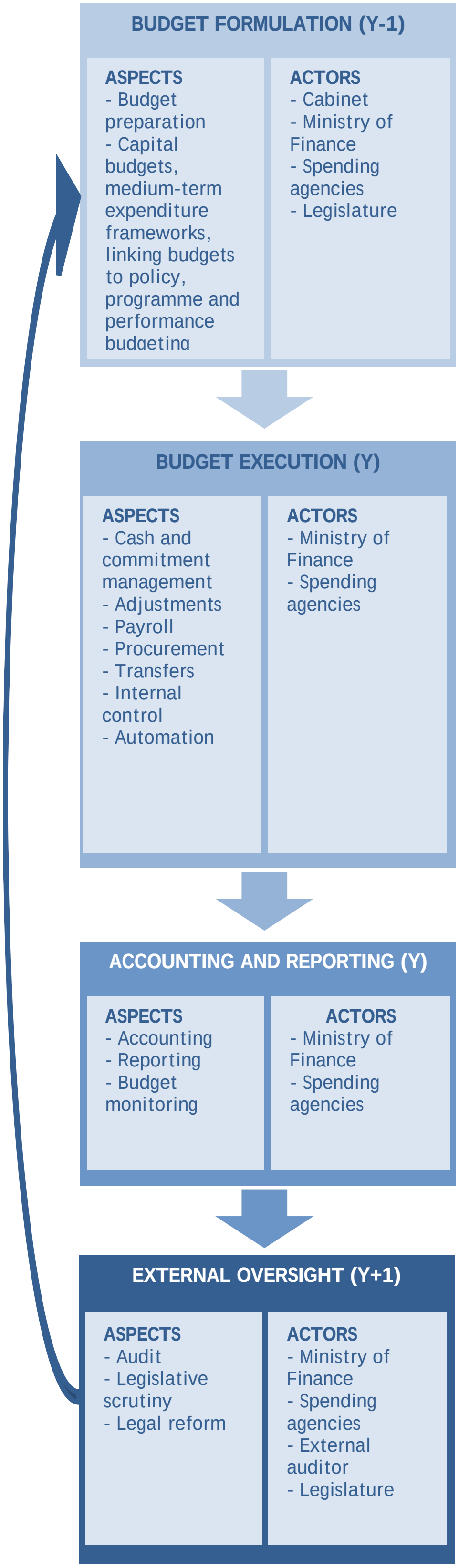
Many PFM topics are highly specialised and have their cadre of experts—on issues such as financial management information systems, payroll reform or procurement for public works, for example. But whether one is engaged in the gritty details of cash advance procedures or works on public policy at a broad level, it remains valuable to consider the PFM system as a whole. It is important to understand how various functions fit into a broader system of rules and regulations that govern the management of public resources, and what these functions are ultimately intended to achieve.

[1] Whether or not to consider revenue mobilisation as a component of the PFM system is still subject to debate.

Part I: The budget cycle

The various PFM processes are structured around the budget cycle. This annual cycle aims to ensure that public expenditure is well planned, executed and accounted for.

Figure 1: The budget cycle



In this paper, we do not consider revenue management, a large and crucial component of the PFM system which requires extensive treatment in its own right. It is important to keep in mind that revenue management interacts closely with expenditure management, particularly when determining the overall budget envelope and when managing in-year cash flow.

Budget formulation

The budget cycle starts with the budgeting process, in which the government, with legislative oversight, plans for the use of the coming year's resources in accordance with policy priorities.

Budget execution

Once the budget has been approved and the new fiscal year begins, spending agencies and the Ministry of Finance embark on its implementation. They use the resources allocated to them on salaries for public servants, running costs for their offices, such as rent and electricity, and goods and services delivered to their beneficiaries (school books, medicines). The Ministry of Finance manages the flow of funds and monitors and makes in-year adjustments to ensure compliance with the budget and PFM rules.

Accounting and reporting

Throughout the fiscal year, each spending agency records its expenditures (accounting). These accounts are consolidated centrally by the Ministry of Finance. At the end of the fiscal year, the Ministry of Finance issues a report that demonstrates how the budget was implemented.

External oversight

This report is then subjected to external scrutiny. The Supreme Auditing Institution, an independent government body, reviews the government's revenue collection and spending and issues its own statement on the execution of the budget and the strength of the PFM systems. In many countries, this audit report is presented to the legislature for further scrutiny and follow-up.

Below is a list of general PFM reference materials which covers the entire budget cycle. The following sections discuss each step of the budget cycle in greater depth and recommend further in-depth reading about its various elements.

Recommended reading: comprehensive guides to PFM

The best comprehensive introductory guides to PFM are a set of weighty PFM handbooks produced by various international organisations. Thankfully, the contents of these different books overlap significantly. The most widely used practical guides to budget preparation and execution is written by Schiavo-Campo and Tommasi, and various iterations of its chapters are available in three different books: *Managing Government Expenditure* from 1999; produced by the Asian Development Bank (ADB), *Managing Government Expenditure* from 2001, produced by the Organisation for Economic Co-operation and Development (OECD) and edited by Allen and Tommasi, which has an emphasis on PFM issues relevant to transition countries in Europe; and *Budgeting and Budgetary Institutions*, published by the World Bank in 2007 and edited by Shah, which places greater emphasis on the needs of African countries. Throughout this guide, there are references to relevant chapters from these books.

- **Schiavo-Campo, S. and Tommasi, D. (1999) Managing Government Expenditure. Manila: ADB.**
  www.adb.org/documents/manuals/govt_expenditure/
- **Allen, R. and Tommasi, D (eds.) (2001) *Managing Government Expenditure: A Reference Book for Transition Countries.* Paris: OECD. SIGMA.**
  www1.worldbank.org/publicsector/pe/oecdpemhandbook.pdf

These two handbooks cover broadly the same topics and contain a great deal of the same material. The first was prepared for countries in Asia and the second for transition countries in Europe with a view to European Union (EU) accession. Low-income country practitioners may find Schiavo-Campo and Tommasi (1999) more accessible as it does not have a strong regional focus.

Despite being more than 10 years old, these books continue to be among the most popular guides to PFM. They offer a comprehensive, detailed and practical approach. The reader will come away with a far greater understanding of what a PFM system 'blueprint' looks like and why, and how and why country experiences tend to deviate from this. The books assume some prior knowledge of PFM concepts and terminology but the writing is clear and practical. They cover the budget and its preparation, budget execution, accounting reporting and auditing, reform strategies and diagnostics. The chapters end with a recommended direction for reform.

- **Shah, A. (ed.) (2007) *Budgeting and Budgetary Institutions*. Washington, DC: World Bank.**
  http://siteresources.worldbank.org/PSGLP/Resources/BudgetingandBudgetaryInstitutions.pdf

The most recent comprehensive PFM guide is the World Bank's *Budgeting and Budgetary Institutions*, which provides an introduction to current debates and trends in PFM. While this 600-page guide to budgeting might look intimidating, the chapters are authored individually and can be read as standalone pieces. The first part of the book describes and discusses budget institutions, whereas the second provides case studies from a number of African countries. Although the titles suggest a mix of theoretical discussion and practical guidance, most of the chapters are heavier on theory and concepts and the writing is relatively dense.

- **Potter, B. and Diamond, J. (1999) *Guidelines for Public Expenditure Management*. Washington DC: IMF.**
  www.imf.org/external/pubs/ft/expend/index.htm

These guidelines were designed to help IMF economists understand basic expenditure management principles and how public expenditure management (PEM) influences the macro economy. Their virtue is their concise and action-oriented approach. They list the questions an IMF economist should ask a client government in order to understand the strengths and weaknesses of its expenditure management system and describe the typical weaknesses economists are likely to encounter. The also provide guidance on what advice to give to client governments that are seeking to rectify PEM weaknesses. The guidelines can be used as a rapid diagnostic tool, but may also be interesting for government officials seeking to anticipate comments and advice from an upcoming IMF mission.

- **World Bank (1998) Public Expenditure Management Handbook. Washington, DC: World Bank.**
  www1.worldbank.org/publicsector/pe/handbook/pem98.pdf

This handbook introduces the reader to the general principles, goals and methods of PEM. It provides background on various PFM reform efforts and discusses the successes of these. A reader not already familiar with the elements of a PFM system may find the writing abstract. The book places greater emphasis on the ideas and objectives of PFM than on the actors and practices they engage in to realise these objectives. This handbook is useful for PFM practitioners who want to be reminded of the objectives and theories behind their actions, but is less appropriate for a reader seeking an introduction to the PFM architecture.

- **Foster, M. and Fozzard, A. (2000) *DFID Economists' Manual: Aid and Public Expenditure*. London: ODI.**
  www.odi.org.uk/resources/download/5032.pdf

Chapters 2 and 3 of this manual provide an excellent summary of basic PFM principles and practices, covering the budget cycle, government financial statistics, investment budgets, medium-term expenditure frameworks (MTEFs) and performance management. It is aimed at economists and therefore focuses on those elements of the PFM system that have a strong bearing on macroeconomic analysis.

- **Department for International Development (2001) Understanding and Reforming Public Expenditure Management: Guidelines for DFID. London: DFID.**
  www.fiscalreform.net/images/Library/dfid_understandingreformingpem.pdf

This manual introduces Department for International Development (DFID) staff to PEM concepts and the rationale for donor engagement in PEM. The document is elegantly formatted and structured and the introductory passages on PEM are recommended reading for those wanting a very short overview of the basic concepts (fewer than 10 pages). Country practitioners may find it an interesting window onto donor thinking and approaches to PFM.

- **Blondal, J. (ed.) *OECD Journal on Budgeting.* Paris: OECD**
  www.oecd.org/document/14/0,3746,en_2649_34119_2074062_1_1_1_1,00.html

This journal is a leading publication on public sector budgeting and is published three times a year. It combines articles by OECD senior budgeting officials with country submissions and contributions by academics. Although its focus is on OECD countries, developing country studies are frequently included. It raises theoretical debates about PFM, discusses new institutional developments and instruments and provides country case studies. It is a useful resource for practitioners seeking to stay up-to-date on PFM developments. Past editions are available free of charge online, while the most recent edition require a membership subscription.

