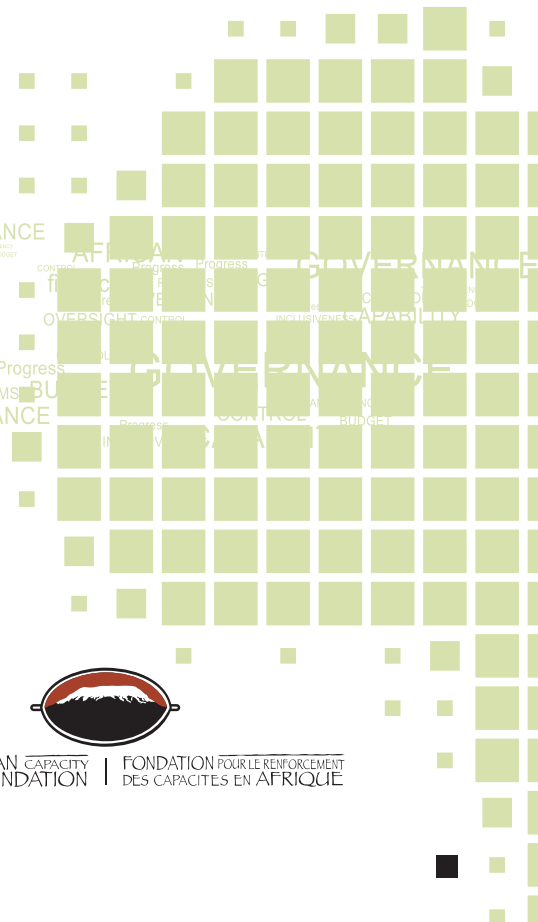


# African Financial Governance Outlook

EFFECTIVE PUBLIC FINANCIAL MANAGEMENT FOR SUSTAINABLE DEVELOPMENT

February 2018



AFRICAN financial GOVERNANCE CAPABILITY BUDGET REFORMS PROGRESS OVERSIGHT CONTROL INCLUSIVENESS TRANSPARENCY



AFRICAN DEVELOPMENT BANK GROUP



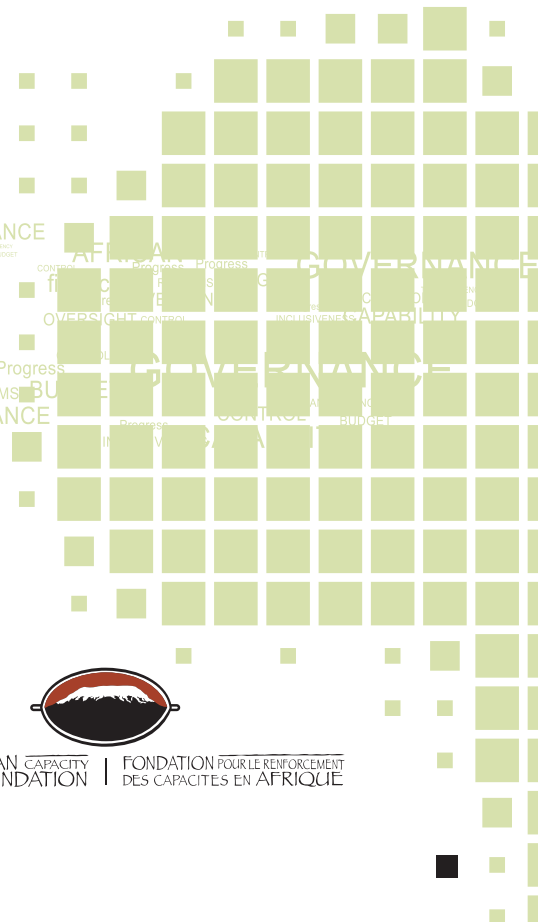
THE AFRICAN CAPACITY BUILDING FOUNDATION | FONDATION POUR LE RENFORCEMENT DES CAPACITES EN AFRIQUE



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## ■ FOREWORD

This first *African Financial Governance Outlook* provides a better understanding of the state of public financial governance reforms in Africa and how policies and institutional arrangements could be improved over time, offering benefits on various levels. It serves to enrich our understanding of public financial management (PFM) and the contributions to good financial governance with the aims of reducing poverty and delivering sustainable and inclusive economic growth as long-term goals of public policy.

The outlook shows that centers of power have a decisive impact on PFM performance and the viability of reforms. These centers of power are often linked to the dominant political forces.

Understanding which specific elements of the ruling party and government are interested in PFM issues is a prerequisite for changing a country's finances. In several cases, the dominant political party and government have embarked on a significant program of PFM reform, which has had a clearly visible impact as can be seen by the positive trends in financial governance revealed by trend data. Influence is exerted through both formal and informal channels, which should be part of the strategy for any intervention to further PFM reforms, to clearly identify the centers of power and where they are located. The aim is to enlist their support, which is crucial for enacting further reforms in financial governance. Working with stakeholders who occupy these positions and enlisting their support for PFM reform is one key to success.

Greater reform efforts need to be directed to make good financial governance a long-term sustainable phenomenon. The challenge is to devise strategies to implement reform without alienating or provoking resistance from the centers of power that might undermine any such attempt at reform. The paradox is this: in the short run, working with the centers of power is important for ensuring political and institutional support for PFM reforms, but in the long run countervailing checks on these power centers need to ensure that good financial governance is built into the financial architecture and not dependent on changing political fortunes.

Establishing successful accountability mechanisms within PFM systems requires not only having external oversight and regulatory institutions but also internal mechanisms and procedures within PFM systems and within ministries, departments, and government institutions. Both are essential to ensure the accountability, transparency, and monitoring of financial activities by enabling effective control and maintaining a check on the potential for any misuse of funds or misapplication of administrative procedures. All parts of the PFM system must function effectively and efficiently—from formulation and planning, through to implementation and practice and oversight and monitoring/accounting elements to ensure a high level of good financial governance.

**Emmanuel Nnadozie**  
*Executive Secretary*  
African Capacity Building Foundation

## ■ PREFACE

This *African Financial Governance Outlook* (AFGO), “Effective Public Financial Management for Sustainable Development,” is a new flagship report to enrich understanding of public financial management and its contribution to good governance, with the ultimate aim of reducing poverty and delivering sustainable and inclusive economic growth. It complements quantitative indicators with qualitative analysis to show trends over time and to explain the drivers of change in financial governance across AFGO pilot countries.

Covered in this outlook are 10 African countries that have participated in the African Peer Review Mechanism—Burkina Faso, Ethiopia, Ghana, Kenya, Mali, Mozambique, Rwanda, Senegal, Tanzania, and Uganda. The countries were drawn from the different regions and represent different political and administrative traditions (Anglophone, Francophone, and Lusophone) to ensure a wide range of countries. They were analyzed using a financial governance matrix that combined five financial governance arenas of Budget Governance, Revenue Governance, Internal Controls, Public Procurement, and External Audit as well as five political governance variables of Inclusiveness, Openness, Rule Compliance, Oversight, and Capability. The quantitative results in chapter 3 show a wide variety of performances for different countries in different arenas and indicators.

To explain this performance and to go beyond surface explanations, a comprehensive political economy analysis using stakeholder mapping to determine the influential actors and their role in the financial architecture was applied in chapter 1. This was

supplemented by a further level of analysis that categorized stakeholders as change Facilitators or Dissenters according to their financial governance arena. The stakeholder mapping gave insights into who the major relevant stakeholders are and the reasons for their influence and interest. And categorizing them into change Facilitators and Dissenters enabled understanding where in the financial architecture they operated and whether their influence was positive or negative for good financial governance.

Also to be considered is the future direction of research for the Outlook and its expansion. A pilot exercise tested and applied the new Outlook methodology to country case studies and evaluated the results. The basic structure of the methodology has been found to be robust and to yield key insights about PFM for African countries. But it is possible to build on this model and improve its scope and depth. More detailed and more recent data will greatly improve the quantitative analysis, which already is very strong and pools almost all the primary survey data on PFM in the region. Further refining and improving the model will sharpen the quantitative analysis and provide more detailed results.

To provide a really holistic picture of financial governance and PFM issues facing African states, it will be necessary to expand AFGO coverage to include more African countries, including the larger economies, which have a significant impact on the continent's growth and development prospects. Periodic updates of the reports for countries already covered will keep the picture current.

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## ■ ABBREVIATIONS

ACBF	African Capacity Building Foundation
AfDB	African Development Bank
AFGO	African Financial Governance Outlook
APRM	African Peer Review Mechanism
CSO	Civil society organization
DAC	Development Assistance Committee
EPRDF	Ethiopian People's Revolutionary Democratic Front
GI	Global Integrity
GIR	Global Integrity Report
HoPR	House of People's Representatives
ICT	Information and communications technology
IAG	Ibrahim Index of African Governance
IMF	International Monetary Fund
KRA	Kenyan Revenue Authority
MDA	Municipal and District Assemblies
MFPEd	Ministry of Finance, Planning and Economic Development
MINECOFIN	Ministry of Finance and Economic Planning
MoFEC	Ministry of Finance and Economic Cooperation
MTEF	Medium-term expenditure framework
OAG	Office of the Auditor-General
OBI	Open Budget Index
OECD	Organisation for Economic Co-operation and Development
PAC	Public accounts committee
PEFA	Public expenditure and financial accountability
PETS	Public expenditure tracking survey
PFM	Public financial management
PFMA	Public financial management act
SAI	Supreme audit institution
UNCAC	United Nations Convention against Corruption
UNECA	United Nations Economic Commission for Africa
VAT	Value-added tax
WEF	World Economic Forum

## OVERVIEW

Good governance is important for Africa's equitable and sustainable development. It is critical for sustainable economic growth (high per capita income), and for high foreign direct investment. The evidence also confirms the causal link between good governance and the decline in absolute poverty, infant mortality, and illiteracy; the move toward gender equality; and the increased access to clean water and other Sustainable Development Goals.

The Policy on Good Governance of the African Development Bank (AfDB) defines governance as “a process referring to the manner in which power is exercised in the management of the affairs of a nation, and its relations with other nations.” It identifies the key elements of good governance as: ensuring accountability, transparency, and participation; combating corruption; and promoting an enabling legal and judicial framework.

The Outlook treats financial governance as a fiduciary relationship between states and citizens in how public resources are managed. This relationship is critical in Africa as countries try to transform from discretionary to rule-based and transparent public financial systems. This transition depends heavily on the quality of public institutions, the capabilities of the state, and the fiscal foundations of state–society relations.

Public financial management (PFM) is defined here as “the effective management of public resources to meet the long-term goals of sustainable economic growth and poverty reduction (within the African context). It carries out this objective in a transparent, accountable, and participatory manner within a clearly defined legal and procedural framework that minimizes corruption and maximizes impact.”

Some conflicts in Africa are grounded in mismanaged public resources, undermining service delivery, with some citizens failing to access their benefits, fueling discontent. This is all the more reason why the future use of revenues from natural resources, and the use of local content have attracted the attention of Africa's natural resource countries. These are intrinsically PFM strategies.

Even in peaceful countries, Africa lacks local and national capacity in PFM, despite capacity interventions by bilateral and multilateral organizations, and this lack has retarded effective PFM.

### Why Africa needs the *African Financial Governance Outlook*

The Outlook is designed to add value rather than duplicate existing African governance assessment tools. It provides a coherent qualitative and contextual explanation of how and why individual countries perform as they do in financial governance. It examines interest group dynamics and identifies drivers of, and obstacles to, change by analyzing stakeholders' incentives and institutional constraints. It brings added value to the Bank's operations through assessment of country financial governance assessment at country level to inform country policy and institutional assessment (CPIA) and Bank's interventions in Regional Member Countries (RMCs), and bring knowledge and ideas to international governance platforms. It establishes broad and balanced ownership between the AfDB and the African Capacity Building Foundation and its national and regional development partners (Box O.1).

#### Box 0.1

#### The Outlook's mission and strategic objective

The Outlook's mission is to contribute to the overarching goal of poverty reduction and sustainable development in Africa. Its strategic objective is to increase accountability and transparency—when governments and civil services administer and manage public financial resources in Africa—by:

- Providing a platform for a better understanding of the processes of public financial policies and practices, helping to set the region's governance agenda.
- Integrating information from multiple sources in a coherent framework, using analytical tools.
- Developing analytical space for evidence-based policy dialogue.
- Sharing best practices on institutional reforms.
- Advising stakeholders of AfDB's policies and its country and sector strategies and operations.

The intention is to shed light on the underlying issues and factors that shape PFM outcomes in African countries by using a political economy approach, one that drills down to reveal underlying political and economic factors, that explains PFM performance and

outcomes, and that shows what works—and what doesn't for financial governance. The aim is to yield a deeper and more comprehensive understanding for policymakers on how to deal with PFM reforms for better financial governance.

The value added of the Outlook's research stems from the analytical effort to understand the political economy dimensions of the state of public financial governance reforms in Africa and how such policies and institutional arrangements could be improved. The Outlook offers benefits on several levels:

- It enriches our understanding of PFM and the contribution to good financial governance, with the aim of reducing poverty and delivering sustainable and inclusive economic growth as long-term goals of public policy.
- It complements quantitative indicators with qualitative analysis to show trends over time and to explain the drivers of change in financial governance across 10 countries.
- It promotes evidence-based policy dialogue for policymakers on the trajectory of change, on reform constraints, and on feasible reform options among countries.
- It informs country strategies and programming for financial governance to strengthen operational effectiveness.
- It provides an informed African voice, building on data and analysis from external agencies and on in-depth qualitative field research from specialists in political economy and public finance.
- It seeks to go beyond conventional policy prescriptions in recommending ways to build capacity for improving PFM and to deliver good financial governance. Indeed, it looks at how the architecture of influence in finance can be changed, and the stakeholders and drivers of change mobilized to ensure positive outcomes. This involves examining the structural, political, and economic factors that need to change for progress in good financial governance in African countries.

## The main findings

- **Progress in African financial governance.** Over the last 20 years, interventions by national governments and external institutions have boosted country performance, whether at a single point in time (snapshot) or over multiple points (trends). Areas of gain include building regulatory institutions, creating greater transparency for budgetary and revenue expenditure, recognizing the need for greater accessibility of information and public participation, and using modernized accounting

and record-keeping systems. Much room for improvement remains, however.

- **More public participation needed.** Where the budgetary and revenue processes include civil society organizations, ordinary citizens, and other key actors in the private sector, these external agents help formulate policy, provide feedback, and take part in the general process of governance, with a positive impact. Not only does this engagement strengthen the fiduciary relationship between citizens and the state—the heart of good financial governance—but it also improves the effectiveness of state policy, increases compliance, and enables the government to reach its PFM targets. Exclusion leads to resentment, less understanding of governmental aims and priorities, and a reluctance by citizens to fully engage in financial governance. In turn, this affects compliance and the state's ability to collect revenue and carry out its expenditure programs.
- **Need for internal accountability mechanisms in PFM systems.** Internal as well as external oversight and regulatory institutions are vital. PFM systems and ministries, departments, and other government spending and collection bodies need such internal mechanisms and procedures to ensure accountability, transparency, and the monitoring of financial activities to check misuse of funds or administrative procedures leading to rent-seeking. These mechanisms and procedures are the first line of defense protecting PFM systems.
- **Independence of key regulatory institutions.** Independence of institutions responsible for monitoring, overseeing, and enforcing rules is critical to good financial governance. Where these institutions—including audit authorities, finance inspectorates, tax and revenue authorities, and procurement agencies—are protected from political interference and can carry out their duties unimpeded, the beneficial impact on financial governance is notable. Where their independence is curtailed, overtly or covertly, the regulatory system is weakened and malpractices and rent-seeking proliferate. Ensuring the robust independence and strength of these regulatory institutions is a major work in progress in Africa.
- **Preponderance of the executive.** The executive is usually dominant in administering and managing PFM systems. This can be positive, when the ruling party or group in power shows a strong commitment to improving financial governance, like Ethiopia and Rwanda. But in the longer term, an overweening executive is damag-

ing, since entropy is a characteristic of all political regimes, and those that remain in power for a long time are vulnerable to such degradation. It also means that the success or failure of PFM reforms depends heavily on the orientation of the leading group in the executive, and this can change with the political wind. Addressing this ultimately dangerous weight of the executive is crucial to ensure long-term success.

- **Importance of legislative oversight.** It is crucial that the legislature holds the executive to account over the budget and uses bodies such as public accounts committees to monitor government spending and taxation and to bring government malfeasance to light, dealing with it appropriately. The legislature remains a check on the financial power of the executive.
- **Greater transparency required in government procedures.** PFM is complex and requires specialization and access to information about government administration. Improving public awareness about the procedures, and making public financial information on government spending and taxation easily and widely available, will improve the public's ability to participate in financial decisionmaking and engender transparency. This will help reduce corruption and increase citizen confidence in PFM public institutions.

### The main recommendations

- **The need for coordinated capacity building in PFM is critical for African countries.** Capacity development is not a standalone training intervention but is instead a strategically coordinated set of activities. It is much more than improving the abilities and skills of individuals but ensuring their retention and utilization on the continent as well as improving the institutional environments in which they work. For Africa's capacity development efforts in PFM to be sustainable and contribute to sustainable development, PFM must be owned and managed by African countries as well as African institutions with the experience and knowledge of the African PFM landscape—not just by development partners, who should play only a supporting role.
- **Identify the key centers of power.** These are often stakeholders who operate behind the scenes and are not part of the formal process of financial governance. Yet they have a crucial impact on determining policy, allocating resources, and ensuring bureaucratic compliance with government policies. Identifying stakeholders and enlisting their support is essential for improving financial governance and PFM outcomes.
- **Strengthen countervailing institutions to deal with an overmighty executive.** Legislatures and regulatory institutions are vital to ensure that PFM reforms are long-lasting. Building up the strength of counterbalancing and independent institutions, as well as alternative centers of power, can ensure more sustainable commitment.
- **Enhance the effectiveness of all parts of the PFM system.** All parts of the PFM system and financial architecture must mesh well, from formulation and planning, through to implementation and practice and oversight, monitoring, and accounting. A comprehensive approach that addresses all aspects and parts of PFM systems is critical to ensuring good financial governance that can be sustained.
- **Design country-specific interventions.** The political and economic conditions for each country vary, as do the structure of their financial architecture and the priorities of their stakeholders. To ensure that PFM reforms receive enough political and administrative support, interventions must be tailored by country, to meet or face down the demands of reform facilitators and dissenters.
- **Deal with the challenge of data and statistical records for the future of PFM and the Outlook project.** The country reports revealed a worrying lack of data because of poor data sources or because countries were undergoing conflict or instability. For some financial governance dimensions, such as public procurement, difficulties in having regular surveys to provide up-to-date data were also significant. While several stop-gap measures were used for this pilot flagship report, a more rounded strategy will have to resolve this issue in later editions of the Outlook.
- **Devote greater resources to capacity development, grounded in a coherent plan.** Many African states suffer from severe capacity development deficits, impinging on their effectiveness in PFM reforms. For example, the lack of technical capacity at key institutions responsible for audit and oversight have led to weak regulatory structures and practices that have not acted as an effective check on the executive. Increasing their capacity will hence improve PFM outcomes.
- **Sustaining the AFGO as a unique approach to the assessment of financial governance in Africa.** The Bank can use the AFGO as an enabler to play a pivotal role and become the prime voice on financial governance in Africa – one that reflects African realities while

also fostering positive changes, in line with the Bank's High Fives especially the one on improving the quality of life for the people of Africa. The AFGO can also be used to foster ownership by the AfDB's senior management to effectively use findings to inform the design and implementation of PFM reforms in RMCs. An inter-departmental Task Force could be institutionalized as an Advisory Panel to ensure Bank wide ownership and utilisation of the AFGO recommendations.

- **Highlighting and fully exploiting linkages with other ongoing Bank analytical**

**efforts.** Some examples of potential use of AFGO include: (i) Use of the AFGO as a central diagnostic instrument in the design, monitoring and evaluation of Bank operations in the area of financial governance, including for results reporting; (ii) Use of AFGO analysis to inform the Bank Country Policy and Institutional Assessment (CPIA); (iii) Use of AFGO to develop synergies with other flagship publications such the African Economic Outlook (AEO) and the Africa Capacity Report (ACR).

# THE POLITICAL ECONOMY OF FINANCIAL GOVERNANCE



## ■ CHAPTER 1: THE POLITICAL ECONOMY OF FINANCIAL GOVERNANCE

This chapter examines the nature of financial governance in the 10 *African Financial Governance Outlook* (AFGO) countries using political economy analysis (which complements chapter 3's quantitative approach). This innovative aspect of the Outlook's model is original research by the country research teams in respective countries and their primary research using qualitative political economy analysis methods as well as their rich expertise in public financial management (PFM) and governance.

The intention is to go beyond the picture presented by the quantitative data and drill down to the underlying political and economic factors that shape PFM performances and outcomes in AFGO pilot countries. This will enable us to gain a deeper understanding of PFM issues in the countries and to present a complete and fuller picture of what influences PFM outcomes and what enables reforms to succeed as well as what can act as potential impediments to reforms. The collective research of all the country research teams can provide insight into the key factors and actors that shape the PFM architecture and distill lessons for future action.

The political economy analysis conducts a stakeholder mapping of the “architecture of influence” and of change facilitators and dissenters. Collating and summarizing the research from the country research teams, these two aspects are informed by a stakeholder mapping categorizing the stakeholders in PFM along lines of interest and influence, with examples of why stakeholders are categorized as they are. Categorizing stakeholders as either change facilitators or dissenters, the stakeholder patterns of power are analyzed, showing where in the PFM process they exercise their influence, what kind it is, and how they exercise it.

### **Architecture of influence**

The architecture of influence for PFM can be captured in a diagram that places stakeholders in four quadrants by their level of influence on PFM and the degree of interest they show in PFM issues (figure 1.1).



Stakeholders are defined here as those who, because of what they believe they have at stake directly or indirectly, seek to engage or affect the process or outcomes in financial governance. Influence is defined as the extent to which the stakeholder, either directly or indirectly within the PFM sphere, exerts an impact that can shape outcomes and performance in financial governance. Interest is defined as the level of active desire to engage with PFM issues that the stakeholder displays.

Two key elements were kept in mind in identifying the stakeholders. First was the unit of analysis. To keep the discussion and analysis sharp, stakeholders were defined as tightly as possible to have the most detailed unit of analysis, and so the stakeholders identified usually consisted of individuals, small groups, or small organizations. Second the mapping of interest and influence on the vertical and horizontal axis of the stakeholder mapping quadrant represent a scaled range and not absolute values; so that those stakeholders with low interest/influence should not be taken as having an absolute level of no or little interest/influence but of having significantly less relative to those stakeholders categorized as having high levels of interest/influence. Each mapping quadrant brings together actors with a diversity of interests, such as government ministries and departments, bilateral and multilateral donors, civil society organizations (CSOs), private entities, and tertiary institutions.



Figure 1.1 Diagram of stakeholder mapping quadrants



Figure 1.1 places stakeholders by their degree of influence and interest on the PFM process. The arrows show the direction and magnitude of influence and interest for the four quadrants. As the list of stakeholders for all the AFGO pilot countries would be extremely long, examples illustrate the nature of each quadrant. The discussion here selects a couple of examples from each quadrant to show why the stakeholders have the influence and interest they do.

