MEFMI

Macroeconomic and Financial Management Institute of Eastern and Southern Africa

Public Expenditure and Financial Management Handbook

Second Edition March 2022

BUILDING SUSTAINABLE CAPACITY

Macroeconomic and Financial Management Institute of Eastern and Southern Africa

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Acronyms

AfDB	African Development Bank
AFROSAI-E	African Organisation of English-Speaking Supreme Audit Institutions
CABRI	Collaborative Africa Budget Reform Initiative
CAS	Core Accounting System
CCAGG	Concerned Citizens of Abra for Good Government
CFAA	Country Financial Accountability Assessment
COA	Chart of Accounts
COFOG	Classification of Functions of Government
COVID-19	Coronavirus Disease 2019
CPEIR	Climate Public Expenditure and Institutional Review
CPIA	Country Policy and Institutional Assessment
CPR	Country performance rating
DFID	Department for International Development (currently Foreign, Commonwealth & Development Office (FCDO)
EFT	Electronic Funds Transfer
FMIS	Financial Management Information Systems
FRA	Fiscal Responsibility Act
FY	Fiscal Year
GDP	Gross Domestic Product
GHGs	Green House Gases (GHGs)
GNI	Gross National Income
IBP	International Budget Partnership
ICT	Information and Communications Technology
IDA	International Development Assistance
IFMIS	Integrated Financial Management Information System
IFMS	Integrated Financial Management System
IMF	International Monetary Fund
IPPS	Integrated Personnel and Payroll System
LGs	Local Governments
MDAs	Ministries, Departments or Agencies
MDGs	Millennium Development Goals
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MOF	Ministry of Finance
MPs	Members of Parliament
MTEF	Medium-Term Expenditure Framework
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PBS	Program Budgeting System
PEFA	Public Expenditure and Financial Accountability
PEFM	Public Expenditure and Financial Management
PER	Public Expenditure Review
PFM	Public Financial Management
PIM	Public Investment Management
PIP	Public Investment Plan
ROSC	Report on Observance of Codes and Standards
SAIs	Supreme Auditing Institutions
SDGs	Sustainable Development Goals
TSA	Treasury Single Accounts
UN	United Nations Framework Convention on Climate Change

Foreword

The first edition of the Public Expenditure and Financial Management Handbook was published in 2008. The preparation of the second edition is motivated by the compelling need for MEFMI to address, in a tangible manner, some of the critical capacity gaps affecting macroeconomic management in the region. Based on several interventions in capacity building over the years, the Institute identified inadequacies in the management of public expenditure, notwithstanding the existence of some handy guidelines, notably from the World Bank. Both the first and second versions of this handbook have benefited immensely from the very sound foundations laid by documentation from various regional and international organisations such as the World Bank (WB), the International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD) and Collaborative Africa Budget Reform Initiative (CABRI). The point of departure and major orientation of this handbook, however, is a special focus on the situation of Sub-Sahara African countries with deliberate efforts to put the whole public expenditure management process within the regional context.

As is well documented, many countries in the region have over the years engaged in various economic reforms. The reform programmes invariably included comprehensive reviews of public expenditure. In the past two (2) decades, the region's Poverty Reduction Strategy Programmes (PRSPs) and five-year development plans have been very much in vogue. Their effective implementation, however, calls for sound public expenditure and financial management.

The handbook thus, seeks to provide Public Expenditure and Financial Management (PEFM) practitioners in governments, civil society and donors in the MEFMI region, with a practical tool as well as a handy reference guide for strengthening and implementing reforms in public expenditure and financial management systems. The scope of the handbook includes a conceptual framework for PEFM; experiences of PEFM reforms in the MEFMI region and elsewhere in the world; practical guidance on introducing and implementing key aspects of PEFM; and practical tools for assessing systems and capacities for PEFM.

The handbook, as earlier intimated, builds on the comprehensive guidelines handbook prepared by the World Bank (2008) which has been augmented and customised to include the needs and systems specific to MEFMI member countries' context. This was partly achieved by working with member countries throughout the preparation of both the first and second editions. The process involved final review of the handbook by a team of experts responsible for PEFM from member countries.

It is our sincere hope as MEFMI that the handbook will prove to be a valuable tool for various levels of public officers involved in the design and execution of public expenditure programmes. Needless to say, the handbook should be seen as a live tool that will always benefit from continuous feedback from stakeholders. The Institute, therefore welcomes input and comments to assist further refining of this document to take account of new developments in PEFM in the region and beyond.

Organisation of the handbook

The handbook is divided into three sections. Section 1 covers the chapters that are considered core to PEFM, providing an overview of public expenditure and financial management and delving into details of the various components that commonly constitute PEFM. Section 2 covers supplementary chapters that explore recent developments affecting PEFM, including climate change, Sustainable Development Goals (SDGs), gender mainstreaming and innovations in ICT. The section also covers other material not usually included in the core chapters, particularly PEFM reporting systems. Section 3 contains tools recommended for assessing PEFM and developing a comprehensive set of PEFM reform actions.

Acknowledgements

The preparation of this second edition of the Public Expenditure and Financial Management Handbook is the product of collaborative efforts of the staff of MEFMI's Macroeconomic Management Programme led by Sehliselo Mpofu (Programme Director) assisted by Sayed Timuno (Programme Manager). MEFMI also acknowledges the contribution of Dan Mambule Mwanje, a Public Finance Management consultant from Uganda, who supported the MEFMI team in editing the second edition. The revised handbook also benefited from comments from a team of reviewers comprising Danielle Serebro (Senior Public Finance Management Specialist, CABRI).

Our sincere gratitude is also due to the developers of the first edition. These include Elizabeth Muggeridge and Tony Mends of M/s Consulting Africa, Ephraim Kaunga (then Director for the Macroeconomic Management Programme), and Amos Cheptoo, Anthony Higgins and Dumisani Masilela (former staff at MEFMI).

This handbook benefited immensely from the MEFMI editorial committee members who combed through it to give it the quality of work that it is now. The editing work is sincerely appreciated.

Comments and ideas are welcome - particularly those that are intended to make the handbook as useful and resourceful to the readers as possible.

Louis Kasekende
EXECUTIVE DIRECTOR

SECTION I: PEFM Fundamentals

This section comprises six (6) chapters that discuss topics that are considered as core to PEFM. The first chapter defines Public Expenditure and Financial Management and provides a rationale for PEFM. Chapter 2 provides an overview of PEFM processes and principles of effective PEFM systems. Chapter 3 focuses on reforming PEFM, including country experiences in initiating, implementing and managing PEFM reforms. Chapter 4 discusses expenditure frameworks, covering the analysis and restructuring of Government Expenditure, Public Investment Management frameworks, Medium-Term Expenditure Framework, expenditure tracking and effective fiscal expenditure rules. Chapter 5 discusses an overview of institutional arrangements and legal frameworks for PEFM. Chapter 6 discusses internal and external audits as effective controls in PEFM.

CHAPTER 1

INTRODUCTION

Chapter 1: Introduction

1.1. What is Public Expenditure and Financial Management?

Public Expenditure and Financial Management (PEFM) covers the processes and institutional arrangements (stakeholder roles and responsibilities) involved in the planning, budgeting, management and reporting of both financial and non-financial public sector resources.

In the past, public sector financial management has focused mainly on the control of funds in line with financial regulations. This meant that financial management was seen mainly as an administrative function in which Ministries, Departments or Agencies (MDAs) were held responsible for spending funds within the approved budget levels and in line with financial regulations.

Starting in the mid-1990s, Governments and development partners recognised that the significant levels of resources that were being spent on public services in most developing countries had limited impact on development outcomes, such as improvements in economic growth, health and education, among others.

Most governments in the MEFMI region have undertaken several economic reforms under agreements with the donor community such as the Structural Adjustment Programmes starting in the early 1980s and the Poverty Reduction and Growth Facility (PRGF) introduced in 1987. However, achieving self-sustaining growth and improving the delivery of public services remain distant goals for most governments in the region. Thus, more reforms continue to be introduced to PEFM systems with an expanded scope from the control of funds to improving the impact of public expenditures. These reforms focus on ensuring that funds are allocated and used in line with priorities agreed on and that governments plan for and monitor improvements in the performance of government programmes and the impact of expenditures.

The emphasis is now on ensuring that limited funds available are spent on improving service delivery and achieving government objectives. This is sometimes referred to as improving the "quality" of public expenditures, i.e., that utilisation of funds will lead to the planned improvements in services to the population.

The new approach recognises the importance of strengthening not only the technical processes of planning, budgeting, accounting, and audit but also on establishing the necessary legal and institutional framework for encouraging the effective use of limited resources. This means ensuring that all stakeholders have clearly defined roles in the PEFM system, that effective coordination mechanisms are in place, and that the legal and institutional framework has appropriate sanctions and incentives to ensure that funds are spent in line with government priorities and deliver the planned performance.

1.2. Rationale for PEFM

MEFMI currently runs PEFM courses for its member countries which provide an overview of the issues and techniques in effective PEFM systems, whilst also providing an opportunity for member countries to share their experiences in this area.

Most MEFMI member governments are implementing several PEFM reforms and this Handbook seeks to provide information on the approaches to and practical suggestions for the implementation of these reforms.

There have been several documents produced on Public Expenditure and Financial Management, including the Public Expenditure Management Handbook[1] produced by the World Bank in 2008, Public Expenditure and Financial Accountability (PEFA) manuals[2], Asian Development Bank (AsDB) Manual on Public Expenditure Management[3], and guidelines on managing public expenditures produced by the OECD[4]. These documents and others, provide a useful background to PEFM principles and issues and that are referenced throughout this Handbook.

[1]http://documents.worldbank.org/curated/en/489401468779669052/Public-expenditure-management-handbook
[2]Volume II: PEFA Assessment Field guide (Second Edition) | Public Expenditure and Financial Accountability (PEFA).
[3]Managing Government Expenditure (adb.org).
[4]https://doi.org/10.1787/9789264192607-en.

The MEFMI PEFM Handbook is a reference document for officials responsible for key aspects of PEFM and provides a framework for reviewing and strengthening PEFM systems, drawing on experiences of successful reforms, rather than providing a blueprint that all governments should follow.

Through the use of the Handbook, targeted officials of MEFMI member governments will be able to:

i) Increase their understanding of PEFM issues and international and regional experiences in this area.
ii) Assess existing PEFM systems, as well as their strengths and weaknesses.
iii) Develop actions for strengthening these systems.
iv) Develop practical systems and processes based on the suggested approaches in the Handbook.
v) Analyse and strengthen their institutional and legal frameworks; and
vi) Develop capacity building programmes for strengthening PEFM systems.

The preparation of the Handbook highlighted that there has been limited documentation of the MEFMI member countries PEFM reforms apart from the documents produced as part of the Public Financial Management Performance Measurement Framework (PEFA) and in seminars such as those organised by the Collaborative Africa Budget Reform Initiative (CABRI).

The MEFMI member countries acknowledged the need to undertake case studies of MEFMI member government reforms and develop best practices in the implementation of these reforms.

1.3. Target Group and Scope of the Handbook

The target audience for the Handbook include:

i) Senior managers in the Ministries of Finance and/or Economic Planning, Accountant General's Departments, Auditors General, Civil (or Public) Service Ministries.
ii) Planning, budget, aid management and accounting staff in these central Ministries with responsibility for overseeing sector ministry PEFM.
iii) Senior managers in MDAs.
iv) Planning, budget, accounting, personnel staff in MDAs; and
v) Departmental heads in MDAs.

The Handbook focuses on PEFM and therefore does not cover issues relating to revenue management. It does not provide information on issues such as detailed approaches to public sector accounting, audit, procurement etc. Nor does it attempt to provide detailed technical information on issues such as macroeconomic planning and management (this is covered in other MEFMI programmes and documents).

References are provided to other more detailed documents for readers who may be interested in further information on these subjects.

Each Chapter, to a large extent and where applicable, contains the following elements:

i) An overview of and conceptual framework for the topic.
ii) Common weaknesses in MEFMI member governments and other countries.
iii) Recent reforms in the specific area.
iv) Practical suggestions on improving PEFM systems and processes.

The PEFM Handbook is written as a reference guide and the readers can select particular topics they wish to read about without the need to read the entire document. Each section is to a large extent cross-referenced to other sections of the handbook and related materials and websites.

1.4. Changes from the preliminary edition

The initial PEFM handbook was produced in 2008. The response among users of the initial handbook has been encouraging. Since the production of the initial document, MEFMI has trained hundreds of government officials in PEFM concepts and applications using the handbook. Based on the feedback received from the PEFM workshops, and in light of the evolving global economic developments and the related practices in public and financial management, and changes in technology, MEFMI found it fit to review and update the 2008 handbook.

In addition, some of the aspects and examples that had been covered in the 2008 handbook were overtaken by time and no longer met expectations.

Changes from the preliminary edition include the following:

- The original 13 chapters have been shortened and reorganised into six (6) chapters for a better and more logical flow of materials. The reorganisation also resulted in dropping some materials relating to policy analysis, planning approaches, accounting, and external resource mobilisation and management.
- Five (5) new chapters have been added to the handbook to reflect the recent developments in PEFM. The new chapters are:

    - Chapter 7: PEFM and Sustainable Development Goals (SDGs).
    - Chapter 8: PEFM and Technological Innovations.
    - Chapter 9: Climate Change and Public Expenditure and Financial Management.
    - Chapter 10: Gender Mainstreaming in PEFM Systems.
    - Chapter 11: PEFM Reporting Systems.

The next chapter provides an overview of public expenditure and financial management outlining the various components that generally constitute PEFM.

CHAPTER

2

OVERVIEW OF PEFM

Chapter 2: Overview of PEFM

2.1. Introduction

This Chapter focuses on the following:

i. PEFM and how it differs from previous approaches to financial management.
ii. The three (3) objectives of PEFM:
   - Aggregate fiscal discipline;
   - Improved allocation of resources; and
   - Efficiency and effectiveness of expenditures.
iii. An overview of PEFM systems and processes.
iv. The Public Financial Management cycle;
v. Current thinking and approaches to PEFM;
vi. Principles of effective PEFM systems; and
vii. Approaches and tools for assessing PEFM systems.

Key Issues

Traditional financial management in the public sector focused on ensuring that government expenditures and revenues were controlled in line with the overall approved budget levels and also that ministries abided by the financial legislation and regulations. This approach to managing public finance has not delivered the key requirements of improving the quality and impact of the use of public resources.