- **The Collaborative Africa Budget Reform Initiative**
  www.cabri-sbo.org/

The Collaborative Africa Budget Reform Initiative (CABRI) is a professional network of senior budget officials in African Ministries started in 2008. Its website contains reports and presentations, blog posts and news items. It may offer some valuable country perspectives to contrast with the primarily donor agency-produced PFM guides and handbooks.

Budget formulation

And on the first day they created the budget …

The budget provides the means for a government to pursue its policy objectives. The word stems from the Middle English word for the king's purse, 'budjet', which contained the public funds (Schiavo-Campo and Tomasi, 1999: 33). The budgeting process—how public actors plan for the spending of finite public resources—thus lies at the heart of government activity.

Modern budget institutions stem from the rise of the modern state in Western Europe in the 16th and 17th centuries when the rising costs of warfare were leading to an increase in taxation. A higher tax burden led to public demand for greater accountability: citizens wanted a way to ensure public funds served public interests. This oversight role came to be performed by a parliament containing elected representatives with the responsibility to approve and review the government's use of resources.

The budget

A government's forecast of revenue and planned expenditure is laid out in its budget, usually produced on an annual basis. The budget is enacted into a law by the legislature, which authorises the government to spend funds in accordance with a set of appropriations. Usually, a collection of PFM laws and regulations further regulate how the approved budget should be executed.

Countries tend to have legislation and regulations that specify how the budget document should be prepared and what information it must contain. While some rules and practices differ between countries and continue to elicit lively debate, a fairly extensive body of 'best practice' has emerged with time.

Budget content

An effective budget pursues three (partially competing) objectives: maintaining fiscal discipline, allocating resources in accordance with policy priorities and efficiently delivering services, or 'value for money'. Budgets should be comprehensive, transparent and realistic. In order to promote these objectives, a budget should contain the following elements: a macroeconomic framework and revenue forecast, a discussion of budget priorities, planned expenditure and past outturns, a medium-term outlook and details on budget financing, debt and the government's financial position.

Budget preparation

Preparation of the budget usually takes many months and involves all public institutions: the Ministry of Finance manages the process, the Cabinet/President sets or approves the policy priorities, line ministries plan and advocate for their resource needs and the legislature reviews and approves the final plan. Preparation is at the heart of the political process: it is the decision on how to allocate the state's limited resources to competing demands.

A successful budget preparation process combines top-down direction and bottom-up planning. The overall budget envelope and sector/ministry spending ceilings are usually set by the Ministry of Finance and the Cabinet/executive in accordance with policy objectives. These are then communicated to the line ministries, which are responsible for preparing their respective sector budgets. Through an iterative process of review, debate and bargaining, a consolidated budget is hammered out. A budget proposal is then presented to the legislature, where it is debated and negotiated with the executive and eventually passed into law.

In past decades, there have been various innovations in budget formulation, with the aim of increasing the allocative and operational efficiency of budgets. These ideas and practices warrant special attention, as there is still a considerable debate among PFM specialists about whether, when and how implement them.

Capital budgets

Budgets should distinguish between current and capital items. Capital investments, which tend to have a longer lifespan, higher unit costs, recurrent cost implications and (potentially) high returns, require special consideration. In the 1950s and 1960s, dual budgeting was common, with a Ministry of Finance preparing the current budget and a Ministry of Planning preparing the capital or development budget. Dual budgeting has since been widely discredited, as it has been shown to fragment the budget and weaken the central bargaining process. However, the debate continues on how to treat capital expenditure in the budget and what special considerations it requires. Public investment planning (PIP) is a frequently recommended practice for planning capital expenditure.

Medium-term expenditure frameworks

Although budgets are usually approved on an annual basis, they should include a multi-year outlook. Many projects and programmes take more than one year to implement or may have future financing implications, and such costs should be indicated in the budget and factored into the budget debate. The interest in MTEFs grew out of a concern for the multi-year considerations of capital budgets, as they offered a comprehensive solution to this problem. MTEFs can take a variety of forms and be at different levels of sophistication. Some countries operate multi-year budgets where appropriations are locked in for several years; others provide indicative aggregate budget estimates for future years.

Linking budgets to policy

Introducing a medium-term budgeting horizon is intended to strengthen the link between expenditure projections and budget policy. In response to criticism that many poverty reduction strategy papers (PRSPs) were 'wish lists', during the 1990s donors supported the introduction of MTEFs in a number of developing countries to serve as financial constraints that would promote the prioritisation of expenditures. Three key features are embedded into MTEF design to help achieve a stronger link between plans and budgets:

- **An extended budget calendar (strategic budget phase):** This allows spending agencies to formulate a budget framework paper that is discussed at the strategic level by policymakers before final expenditure ceilings are set and detailed budget estimates are prepared.
- **The division of budgets into sectors:** The clustering of ministries and spending agencies into sectors makes it easier to translate policies into budget allocations.
- **The integration of all expenditures into a unified budget:** This allows activities and outputs to be fully aligned and traced to policy areas irrespective of the revenue source (recurrent, capital or donor). It also helps with the tracking of expenditures and output allocations.

Programme budgeting

Programme budgeting is a method of organising and classifying the budget according to programmes with shared objectives, instead of along administrative and input lines. Programme budgeting has proponents who argue that a programme approach correctly focuses attention on outcomes rather than inputs. Its opponents argue that it makes the process more complex and weakens accountability.

Performance-based budgeting

Responding to concerns that PFM systems encourage a bureaucratic adherence to rules rather than a pursuit of results or outcomes, many governments have experimented with budgets that set performance incentives. Approaches range from radical attempts to outsource government functions against performance contracts to incremental efforts to consider performance objectives and indicators in the budgeting process. While PFM experts generally agree that a performance orientation is desirable, whether and how to incentivise performance through the PFM system is a subject of great debate. Performance budgeting has often been introduced in combination with an MTEF and usually builds on a programme budget structure.

Recommended reading: budget formulation

The budget and budget preparation

- **Shah, A. (ed.) (2007) *Budgeting and Budgetary Institutions*. Washington, DC: World Bank.** http://siteresources.worldbank.org/PSGLP/Resources/BudgetingandBudgetaryInstitutions.pdf

The chapters by Schiavo-Campo on the budget and its coverage (Chapter 2) and budget preparation and approval (Chapter 8) provide a useful starting place for readers seeking an introduction to budget formulation. The chapters are descriptive and action-oriented. Longer versions of the same chapters can be found in Schiavo-Campo and Tommasi (1999) and Allen and Tommasi (2001).

- **Schiavo-Campo, S. and Tommasi, D. (1999) *Managing Government Expenditure*. Manila: ADB.** www.adb.org/documents/manuals/govt_expenditure/
- **Allen, R. and Tommasi, D. (eds) (2001) *Managing Government Expenditure: A Reference Book for Transition Countries*. Paris: OECD SIGMA.** www1.worldbank.org/publicsector/pe/oecdpemhandbook.pdf

These books provide detailed chapters on the budget and its preparation, MTEFs, investment planning and performance orientation. They provide a comprehensive, detailed and practical approach to the budget preparation process. The reader will come away with a far greater understanding of what a budget system blueprint looks like and why, and how and why country experiences tend to deviate from this.

- **Potter, B. and Diamond, J. (1999) *Guidelines for Public Expenditure Management*. Washington, DC: IMF.** www.imf.org/external/pubs/ft/expend/index.htm

These guidelines were designed to help IMF economists understand basic expenditure management principles and how PEM influences the macro economy. Section 3 on budget preparation provides a clear, short and practical overview of budgeting institutions and the budget preparation process. It lists the questions an IMF economist should ask a client government in order to understand the strengths and weaknesses of its budget system. It also describes the weaknesses typically encountered in budget preparation processes.

- **Ramkumar, V. and Shapiro, I. (eds) (2010) *Guide to Transparency in Government Budget Reports*. Washington, DC: International Budget Partnership.** http://internationalbudget.org/publications/guide-to-transparency-in-government-budget-reports-why-are-budget-reports-important-and-what-should-they-include/

This guide is designed for civil society groups but could equally be used by practitioners who want a clear and concise overview of the internationally recommended standards for various budget reports. It is a useful reminder of the concrete products that emerge out of a complex budget formulation process. It draws heavily on the OECD note on Best Practice for Budget Transparency (2002). It covers the pre-budget statement, the executive's budget proposal, the citizen's budget and the enacted budget, explaining the purpose of each, what information it ought to contain and when it should be prepared. It also lists country examples that meet best practice standards.

Capital budgets

- **Jacobs, D. (2009) 'Capital Expenditures and the Budget'. Technical Notes and Manuals. Washington, DC IMF.** http://blog-pfm.imf.org/files/capital-expenditures-and-the-budget.pdf

This short and concise technical guidance note defines capital expenditure and outlines the differences between capital and current expenditure, provides a rationale for considering capital items separately during the budgeting process and provides good practice recommendations for capital budgeting. The author strongly discourages dual budgeting in low-income countries but considers it essential to clearly distinguish between the two expenditure categories and develop special procedures for the preparation of the capital budget.

- **Premchand, A. (2007) 'Capital Budgets: Theory and Practice', in Shah, A. (ed.) *Budgeting and Budgetary Institutions*. Washington, DC: World Bank.** **http://siteresources.worldbank.org/PSGLP/Resources/BudgetingandBudgetaryInstitutions.pdf**

This chapter provides a short history of capital budgeting, with an emphasis on this as a means of promoting responsible public borrowing. It highlights current practice across the world and provides arguments for and against capital budgeting.

The author assumes the reader is familiar with the capital budget debate. This is primarily a theoretical piece reviewing and debating the merits of treating capital items separately in the budget. It gives limited guidance to practitioners seeking practical advice on how to operationalize a capital budgeting system.