### ***Low interest and high influence—Quadrant 1***

A good example of stakeholders in this quadrant are mass-based organizations in Ethiopia, such as the Ethiopian Youth Federation, Network of Ethiopian Women Associations, Confederation of Ethiopian Trade Unions, and Ethiopian Teachers' Association. All have millions of members and are closely aligned to the ruling party, the Ethiopian People's Revolutionary Democratic Front (EPRDF). Their influence comes not only from their numbers, but from the 2009 Charities and Societies Proclamation designation of such bodies as societies that can engage in governance and rights-based and policy advocacy issues. (Other CSOs that draw the bulk of their support from nondomestic sources, like the Ethiopian Residents' Charities, are prohibited from engaging in such activity). These overtly partisan bodies are very close to the EPRDF, the dominant political force and party in the country. Holding power since 1991, it exerts powerful control over the executive and most state organs. Yet despite the high influence of these organizations, their limited capacity and experience mean that they show little interest in PFM issues.

Another example is the Association of War Veterans (Associação dos Combatentes) in Mozambique, made up of veterans from the war for independence and represented by their own Ministry of Combatants (Ministério dos Combatentes). Despite the ostensibly nonpartisan nature of the ministry, given Mozambique's anticolonial struggle and civil war in which the victor was the Mozambique Liberation Front (Frelimo), the Association acts as an influential voice that represents mostly former Frelimo fighters. It exerts a strong influence at the topmost political levels up to the president. Frelimo has governed the country since independence in 1975 (multiparty elections were introduced in 1994). It has used this influence to secure considerable benefits for its members such as bursaries for its members' children, special prices for its members on airplane tickets, and preferential access to development funds. It has, however, shown little engagement or desire to get involved more directly with PFM issues beyond these self-interested concerns.

The parliamentary public accounts committee (PAC) in Kenya or media outlets aligned with the ruling party in Ghana show similarly high influence and low interest.

But why such little engagement from these stakeholders? In part it is because much of the influence derives from an indirect association with the ruling party or regime, making an overt interest in policymaking like PFM difficult to practice without making undue political influence explicit, creating political tensions. It is also because many of them are primarily interested in securing benefits for their members, less in broader issues. As their influence is indirect, more active engagement in, say, PFM issues could also lead to conflict and ultimately reduce their influence, and so they avoid it.

### ***High interest and high influence—Quadrant 2***

This is the key quadrant as its stakeholders typically shape PFM policy and outcomes, and are key for understanding financial governance. As expected, finance ministries, particularly their upper echelons and policymaking departments, are in this quadrant in several countries.

Uganda illustrates. The senior managers in its Ministry of Finance, Planning and Economic Development (MFPED), with the president, are at the core of economic policymaking. They have the power to influence PFM processes directly (as well as indirectly, of course), notably through the budget (including selection of priorities and allocations), which is largely proposed by the MFPED's senior executives consulting with the president. The rest of the executive branch becomes involved only later. The legislature has significant formal powers to make laws and demand reports on processes and results, and some parliamentary committees have quite often demanded compliance reports on internal controls, procurement, and project execution by public enterprises. But this *de jure* power cannot override the MFPED's *de facto* influence.

This is partly because MFPED has near-absolute power over government revenues under the Budget Act (2001) and the Public Finance and Accountability Act (2003). It develops economic policy and advice; supervises, controls, and manages public finances; issues regulations; appoints accounting officers; prepares accounts for audit and examination; determines tax policy; and makes amendments to tax legislation. Article 159(2) of the constitution of Uganda prohibits the government from borrowing,

guaranteeing, or raising any loan without authorization from parliament. But this rule is sidelined by individual interests within government and the close fusion of the legislature with the executive—the ruling party simply uses its majority in parliament to follow the policies set by its power brokers, circumventing any control from the legislature or opposition parties.

Dominance of the executive, especially when a single political party has been in power for many years, is a theme running through this quadrant. Where the political scene is dominated by a single party, the centers of power (revolving around the executive whether it is the prime minister's office or the president's office together with the top level of management in the finance ministries and the leadership of the ruling party) exert huge influence. In Mozambique, for example, where the Parliamentary Planning and Budget Committee (Comissão do Plano e Orçamento) is the legislature's most powerful body investigating PFM issues, is chaired by a former minister of finance and former governor of the central bank, who, tellingly, is a member of the Politburo of Frelimo (Comissão Política da Frelimo).

In Ethiopia, the EPRDF's Executive Committee is a key influence in all spheres of making and executing policy, and its leading members occupy prominent positions. The prime minister's office, led by the EPRDF chairperson, has strong interest in and influence on PFM, as seen by, for example, a major anticorruption crackdown that led to the arrest, conviction, and imprisonment of top officials of the Ethiopian Revenue and Customs Authority in 2013.

Think tanks and other institutions with no formal power in setting PFM policy can have, by virtue of their access and overlapping membership of these centers of power, large influence on PFM. In Ethiopia, the Policy Study and Research Centre, for example, a relatively new but high-profile think tank under the prime minister's office, is led and staffed by senior officials of the EPRDF and the government. Established in 2014, its mandate includes conducting research on problems of governance and policy, and in October 2015 it presented to senior government officials, including the prime minister, a report that revealed improprieties in managing public finances.

Identifying these key centers of power and their affiliated institutions and bodies is therefore key to understanding the sources of change in financial governance.

#### ***Low interest and low influence—Quadrant 3***

Preoccupation with social and political issues weakly connected to PFM, a wide interest in policy-related

areas, distance from power centers, and exclusion from formal platforms of dialogue—all are reasons for stakeholders in this quadrant to have low interest and influence.

While some, such as the Ethiopian Inter-Religious Council, can count on the support of tens of millions of people nationally, its religious outlook keeps its focus on non-PFM political and social topics. Similarly in Rwanda, think tanks on policy and economic issues with great knowledge of PFM include the Institute of Policy Analysis and Research (which on occasion provides budget analysis in an effort to influence policy) and the umbrella body, the Rwandan Civil Society Platform for local nongovernmental organizations (which through its economic advocacy cluster shows an interest in PFM reform in its push for a pro-poor agenda). But their broad focus means that they have been unable to identify a clear and strong line of intervention in the policy process, and their distance from power centers in government and the ruling party checks their influence and interest.

#### ***High interest and low influence—Quadrant 4***

Despite high interest in PFM issues, stakeholders here cannot convert this into a similarly high level of impact. The changing financial landscape has moderated the influence of once-prominent stakeholders with a strong interest in PFM issues, such as the Group of 19 Development Partners in Mozambique.

This group of bilateral donors traditionally exercised strong influence in Mozambique on PFM issues but has seen its influence decline owing to structural changes in the economy and the changing composition of aid flows. Mozambique is no longer as aid dependent as it was 10 years ago, when the share of external aid in the budget was around 65 percent; it is now around 25 percent, marking a corresponding decline in the donors' influence on policy issues. The composition of external aid has also changed, with bilateral donors not part of the Group of 19, such as India, China, and Brazil, increasingly important. And the discovery of oil and gas gives the government far greater room for maneuver.

Weakness of the legislature and legislative oversight is another feature of stakeholders in this quadrant. In Ghana, for instance, the Finance Committee of parliament and the public accounts committee are two bodies meant to hold the government accountable on key PFM issues. However, the Finance Committee lacks technical capacity to scrutinize the budget before approval. In a similar manner, the PAC suffers from lack of power to implement its decisions. Despite



holding public hearings on the auditor general's report to help to expose corrupt public servants, it is either ignored or delayed by the executive, which has the real power to prosecute civil servants. Such weakness is amplified when a hegemonic ruling party—as in Ethiopia where the EPRDF won all the seats in the Ethiopian House of Representatives in the 2015 elections—is a different party from the chairmanship of the PAC.

Institutional weaknesses of the legislature in relation to the executive and of the opposition (and other forces) tend to feature widely in states with a single dominant ruling party as well those with a competitive electoral system and polyarchy.

Single-interest stakeholders can exert a fair amount of influence on specific areas of PFM but not across many areas. CSOs such as Transparency International–Rwanda exercise some influence over budget governance given their focus on detecting and reducing corruption. The Collective of Leagues and Association for the Defence of Human Rights in Rwanda, an umbrella body, is also highly engaged in budget governance. It conducts field visits to see whether local communities are involved in the budget



process to ensure a participatory pro-poor budget with a human rights dimension.

### **Patterns of power**

Three broad patterns have emerged that show how PFM and financial governance can be improved if the political will is there.

### ***Centers of power***

These centers are key points in the financial architecture of influence, as in countries where a very strong ruling party has dominated the political landscape for many years, including Ethiopia, Mozambique, Rwanda, and Uganda. The influence exerted by the key decisionmakers at the topmost levels of the governing party—whether the Politburo of Frelimo or the Executive Committee of the EPRDF, on all crucial areas of governance including PFM, either directly or through affiliated institutions—has to be understood for reform to take hold. The attitude and decisions taken by stakeholders in these centers of power are crucial to determining policy outcomes. The EPRDF, for example, strongly emphasized improving financial governance by attacking corruption and increasing transparency, and that had a real impact on measured performance in five financial governance dimensions (chapter 3).

Identifying these centers and then persuading them to back essential reforms in PFM is a key step in improving financial governance. A detailed and in-depth stakeholder mapping exercise is therefore an essential requirement for policymakers.

### ***Weakness of institutional and structural checks***

Weakness in checking the power of the executive—either in the legislature, CSOs, opposition parties, or parts of the media interested in PFM—points to serious reform needs. Countries with a competitive electoral system such as Ghana can still suffer from an overbearing executive if the legislature and other supervisory bodies such as the auditor general, finance committee of parliament, and the PAC cannot perform their oversight duties. This hurts the quality of financial governance, as seen in the trend data in chapter 3, where the financial governance dimensions of budget governance and internal controls show a declining trend for the majority of indicators for AFGO pilot countries.

For countries with a dominant single party, like Ethiopia and Mozambique, these problems are magnified by the even greater influence of the ruling

party and its strong grip on the executive branch, especially when even the limited room for influence from the opposition disappears, as in the Ethiopian House of Representatives after the 2015 elections.

The challenge here is to formulate a strategy to influence the stakeholders within the centers of power to pursue a path of effective reform, since in some cases it will involve lessening their influence over PFM and the inclusion of oppositional groups and movements. But such reforms are necessary to ensure that good financial governance becomes institutionalized and is sustainable in the long run, without depending on the political vagaries of the party in power.

### *A shifting financial landscape*

A good marker of the changing landscape is to assign the same group of traditional DAC donors to different quadrants in various countries. These donors are in quadrant 4 in Mozambique—high interest, low influence for the reasons given, primarily greater financial independence. Yet in Tanzania the situation is quite different: the traditional DAC donors still dominate the aid architecture, articulate their interests, and influence policy, unlike the nontraditional donors who remain shut out of the process. Therefore, efforts to reform PFM and improve financial governance need to be country specific and sensitive to recent changes.

### **Change facilitators and dissenters**

This section builds on the stakeholder mapping quadrants to do two things: first, it examines each of the five financial governance dimensions and determines which stakeholder is relevant for each; second, it identifies whether their influence as agents of change is positive (acting as facilitators) or negative (dissenters).

The analysis is grounded in a simple table (table 1.1) of selected change facilitators and dissenters for each financial governance dimension in AFGO pilot countries. The discussion goes beyond showing who the interested influential stakeholders are to pinpoint where in the PFM system they operate and what their style of influence is, making it easier to appreciate whether they will aid or impede reforms. The report examines stakeholders as change agents, their issue-specific roles, and how their roles as facilitators or dissenters vary by financial governance dimension.

There is also a qualitative aspect, especially when considering the role of dissenters, who should not be seen simply as obstacles to reform. Their influence, while negative for financial governance, does not necessarily mean they are self-interested, or even corrupt, or unable to change with the world around them.

**Table 1.1 Selected facilitators and dissenters by financial governance dimension**

Dimension	Facilitators	Dissenters
<b>Budget governance</b>	<p><b>Ethiopia:</b> Parliament; Ministry of Finance and Economic Cooperation; Office of the Federal Auditor-General; <i>Addis Fortune</i>; United States Agency for International Development; World Bank</p> <p><b>Ghana:</b> Ministry of Finance, Planning and Economic Development; Parliament; the media; think tanks; Association of Ghana Industries; opposition parties</p> <p><b>Kenya:</b> Ministry of Finance; Ministry of Planning; Cabinet; Attorney General; Central Bank</p> <p><b>Mozambique:</b> National Budget Directorate (Direcção Nacional do Orçamento); Parliamentary Planning and Budget Committee; Budget Monitoring Forum</p> <p><b>Rwanda:</b> National Budget Department (Ministry of Finance and Economic Planning); Secretary to the Treasury; National Development Planning (Ministry of Finance and Economic Planning); budget agencies; Cabinet; Parliament (Budget Committee); Public Financial Management Sector Working Group</p> <p><b>Senegal:</b> Cour des Comptes, OFNAC</p> <p><b>Mali:</b> Prime Minister's Office; Partners (World Bank; European Union; Trade Unions)</p>	<p><b>Burkina Faso, Tanzania:</b> Technocrats, especially directors of finance in ministries, departments, and agencies and in local government authorities responsible for budget development and execution</p> <p><b>Kenya:</b> Suppliers; Parliament; Members of Parliament; the opposition; Council of Governors; County Assemblies; Members of County Assembly</p> <p><b>Mozambique:</b> Ruling party's lobby groups (Association of War Veterans)</p> <p><b>Senegal:</b> Political Class</p> <p><b>Mali:</b> Public Institutions</p>
<b>Revenue governance</b>	<p><b>Ethiopia:</b> Ethiopian Broadcasting Corporation; <i>Addis Fortune</i>; Policy Study and Research Centre; World Bank; Ethiopian Chamber of Commerce and Sectorial Associations; Construction Contractors Association of Ethiopia</p> <p><b>Kenya:</b> Ministry of Finance; Ministry of Planning; Cabinet; Attorney General; Central Bank</p> <p><b>Mozambique:</b> Mozambique Revenue Authority</p> <p><b>Rwanda:</b> Rwandan Revenue Authority; Chief Government Economist; Secretary to the Treasury</p> <p><b>Tanzania:</b> Development Assistance Committee donors; Comptroller and Auditor General; regional economic communities</p> <p><b>Uganda:</b> Executive branch; Ministry of Finance, Planning and Economic Development; Parliament</p> <p><b>Senegal:</b> Tax Administration</p> <p><b>Mali:</b> Tax Administration; Civil society organizations</p>	<p><b>Burkina Faso:</b> Ministry of Economy and Finance</p> <p><b>Ethiopia, Ghana, Kenya, Tanzania, and Uganda:</b> Elements of the private sector involved in tax evasion</p> <p><b>Mozambique:</b> Association of informal cross-border traders (<i>Mukheristas</i>); Confederation of Business Association</p> <p><b>Senegal:</b> Trade Unions; International organizations</p> <p><b>Mali:</b> Informal sector; Employer</p>
<b>Public procurement</b>	<p><b>Burkina Faso:</b> Public Procurement Regulatory Authority; Ministry departments other than Ministry of the Economy and Finance; state providers; local governments; technical and financial partners</p> <p><b>Ethiopia:</b> Ministry of Finance and Economic Cooperation; Federal Public Procurement and Property Administration Agency; <i>Addis Fortune</i>; <i>The Reporter</i>; Ethiopian Broadcasting Corporation; Zami-FM; Policy Study and Research Centre; Development Assistance Group–Procurement Working Group; Ethiopian Chamber of Commerce and Sectorial Associations; Construction Contractors Association of Ethiopia</p> <p><b>Rwanda:</b> Rwanda Public Procurement Authority; contractors/service providers; Office of the Ombudsman; Accountant General</p> <p><b>Tanzania:</b> Controller and Auditor General; Prevention and Combating of Corruption Bureau; Public Procurement Regulatory Authority</p> <p><b>Uganda:</b> Ministry of Finance, Planning and Economic Development; Public Procurement and Disposal of Public Assets Authority; development partners</p> <p><b>Senegal:</b> Regulatory bodies; Civil society organizations</p> <p><b>Mali:</b> Donor partners; Civil society organizations</p>	<p><b>Ethiopia:</b> Public agencies/officials who default; corrupt private businesses; rent-seeking civil servants</p> <p><b>Kenya, Mozambique:</b> Contractors Association; private contractors</p> <p><b>Rwanda:</b> Line ministries; district authorities; government budget agencies</p> <p><b>Tanzania:</b> Large suppliers of goods and services to the government; businesses</p> <p><b>Senegal:</b> Domestic and international companies</p> <p><b>Mali:</b> Managers of public funds; Suppliers; Political Class; Territorial Collectivities</p>

Dimension	Facilitators	Dissenters
<b>Internal controls</b>	<p><b>Burkina Faso:</b> Inspector-General of Finances; Court of auditors; Technical and financial partners</p> <p><b>Ethiopia:</b> Ministry of Finance and Economic Cooperation and Office of the Federal Auditor-General</p> <p><b>Kenya:</b> Ministry of Finance; Internal Audit; Kenya National Audit Office; Controller of Budget</p> <p><b>Mozambique:</b> Finance General Inspectorate</p> <p><b>Rwanda:</b> Directorate of Internal Audit (Ministry of Finance and Economic Planning); Rwandan Public Procurement Authority; Integrated Financial Management Information System; Accountant General; Institute of Certified Public Accountants</p> <p><b>Mali:</b> Ministry of Finance; Donor partners</p>	<p><b>Ethiopia, Rwanda, Mozambique, Uganda:</b> Line ministries; district authorities; Government budget agencies</p> <p><b>Kenya:</b> Non-Reformers in Public Service</p> <p><b>Tanzania:</b> Internal auditor; suppliers of goods and services to Government; staff of procuring entities</p> <p><b>Senegal:</b> Government; Opposition parties</p> <p><b>Mali:</b> Managers of public funds; Territorial Collectivities</p>
<b>External audit</b>	<p><b>Burkina Faso:</b> National Assembly; Court of Auditors; Higher Authority for State Control and Combating Corruption; Technical and financial partners</p> <p><b>Ethiopia:</b> Public accounts committee; Parliamentary committees; Office of the Federal Auditor-General; Federal Ethics and Anti-Corruption Commission; Federal Public Procurement and Property Administration Agency; <i>Addis Fortune</i>; <i>The Reporter</i>; Ethiopian Broadcasting Corporation; Zami-FM; United Nations Development Programme</p> <p><b>Mozambique:</b> Administrative Tribunal; Parliamentary Planning and Budget Committee; Budget Monitoring Forum</p> <p><b>Rwanda:</b> Office of the Auditor General; Public accounts committee; Office of the Prosecutor General; Office of the Ombudsman</p> <p><b>Senegal:</b> Court of Auditors</p> <p><b>Tanzania:</b> Parliamentary Committees; Controller and Auditor General; Multilateral and bilateral development partners; Media; civil society organizations, as in dealing in public expenditure tracking surveys</p> <p><b>Uganda:</b> Auditor General; Parliament; development partners</p> <p><b>Mali:</b> Members of Parliament; Donor partners</p>	<p><b>Ethiopia:</b> Defaulting public bodies and officials who fail to take remedial measures based on periodic performance evaluations and Office of the Federal Auditor-General's findings</p> <p><b>Ghana:</b> Ruling party; executive/cabinet; Attorney-General's Department</p> <p><b>Mozambique, Rwanda, Tanzania, Uganda:</b> Line ministries; provincial and local governments</p> <p><b>Mali:</b> Managers of public funds; Political Class</p>

### **Budget governance**

As expected for this financial governance dimension, the major facilitators are the finance ministries, with committees in the legislature that deal with PFM and budget matters. In Rwanda, the Ministry of Finance and Economic Planning (MINECOFIN) and the Parliamentary Budget Committee are key actors in the budget process.<sup>1</sup> Crucially, this engagement between the executive and legislature is an important avenue for identifying weaknesses and opportunities for reform. If such opportunities arise in any of these areas, the authority of MINECOFIN to push change makes it a significant facilitator, especially given its influential position as key organ responsible for executing PFM reforms.

Still in Rwanda, the PFM Sector Working Group (with its technical working groups) is responsible for implementing PFM reforms, and it reports periodically on performance of indicators and milestones. This working group enjoys access to a high-level platform,

through its ability to engage with top decisionmakers. This is typical in the interactions of the finance ministry in several AFGO pilot countries where its role in preparing the budget places it in the role of a key facilitator, especially for potential PFM reforms.

Other key facilitators are external development partners, usually the traditional OECD donors and multilateral institutions. Their external funding for the budget and technical support for capacity building put them in a position to act as facilitators and give them a strong interest in pushing a reform agenda, as in Ethiopia where the World Bank provided substantial support to a project launched in February 2016 to enhance the government's capacity in managing large expenditures. Similarly in Ghana, development partners, especially multilateral financial institutions, have compelled the government under threat of financial sanctions to balance the budget, including reining in corruption and the misspending of public funds. This follows an established pattern where

Ghana's development partners, involved in PFM reforms since the 1990s, aim to address PFM weaknesses. The latest round is the Public Financial Management Act 2016.

Some change dissenters come from parts of the bureaucracy and are either reluctant adopters of innovative reforms or are corrupt, diverting public funds. Such reluctance can be seen in Tanzania, where some long-serving technocrats in municipal and district assemblies and local government authorities responsible for budget development and execution often see no need for change. Although they rarely express open resistance and dissent, they gently make it clear that they prefer business as usual. One instance was when the planning framework changed from a rolling plan and forward budgeting to a medium-term expenditure framework in 1998, which saw some of these technocrats recategorized for failing to cope with the extra workload and new information technology procedures.



### ***Revenue governance***

The most important facilitators here are the revenue authorities, unsurprising given their mandate for collecting government revenue. The Ethiopian Revenue and Customs Authority provides a good example of a major driver of reform, as it introduced reforms including a biometric-based tax identification number for all taxpayers. The Rwandan Revenue Authority is part of the Treasury Committee, along with the central bank and the ministry of finance, which is a strong mechanism for initiating taxation policy. It meets regularly to review tax matters and to identify reform areas. Significantly, the chief economist and the accountant general from the

Rwandan Revenue Authority have key roles in this committee.

Sometimes the key facilitators include institutions like the Policy Study and Research Centre in Ethiopia, which derives its influence from its connections to the ruling EPRDF. Its deliberations are attended by top government officials, who often publicly accept their findings on instituting reforms or addressing problems. In Tanzania, development partners—owing to their heavy budgetary support—have pushed for reform by influencing tax policy at the design stage, including steps to mobilize more resources.

An important group of dissenters comes from businesses, which are generally loath to pay higher taxes and either lobby the government to limit reforms or seek other ways to keep their tax bills down. In Tanzania, large tax payers and large businesses have lobby groups which hold consultations on tax matters with Tanzania Revenue Authority and Ministry responsible for Finance during early stages of budget formulation (budget guidelines) to present their proposals. The most active associations are Confederation of Tanzania Industry (CTI), Tanzania National Business Council (TNBC) and Tanzania Private Sector Foundation (TPSF). Small and medium size businesses have no such formal channels and often show their resentment openly. A case in point is when Electronic Fiscal Devices Machines (EFDs) were introduced as the modality for remitting tax revenue to Tanzania Revenue Authority (TRA). EFDs were introduced as a measure of improving revenue collection. Similar attitudes prevail among small and medium-size enterprises in Ghana, and among importing and exporting firms that evade tax by using overinvoicing or underinvoicing.

Many private actors therefore restrict facilitators who typically want to reform the tax system by making it more rational, transparent, and inclusive and by reducing the discretionary aspects that permit rent-seeking.