In recent years governments and their development partners have focused on the introduction of PEFM reforms with the intention of:

i. Ensuring that limited resources are allocated to priority areas over the medium term.
ii. Ensuring that all resources are planned and managed together, i.e. recurrent and development (capital), government and donor, so that they are all targeted at the same priority areas.
iii. Increasing transparency in the use of public funds.
iv. Introducing a performance focus in planning and budget management so that the results of public expenditures are more clearly identified at the planning stage and can be reported on during and after implementation.
v. Ensuring that the planning, management and reporting of public funds meet international standards.

Addressing these issues involves widening the scope of financial management to include considerations of:

i. Ensuring that the various stakeholders' roles support these principles.
ii. Introducing and implementing appropriate sanctions and incentives.
iii. Providing increased freedoms and flexibility for managing public funds, while also holding managers accountable for delivery of improved performance.

Public Expenditure and Financial Management (PEFM)

This Section explains the difference between the traditional approach to managing public funds and the new approaches introduced through reforms to PEFM.

The broad functions of PEFM are to:

- Control public funds.
- Plan for future allocation and collection of public funds.
- Manage public funds and other resources such as human resources.

In addition to these three (3) functions of PEFM, the budget is a major macroeconomic management tool for a government. The levels of taxation and expenditure, and the size of the budget deficit, will have a significant impact on an economy, particularly where the private sector is relatively small as in most MEFMI member countries. It is therefore important to realise that:

- Taxation is used to provide incentives to the private sector and also to distribute the benefits of economic growth from the wealthier in society to the poor.
- Government spending can have a major impact on the economy, particularly through the implementation of large capital projects.
- The size of the deficit and the need to borrow from the public can have a significant macroeconomic impact through changes in the interest rate and monetary policies.

The traditional approach to budget preparation and management has a narrow emphasis on a set of standard rules and procedures, and on controlling expenditures. Traditional budget approaches focus mostly on ensuring that funds are spent and revenues are collected as planned.

By comparison, reforms to PEFM focus on improving the efficiency and effectiveness of public expenditures, i.e. improving the delivery of services funded through government expenditures.

Thus, the focus of PEFM is not only on the technical processes involved in allocating and managing scarce resources but also on the roles, responsibilities, institutional incentives and information required for making the best use of these resources.

This change in focus is in response to the recognition that the traditional approach did not lead to the achievement of government objectives including poverty reduction. Governments and development partners are concerned that public funds should be allocated, controlled and used for their intended purposes and lead to improvements in government services, particularly those that are focused on poverty reduction.

The Public Expenditure and Financial Management System

The PEFM system refers to the *processes and systems*, as well as to the *legal and institutional frameworks* through which public finances are allocated and managed which include:

- The processes in the PEFM Cycle.
- The roles and responsibilities for PEFM including Parliament, Cabinet, central agencies (such as Ministries responsible for Finance and Planning), sector ministries, local government and civil society.
- The legal framework for PEFM: the Constitution, Finance Act and Financial Regulations including incentives and sanctions.
- Capacities of all stakeholders to implement effective PEFM systems. These include the capacities of Parliamentarians for example, to review and assess budget proposals.

2.2. Overview of PEFM Processes

The PEFM system consists of a number of sub-systems and processes to be followed by the various stakeholders in the system. This section provides a brief overview of the components of the system.

Policy Analysis and Formulation

Policies set the framework in which government objectives are achieved. For example, the introduction of free primary education is a policy through which governments aim to increase access to primary education. Thus, free primary education is not the objective, but a means to achieving an objective.

Policies can have a significant impact on the budget, for example, the introduction of free primary education will result in increased demand and enrolment of pupils, leading to increased budget requirements. Therefore, policies need to be assessed to ensure that they are the most appropriate and cost-effective means of achieving government objectives.

Planning Process

The planning process takes place at various levels including the national level, the sector level, project level, district or local government level and even the community level. The planning process usually results in the preparation of a plan document that covers a specific timeframe such as a Five-Year Development Plan or focuses on a specific issue such as a Poverty Reduction Strategy, a Growth Strategy, etc.

The purpose of the planning process is for an organisation to define its goals and objectives, set out the strategies through which the goals will be achieved and plan for the specific actions that will be required to implement the strategies over the life of the plan period. The development of the plan should involve the setting of targets against which progress can be measured.

Ideally, these plan strategies and activities should be costed and prioritised to fit within the total resources available over the plan period, to ensure that the implementation of the plan is affordable. Government plans that are not costed and prioritised tend to be overly ambitious and unlikely to be implemented in full and successfully.

Mechanisms also need to be established for monitoring and evaluation of the implementation of the Plan and for linking the plan to the budget.

Macroeconomic Planning and Forecasting

The Ministry of Finance is responsible for developing and implementing policies that will have an impact on the performance of the economy including fiscal policies, levels of taxation, expenditures, debt, and the size of the deficit. The Ministry of Finance also has a major influence on sector-specific policies such as trade policies, industrial policies, employment policies, agricultural subsidies, among others.

These policies will be translated into macroeconomic plans and detailed forecasts of economic growth and other macroeconomic variables. These estimates are usually developed through the use of macroeconomic models and fiscal frameworks.

Budget Preparation and Approval

This involves a number of stages as illustrated in the Public Financial Management Cycle discussed later in this Chapter. The major stages in Budget Preparation and Approval are:

i. ***Development and updating of a macroeconomic and fiscal framework:*** by forecasting levels of economic growth and other macroeconomic variables over a period of time, usually 3-5 years and updating the fiscal framework which includes the estimated levels of revenues, expenditures, (including both government and external resources), the deficit, and financing of the deficit. This provides the total expenditure levels to be allocated between the various types of expenditures such as statutory expenditures (i.e. spending for which government has a legal commitment such as debt payments, pensions) and discretionary spending which are allocated to Ministries, Departments and Agencies (MDAs).

ii. ***Setting of ceilings (levels of budget allocations):*** recent improvements to budget preparation processes have introduced a more participatory and transparent process of determining the budget ceilings for each MDA. These improvements involve ministries undertaking a review of their previous performance in a Public Expenditure Review (PER) process or preparation of a Budget Framework Paper (see Chapter 4: Expenditure Frameworks).

    These MDA reviews are used to set MDA ceilings so that the MDAs are able to start their budget preparation with an indication of the total funds that they will receive and can therefore prioritise their activities and spending to fit within the ceiling.

iii. ***MDA Budget Preparation:*** once MDAs have received the ceilings, usually issued in a Call Circular, detailed budget preparation takes place. A number of different approaches can be used for budget preparation as explained in Chapter 4 on Expenditure Frameworks. The expenditure estimates are usually divided into two (2) budgets: the recurrent budget which funds the personnel, operating costs and service delivery costs of MDAs, and the capital or development budget, which is made up of capital projects, many of which are funded with external resources.

iv. ***Review and approval of budget estimates by the Ministry of Finance:*** MDA budget estimates will be reviewed by the Ministry of Finance to ensure that the estimates are within the ceilings and that the activities to be funded are in line with government priorities.

v. ***Submission to and approval of Estimates by Parliament:*** the final estimates are usually submitted to Cabinet for approval prior to submission to Parliament for debate and approval. Parliament will enact an Appropriation Bill which provides the legal authority for the government to spend the approved funds and collect the planned revenues.

Budget Implementation

Once Parliament has approved the Budget Estimates, the Ministry of Finance will issue a Warrant which provides authority for MDAs to incur expenditures. The exact procedures for providing authority for expenditures differ between countries and usually between the recurrent and capital budgets.

At the start of the financial year, the Ministry of Finance will draw up a cash flow plan which sets out the planned timing of the revenue inflows, expenditure outflows and the level of borrowing that will be required to meet the funding shortfalls when revenues are lower than expenditures. This cash flow plan will then be updated on a regular basis during the financial year and be used for monitoring and managing the cash position of the government and deciding on its borrowing requirements. MDAs implement the budget through the purchase of goods and services to undertake the planned activities. This process requires MDAs to follow a set of procedures for the procurement and payment of these goods and services, to ensure that funds are spent according to the approved budget and to avoid any misuse of public funds.

Internal Audit systems and procedures will be used to check that public funds are being spent as approved by Parliament during the budget implementation process. This differs from the external audit process which takes place at the end of the financial year by the Auditor General who reports to the Public Accounts Committee of Parliament.

The procedures that guide the use of public funds will be set out in detail in the Financial Legislation and regulations as described in Chapter 5 on Institutional and Legal Framework.

Accounting and Monitoring

As part of the budget implementation processes, MDAs will be required to record information on the commitments and payments they make and revenues they collect and this information feeds into the accounting system. Regular reports are provided by MDAs to the Ministry of Finance for monitoring the implementation of the budget and at the end of the year the government's financial statements will be produced indicating the total levels of revenues, expenditures, borrowing, etc. In recent years governments have introduced computerised financial management systems to speed up and better control transaction processing and to improve the accuracy of government financial information.

In addition to the preparation and presentation of regular financial reports, MDAs should also monitor and report on the physical implementation of the activities funded through the budget and the achievement of planned targets or outputs. Some governments have introduced computerised budget monitoring systems (e.g., Planning Programming Budgeting System (PPBS) in Kenya, Zimbabwe, Uganda, Rwanda) to improve the reporting, accuracy and comprehensiveness of government non-financial information.

Audit and Evaluation

At the end of the financial year, the government will submit the government's financial statements to the external audit organisation, usually the Auditor General, for an independent audit and assessment of the accounts. The purpose of the audit is to ensure that the funds have been spent in line with the approved amounts in the Budget, whether the correct procedures have been followed in budget implementation and also in some cases whether the expenditures have led to the planned levels of services.

Ideally, the Ministry of Finance and the rest of the MDAs will evaluate the impact of the funds spent on the activities implemented during the previous year. In practice, evaluations tend to be undertaken by development partners of their projects and programmes and until recently, there were no government systems and procedures in place requiring MDAs to undertake evaluations on a regular basis.

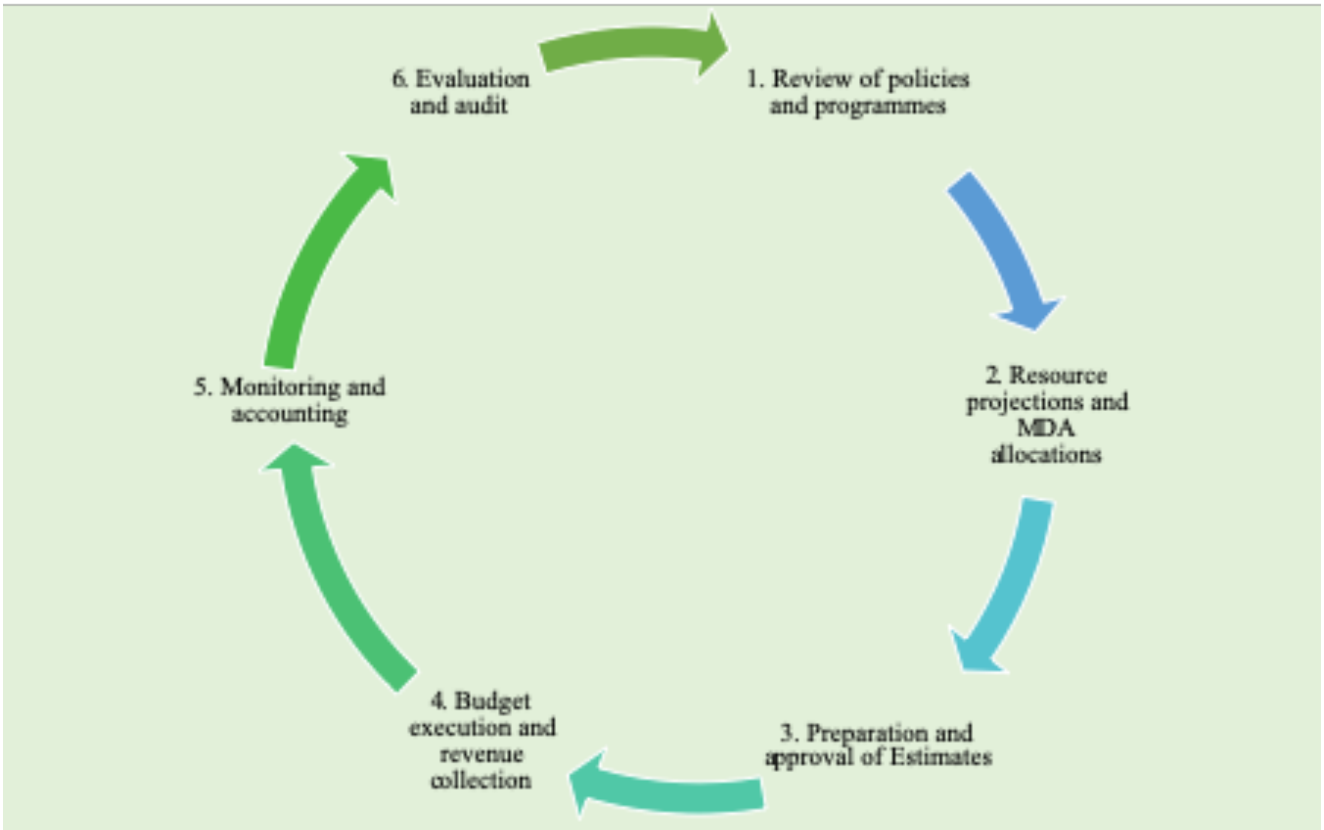
Within each of these stages Parliament will play an oversight function in the approval of Budget Estimates, in some cases through the review of quarterly or mid-year financial and performance reports and of government financial statements through the reports of the Auditor-General. The legally assigned roles and responsibilities of the various PEFM stakeholders are described in Chapter 5 on Institutional and Legal Framework.

Each of these sub-systems forms part of the Public Financial Management Cycle as illustrated in Figure 1 and described in detail in the subsequent subsections.

Public Financial Management Cycle

The cycle has six (6) steps and emphasizes the fact that Step 1 in the process should be informed by the results of Step 6, and that each step should follow on from the previous one.

Figure 2.1. PEFM Cycle



Source: Adapted from the Public Expenditure Management Handbook (World Bank, 1998)

Step 1: The Cycle begins with a review of macroeconomic and sectoral policies and programmes. This involves the Ministry of Finance and MDAs reviewing existing policies to assess whether they are still appropriate given the experience of implementing these policies in the previous year and the results of the evaluations in the final step in the cycle.

Step 2: This involves the Ministry of Finance updating the macroeconomic and fiscal frameworks. The macroeconomic projections are updated to assess the likely availability of funds (both domestic and external) over the forthcoming budget period (usually 3 years under a Medium-Term Expenditure Framework (MTEF) and decisions are made about how to allocate these resources between MDAs' spending programmes based on government priorities. This is a major part of the MTEF process and is described in more detail in Chapter 4.