Medium-term expenditure frameworks

- **Allen, R. and Tommasi, D. (eds) (2001) 'Multi-Year Budgeting and Investment Programming', in Allen, R. and Tommasi, D. (eds) (2001) *Managing Government Expenditure: A Reference Book for Transition Countries*. Paris: OECD SIGMA.** **www1.worldbank.org/publicsector/pe/oecdpemhandbook.pdf**

This chapter provides a detailed and comprehensive treatment of MTEFs and investment planning. It explains the objectives of an MTEF, discusses past experience and lessons learnt, explains MTEF variants and provides advice on how to structure a MTEF. The second section, on investment planning, considers project preparation, appraisal and screening, and investment programming and budgeting. It introduces the PIP concept.

- **World Bank (2006) 'Annex B: Developing a Medium-term Expenditure Framework', in World Bank *Prospects for a Medium Term Expenditure Framework in the Islamic Republic of Iran*. Technical Note. Washington, DC: World Bank.** **http://homepage.mac.com/eduley/worldpank/iran_technical_note_on_mtef.pdf**

Annex B of this technical note provides a generic step-by-step guide to the development of a MTEF focusing on establishing overall envelopes, high-level policy-setting, linking of policy, resources and means by sector and reconciling resources, means and policy. It provides detailed descriptions of all the elements involved in each step, interspersed with country examples. It is a useful guide to countries planning the introduction of an MTEF, but readers looking merely to familiarise themselves with MTEF concepts may find it excessively detailed.

- **Oxford Policy Management (2000) 'Medium Term Expenditure Frameworks – Panacea or Dangerous Distraction?' Briefing Note. Oxford: OPM.** **http://siteresources.worldbank.org/INTPEAM/Resources/OPMMTEFReview.pdf**

This short four-pager discusses the arguments for and against MTEF introduction in developing countries. It reviews the current MTEF experience in developing countries and argues that MTEFs are not a panacea: they can bring benefits, but are a complex and resource-intense task with a mixed implementation record. In developing countries, a less ambitious MTEF which focuses on medium-term commitments to aggregate spending ceilings for the main budget categories may be more appropriate.

- **Schiavo-Campo, S. (2008) 'Of Mountains and Molehills: "The" Medium-Term Expenditure Framework'. Conference on Sustainability and Efficiency in Managing Public Expenditure, Honolulu, 20 September.**

Schiavo-Campo's rather personal critique of the MTEF fad covers far more than just MTEFs. It is a readable and interesting analysis of the rationale for—and relationships between—MTEFs, PIP, programme budgeting and performance-based budgeting. It explains why donor-funded 'big bang' MTEF reforms in low-income countries were a bad idea and were doomed to fail. It then argues that countries should work towards MTEF objectives in an incremental way and at a pace consistent with domestic capacity and context.

Linking budgets to policy

- **World Bank (2008) 'Linking the PRS with National Budgets: A Guidance Note'. Washington, DC: PREM Poverty Reduction Group, World Bank. http://siteresources.worldbank.org/INTPRS1/Resources/383606-1106667815039/PRS_Budgets_GuidanceNote.pdf**

This paper is targeted at technical practitioners in developing countries. It draws on the wider PFM literature, but distils the discussions in a logical way that sets out typical problems, emerging good practice and a series of diagnostic and reform questions. The paper covers four broad areas: identifying de-linkages between planning and budgeting, introducing a strategic phase to the budget formulation process, introducing a medium-term planning horizon and introducing a performance orientation to the budget. The final section of the paper closes the loop with a focus on reporting against the PRSP and how this feeds into decision-making processes. The paper rejects the idea of a universal blueprint. Instead, it offers guidelines that can help practitioners to identify country-specific barriers to and paths for reform.

- **de Renzio, P. and Smith, S. (2005) *Linking Policies and Budgets: Implementing Medium-term Expenditure Frameworks in a PRSP Context*. London: ODI. www.odi.org.uk/resources/details.asp?id=1368&title=linking-policies-budgets-implementing-medium-term-expenditure-frameworks-prsp-context**

This briefing paper provides a neat synopsis of nine country case studies to measure the effectiveness of the MTEF as a tool for providing a financial constraint in prioritising PRSP policies. The case studies provide a mixed picture but, at a general level, findings show that initial conditions do matter when introducing an MTEF, but that the MTEF itself can be a valuable catalyst for building basic budget conditions. Two specific areas are highlighted to support this and are illustrated by the introduction of a strategic budget phase and an increased focus on the results of budgetary spending.

Programme budgeting and performance-based budgeting

- **Shah, A. and Shen, C. (2007) 'A Primer on Performance Budgeting', in Shah, A. (ed.) *Budgeting and Budgetary Institutions*. Washington, DC: World Bank. http://siteresources.worldbank.org/PSGLP/Resources/BudgetingandBudgetaryInstitutions.pdf**

This chapter provides an extensive discussion of the advantages of a performance orientation in budgeting and the drawbacks of traditional line-item budgeting. It places emphasis on the value of relaxing constraints on managers and 'letting them manage'. It provides an interesting history of various performance-based approaches, a range of country examples and pros and cons associated with various models. It outlines the critical conditions for successful implementation of performance budgeting, stressing the importance of a 'performance-based culture' and strong accountability systems. The examples and descriptions are skewed towards experiences in industrial countries and the chapter gives less attention to the challenges of performance management in low-income countries with limited capacity.

- **Robinson, M. (ed.) (2007) *Performance Budgeting: Linking Funding to Results*. London: Palgrave Macmillan in association with the IMF.** **http://marcrobinsonconsulting.com/Download.html** (the full book is not available free of charge, but chapter 1 can be downloaded from Marc Robinson's website)

This is a 500-page guide to performance budgeting, commissioned by the IMF in response to demand from member states for performance budgeting advice. It provides a comprehensive review of current theory and practices, including country case studies and lessons drawn from country experiences with performance budgeting. Some of the key themes include the value of performance budgeting for improving allocative efficiency, new performance management models such as purchaser-provider models and the preconditions for performance budgeting implementation and the means of sequencing reforms.

The first chapter, on 'Performance Budgeting Models and Mechanisms', provides a guide through the jungle of performance budgeting concepts and models. It explains the link between performance budgeting and performance management. It provides a useful explanation of programme budgeting, the precursor to performance budgeting, which was first introduced in the US in the 1960s.

- **Robinson, M. and Last, D. (2009) 'A Basic Model of Performance-Based Budgeting'. Technical Notes and Manuals. Washington, DC: IMF.** **http://blog-pfm.imf.org/pfmblog/fad-technical-notes-and-manuals-on-public-financial-management.html**

This paper presents a basic performance-based budgeting model for countries with weak implementation capacity. It explains the rationale behind a performance orientation and how such an approach can be gradually phased in. It also explains the relationship between programme budgeting and performance-based budgeting.

Country examples

Programme budgets and MTEFs:

- South Africa, Medium-term Budget Policy Statements, 2010
www.treasury.gov.za/documents/mtbps/2010/default.aspx

- Mauritius, Programme-based Budget Estimates, 2011
http://www.gov.mu/portal/site/MOFSite/menuitem.5b1d751c6156d7f4e0aad110a7b521ca/

Performance budgets and MTEFs:

- Uganda, Budget Framework Papers, 2010/11–2014/15
www.finance.go.ug/docs/National-Budget-Framework-Paper-FY2010-11-FY2014-15.pdf

Case studies

- Versailles, B. (2011) 'Integration of the Recurrent and Development Budgets in Rwanda'. Briefing Note. London: ODI.
- Versailles, B. (2011) 'Sector Strategies in Rwanda'. Briefing Note. London: ODI.
- Versailles, B. (2011) 'Rwanda's Planning and Budgeting Processes'. Briefing Note. London: ODI.
- Versailles, B. (2011) 'Budget Transparency and the Citizens' Guide to the Budget, Rwanda'. Briefing Note. London: ODI.
- Overseas Development Institute (2011) 'Uganda: Steps in the Budget Cycle' (forthcoming). Briefing Note. London: ODI.
- Overseas Development Institute (2011) 'Uganda: Sector Working Groups in SWAps' (forthcoming). Briefing Note. London: ODI.

Budget execution

The fine art of spending

Once a budget has been approved by the legislature, the government embarks on the challenging task of spending funds. Spending public funds effectively to meet stated policy objectives while ensuring value for money is often just as challenging (if not more so) than planning how to spend it. Several reviews of PFM performance in developing countries show that countries score significantly better on budget preparation than on budget execution indicators (Andrews, 2008).

How to spend a budget in just four steps

The general PFM reference material tends to focus on budget execution from the perspective of the Ministry of Finance. It emphasises the need to ensure the budget is executed in accordance with the appropriations and rules to prevent corruption and overspending (arrears accumulation). The budget execution process is usually divided into four steps: authorisation and allocation of appropriations (the release of funds to spending units); commitment of funds to specific purchases; verification of deliveries; and payment.

Commitment controls

Commitments are a future obligation to make a payment (for instance a signed contract for delivery of a service) but the exact definition varies between countries, and the practices of recording and tracking commitments are equally varied. In order to effectively manage the government's cash flow and prevent arrears from accumulating, it is important to monitor the pipeline of future payments. How commitments are defined and monitored is therefore a central topic in budget execution literature.

Cash management

A major challenge for the Treasury is how to manage the flow in order to ensure that funds are available in time to meet payment obligations, while preventing arrears accumulation, reducing the need for government borrowing and maximising returns on cash balances. In order to ensure central control over cash, governments are advised to operate a Treasury single account. This is a single account or set of linked accounts where all government revenue is deposited before it is allocated for expenditure purposes. There are different methods of managing transactions linked to this account: countries may centralise all payment transactions through the single account, centralise cash balances only but channel funds to spending agency accounts for payment purposes or operate an imprest system, whereby spending agencies are given advances which they clear on a regular basis.

Budget alterations

Another important Ministry of Finance responsibility is to monitor and manage in-year changes to the budget. Unforeseen circumstances or poor budgeting may make it necessary to adjust the budget. Rules will govern transfers between budget categories (virements). Substantial changes to the budget may require a budget supplemental. Preparing a supplemental is essentially a mini-budgeting process whereby an amendment to the budget is prepared and submitted for legislative approval.