### ***Public procurement***

The main facilitators in this financial governance dimension are procurement agencies. Supported by increasingly broad legislation, and by technical support from government and development partners, they have driven attempts to regulate procurement activities. In Ethiopia, the Federal Public Procurement and Property Administration Agency was created in 2009. Another specialized body is the Procurement and Disposal Service, also created for cutting transaction times, costs, and red tape in acquiring



goods and services. These efforts were part of the wider reforms driven by the Ministry of Finance and Economic Cooperation for improving performance and reducing the scope for rent-seeking and inefficiency.

Development partners showed strong interest and influence by providing substantial funding support. The Development Assistance Group, which serves as a platform for bringing together donors based in the country, set up a Procurement Working Group. The Rwandan Public Procurement Authority has a similar role, building capacity for procurement agencies and helping execute budget agency plans. It also conducts an annual procurement audit to assess on-the-ground progress in the procurement law and, where necessary, share findings with the public prosecutor. The direct influence of these facilitators comes from a position in the system that gives them power for carrying out procurement on behalf of the public sector. So other potential facilitators like development partners, the ruling party, and executive need to act through them.

Dissenters are mainly interest groups in the bureaucracy and the private sector that resist seeing their opportunities for rent-seeking disappear. Officials involved in procurement can exploit gaps in the regulatory framework and in official procedures to extract rents. In Ethiopia, the lack of progress in implementing the legal framework on transparent and accountable public procurement means that the common practice of making large-volume purchases toward the end of the fiscal year, without following set procedures, gives wide opportunities for rent-seeking.



### ***Internal controls***

This dimension has two important sets of facilitators. The first are the departments in the finance ministries that deal with audits and oversee supervision of public finances. The second are development partners and traditional bilateral donors from OECD countries.

The first group exert influence through their formal role in maintaining internal controls, monitoring the disbursement and spending of public funds, and supervising procedures to prevent any misappropriation or diversion of funds. In Ethiopia, the Ministry of Finance and Economic Cooperation's Inspection Directorate supports audit units in public bodies and ministries, documenting financial disbursements for auditing. They are supplemented by the Office of the Federal Auditor-General, which monitors spending in public bodies and departments, reporting improprieties in government agencies.

Similarly in Ghana, the Comptroller and Auditor General, which comes under the Ministry of Finance, Planning and Economic Development, aims to ensure the efficient management of state finances and assets through regulatory and control mechanisms by providing uniform approved standards and procedures to municipal and district assemblies to guide them in managing public funds. It also prepares an annual financial statement on all government transactions for the auditor general. These institutions and departments' importance makes them key facilitators in channeling reform efforts. They are also the means for other facilitators to direct their efforts, including development partners.

In Uganda, development partners provide funds through mechanisms such as the Integrated Financial Management Information System, and strengthen the Office of the Auditor-General through training personnel and providing operational financial support. The main dissenters come from parts of the bureaucracy in line ministries, municipal and district assemblies, and local government authorities, resisting new regulations to maintain internal controls. In some cases, this is due to a lack of capacity and resources, as in Uganda where performance reviews by, say, the CSO Advocates Coalition for Development and Environment, revealed worrying weaknesses in capacity—inadequate staffing, poor facilitation, and weak supervision and monitoring. Many local governments do not have the required internal auditors, supervisors, and inspectors to ensure adequate implementation of internal controls. The same issues are seen in Ethiopia, often caused by frequent turnover of skilled and experienced staff. This, combined with the fact that internal auditors are accountable to the chief executives of public organizations who also authorize expenditures, limits what they can do to entrench prudent financial governance in their organizations.

### ***External audit***

The key facilitators here are the independent audit

institutions directly responsible for auditing the state, development partners, and opposition parties who try to ensure that these audit functions are carried out well. This is apparent in Ethiopia, where the Office of the Federal Auditor-General has a strong record as external auditor by issuing regular critical reports on faulty practices and has made progress in its audit coverage in almost all federal government institutions. Another major institution is the Federal Ethics and Anti-Corruption Commission, which has instituted transparency and accountability in public bodies through creating awareness, intervening preventively, and investigating and prosecuting culprits. An important driving force behind the success of these two bodies was the government's decision to give them much autonomy as part of broader reform efforts. These direct efforts are backed up by oversight bodies in the legislature, where the public accounts committee in particular works closely with the Office of the Federal Auditor-General by organizing hearings on the major findings in audit reports (these are widely publicized and followed up by the government). The process is also buttressed by development partners who have given funding and technical support to these external audit bodies through the Democratic Institutions Programme that ran from 2007 to 2013.

Similarly in Uganda, the PAC has regularly summoned members of the executive and technocrats to answer queries in performance and audit reports and, with the Inspector-General, has set up independent commissions to conduct investigations on complaints raised by the public through the media or CSOs on governance irregularities. The Office of the Auditor-General has increased its audit coverage to include more lower-level local governments and state enterprises, and greatly run down the backlog of undiscussed audit reports to parliament.

In Ghana, the Audit Service, headed by the auditor general, is totally independent and accountable only to parliament. It is empowered to audit all government entities, even the security agencies, and to report to the legislature at least once a year. The auditor general's report is sent to the PAC in parliament, which holds public hearings that since 2007 have been televised. At these sessions, the PAC interrogates political and administrative heads of municipal and district assemblies on matters raised by the auditor general in their report concerning the use of public funds allotted them in the budget and under other financial instruments. These public hearings have exposed many cases of financial malfeasance, and recommended sanctions against public servants found culpable. This has allowed the PAC to act as a driver for reform. But since its mandate stops at reporting on the external

audit findings of the auditor general and it cannot initiate disciplinary proceedings against officials found responsible, its ability to enforce recommendations is weak, especially because the executive can simply ignore its recommendations.

Development partners in Uganda have pressured the government to provide greater information, carry out investigations, and punish those found responsible for financial malfeasance. In 2012, following the loss of funds in the Office of the Prime Minister, they withdrew some funding and insisted on major reforms to strengthen audit functions and punish officials found guilty of committing irregularities before providing new resources.

Most dissenters are weakly organized and are typically in parts of the bureaucracy fearful of losing potential or current rent-seeking opportunities. One organized dissenter is in Ghana, where the executive branch, especially the president's office, has not allowed the legislative oversight bodies and other audit institutions to fully perform their functions. A center of power, it has been able to frustrate efforts and shown that it will resist any attempt to enforce reforms.

## Conclusion

We draw three main lessons from this chapter. First, important centers of power exist in key parts of the financial architecture of influence, and they have a decisive impact on PFM performance and the viability of reforms. These centers are often linked to dominant political forces, such as the top leadership of the hegemonic political party in, for example, Ethiopia, Mozambique, Rwanda, and Uganda, governed by the same party for many years; but also to the overweening power of the executive in countries like Ghana, even though it has a competitive electoral system.

Understanding which elements of the ruling party and government are interested in PFM and their motivations is a prerequisite to changing the financial architecture. In several cases, such as Ethiopia, the dominant political party and government have embarked on a significant program of PFM reform, which has led to positive trends in financial governance (see chapter 3). With influence exerted through formal and informal channels, it should be part of any PFM reform strategy to identify these centers of power and enlist their support.

These centers of power are not individuals but positions that individuals (or small groups) occupy: the party elite, as well as key parts of the executive and lead ministries such as finance. People move on, but

the positions and their influence remain. Enlisting the support of the current post-holder is one of the keys to PFM reform.

Second, these centers of power and the nature of political systems in many countries are such that influences meant to act as checks on executive power and the ruling party are rarely allowed to function independently. The weakness of legislative oversight and of independent audit and supervisory bodies in the face of a powerful central authority and executive poses long-term problems for ensuring accountability and inclusiveness, as it will not be possible to rely on the ruling party's or regime's reforming zeal (as seen in AFGO pilot countries like Ethiopia and Rwanda). A natural process of entropy and complacency is inevitable and will reduce the appetite for any reform that may increase short-term political risks or create potential rival centers of influence and power. This will naturally have an impact on financial governance and PFM performance, an area where greater reform efforts should be directed to make good financial governance a long-term, sustainable fact.

The challenge will be to devise strategies for reform without alienating or provoking resistance from existing centers of power, since that will undermine the success of any attempts at reform. The paradox is that

while accessing the centers of power is important for ensuring the political and institutional support for reform in the short run, counterbalancing checks on these power centers will need to be constructed in the long run, to ensure that solid financial governance is built into the financial architecture and is not founded on shifting political sands.

Third, development partners may be characterized as now having little influence in some countries (Mozambique) while retaining much influence in others (Tanzania). This serves as an important reminder of the differing impact of national and regional contexts and the need to develop strategies that can accommodate them when designing PFM reforms. It also underlines the need for careful research to evaluate the actors shaping PFM performance in a country, essential for successful interventions.

A key capacity development implication is that it is critical to strengthen the capacities of countervailing institutions dealing with an overmighty executive. Support in developing the capacities of legislatures and regulatory institutions is vital to ensure that PFM reforms are long-lasting. Building up the strength and capacity of counterbalancing and independent institutions, as well as alternative centers of power, can ensure more sustainable commitment to PFM reforms.



# PUBLIC FINANCIAL MANAGEMENT PROCESSES AND SYSTEMS



## CHAPTER 2: PUBLIC FINANCIAL MANAGEMENT PROCESSES AND SYSTEMS

This chapter outlines the basic public financial management (PFM) processes and systems for the 10 *African Financial Governance Outlook* (AFGO) countries. The intention is to provide not a detailed descriptive account but a reference point for the subsequent quantitative and qualitative analysis. Since each country has a unique history, and groups of countries have inherited different financial administrative systems—Anglophone and Francophone, for example—it is not possible to cover the great variation of processes and systems across the AFGO pilot countries. An underlying common budget process that all countries share, is presented in brief.

PFM processes cover the formulation and enactment of the budget, legislative oversight, internal and external auditing, and all other activities involving the raising and spending of public funds. PFM systems are

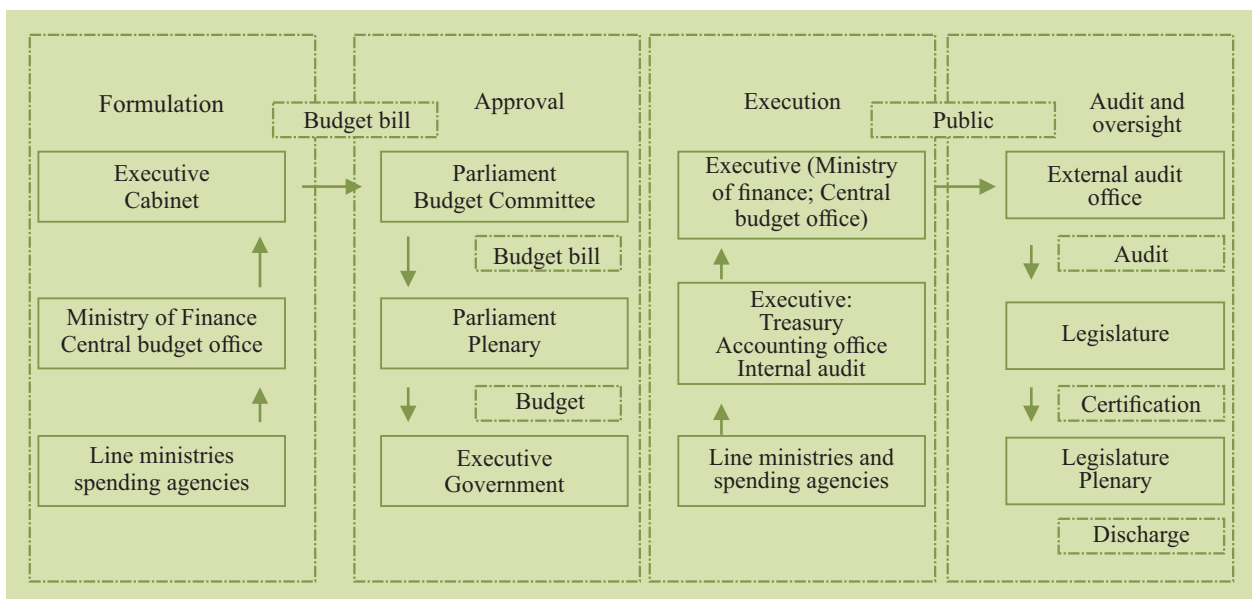
the institutions, actors, and their structured rules for interacting with each other in managing public finances, from the government's administrative and bureaucratic structures to the legislature and other public and autonomous bodies.

These two elements form the basic PFM and are the basis for subsequent quantitative and qualitative analysis. Evaluating how these processes and systems work enables us to understand the performance of a country on financial governance, how it could be improved, and what the major issues are.

### Public financial management processes

The budget process, with multiple actors, may be simplified into four phases: formulation, approval, execution, and audit and oversight (figure 2.1).

Figure 2.1 The budget process



Source: DFID 2007.

[https://www.researchgate.net/profile/Carlos\\_Santiso/publication/263855373\\_Understanding\\_the\\_Politics\\_of\\_the\\_Budget/links/0a85e53c3537e294a7000000.pdf](https://www.researchgate.net/profile/Carlos_Santiso/publication/263855373_Understanding_the_Politics_of_the_Budget/links/0a85e53c3537e294a7000000.pdf) (Accessed 2012)



### ***Formulation***

Many countries start the budget process with a formulation phase to ensure that high-level policy directives inform the government's budget decisions. This phase involves translating broad policy goals into financial targets, given prevailing socioeconomic conditions. Civil servants in ministries such as finance estimate how much money will be available to the state in coming periods, including domestic revenue, foreign aid, and government borrowing. Similar calculations are made for proposed expenditures in different sectors and programs. The expenditure estimates indicate the maximum amount of funding available to each spending entity or for specific objectives in the coming budget.

This phase involves entities such as the finance and planning ministries, sector ministries, subnational entities preparing spending estimates, and civil society groups whose comments on proposals may be taken into account. After this comes the budget preparation process, which involves preparing and finalizing the formal government budget proposal to be submitted to the legislature for approval.

The budget proposal usually covers one year. Preparation commonly involves detailed expenditure plans for each area of government activity, with the ministry of finance playing a central role. It is responsible, on the revenue side, for producing detailed projections of resources, types of revenues, plus domestic and external borrowing; while on the expenditure side it works with spending entities to assess their expenditure requests. The ministry of finance and the spending entities engage in detailed negotiations over these requests. This results in a comprehensive formal budget proposal that reflects the revenue and expenditure plans for the entire government for the budget period.

### ***Approval***

This proposal is then submitted for budget approval to a political body that represents the electorate—usually parliament or congress—where the budget is debated. This body often examines different parts of the budget proposal in detail, in specialized committees, and often with support from technical experts and civil society bodies. Members of the executive (and especially the ministry of finance) often have to defend the proposed budget in front of these committees and bodies. In most countries, the elected representatives are given a few weeks to examine the budget proposal, debate it, and if necessary propose amendments. At the end of this period, the budget proposal is formally adopted and passed into law, authorizing the executive to raise and spend resources. The basis on which the budget is approved—line item, administrative unit, program, and so on—is essential for establishing accountability and reporting requirements that enable audit and oversight.

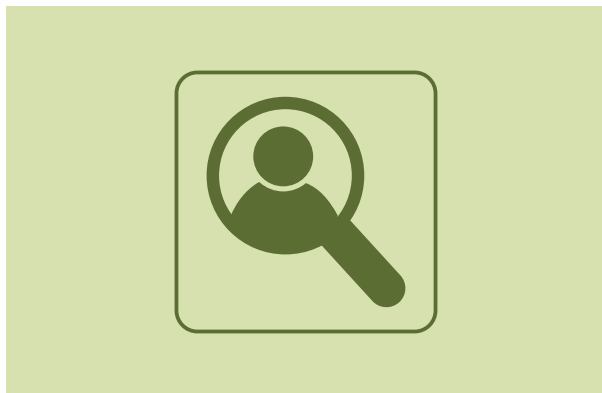
### ***Execution***

In this phase, governments deliver (or not) on the budget aims and proposals. A wide range of state organizations have responsibility to ensure that resources are available to bodies implementing budget policies (such as providing public services) and making sure that the government can function. These include tax authorities and debt management agencies. Other departments oversee the transfer of resources from revenue-collecting to spending agencies, usually the treasury or exchequer.

States use a hefty proportion of their finances to pay for general government administration, of which the major costs are public employee salaries, benefits, and pensions. Another large share goes for buying (“procuring”) goods and services from external sources, handled by government agencies often through the open market. Key agencies include state procurement bureaus (which often determine procurement rules and procedures, and monitor the process) and procurement officers in spending bodies (who implement the rules and conduct the actual procuring).

### ***Audit and oversight***

Governments have procedures to audit—internally and externally—and to provide other forms of oversight over realized government revenue and expenditure. These consist of internal controls and audits, and of accounting and reporting procedures.



Internal controls aim to ensure compliance with the accounting and reporting procedures, while internal audits provide agencies with information on risky areas where controls are lacking or where routine failure to comply with rules may undermine an entity's potential to meet its objectives. These processes fall under the responsibility of monitoring agencies, inspection entities, or internal audit bodies. In some countries, this function is centralized for the whole of government, while in others it is delegated to each spending entity.

Government accounting and reporting procedures keep records of financial flows and structure these records in a way that permits independent scrutiny. The treasury is usually the body charged with determining how these mechanisms work, but all spending departments should have accounting officers responsible for maintaining accounts and providing reports. Most governments produce reports to show whether realized revenue and spending are aligned with the original budget. Financial reports are often produced during the financial period (to show progress in budget execution) and after the end of the period (to provide a full record of the government's financial activities, and how they compare with what was planned in the budget).

As part of the audit and oversight phase, governments are usually required to send their annual financial reports to the independent supreme audit institution (SAI) for the external audit that concludes each budget cycle. In some countries, these are specialized audit bodies that report to the same institution (such as the legislature) that passed the budget, while in others, they are part of the judiciary. Their main role is to examine whether government financial activities complied with the original budget and followed all other rules and procedures.

SAIs are, in a sense, the ultimate guardians of the integrity of the PFM system. They also sometimes audit the value for money of public spending looking, for instance, at what kinds of services were purchased with public money and whether they were cost effective, given the alternatives. Their reports and findings are used by the legislature to raise concerns with the executive as a whole and with executive agencies individually. Government officials often have to appear before specialized committees to respond to such issues, and usually have to respond by detailing the corrective actions they intend to take. These reports are also used by civil society entities trying to hold governments accountable for how they have used the state's resources. Audit courts can sometimes directly pursue and sanction mismanagement and noncompliance.

### **Public financial management systems**

This section overviews the main phases, components, stages, and institutional actors in the PFM processes, drawing on examples from the 10 AFGO pilot countries (see table A2.2 in Appendix 2). PFM systems are analyzed across four components (vertical)—legal framework, institutions, human resources, and procedures and practices; and six stages (horizontal)—fiscal planning and budget preparation, revenue management, budget execution and procurement, monitoring and inspection, accounting and reporting, and scrutiny and oversight.

#### ***Fiscal planning and budget preparation***

In this first stage, the legal framework is specified by key laws such as the Organic Budget Law 2006 in Rwanda, or Budget Acts in Uganda and Ghana (and other similar financial decrees and acts in other countries). These laws provide the formal framework for the institutions involved and outline the responsibilities and outcomes required from the government, financial administration, and legislature in interacting with each other to present a formal budget for approval before the legislature.

The key institutions are the ministries of finance and of planning, and revenue authorities, such as the Central Revenue Authority of Kenya. These two ministries, owing to their expertise and control over the flow of funds, are unsurprisingly the dominant government institutions in budget preparation, especially when, as in Uganda, these functions are combined into a single ministry, such as the Ministry of Finance, Planning and Economic Development.

The human resources consist mainly of economists, planners, statisticians, and other specialized civil servants involved in finance who, owing to their



specialized skills and knowledge, have the technical capability to put together a formal budget from within the government to be presented externally for approval.

In the procedures and practices component, many countries, including Kenya, Mozambique, Senegal, Tanzania, and Uganda, have a medium-term expenditure framework (MTEF)—an annual, rolling, three-year government plan with spending priorities and hard-budget constraints. The MTEF also contains outcome criteria for performance monitoring. The MTEF, with the annual budget framework paper, provides the basis for annual budget planning. Many AFGO pilot countries also have fiscal charters and procurement plans that similarly project and plan for government spending on procurement and the budget over the medium term. Other countries, such as Rwanda, have a slightly longer-term financial plan in place (the Seven-year Government Programme and Vision 2020 for Rwanda).

### ***Revenue management***

The second stage has a similar breakdown. The legal framework establishes the authority, duties, and operations of the agencies in revenue acts, as in Kenya, Tanzania, and Uganda. Other countries have similar legislation, such as the General Tax and Estates Code Law 2012-13 in Senegal and the Financial Administration Proclamation 648/2009 in Ethiopia. These acts establish the relevant revenue authorities, such as the Ghana Revenue Authority and the Kenyan Revenue Authority, charged with collecting government revenue as well as other duties, as with the Ethiopian Revenue and Customs Authority and the Directorate-General of Customs, which are responsible for collecting revenue on imported goods.

Human resources are the tax officials, accountants, economists, and other technical personnel who staff these revenue-collecting bodies.

The procedures and practices include procurement plans, tax codes, and collection systems, as found in most AFGO pilot countries. Some countries have mechanisms for collecting revenue from certain sectors, such as the mining, oil, and gas model introduced in Tanzania in 2014.

### ***Budget execution and procurement***

The budget execution and procurement dimension is the third stage of the PFM system. Here again, the legal framework is provided by legislation that governs how budgets are presented and approved in the legislature,

and procurement by the public sector and spending of funds. Laws such as the Exchequer and Audit Act in Kenya, the Financial Administration Act in Ghana, and the Budget Act 2014 in Tanzania are supplemented by other regulations and, in some countries, by ministerial orders, as in Rwanda.

The institutions are the ministries of finance and other related ministries such as planning and economic development, along with the legislature, which passes the budget. For procurement, several countries such as Rwanda, Ethiopia, and Senegal have specialized procurement authorities for managing procurement needs.

The procurement staff at such agencies, as well as those embedded in other ministries, form the human resources component for this stage, along with the budget staff such as the Chief Budget Manager in Rwanda or the Controller of Budget Finance in Kenya, who are responsible for the actual execution of the budget within the core and line ministries.

The procedures and practices are divided into those governing procurement, such as the procurement manual in Rwanda and the tendering processes in Tanzania, and those which cover realized government expenditure, such as a public expenditure tracking survey (PETS) in Tanzania (box 2.1), the quarterly budget in Kenya, and the budget execution reports in Mozambique.

#### **Box 2.1**

#### **Advantages of a public expenditure tracking survey**

A PETS consists of a random survey that tracks the flow of resources through the administrative system to determine how much of the originally allocated resources reach each level.

The difference between a PETS and a conventional audit is the use of statistics methods. For example, in tracking expenditure on schools, rather than physically visiting them to determine how much funding they have received, a PETS selects a statistically representative sample of schools and uses these data for its analysis.

A PETS is useful for locating and quantifying political and bureaucratic capture, leakage of funds, and problems in deploying human and in-kind resources such as staff and textbooks.

### ***Monitoring and inspection, accounting and reporting, and scrutiny and oversight***

These three stages match the audit and oversight phase. Combined, they entail internal and external audits, accounting techniques, and legislative and independent scrutiny of government expenditure and finances.