Step 3: Once the funds are allocated between the MDAs, each MDA prepares its budget for both revenues and expenditures.
Step 4: When the budget is approved by Parliament, the Ministry of Finance provides the authority (by Warrant) to MDAs to spend the funds, and MDAs follow processes of procuring goods and services, making payments and collecting revenues.
Step 5: During the budget implementation period, MDAs are required to report on revenues and expenditures, bank reconciliations as well as providing information on the physical implementation of programmes and activities.

Step 6: At the end of the financial year MDAs finalise their financial accounts, which are submitted to the Accountant General and presented to Parliament after an audit by an external audit organisation, the Auditor General. Ideally, MDAs should also undertake evaluations of their programmes to assess their performance in terms of achieving the agreed objectives and targets during the budget cycle.

The results of these evaluations should feed into Step 1 for the following cycle.

As stressed throughout this Handbook, it is important that reforms focus on all stages in the Public Expenditure and Financial Management Cycle as illustrated in Figure 2.1. For example, if performance budgeting is introduced only at the planning and budget preparation stage and not carried through into implementation, monitoring and evaluation, it will not be possible to assess whether the planned performance is being achieved and the full benefits of the reforms will not be realised.

In a number of countries, all the steps in the PEFM Cycle are being strengthened through a sector-wide approach to PEFM Reforms as described in the Box below and in more detail in Chapter 3 on Reforming PEFM.

Box 2.1. Sector Wide Approach to PFM reforms

The sector wide approach or integrated approach to PEFM reforms aims to develop and implement a comprehensive programme of improvements to all the aspects of the PEFM system, i.e. all stages in the Cycle:

- Planning and budgeting
- Budget implementation and accounting (often through the implementation of an Integrated Financial Management Information System (IFMIS))
- Internal and external audit.

In addition, these comprehensive reforms will focus on the institutional and capacity building aspects of PEFM as well as reforms to the legal framework. The development of such reform programmes has been linked to reviews of PEFM systems and usually form part of the conditionalities and agreements with donors as part of Budget Support.

The intended benefits of this approach are that all systems and processes are considered at the same time, taking into consideration linkages and sequencing of reforms. However, implementation of the integrated approach has not always led to the intended benefits, usually because of poor project management.

The next section summarises the recent literature on Public Expenditure and Financial Management.

2.3. PEFM Approaches and Literature

The reforms to Public Expenditure and Financial Management and their rationale are described in a number of documents. The key ones are summarised below.

World Bank PEM Handbook (2008)

Much of current thinking on Public Expenditure Management was set out in the World Bank Public Expenditure Handbook. The PEM Handbook provided a framework for focusing on three (3) objectives for Public Expenditure and Financial Management:

- ***Objective 1: Maintaining Aggregate fiscal discipline,*** at the aggregate level (overall government level) and by spending MDA level. This means having a clear target for the levels of government expenditures and ensuring that these levels are maintained during budget implementation. Lack of fiscal discipline can result in unplanned increases in expenditure, which have to be financed by increased domestic borrowing leading to macroeconomic instability.

Fiscal discipline involves two (2) issues: Firstly, developing realistic revenue and expenditure forecasts, which requires capacity and systems in place to set clear targets for revenues, expenditures and borrowing. Secondly, this requires ensuring that the necessary controls are in place and are followed to maintain expenditure levels within the agreed targets. MDA expenditures need to be within the agreed levels through controls from the Ministry of Finance and at the same time there needs to be the necessary political commitment and ownership of the Budget so that there is no pressure to increase expenditures beyond the agreed targets.

- ***Objective 2: Allocation of resources in accordance with strategic priorities,*** between and within sectors. This means that the government as a whole will allocate funds according to its objectives and priorities and that individual ministries will also allocate their budgets within their organisations to their priority areas.

  Ensuring that resources are allocated in line with priorities requires that governments have a clear set of priorities, which are usually defined in a national plan document such as the (NDP or a Poverty Reduction Strategy. It also requires effective systems for translating these priorities into budget allocations and this is one of the main areas of focus for the MTEF approach as described in Chapter 6.

- ***Objective 3: Efficient and effective use of resources*** so as to ensure that governments are able to provide the least cost, but effective services to the public that enable the achievement of government objectives and targets.

  In most governments, improving efficiency and effectiveness of government services has been addressed through the introduction of a programme or performance focus in budget preparation. Thus, the budget is planned and implemented on the basis of achieving agreed levels of performance, such as the number of pupils to be educated, farmers trained, kilometres of road rehabilitated, etc.

Emphasis is placed on the need to address all the above three (3) objectives at the same time. Lack of fiscal discipline will result in overspending and macroeconomic instability. Instability may mean that resources would not be allocated to priority sectors, thus reducing MDAs' ability to use resources efficiently and effectively. Similarly, only focusing on fiscal discipline will not necessarily result in improvements in service delivery to the public and the performance of the public sector.

This MEFMI PEFM Handbook focuses on ways in which existing PEFM systems are being reformed in order to better achieve the above objectives. It is important to note that it is possible to have a perfectly functioning PEFM system in place but that the actual allocation and use of funds do not match stated priorities. As explained further in Chapter 3 (Reforming PEFM), a PEFM system can provide the processes and tools for improving the use of public resources, but it is the choices made by policymakers and the implementation of the systems that will determine whether the reforms lead to better service delivery and achievement of government objectives.

A Contemporary Approach to Public Expenditure and Financial Management

The World Bank Institute: A Contemporary Approach to Public Expenditure and Financial Management, Allen Schick, World Bank Institute, April 1999.

This document also emphasises the importance of considering PEFM from the perspective of the three (3) objectives in the World Bank PEFM Handbook (1999). A distinction is made between "due process" i.e., the traditional approach to budget preparation with emphasis on a set of standard rules and procedures, and the elements of PEFM which focus on wider issues of institutional and managerial frameworks.

The emphasis is on the behavioural aspects of expenditure management, and how these need to be managed so as to achieve the optimal outcomes from limited resources.

Three (3) elements of the behavioural aspects are identified:

- **Appropriate incentives for effective use of scarce resources:** these are not financial incentives for individuals, rather appropriate institutional incentives and sanctions for performance. Thus, PEFM reforms have focused on changing the incentives and rules for managing resources, not simply the procedures for controlling expenditures.

- **Better Information:** all stakeholders require relevant information for making the best decisions on the allocation and use of resources. Reforms focus on reducing the level of detail required by the centre and moving to the provision of information on the costs of achieving agreed objectives and outcomes.

- **Changing Roles:** PEFM reforms have focused on changing the roles of the various stakeholders in expenditure management, with increased authority and accountability of MDAs for achieving agreed objectives and delivering planned outputs. The Ministry of Finance and Cabinet focus on the larger issues of allocations between sectors and achievement of agreed performance.

This document became well known for its emphasis on a gradual approach to reforming PEFM systems, known as "Getting the Basics Right". International Monetary Fund: Code of Good Practices on Fiscal Transparency.

The International Monetary Fund Code of Good Practices on Fiscal Transparency – a Declaration of Principles and related Manual on Fiscal Transparency, Fiscal Affairs Department, IMF, Revised Edition 2007.

This Code was developed in recognition that fiscal transparency can meet the three (3) aims of achieving:

- Macroeconomic stability by highlighting potential fiscal risks.
- Increased access to international capital markets with improved transparency leading to higher economic growth.
- Good governance by providing citizens with better information about how government funds are spent.

The Code has four (4) principles of fiscal transparency which are relevant to all countries:

- ***Clarity of roles and responsibilities*** within governments and between government and the private sector in the management of resources and delivery of services.

- ***Public Availability of Information*** The public should be provided with comprehensive information on past, current and projected fiscal activity and major fiscal risks. The information should be timely, i.e., without delays, and should be presented so as to facilitate policy analysis and accountability, i.e., so that the public has a comprehensive picture of governments' plans and can hold governments accountable for performance.

- ***Open Budget Preparation, Execution and Reporting*** through the use of internationally acceptable standards for budget preparation and accounting.

- ***Independent Assurances of Integrity*** emphasises the need for independent evaluation of expenditures, revenues and performance.

The Code and Manual were first produced in 1998 and have been updated in 2007 and 2014. See www.imf.org/external/standards.

Similar codes have been produced for assessing budget transparency:

- OECD Best Practices for Budget Transparency www.oecd.org; and
- Open Budget Initiative which provides a rating of the openness of budget materials in 120 countries www.internationalbudget.org.

Managing Public Expenditure

Managing Public Expenditure: A Reference book for Transition Countries, OECD, 2001 and Asian Development Bank, Managing Public Expenditure, Schiavo-Campo and Tommasi 1999.

These two (2) documents provide comprehensive coverage of all aspects of the Public Expenditure and Financial Management with additional focus on developing countries and Asia in particular (in the Asian Development Bank document) and on governments entering or seeking entrance into the European Union (transition countries). Experience from OECD countries is also discussed. Some of the areas of particular interest in these two (2) documents are:

i. The elements of effective legal and institutional arrangements.
ii. Improving budget coverage i.e., that all funds are included in government PEFM systems.
iii. Experiences of medium-term budget planning including projects/ capital budgeting within multi-year budgets and the need for integration of project/ capital budgeting with recurrent/ operational budgeting.
iv. Descriptions of budget implementation processes, including cash management, personnel and payroll management, and internal controls and internal audit.
v. Issues to consider in improving public accounting, financial reporting and audit including the introduction of an Integrated Financial Management Information System (IFMIS).
vi. The rationale for and development of performance management and evaluation systems.

Recent Literature from the MEFMI Region

The Collaborative Africa Budget Reform Initiative (CABRI) was formed in 2004 and is a self-organising network of senior budget officials from six (6) founding member countries - Ghana, Kenya, Mali, Rwanda, Senegal and South Africa. CABRI currently, works with around 40 African countries including MEFMI member governments. Since 2004 CABRI has run annual seminars to discuss PEFM issues facing their member governments across Africa. Each seminar has resulted in a publication of the papers presented at the seminar which provides useful information on country approaches and experiences. The publications can be found at www.cabri-sbo.org.

2.4. Principles of Effective PEFM Systems

The emphasis of reforming PEFM systems is to improve the characteristics or attributes of these systems, based on a set of common PEFM principles, many of which are commonly used but not always clearly understood. They are briefly described below.

Comprehensiveness: all resources are included in all stages of the financial management cycle, i.e., in planning, budget preparation, monitoring and evaluation, and audit. This includes all government and external resources and means that there are no expenditures or revenues which are managed through special accounts outside the government budget or accounts.

Having complete coverage or comprehensiveness is important to ensure that when decisions are made on the allocation of resources between sectors or programmes, they take account of all the funds available to MDAs. For example, if a ministry is receiving significant external resources which are not included in the government budget, Cabinet and Parliament can decide to allocate additional funds to this ministry without having information on the total funds already received by that ministry.

Similarly, if there are special accounts that are outside the control of the Ministry of Finance, the use of these funds will not be controlled by the government's financial procedures.

Discipline: this means that MDAs adhere to budget ceilings and that financial regulations are followed. Discipline is important to ensure that funds are spent according to government financial regulations (ensuring that government receives value for money and that wastage and corrupt practices are avoided) and that spending is kept within agreed targets, i.e., fiscal discipline is maintained. This needs to occur at two (2) levels: within MDAs and for the government as a whole so that unplanned deficits or over-expenditures do not occur.

Flexibility: MDAs are provided with the flexibility to reallocate resources (i.e., change the use of funds from one (1) type of expenditure to another: virement as described in Chapter 4) so that they can make the most efficient and effective use of resources. Many budget implementation systems and regulations involve a high level of control over the use of funds by Ministries of Finance. For MDAs to change spending from say operating costs to purchase of equipment requires approval from the Ministry of Finance.

Recent reforms are focusing on providing MDAs with greater freedom or flexibility in the use of funds. This does not mean that MDAs can reallocate resources as they wish, but that the degree of flexibility is increased over time, particularly if governments are moving to performance-focused systems which hold MDAs accountable for delivering agreed on levels of performance.

The level of flexibility is linked to the level at which the Budget is appropriated or approved by Parliament and the degree of control exercised by the Ministry of Finance over MDAs' ability to switch funds (See Chapter 5: Institutional and Legal Framework).

Predictability: MDAs are given some predictability or reliable indication of the resources they will receive over the medium term so as to improve their planning of activities. This is the rationale for introducing a medium-term perspective in the budget - MDAs are able to plan ahead for the implementation of their programmes and this encourages MDAs to phase the implementation of activities over the medium term rather than attempting to implement all activities within one (1) year.

However, as will be explained further in Chapter 4 on expenditure frameworks, the estimation of resources over a medium-term has its challenges, including ways of encouraging MDAs to focus on the medium-term rather than on only the next budget year.

Accountability: MDAs and Accounting Officers (Principal/Permanent Secretaries) in particular are held responsible for the delivery of the outputs as defined in the budget. With the introduction of performance-based budgeting in some countries in the region, the Accounting Officers are not only held accountable for remaining within the approved budget, but also for delivering the agreed-on number of targets, e.g. patients treated, pupils educated etc.

One (1) of the key aspects of accountability is that there should be consequences for an organisation or individual's ability to deliver the agreed performance through the use of sanctions and incentives, i.e., there is little point in an organisation reporting on performance if there are no consequences of either poor or good performance.

There are two (2) types of accountability: internal within organisations, and external to other organisations within the government, to Cabinet, Parliament and the public.

Transparency: the process and documentation of the budget are more open and informative in that it is clear how decisions are made and the basis that has been used in the allocation of resources. This involves providing useful information in a timely manner so that all stakeholders are informed about the use and impact of public funds.

Consultation: the new approach to PEFM involves increased consultation within governments and between governments and their stakeholders. For example, the development of MDA ceilings includes wider consultation and enabling MDAs to have an input into the setting of the ceilings.

Inter-linkages between systems: many elements of the PEFM systems operate in isolation. For example, recurrent and development budgets are often prepared and managed quite separately, and development partner funds are usually managed outside government systems. Reforms to PEFM systems focus on improving the integration of the various systems.

Legitimacy: most aspects of the budget preparation and management processes will be ruled by the Financial Regulations and Laws which gives the process its legitimacy. Thus, the budget presented to and approved by Parliament is a legally binding document.

Efficiency: whether the process of using inputs translates into the highest number of outputs, e.g., whether the inputs procured (textbooks, equipment, school maintenance and teachers) will lead to teaching the planned number of primary school pupils.

Effectiveness: whether the outputs will have the desired impact or outcome, i.e., whether the teaching of the primary pupils will result in improved pass rates, literacy, transition to secondary and tertiary education and ultimately to a more educated and economically productive society.