In developing countries, and particularly in fragile states, underspending is frequently as much of a problem as overspending. A failure to spend funds in a timely manner and in accordance with the budget points to a failure to deliver planned services. It is therefore useful to consider the budget execution responsibilities of spending agencies.

Public procurement

Capital goods and non-wage recurrent goods and services should be subject to a country's procurement regulations. Procurement rules aim to ensure the government receives the best value for money when buying goods and services, without incurring excessive transaction costs. Procurement resembles a reverse auction, whereby suppliers compete to offer the lowest price for a good or service. To balance value for money against excessive transaction costs, procurement procedures vary for different expenditure categories and the value of the purchase. While low-cost readily available goods can usually be procured according to relatively simple procedures, larger and more complex contracts require competitive bidding. Procurement is a common source of corruption and therefore procurement systems tend to include controls aimed to detect and deter corruption. In the past, it was common to operate a centralised procurement system, whereby one government agency procured on behalf of all spending agencies. Over the past decades, most countries have moved to decentralised procurement, with each spending agency managing its own procurement. This has increased the need for skilled procurement personnel across government.

Intergovernmental fiscal transfers

Political governance structures differ widely between countries. In unitary governments, sub-national governments are subordinate levels of the same government; federal structures contain sub-national governments that have constitutionally mandated independence and tax-collecting authority. Yet for most sub-national governments in developing countries, transfers from the central government are the biggest source of revenue. Countries need to establish clear mechanisms for determining the allocation of resources to sub-national governments and the degree of sub-national government autonomy in the management of funds. In many developing countries, sub-national governments behave much like line ministries: their budgets are incorporated into the national budget and their spending follows the same rules as other spending agencies. In countries with a higher degree of decentralisation, sub-national governments have a greater degree of autonomy, with reporting and accountability structures at a local level rather than to the central government.

Internal control

Internal (or management) control systems are the policies and procedures put in place by the management of a government agency in order to ensure the agency achieves its objectives and complies with external laws and regulations. Such policies and procedures tend to cover financial accounting and reporting, performance monitoring, asset management and procurement. Large agencies will have an internal audit unit comprising internal auditors that independently review and report on the implementation of management policies to the head of the agency. Internal auditing is a relatively new function in both advanced and developing countries, and its role is often poorly understood and utilised.

Automation (financial management information systems)

In recent years, governments have moved to automate various financial management processes, usually starting with accounting and reporting functions. While automation can improve system efficiency, the process can be disruptive and challenging, as it usually requires significant reform of existing processes and new human resource skills. Proponents of large-scale automation reforms argue that it streamlines procedures and reduces opportunities for corruption; critics point to the high costs of automation, the failure rate of many automation projects and the risks of graft shifting from the procurement officer level to those with control over the new automation system. Several authors argue in favour of phased approaches to FMIS implementation that reduce the risk of failure.

Recommended reading: budget execution

Budget execution: general overview

- **Tommasi, D. (2007) 'Budget Execution', in Shah, A. (ed.) *Budgeting and Budgetary Institutions*. Washington, DC: World Bank. http://siteresources.worldbank.org/PSGLP/Resources/BudgetingandBudgetaryInstitutions.pdf**
- **Schiavo-Campo, S. and Tommasi, D. (1999) 'Budget Execution (Part 2)', in Schiavo-Campo, S. and Tommasi, D. (eds) *Managing Government Expenditure*. Manila: ADB. www.adb.org/documents/manuals/govt_expenditure/**

A basic overview of the budget execution process is provided by Schiavo-Campo and Tommasi (1999) and a shortened version of the same chapter is provided in Shah (2007). The chapter in Shah (2007) is recommended for those who want a quicker overview of the typical budget execution structure.

These chapters focus on the challenges of building an expenditure system that ensures compliance with rules without imposing excessive rigidity or high transaction costs. They cover the budget expenditure cycle, including commitment control, divisions of responsibility, changes and adjustments to the budget, management of personnel expenditure and procurement and cash management and the Treasury function. They introduce the reader to the key concepts and institutional arrangements for budget execution, with a focus on those elements of the execution system where country performance tends to be poor. However, there is a bias in these chapters towards the objectives of the Ministry of Finance—ensuring compliance, fiscal stability and managing in-year revisions—over the objectives of the spending agencies—to optimise service delivery.

- **Potter, B. and Diamond, P. (1999) *Guidelines for Public Expenditure Management*. Washington, DC: IMF.**
  www.imf.org/external/pubs/ft/expend/index.htm

These guidelines were designed to help IMF economists understand basic expenditure management principles and how PEM influences the macro economy. Sections 4 and 5 cover budget execution and cash planning and management. The writing is clear, concise and action-oriented and effectively highlights some of the typical challenges governments face when executing their budgets. However, they are written to assist IMF economists to monitor and advise governments on their fiscal performance and are thus focused on compliance.

Commitment controls and cash management

- **Radev, D. and Khemani, P. (2009) 'Commitment Controls'. Technical Notes and Manuals. Washington, DC: IMF.**
  http://blog-pfm.imf.org/pfmblog/fad-technical-notes-and-manuals-on-public-financial-management.html

This note provides a clear and concise description of different commitment control systems (centralised and decentralised), their objectives and the preconditions for their introduction. It provides greater detail and a more operational focus than Tommasi (2007) and Schiavo-Campo and Tommasi (1999). The authors argue that a centralised commitment control system is preferable in countries with weak institutional capacity. They also provide a useful box describing when and how different types of obligations (payroll, utilities, capital items) should be recorded as commitments.

- **Lienert, I. (2009) 'Modernizing Cash Management'. Technical Notes and Manuals. Washington, DC: IMF.**
  http://blog-pfm.imf.org/pfmblog/fad-technical-notes-and-manuals-on-public-financial-management.html

This note provides a detailed and technical description of cash management processes and practices in advanced and developing countries. It is aimed at a technical audience and provides guidance to middle- and low-income countries that want to upgrade their cash management systems. It provides greater detail and a more operational focus than Tommasi (2007) and Schiavo-Campo and Tommasi (1999).

The note illuminates an important difference between a modern cash management system that aims to maximise returns on government cash holdings by minimising idle balances and developing country cash management systems, which are often a method for controlling expenditure. It also provides a useful description of the treasury single account.

Case study

- Overseas Development Institute (2011) 'Uganda: Cash Management and Fiscal Discipline' (forthcoming). Briefing Note. London: ODI.

Public procurement

- **Asian Development Bank (2002) *The Governance Brief: Understanding Public Procurement.* Manila: ADB.**
  www.adb.org/documents/periodicals/gb/GovernanceBrief03.pdf

This short (four-page) reader-friendly primer on public procurement describes some of the current trends and challenges in public procurement, how procurement works and whether to use procurement to promote other commercial and social policies. It explains the benefits and challenges of procurement devolution. It argues in favour of using procurement agents in low-capacity environments and discusses the importance of national standards. It then gives a simple description of various procurement methods, drawing on ADB's procurement regulations for illustration. This is a useful introduction for readers who are unfamiliar with basic public procurement concepts.

- Arrowsmith, S. (2011) Public Procurement Regulation: **A**n Introduction**. Nottingham: EU Asia Inter University Network for Teaching and Research on Public Procurement Regulation.**
  www.nottingham.ac.uk/pprg/documentsarchive/asialinkmaterials/publicprocurementregulationintroduction.pdf

This book was developed by the EU Asia Inter University Network for Teaching and Research on Public Procurement Regulation as an introduction to procurement regulation for university students. It is an extensive 200+ page guide, but the first chapters provide a clear explanation of public procurement, key principles, common procurement methods, supplier lists and framework agreements.

Intergovernmental fiscal transfers

- **Swedish International Development Cooperation Agency (2007) 'Fiscal Decentralisation and Local Influence on PFM', in Sida Public Finance Management in Development Co-operation. Stockholm: Sida.**
  www.train4dev.net/fileadmin/Resources/General_Documents/SIDA_PFM%20in%20Development%20Co-operation_Handbook.pdf

This PFM handbook for Sida staff provides a clear and well-written, if somewhat cursory, overview of fiscal decentralisation and its PFM implications, including a list of common problems encountered in fiscal decentralisation and how to respond to them. Although it is directed at external actors (how Sida staff can support fiscal decentralisation), domestic actors may find it a useful overview.

- **Schroeder, L. and Smoke, P. (2002) 'Intergovernmental Fiscal Transfers: Concepts, International Practice, and Policy Issues', in Kim, Y.H. and Smoke, P (eds) *Intergovernmental Fiscal Transfers in Asia: Current Practice and Challenges for the Future*. Manila: ADB.**
  http://beta.adb.org/publications/intergovernmental-fiscal-transfers-asia-current-practice-and-challenges-future

This chapter provides an extensive discussion of the rationale for intergovernmental fiscal transfers and design considerations for countries establishing a transfer system. It provides a useful overview of three main design considerations: the total pool of resources to be transferred, allocation between sub-national governments and the degree of sub-national government autonomy in managing the transferred funds.

- **Broadway, R. and Shah, A. (2007) *Intergovernmental Fiscal Transfers: Principles and Practice*. Washington, DC: World Bank.**
  http://siteresources.worldbank.org/PSGLP/Resources/IntergovernmentalFiscalTransfers.pdf

This 600-page volume about intergovernmental fiscal transfers is heavier on the principles than the practice and provides limited guidance on how to build appropriate PFM structures for local governments. The first chapter, 'A Practitioners Guide to Intergovernmental Fiscal

Transfers', provides some description of the typical transfer arrangements of funds to sub-national governments but is a theoretical piece about the economic rationales for various funding arrangements rather than a practical piece outlining the strengths and weaknesses of various models.