The legal framework establishes clear structures through audit acts in Ghana, Kenya, and Tanzania, a Financial Administration Proclamation in Ethiopia, and ministerial orders and Financial Management Guidelines in Rwanda. This legal framework guides the role of institutions for internal audits, such as the Internal Audit Inspectorate in Uganda and the Audit Service in Ghana, as well as the accounting sections of finance ministries, the central bank (as in Ghana and Kenya), or directorates dedicated to public accounting (as in Mozambique and Senegal). For external audit, the key institutions are the independent bodies like the auditor-general, or other SAIs in Ethiopia, Kenya, Rwanda, and Uganda; and the public accounts committees (PACs) of the legislature, which can call both the government and individual ministers to account for any discrepancy or issues with public finances that come to their attention.

In human resources, SAIs and internal audit bodies are staffed by auditors and financial experts, while monitoring and evaluation inspectors and accountants are there for the accounting and reporting departments in the ministries and autonomous bodies. For scrutiny and oversight, apart from the personnel at the audit organizations, members of parliament and parliamentary staff enable PACs to function, as do staff in the judiciary and prosecutorial services that have oversight functions.

Procedures and practices show two main streams. The first deals with the accounting and reporting stage, which uses various accounting systems such as the Integrated Financial Management Information System in Uganda, which is tied to internationally accepted accounting standards, and the Donor Performance Assessment Framework in Rwanda. Systems such as these allow governments to use the latest accounting techniques and models to track and report on public expenditure, internally and externally. The second stream deals with the audit and oversight dimensions and involves monitoring and evaluation, audit and inspection reports, and other surveys carried out by audit and oversight institutions such as PACs, SAIs, and departments in the finance (and related) ministries. The results are published as an independent and external evaluation of public finances.

### ***An interlocking mechanism***

Remember that all the parts need to work well together—from formulation and planning through to implementation and practice and oversight and monitoring/accounting elements—to sustain a good financial governance system. If one part performs poorly or experiences problems, it drags down financial governance overall, no matter how well the other elements are working.

### **Conclusion**

Two patterns and general observations can be drawn from the case studies. First, the accounting and reporting stages in the study countries are in line with international best practices. Countries like Uganda and Rwanda use accounting systems such as the Integrated Financial Management Information System and the Donor Performance Assessment Framework, which are tied to internationally accepted accounting standards. Internationally recognized and accepted systems allow governments to use the most up-to-date accounting techniques and models to monitor, track and report on public expenditure, internally and externally in a transparent manner. Efforts are therefore needed to urge countries in maintaining the usage of internationally recognized accounting and reporting standards.

Second, the surveyed countries have also put in place audit and oversight systems which involves monitoring and evaluation, audit and inspection reports, and other surveys carried out by audit and oversight institutions such as PACs, SAIs, and departments in the finance (and related) ministries. For instance, institutions for internal audits, such as the Internal Audit Inspectorate in Uganda and the Audit Service in Ghana play key role in the monitoring and inspection, accounting and reporting, and scrutiny and oversight stages. Various institutions and bodies are involved, with the results published as an independent and external evaluation of public finances. But the studies also show that systems and procedures do not automatically lead to better financial management.

A key implication for capacity development has to do with enhancing the effectiveness of all parts of the PFM system. Strengthening the human and institutional capacities can ensure that all parts of the PFM system and financial architecture mesh well, from formulation and planning, through to implementation and oversight, and to monitoring and accounting.

# COUNTRY PERFORMANCE —SNAPSHOTS AND TRENDS



## CHAPTER 3: COUNTRY PERFORMANCE— SNAPSHOTS AND TRENDS

The approach developed for the *African Financial Governance Outlook* (AFGO) combines quantitative analysis from 25 indicators, covering five financial governance dimensions matched against five political governance variables (table 3.1).

**Table 3.1 Matrix for measuring financial governance**

Political governance variable	Financial governance dimension				
	Budget Governance	Revenue Governance	Internal Control	Public Procurement	External Oversight
Inclusiveness	Effectiveness of public participation	Public involvement	Public monitoring	Stakeholders' involvement	Level of interaction with the public
Openness	Transparency comprehensiveness and user friendliness	Awareness of liabilities	Availability of information on expenditure	Degree of access to information	Public access to audit reports
Rule Compliance	Orderliness and clarity of rules	Equity of rule application	Effectiveness and adherence to internal control	Compliance with good practice	Independence of audit agency
Oversight	Adequacy of the legislative scrutiny of the budget	Legislative scrutiny in place	Comprehensiveness of oversight activities	Effectiveness of oversight activities	Scrutiny and follow-up of audit activities
Capability	Budget reflective of declared policies	Effectiveness of revenue administration	Action taken against unethical and illegal behaviour	Enforcement capacity of regulatory body	Independence of oversight and enforcement

The African Development Bank (AfDB) developed the five dimensions and the five variables through consultation with stakeholders. These dimensions and variables are relevant to the African context, consistent with the AfDB's economic governance mandate and priorities, and measurable using credible sources of data.

The matrix in table 3.1 was developed to support quantitative analysis for identifying strengths and weaknesses in a country's public financial arena, focusing on two: baseline indicators and on compliance and performance indicators. The baseline indicators deal with the formal and functional features of a country's regulatory landscape and institutional architecture to provide a "snapshot" comparison of the observed processes and systems against desired international standards. The compliance and performance indicators are useful to determine whether the system actually operates within the rules and guidelines of the country's regulatory framework. The quantitative analysis aims to clarify, for instance, whether the budget formulation process is transparent, and whether the internal audit and external audit systems are sound and honored in practice.

This chapter presents snapshots and trends for the 10 AFGO pilot countries' financial governance dimensions (budget governance, revenue governance, public procurement, internal controls, and external oversight) and the five political governance variables (inclusiveness, openness, rule compliance, oversight, and capability) for each dimension. For the snapshots, it uses five bubble graphs and for the trends five traffic light tables (figures 3.1–3.10).

Each bubble graph has 50 data points—five political governance variables for each of the 10 countries. Each bubble reflects a score from 0 to 100, an assigned range score not a percentage, and as each political governance variable measures different aspects of financial governance the scores cannot be added to give an overall percentage and instead need to be considered individually. This also means that, while it is obviously possible to see which countries are performing well (or poorly) by their scores, a simple ordinal ranking is not possible given the uniqueness of each indicator. The analysis of each country's overall financial governance performance is illustrated by a bubble graph, which summarizes the five-by-five matrix indicators and pin-points the high achieve-

ments (green bubble), moderate achievements (light green), low achievements (light red), and lowest achievements (dark red). A score of 100 is identified by dark green; light green ones scored between 50 and 100; low achievement is rated at between 1 and 50, while dark red is equal to a zero rating.

With 50 data points, the traffic light figures illustrate trends as improving (a green circle), declining (a red circle), or stagnant (an amber circle), based on time-series data. The data relate to the last two decades and draw on the detailed data generated by the country reports, originally in the form of spider graphs but which, for ease of presentation, have been changed to traffic lights. As in the snapshot bubble graphs, these scores range from 0 to 100, but are also not comparable or additive, and cannot be taken to be percentages.

But by looking at the countries' patterns of recent performance, one can see the areas where financial governance is performing well and where it needs improvement, laying the ground for a closer review of causes.



### Budget governance

Budget governance is the process of translating government policies into annual budgets and medium-term fiscal frameworks, as well as the quality of budget execution and reporting.

### Inclusiveness

The political governance variable of inclusiveness is defined under the financial governance dimension of budget governance by the degree of public participation in the budget process and in fiscal policy. This measures the extent to which stakeholders outside government can participate in and influence the rules that guide financial governance, set the agenda and policies, and shape execution.

Inclusiveness shows relatively poor snapshot performance as three countries score zero, with three below 50, and only four with 50 or above (figure 3.1). For countries scoring zero, such as Burkina Faso, the law gives the formal right for citizens to be consulted by the government, but in practice<sup>2</sup> it is difficult for citizens to be able to do this for lack of information and

practical access. Similarly in Mozambique, the political executive does not organize any debate on the draft budget, and the input of citizens is minimal though they have the right to attend National Assembly hearings; but again, practical participation is minimal. Even for countries with relatively high scores, such as Kenya and Uganda, this stems from the formal inclusion of stakeholders by treasury working groups in the former and consultative and regional workshops held by the latter. Yet the short time available to process such input and gather feedback, and the limited reach outside urban and densely populated areas with good infrastructure, indicate that inclusiveness is limited even for these countries, as reflected in scores in their low 60s.

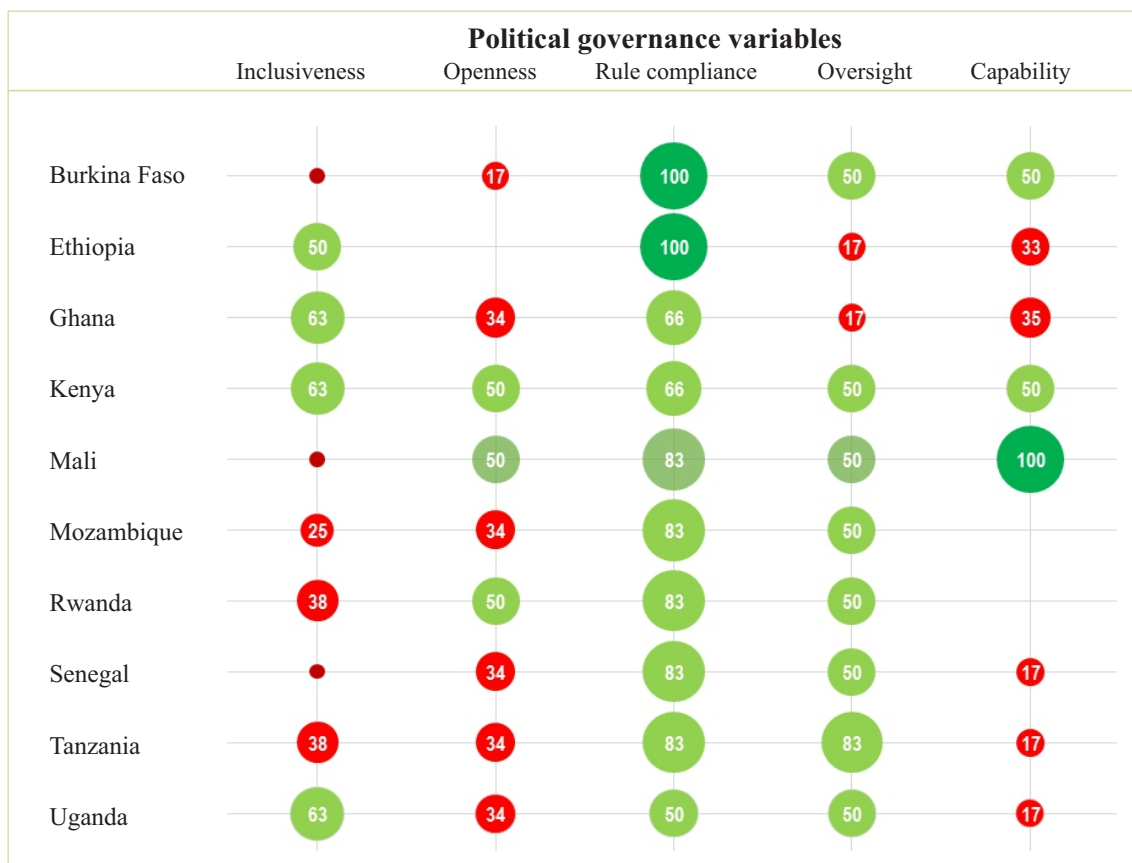
The trend is mixed, with three countries declining and three improving, and two stagnant; Burkina Faso and Mali have no data (figure 3.2). Countries that have seen an improvement, like Kenya from 50 in 2008 to 62.5 in 2012, have instituted procedures to make the inclusion of public participation mandatory at national and local levels. In Kenya's case, the constitution adopted in 2010 was critical in expanding the inclusion of such representative institutions from the federal down to the county level.

Some countries that recorded a positive trend, such as Tanzania, did so from a relatively low base, rising from 25 to 38 between 2006 and 2010, with public participation routed via channels that went through national and local representatives. Lack of actual access despite formal routes is a main reason that many countries register negative trends, a good example being Mozambique, whose score declined from 50 in 2007 to 25 in 2015, despite non-state actors' membership of local councils and development observatories, which are meant to provide inputs into the budgetary process and enable public participation. In practice, the budget process in many countries remains dominated by central line ministries.

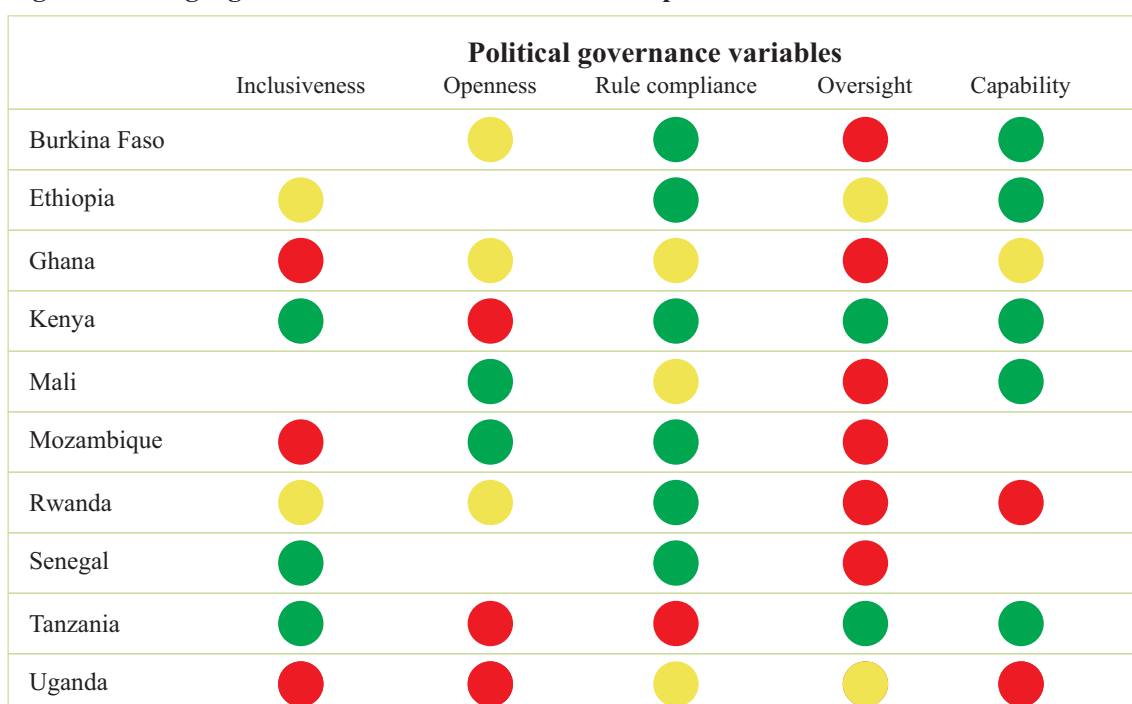
The overall picture on inclusiveness for budget governance is that citizens have few formal mechanisms to participate in budget preparation or to debate broader fiscal policy. Those in place are narrow in scope and fall below potential, again constricting inclusiveness for budget governance.



**Figure 3.1 Budget governance snapshot for the 10 AFGO pilot countries**



**Figure 3.2 Budget governance trends for the 10 AFGO pilot countries**



Note: An empty cell means no data are available. Green = improving, amber = stagnant, red = declining.

### ***Openness***

Snapshot performance is relatively poor: only three countries achieve a score of 50, with the rest scoring in the 30s or even lower; Ethiopia has no data. Even relatively high-scoring countries (Kenya and Mali) suggest that while various key documents such as the draft budget, adopted budget, mid-year review budget, and end-of-year budget report have been made public, the detail in the public versions does not provide much knowledge to a public audience. This points toward a communication gap between the government and citizens, which affects their ability to hold the government to account.

The trend is mixed, with two countries improving, three declining, and three remaining broadly stagnant; Ethiopia and Senegal do not have any data. Mali recorded a positive trend, reflecting government efforts to publish the budget in an accessible format and put it online, with access to the public of manuals and other guidance documents on how to understand the budget. This has greatly improved public access, formally and in practice. Mozambique also showed an improving trend, albeit from a low base, from 0 in 2010 to 34 in 2015, as the National Directorate began to publish short 10-page summaries of the budget and to publish the budget statement online in time for budget discussions in parliament. In countries with a negative trend, such as Tanzania, the government provides minimal information on the budget to the citizenry throughout the financial year.

### ***Rule compliance***

Snapshot performance is extremely strong—with two countries scoring 100, five in the 80s, and two in the 60s; and no country scores below 50—probably because the indicator is measured by adherence to the budget timetable and calendar.

The trend is positive, with six countries improving, one declining, and three stagnant. Several countries show very high scores and positive trends, such as Rwanda, with a formalized legal system that began with the Organic Budget Law in 2006 backed up by additional regulations, leading to a clear set of rules and procedures that are monitored and adhered to, and that allow the time to be implemented. Ethiopia achieved 100, consistently using a Financial Transparency and Accountability system that lays out rules and mechanisms for the budget process and that allows it to be easily monitored. Such procedural guidelines and formalized rules, with the support of the legislature and monitoring by it and other bodies, is a key reason for the positive trends.

### ***Oversight***

Snapshot performance is middling, with seven countries scoring 50, one 83, and two only 17. As Ethiopia and Ghana show, a low score reflects the preponderance of a very powerful executive, curtailing the ability and opportunity for any legislative budget oversight. It also reflects the lack of technical capacity and skill of public institutions like parliamentary committees to scrutinize the budget and government spending during the budget cycle. The use of supplementary budgets during the year and discretionary expenditure by ministries not planned in the budget point toward the limits of legislative oversight. While many countries have formal institutions in places—as can be seen by the average score of 50 for many countries—in practice, they are much less effective than their stated potential.

Trend performance is problematic with six countries declining and only two improving; two are stagnant. In Kenya, the 2010 constitution and the Fiscal Management Bill of 2009 set up a budget office and revised standing orders, which aimed for a detailed budget to be presented to parliament and debated, and scrutinized by parliamentary committees before being voted on. In other countries, the influence and power of the executive (Burkina Faso and Ghana, for example) impede the legislature's ability to scrutinize and debate the budget, while in others (Mali and Tanzania) the lack of time and of structured procedures for the legislature to examine the budget minimize scrutiny.

### ***Capability***

The snapshot shows relatively poor performance: only one country scores 100, while two have no data, and three 17. The main problems for countries with poor scores, such as Mozambique, Rwanda, and Uganda, is expenditure by local and regional authorities frequently either exceeding the budget allocation or, in Ethiopia and Tanzania, such authorities' inability to spend the funds allocated to them. Mali, which scores 100, has in place and enforces strict controls, ensuring that realized expenditure matches that planned. The low scores point to an issue over the ability to match planned with realized expenditure, which needs to be resolved, as it suggests that there is an issue with how such expenditure is planned or that external pressures result in deviations from planned outlays.

The trend is largely positive, however, with five countries improving, one stagnant, and two declining; Mozambique and Senegal have no data.



### Revenue governance

Revenue governance is the process of determining tax revenue policy and administering tax and nontax revenue collection, including states' fiscal capacity and citizens' voluntary compliance.

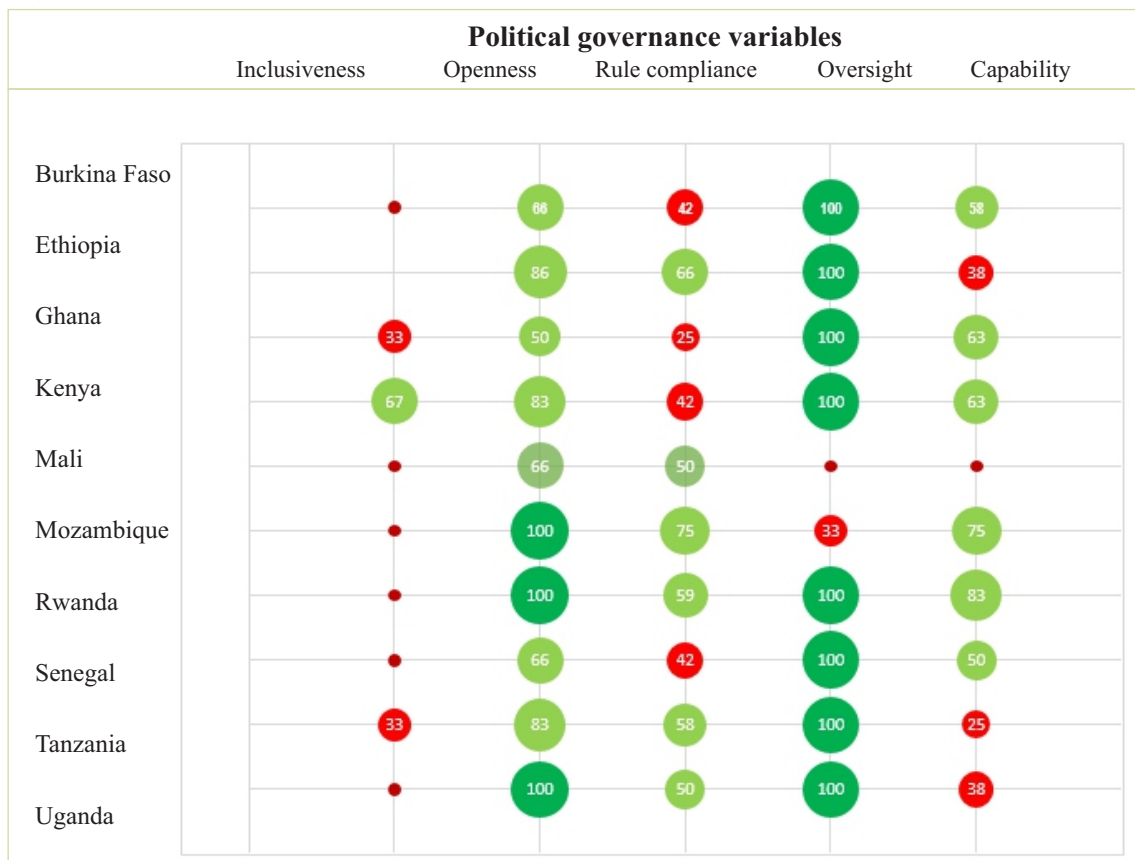
### Inclusiveness

This variable shows very poor snapshot performance across the board, as six countries score 0, two countries in the 30s, and only one country, Kenya, manages a

relatively satisfactory 67; Ethiopia has no data (figure 3.2). This shows a lack of inclusion of the public in setting budget priorities; the reasons vary but are due mainly to the lack of interest by the executive in undertaking such consultations either because of the heavy degree of centralization and concentration of budgetary decision-making (Ethiopia) or because the government tends to feel that an electoral mandate though a decisive election victory is enough validation of its budgetary policies (Ghana). This lack of inclusiveness is a serious lacuna in revenue governance.

The trend is mainly negative or stagnant, with only one country improving; Ethiopia, Mali, and Mozambique do not have data (figure 3.4). Over-determination of budget priorities by central government is a key factor, as in Tanzania where there is little or no public consultation.