2.5. Approaches to Assessing PEFM systems

A number of approaches and tools have been developed to provide a systematic assessment of PEFM systems. These are described below in a number of boxes.

Box 2.2. Report on Observance of Codes and Standards (ROSC)

A ROSC summarises the extent to which countries observe certain internationally recognised standards and codes. The IMF has recognized 12 areas and associated standards which comprise: accounting; auditing; anti-money laundering and countering the financing of terrorism (AML/CFT); banking supervision; corporate governance; data dissemination; fiscal transparency; insolvency and creditor rights; insurance supervision; monetary and financial policy transparency; payments systems; and securities regulation. The AML/CFT was added in November 2002.

Reports summarizing countries' observance of these standards are prepared and published at the request of the member country. They are used to help sharpen the institutions' policy discussions with government authorities, and in the private sector (including various rating agencies) for risk assessment. Short updates are produced regularly and new reports are produced every few years.

See: http://www.imf.org/external/np/rosc/rosc.asp

Box 2.3. Public Expenditure Reviews

Public Expenditure Reviews (PERs) are core diagnostic studies prepared to review the allocation of public funds and the budget processes to assess the extent to which these promote economic growth and reduce poverty.

PERs are undertaken by the World Bank with the aim of providing information to the Bank's borrowers and to contribute to the World Bank's own country assistance strategy. Most PERs focus on the efficiency and efficacy of resource allocation and can include analysis and projection of revenue, determination of the level and composition of public spending, inter and intra sectoral analysis, financial and non-financial public sector enterprises, structure of governance, and the functioning and efficacy of public institutions.

In recent years the World Bank has worked closely with governments to undertake joint PERs and some governments now undertake their own regular PER processes as part of the budget process, for example in Tanzania, Uganda and Kenya.

See www.worldbank.org/external/topics/publicsectorandgovernance/publicfinance

Box 2.4. Country Financial Accountability Assessment (CFAA)

A CFAA is a diagnostic tool to enhance understanding of financial accountability arrangements in the public and private sectors. The CFAA aims to identify strengths and weaknesses in a country's PFM systems and to facilitate a common understanding among the government, the World Bank and development partners on the performance of the systems and institutions. This is used to identify priorities for reform, and the design and implementation of capacity building programmes.

See World Bank website and Country Financial Accountability Assessment Guidelines to Staff

Box 2.5. Country Procurement Assessment Review (CPAR)

Undertaken by the World Bank to assess procurements processes, including the legal framework, operation of tender boards, level of transparency in the system, and the systems within ministries for effective procurement. A second round of CPAR can be undertaken to assess the extent to which World Bank recommendations have been implemented.

Other donor organisations such as the UK Department for International Development (DFID) have developed a tool for assessing Fiduciary Risk (see Managing Fiduciary Risk When Providing Poverty Reduction Budget Support DFID Policy Division, September 2004).

Box 2.6. Country Policy and Institutional Assessment (CPIA)

The CPIA is a diagnostic tool utilised by the World Bank and the African Development Bank (AfDB) to assess government's policies and institutional arrangements, with a focus on the key elements that are within the country's control, rather than on outcomes (such as growth rates) that are influenced by elements outside the country's control. The CPIA measures the extent to which a country's policy and institutional framework supports sustainable growth and poverty reduction, and consequently the effective use of development assistance. The outcome of the exercise yields both an overall score and scores for all of the sixteen criteria that compose the CPIA.

The World Bank also undertakes the CPIA exercise to determine the relative size of the Bank's concessional lending and grants to low-income countries. International Development Assistance (IDA) resources are allocated in per capita terms on the basis of a country's IDA country performance rating (CPR) and, to a limited extent, per capita gross national income (GNI). Use of the CPR ensures that good performers receive, in per capita terms, a higher IDA allocation i.e., allocations are performance based. A country's overall CPIA score is the main element of the CPR.

The CPIA consists of 16 criteria grouped in four (4) equally weighted clusters: Economic Management; Structural Policies; Policies for Social Inclusion and Equity; and Public Sector Management and Institutions. For each of the 16 criteria, countries are rated on a scale of 1 (low) to 6 (high). The scores depend on the level of performance in a given year assessed against the criteria, rather than on changes in performance compared to the previous year. The ratings depend on actual policies and performance, rather than on promises or intentions.

See www.worldbank.org/ida/performanceassessments/; www.afdb.org

Box 2.7. CABRI's PFM Capability Assessment.

CABRI, has developed a framework for assessing PFM Capabilities that serves as a diagnostic tool for an in-depth country-level analysis. The assessments are conducted based on request from government counterparts. Accordingly, the scope is defined in consultation with country officials.

The capabilities assessment seeks to achieve the following objectives:

i) Providing CABRI member countries with a diagnosis of the weaknesses and strengths in their PFM capabilities in a way that lays the groundwork for country-driven reforms to build capabilities,

ii) Allowing CABRI and other stakeholders in the field of PFM to have a targeted approach to building PFM capabilities, including better matching for peer learning activities, and

iii) Building qualitative and quantitative databases facilitating assessment of improvements in PFM capabilities over time.

PEFA PFM Performance Measurement Framework

In 2005 the donor community realised the need to develop a single tool that would be recognised by all donors and governments. Consequently, the Public Expenditure and Financial Accountability (PEFA) was established. Through the PEFA initiative, a PFM Performance Measurement Framework was launched.

The PEFA PFM Framework has been developed to allow for the measurement of a government's PEFM systems over time. Secondary objectives include providing feedback to governments on their reform processes and facilitating the harmonisation of government and donors to use a common framework for measuring PFM performance.

The aim is to reduce the transaction costs for the government of dealing with many donors with differing views and concerns in reviewing PEFM systems.

The assessment of a government's PFM systems using the Framework is usually undertaken by a team of external consultants in partnership with government using the detailed indicators in the PEFA Framework Manual. The team will interview all stakeholders (government, civil society and donor organisations) as well as collect information and documentation from which to assess systems against specific indicators. These indicators measure performance on a scale of A-D, with an A score being the highest and D the lowest. These ratings are then presented in a report which also includes a description and assessment of recent and ongoing reforms.

In some cases, the results of an assessment using the Framework can influence donors' decisions on whether to provide additional support to a government, as they will indicate the readiness of a government's systems to absorb and effectively manage donor resources.

The PEFA Framework was revised in February 2016, adding four (4) new indicators relating to sub-national government operations and dropping three (3) indicators relating to donor practices. The new framework also expanded and refined the existing indicators in addition to a recalibration of baseline standards for good performance in many areas. PEFA 2016 introduced a stronger focus on the elements of internal financial control that can be observed in PEFA assessments, as well as established a clearer and more consistent structure for reporting PEFA findings.

PEFA generally measures the extent to which PFM systems, processes, and institutions contribute to the achievement of desirable budget outcomes:

- Aggregate fiscal discipline
- Strategic allocation of resources, and
- Efficient service delivery.

Content of the Framework

PEFA 2016 identifies seven (7) pillars of performance in an open and orderly PFM system. The seven (7) pillars thereby define the key elements of a PFM system. They also reflect what is desirable and feasible to measure. The pillars are as follows:

i) ***Budget reliability.*** The government budget is realistic and is implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget.

ii) ***Transparency of public finances.*** Information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance and ready access to fiscal and budget documentation.

iii) ***Management of assets and liabilities.*** Effective management of assets and liabilities ensures that public investments provide value for money, assets are recorded and managed, fiscal risks are identified, and debts and guarantees are prudently planned, approved, and monitored.

iv) ***Policy-based fiscal strategy and budgeting.*** The fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

v) ***Predictability and control in budget execution.*** The budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

vi) ***Accounting and reporting.*** Accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

vii) ***External scrutiny and audit.*** Public finances are independently reviewed and there is an external follow-up on the implementation of recommendations for improvement by the executive.

The Framework does not measure the factors that hinder effective performance such as the legal framework or capacity issues, nor does it focus on the content of fiscal policies or whether funds are allocated in line with stated government objectives. Instead, the Framework assesses whether the systems and processes enable effective resource allocation etc.

For each of the areas listed above, there are a set of 31 indicators that are used to assess and measure performance. These indicators are described critical to achieving sound PFM. The 31 indicators are further disaggregated into 94 individual dimensions that focus on key aspects of the PFM system. Since the launch of the PEFA framework in 2005, PEFA has been used in 151 countries.

See: www.pefa.org

MEFMI Assessment Tool

Section 4.1 includes the MEFMI PEFM Assessment Tool which was developed by MEFMI in collaboration with its member countries at a workshop in Uganda in 2002. It can be used by member governments to assess their PEFM systems, identifying quick wins for reform, developing an effective reform agenda and involving key stakeholders at various stages in the reform process.

2.6. Purpose of MEFMI PEFM Assessment Tool

The purpose of the MEFMI PEFM Assessment Tool is to assist governments to assess their own systems, so as to identify their strengths, weaknesses and gaps in processes and capacities.

Based on this assessment governments can then identify a range of interventions and improvements to their systems, processes and capacities.

In many cases governments are in the process of implementing some elements of PEFM reform and the tool can be used to assess whether these improvements are:

i. ***Appropriate*** to the needs and strengths/weaknesses of their particular circumstances.

ii. ***Comprehensive in coverage:*** some reforms may be focused only on a particular area of PEFM.

iii. ***Integrated:*** PEFM reforms need to be developed and implemented in an integrated manner.

iv. ***Sustainable:*** are reforms being implemented in a manner that will ensure their sustainability?

v. ***Building ownership, confidence and commitment:*** are reforms involving all appropriate stakeholders so as to build commitment?

The aim is to provide a tool that governments can use with support from MEFMI, if required, to assess their strengths and weaknesses and develop appropriate solutions. Thus, the problems and solutions will be "owned" by governments rather than being imposed from outside.

The results of the Assessment can be used, with MEFMI's assistance, to draw up a programme of support and for discussions with donors on the reliability of their PEFM systems and areas where further support would be required for strengthening their systems.

Scope of the MEFMI PEFM Assessment Tool

As explained in Chapter 1 (Overview of PEFM), current thinking on PEFM reforms emphasises the need to review not only the technical processes but also the related roles, responsibilities and information that are required to ensure effective allocation and use of scarce resources. Thus, the PEFM Assessment Tool aims to provide a comprehensive review of all aspects of PEFM, including a review of systems and processes, institutional and legal issues, and capacities for PEFM.

Reviewing all aspects of PEFM would be futile if not followed by reform. The next chapter outlines the various approaches that could be employed in reforming PEFM.

CHAPTER 3

REFORMING PEFM

Chapter 3: Reforming PEFM

3.1. Introduction

This Chapter sets out the approaches to reforming Public Expenditure and Financial Management (PEFM).

The Chapter includes:
i. A summary of the common weaknesses in developing country PEFM systems.
ii. A summary of recent reforms to PEFM systems and common issues faced by developing countries.
iii. A brief description of wider public sector reforms including civil service and parastatal reform.
iv. Planning and implementing PEFM reforms including the need to take account of the interests of various stakeholders.
v. Implementing PEFM reforms at local government level.
vi. The importance of change management in the reform process.

The final section of the Chapter briefly describes the issues involved in managing a major reform or change to the way in which governments operate, i.e. change management, along with suggestions on how to make use of change champions.

Key issues

In developing countries, reforms to Public Expenditure and Financial Management systems have focused on improvements in the following areas:

- Fiscal discipline which was a significant driver of reforms in some countries starting in the 1980s.
- Improved allocation of resources in line with priorities between and within sectors
- Improved efficiency and effectiveness of expenditures.
- Additional objectives include improving transparency, accountability, and predictability in availability of funds, wider participation of stakeholders and legitimacy of the PEFM system.

Specific reforms to PEFM systems include:

i. ***The Medium-Term Expenditure Framework (MTEF)*** which seeks to improve the links between planning and budgeting, ensure that limited resources are allocated within a three-year hard budget constraint, and improve the services delivered with public funds and their impact on the population.
ii. ***Integrated Financial Management Information System (IFMIS):*** the introduction of computerised accounting systems with emphasis on improving the accuracy, timeliness, control and management of public funds.
iii. Strengthening management processes such as ***procurement reforms, payroll and personnel management reforms.***
iv. Bringing systems into line with ***international standards*** such as for internal and external audit.
v. Strengthening ***Public Investment Management*** systems to increase efficiency of capital expenditure.
vi. Reforms to the ***legal framework*** through introduction of new legislation and roles of the oversight organisations.

In some countries, reforms have been implemented as a single reform. In other countries they have been introduced as part of a comprehensive PEFM reform programme, with a number of reforms being implemented at the same time in an integrated programme. While there is no single correct way of implementing PEFM reforms it is important that they are government-led, and take account of stakeholder roles and interests.

3.2. Common Weaknesses in Developing Countries' PEFM Systems

All developing country governments have the necessary legal and institutional systems in place for the collection and spending of public resources. These systems were established in the early part of the twentieth century and usually provide a comprehensive and robust system for the control of public resources.

These systems differ in their exact implementation and legal framework depending on:

- The Colonial administration under which they were introduced, i.e., whether a country was a former British, French or Portuguese colony.
- Current regional arrangements such as Francophone countries' participation in the Franc Zone.
- Current thinking in PEFM reforms, which is tending to lead to the introduction of similar PEFM principles and systems across countries in the MEFMI region.

While the PEFM systems introduced in the colonial period were effective in the 1960s and 1970s, from the 1980s onwards these systems have faced several constraints which are described below, along with the lack of integration between systems and the impact of these weaknesses.

Table 3.1. Common PEFM Weaknesses and their Impact

Weaknesses in PEFM Systems	Impact
Planning and Policy Analysis	These have undermined government capacity for effective policy formulation.
Lack of government capacity to develop macroeconomic forecasts and suitable models for the development of such forecasts.	Unrealistic fiscal framework which leads to the need to reduce expenditures during budget implementation, and predictability of funding.
Budget preparation	
Line-item focus of processes and documents i.e., on inputs (e.g., how much is to be spent on fuel).	There is no planning of the outputs (the goods and services to be produced with the funds).
	Expenditures usually increase on all items of expenditures causing under funding of priority activities to worsen.
	There is little or no emphasis on alternative means of achieving objectives nor on cost efficiency and effectiveness.
The focus of the budget was on an annual basis, so that government and MDAs were not planning ahead for the implementation of activities.	MDAs attempt to implement activities within one (1) year rather than planning realistic implementation plan.
Within the annual budget, lack of integration between recurrent and development (or capital) budgets.	The future recurrent costs of capital projects are not planned for and there may be some duplication of activities in both budgets.
Budget Implementation	
Insufficient accountability and transparency in the use of public funds.	MDAs are not held accountable for achieving objectives and spending funds as approved by Parliament.
Insufficient fiscal discipline within government systems.	Funds and activities approved in Budgets may not be implemented in practice: new low priority activities may receive funding
Weak implementation of existing budget execution systems and poor cash management, often resulting in the introduction of cash budgets.	MDAs will not receive the funds as budgeted and are therefore unable to implement approved programmes.
Weak coordination between ministries of finance and line ministries and between central and local government.	The achievement of government objectives and value for money are encumbered.