Internal control

- **Havens, H. (1999) 'Management Control, Audit and Evaluation', in Schiavo-Campo, S. and Tommasi, D. *Managing Government Expenditure*. Manila: ADB.** **www.adb.org/documents/manuals/govt_expenditure/**
- **Allen, R. and Tommasi, D. (2001) 'Internal Control and Internal Audit,' in Allen, R. and Tommasi, D. (eds) M*anaging Government Expenditure: A Reference Book for Transition Countries*. Paris: OECD SIGMA.** **www1.worldbank.org/publicsector/pe/oecdpemhandbook.pdf**

These chapters provide a short description of internal control systems, also known as management control, and the internal audit function. The chapter in Allen and Tommasi (2001) draws extensively on Havens (1999) but is a deeper treatment of the internal audit function, which is helpful for managers and internal auditors seeking guidelines on their roles and responsibilities. The chapter provides a useful overview of the categories of internal control and the circumstances in which they are useful. The section on internal audit explains the mandate of the internal audit unit and its relationship to internal control and external audit.

Automation/financial management information systems

- **Diamond, J. and Khemani, P. (2005) 'Introducing Integrated Financial Management Systems in Developing Countries'. Working Paper. Washington, DC: IMF FAD.** **http://blog-pfm.imf.org/pfmblog/2008/01/introducing-fin.html**

This IMF working paper builds on evaluations of a number of FMIS projects. It analyses the reasons for a very high FMIS failure rate and provides recommendations on how to improve future FMIS project performance. The first half of the paper provides a clear and well-structured introduction to the FMIS, explaining the rationale for their introduction, features of an FMIS and the typical implementation strategy. The authors argue that an FMIS can bring substantial benefits to a PFM system, but it should be introduced only once certain preconditions have been met. Upstream activities are thus crucial: a FMIS should be used as an incentive to reengineer processes before the actual IT platform is installed.

- **Peterson, S. (2007) 'Automating Public Financial Management in Developing Countries', in Shah, A. (ed.) *Budgeting and Budgetary Institutions*. Washington, DC: World Bank.** **http://siteresources.worldbank.org/PSGLP/Resources/BudgetingandBudgetaryInstitutions.pdf**

This chapter provides an overview of FMIS functions, how to manage them and what choices governments need to make when deciding on and designing an appropriate FMIS. Peterson draws on lessons learnt from the large number of failed FMIS projects and recommends an incremental approach to FMIS introduction. In contrast with Diamond and Khemani, who see FMIS failure as (in part) a failure to re-engineer PFM processes ahead of system introduction, Peterson argues that it is better to start small and build an FMIS system around current practices. The chapter focuses primarily on upstream issues—how to choose the right FMIS approach—rather than how to manage the implementation process.

- **United States Agency for International Development (2008) Integrated Financial Management Systems. Washington, DC: USAID.** **http://pdf.usaid.gov/pdf_docs/PNADK595.pdf**

This is a best practice guide to designing and implementing an FMIS which describes what an FMIS does, what the possible benefits of an FMIS are and what key elements one includes. It also provides country examples of good and bad practice and recommends ways to avoid common pitfalls. It is a fairly extensive (46-page) guide, but is well-structured and readable.

The first section of the report provides a good introduction for the layman wanting to understand FMIS basics.

Case studies

- Overseas Development Institute (2011) 'Lessons from Implementation of IFMS in Uganda' (forthcoming). Briefing Note. London: ODI.
- Overseas Development Institute (2011) 'Uganda: OOB and Automation of the Budget Process' (forthcoming). Briefing Note. London: ODI.

Accounting and reporting

Show me what you did with the money!

Accounting

Accounting is the practice of recording, classifying and summarising financial transactions. It is a means of assuring compliance with budget rules and demonstrating that public funds are being used for their intended purposes. How to classify transactions is spelt out in a country's chart of accounts, which provides a system for classifying and numbering transactions and events. The chart of accounts is consistent with the budget classification system. The database where all transactions data are stored is called the general ledger.

Cash versus accrual accounting

Most developing countries have cash-based accounting systems, which means that transactions are recorded only when cash is received or disbursed. An accrual basis, in contrast, recognises transactions when they occur, regardless of when the cash is disbursed or received. Accrual-based accounting systems thus record liabilities and assets. Between cash-based and accrual accounting are a variety of intermediate systems that incorporate various elements of accrual accounting.

Cash accounting is far simpler to implement than accrual accounting. To understand the benefits of the latter it is useful to think about why it is used in the private sector. It gives a more accurate picture of the value of an enterprise as it measures liabilities and assets. By accounting for the depreciation of assets it can also provide a more accurate picture of production costs, which is vital to private enterprises looking to make a profit. However, as the public sector is not sold or traded on a stock exchange, nor does it sell its services, such information is not crucial. Governments need to weigh the value of accrual-based accounting information against the transaction costs involved in producing it. Most PFM experts strongly discourage low-income or weak capacity countries from implementing accrual accounting.

Financial reporting

Financial reports aim to improve budget compliance. They provide a means for internal or external actors to assess government performance. Financial reporting entails extracting and presenting data from the accounting system in ways that facilitate analysis. Governments produce a range of reports for internal and external consumption. Typical reports include daily flash reports on cash flows, monthly reports on budget execution, revenue reports, mid-year reports and annual financial statements or fiscal reports. There are internationally recognised minimum requirements for annual fiscal reporting. These reports form the basis for the audit general's review of government performance.

Budget monitoring

To gain an understanding of how public funds have been utilised, and how they contribute to government policies, it is important to monitor the results of expenditure. This has led to the establishment of government monitoring and evaluation (M&E) systems. A common feature of such systems involves the Ministry of Finance keeping spending agencies in check by requesting reports on financial and non-financial performance. The latter is also referred to as the *results* of government spending, and can be measured at the levels of outputs, outcomes and impacts, which involves defining performance indicators. It is important for governments to define and keep track of indicators to consider what they are trying achieve with their policies and how far they are progressing and to use the information to plan accordingly. For this reason, there is a strong link between budget monitoring (understanding how public resources are being utilised) and performance-based budgeting.

There are different tools, methods and approaches for monitoring non-financial performance. Different organisations that have a key stake in the budget process can be involved. Within government, this includes the Ministry of Finance (inputs, activities, outputs and sometimes outcomes), the Ministry of Planning and national planning agencies (outcomes and impacts) and spending agencies (inputs, activities, outputs, outcomes and impacts).

Outside of government, other actors can also be involved in budget monitoring, including donors and civil society organisations (CSOs). There are merits to both approaches. This is related to the *incentives* to report accurately and to use the information to improve performance, decision-making and accountability. Readiness for adopting tools for monitoring government performance is discussed in the literature. Some of the key lessons are (i) there is no model M&E system that works in every country; (ii) M&E is a demand-driven process; (iii) introducing M&E is a joint effort; and (iv) bringing M&E into the budget is politically sensitive.

Recommended reading: accounting and reporting

Accounting and financial reporting

- **Schiavo-Campo, S. and Tommasi, D. (1999) 'Part III – The Technical Infrastructure', in in Schiavo-Campo, S. and Tommasi, D. (eds) Managing Government Expenditure. Manila: ADB.** **www.adb.org/documents/manuals/govt_expenditure/**

Chapter 10, 'Accounting', describes different types of accounting (cash accounting, modified cash, modified accrual and full accrual), explains the chart of accounts and general ledger, provides a discussion of accrual accounting and analyses typical weaknesses in the accounting system. The chapter provides a good description of the basic concepts in accounting, but the extensive treatment of accrual accounting is less relevant for practitioners in developing countries without plans to transition to accrual accounting.

Chapter 11, 'Reporting', explains the purpose of financial reporting and describes typical reports that a government ought to produce on an annual basis.

- **Premchand, A. (1995) *Effective Government Accounting*. Washington, DC: IMF.**

For a more detailed treatment of government accounting, this book is one of the most widely cited guides. It is a dense discussion of the accounting function and provides an interdisciplinary approach that aims to link the design of accounting systems to the broader fiscal economy. It is suitable for a technical rather than generalist audience. It places accounting practices in a historical perspective and discusses payment systems, government accounting practices, accounting standards, liability management, financial information and reform approaches.

- **International Federation of Accountants (2011) *2011 Handbook of International Public Sector Accounting Pronouncements.* New York: International Federation of Accountants.**

The International Federation of Accountants, a membership body for professional accountancy organisations, comprises the International Public Sector Accounting Standards Board (IPSASB), which sets international public sector accounting standards and provides guidance and resources for public sector entities. The IPSASB handbook (updated annually) contains all current IPSASB pronouncements on international standards for accounting.

- **Ramkumar, V. and Shapiro, I. (eds) (2010) *Guide to Transparency in Government Budget Reports*. Washington, DC: International Budget Partnership.** **http://internationalbudget.org/publications/guide-to-transparency-in-government-budget-reports-why-are-budget-reports-important-and-what-should-they-include/**

This guide is designed for civil society groups and but could equally be used by practitioners who want a clear and concise overview of the internationally recommended standards for various public (general use) budget reports. It explains the purpose of each report, what information it ought to contain (according to international best practice) and when it should be prepared. It also lists country examples that meet best practice standards.

Country examples

Annual fiscal reports:

- South Africa, Consolidated Financial Information, 2010
www.treasury.gov.za/publications/annual%20reports/annual%20financial%20statements/Consolidated%20Financial%20Information%202010.pdf
- Sri Lanka, Ministry of Finance and Planning: Annual Report, 2010
www.treasury.gov.lk/reports/annualreport/AnnualReport2010-eng.pdf

Budget monitoring

- **Lopez Acevedo, G. and Saavedra Chanduvi, J. (eds) (2011) *The Nuts and Bolts of Government Monitoring and Evaluation Systems*. Washington, DC: World Bank.**
http://go.worldbank.org/CC5UP7ABN0

This book brings together a series of papers on M&E. It starts with background topics on the conceptual framework, M&E and the budget and the steps required in designing and implementing an M&E process. This is followed by country case studies and information on specific topics such as formulating indicators. Relatively complex topics are presented in an accessible way and minimal prior knowledge is assumed. While the primary audience is World Bank and donor staff who are supporting government M&E systems, government officials may also find the information useful and accessible.

- **World Bank (2004) *Monitoring and Evaluation: Some Tools, Methods and Approaches*. Washington, DC: World Bank.**
http://lnweb90.worldbank.org/oed/oeddoclib.nsf/DocUNIDViewForJavaSearch/A5EFBB5D776B67D285256B1E0079C9A3/$file/MandE_tools_methods_approaches.pdf

This clear and concise guide was developed for government officials, development managers and CSOs. It is particularly helpful for providing user-friendly definitions for commonly used terms and concepts.