Figure 3.3 Revenue governance snapshot for the 10 AFGO pilot countries





**Figure 3.4 Revenue governance trends for the 10 AFGO pilot countries**

	Political governance variables				
	Inclusiveness	Openness	Rule compliance	Oversight	Capability
Burkina Faso		●	●	●	●
Ethiopia	●	●	●	●	●
Ghana	●	●	●	●	●
Kenya	●	●	●	●	●
Mali		●	●	●	
Mozambique		●	●	●	●
Rwanda	●	●	●	●	●
Senegal	●	●	●	●	●
Tanzania	●	●	●	●	●
Uganda	●	●	●	●	●

Note: An empty cell means no data are available. Green = improving, amber = stagnant, red = declining

### **Openness**

Unlike inclusiveness, this variable shows an extremely high snapshot performance. The lowest score is 50, seen in only one country, while three countries score 100, and three score in the 80s. The main factors are better tax collection and assessment systems, particularly e-based systems in, for example, Kenya, Mozambique, and Uganda, and awareness-raising material in countries such as Ethiopia, so that the private sector fully appreciates its tax liabilities for imported goods and services.

The trend is strongly positive, with nine countries improving and only one (Ghana) declining. The driving forces are reforms in tax administration and procedures: in Kenya, for example, the Revenue Administration and Modernisation Programme, launched in 2004, adopted project management and business analysis based on international best practices, which improved transparency and operations. The Rwanda Revenue Authority undertook several important reforms such as an education platform for taxpayers that distributed leaflets to the public, free, and set up a 24-hour call center where taxpayers could call for free with their tax inquiries. Administrative reforms through legislation and direct efforts by the tax authorities are also important for the improving trend.

### **Rule compliance**

Snapshot performance is mixed: one country scores highly at 75, but others have moderately satisfactory scores in the 50s and 60s, and four countries score below 50 (with the lowest 25). These poor results stem mainly from weaknesses in tax registration systems and in light penalties for non-registration and noncompliance, and few prosecutions for tax fraud and evasion, as well as high levels of public perceptions about corrupt tax officials.

The trend is positive overall, with seven countries improving and three declining. Administrative reforms again have played a role. In Rwanda, the creation of a Department for Risk Management in 2014 at the Rwandan Revenue Authority used new computer-based audit systems to generate annual audit and fraud investigation work plans, and tracked key business activities for excise purposes such as imports of goods, to widen the tax base. Even countries in difficulty have made improvements: Burkina Faso saw its score rise from 25 in 2007 to 42 in 2014 after expanding the taxpayer registration system using a unique fiscal identifier held in a data repository accessible by the three main revenue collection agencies. Nearly 95 percent of taxpayers have signed up for this simplified regime with a rollout to include

the informal sector as well. Similar efforts by the revenue authorities in Ethiopia to enable large businesses to file their returns electronically have cut time and effort spent on tax-related activities, although small and medium-size businesses still face cumbersome procedures with paper returns. Improved administrative procedures and e-governance in online monitoring and payment of taxes is a major driver of improved trends in this area.

### ***Oversight***

Snapshot performance is unusually high, with eight countries scoring 100 and one each at 33 and 0, because most countries have a separate legislative committee that scrutinizes the executive over its use of public funds. Only Mali lacks one—so its score of 0.

The trend is mixed, with five countries improving, three declining, and one broadly stagnant; Mali has no data. Ethiopia has scored 100 since 2006, reflecting the activities of the Office of the Federal Auditor-General, as a robust institution that conducts regular and thorough audits, and the attention of the public accounts committee of parliament of reports on federal agencies. Burkina Faso also scored 100, on the activities of the Commission of Finance and the Budget in the National Assembly, which has wide-ranging powers to inspect revenue authorities, make recommendations, and raise issues on the gap between planned and realized revenue.

### ***Capability***

The snapshot shows a mixed picture: two countries scoring highly at 83 and 75, four scoring satisfactorily in the 50s and 60s, and four in the 30s or below, with one scoring 0. While countries such as Mozambique and Rwanda have adopted new systems of tax administration and upgraded their systems to be able to apply tax, customs, and excise rules uniformly, others have struggled, partly owing to the paucity of trained human and financial resources and partly to the difficulties in dealing with a sizable informal sector, which is very hard to tax (Tanzania and Uganda).

The trend is marginally positive, as four countries are improving, three declining, and two stagnant; Mali has no data. Countries on a negative trend, such as Ethiopia whose score declined from 50 in 2007 to 38 in 2010, reflect the time taken to update tax codes and laws made in the early 2000s. This allowed in corruption through discretionary interpretations of regulations and procedures, and is one of the reasons why the Ethiopian Revenue and Customs Authority is ranked as the country's most corrupt public institution. Investigations by the Federal Ethics and Anti-Corruption Commission in Ethiopia found that

taxpayers frequently complained that they were often asked to pay bribes when visiting the tax office to pay taxes. In Tanzania, lack of enforcement has forestalled progress, despite administrative reforms that make discretionary behavior more difficult.

### ***Public procurement***

The financial governance dimension of public procurement is defined as the policies and systems in place for the acquisition of goods, works, and services, including arrangements for regulation and control of public procurement.

### ***Inclusiveness***

Snapshot performance is mixed, complicated by the fact that four countries lack data (figure 3.5). Among the rest, only one country scores highly at 78, three score satisfactorily in the 60s, and the other two score in the 30s. The key factor for countries with low scores is the weak participation in the public procurement market by private actors. In Kenya and Tanzania, there is frequent confusion over the rules governing public procurement contracts, a lack of awareness of the terms required in bidding for such contracts, and a generally hostile attitude toward the private sector, which is seen as the “opposition” rather than a partner by the public sector and civil servants. By contrast, countries with relatively high scores, such as Senegal (78) and Uganda (67), have clear and published manuals on the bidding regulations, and the public sector has taken pains to institute a competitive and open bidding system in which all can freely participate. In Uganda, the government has set up a complaints process, so that private actors that feel they are being treated unfairly can appeal.

The trend is also mixed (figure 3.6), with one country improving and four broadly stagnant (Kenya has data for only one year, and so no trend could be analyzed, while Ethiopia, Mozambique, and Rwanda have no data). The lack of public involvement is a problem in countries like Tanzania where the public are generally excluded from the procurement process. Even in countries with a measure of involvement by civil society groups, like Burkina Faso, their participation is limited in practice. Such groups have requested that the legal framework be adjusted to include a mechanism that allows them to participate in the tender process and not just when a complaint is filed. These bodies also note other impediments, such as costly bid bonds and difficult preconditions imposed by banks, lack of autonomy of oversight bodies, and collusion between bidders and political actors. A clear set of rules allowing participation of stakeholders from the private sector and civil society would improve governance levels.

Figure 3.5 Public procurement snapshot for the 10 AFGO pilot countries

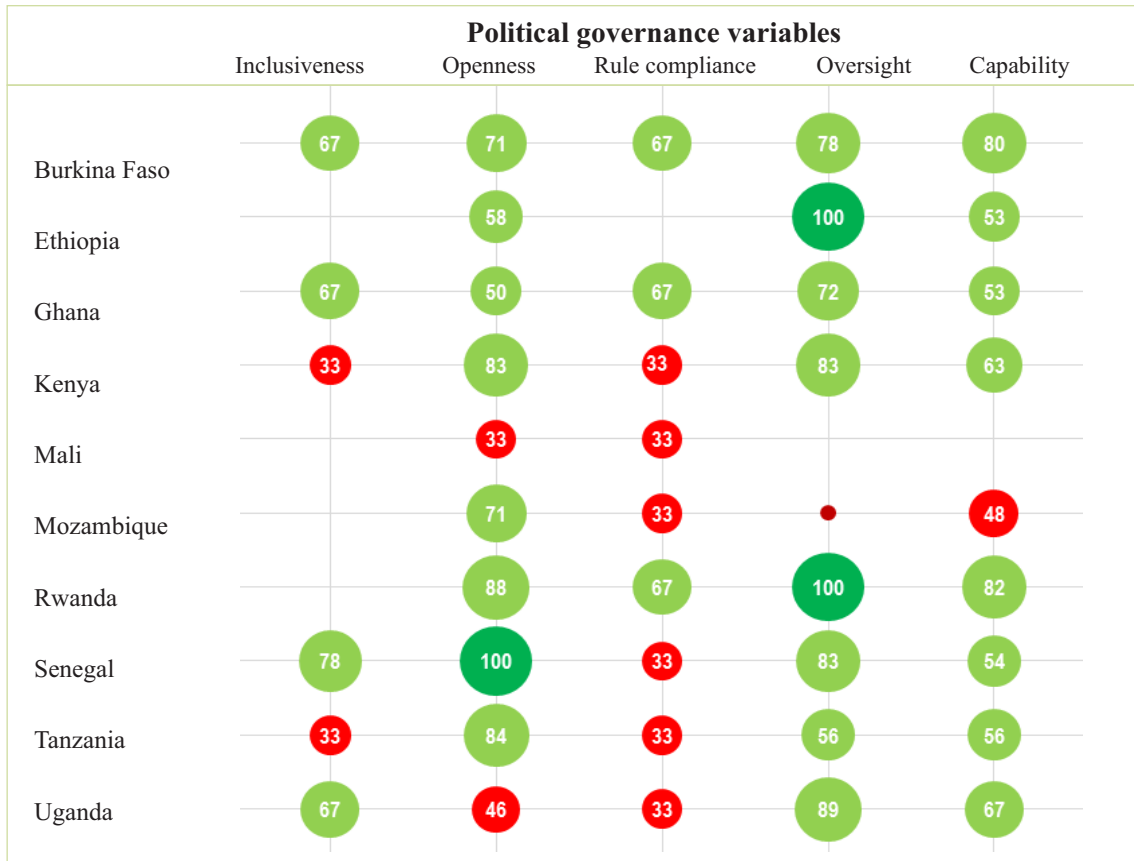
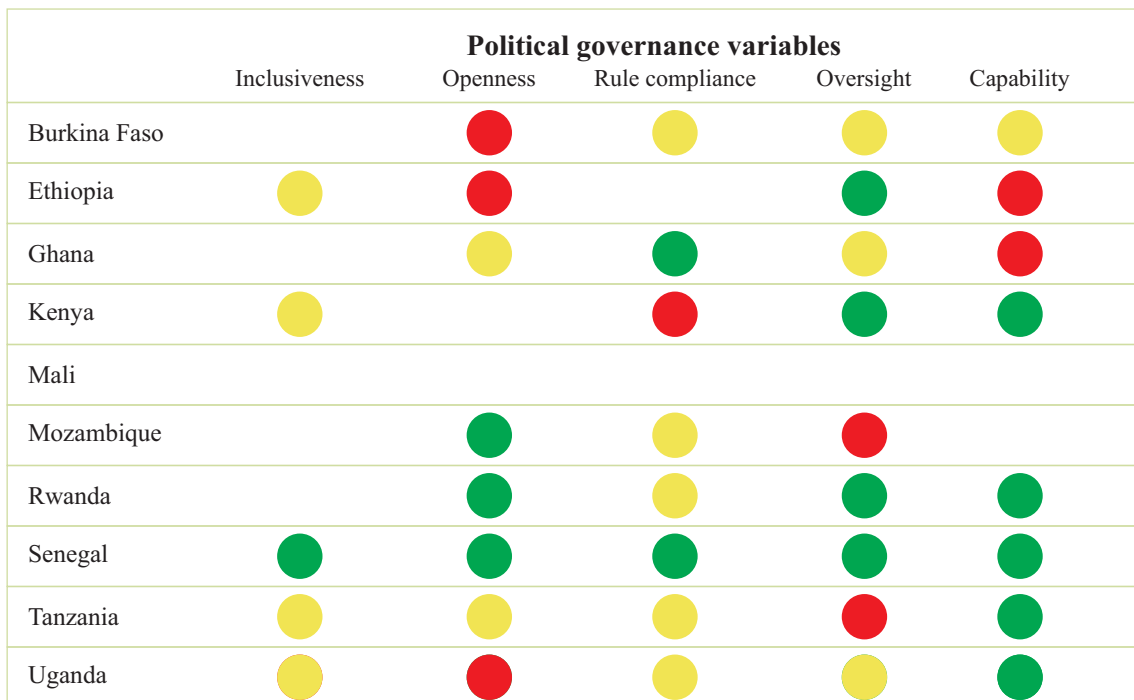


Figure 3.6 Public procurement trends for the 10 AFGO pilot countries



Note: An empty cell means no data are available. Green = improving, amber = stagnant, red = declining

### **Openness**

Openness here is the degree of access to information on procurement, measured by the availability and distribution of information on public procurement in the media and supported by information technology.

Snapshot performance is good, with six countries scoring highly in the 70s and 80s, two having mid-level scores in the 50s, and only two countries falling below 50. The common factor in high-scoring countries such as Burkina Faso, Kenya, and Tanzania is the timely publication of information on public authorities' websites and the publication by some countries, including Kenya and Tanzania, of procurement journals with detailed information on current and upcoming government contracts, rules, and procedures for bidding, and information on how to make a complaint. Countries with functioning websites with relevant information but still scoring poorly, like Uganda, saw their scores reduced by limited internet access outside a handful of major urban areas. Countries with only periodic and nonsystematic means of disseminating such information, like Ghana, also scored poorly. Overall, however, this is an area of high performance, mainly because many countries have made solid efforts to maintain websites properly, giving private actors and the public access to much-needed information on procurement.

The trend is positive, with three countries improving, three declining, and two stagnant; Kenya has data for only one year, and so no trend could be drawn. In Rwanda, Law No. 12/2007 on public procurement helped to put in place reforms, which explains its improving trend, as the law lays great emphasis on ensuring public access to public procurement information. This also includes an independent administrative procurement review process for handling procurement complaints before contracts are signed and for providing reports on outcomes. Further amendments to the law and ministerial orders have strengthened both the process and the Rwandan Public Procurement Authority. In Mozambique, too, laws have supported reforms, helping take up the score dramatically from 50 in 2006 to 75 in 2011. That country's Decree 54 of 2005 established a procurement unit in the State Assets Directorate that, as part of its responsibility, ensures that rules and regulations on public procurement are readily available to all interested parties.

### **Rule compliance**

In public procurement, rule noncompliance is deviation from good practice, and is measured by instances where the procurement of goods and services has not

followed an open and competitive process. This is an area of poor snapshot performance as only three countries report scores in the 60s, and six report scores in the 30s; Ethiopia has no data. Countries like Uganda (scoring 33) found that its local authorities and regional government bodies frequently lacked the experience and capacity to properly supervise procurement, even though they were responsible for awarding public contracts. Cumbersome rules and short-term needs often caused the violation of normal procedures, as with the Kenyan Medical Supply Authority. Some sectors like defense, with its more opaque contracting processes, saw abuses in Mali, where contracts for the army fighting a counter-insurgency in the north were conducted in secret, leading the Accounts Section of the Supreme Court and the Office of the Auditor-General to conclude, after an investigation, that many irregularities had occurred. A significant issue is ensuring that all branches and levels of government responsible for awarding public procurement contracts can do so competitively and transparently.

This variable shows a largely stagnant trend overall, with two countries improving, one declining, and five stagnant.

### **Oversight**

Oversight is here defined as and is measured by whether there is a regulatory body to oversee public procurement, whether auditors have sufficient knowledge about procurement requirements to conduct quality audits, and whether there is a legally mandated mechanism to monitor the assets, income, and spending of public procurement officials.

Snapshot performance is very good: two countries score 100, five attain scores in the 80s and 70s, and only two countries have relatively low scores—Tanzania 56 and Mozambique 0; Mali has no data. The reason for the high scores is that most countries, like Burkina Faso, Ethiopia, Rwanda, and Uganda, have independent regulatory bodies to oversee and monitor public procurement. In some countries, such as Ethiopia, these bodies perform extremely well, as they are well staffed by capable staff; in others, such as Burkina Faso, they receive their influence by being attached to the executive branch, such as the prime minister's office. Mozambique has no such body, and public contracts are submitted to an administrative court simply as an ex post procedure, where the contractor seeks a “no objection” approval to provide the goods or services. The procurement process itself is unregulated and not examined, and there is virtually no oversight.

The trend performance is positive overall, with four countries improving, two declining, and three stagnant. Ethiopia scored 100 from 2007 to 2010, again owing to the robustness of its audit institutions. The audit wing of the Federal Public Procurement and Property Administration Agency conducts annual audits on the 80/20 sampling principle, where it focuses on the top 20 percent of procuring agencies by expenditure every year and the remaining 80 percent every two years. A disciplined regulatory body is essential for high scores, which is also why Rwanda has scored 100: its Rwandan Public Procurement Authority supported by new legislation (such as Law 05/2013 and Ministerial Order No. 001/14/10/TC), conducts regular and thorough audits of procurement agencies, and monitors its procurement officials' assets and incomes.

### **Capability**

In public procurement, capability is the enforcement capacity of the regulatory body overseeing public procurement, measured by the prohibition of companies found guilty of violating procurement rules in further procurement bids and the full independence and authority of complaint review bodies to resolve complaints.

Snapshot performance is satisfactory, with two countries scoring in the 80s, six in the 50s and 60s, and one 48; Mali has no data. Countries that perform well, such as Burkina Faso (80), implement strict sanctions on companies found guilty of violating procedural guidelines. In other countries, like Ethiopia (53), while such companies faced sanctions and were barred from competing for future contracts, refusal to name the companies involved or to reveal the reasoning and nature of the violation is a missed opportunity to demonstrate transparency and to instill confidence in the regulatory framework. Uganda, which has a central regulatory body, lacks such institutions at the regional level, giving monitoring and sanctioning limited reach. The low score of Mozambique (48) reveals a country showing little success in sanctioning companies found guilty of such behavior; indeed, many of those found making such violations continue to bid for public contracts.

While the overall performance of the countries in this indicator is satisfactory, more work needs to be done in strengthening and expanding the scope of such regulatory bodies, to discipline firms that engage in illicit behavior or constantly violate procedural norms, and to enable firms that adhere to such guidelines to have confidence in the system.

The trend is positive, with five countries improving, two declining, and one stagnant; Mali and Mozambique have no data.

### **Internal controls**

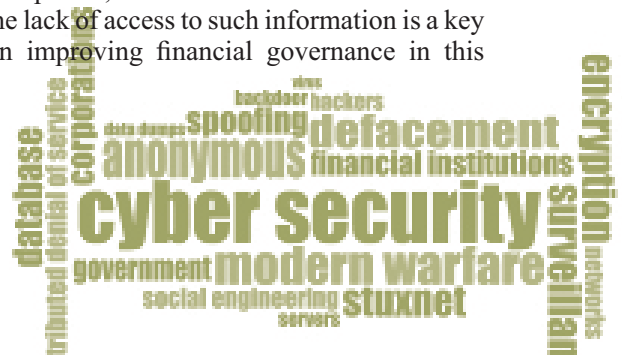
Internal controls are laws, regulations, procedures (including those safeguarding assets), internal control standards, reporting, and internal audit.

### **Inclusiveness**

In this financial governance dimension, inclusiveness is public participation in internal controls, measured by whether citizens can legally access asset disclosure records of senior civil servants and whether they can do so within a reasonable time-frame and at reasonable cost.

Snapshot performance is poor, with five countries scoring 0, two less than 50, and a highest score of only 58, in Uganda (figure 3.7). Uganda reports that, although the auditor general's report and parliamentary discussions on the topic are available to the public, in practice access is limited owing to time constraints and lack of awareness. For other countries the situation is worse: in Mozambique, while such information is collected on the assets of senior civil servants, the public do not have access to it legally and are made aware of discrepancies only when such information is leaked to the media and leads to scandal. In Kenya, while such audit reports are also legally accessible, interminably long delays and poor access in practice limit their usefulness for citizens. Few countries have made such information legally accessible to their citizens, and even in those that have, in practice constraints of time, cost, and restricted access prevent citizens from using such information to scrutinize the records.

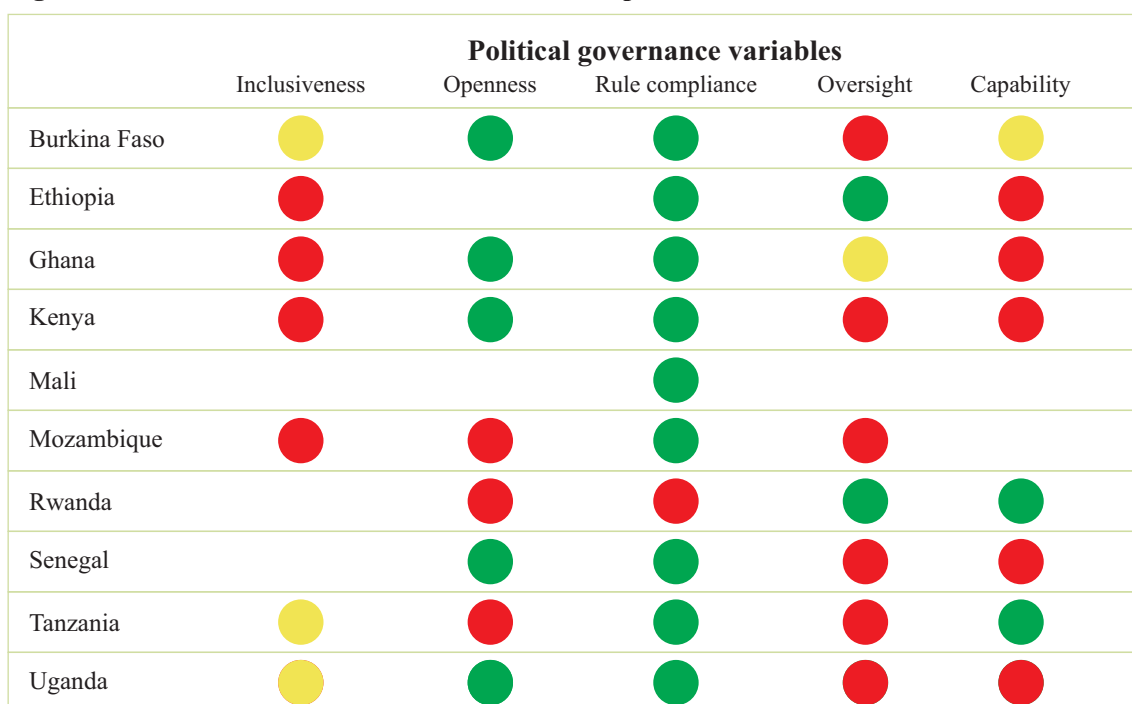
The trend performance is regressing, with four countries declining and three stagnant; Mali, Rwanda, and Senegal have no data (figure 3.8). Mozambique failed to improve its 0 from 2007 to 2011, and its public has no access to asset records of civil servants or politicians. Even measures to introduce some monitoring, such as the requirement for any member joining the cabinet to fill in a declaration of assets, are largely redundant because such records are not put in the public domain. Even when such information is opened to the public, as when the Federal Ethics and Anti-Corruption Commission in Ethiopia registered the assets of over 9,000 officials, these were manually compiled paper records, and so accessing them proved hard for the public, and so the measure has limited impact. The lack of access to such information is a key obstacle in improving financial governance in this variable.



**Figure 3.7 Internal control snapshot for the 10 AFGO pilot countries**



**Figure 3.8 Internal control trends for the 10 AFGO pilot countries**



Note: An empty cell means no data are available. Green = improving, amber = stagnant, red = declining

### **Openness**

Here, openness is the availability of information on expenditure, measured by citizen access to detailed expenditures for individual programs beyond what is presented in the formal budget.