External Resource Inflows	
PEFM systems were developed before the large inflows of external resources following Independence, which combined with a lack of accountability has led donor organisations to put in place parallel systems to meet their own accountability requirements.	Governments were not aware of or in control of funds which had been approved for supporting government projects and services.
Weaknesses in PEFM systems	**Impact**
Wider Institutional Issues	
Problems of retaining staff: both in terms of numbers of staff and qualifications/skills.	The quality of PEFM implementation will not reach planned levels.
The parallel processes of civil service reforms which are often not linked to the budget process.	MDAs will be responsible for implementing parallel processes such as performance budgeting and performance management. Civil service ministries may increase establishments or approve restructures without regard to the impact on the Budget.
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The parallel processes of civil service reforms which are often not linked to the budget process.	MDAs will be responsible for implementing parallel processes such as performance budgeting and performance management. Civil service ministries may increase establishments or approve restructures without regard to the impact on the Budget.

Other weaknesses

Numerous factors adversely impact country PEFM progress, including the following:

i. Inadequate sequencing of reforms, deriving from donor pressure or difficulties for government to determine the path of reforms.
ii. A fragmented approach to reforms and limited leadership in government.
iii. Duplicative diagnostic instruments and overburdening of countries with diagnostic products and action plans.
iv. Limited monitoring of progress (overly focused on inputs), which did not foster lesson learning or a focus on results on the ground.
v. Inadequate capacity and lack of capacity building.
vi. Frequent emphasis on narrow technical reform versus systemic change.

3.3. Recent PEFM Reforms in Developing Countries

To address the weaknesses in PEFM systems, developing countries including MEFMI countries embraced several reforms that essentially focused on three (3) objectives:

- Maintaining fiscal discipline
- Improving sectoral allocations
- Improved efficiency and effectiveness of expenditures

The key reforms to PEFM systems being implemented in MEFMI countries include:

The ***Medium-Term Expenditure Framework (MTEF)*** in its simplest form is a process of matching limited funds with unlimited needs within a hard budget constraint over the medium term, usually three years. The MTEF is described in more detail in Chapter 4 (expenditure frameworks).

Programme or Performance-Based Budgeting has been introduced in a number of countries in the MEFMI region, usually as part of the MTEF process. This approach focuses on developing a stronger link between government objectives and priorities and the preparation of line ministry budgets. These budgets will usually be based on the setting of specific performance targets such as the number of primary school pupils to be educated.

Integrated Financial Management Information System (IFMIS) is an integrated system for managing government funds using a computerised financial management system. The system usually covers all aspects of budget preparation and management: government budget preparation, commitment control, purchasing, expenditure management (cash management, payments, cheque writing, etc.), and production of regular financial reports and government public accounts.

Experience has shown that it is important to focus as much on the preparatory and institutional issues in the introduction of an IFMIS:

- Reviewing existing processes so that weak systems are not simply computerised, including any necessary changes to the Chart of Accounts.
- Implementing an effective change management and capacity building plan.
- Ensuring that the focus is not simply on the technical issues but on improving transparency, accountability and performance.

Strengthening of the ***Public Investment Management Systems (PIMS***) is being undertaken in a number of countries in the MEFMI region purposely to increase the efficiency and productivity of capital expenditure. PIMS focuses on all the key stages of a project cycle:

i. Project preparation
ii. Appraisal
iii. Screening and selection
iv. Approval
v. Implementation (including budgeting, procurement and contracting)
vi. Monitoring and evaluation
vii. Operation and maintenance of the assets generated from the investments.

In addition to these major reforms, a number of governments are also strengthening:

- The legal and institutional framework for PEFM
- Procurement, internal and external audit
- Systems for coordination and management of external resources.

3.4. Wider Public Sector Reforms

Many governments have embarked on a wide-ranging reform of the public sector with the emphasis on improving efficiency and effectiveness in service delivery and meeting government objectives. These reforms tend to cover a set of initiatives usually including PEFM reform, civil service and parastatal reform.

They are often managed from within the Office of the President or Prime Minister where the main function is the coordination of the specific reform initiatives, which are implemented by the relevant technical ministry such as the Ministry of Finance.

Civil Service Reforms

Civil service reforms have tended to focus on two (2) broad issues:

- ***Reducing the total costs of government through:***
    - Improving payroll systems and removing ghost workers (i.e., non-existent staff for whom existing employees will claim a salary) from government establishment lists.
    - Civil service pay reforms.
- Restructuring government ministries, usually with the aim of downsizing ministries so as to reduce costs and streamline function.

    However, the benefits of those downsizing or restructuring exercises can quickly disappear if the civil service ministry can approve the creation of new positions or the increase in establishments without regard to budget constraints.

    More recently the focus has been on improving the performance of the civil service through:

    - Preparation of strategic plans to improve the operation of MDAs and the achievement of government objectives.
    - Introduction of a performance focus in the management of civil servants through performance management systems, performance contracts, etc.
    - Introduction of a performance focus in the budget and contracting out of some government services.

Parastatal Reforms

Parastatals or state-owned enterprises have also been the subject of reform in most developing countries as they had tended to be less productive than private sector firms resulting in significant losses which then have to be covered by government budgets. Thus, the aim of parastatal reform has been to improve the productivity of these organisations and insulating the national budgets from the inefficiencies and losses arising from state-owned enterprises.

Parastatal reforms have focused on:

- Privatisation of parastatals.
- The commercialisation of parastatals where the organisations remain within government ownership but are required to operate on a commercial basis, i.e., do not require subsidies from government.
- Use of public-private partnerships (PPPS).
- Introduction of performance contracts between government and those organisations that are not privatised to hold them accountable for the delivery of effective services.
- Improvements in the management and oversight of parastatals by government through the establishment of units or divisions within a Ministry of Finance or a specific organisation established with this responsibility. Their main responsibilities are to monitor parastatals' service delivery, and to ensure that government fiscal risks are limited by supervising the parastatals' borrowing and financial management more closely to avoid the creation of liabilities for the government.

3.5. Planning and Implementing PEFM Reforms

Effective reforms to Public Expenditure and Financial Management systems need to be led by governments rather than development partners and/or consultants. This section provides suggestions on planning for the reform, identifying the issues to be addressed through the reform and involving key stakeholders in the reform process.

Addressing Common Constraints to Effective Reform

Most governments in the MEFMI region started the implementation of PEFM reforms either as individual reforms such as the Medium-Term Expenditure Framework (MTEF) or Integrated Financial Management Information System (IFMIS), or as a comprehensive reform programme addressing all aspects of the PEFM system.

Experience of PEFM reforms has shown that there are a number of common constraints to the implementation of effective reforms which can undermine the success of the reform programme. In governments where these issues are addressed the reforms are more likely to be successful. For example, the governments of South Africa and Uganda demonstrated a high level of political commitment to PEFM reforms which accounted for the relative success of the reforms in these countries.

While these reforms have been introduced in many MEFMI governments, a number of constraints have prevented the reforms from reaching their full potential as described in Table 3.2 below.

In planning the implementation of PEFM reforms or strengthening existing reform programmes the above issues need to be addressed, i.e., increasing political commitment, defining a clear and comprehensive reform programme, and ensuring that the reforms are government-led.

Table 3.2. Summary of PEFM Reforms and Constraints

PEFM Objective	Issues	Reforms	Constraints
Maintaining fiscal discipline	Credible macroeconomic forecasts	Developing forecasting and macroeconomic management skills and tools	Difficulties of retaining qualified staff. Difficulties of developing and sustaining country led macroeconomic models
	Ensuring commitment at all levels to agreed targets	Increased participation in discussion of targets and political commitment to targets (MTEF)	Where political commitment to reform is lacking this is difficult to address
	Budget implementation systems to ensure adherence to targets	Existing budget implementation systems may need to be strengthened: this can be part of an IFMIS	Lack of political commitment to ensuring adherence to budget implementation rules
Improving sectoral allocations	Ensuring clear national and sectoral objectives	Preparation of national and sector documents that set out priorities	Such documents may define priorities at such a high level that all government programmes become priorities.
			Lack of integration with budget process may mean that national priorities are not implemented in practice

PEFM Objective	Issues	Reforms	Constraints
	Preparation of three-year estimates that reflect medium term priorities within hard budget constraint	Introduction of the MTEF through which ministries submit their requirements as an input into the setting of ministry ceilings	Ministries tend to focus only on first year of estimates. Ministries of Finance tend to continue using percentage increases in allocation of funds contrary to MTEF principles
	Linking plan and budget processes	Introduction of the MTEF	Where responsibilities are separate for planning and budgeting, these may remain separate
Improving efficiency and effectiveness of expenditures	Improving the basis for the budget	Introduction of a performance focus in the budget	Difficulties of defining appropriate performance indicators
	Lack of accurate and timely information for evaluating expenditures	Introduction of IFMIS to improve recording of and reporting on revenues and expenditures	Ensuring close link between planning, budgeting and accounting reforms
	Weak public investment management systems	Strengthen PIM systems to improve the efficiency and productivity of capital expenditure	Difficulties in developing capacity of staff especially in appraisal of projects
	Lack of monitoring and evaluation processes	Introduction of systems to monitor and evaluate performance	These systems may not be linked to budget and accounting systems
	Weak internal audit and external audit capacities	Strengthening audit systems and capacities	Difficulties of retaining qualified staff
Improving Aid Management	Large percentage of donor flows outside government systems	Donors' agreements (Paris Declaration) to increasing capture of donor flows	Not all donors are willing and able to comply. Governments do not have the necessary systems and capacity to capture the information
	Donors using their own systems creating significant administrative burden for government	Donors' agreements to use government systems	Not all donors are willing and able to comply. Government systems are not always able to capture donor funds

Planning for PEFM Reform

Table 3.3 below sets out some of the issues to be addressed in planning for a PEFM reform programme or strengthening the implementation of existing reforms.

Table 3.3. Planning a PEFM Reform

Establish a steering committee and sub-committees with responsibility for specific sub-systems such as budget preparation. The steering committee needs to be led by a senior civil servant with access to government top leadership, to meet regularly and be able to take decisions and ensure that these are implemented. See the section below on managing PEFM reform and change champions.
Assessing existing systems or the implementation of an existing reform Existing systems need to be measured against "best practice", which is set out in the MEFMI Assessment Tool and can be used along with the other tools. Issues: Are the systems themselves weak or is it the implementation of the systems that is not effective? Detailed evaluations can be undertaken to involve stakeholders in assessing existing systems. See Chapter 11: PEFM Reporting Systems.
Define the specific measures required to strengthen the systems. Draw on experience from elsewhere (e.g., countries of similar characteristics and/or from the same region) to identify which processes have been successful and those that have not reached their full potential. Ensure that the focus of the reform is comprehensive and that effective linkages between the various sub-systems are strengthened. Study tours can be useful to assess other country experiences.
Develop a detailed action plan with milestones and responsibilities for implementation of the action plan. The action plan needs to be linked to the budget cycle itself as well as to other key milestones and activities such as donor coordination meetings. Project planning tools can be useful for developing detailed plans.
Ensure that there is high level commitment to the reform through regular sensitisation and briefing of the Minister of Finance, Cabinet and even Parliament. Briefing of Cabinet, Parliament and other stakeholders needs to be tailored to the different needs and levels of understanding of the issues. High level political commitment is critical when inter MDA issues or obstacles arise, or in quickly filling key vacancies important to the reforms.
Ensure that capacity building plays a major role in the PEFM reform process, with a detailed training plan for all stakeholders. The reform needs to be government-led and owned and the process itself should build the capacities of all those involved. Training also needs to be an ongoing process rather than linked just to the introduction of a new system or process.
Undertake regular monitoring and evaluation of the process. It is important to assess whether the reform programme is on track, identify issues that need to be addressed in subsequent years and any additional capacity building or funding requirements that need to be met.

Deciding on PEFM Reform Strategies

The way in which PEFM reforms have been implemented in developing countries is the subject of much debate, i.e., whether to implement a reform such as the Medium-Term Expenditure Framework (MTEF) across a government in one (1) year or to introduce the new process on a more gradual basis through piloting the process.

However, it is not possible to state whether one (1) approach is better than another. It depends on the country circumstances. The advantages and disadvantages of the two approaches are listed in Table 3.4 below.

Table 3.4. Comparison of the Big Bang and Piloted Approaches to PEFM Reforms

Big Bang Approach: i.e., across the whole of Government	Piloted Approach
Advantages	
It sends a clear message that government systems are changing, and it is no longer business as usual. It is possible to make trade-offs across the whole of government using the MTEF information which is not possible using a piloted approach.	It allows for lesson learning from the experience of the pilot ministries. Enables a government to develop its own internal capacity to manage the reform and develop internal training capacity.
Disadvantages	
It does not allow for a government to gradually develop its own process, based on experience. It can place an enormous capacity and management burden on government. It is likely to be riskier particularly for an IFMIS. It can result in rushed process with insufficient understanding of new systems which can take longer to build than if implemented more slowly. It can be extremely costly if the project is found not to work, whereas a more incremental approach may limit big sunk costs.	If implemented over a long period, can lead to apathy and lack of commitment or "reform fatigue". It is more difficult to see the full benefits within a short period.

There are, however, some common issues that need to be considered:

- There needs to be a clear vision and objectives for the reform process so that even if the reform is implemented over several years, this takes place within the context of an agreed framework.
- All elements of the reform need to be in place for the reform to reach its full potential.
- Reforms need to be a continuous process so that each year it is important to review progress and make any changes to the implementation plans and even the approach based on the experience of the reforms.

Roles of Key Stakeholders in the Reforms

Much of the literature on PEFM reforms provides advice to governments on the "best practice" in terms of implementing a reform programme. However, governments are a group of stakeholders each with their own interests. Other factors such as the personalities of the key individuals involved in the reform process, institutional weaknesses, and the political environment also play a key role in the success or failure of PEFM reforms.

Thus, when designing a reform programme or reviewing an ongoing reform programme it is necessary to understand the existing incentives of the various stakeholders and to assess the extent to which each stakeholder will support or hinder the success of the reform as listed in Table 3.5 below.