- **Kusek, J.Z. and Rist, R.C. (2004) Ten Steps to a Results Based Monitoring and Evaluation System: A Handbook for Development Practitioners. Washington, DC: World Bank.**
www.oecd.org/dataoecd/23/27/35281194.pdf

While at first glance the 10-step model for building M&E appears to be a linear and static, the handbook recognises that in reality it is an iterative process. The handbook starts with a readiness assessment, which is a diagnostic tool for determining if a government is at the right stage to move forward in building, using and sustaining M&E systems. This chapter and Chapter 9 on the use of M&E findings are particularly useful for considering incentives and mechanisms for utilising information to improve performance. The handbook also provides clear definitions and different country case studies.

- **Ramkumar, V. (2008) *Our Money, Our Responsibility: A Citizen's Guide to Monitoring Government Expenditures*. Washington, DC: International Budget Partnership.**
http://internationalbudget.org/library/publications/guides/our-money-our-responsibility/

This guide provides a user-friendly introduction to different parts of the budget process. It outlines how public expenditures can be monitored and evaluated, with a wealth of examples of how these approaches have been implemented successfully by CSOs. While the guide is written primarily for a civil society audience, some of the techniques can be adapted by government officials interested in budget monitoring.

Case study

- Overseas Development Institute (2011) 'Budget Reporting and Performance Monitoring in Uganda' (forthcoming). Briefing Note. London: ODI.

External oversight

After the party

External audit

External auditing is one among several compliance mechanisms in the PFM system designed to ensure that the budget is executed in accordance with the law and effectively delivers public services. A Supreme Auditing Institution (SAI) is a public body independent of the government with the powers to scrutinise government transactions, systems and practices. Originally, external audits were a means to ascertain that the government's financial statement was a fair and accurate reflection of revenue collected and expenditures made (financial audit), and that agencies acted in accordance with law and regulations (compliance audit). Today, it is common for SAIs also to undertake value for money or performance audits that assess an agency's performance against its stated goals rather than its compliance with rules and laws.

There are three main kinds of SAIs. The Anglo-Saxon (Westminster) tradition of independent national auditing offices, headed by auditors-general, report findings to the parliament, but has no direct means of enforcing its recommendations. In the Latin judicial model, in contrast, the SAI is a fully independent judicial body and has the power to judge and sentence those found guilty of PFM breaches. Many Asian countries use the board system, where the audit function is independent of the executive and reports to the parliament much like in the Westminster model.

Legislative oversight

In most countries, the legislature provides a crucial PFM oversight role through ex-ante and ex-post budget scrutiny. The role of the legislature varies significantly between countries and there is a pronounced difference between its role under parliamentary versus presidential political systems. Across systems, however, the legislature tends to plays an oversight role by reviewing the budget prior to its approval and scrutinising the final audit report after the budget has been executed. Many former British colonies have Public Accounts Committees (PACs), which specialise in scrutinising the financial accounts and serve as the main interlocutors for SAIs. In some PAC countries, the legislature has a legal obligation to follow up on the SAI's recommendations.

As elected representatives, the legislature can play an important role in facilitating public engagement in the budget process. Through consultations with their constituents, representatives can raise community concerns in budget debates and during the budget execution scrutiny.

Reforming the PFM legal framework

Most countries have rules governing budget formulation, execution and reporting processes that are set out in one or several budget system laws. Such laws protect the legislature's authority over the budget process. The number, structure and content of a country's budget system laws will thus depend on the country's legal and political structures, particularly the relationship between the executive and the legislature.

Many countries have revised their budget system laws in recent years in order to address deficiencies in the existing framework or to introduce new budget principles. While such laws need to be developed to suit the country context, there are some general principles that can help to guide the design of new budget system law(s).

Recommended reading: external oversight

External audit

- **Havens, H. (1999) 'Management Control, Audit and Evaluation', in Schiavo-Campo, S. and Tommasi, D. (eds) *Managing Government Expenditure*. Manila: ADB. www.adb.org/documents/manuals/govt_expenditure/**

- **Allen, R. and Tommasi, D. (eds.) (2001) 'External Audit', in Allen, R. and Tommasi, D. (eds) (2001) *Managing Government Expenditure: A Reference Book for Transition Countries*. Paris: OECD SIGMA.** **www1.worldbank.org/publicsector/pe/oecdpemhandbook.pdf**

The chapter in Allen and Tommasi (2001) builds on Havens (1999), but is a more extensive treatment of the audit function and provides some interest country illustrations.

These chapters provide a clear overview of the purpose of the audit function, the different institutional arrangements and powers vested in SAIs around the world, the need for skilled auditors, types of audits and the SAIs responsibility for reporting audit findings and facilitating action on the basis of these findings. It is directed at non-specialists wanting to understand the purpose, structure and functions of various SAI, rather than being a guide for auditors about how they should go about their work.

- **World Bank (2001) 'Features and Functions of Supreme Audit Institutions. PREM Notes. Washington, DC: World Bank.** **www1.worldbank.org/prem/PREMNotes/premnote59.pdf**

This short note describes the roles and responsibility of the SAI, the different types of audit institutions, the different types of audits and SAIs' relationship with the legislature under different models. It also discusses the conditions needed for SAIs to be effective. It is a quick and reader-friendly introduction for those seeking an overview of the topic.

- **Department for International Development (2005) 'Working with Supreme Audit Institutions'. How to Note. London: DFID.** **www.train4dev.net/fileadmin/Resources/General_Documents/DfID_Working%20with %20SAIs.pdf**

This note is written for DFID staff and provides guidance on how they can support SAIs. The executive summary focuses heavily on conditions for successful DFID support to SAIs, but Sections 1 and 2 provide short, well-written explanations of how SAIs interact with Ministries of Finance and parliaments, a brief history of the audit function and the meaning of SAI independence. The note places strong emphasis on the role of SAIs within a larger PFM system, stressing that audit statements are merely a means to an end: improving PFM. Annex 1, which discusses factors for evaluating the effectiveness of SAIs, may be interesting for readers who want to understand how their country's SAI compares to the model SAI.

- **International Organisation of Supreme Audit Institutions (1977) 'Lima Declaration of Guidelines on Auditing Precepts'.** **www.intosai.org/en/portal/documents/intosai/general/limaundmexikodeclaration/lima_declaration/**

The International Organisation of Supreme Audit Institutions (INTOSAI) is a representative body for the world's SAIs. The Lima Declaration, made by the IX Congress of INTOSAI in 1977, lays down international standards for SAIs. This is an interesting read that provides a set of common definitions for SAIs, sets down common principles for SAI institutions and practices and highlights where and how practices may deviate between countries owing to differences in national legal and institutional frameworks.

Country example

- India, Compliance Audit 2010
www.cag.gov.in/html/reports/2010.htm
- New Zealand: Central Government: Results from Audits, 2009/10
http://www.oag.govt.nz/central-govt
- Uganda, Office of the Auditor General: Annual Reports to Parliament, 2009/10
www.oag.go.ug/annual_reports.php?dId=1

Legislative oversight

- **Stapenhurst, R. (2004) *The Legislature and the Budget*. Washington, DC: World Bank Institute.**
  www.agora-parl.org/sites/default/files/THELEG~1.PDF

This short paper (10 pages) provides a brief history of legislative oversight, describes different legislative models, discusses ways for the legislature to engage in ex-ante and ex-post budget scrutiny and discusses the role of the PAC. The text is interspersed with country examples. Stapenhurst raises the debate about the legislature's impact on fiscal discipline. Some academics have argued that legislative involvement in the budget formulation process weakens fiscal discipline, whereas others argue against this assertion. The paper is reader-friendly and a cursory introduction to concepts and practices.

- **Lienert, I. (2009) 'Role of the Legislature in Budget Processes'. Technical Notes and Manuals. Washington, DC: IMF.**
  http://blog-pfm.imf.org/pfmblog/fad-technical-notes-and-manuals-on-public-financial-management.html

Lienert provides a well-structured overview of the ways in which the legislature can exercise its oversight functions through ex-ante and ex-post controls. He also describes the main pieces of PFM legislation that a legislature may consider passing in order to limit the executive's budgetary discretion. While the note focuses on the legislature's role in the budgeting process, it also provides a short and useful discussion of the legislature's relationship with the SAI and recommends legislative scrutiny of audit reports.

Case study

- Overseas Development Institute (2011) 'Uganda's Parliamentary Budget Office' (forthcoming). Briefing Note. London: ODI.

Reforming the PFM legal framework

- **Lienert, I. and Fainboim, I. (2010) 'Reforming Budget System Laws'. Technical Notes and Manuals. Washington, DC: IMF.**
  http://blog-pfm.imf.org/pfmblog/fad-technical-notes-and-manuals-on-public-financial-management.html

This well-structured and reader-friendly note discusses the reasons for adopting a new budget systems law (s), the legal context for the law, the political structures and how they will impact on the content of the law, the responsibilities of budget actors and the various budgeting issues the law could include. It reviews the entire budget cycle and discusses the elements that may be appropriate to specify in a law.

The authors make the important point that a budget law should include the issues where the legislature has the final authority, whereas issues where the executive has authority should be covered by regulations. Thus, the country's legal and political structures have a great impact on the need for and content of a budget system law.

Country example

- Liberia, Public Financial Management Act of 2009

www.liftliberia.gov.lr/doc/PFM%20Law-%20Final%20Senate%20Version%20September%203%202009%20.pdf

Case study

- Overseas Development Institute (2011) 'Uganda's Legal Framework: the PFM Act and the Budget Act' (forthcoming). Briefing Note. London: ODI.

PART II: From theory to practice

PFM reform strategy, diagnosis and evaluation

The preceding section reviewed the phases of the budget cycle and described PFM institutions and the various functions of the PFM system. In many developing countries, however, practice diverges significantly from textbook PFM systems. While many developing countries have relatively robust PFM laws and regulations that conform to international standards, weak implementation is a common problem. PFM has received significant donor attention, particularly in recent years, with large reform programmes supported by the World Bank, the IMF and other bilateral agencies. Yet, despite decades of domestic and external efforts to strengthen and upgrade PFM systems in poor countries, the results have frequently been disappointing.