This is another political governance variable having a poor snapshot performance—with four countries scoring 0, one 33, three in the 60s, and only one 100—because of the opaqueness with which line ministries and other public bodies operate. In Tanzania, the lack of a freedom of information act hampers citizen ability to access such information. Even in Mali, where citizens can access that information, it is available only in hard copy at the National Library, where photocopies need to be made, at prohibitive cost. None of these countries have put the information on the internet. The only country scoring 100, Burkina Faso has also made sterling efforts to increase awareness among its citizens of detailed program expenditure, producing a daily procurement review for the public. Still, most countries need to improve making such information legally and practically accessible to their citizens.

The trend is mixed, with five countries improving and three declining; Mali and Ethiopia have no data. Countries such as Ghana recorded steep improvements from 33 in 2008 to 67 in 2012 by making information on budget expenditure routinely available to the public on the ministry of finance website. Other countries such as Tanzania show a negative trend despite the ministry of finance having set up an expenditure tracking system for the delivery of final services, because the lack of a clear methodology and of access to such reports by the public limit its impact.

### **Rule compliance**

In this dimension, rule compliance is the effectiveness and adherence to an internal control framework, measured by the effectiveness of internal controls for non-salary expenditure, the overall effectiveness of internal auditing, the existence of regulations preventing nepotism, cronyism, and patronage in the civil service, and the presence of internal mechanisms to allow civil servants to report corruption.

Snapshot performance is very good, with two countries scoring 100, two in the 70s, two in the 60s, and a lowest score of 50, which is relatively high for a low score. The prevalence of computerized systems on non-salary expenditure and formal institutions having an audit department attached to each ministry and public body (as in Ethiopia and Uganda) lead to the high scores. Many countries also have formal mechanisms, such as an ethics officer in each department or legal protection such as a whistleblower's act in Ghana, which extends protection and opportunity to civil servants wishing to report corruption in their departments or ministries.

On the trend, nine countries are improving, and only one is declining. Burkina Faso saw a sharp improvement from 34 in 2007 to 67 in 2014, supported by reforms to its internal audit procedures, which cut the average time between request and receipt of payment by half, from 63 to 31 days in ministries with these units. Similarly, internal audit units monitored by the Inspection Directorate of the ministry of finance in Ethiopia support strict expenditure controls and a monitoring system that does not allow for any irregularities when processing transactions. Other countries reflect similar trends, such as Mozambique, where the Inspector General carries out frequent and exhaustive audits, and Kenya, which has introduced ministerial audit and risk management committees, information technology-supported audits, and best practice procedures in internal audits.

### **Oversight**

Oversight here is the comprehensiveness of oversight activity, measured by the scope, nature, and follow-up of external audit and whether the asset disclosure records of senior civil servants are audited independently.

Snapshot performance is mixed: two countries score 86 and 69, two score 50, and the other six score less than 20 (one of them scores 0).

Trend performance is largely negative, with six countries declining, two improving, and one stagnant; Mali has no data. Legislation for independent audits of the completed asset disclosure forms of senior civil servants accounts for Ethiopia's sharply improved score from 17 in 2007 to 50 in 2010, though as the Federal Ethics and Anti-Corruption Commission notes, independent verification of the assets registered was limited, and there was debate as to whether the verification and audit of the assets were within the remit of the Office of the Federal Auditor-General. In Rwanda, the Organic Budget Law and the ministerial instructions and ministerial orders specify the role of

civil servants and the mechanisms to monitor their behavior, such as asset declarations to audit agencies and verification of such information, improving the score from 64 in 2008 to 86 in 2010.



Other countries, such as Tanzania, report less success, despite having similar mechanisms in place, largely because the follow-up of internal audit findings is patchy and often delayed. Lack of an effective centralized audit mechanism makes it hard to systematically monitor all the government agencies and departments to the same degree, and is one reason why Tanzania's score

fell from 39 in 2006 to 17 in 2013. Similar issues underpin the negative trend in Burkina Faso, where audits focus only on the main central government bodies, which account for less than half of government expenditure and where a lack of resources affects the Audit Court's competencies and functions.

### **Capability**

Capability in internal controls is action against unethical and illegal behavior, measured by whether, in practice, civil servants convicted of corruption are prohibited from future government employment and whether civil servants are protected from political interference.

Snapshot performance is poor: three countries score in the 50s, and six score in the 20s and 30s; Mali has no data. Despite formal bars to employing civil servants found guilty of corruption, countries such as Ethiopia and Ghana report that, in practice, they have been hard to enforce, and these civil servants still find government jobs. Moreover, in countries with predominant political parties, like Ethiopia, or an over-bearing executive, like Ghana, there are few real protections for civil servants from political interference. In other countries, such as Uganda, civil servants are barred from government employment only if found guilty of criminal acts, not corruption. The low scores here indicate a serious issue with weak restrictions on re-employing civil servants found guilty of corruption, and that political interference is a fundamental problem.

The trend is largely negative, with five countries declining, two improving, and one broadly stagnant; Mali and Mozambique have no data. Ethiopia's score

fell from 50 in 2006 to 25 in 2010 owing to the predominance of a single party that has penetrated the civil service. Civil servants are openly affiliated to that party, impairing efforts to protect the civil service from political influence.

### **External oversight**

External oversight comprises the institutional arrangement for independent auditing by the supreme audit institution (SAI), the role of legislatures in scrutinizing the government's actual expenditures, and the contribution of civil society and independent bodies in overseeing the use of public resources.

### **Inclusiveness**

In this financial governance dimension, inclusiveness is the level of interaction with the public, measured by whether the SAI maintains formal mechanisms of communication with the public to receive complaints and suggestions on its audit programs.

Snapshot performance is extremely concerning as eight countries score 0, and Tanzania scores 100; Ethiopia has no data (figure 3.9). Countries that have not institutionalized a formal mechanism to enable interaction between the SAI and the public scored 0. Even Kenya and Mali, which show some interaction with the public—and whose SAIs can receive complaints from the public, and make their investigations and findings available to the public—score 0 because they lack a formal mechanism. Only Tanzania has this mechanism for interaction between the Office of the Comptroller and Auditor General, not only to receive complaints but also suggestions from the public on how to undertake and shape its audit programs. Remedying performance in this area will be fairly simple, entailing institutional reform to introduce such a formal mechanism and to ensure that it functions properly.

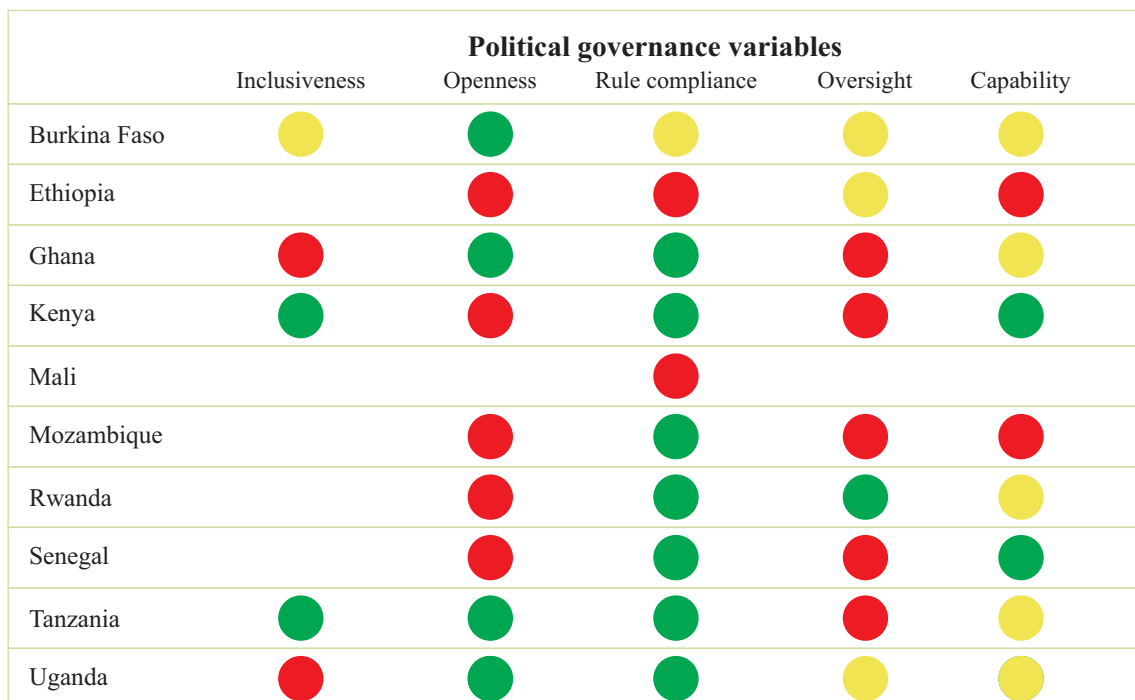
Trend performance is mixed, with two countries improving, one stagnant, and two declining; Ethiopia, Mali, Mozambique, Rwanda, and Senegal have no data (figure 3.10). The lack of a mechanism to communicate with the public affects this indicator, as in Burkina Faso, which lacks one, and Uganda, where the focus of audit institutions is interactions with parliament rather than the public. In Tanzania, despite starting from a low base, the willingness of the SAI to take suggestions from the public has shown an improving trend; citizens can also communicate with the Comptroller and Auditor General's office through a formal mechanism.



Figure 3.9 External oversight snapshot for the 10 AFGO pilot countries



Figure 3.10 External oversight trends for the 10 AFGO pilot countries



Note: An empty cell means no data are available. Green = improving, amber = stagnant, red = declining



### **Openness**

Openness here is public access to audit reports, measured by whether the public has access to the SAI's reports, whether the executive issues accessible reports on any remedial steps it is taking, and whether either the legislature or the SAI issues reports to the public, monitoring executive action on recommendations in audit reports.

Snapshot performance is not impressive, as only two countries—Ethiopia (83) and Mozambique (72)—score highly. Four score in the 60s and 50s, and four score below 50, with two of them—Mali and Senegal—scoring 0 because, although their SAIs conduct investigations and write reports, they are not made available to the public, and there is no follow-up reporting by the executive or monitoring made accessible to the public by the legislature. In contrast, Ethiopia has audit reports presented to parliament for discussion after which they are published and become public documents, placed on the web.

The trend is mixed, with five countries declining and four improving; Mali has no data. Some countries, such as Ethiopia, declined even though the SAI publishes regularly updated audit reports on its website. In Tanzania, where once an audit report is presented to parliament and becomes a public document, improved access accounts for the positive trend.

### **Rule compliance**

In this dimension, rule compliance is defined as the independence of the audit agency and is measured by whether the head of the audit agency is protected from removal without justification.

Snapshot performance is relatively strong with four countries scoring 100, one 75, and four 50; Mali has no data. The limitation of political influence on the position of the audit agency with support from the public accounts committee (PAC) in parliament, as in Uganda, and strong legal protection, as in Kenya, where the comptroller and auditor general can be

removed only under specific circumstances set out in the constitution, and then only by the president on the recommendation of a tribunal, explain the maximum score for these countries.

Similarly in Tanzania (100), the auditor general's position is protected by the constitution, and while the president can remove the auditor general without the permission of the judiciary or the legislature, he can only do so after appointing a committee with a judge as the chairperson, from a Commonwealth country, to conduct an investigation and render a conclusion, which is binding. In Ethiopia (50), while the Office of the Federal Auditor-General has some operational independence, its administrative and budgetary dependence on other ministries means that it falls under the influence of line ministries like the ministry of finance or the ministry of the civil service. Strong legal provisions that offer protection to the position of the audit agency, especially if enshrined in the constitution, are associated with the best performance on this indicator.

Trend performance is very good, with seven countries improving, two declining, and one stagnant. Legislative protection guaranteeing independence, such as the Public Audit Act in Kenya that strengthened the Kenyan National Audit Office and made it more independent, and Law No. 79/2013, which stipulates the independence of the Office of the Auditor-General from the executive in Rwanda, are important here. In Ethiopia, a declining trend is partly explained by the government's failure to act on the findings specified in the Office of the Federal Auditor-General's report and the dismissal of the auditor general in 2006, arbitrarily, without the decision of the House of People's Representatives (HoPR) as required by law.

### **Oversight**

In external audit, oversight is the level of scrutiny and follow-up of audit activities, measured by the legislative scrutiny of external audit reports, the timeliness of examination of audit reports by the legislature, the extent of the legislature's hearings on key findings, and the legislature's issuance of recommended actions and their implementation by the executive.

Snapshot performance is weak: only one country scores 66, four 50, three 17, and two 0. Delays are a crucial factor: weak performance in Uganda stems from long delays in examining audit reports and issuing recommendations, aggravated by a lack of technical teams and experts to assist legislators in going through the published documentation. Tanzania's low score also reflects delays: examination of the report from the National Audit Office begins 11

months after it is submitted and takes at least four months, such that in none of the last three years has the PAC in parliament issued its report within 12 months of receiving the report from the National Audit Office.

Trend performance is extremely poor, with five countries declining, one improving (Rwanda), and three stagnant; Mali has no data. The reports of Rwanda's Office of the Auditor-General are submitted to the PAC in parliament, which usually completes its examination within eight months, well within the statutory period. The PAC invites cabinet ministers, directors-general of boards, and others for questioning. It then writes a report with recommendations, which are presented to the plenary session of the chamber, and then passed over to the executive for action. In Ethiopia, although the quantitative data indicate a stagnant trend, due partly to government failure to take action against officials charged with financial irregularities as identified in audit findings, there have been improvements in scrutiny and follow-up of audit findings by the legislature. In most other countries, delays in receiving the audit reports and inability to examine them within a reasonable period cause the declining trend.

### **Capability**

Capability here is the independence of oversight bodies, measured by the degree to which the anticorruption agency and ombudsman are, in practice, protected from political interference and whether the judiciary can function independently.

Snapshot performance is weak, with the strongest country scoring only 58, three scoring 50, one 42, and the others less, with the lowest 12; Mali has no data. Countries that have not scored very poorly, Uganda for example, saw weak collaboration and follow-up by oversight bodies as the main reason for undermining capability, although the judiciary, once sanctioned, showed enough independence to follow through on prosecuting and judging cases. In Ethiopia, political interference with the Federal Ethics and Anti-Corruption Commission fed through to the low score of 25. The strength of the executive and the ruling party in Uganda circumscribed the independence of oversight bodies and prevented them from taking corrective action when national audits raised discrepancies. The difficulty in overcoming this obstacle is shown by the weak performance of most AFGO pilot countries on this indicator.

Trend performance is mixed, with two countries improving, five stagnant, and two declining. Staff capacity has constrained the independence of oversight bodies in, for example, Rwanda, despite a

commitment from the government to maintain their autonomy. Political interference in Ethiopia has undermined their ability to function independently.



### **Conclusion**

Over the last 20 years, interventions by national governments and external institutions have boosted country performance, whether at a single point in time (snapshot) or over multiple points (trends). Areas of gain include building regulatory institutions, creating greater transparency for budgetary and revenue expenditure, recognizing the need for greater accessibility of information and public participation, and using modernized accounting and record-keeping systems. Much room for improvement remains, however. It is therefore recommended to have a comprehensive approach that addresses all aspects and parts of PFM systems to ensure good and sustained financial governance.

First, the role of **internal accountability mechanisms in PFM systems** is critical. PFM systems and ministries, departments, and other government spending and collection bodies need such internal mechanisms and procedures to ensure accountability, transparency, and the monitoring of financial activities to check misuse of funds or administrative procedures leading to rent-seeking. These mechanisms and procedures are the first line of defense protecting PFM systems.

Second, **legislative oversight** is important for making progress in African financial governance. It is crucial that the legislature holds the executive to account over the budget and uses bodies such as public accounts committees to monitor government spending and taxation and to bring government malfeasance to light, dealing with it appropriately. The legislature remains a check on the financial power of the executive.

Third, **more public participation** is essential. Where the budgetary and revenue processes include civil society organizations, ordinary citizens, and other key actors in the private sector, these external agents help formulate policy, provide feedback, and take part in the

general process of governance, with a positive impact. This engagement strengthens the fiduciary relationship between citizens and the state—the heart of good financial governance. It also improves the effectiveness of state policy, increases compliance, and enables the government to reach its PFM targets.

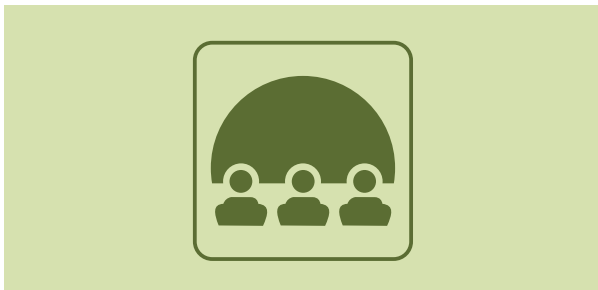
Fourth, more resources need to be devoted to capacity development, with interventions tailored by country, to meet the demands of reform facilitators and

dissenters. Investments should be directed to addressing the data and statistical challenge critical for the future of PFM and the AFGO project. For Africa's capacity development efforts in PFM to be sustainable and contribute to sustainable development, they must be owned and managed by African countries as well as African institutions with the experience and knowledge of the African PFM landscape—not just by development partners, who should play only a supporting role.

# CAPACITY DEVELOPMENT FOR PUBLIC FINANCIAL MANAGEMENT



## ■ CHAPTER 4: CAPACITY DEVELOPMENT FOR PUBLIC FINANCIAL MANAGEMENT



Most academics and development partners seem to find that a well-functioning public financial management (PFM) system is a prerequisite for sustainably executing policies on socioeconomic development and good governance (Andrews et al., 2014; GIZ, 2015; Lucia, 2015; World Bank, 2016). Sound PFM policies and practices provide responses to greater economic openness and the resultant globalization of public goods, equity in development, fair access to public service, and poverty reduction (ACBF, 2005). However, rules and regulations must be in place to ensure sound public financial management so that domestic resources promote inclusive and sustainable development (ACBF, 2015). Against this backdrop, this chapter highlights the critical capacity issues for PFM in Africa, drawing on the earlier discussions.

### Definitions

Capacity comprises the ability of people, organizations, and society to manage their affairs successfully, including to set goals and achieve them; to budget resources and use them for agreed purposes; and to manage the complex processes and interactions that typify a working political and economic system. Capacity is most tangibly and effectively developed for specific development objectives such as delivering services to poor people; instituting education, public service, and health care reform; improving the investment climate for small and medium-size enterprises; empowering local communities to better participate in public decision-making processes; and promoting peace and resolving conflict (ACBF, 2011: 30–31). This definition of capacity is both dynamic and instrumental, taking into account abilities to perform at individual, organizational, and societal levels (Grindle and Hilderbrand, 1995; Hope, 2009; ACBF, 2014).

Capacity development is the process for these three levels as a whole to create, strengthen, maintain, and adapt capacity over time (ACBF, 2011). It is essentially the enhancement of the competencies of individ-

uals, public and private entities, civil society organizations, and local communities to sustainably engage in activities for positive development impacts, such as reducing poverty or improving governance quality (OECD, 2011a; b; UNECA, 2014).

Capacity development is therefore not a standalone training intervention but is instead a strategically coordinated set of activities. It is much more than improving the abilities and skills of individuals (OECD, 2006b; ACBF, 2015). For Africa's capacity development to be durable and contribute to sustainable development, it must be owned and managed by African countries—not by development partners, who should play only a supporting role (Gyimah-Brempong et al., 2012; UNECA, 2014).

### State of capacity development for public financial management

The state of capacity development for PFM in Africa is mixed, as seen in the five financial governance dimensions of the *African Financial Governance Outlook* (AFGO) project.

#### *Budget governance*

This dimension has improved in only a few countries, failing to garner aggregate positive assessments. Still, basic documents are published in most countries, and the trend is positive. Public expenditure and financial accountability assessments, under comprehensiveness and transparency, have similar findings for most countries. Stagnation, with a negative trend, has been observed for unreported government operations. Budgetary oversight and anticorruption are increasingly recognized (Andrews et al., 2014). Some efforts have been made to establish transparent and comprehensive budgeting procedures, especially medium-term expenditure frameworks (ACBF, 2010).

#### *Revenue governance*

Revenue mobilization has seen some encouraging results but not enough to meet Sub-Saharan Africa's development needs (ACBF, 2015). Enablers include new value-added tax systems, administration authorities (introducing electronic filing systems) and book-keeping systems, and nontax systems that alleviate constraints facing taxpayers, in some cases bringing in about 15 percent more tax revenue than expected by the “tax revenue index” (Le et al., 2014).

Yet more innovative efforts are needed, such as the new Tax Administration Diagnostic Assessment Tool

developed by the European Union, International Monetary Fund, World Bank, and the governments of Japan, Netherlands, Norway, Switzerland, and the United Kingdom. This tool aims to assess gaps and prepare a road map for modernizing tax administration, reduce the cost of compliance, and enhance revenue collection. It has been piloted in eight countries with positive results, but must be rolled out elsewhere in Sub-Saharan Africa (World Bank, 2016).<sup>3</sup>



### **Public procurement**

Some of the preventive measures in 10 African countries include setting and enforcing clear regulations and transparent procedures in public procurement, covering e-procurement; establishing procurement bodies or agencies; and boosting education and public awareness of corruption in public procurement.

Despite these measures, corruption in this dimension persists in most countries, largely because public procurement has moved from being an administrative function to becoming a strategic responsibility. Nor has procurement been fully aligned with the strategic vision and objectives of most governments. Moreover, at the operational and capacity levels, procurement is a process that requires an array of skills, guided by ethical and accountability principles, which demands staff whose job is not only to apply the rules but to be able to operate within a sophisticated market of ever-increasing commercial and technological complexity. Few countries, however, have the array of personnel to deal with the complexities of procurement.

### **Internal control**

There are opportunities for effective PFM through the constitutional and legal framework and international conventions and instruments, including democratization, for improving accountability in the long run and efforts to improve aid effectiveness through aid realignment and greater reliance on national systems (OECD, 2011b).

A current trend in some countries and supported largely by the World Bank, is the passage of new PFM legislation.<sup>4</sup> The key principles are credibility,

transparency, accountability, and results (ACBF, 2010; Andrews et al., 2014).

### **External oversight**

The World Bank enumerates efforts to strengthen independent audit oversight entities, and to develop annual budgets with fiscal year forecasts, budget proposals, and previous year outcomes to facilitate accountable governance in Africa (World Bank, 2016). Initiatives include enhancing budgetary oversight and fighting corruption—the founding pillars of the PFM system. The weak role of parliament and of supreme audit institutions (SAIs) is a recurrent feature, however, despite increasingly active African legislatures attempting to counter executive action.<sup>5</sup>

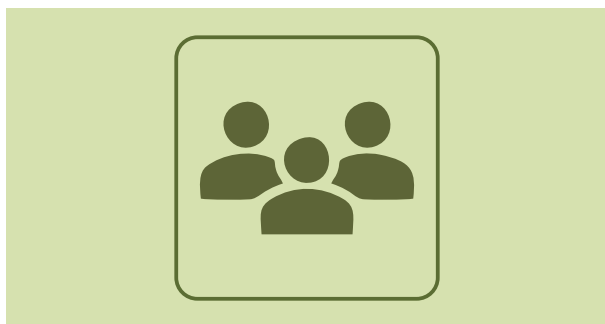
In Africa, almost all countries pay obeisance to the convention that the legislature has the sole power to authorize expenditure (even if this is done retrospectively). But this role is weakened by a pattern of strong executives; a failure to follow legislative procedures by the executive; and an unwillingness of most legislatures to engage in policy debate, prompting the World Bank and other institutions to promote targeted capacity development (ACBF, 2005; Krause et al., 2016).