Table 3.5. Stakeholder Interests in PEFM Reforms

Stakeholder	Interests	Barriers
Parliament	Increased transparency in allocation and use of resources, better delivery of services.	Vested interests in the maintaining the status quo. Insufficient understanding of PEFM reforms.
Cabinet	Increased transparency in allocation and use of resources, better delivery of services. Can quickly remove barriers, especially those involving inter ministry "turf" issues.	Vested interests in the maintaining the status quo. Insufficient understanding of PEFM reforms.
Ministry of Finance	Able to focus on strategic issues rather than line-item details and firefighting activities.	Inadequate capacity in MOF may constrain more strategic approach, particularly if there is political pressure to avoid increased transparency.
MDAs and LGs	Deliver better services with limited resources and be more accountable to their stakeholders.	Vested interests in the maintaining the status quo. Insufficient understanding of PEFM reforms.
Donors	Greater clarity on government priorities and more effective systems for allocating and managing total resources.	Donor organisations may want to keep control of individual projects, lack of understanding of PEFM reforms.
Private Sector	Increased transparency in allocation and use of public funds, efficiency in payment of suppliers.	Some private sector companies may be benefiting from lack of transparency.
NGOs/Civil Society	Increased transparency and accountability in allocation and use of public funds.	Civil society organisations may not have capacity to hold governments to account.
Public	Better and adequate public services.	Several sections of the public have no voice especially in the rural areas. Local leaders may be corrupted to keep quiet and to manage their communities regarding lack of services.

This means suitable entry points or groups of stakeholders that need to be identified who will support the reform initiatives and can act as change champions:

- Parliament and Civil Society can put external pressure on a government to be more transparent and accountable where there is no internal commitment to the reform.
- Cabinet can demand a more transparent process of allocating resources between competing needs and more useful information on the delivery of services by MDAs and LGs.
- A strong Ministry of Finance can implement fiscal discipline measures, effective systems for allocating resources between ministries and improved reporting systems.
- Strong MDAs can, in the absence of leadership from Ministry of Finance or Cabinet, begin to implement reforms within their own ministries and can act as a model of best practice for the rest of government.

3.6. Implementing PEFM Reforms at Local Government Level

Many governments in the MEFMI region have implemented a programme of decentralisation in recent years. This has involved devolving greater powers to local government authorities for the implementation of programmes and delivery of services that had previously been implemented at the central government level. The main rationale for decentralisation is to increase efficiency and accountability by bringing the decision making and delivery of services closer to the beneficiaries, i.e., the public.

Thus, decentralisation can include:

- ***Political decentralisation:*** creating new levels of government at the lower level, with elected councillors.
- ***Administrative decentralisation:*** creation of a new level of government at the lower level with responsibility for implementing programmes at the local government level.
- ***Fiscal decentralisation:*** this includes the procedures, systems and responsibilities for revenue collection and budget allocations at the local government level.

Other than devolving responsibility to local governments, some governments have the option of simply deconcentrating responsibilities - which may appear as another form of decentralization, but it is not.

The difference between devolving responsibility and deconcentration of responsibility needs to be understood:

- ***Devolving*** responsibility involves handing over responsibility and resources to another level of government.
- ***Deconcentration*** of responsibility involves central government MDAs providing their services at the district level through their own offices rather than through local government. Thus, deconcentration is quite different from decentralisation as central government does not hand over responsibility to local government, instead government services are provided through central government offices in districts.

Fiscal decentralisation requires that the central government hands over responsibility for revenue collection and allocation of funds through a local government system for planning, budgeting, and financial management. Fiscal decentralisation can take various forms and can include a range of revenue sharing arrangements and authority over budget allocation decisions including:

- ***Expenditure Assignment***

Assigning expenditure responsibilities between levels of governments e.g., defence, monetary policy, foreign affairs-central government; town planning, street lighting, garbage collection-local governments.

- ***Revenue Sharing***

  - Assigning certain revenues to local government such as property rates.
  - Tax sharing agreements in which the taxes are collected at the central level of government (e.g., natural resource revenues) but shared between the various levels of government.
  - Providing a pool of specific tax revenues to local government.

- ***Expenditure Allocations***

  - Unconditional grants provided by the central government to local government, i.e., funds which local authorities can spend on their preferred programmes and activities.
  - Conditional grants or transfers that are linked to specific standards in delivering services in specific sectors.
  - Targeted grants which are provided for specific purposes or projects.

However, as experience in the MEFMI region has shown decentralisation is a complex process and not all the intended benefits are easily realised. It is in the area of fiscal decentralisation where many governments have faced problems.

Some of these problems include:

i. Lack of clarity at the outset regarding the various responsibilities and functions of the various levels of government.

ii. Often there are institutional problems between the Ministry of Finance and Ministry of Local Government, particularly in the area of fiscal decentralisation and lack of clarity as to which ministry should lead on fiscal decentralisation.

iii. Difficulties in deciding on which revenues are to be collected by central government and those to be collected by local government.

iv. Lack of capacity at the local government level to implement effective PEFM systems.

v. Increased likelihood of misuse of funds, corruption and targeting of expenditures at politically motivated projects or on the administrative function of the local authority rather than on priority programmes.

vi. Unwillingness of central government departments to hand over their functions to local government, partly because of the lack of capacity at the local level to effectively deliver services and the reluctance of some central government ministries to hand over control over their programmes.

vii. Lack of reliable data which limits revenue sharing and allocations.

Examples of fiscal decentralisation in Ghana and South Africa are described in the Boxes below.

Box 3.1. Ghana: District Development Fund

The Constitution of Ghana and the District Assemblies Common Fund (DACF) Act, (1993), Act 455 mandates Parliament to make provision for the allocation of not less than five per cent (5%) of the total revenue of Ghana to the District Assemblies' Common Fund for the implementation of development programmes in the Metropolitan, Municipal and District Assemblies.

Under the District Assemblies' Common Fund Act, the Administrator of the District Assemblies' Common Fund is required to propose annually for the approval of Parliament a Formula for Sharing the Common Fund to the District Assemblies.

Box 3.2. Fiscal Decentralisation in South Africa

The Constitution of South Africa requires that local government plays a key role in provision of services to communities in a sustainable manner, promote social and economic development, provide safe and healthy environments, and encourage public involvement in matters of local government. Parliament enacted the Municipal Finance Management Act (MFMA) in 2003 which "supplements conventional procedural financial management rules with a performance-based system focusing on outputs, outcomes, and measurable objectives. *Page 12, A Guide to Municipal Finance Management for Councillors, National Treasury, Republic of South Africa, March 2006.*

This Guide sets out the roles of the councillors in the planning, budgeting, accounting and audit processes, with the main emphasis on oversight and holding of the municipal management accountable for the delivery of services through formal structures.

South Africa has three (3) tiers of government: National, Provincial and Municipal—with significant decentralisation of powers, functions and processes for all aspects of financial management. The relationship between the three (3) tiers of government is defined in the Intergovernmental Relations Framework Act (2005). Decisions on the allocation of resources between the three levels of government are made in the budget forum chaired by the Minister of Finance with representatives of the Department of Provincial and Local Government, provincial members of the executive councils and the South African Local Government Association (SALGA).

The National Budget documents show the total transfers to the two (2) lower levels of governments and these lower levels produce their own detailed budget documents setting out the programmes and activities to be implemented.

Guidelines for Effective Fiscal Decentralisation

Although there is no blueprint for the perfect fiscal decentralisation and each system has to be appropriate to the needs and circumstances of each government, there are a number of common principles that can be applied:

i. The responsibilities of each level of government should be clearly specified and overlapping responsibilities should be avoided.

ii. The fiscal and revenue sharing arrangements between the levels of government should be stable and predictable, i.e., not changing from year to year.

iii. Local government authorities need to be informed of the likely revenues they will receive prior to starting their budget preparation processes so that they can estimate their expenditures with some degree of certainty.

iv. Incentives for improved efficiency at local government levels are important.

v. Medium term performance contracts between central and local government could provide a more predictable basis for revenue sharing and expenditure allocations for local government while also including some level of performance to be achieved by local government.

vi. Common budget classification, accounting standards and reporting requirements should be agreed between central and local government. Local government budgets and accounts should be included in central government documents in separate tables to clearly show that these are revenues and expenditures at the local government level.

vii. Local government should be appropriately assigned sufficient revenues for them to be able to deliver the budgeted services. If they are given new responsibilities additional revenues or grants should be provided to cover these costs.

viii. Central government deficits should not be “downloaded” to local government, i.e., by reducing the levels of revenues passed to local government or by increasing the expenditure requirements at the local government level.

ix. Where local government accumulates arrears or incurs budget overruns, central government should apply sanctions or emergency measures.

The control of borrowing by local government is a key issue in relation to fiscal discipline, as uncontrolled borrowing can undermine any measures to ensure fiscal discipline at the central level. Central government will need to have specific ways of controlling borrowing at the local government level including:

- Annual borrowing ceilings.
- Authorization of local government borrowing by central government.
- Centralization of all borrowing through the Ministry of Finance or Central Bank.

3.7. Managing the Change of PEFM Reforms

One of the key aspects of ensuring the effective implementation of PEFM systems and processes is changing not only the technical aspects but also the underlying institutional framework.

This includes assessing and strengthening:

- Roles and responsibilities to match the new processes.
- Possibly restructuring organisations to match the new responsibilities and functions.
- Changing, if necessary, the "culture" of the organisation, possibly from one of detailed control to one of managing performance and accountability.

Many governments will have experienced difficulties in these institutional changes which may have hampered the more technical aspects of PEFM reforms. Some of the key elements to implementing effective institutional change include:

i. Ensuring that the senior managers have a common vision of what they want to achieve in the medium to long term.
ii. Developing a plan of action that sets out the detailed steps to reach this vision, with the responsibilities of all key stakeholders defined.
iii. Reviewing staff functions and responsibilities in the light of new procedures, rather than the other way round.
iv. Any restructuring of an organisation to be based on these new processes.
v. Identifying "change champions" who can lead the change process.
vi. Identifying any barriers to change and risks and developing actions to limit these risks.

What is Change Management?

Change is inevitable and people need to manage change or change will manage them. There are several things that may cause or trigger change:

i. Changes in level of technology used.
ii. Change in stakeholder expectations.
iii. Government legislation or policy.
iv. Alterations in the economy.
v. A personal initiative.
vi. Changes introduced by superiors/subordinates within the organisation etc.

PEFM reforms can involve a fundamental change in the way organisations plan, budget and manage their funds. For this reason, change management needs to be a key feature when implementing such a major reform.

Types of Change

Change divides broadly into two (2) types: i.e., ***incremental change***, and ***transformational change.***

Incremental change requires people to do the same things a little better, a little faster, but remaining within the same mind set, i.e., the same assumptions, beliefs, norms, etc. So it is much easier for people to implement the change and less effort is needed to manage it. An example of this might be changing offices.

Transformational change is where people are called upon to do things in a completely different way, for example the introduction of the MTEF. It requires people to invent solutions from outside their normal mind set i.e., "thinking outside the box". It thus, demands much more effort from all concerned to get the change implemented successfully. An example of this might be when two (2) separate MDAs are merged during a Cabinet reshuffle. If not properly managed they will continue to operate separately.

When introducing a change such as a PEFM reform it is important to understand how people react to change and focus initially on those who respond positively to the reforms as described in Box 3.3. below.

Box 3.3. Dealing with Change

People react differently to change: some people are cautious and others see change as an opportunity. Empirically, it has been proven that:

- 20% readily embrace change.
- 60% are on the fence.
- 20% reject it outright.

When change occurs, people deal with it in three (3) ways:

- By resisting.
- By following.
- By embracing the change.

Those who resist change want to maintain the status quo which is not possible in the ever-changing environment we live in. Majority of people who start by resisting eventually find that they have to follow, trying to catch up.

The question is which category of people does the manager concentrate his/her efforts?

The answer is on the 20% who embrace change, as they can act as disciples of the change and help to persuade the 60% of the people who are unsure of the benefits of the change.

Getting managers and all involved to recognise that change is inevitable, even in government, helps prepare them for effectively managing and sustaining change.

Change Champions

To implement effective change, it is important to identify change managers or champions to lead the reform process. Change champions do not need to be the most senior person in an organisation, but someone who has demonstrated that they are supportive of the change, understand the benefits and will be able to communicate and encourage others in implementing the change.

These change champions need to be responsible for ensuring:

i. The need for change is identified, understood, and expressed in a clear way and then communicated throughout the organisation. People are generally willing and able to deal with change if they know it is necessary and accept the need for it.
ii. The existence of a shared vision which expresses where the government intends to go as a result of the change.
iii. A vision of the result of the change.
iv. The provision of an effective response to the reasons why the change is being introduced.
v. The identification of the desired future condition of the government etc.
vi. The creation of a climate of enthusiasm and participation.
vii. That everyone involved in making the change has to feel part of it and accept the vision and how it is to be realised.
viii. That aspects such as the future structure, patterns of work, and procedures etc. are explained in detail to all within the organisation that additional champions for the change are identified and charged with leading the reform within the organisation.

Successfully reforming PEFM would not be achieved without understanding how public expenditures are essentially analysed. How to analyse and adjust expenditure frameworks is the focus of the next chapter.

CHAPTER

4

EXPENDITURE FRAMEWORKS

Chapter 4: Expenditure Frameworks

4.1. Introduction

This chapter discusses how the total amounts of financial resources that become available to government entities every year are determined. It has five (5) sections. The first section defines and summaries the types of expenditure frameworks. The second section explains how public expenditures are analysed and adjusted. The third section discusses the recent approaches to determining public investment expenditure at aggregate and sector levels. The fourth section briefly delves into the nuts-and-bolts of the Medium-Term Expenditure Framework (MTEF). The fifth section discusses how expenditures are tracked, while the last section discusses how to design effective fiscal expenditure rules.

By way of definition, an expenditure framework is a mechanism that allows expenditures to be driven by policy intentions/ priorities at the same time disciplined by budget realities, over a certain period of time typically three (3) to five (5) or even ten (10) years (World Bank, 1998)[5]. There are two (2) major types of expenditure frameworks—flexible (annually updated), and fixed (the figures remain unaltered once they have been set).

Flexible frameworks are essentially set on a rolling basis, which means that a new year is added at the end of the framework period when the first year expires, while fixed frameworks are reset periodically towards the end of the period covered. For example, in the Netherlands[6], the framework can be reset at the beginning of an electoral term, allowing a new incoming government to implement new policies at the beginning of its term.