Recognising this divergence between theory and practice, many practitioners and researchers have reviewed and criticised traditional PFM reform approaches. One school of thought criticises the assumption that PFM principles and systems can be imported directly from developed to developing countries, stressing the importance of responding to country-specific needs. Authors argue that, because PFM systems are linked intimately to political institutions, they should be shaped to serve the domestic political context.

Other practitioners have criticised PFM reform projects for trying to advance reforms too quickly and without regard for country capacity. They have recommended or designed reform strategies that attempt to prioritise and sequence the reforms.

Another set of critics has pointed to the political economy factors influencing PFM and stressed the need to support reforms that pay attention to political dynamics and engage with the political system rather than attempting to control it with technical measures.

This section of the paper discusses literature that engages with the challenges of reforming a PFM system. It discusses PFM reform strategies, tools for measuring the strength of a PFM system and how such tools can help to inform reform efforts, and some recent evaluations of PFM reform progress. It also includes a section on literature that addresses the specific PFM reform needs of post-conflict countries.

PFM reform strategy

Challenges to PFM reform

PFM reform efforts often run up against political economy constraints. Reforms that interfere with the existing patronage system (by limiting the distribution of resources, employment opportunities and rents) will often meet fierce resistance from those groups that benefit from the status quo. Such challenges are particularly acute in countries where the fiscal power is vested in the Presidency and the Ministry of Finance has limited fiscal control.

Another challenge to PFM reform programmes is weak capacity among the technical staff charged with managing the PFM system, and poor remuneration and incentive structures that discourage the civil service from performing well.

The sequencing of PFM reform

The PFM literature pays significant attention to the optimal way to plan and sequence PFM reforms. Two related approaches have dominated the literature: the 'basics first' approach (Schick, 1998) and the 'platform approach' (Brooke, 2003).

The 'basics first' approach argues that a government should seek to ensure that three basics of budgetary control are fully operational before working to strengthen areas 'beyond the basics': (i) there should be effective control of inputs before seeking to control outputs; (ii) accurate cash-based accounts should be developed before the introduction of accrual-based accounts; and (iii) effective financial audits should be conducted before moving to performance audits. Building on a similar logic, the 'platform approach' proposes that reforms be packaged together into groups of activities or measures ('platforms') that form a logical sequence over a specified timeframe (Brooke, 2003).

Both of these approaches have stimulated debate. Critics have questioned Schick and Brooke's prioritisation of reforms, and some have argued that advanced 'beyond the basics' reforms can sometimes be undertaken successfully alongside basic reforms. Furthermore, experience with implementation of the platform approach has raised concerns about its overly optimistic timeframe and overloaded matrix of activities. Notwithstanding these debates, there is a general consensus among PFM experts that a logical and sequential approach to reform is preferable to a 'big bang' approach.

Prerequisites for PFM reform

In order to develop a PFM reform programme that responds to the political and institutional dynamics of a PFM system, it is important to understand a country's institutions and incentives and to build domestic ownership for the reform process. Diagnostic tools can be used to assess the weaknesses in a PFM system, as we have seen, but it is also important to consider institutional factors such as human resource availability, skills and IT requirements and political drivers that will shape the reform process. Such factors will determine the incentives needed to ensure sustainability. Furthermore, the reform programme has to be understood and owned by the domestic technical and political leadership rather than by donors and international consultants. Strong domestic ownership is crucial for building reform consensus at the political level and acceptance by the lower-level technocrats needed to run the system.

Recommended reading: PFM reform strategies

- **Tommasi, D. (2009) 'Strengthening Public Expenditure Management in Developing Countries: Sequencing Issues'.**
  www.capacity4dev.eu/sites/default/files/document/2009-05-5/Issue_Paper-PFM_Reform_Sequencing_final-DTommasi.pdf

This clear and comprehensive paper is a useful guide for practitioners supporting a PFM reform process. The first section addresses the approach to reform, highlighting objectives, managing the process and sequencing issues. This provides a useful overview of the main debates in the literature. The second section breaks down the process for each stage of the budget cycle, or 'reform building blocks', and provides concise basic priorities and further steps based on specific country contexts and useful practices in both Francophone and Anglophone Africa.

- **Allen, R. (2009) 'The Challenge of Reforming Budgetary Institutions in Developing Countries'. Working Paper. Washington, DC: IMF.** **www.imf.org/external/pubs/ft/wp/2009/wp0996.pdf**

This paper provides an excellent critique of PFM reform strategies using an institutional economics framework (North, 1991). This is a personal and emotive critique, but it touches on truisms that PFM practitioners will be able to relate to. The first section of the paper offers a brief history of budget reforms in developed countries spanning over 200 years and maps out the evolution of 'new waves' of economic reforms in transitional and developing countries.

The author highlights the key challenges facing developing countries and assesses the applicability of current reform models (Schick and Brooke). Allen highlights several weaknesses in the latter approach, which has been strongly supported by the donor community. In the final section of the paper, a simpler approach is advocated grounded on the principles of the 'basics first' approach but recommending greater selectivity and flexibility.

- **Stevens, M. (2004) 'Institutional and Incentive Issues in Public Financial Management Reform in Poor Countries'. Report to PEFA.** **www1.worldbank.org/publicsector/pe/StrengthenedApproach/7InstitutionalIssues.pdf**

Stevens provides a frank analysis of the reasons why PFM reforms in poor countries are frequently unsatisfactory, pointing to capacity and incentive issues that promote the status quo. The author argues that PFM practices in poor countries have remained remarkably stable since the end of the colonial period, and few reform efforts have yielded lasting results. This is because stakeholders in the PFM process have adapted their behaviour to existing systems and have found ways to manage within them and/or profit from them. He also emphasises the ways the aid process itself has shaped incentives, given the importance of aid to the budget in many poor countries. He argues that this is a process that donors have only recently begun to recognizes, and one which needs to be explored further.

The paper is structured along the main dimensions of the budget cycle and shows how incentive structures have created resistance to reform in various areas. Each section ends with recommendations for donors on how to engage in PFM reform.

Diagnostic tools and methods

Financial diagnostics are undertaken in the public sector to provide information on the status of the financial management system. Diagnostic tools have largely been developed by donor agencies but are undertaken in close collaboration with government counterparts. Country ownership of the reports and findings is promoted. Financial diagnostics are used to inform the development of a PFM reform strategy and progress on the reforms. Diagnostic tools are also used by donors to inform a fiduciary risk assessment, which can be used to guide funding and lending operations. A list of diagnostic tools with links to guidelines and country examples is provided below.

The Tools

- **World Bank (2005) 'Public Financial Management Performance Assessment Framework (PEFA)'. Washington, DC: PEFA Secretariat, World Bank.** **http://siteresources.worldbank.org/PEFA/Resources/PMFEnglishFinal.pdf**

The PEFA was launched in 2005 as a diagnostic tool for assessing and strengthening PFM systems. It has been developed as a multi-stakeholder partnership initiative. There are two parts to a PEFA: Part 1 has a high-level PFM indicator set and Part 2 is a PFM performance report. The indicators used are drawn from the Heavily Indebted Poor Countries (HIPC) Initiative expenditure tracking benchmarks and the IMF fiscal transparency code and other international standards. The PEFA covers all the key elements of PFM and shows how the nature of systems is progressing over time. It is a useful reference if you are new to a country's PFM systems.

- **International Monetary Fund (2007) 'Code of Good Practice on Fiscal Transparency (ROSC)'. Washington, DC: IMF.** **www.imf.org/external/np/fad/trans/code.htm**

This diagnostic tool is used to identify principles and practices for the structure and finances of government. It sets out a code of good practices on fiscal transparency, based on four key principles: (i) the roles and responsibilities in government should be clear; (ii) information on government activities should be provided to the public; (iii) budget preparation, execution and reporting should be undertaken in an open manner; and (iv) fiscal information should attain widely accepted standards of data quality and be subject to assurances of integrity.

- **Public expenditure reviews and public expenditure tracking surveys**

PERs are used to understand a country's fiscal position, its expenditure policies (particularly if they are pro-poor) and its PEM systems. They are intended to aid expenditure allocation and management decisions made during budget formulation and help strengthen the composition and management of the budget to deliver policy priorities. PERs are usually undertaken by the World Bank, although more recently CSOs are also using variations of this tool.

PETSs have been closely associated with PERs. This is a quantitative survey of the supply side of public services, which traces the flow of resources from origin to destination and determines the location and scale of any anomalies.

- **World Bank (2009) 'Preparing PERs for Human Development'. Core Guidance. Washington, DC: World Bank.** **http://siteresources.worldbank.org/EXTPERGUIDE/Resources/PER-Complete.pdf**
- World Bank (**2002) 'Public Expenditure Tracking and Facility Surveys: A General Note on Methodology'. Washington, DC: World Bank.** **http://siteresources.worldbank.org/INTPCENG/1143380-1116506243290/20511062/exptrack.pdf**
- **World Bank (2004) 'Public Expenditure Tracking Surveys – Application in Uganda, Tanzania, Ghana and Honduras'. Washington, DC: World Bank.** **http://siteresources.worldbank.org/INTEMPOWERMENT/Resources/15109_PETS_Case_Study.pdf**

- **World Bank (2003) 'Country Financial Accountability Assessment (CFAA): Guidelines to Staff'. Washington, DC: World Bank.**
  www1.worldbank.org/publicsector/pe/CFAAGuidelines.pdf

The CFAA is a diagnostic tool used to examine the strengths and weaknesses of a country's financial accountability arrangements. It is used alongside other diagnostic tools such as the PEFA to develop an integrated fiduciary assessment, which is used to inform the World Bank's Country Assistance Strategy. The tool is primarily used by the World Bank and other donors, and is developed in close consultation with governments.

- **Country procurement assessment reports**
  http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20105527~menuPK:84285~pagePK:84269~piPK:60001558~theSitePK:84266~isCURL:Y,00.html

This tool is used by the World Bank to analyse procurement policies and procedures.