External audit is more developed in Anglophone than Francophone countries (Sarr, 2014). In the Francophone system, external audit is a judicial function, with a chamber of accounts or court of accounts part of the judicial system. Audits focus on judicial accountability. As a judicial entity, the SAI has a distant relationship with parliament and is not fully independent of the government. Financial dependency is determined by the chamber's relationship with the supreme court. Further, external audits have jurisdictional powers, auditors have legal backgrounds, and the focus of audits tends to be on compliance.

Most Anglophone countries have an SAI with a single head (the auditor general). The SAI is accountable to parliament and is in theory (if not in practice, as seen) independent, with financial independence from government but dependent on parliament to enforce audit findings. Staff members are typically qualified accountants and auditors, and the audits tend to focus on financial or value-for-money audits, less on compliance with rules and regulations (Sarr, 2014; GIZ, 2015).

Although the role of SAIs and parliaments has become much more visible in financial governance in recent years, accountability and anticorruption performance readings still show mixed results. And even if most African governments have signed and ratified the

United Nations Convention Against Corruption (UNCAC), and the 38 signatories in Africa have undergone the UNCAC review procedure, very few reports—contrary to the UNCAC target—are published.



Since 2007, Transparency International's Corruption Perceptions Index has improved in 40 of 52 African countries, but from a very poor base (Transparency International, 2015). More worryingly, accountability measured by the Ibrahim Index of African Governance with nine corruption-related indicators shows deterioration in two-thirds of African countries between 2009 and 2013 (IIAG, 2015).

One of the most important challenges for the legislature's work on the budget is the high turnover of members of parliament and their lack of expertise in public finance. Administrative support structures are thus crucial in enhancing budgetary oversight. An independent, nonpartisan source of budget information in parliament can help.<sup>6</sup> The African networks of public accounts committees have enhanced, a little, the role of parliaments. The main issue remains, however, the legislature's inability to control the executive owing to the “executive presidential” system in most African countries, and weak checks and balances (UNECA, 2016).

In short, accountability and anticorruption measurements still show mixed results despite initiatives, including those under the International Organization of Supreme Audit Institutions. Overarching and coordinated PFM strategies are lacking. Legislative limitations (including shifting business processes stemming from PFM reforms), capacity and skill gaps in human resources, and inadequate ICT infrastructure in the public sector are other bottlenecks (ACBF, 2005; Andrews et al., 2014; GIZ, 2015; World Bank, 2016).

## Conclusion

Two themes cutting across the five financial governance dimensions require urgent capacity development interventions: the inadequate political

will and support from politicians and policymakers; and the lack of involvement in PFM reforms of national institutions, think tanks, training institutions, parastatal bodies, and civil society organizations, which may be change facilitators or dissenters.

First, inadequate political will is problematic, as financial governance gains will not be seen without upper-echelon political commitment. African leaders have affirmed their strong commitment to the good financial governance agenda many times, but have yet to put it into practice.<sup>7</sup> High-level backup is often missing at ground level when good financial governance reforms are executed. Inadequate commitment and support for PFM are due to patronage and corruption. Capacity building efforts at transformative leadership and changing mindsets are critical (ACBF, 2015).

Good financial governance touches the interests of different groups—politically, regionally, and individually—and to be brought in under democratic conditions requires political bargaining and will take, as noted, many years. This will require supporting civil society and oversight institutions with evidence-based advocacy mechanisms.

More mundane but still crucial, public administration is not known for its dynamism, and the working conditions of many public servants are difficult: mediocre salaries, uncondusive working environments, and organizational bottlenecks that stymie personal initiative. So, even if a PFM initiative finds political support, implementation is tough without adequate institutional and human capacity within the civil service bodies that form the PFM planning and implementation chain.

Second, the noninvolvement in PFM of various bodies—facilitators or dissenters—also impairs progress. The executive branch as a whole can be positive or negative.<sup>8</sup> In most cases, the office of the president/prime minister has substantial influence on the profile of the budget and other fiscal and monetary policies. The two offices are staffed by both politicians and technocrats, but given the differences in their interests, tensions arise between the two groups, usually leading to the removal of the technocrats, given the politicians' greater power (Krause, 2012).

The ministry of finance is the key national institution that has championed PFM in most African countries. In a very basic sense, finance ministries are the custodians of public money. Given that public finances suffer from a “common pool” problem—everyone in government feels entitled to spend more than their



share in what the government as a whole should spend—finance ministries have acted as a counterbalance. They serve to pursue the fiscal policy objectives of the government and ultimately the entire public-funds policy agenda.

### The Way Forward

The need for coordinated capacity building in PFM is critical for African countries. Capacity development is not a standalone training intervention but is instead a strategically coordinated set of activities. It is much more than improving the abilities and skills of individuals but ensuring their retention and utilization on the continent as well as improving the institutional environments in which they operate. For Africa's capacity development efforts in PFM to be sustainable and contribute to sustainable development, PFM must be owned and managed by African countries as well as African institutions with the experience and knowledge of the African PFM landscape—not just by development partners, who should play only a supporting role.

Building on the key messages emerging from the Report, there is need to focus capacity building efforts on three levels: Institutional, organization and individual levels. This is because all parts of the PFM system must function effectively and efficiently—from formulation and planning, through to implementation, oversight and monitoring/accounting elements to ensure a high level of good financial governance.



#### ***Institutional levels:***

Financial governance is a fiduciary relationship between states and citizens in how public resources are managed. This relationship is critical in Africa as countries try to transform from discretionary to rule-based and transparent public financial systems. This transition depends heavily on the quality of public institutions, the capabilities of the state, and the fiscal foundations of state–society relations. PFM process is largely determined by the interactions of interest groups within the prevailing formal institutional arrangements and informal norms and practices.

Establishing successful accountability mechanisms within PFM systems requires not only having external oversight and regulatory institutions but also internal mechanisms and procedures within PFM systems and within ministries, departments, and government institutions

Areas of gain include building regulatory institutions, creating greater transparency for budgetary and revenue expenditure, recognizing the need for greater accessibility of information and public participation, and using modernized accounting and record-keeping systems.

#### ***Organisational levels:***

Independence of institutions responsible for designing, implementing, monitoring, overseeing, and enforcing rules is critical to good financial governance. Where these institutions—including ministries of finance and economic planning, audit authorities, finance inspectorates, tax and revenue authorities, procurement agencies, legislatures—are protected from political interference and can carry out their duties unimpeded, the beneficial impact on financial governance is notable. Where their independence is curtailed, overtly or covertly, the regulatory system is weakened and malpractices and rent-seeking proliferate. Ensuring the robust independence and strength of these regulatory institutions is a major work in progress in Africa and requires deliberate strengthening.

#### ***Individual levels:***

As will have been noted in the Report, even where PFM initiatives find political support, the design, implementation and oversight roles are impossible without adequate human capacity within the civil service bodies that form the PFM planning, implementation and oversight chain.

The identified human resource gaps are mostly located in ministries of finance and planning, accountant general and auditor general offices, and the legislature. They include finance officers, accountants, auditors, planners/economists, statisticians, procurement officers at the technical levels. While at the leadership levels, there is need to develop the soft capacities (for setting the strategy and transformative PFM agenda). These leaders include the Executive, the Legislators, principal secretaries, accountant generals, heads of departments and agencies, registrars in the judiciary, clerks in national assemblies and senates, chief officers in counties.

#### ***Roles of various actors***

In order to achieve these capacities at the various

outlined levels above, there will be need for coordinated efforts with various actors playing active roles. For Africa's capacity development efforts in PFM to be effective and contribute to sustainable development, they must be owned and managed by African Governments and be coordinated by African institutions with the experience and knowledge of the African PFM landscape —not just by development partners, who should play only a supporting role. The roles for the various actors include:

*Governments:* Providing the much needed political will by driving the PFM reform agenda and making public financial information on PFM reforms, government spending and taxation easily and widely available. This will improve the management of public resources and the ability of public to participate in financial decision-making and thereby engender transparency.

*Civil Society:* Advocating for design, implementation and review of PFMs based on well-researched evidence will help in promoting transparency and accountability by Governments in levels of collection and use of the financial resources.

*Academia/training institutions:* PFM is complex and requires specialization and access to information about government administration. Well researched information available to Government and civil society as well as a well-trained civil service would improve the efficacy of PFM reforms and engender a culture of transparency and accountability.

*Development partners:* Providing financial and technical resources especially around sharing of global best practices in PFM to African Governments and relevant stakeholders.

*Private sector:* Supporting African Governments with building the requisite PFM capacities at all levels as part of their responsible enterprising and corporate social responsibility. Building PFM capacities is also important for providing the necessary business environment for the thriving of the private sector itself.

*Role of capacity coordinating institutions:* Institutions like the African Capacity Building Foundation (ACBF) which have over a quarter century knowledge, expertise and experience of supporting public policy formulation, implementation and evaluation should step-in to provide coordinated capacity development interventions in the identified areas. Such interventions should be supported by key partners such as the African Development Bank, African Union, and the United Nations system in Africa who understand the significance of effective PFM in the continent's sustainable and inclusive socio-economic transformation agendas. Summarily, the report points to capacity as the missing link in effective design, implementation and review of PFM reforms on the continent. This will require coordinated capacity development interventions where institutions like the African Capacity Building Foundation with support of the African Development Bank can take lead. Otherwise, without credible PFM systems, achieving socio-economic transformation as espoused in Agenda 2063, Sustainable Development Goals and AfDB's High Fives would be far-fetched.



## APPENDICES

## ■ APPENDIX 1

# THE FIVE MAIN DIMENSIONS AND FIVE GOVERNANCE VARIABLES

### *Financial governance dimensions*

- **Budget governance**—the process of translating stated policies into the annual budgets and medium-term fiscal frameworks, as well as the quality of budget execution and reporting.
- **Revenue governance**—the process of determining tax revenue policy and administration of tax and nontax revenue collection, including states' fiscal capacity and citizens' voluntary compliance.
- **Public procurement**—the policies and systems for acquiring goods, works, and services, including arrangements for regulating and controlling public procurement.
- **Internal control**—legislation, regulations, and procedures, including those safeguarding assets; internal control standards; reporting; and internal audit.
- **External oversight**—the mix of institutional arrangements for independent auditing by supreme audit institutions, the role of the legislatures in scrutinizing the government's actual expenditures, and the contribution of civil society and independent bodies in overseeing the use of public resources.

### *Political governance variables*

- **Inclusiveness**—extent to which relevant stakeholders outside government, notably private sector and civil society, are able to participate and influence the rules that guide financial governance, set the agenda and policies as well as shape the execution.
- **Openness**—extent to which the process of governance is transparent with regard to sharing documents and other information that the public need in order to exercise its accountability role.
- **Rule compliance**—extent to which government and other public officials adhere to the formal rules applied to specific financial governance arenas and how well these rules are being enforced by relevant public bodies (e.g. courts, tribunals).
- **Oversight**—effectiveness with which parliament and specific oversight bodies for external audit purposes are able to perform their roles and responsibilities.
- **Capability**—political will and ability of governments to design and implement public policies for the common public good.

## ■ APPENDIX 2

# AFGO CONCEPTUAL FRAMEWORK AND METHODOLOGY

### AFGO's conceptual framework

The conceptual framework developed for the *African Financial Governance Outlook* (AFGO) incorporates recommendations from stocktaking exercises inside and outside the Bank, including the evaluation of the Bank's Country Governance Profiles (2006), the OECD–DAC Conference on Governance Assessments and Aid Effectiveness in London (2008), and the Roundtable on Governance and Anti-Corruption Assessments in Africa in Tunis (2008).

These forums highlighted the need for the Bank to develop a revised assessment tool that encapsulates the following: AfDB-United Nations Economic Commission for Africa (UNECA)-OECD *African Economic Outlook*, the AfDB-WEF *African Competitiveness Report*, and the OECD-DAC *Survey and Sourcebook of Donor Approaches to Governance Assessment* (2009). The Outlook is carving out its niche by focusing on financial governance assessment, complementing efforts by other development partners in Africa. It consolidates partnerships with key African institutions to strengthen the capacity of countries to collect and analyze data on financial governance.

The conceptual framework is also informed by lessons and experience from governance assessment tools, notably the African Peer Review Mechanism (APRM), UNECA's *African Governance Report*, the Mo Ibrahim Index of African Governance, Afrobarometer, and the Africa Governance, Monitoring, and Advocacy Project. These tools provide broad assessments of the quality of governance.

Other regional development banks have sought to tailor their own diagnostic tools to reflect the circumstances of their member countries. The Inter-American Development Bank, for example, focuses on a broad range of political governance indicators, and the Asian Development Bank a set of indicators on public administration. In the past decade, financial governance assessment tools have become less descriptive or subjective, and more evidence based and performance oriented.

However, as no tool applies a political economy approach to measuring trends in financial governance, recent moves in governance assessment show shifts in two key areas: from general comparative country assessments to more focused instruments of analysis (drilled-down diagnostic instruments); and from primarily quantitative measures to qualitative and contextual analysis. The first area has seen the emergence of a set of tools on the quality of economic governance, while the second entails a focus on political economy analysis. These shifts have also been influenced by the aid effectiveness agenda and the global partnership for effective development cooperation, which highlight assessment tools complementarity and harmonized governance.

The conventional approach to governance assessment tends to separate quantitative from qualitative analysis of governance, analyzing governance based on numerical measures and focusing on rating and ranking for country comparisons. The Outlook's “new generation” approach integrates political economy dimensions of financial governance, and combines quantitative and qualitative analysis (table A2.1).

**Table A2.1 Differences between conventional and new generation approaches to assessing financial governance**

Dimension	Conventional	New generation
<b>Approach</b>	Political and financial governance kept separate	Political and financial governance integrated
<b>Epistemic basis</b>	Assessment based on numerical measures	Assessment through generation of new knowledge and insights
<b>Methodology</b>	Quantitative and statistical analysis	Quantitative and qualitative analysis
<b>Application</b>	Focus on rating and ranking countries and/or institutions	Focuses more on trend analysis and trajectories of change
<b>Value added</b>	Precise and 'objective' numbers	Drivers of change and other determining variables will inform the priority and sequence for Bank's interventions, results monitoring and policy dialogue in the context of country strategy papers and AfDB Country Policy and Institutional Assessment (CPIA).
<b>Challenge</b>	Gaps between indicator and reality resulting in 'stylized facts'	Choosing among a myriad of potential explanatory variables

## The AFGO methodology

Ten countries were selected for the Outlook's study on which this flagship report is based: Burkina Faso, Ethiopia, Ghana, Kenya, Mali, Mozambique, Rwanda, Senegal, Tanzania, and Uganda. The selection criteria were countries that have acceded to the African Peer Review Mechanism (APRM). Within this pool, the aim was to represent several categories, including states in fragile situation, low- and middle-income countries, and the administrative legacy (English, French, or Portuguese). Data availability was also crucial, given the importance of secondary data to the Outlook, particularly from Public Expenditure and Financial Accountability (PEFA), Open Budget Index (OBI), Global Integrity Report, OECD Procurement assessments, and Afrobarometer (described in more detail just below).

The research methodology comprised three steps: Country Performance Analysis (see chapter 3); Financial Governance Trends and Reform Analysis (see chapter 3); and Political Economy of Financial Governance (see chapter 1). But although these three steps are presented separately, they are part of a continuous process. Information from each step is used to better understand the other two.

### Step 1

Step 1 (see chapter 3) involves desk research to generate statistical data for 25 financial governance indicators (see table 3.1). For each indicator, the research questionnaire and matrix identify one to six issues to investigate. As this is desk research, the data collectors use the secondary sources recommended in the research instrument. If they find a legitimate reason to deviate from the proposed data source for any question, they need to provide a detailed explanation of what other source(s) they have used, and why. For ease of convenience and logistical reasons, this Step 1 has been undertaken centrally by a data auditor who has examined the most up-to-date secondary sources, then used the research questionnaire and matrix to generate data, used to provide the bubble graphs for the 10 countries (see chapter 3).

A complete table of the research questions is in appendix 4, along with brief descriptions of secondary data sources for Step 1's data collection (Appendix 3). This questionnaire and matrix ask questions and provide secondary data sources that should be used to populate the Outlook's financial governance matrix (see table 3.1).

### Step 2

Step 2 (also see chapter 3) draws on the above data generated over a specified period to examine time-series profiles of the changes in scores. The results are

displayed on spider graphs in the Outlook's country reports, but for ease of presentation in this flagship report, they are tabulated here in a simple traffic light system. This is combined with an examination of the reforms in each of the financial governance dimensions and how well they have succeeded or failed in their objectives to explain the trend over time.

The information needed to undertake Step 2 was generated through qualitative research and analyzed using a political economy analysis. The main secondary sources included, but not limited to: the Public Expenditure and Financial Accountability reports (PEFA), Global Integrity (GI) surveys, OECD procurement assessments, OBI surveys, Afrobarometer, APRM, Mo Ibrahim Index of African Governance, and the AfDB-Collaboration African Budget Reform Initiative (CABRI) report on budget procedures and practices.

### Step 3

Step 3 (see chapter 1) applies a political economy analysis to the data generated in Step 1 to provide a qualitative assessment of financial governance and the dynamics behind the numerical scores by looking at *how* and *why* countries perform as they do.

This step is needed because, although the quantitative data generated in Step 1 are useful in answering, for example, if a country can meet its goals of fiscal discipline and optimal allocation of public resources, they provide less insight into how and why PFM processes and systems unfold the way they do. Political economy analysis is useful because the PFM process is largely determined by the interactions of interest groups within the prevailing formal institutional arrangements and informal norms and practices. These interactions shape the contours of PFM. Each interest group is motivated by a different set of incentives and capabilities, and faces different constraints.

Understanding the reasons behind observed budgetary practices and shortcomings, therefore, requires unpacking complex sets of economic, political, and institutional factors, and analyzing how these factors determine the behavior of state and non-state actors—and how they, in turn, influence financial governance. The challenge in Step 3, therefore, is to go beyond “What is happening in the PFM arena?” as answered in Step 1, and “How has it changed?” as dealt with in Step 2, to understand “Why is it happening?” and to present the findings as stylized facts.

The information necessary for Step 3 was generated through an extensive review of published documents and primary research using a range of techniques, including targeted surveys, face-to-face interviews,

stakeholder workshops, and expert panel discussions. The analysis rests on a multidisciplinary approach covering a country's social, political, economic, and legal spheres, and required analysts with a broad range of backgrounds in public finance, political economy, and social science.

Table A2.2 summarizes the phases, components, stages, and institutional actors in the 10 AFGO pilot countries

**Table A2.2. Phases, components, stages, and institutional actors in public financial management**

		Phase					
		Formulation and approval	Execution		Audit and oversight		
Component	Stage	Fiscal planning and budget preparation	Revenue management	Budget execution and procurement	Monitoring and inspection	Accounting and reporting	Scrutiny and oversight
Legal framework		PFMA, 2012, PFMA Regulations, 2015—Kenya	Exchequer and Audit act, PFMA, Value Added Tax Act, Kenyan Revenue Authority Act, Corporate Tax Act—Kenya	Public Procurement and Disposal of Public Assets Authority—Uganda	Public Audit Act, PFMA—Kenya	PFMA—Uganda	National Audit Act, Public Audit Act, PFMA—Kenya
		Budget Act—Ghana/Uganda	Ghana Revenue Authority Act—Ghana	Exchequer and Audit Act, PFMA Regulations—Kenya	Internal Audit Agency Act (2003), Audit Service Act—Ghana	PFMA, Public Audit Act—Kenya	Constitution—Ghana
		Organic Budget Law 2006—Rwanda	Tanzania Revenue Authority Act, Public Finance Act 2001—Tanzania	Financial Administration Act, Public Procurement Act, District Assembly Common Fund Act—Ghana	Constitution—Tanzania	Financial Administration Act—Ghana	Public Audit Act 2008—Tanzania
		Organic Law 2015, 2009 Decree on Budget Preparation, decree No. 2012-1171, establishing Memorandum of Economic and Financial Policies, 2016 Law establishing the amendment to the constitution—Senegal	Rwanda Revenue Authority Act 1998—Rwanda	Budget Act 2014, Revised Procurement Act 2014—Tanzania	Organic Budget Law, ministerial orders, Law Establishing the Office of the Ombudsman—Rwanda	Public Finance Act 2001—Tanzania	Law Establishing Office of Auditor-General and Public Accounts Committee 2011—Rwanda
		Financial Administration Proclamation 648/2009, Annual Budget Proclamation—Ethiopia	General Tax and Estates Code Law 2012-31—Senegal	Budget Manual of Procedure, Rwandan Public Procurement Authority Law, ministerial orders—Rwanda	Decree on Finance General Inspection—Mozambique	Financial management manual and guidelines 2014, ministerial orders—Rwanda	Integrated Financial Management Information System Regulation—Mozambique
		Law No. 008-2013/AN of April 23, 2013 on the Transparency Code of Public Finance Management—Burkina Faso	Financial Administration Proclamation 648/2009, Annual Budget Proclamation, Federal Government Procurement and Property Administration Proclamation No. 649/2009, Federal Public Procurement and Property Administration Agency directive 2010—Ethiopia	2011 Decree on the General Regulation of Public Accounting	Financial Administration Proclamations 648/2009 and 970/2016—Ethiopia	Decree 14.2014 on Accounting and Reporting—Mozambique	2012 Decree on Government Accounting Plan, Decree No. 341 Establishing the Government Financial Operations Table
		2013 Organic Law on Finance Acts—Mali	Decree of 2015 on the Public Procurement Code and subsequent texts—Mali	Law No. 008-2013/AN of April 23, 2013 on the Transparency Code of Public Finance Management—Burkina Faso	Law No. 008-2013/AN of April 23, 2013 on the Transparency Code of Public Finance Management—Burkina Faso	Law of 2014 on the Fundamental Principles for the Establishment, Organization, and Control of Public Services—Mali	2012 Law on Transparency Code in Financial Management, 2012 Organic Law on the Court of Auditors—Senegal
				Decree of 2015 on the Public Procurement Code and subsequent texts—Mali	Decree of 2015 on the Public Procurement Code and subsequent texts—Mali	Decree of 2014 on the Global Regulation of Public Accounting—Mali	Federal Democratic Republic of Ethiopia Constitution, Federal Auditor General Establishment Proclamation 669/2010—Ethiopia
							Organic Law of 2016 on the Supreme Court, Law of 2009 Establishing the Office of the General Auditor—Mali