Updating or resetting the expenditure frameworks is always preceded by an analysis of the expenditures involved, and later adjusting/restructuring them to ensure they facilitate the achievement of the policy objectives of Government. ***Subsection 4.2 explains how public expenditures are analysed and adjusted.***

Expenditure frameworks can also be distinguished along several other dimensions, notably:

- Number of ceilings they establish (some frameworks establish only a single aggregate ceiling on expenditure, while others contain a number of sub ceilings at the MDA level or the policy level (e.g., health, education, infrastructure, etc.). ***Section 4.3 provides an example of such frameworks, focusing on public investment frameworks.***

- Number of budget years covered (many frameworks cover a three to five-year period, typically known as a Medium-Term Expenditure Framework (MTEF). They (MTEFs) provide ceilings at both policy/sector and MDA levels, as well as ceilings for the different types of expenditures (recurrent, capital, mandatory, etc.). ***This is elaborated in Section 4.4.***

- Extent of their comprehensiveness (i.e., how much of government spending is subject to the framework e.g., whether mandatory spending or interest payments should be included or not). To a large extent, this relates to expenditure tracking. ***Section 4.5 focuses on this aspect.***

4.2. Analysis and Restructuring of Government Expenditure

4.2.1. Analysis of Government Expenditures

The major purpose of analysing public expenditures is to ensure that the appropriated budgets are being executed as planned, in line with government priorities and achieving policy objectives. The analysis essentially includes a report that provides an overview of public expenditures e.g., comparing annual budgets against outturns for sectors, MDAs or expenditure items/ objects. The analysis also provides a foundation for stakeholder dialogue on the efficacy of a country's budget strategy and policy priorities, which later, if necessary, provides basis for the restructuring of public expenditures and reform planning.

[5]World Bank (1998); "Public Expenditure Management Handbook."
[6]OECD Journal on Budgeting Volume 2012 Supplement 1.

The analysis essentially involves the following:

i. Establishing the absorption rates or spending achievement rates by sector, policy area or spending category (recurrent-wage, recurrent-nonwage, capital/development, other expenditure).
ii. Working out the year-on-year percentage change for government expenditure, both recurrent and non-recurrent.
iii. Establishing the percentage share of expenditure by sector or policy area.
iv. Studying the trends in government expenditure.
v. Review of major capital projects.
vi. Establishing the relationship between government expenditure and Gross Domestic Product (GDP), by sector or policy area, over a longer period.

Establishing expenditure absorption/burn rates or spending achievement rates

At the beginning of a fiscal year, governments allocate budgets to different expenditure categories and sectors. These budgets are expected to be spent when released to the sector. However, in reality, not all amounts allocated to the different sectors or expenditure categories are absorbed at the end of the fiscal year. In some instances, there can be an over-spend, especially where supplementary appropriations were involved. There are usually several factors that lead to an under-spend or overspend for a given sector or expenditure type. An analysis is therefore usually done to establish the absorption/burn rates for each sector or expenditure type and the reasons for the observed rate (whether overspend or underspend). The absorption/burn rate is calculated as the outturn or actual expenditure divided by the budgeted or appropriated expenditure for a given sector or expenditure category. Table 4.1 illustrates how this analysis may be presented.

Table 4.1. Expenditure Absorption Rates by Expenditure Category and Sector (2018-20): An Illustration

Expenditure category/FY	FY2018			FY2019			FY2020			Reason(s) for underspend or overspend for current FY
	Budget (B)	Actual (A)	Absorption rate (C=A/B)	Budget (B)	Actual (A)	Absorption rate (C=A/B)	Budget (B)	Actual (B)	Absorption rate (C=A/B)	
A. Expenditure type										
i) Recurrent (wage)										
ii) Recurrent (nonwage)										
iii) Capital/development										
iv) Other expenditure										
Total expenditure										
B. Sector/Policy Area (Classification of the Functions of Government (COFOG))										
i) General Public Services										
ii) Defence										
iii) Public Order & Safety										
iv) Economic Affairs										
v) Environmental Protection										
vi) Housing & Community Amenities										
vi) Health										
viii) Recreation, Culture & Religion										
ix) Education										
x) Social Protection										

Analysing year-on-year percentage change for government expenditure

This is done by deriving the year-on-year percentage change (increase or decrease) for expenditure by sector or policy area or by category. Such analysis helps to establish whether government's policy intentions are being implemented or not. For instance, in case Government chooses to prioritise a particular sector over other sectors in a given period, the year-on-year percentage changes for the prioritised sector should be expected to exhibit a larger increase compared to others. Likewise, a sector or expenditure category that has been deprioritised should be expected to yield a percentage decrease over the previous expenditures.

Table 4.2 illustrates how the year-on-year percentage change analysis could be summarised and presented. The last column usually presents an average percentage change for a given number of years e.g., five- or ten-year average increase/decrease. This helps to establish the average rate of increase in expenditures for a given sector or expenditure category.

Table 4.2. Government expenditures — year on year percentage change (an illustration)

Expenditure category/FY	Year on year percentage change									Average growth (2009-2019)
	2001	2002	2003	2004	……	2016	2017	2018	2019	
C. Expenditure type										
i) Recurrent (wage)										
ii) Recurrent (nonwage)										
iii) Capital/development										
iv) Other expenditure										
Total expenditure										
D. Sector/Policy Area (COFOG)										
i) General Public Services										
ii) Defence										
iii) Public Order & Safety										
iv) Economic Affairs										
v) Environmental Protection										
vi) Housing & Community Amenities										
vi) Health										
viii) Recreation, Culture & Religion										
ix) Education										
x) Social Protection										

Establishing the percentage share of expenditure by sector or policy area

This is done by deriving the percentage shares of expenditure by type/sector in comparison to total government expenditure. Again, such analysis helps to establish whether government's policy intentions are being implemented or not. For instance, Government could have agreed to allocate the agricultural sector not less than 10 percent of total expenditure (in consistency with the Maputo declaration, as an example); or to ensure that compensation of employees does not exceed 50 percent of total expenditure. Such analysis helps to monitor whether such policy decisions are being implemented when it comes to budget allocation.

Table 4.3. Government expenditures - percentage share to total expenditure: An illustration

Expenditure category/FY	Share to total expenditure (%)									10 yr average share (2009-2019)
	2001	2002	2003	2004	…..	2016	2017	2018	2019	
E. Expenditure type										
i) Recurrent (wage)										
ii) Recurrent (nonwage)										
iii) Capital/development										
iv) Other expenditure										
Total expenditure										
F. Sector/Policy Area (COFOG)										
i) General Public Services										
ii) Defence										
iii) Public Order & Safety										
iv) Economic Affairs										
v) Environmental Protection										
vi) Housing & Community Amenities										
vi) Health										
viii) Recreation, Culture & Religion										
ix) Education										
x) Social Protection										

Review of major capital projects

This involves collecting, monitoring and evaluation of information on each public investment project financed in the national budget and utilise the information to judge whether the project is on/off track and recommend onward action as appropriate. Table 4.4 illustrates how this analysis may be done.

The analysis may also involve undertaking sectoral analysis to compare efficiency in public investment management amongst sectors (see Table 4.5). Furthermore, the analysis may involve establishing unit costs for selected completed projects e.g., to establish the cost of constructing a kilometre of paved road between similar regions, or cost of constructing a primary school classroom for 40 pupils, etc. **Table 4.6 provides an example.**

Table 4.4. Performance of capital projects as at end [mm, yyyy]

#	Project name	Sector	Start date	Estimated duration (years)	Estimated cost (e.g., US$m)	Budget Yt (e.g. FY 2020/21)	Exp Year to date		%absorption (compared to prorata expectation e.g., 50% if period under review is end Jun)	Observations
1.	Redevelopment of referral hospitals in 5 districts	**Health**								
2.	Construction of new hospital for covid patients (foundation, basement excavation works)	**Health**								
3.	Construction of twenty 10-classroom primary schools in 20 disadvantaged districts	**Education**								
4.	Widening of city roads (feasibility, construction)	**Roads**								
5.	Implementation of ICT fibre network (phase 1)	**ICT**								
6.	Etc...									
7.	Etc...									
8.	Etc...									
9.	Etc...									

Table 4.5. Sector Budget Execution Rates 2009/10 - 2018/19 for Country Z.

			NDP1					NDP2*				Averages	
Code	**Sector**	**2009/10**	**2010/11**	**2011/12**	**2012/13**	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**	**NDP1**	**NDP2***
01	Agriculture	61.5	71.9	64.4	60.4	68.3	51.4	65.8	59.5	84.8	71.0	63.3	70.3
02	Lands, Housing and Urban Development	95.8	59.4	83.3	98.8	110.7	81.7	65.8	31.2	99.0	62.9	86.8	64.7
03	Energy and Mineral Development	56.7	58.7	65.5	8.1	11.2	36.6	14.7	17.1	59.1	69.5	36.0	40.1
04	Works and Transport	40.2	48.3	56.6	68.7	63.9	72.4	54.7	51.8	55.7	80.0	62.0	60.5
05	ICT and National Guidance	29.1	100.6	63.0	62.6	81.7	75.9	46.0	45.2	75.8	75.6	76.8	60.6
06	Tourism, Trade and Industry	38.8	28.3	20.8	33.5	32.8	49.7	5.8	97.2	77.6	86.8	33.0	66.9
07	Education	37.7	40.7	37.7	30.2	27.0	28.5	22.0	23.3	66.3	92.8	32.8	51.1
08	Health	30.9	61.3	38.5	32.0	26.3	29.1	10.5	10.8	30.7	51.2	37.4	25.8
09	Water and Environment	72.9	49.9	50.1	41.1	52.2	53.8	34.2	42.2	97.0	92.6	49.4	66.5
10	Social Development	40.7	49.3	49.2	8.7	94.6	106.2	71.2	66.0	86.4	67.8	61.6	72.9
11	Security	104.7	605.2	69.4	34.0	61.2	49.2	29.2	32.5	34.1	122.0	163.8	54.4
12	Justice, Law and Order	92.4	82.1	90.0	69.2	90.7	97.9	148.6	90.5	145.2	125.4	86.0	127.4
13	Public Sector Management	87.5	45.8	33.6	31.4	40.4	45.6	63.3	32.9	60.5	74.8	39.4	57.9
14	Accountability	60.6	51.1	57.4	56.4	83.4	94.7	74.1	95.8	86.9	92.5	68.6	87.3
15	Legislature	74.7	81.9	100.0	72.1	100.0	87.3	62.9	56.1	229.4	65.6	88.3	103.5
16	Public Administration	169.2	124.2	71.0	119.9	107.1	105.4	97.1	125.7	108.6	134.0	105.5	116.3
18	Science, Technology and Innovation			0.0	77.2	100.0	100.0	100.3	40.6	88.8	17.8	69.3	61.9
19	Tourism	69.8	76.2	82.4	90.2	130.1	100.0	96.1	60.4	87.0	90.8	95.8	83.6
20	Local Government	11.1	7.7	4.7	10.5	29.3	41.1	32.4	88.9	49.8	68.8	18.7	60.0
	Grand Total	**51.1**	**95.7**	**56.1**	**39.3**	**44.6**	**53.2**	**37.6**	**40.6**	**62.4**	**79.2**	**57.8**	**54.9**

* NDP2 average is for 4 years; data for 5th year (2019/20) not yet available

Table 4.6. Unit costs for sample road upgrading projects.

#	Name of road	Length (km)	Total Cost (Million US$	Cost/km (Million US$)	Comments
1	Road A (single lane)	11.53	13.48	1.169	
2	Road B (dual carriage)	51	328.74	6.446	
3	Road C (dual carriage)	17.5	78.47	4.484	
4	Road D (single lane)	110	65.51	0.596	
5	Road E (single lane)	74	69.57	0.940	
6	Road F (single lane)	77.7	44.99	0.579	
7	Road G (single lane)	104	56.65	0.545	

Relationship between expenditure and GDP

This requires compiling data over a longer period on government expenditure by category (as classified in a country's chart of accounts) and by sector or policy area. Two (2) approaches are usually taken in analysing the relationship between government expenditure and GDP. The first approach focuses on the share of government expenditure to nominal GDP, as illustrated in Table 4.7. The trends are then examined to draw conclusions.

The second approach utilises regression analysis to examine the extent to which government expenditure is influencing GDP. This approach demands availability of expenditure time series for a longer period (at least 20 years) for the results to be statistically significant. The analysis can be done using statistical packages such as STATA, EVIEWS, or even Microsoft Excel, among others. It requires specifying a function with GDP as the dependent variable and total expenditure and sectoral expenditures as the independent variables. The coefficients on each variable studied would be interpreted as appropriate to determine the extent to which the sectors or types of expenditures are influencing GDP.

Proper public expenditure analysis requires proper statistical data. Countries should collect in a timely fashion the relevant comprehensive data on economic and functional expenditure components and subcomponents that encompass all proper public entities, including local governments and extra budgetary institutions. In addition, data on expenditures in each functional category should be broken down into their economic components. Other types of data (for example, detailed social indicators) are also required for effective public expenditure policy analysis.

Table 4.7. Share of government expenditure to GDP (an illustration)

Expenditure category/FY	Expenditure as a share of GDP (%)									
	2001	2002	2003	2004	.....	2015	2016	2017	2018	**2019**
G. Expenditure type										
i) Recurrent (wage)										
ii) Recurrent (nonwage)										
iii) Capital/development										
iv) Other expenditure										
Total expenditure										
H. Sector/Policy Area (COFOG)										
i) General Public Services										
ii) Defence										
iii) Public Order & Safety										
iv) Economic Affairs										
v) Environmental Protection										
vi) Housing & Community Amenities										
vi) Health										
viii) Recreation, Culture & Religion										
ix) Education										
x) Social Protection										

4.2.2. Restructuring Public Expenditures

Restructuring government expenditures is about having to redirect the composition of government spending towards priority programs that are expected to lead to the achievement of a country's policy objectives e.g., growth-enhancing programs, poverty reduction programs, etc. To achieve this, there is a need to assess properly the relationship between government spending and the achievement of policy objectives. It, therefore, involves analysing the links between public finances and long-term growth, analysing and monitoring trends in the composition of government expenditure and measuring the efficiency of public expenditure.

On the other hand, restructuring public expenditures is about improving the productivity of public expenditures. It is essentially motivated by the following:

- To reduce the fiscal deficit, especially in circumstances where it is difficult or impossible to raise the level of revenue. If tax reform alone is unlikely to bring about the needed downward adjustment in the fiscal deficit, often the focus is shifted to the expenditure side of the budget.