Recommended reading: diagnostic tools

- **Lawson, A. and Folscher, A. (2011) 'Evaluation of PEFA Programme 2004-2010 & Development of Recommendations beyond 2011'. Fiscus Public Finance Consultants Ltd. and Mokoro Ltd.**
  http://siteresources.worldbank.org/PEFA/Resources/PEFAEvaluationRevisedFinalReportJuly2011.pdf

This independent evaluation report provides a positive assessment of the PEFA programme. PEFA is described as providing a credible and comprehensive framework for assessing PFM functionality. The framework is considered to be user-friendly for non-technical users, and is comparable over time and across countries. It is used by all major development agencies to inform the development of PFM reforms and as part of a fiduciary risk assessment. To strengthen the PEFA programme, the evaluation recommends there be greater emphasis on quality control and increased sensitisation among governments on the use of PEFA as a diagnostic tool.

- **Allen, R., Shiavo-Campo, S. and Garrity, T.H. (2004) *Assessing and Reforming Public Financial Management: A New Approach*. Washington, DC: World Bank.**

This report was prepared for the PEFA programme. It maps out the main features of donor instruments for assessing public expenditure and highlights how they have evolved in an uncoordinated way resulting in high transaction costs. The report provides a comprehensive review of financial diagnostics and why they are used by donor agencies to inform and manage risk. The report makes a number of recommendations, including (i) recipient governments leading the use of financial diagnostics; (ii) taking a medium- or long-term perspective ; (iii) using a programmatic approach by coordinating diagnostic and capacity-building work; (iv) aligning the work programme with the PRSP; and (v) an agreement on performance indicators to be used by recipient governments and donors.

- **Brooke, P. (2003) 'Study of Measures Used to Address Weaknesses in Public Financial Management Systems in the Context of Policy-based Support'. Bannock Consulting for PEFA.**
  www.swisstph.ch/fileadmin/user_upload/Pdfs/swap/swap310a.pdf

This report describes some of the diagnostic instruments used by donor agencies and the risks encountered through using government systems.

- **Pradhan, S. (1996) *Evaluating Public Spending: A Framework for Public Expenditure Review*. Washington, DC: World Bank.**
  http://earthmind.net/slm/docs/wb-1996-evaluating-public-spending.pdf

This framework addresses a gap in the literature by providing a guide for evaluating the level and composition of public expenditures. The intended audience is World Bank staff undertaking a PER and the language is technical. The paper highlights six components of a PER: (i) analysis of public spending and the deficit in line with the medium-term macroeconomic framework; (ii) analysis of pro-poor social spending; (iii) the role of the government versus the private sector; (iv) the impact of key programmes on the poor; (v) allocations of capital and recurrent expenditure; and (vi) capacity and ownership of the findings within government.

Evaluations of PFM reform programmes

The development of international diagnostic tools has provided researchers with data that enable them to compare and contrast PFM performance between countries and over time. This allows for a more informed discussion of what works and what doesn't, and will gradually provide an evidence base about the efficacy of donor support for PFM reform. The pieces below are recent research reports that discuss what we know about PFM performance and reform progress on the basis of the available data.

Recommended reading: evaluations

- **Andrews, M. (2008) 'How Far Have Public Financial Management Reforms Come in Africa?' Faculty Research Working Paper. Cambridge, MA: Harvard Kennedy School. http://web.hks.harvard.edu/publications/getFile.aspx?Id=548**

This paper tries to establish what we know about the state of PFM in Africa and the involvement of CSOs in PFM. Using PEFA scores from 31 countries in Africa, it analyses themes across PFM process areas. The paper finds that 'budgets are made better than they are executed, practice lags behind the creation of new laws and processes, and actor concentration pays' (Andrews, 2008).

The paper also looks at country characteristics and how they influence PEFA scores. Scores vary substantially between countries and the author divides them into performance leagues. Themes such as high growth rates, stability, high non-mineral revenue generation and long periods of reform commitment appear to explain a country's league. Given significant differences in characteristics and performance from country to country, the author questions whether it is appropriate to use standard international reform models for all countries. The paper also explores the roles of CSOs in holding governments to account for PFM performance. It shows that CSOs are already engaged as watchdogs and partners in many contexts and suggests areas where further CSO engagement could be valuable.

- **Hedger, E. and de Renzio, P. (2010) 'What Do Public Financial Management Assessments Tell Us about PFM Reform?' Background Note 4824. London: ODI. www.odi.org.uk/resources/download/4824.pdf**

This short ODI note discusses the main PFM data sources and what conclusions can be drawn from them about the effectiveness of PFM reforms. It draws heavily on Andrews (2008) and de Renzio (2009), highlighting the fact that performance on indicators measuring upstream processes is on average better than that on downstream processes. It discusses a number of country characteristics that have been associated with strong PFM performance, such as growth rates, composition of the economy and stability. It commends donors for increasingly using country systems, but criticises the one-size-fits-all approach to PFM reforms and argues in favour of developing reform programs tailored to country needs. It also recommends engaging widely across government rather than solely with the Ministry of Finance, and ensuring that reforms support domestic priorities, not donor requirements.

While providing some useful insights, this paper draws limited conclusions about the effectiveness of PFM reforms: there appears to be insufficient evidence to demonstrate a correlation. While PEFA and the Country Policy and Institutional Assessment (CPIA) provide important sources of data that enable comparison of performance across time and countries, there is not yet a long enough data time series to allow for a rigorous analysis.

PFM in post-conflict states

A number of recent reports and studies have considered the special circumstances facing countries emerging from conflict and their implications for PFM. Not all experts agree that post-conflict countries share a set of common features that have generalised implications for PFM, and most authors stress the need to respond to and harness country-specific opportunities. However, many post-conflict countries share some of the following attributes: a weak or torn social fabric, security concerns, reconstruction needs, weak human capacity and high aid dependence. These features tend to pose challenges related to programming and management of aid, capacity augmentation in government, infrastructure reconstruction planning and building state legitimacy. Because of the crucial role of aid in most post-conflict contexts, the conduct of donor agencies tends to influence the performance of the country PFM system heavily. The following readings probe these challenges in greater depth and discuss whether conventional PFM wisdom remains applicable in post-conflict contexts.

Recommended reading: PFM in post-conflict states

- **Schiavo-Campo, S. (2007) 'Budgeting in Postconflict Countries', in Shah, A. (ed.) *Budgeting and Budgetary Institutions*. Washington, DC: World Bank.** **http://siteresources.worldbank.org/PSGLP/Resources/BudgetingandBudgetaryInstitutions.pdf**

This chapter discusses the special challenges facing post-conflict countries when re-establishing PFM functions and lays out a practical approach to budgeting in the immediate post-war period. The author argues that the principles of good budgeting are valid for all countries, but post-conflict states should prioritise core requirements and opt for simple and adaptive approaches.

Recognising the centrality of aid during post-conflict reconstruction, Schiavo-Campo argues that aid should be given against a budgeted programme owned by the national authorities. He also holds that transparency and participation in this planning process is a valuable state-building activity that helps to build the legitimacy of the state. He argues in favour of strong initial expenditure controls and considers it crucial to stem leakages. He also gives advice on how to prioritise reconstruction expenditure and screen various expenditure categories.

- **Symansky, S. (2010) 'Donor Funding and Public Financial Management (PFM) Reform in Post-conflict Countries: Recommendations Delivered from Personal Observations'. Discussion Paper. London: ODI.**

This is a personal reflection on the specific PFM challenges and opportunities in post-conflict states, approaches that have worked and failed and recommendations for future donor approaches. It takes a pragmatic 'second-best' approach, arguing that it is better to work with existing structures and systems than embarking on large reforms or building parallel structures in the immediate post-war period. In contrast with Schiavo-Campo (2007), Symansky argues that expenditure management should be prioritised over the budgeting process. He also argues against a linear approach to reform from basic to advanced PFM functions.

- **Fritz, V., Hedger, E. and Lopes, A. (2011) 'Strengthening Public Financial Management in Postconflict Countries'. Washington, DC: World Bank.** **http://siteresources.worldbank.org/INTPREMNET/Resources/EP54.pdf**

This short note examines PFM reform progress across a number of post-conflict countries and shows how sequencing of reform and progress differs from the classical assumptions. The note argues that PFM reform progress has been relatively rapid in a number of countries emerging from war. It demonstrates a link between PFM progress and aid, but finds no relationship with domestic revenue collection. It also shows that countries do not tend to follow a clear trajectory from basic to more advanced PFM reforms, instead combining basic and advanced reforms concurrently. It probes approaches to low capacity, arguing that external capacity support has been important in the short run but may be hard to sustain. Its findings dovetail neatly with the recommendations made by Symansky (2010).

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A Practical Guide for Policy Analysis: The Eightfold Path to More Effective Problem Solving. Eugene S. Bardach. 3.8 out of 5 stars 28.Â For the last seventeen years he has taught budgeting and financial management courses and is actively involved in the Association for Budgeting and Financial Management. Read more. Product details. Chapter 3: Public Financial Management:Getting the Basics Right. Chapter 4: Information andCommunication Technologyfor Public Finance. Chapter 5: Reform Priorities for PublicFinancial Management inDeveloping Countries.Â This transformation is consistent with the international consensus that the development impact of external assistance is crucially linked to the soundness of the recipient countryâ€™s economic and social policies. The successful implementation of such policies is in turn linked to the quality of governance and the caliber of a given countryâ€™s public sector. It is in recognition of this linkage that the ADB approved in 1995 a policy paper on Governance for Sound Development Management, and in July 1998 an Anti-corruption Policy. The practice side of public budgeting and financial management has a major impact on what researchers find important enough to spend time and money investigating. The third chapter of this book, and the conceptualization that underlies the entire book, develops the idea that practice is theory. Good government, and the budget management that is a part of the good government reform movement, have come under fire from the political right and even neoliberals at all levels of government in the United States.Â The argument here places good government within an orthodox approach to public administration generally. Then, the argument places orthodox public financial management theory within its public finance complement in rational decision making.