		Phase					
		Formulation and approval	Execution		Audit and oversight		
Component	Stage	Fiscal planning and budget preparation	Revenue management	Budget execution and procurement	Monitoring and inspection	Accounting and reporting	Scrutiny and oversight
<b>Institutions</b>		<p>Ministry of Finance, Planning and Economic Development, National Planning Authority—Uganda</p> <p>Ministry of Finance, Chamber of Agriculture, Ministry of Planning, MDAs, Parliament, Intergovernmental Budget and Economic Council—Burkina Faso, Ethiopia, Ghana, Kenya, Mali, Mozambique, Rwanda, Senegal, and Tanzania</p>	<p>Ministry of Finance, Planning and Economic Development (tax policy), Tax Appeals Tribunal, MDAs, and LGs—Uganda</p> <p>Kenyan Revenue Authority, Ministry of Finance, Central Bank, Parliament—Kenya</p> <p>Ghana Revenue Authority—Ghana</p> <p>Tanzania Revenue Authority—Tanzania</p> <p>Rwanda Revenue Authority—Rwanda</p> <p>Mozambique Revenue Authority—Mozambique</p> <p>Directorate-General of Taxes, Estates, Directorate-General of Customs</p> <p>MoFEC, Ethiopian Revenue and Customs Authority, and regional revenue authorities—Ethiopia</p> <p>National Office for Land and Estate—Mali</p>	<p>Ministry of Finance, MDAs, Judiciary, Parliament—Ghana, Kenya, and Tanzania</p> <p>Rwanda Public Procurement Authority—Rwanda</p> <p>Treasury and the Central Procurement Unit – Senegal</p> <p>Public Procurement Regulatory Authority, Public Procurement Central Directorate—Senegal</p> <p>Public Procurement and Property Administration Agency, Public Procurement and Property Disposal Service—Ethiopia</p>	<p>Internal Audit BMAU Inspectorate—Uganda</p> <p>Ministry of Finance, Parliament, Ministry of Planning, controller of budget, Kenya National Audit Office—Kenya</p> <p>Ghana Audit Service, internal audit agencies within MDAs—Ghana</p> <p>Internal audit units in MDAs and LGs, comptroller and auditor general (external audit), Parliamentary Administration—Tanzania</p> <p>Office of the Auditor-General, Office of Prosecutor-General, Government Action Coordination Unit, Office of the Ombudsman—Rwanda</p> <p>Finance General Inspectorate and Administrative Court—Mozambique</p> <p>Court of Auditors, National Anti-Fraud and Anti-Corruption Office, National Financial Information Processing Unit (CENTIF)</p> <p>Internal audit unit/department at each budgetary institution, monitoring, and inspection directorate of MoFEC—Ethiopia</p>	<p>Ministry of Finance, controller of budget, MDAs, Parliament, Judiciary—Kenya</p> <p>Central Bank, Ministry of Finance, auditor-general—Ghana</p> <p>Accountant-general—Rwanda</p> <p>National Directorate of Planning and Budget—Mozambique</p> <p>General Directorate for Public Accounting and Treasury—Senegal</p>	<p>OAG, IGG, DPP—Uganda</p> <p>Kenya National Audit Office, Ministry of Finance, Parliament—Kenya</p> <p>PAC, Auditor-general, Audit Report Implementation Committee—Ethiopia</p> <p>Office of the Auditor-General, PAC, Public Prosecution Office—Rwanda</p> <p>Planning and Budget Commissions in Parliament and Administrative Court—Mozambique</p> <p>Court of Auditors—Senegal</p> <p>PAC, Offices of Federal Auditor, General and regional auditor general—Ethiopia</p>



		Phase					
		Formulation and approval	Execution		Audit and oversight		
Component	Stage	Fiscal planning and budget preparation	Revenue management	Budget execution and procurement	Monitoring and inspection	Accounting and reporting	Scrutiny and oversight
Human resources		<p>Finance officers, accountants, auditors, planners/economists, and statisticians—Burkina Faso, Ethiopia, Ghana, Kenya, Mali, Mozambique, Senegal, Tanzania, Uganda</p> <p>Chief government economist, chief budget manager—Rwanda</p>	<p>Accountant general, finance officers, budget officers, accountants, county chief officers/finance officers—Kenya, Uganda</p> <p>Economists, statisticians, planners—Tanzania</p> <p>Secretary to the treasury, accountant-general—Rwanda</p> <p>Tax agents, customs officers—Mozambique, Burkina Faso, Mali, Senegal</p> <p>Tax policy analysts, tax law drafters, tax administrators—Ethiopia</p>	<p>Procurement staff, IPPU—Mozambique, Uganda</p> <p>Controller of budget, finance officers, procurement officers, heads of departments and agencies, county chief officers—Ethiopia, Ghana, Kenya, Tanzania</p> <p>Chief budget manager, executive secretary of Rwandan Public Procurement Authority—Rwanda</p>	<p>Internal auditors, M&amp;E inspectors—Uganda,</p> <p>Controller of budget, accountant general, accountants, budget officers, planners/economists—Burkina Faso, Kenya, Mali, Senegal</p> <p>Auditor-general, Finance Committee of Parliament—Ghana</p> <p>Auditor-general, PAC, Government Action Coordination Unit—Rwanda</p> <p>Inspector-general, provincial and local level inspectors—Mozambique</p> <p>Internal auditors, monitoring and inspection officers at MoFEC—Ethiopia</p> <p>Global control of public services—Burkina Faso, Mali, Senegal</p> <p>National Office for Financial Control—Burkina Faso, Mali, Senegal</p> <p>Technical Inspectorate for Ministries: Burkina Faso, Mali, Senegal</p>	<p>ICPAU—Uganda</p> <p>Principal secretaries, accountant general, heads of departments and agencies, registrar in the judiciary, clerks in national assembly and senate, chief officers in counties—Kenya</p> <p>Auditor-general, economists/financial experts, comptroller, and auditor general and central bank officers—Ghana</p> <p>Accountant-general—Rwanda</p> <p>Accountants and officers responsible for reporting—Mozambique</p>	<p>Auditor general, internal auditors, MPs, parliamentary staff—Kenya</p> <p>Media, MPs, auditors, ministry of finance officials—Ghana</p> <p>Auditor-general, PAC, prosecutor-general—Rwanda</p> <p>MPs, judges from the administrative court—Mozambique</p> <p>External auditors, members of the public accounts committee, members of the HoPR—Ethiopia</p> <p>National Assembly—Burkina Faso, Mali</p> <p>Office of the National Auditor, Section of the Accounts of the Supreme Court—Mali</p>

		Phase					
		Formulation and approval	Execution		Audit and oversight		
Component	Stage	Fiscal planning and budget preparation	Revenue management	Budget execution and procurement	Monitoring and inspection	Accounting and reporting	Scrutiny and oversight
Procedures and practices		Medium-term expenditure framework, fiscal charters, procurement plans—Burkina Faso, Kenya, Mali, Mozambique, Senegal, Tanzania, Uganda	Centralized revenue collection, PIMS—Uganda	Output based budgeting using OBT, linkage with procurement and cash plans—Uganda	Risk-based audit compliant with IAS—Uganda	IPSAS-based accounting and financial reporting, IFMS, IPPS—Uganda	Financial and VFM audit compliant with IAS—Uganda
		National Leadership Retreat, 7-Year Government Programme, EDPRS, Vision 2020—Rwanda	Tax code, procurement plans, exchequer releases—Kenya	Quarterly exchequer releases—Kenya	Estimates, controller of budget quarterly reports, internal audit reports, MPEs/PERs, quarterly M&E reports—Kenya	Annual accounts, controller of budget annual reports, parliamentary reports—Kenya	Annual audit reports, parliamentary committee reports—Kenya
		Macro-economic and fiscal information management system—Tanzania	Macro-economic Model (MACMOD introduced in 1992), Mining, Oil, and Gas Model (introduced in 2014), human capital information management system—Tanzania	Tendering process, public expenditure reviews, public expenditure tracking surveys—Tanzania	BPEMS for financial management and accounting—Ghana	BPEMS for financial management and accounting—Ghana	Auditor-general report, PAC inspection, Strategic Policy Unit—Rwanda
		Macro-economic and fiscal framework, financial calendar (budget preparation, notification of subsidy budget, budget call, budget request, preparation of the recommended budget, budget recommendation)—Ethiopia	Economic management committee—Rwanda	Procurement manual, financial manual, ministerial orders—Rwanda	Quarterly reports to accountants-general, central and local government performance contracts (Imihigo)—Rwanda	Integrated financial management information systems, donor performance assessment framework—Rwanda	Adoption of the Law on Regulation—Burkina Faso, Mali
			Revenue forecasts and regular reports—Mozambique	Budget execution reports—Mozambique	Public financial management inspection reports—Mozambique	Accounting of operations/balance/bill on regulation—Burkina Faso, Mali	
			2015 Organic Law on Finance Acts Decree—Senegal	2009 Decree on the Government Budget Preparation Procedure—Senegal	Budgetary Institution's plan with respect to internal audit, actual audit performance, MoFEC's inspection and monitoring plan and actual performance—Ethiopia		
				The prime minister's decree of distribution, half-yearly and quarterly opening by the minister of economy and finance, procurement plan/call for offers/allocations—Burkina Faso, Mali	Implementation of annual control program and draft audit report—Burkina Faso, Mali		

Note: DPP = xx; FDRE = ; IGG = xx; KRA = Kenyan Revenue Authority; LG = xx; MDA = municipal and district assemblies; MoFEC = Ministry of Finance and Economic Cooperation; OAG = Office of the Auditor-General; PAC = Public accounts committee; PFMA = Public Financial Management Act

Source: AFGO country reports.

## APPENDIX 3

# BRIEF DESCRIPTIONS OF SECONDARY DATA SOURCES

The *African Financial Governance Outlook* (AFGO) uses data from a wide range of cited secondary sources (the complete list is in appendix 4). In using this data from the secondary sources, attention was paid not only to the data but also, where applicable, to the explanations provided in the “comments” lines of the data sources and taken into account when discussing the scores in chapter 3. Below are brief descriptions from the secondary sources' websites.

**The Global Integrity Index** makes use of formal, legal-type indicators that provide an assessment of whether certain legal codes, fundamental rights, government institutions, and regulations exist. These indicators rely on binary scoring with scores of “yes” and “no,” or on numerical scores, for example, 100, 75, 50, 25, or 0. To capture data, for example, for the indicator “effectiveness of public participation,” the research instrument suggests using GI Index number 41, more specifically GI 41a and GI 41b (table A3.1). A score of 100 would indicate an open process. Conversely, a score of zero would represent a complete lack of openness (see table A3.1). In the example provided below, the relevant data to be captured in the AFGO data capture matrix for “Country X” would be 75 for 41a and for 41b.

**Table A3.1 Global Integrity Index data for country X**

<b>41. Can citizens access the national budgetary process?</b>						
<b>41a:</b> In practice, the national budgetary process is conducted in a transparent manner in the debating stage (i.e. before final approval).						
<table border="1"> <tr> <td>Score</td> <td>100</td> <td>75</td> <td>50</td> <td>25</td> <td>0</td> </tr> </table>	Score	100	75	50	25	0
Score	100	75	50	25	0	
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<b>41b:</b> In practice, citizens provide input at budget hearings						
<table border="1"> <tr> <td>Score</td> <td>100</td> <td>75</td> <td>50</td> <td>25</td> <td>0</td> </tr> </table>	Score	100	75	50	25	0
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Source: International Budget Partnership – Open Budget Questionnaire

**The public expenditure and financial accountability (PEFA) framework** applies indicator-based measurements. This framework is designed to measure public finance management performance of countries over time by a set of indicators and a four-point scoring scale from A to D. This provides a measurement to assess fulfilment of public finance management qualities based on good international practices. For example, composition of expenditure outturn compared with the original approved budget (indicator PI-2 in table A3.2) is used as one of the indicators to assess the credibility or the capacity of the budget decisionmaking process. The PEFA guideline explains that the indicator PI-2 “measures the extent to which reallocations between budget lines have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure.”

The PEFA guideline highlights that: changes in overall level of expenditure (assessed in PI-1 by the difference between actual primary expenditure and the originally budgeted primary expenditure) will translate into changes in spending for administrative (and functional) budget lines. This indicator (PI-2) measures the extent to which reallocations between budget lines have contributed to variance in expenditure composition beyond the variance resulting from changes in the overall level of expenditure. To make that assessment requires that the total variance in the expenditure composition is calculated and compared to the overall deviation in primary expenditure for each of the last three years.

**Table A3.2 Sample PEFA questions**

Score	Indicator (PI-2)
	Composition of expenditure outturn compared to original approved budget
A	Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.
<b>B</b>	Variance in expenditure composition exceeded overall deviation in primary expenditure by 5 percentage points in no more than one of the last three years.
C	Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in no more than one of the last three years.
D	Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years

**The Open Budget Index (OBI).** The Open Budget Survey is compiled and ranked from scores for 92 questions that measure the relative transparency of each country's budget process (table A2.3). These scores constitute the Open Budget Index (OBI). The Survey questionnaire applies a simple scoring technique on each question that allows for different answers that describe a situation or condition that represents good practice regarding the subject matter or corresponds to practices that are considered sub-optimal. The Open Budget Survey 2015 is published on the International Budget Partnerships's website at [www.openbudgetindex.org](http://www.openbudgetindex.org).

**Table A3.3 Sample questions from the Open Budget Survey**

61. Does the executive publish a “citizens' budget” or some non-technical presentation intended for a wide audience that describes the budget and its proposals?	Score
<ul style="list-style-type: none"> <li>A. Yes, it publishes a citizens’ budget that is very informative.</li> <li>B. Yes, it publishes a citizens’ budget that is somewhat informative.</li> <li>C. Yes, but the citizens’ budget is not very informative.</li> <li>D. No, it does not publish a citizens’ budget.</li> <li>E. Not applicable/other (please comment).</li> </ul>	<b>B</b>
63. Do citizens have the right in law to access government information, including budget information?	Score
<ul style="list-style-type: none"> <li>A. Yes, the right has been codified into law, and citizens are generally able in practice to obtain government information, including budget information.</li> <li>B. Yes, the right has been codified into law, but it is sometimes not possible for citizens in practice to obtain government information, including budget information.</li> <li>C. Yes, the right has been codified into law, but it is frequently or always impossible in practice to obtain access to government information, including budget information.</li> <li>D. No, the right to access government information has not been codified into law, or this right does not include access to budget information.</li> <li>E. Not applicable/other (please comment).</li> </ul>	<b>C</b>

**The OECD-DAC national procurement assessment** uses a ranking based on a scoring system ranging from 3 (maximum) to 0 (minimum) for each baseline sub indicator.

**Afrobarometer** applies questionnaires based on percentages of respondents' replies to questions. The surveys are undertaken at regular intervals.

## ■ APPENDIX 4

# AFGO FINANCIAL GOVERNANCE INDICATORS

The five financial governance dimensions and the five political governance variables for each dimension constitute the 25 indicators of the financial governance matrix. Indicators, subindicators, and secondary data sources are also shown here.

### Budget governance

Dimension	Indicator	Subindicators	Source of information
<b>Inclusiveness</b>	Effectiveness of public participation	In practice, the national budgetary process is conducted in a transparent manner in the debating stage (i.e. before final approval).	GI 41a
		In practice, citizens provide input at budget hearings.	GI 41b
<b>Openness</b>	Transparent & Comprehensive & User friendly	Do citizens have the right in law to access government information, including budget information?	OBI 63
		Does the executive publish a "citizens' budget" or some nontechnical presentation intended for a wide audience that describes the budget and its proposals?	OBI 61
<b>Rule Compliance</b>	Orderliness and clarity of rules	Orderliness and participation (of government entities) in the annual budget process (i) Existence of and adherence to a fixed budget calendar (ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent) (iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)	PEFA PI 11
<b>Oversight</b>	Adequacy of the legislative scrutiny of the budget	Legislative Scrutiny of the annual budget law (i) Scope of the legislature's scrutiny (ii) Extent to which the legislatures procedures are well-established and respected (iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates, and where applicable to macro-fiscal aggregates earlier in the budget preparation cycle (iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature	PEFA PI 27
<b>Capability</b>	Budget reflective (of declared policies)	(i) Composition of expenditure out-turn compared to original approved budget	PEFA PI 2

## Revenue governance

Dimension	Indicator	Subindicators	Source of information
<b>Inclusiveness</b>	Stakeholder involvement	Does the executive hold consultations with the public as part of its process of determining budget priorities? <sup>1</sup>	OBI 71
<b>Openness</b>	Awareness of liabilities	Transparency of taxpayer obligations and liabilities (i) Clarity and comprehensiveness of taxpayer liabilities (ii) Taxpayer access to information on tax liabilities and administrative procedures (iii) Existence and functioning of a tax appeals mechanism	PEFAPI 13
<b>Rule Compliance</b>	Equity of rule applications	Effectiveness of measures for taxpayer registration and tax assessment (i) Controls in the taxpayer registration system (ii) Effectiveness of penalties for non-compliance with registration and declaration obligations (iii) Planning and monitoring of tax audit and fraud investigations	PEFAPI 14
		Effectiveness in collection of tax payments (i) Collection ratio for gross tax arrears being the percentage of tax arrears at the beginning of a fiscal year which was collected during the fiscal year (average of the last two years)	PI 15 (dim i)
		How many tax officials (e.g., national revenue authority official or local government tax collectors) are involved in corruption according to public perception?	Afrobarometer 2.3
<b>Oversight</b>	Legislative scrutiny	In law is there a separate legislative committee which provides oversight of public funds?	PEFA PI 26 (dim i)
<b>Capability</b>	Effectiveness of the revenue administration	In practice are tax laws enforced uniformly and without discrimination?	GI 63
		In practice are customs and excise laws enforced uniformly and without discrimination?	GI 66

<sup>1</sup> There are no specific data sources on the extent to which stakeholders are able to influence and monitor the rules of revenue governance. Likewise there are no specific data sources for oversight of revenue governance by designated oversight bodies. The Consultants have therefore resorted to more general indicators.

## Internal control

Dimension	Indicator	Subindicators/questions	Source of information
Inclusiveness	Public monitoring	In law can citizens access the asset disclosure records of senior civil servant?	GI 47 a
		In practice can citizens access the asset disclosure records of senior civil servant within a reasonable time period?	GI 47 b
		In practice can citizens access the asset disclosure records of senior civil servant at reasonable costs?	GI 47 c
Openness	Availability of information on expenditure	Are citizens able in practice to obtain financial information on expenditures for individual programs in a format that is more highly disaggregated than that which appears in the executive's budget proposal if they request it (for example, from a ministry or agency)?	OBI 64
Rule Compliance	Effectiveness and adherence to internal control framework	Effectiveness of internal controls for non-salary expenditure (i) Effectiveness of expenditure commitment controls (ii) Comprehensiveness, relevance and understanding of other internal control rules and procedures (iii) Degree of compliance with rules for processing and recording transactions	PEFA PI 20
		Effectiveness of internal audit (i) Coverage and quality of the internal audit function (ii) Frequency and distribution of reports (iii) Extent of management response to internal audit findings	PEFA PI 21
		Are there regulations requiring an impartial, independent and fairly managed civil service?	GI 44a
		In law are there regulations to prevent nepotism, cronyism and patronage within the civil service?	GI 44b
		In practice is there an internal mechanism through which civil servants can report corruption?	GI 49
		Comprehensiveness of oversight activity	PEFA PI 26
Oversight	Comprehensiveness of oversight activity	Scope, nature and followup of external audit (i) Scope/nature of audit performed including adherence to auditing standards (ii) Timeliness of submission of audit reports to legislature (iii) Evidence of follow up on recommendations	PEFA PI 26
		In law, are there requirements for the independent auditing of the asset disclosure forms of senior members of the civil service?	GI 46e
		In practice are civil service asset disclosures audited?	GI 46i
Capability	Action taken against unethical and illegal behaviour	In practice, are civil servants convicted of corruption prohibited from future government employment?	GI 45 i
		In practice, are civil servants protected from political interference?	GI 45a

## Public procurement

Dimension	Indicator	Subindicators/questions	Source of information
<b>Inclusiveness</b>	Stakeholder involvement	Stakeholders (private sector, civil society and ultimate beneficiaries of procurement/end -users support the creation of a procurement market known for its integrity and ethical behavior	OECD ml2 sub ind e
		Rules on participation (The indicator assesses the participation and selection policies to ensure that they are non-discriminatory)	OECD 1(d)
		There are effective mechanisms for partnership between the public and the private sector	OECD 7 a
<b>Openness</b>	Degree of access to information	Information is published and distributed through available media with support from information technology when feasible	OECD 11
		Advertising rules and time limits	OECD 1 (c)
<b>Rule Compliance</b>	Deviation from good practice	During the past year, have there been credible reported instances in which the procurement of goods and services has not followed an open and competitive process in practice?	OBI 97
<b>Oversight</b>	Effectiveness of oversight activities	The Country has a functional normative/regulatory body (a) The status and basis for the normative regulatory body is covered in the legislative and regulatory framework (b) The body has a defined set of responsibilities (c) The body's organization, funding staffing and level of independence and authority (formal power) to exercise its duties should be sufficient and consistent with responsibilities (d) The responsibilities should also provide for separation and clarity so as to avoid conflict of interest and direct involvement in the execution of procurement transactions	OECD 4 (a - d)
		Auditors are sufficiently informed about procurement requirements and control systems to conduct quality audits that contribute to compliance?	OECD 9e
		In law, there is a mechanism that monitors the assets, incomes and spending habits of public procurement officials?	GI 51d
<b>Capability</b>	/Enforcement capacity of regulatory body/Sanctions enforced	In practice, companies guilty of major violations of procurement regulations (i.e. bribery) are prohibited from participating in future procurement bids?	GI 51j
		In practice, the conflicts of interest regulations for public procurement officials are enforced?	GI 51c
		The complaint review body has full authority and independence for resolution of complaints	OECD 10(e)



## External oversight

Dimension	Indicator	Subindicators	Source of information
<b>Inclusiveness</b>	Level of interaction with the public	Does the Supreme Audit Institution maintain formal mechanisms of communication with the public to receive complaints and suggestions to assist it in determining its audit program (that is, to identify the agencies, programs, or projects it will audit)?	OBI 119
<b>Openness</b>	Access to audit reports	Can citizens access reports of the supreme audit institution?	GI 60
		Does the executive make available to the public a report on what steps it has taken to address audit recommendations or findings that indicate a need for remedial action?	OBI 121
		Does either the Supreme Audit Institution or the legislature release to the public a report that tracks actions taken by the executive to address audit recommendations?	OBI 122
<b>Rule Compliance</b>	Independence of audit agency	In practice the head of the audit agency is protected from removal without relevant justification?	GI 59b
<b>Oversight</b>	Scrutiny and follow up of audit activities	Legislative scrutiny of external audit reports (i) Timeliness of examination of audit reports by the legislature (ii) Extent of hearings on key findings undertaken by the legislature (iii) Issuance of recommended actions by the legislature and implementation by the executive	PEFA PI 28
<b>Capability</b>	Independence of oversight/enforcement bodies	In practice the anti-corruption agency is protected from political interference?	GI 75b
		In practice the ombudsman is protected from political interference?	GI 56b
		Is the judiciary able to act independently?	GI 80

<sup>1</sup> The process entails streamlining budget governance, initiating budget formulation, setting guidelines for application by budget execution agencies, preparing and managing the budget framework paper process, coordinating the implementation of the budget, producing periodic budget execution reports, and so on.

<sup>2</sup> A common phrase in the appendixes to distinguish real-world benefits from paper-based promises.

<sup>3</sup> Côte d'Ivoire, Madagascar, Malawi, Mozambique, Rwanda, South Africa, Uganda, and Zambia.

<sup>4</sup> Such as Uganda in 2015 and Ghana in 2016.

<sup>5</sup> As in Ghana and support to Anglophone countries' SAIs (GIZ, 2014).

<sup>6</sup> Such as budget offices in Kenya and Uganda.

<sup>7</sup> The last time at the 22nd Ordinary Session of the Assembly of the African Union in January 2014.

<sup>8</sup> Usually the offices of the president/prime minister, the ministry of finance, the tax administration agency, and the central bank.

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