- To save money that can be used in the expansion of critical public programs. For instance, many governments have restructured their expenditures during the COVID-19 pandemic and diverted the funds to areas that are considered more critical in addressing the COVID-19 related challenges. The pandemic came as an emergency health challenge.

- To reduce the size and role of the public sector and the level of public expenditure over time because the public sector is engaged in activities that can be carried out more efficiently by the private sector.

Restructuring of public expenditure is often difficult to plan and execute. It requires intensive technical analysis, political compromises, and identification of stop-gap measures. Nonetheless, governments have to undertake expenditure restructuring when necessary. The goal should be to achieve fiscal adjustment in the most efficient and sustainable way possible, with due consideration to maintaining essential public services, protecting growth prospects, and achieving an equitable distribution of income (IMF, 2005)[7].

The most common approaches used in restructuring public expenditures include:

- Across-the-board reductions in spending without regard to the relative importance of various expenditures *(this is often the politically easier path)*.
- Reducing expenditures on operations and maintenance.
- Reducing expenditures on capital spending *(however this may reduce growth prospects for the economy)*.
- Reducing real wages by keeping nominal wages unchanged *(however, this can lower the productivity of government workers)*.

Public Expenditure Productivity

Public expenditure should always be directed towards enhancing the productive capacity of the economy. Thus, measuring public expenditure productivity involves comparing outputs produced or objectives achieved, with given expenditures. According to IMF (2005), the following two (2) conditions are essential for public expenditure programs to be efficient or productive:

i) **Lowest possible cost.** Public sector operations must be cost-effective. Individual public expenditure programs or projects should be designed and implemented to provide given levels of outputs or achieve specific objectives at minimum cost. For this condition to be satisfied, the public sector must use human and other resources fully and effectively; that is, it must not waste any resources. Moreover, given their prices, inputs should be mixed optimally.

ii) **Appropriate mix of outputs and sustainable levels of aggregate expenditure.** For public expenditures to be productive in the aggregate, the mix of public sector outputs should be optimal. The government should not produce too much of one good and too little of another. If the benefits of public sector outputs could be quantitatively measured and compared with one another, an appropriate mix of outputs for a given level of aggregate public expenditure would be achieved by equalising at the margin the benefits of each program. This would yield the highest aggregate benefit.

To accurately comprehend the productivity of public expenditures, it is important to understand what unproductive expenditures entail. Unproductive expenditure may be defined as the difference between the actual public spending on the program and the reduced spending that would yield the same social benefit with maximum cost-effectiveness. Moreover, if a change in the mix of cost-effective public sector programs were to reduce aggregate public expenditure without reducing the aggregate benefit, the difference between the two aggregate expenditure levels that yield the same aggregate benefit could also be considered unproductive expenditure (IMF, 2005).

Unproductive expenditures often arise because of several factors, including:

- Uncertainties.
- Lack of a well-trained civil service.
- Inadequate checks and balances in the political and budgetary process
- Corruption.

Examples of unproductive expenditures:

- Subsidies that benefit the rich instead of the poor (replace such subsidies with benefits that target the poor).

[7] IMF (2005); "Unproductive public expenditures: a pragmatic approach to policy analysis." Paper prepared by the IMF Fiscal Affairs Department, April 2005.

The existence of generalised food or producer subsidies is usually indicative of the potential for savings in public expenditures.

- Expenditures on white elephant projects - prestigious projects that do not serve useful economic or social objectives.
- Expenditures on investment incentives and transfers to loss-making public enterprises

Practical approach for assessing public expenditure productivity.

Some practical steps for identifying unproductive expenditures and improving overall expenditure productivity may involve the following:

i) ***Examine whether the primary objective of the project or program is being met in the most cost-effective way.*** At times, glaring inefficiencies, such as ghost employees or vastly underutilised infrastructure requiring large operational costs, can be easily recognised without elaborate analysis.

ii) ***Examine the objectives and outputs of a given program.*** Unproductive expenditures may emerge because of the ambiguity and multiplicity of outputs and objectives.

iii) ***Analyse the mix of inputs.*** For instance, roads without adequate allocations for operations and maintenance are an indication of inefficient infrastructure expenditure. A shortage of medicine or nurses relative to doctors may imply inefficient health expenditures. A shortage of textbooks relative to teachers is an indication of ineffective education programs. Generals without adequate numbers of foot soldiers are an indication of ineffective military expenditures.

iv) ***Identify programs that could best be implemented more efficiently by the private sector*** without compromising other possible objectives, such as an equitable distribution of income.

v) ***Assess whether input prices are correctly valued*** and whether they are not inflating the budget.

vi) ***Undertake a comparison of expenditure allocations under either functional or economic headings with countries at the same level of development and in the same region.*** A particularly high level of expenditure in one category could be symptomatic of expenditure inefficiencies.

vii) ***Use cost benefit-analysis to evaluate public expenditures and use the findings to e.g. reallocating expenditures from programs yielding smaller additional benefits to programs that offer higher benefits.*** However, using cost-benefit analysis often raises complex measurement and valuation problems. The best approach is to apply it for selected public programs or for the broad expenditure composition only as a framework for informed debate on policy alternatives, rather than as a mechanical tool for providing precise answers.

viii) ***Examine institutional arrangements and management capabilities of MDAs to establish whether they are deficient or not***. If found deficient, then it becomes the basis for expenditure restructuring (if at all it is politically feasible) to protect the expenditures from being rendered unproductive.

ix) ***Look out for underutilization of existing facilities in MDAs***—as this often points to inefficiency.

x) ***Assess budgetary allocations to different sectors or MDAs in terms of wage and nonwage expenditures as this may provide an idea of expenditure productivity.*** Relatively low nonwage current expenditures are often indicative of low expenditure productivity e.g., smaller nonwage allocations may imply the workers will have no tools with which to deliver; on the other hand, relatively large nonwage allocations could be an indication that some waste exists.

xi) ***Undertake an analysis of overall and sectoral employment, disaggregated by type of employee*** and judge whether reducing employees in a certain category can help raise expenditure productivity. For instance, an MDA could have many middle managers or low-level employees that are ineffectively employed.

xii) ***Use empirical evidence to evaluate the productivity of public expenditures*** e.g., to estimate the impact of public expenditures on economic growth, and the efficiency with which these expenditures yield their outputs, or even how certain expenditure components impacts productivity in other expenditures or target outputs. The findings can be used to suggest ways to improve public expenditure composition and productivity.

4.3. Public Investment Management Frameworks

Public investments involve government capital expenditure on physical infrastructure (e.g., roads, railways, airports, water and sewerage systems, schools, hospitals, prisons, government office buildings, etc.) and soft infrastructure (e.g., human capital development, innovation support, research and development, etc.) with a productive use that extends beyond a year. The treatment of the capital component of the budget is different from that of recurrent expenditures. The prioritisation of capital spending options for inclusion in the budget takes place separately from the prioritisation process applying to recurrent expenditures. It often operates through the preparation of a Public Investment Plan (PIP). Table 4.8 provides the key features of a PIP.

Table 4.8. Features of a typical PIP

Feature	Example
Project No.	1301
Project name	Enhancing National Food Security through increased Rice production in Country Z
Implementing Agency	Ministry of Agriculture (Vote No. 111)
Responsible Officer	Director for Agricultural Research
Location	Gege, Lubombo Region
Total Project Value	US$250.4 million
Internal Rate of Return (IRR)	23 percent
Estimated Net Present Value (NPV)	US$60 million
Start Date	13 July 2020
Completion Date	12 July 2023
Background	Project is aligned with the ninth (9th) NDP. Main goal of the project is to contribute to the increase in production, marketing and consumption of rice for improved nutrition, food security and incomes in Gege area. The project development objectives are to increase production and productivity, mainly small holders' farmers of maize.
Objectives	To ensure food security through increased production of maize resulting in sustainable improvement in welfare of beneficiary poor communities. The objective of the project is to increase Gege's annual maize production by 33 percent from the current 200,000 tons to at least 265,000 tons.
Expected Outputs	1. Water Storage Infrastructure for Irrigation 2. Land development & irrigation system. 3. Monitoring & Evaluation. Under this component a comprehensive monitoring and evaluation system with a performance measurement framework will be set-up at the Project Implementation Unit (PIU), which will allow for fine tuning the project impact assessment indicators from the technical, environmental, financial and socio-economic points of view.

Feature	Example
Technical description of the project	The components of the Project consist of establishing water storage infrastructure for irrigation involving dam construction/elevation; associated land preparation, levelling and drainage; improving productivity of small-scale maize producers and associated access to processing and marketing; a PIU; consultancy services; audit; small-holder participation and private sector involvement. The project total cost is estimated at $ 50.16 million out of which [e.g., AfDB] proposes to finance a total amount of US$ 35 million.
Summary project expenditure estimates by item	211101 General Staff Salaries US$xxxxx 211102 Contract Staff Salaries US$xxxxxx 211103 Allowances US$xxxxxx 212201 Social Security Contributions US$xxxxxx 221001 Advertising and Public Relations US$xxxxxxx 221003 Staff Training US$xxxxx 221004 Recruitment Expenses US$xxxxx 221008 Computer supplies and Information Technology US$xxxxxx 221009 Welfare and Entertainment US$xxxxx 223003 Rent (Produced Assets) to private entities US$xxxxxx 223004 Guard and Security services US$xxxx 225001 Consultancy Services-Short term US$xxxxxxx 227001 Travel inland US$xxxxxxx 227004 Fuel, Lubricants and Oils US$xxxxxxx 228002 Maintenance - Vehicles US$xxxxxxx 281502 Feasibility Studies for Capital Works US$xxxxxx 281503 Engineering and Design Studies & Plans for capital works US$xxxx **Grand Total US$XXXXXXXXXX**

The PIM framework's conceptual foundation is rooted in the economic efficiency approach, which emphasises that a capital investment project should not be accepted if it does not provide ex-ante proof that it will yield a positive economic return. The approach also requires that within a limited budget, a subset of projects with the highest economic profitability should be preferred regardless of which sector they belong to. The rationale is that a project that has a positive economic return (represented by the economic Net Present Value) will add to the country's GDP, whereas a project with a negative economic return subtracts from the country's GDP. Hence, only projects that have positive economic returns should be considered for implementation and projects with negative economic returns rejected. The approach further provides that if all proposed projects are assessed with positive economic returns, projects with higher returns and less risk should be given priority.

The PIM framework also requires that every project must go through a project development life cycle, that is, every project must follow exact phases in its development, appraisal and implementation. These phases are particularly instrumental in designing a project as they provide a framework for resource allocation, and scheduling project milestones during execution and establishing a monitoring and control system for the project.

Typical PIM frameworks have four (4) distinct phases. These include (i) Project identification, (ii) Pre-investment phase, (iii) Investment phase, and (iv) Operation and ex-post phase. Each of the project phases comprises a distinct set of stages, which should be carried out sequentially. Below is a brief description of each phase.

i) **Project Identification phase:** The purpose of this phase is to identify the gaps in the economy and define investment interventions and priorities to address the gaps. It is from these interventions that a project is developed. Project identification is undertaken by a project sponsor, usually an MDA.

ii) **Pre-investment phase:** The objective of this phase is to ensure that the proposed investment intervention/project is the best solution to the identified problem, that is, that the proposed intervention is superior to alternative options. In this phase, information is gathered and the necessary studies for the identification, formulation and appraisal of the project are done. The phase particularly helps to reduce the degree of uncertainty about the investment decisions to be made.

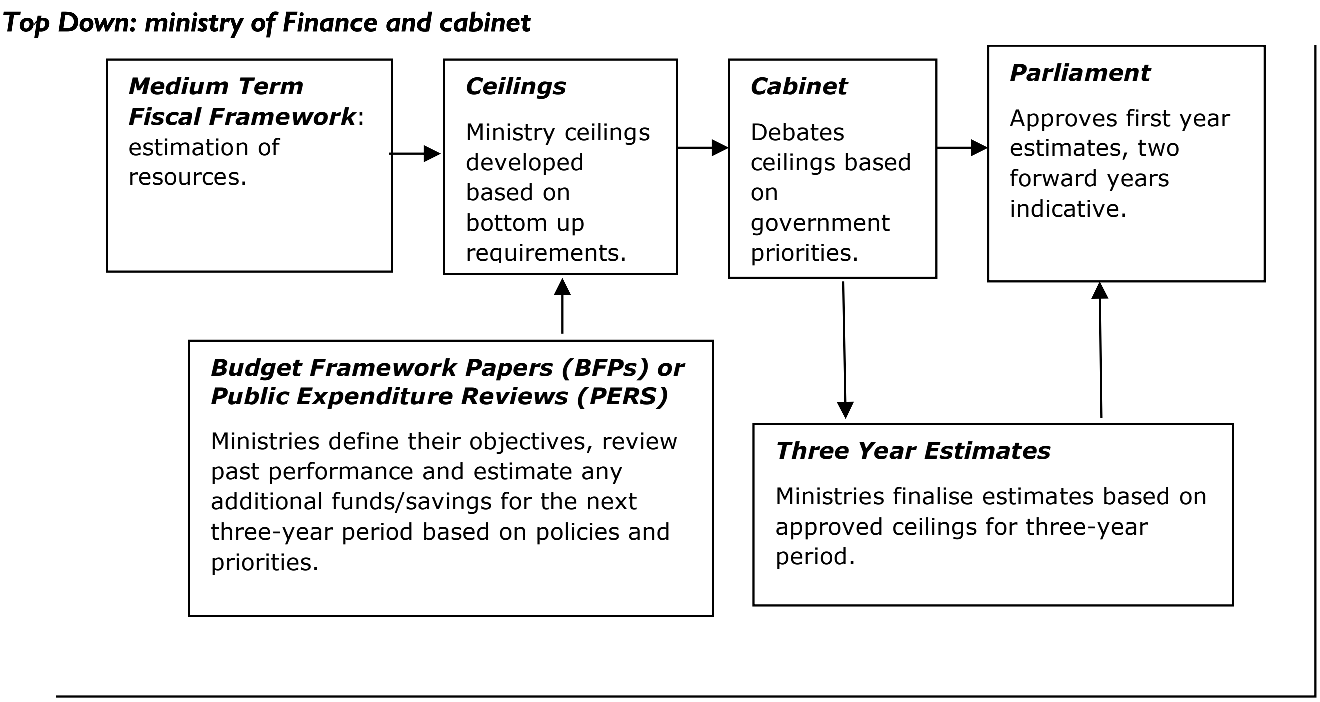
iii) **Investment phase:** The purpose of this phase is to ensure that the investment decision taken under the pre-investment phase is implemented as appropriate so that the project can deliver the expected results. The phase particularly covers all aspects of project implementation—identification of financing for the project, procurement, project execution, control and monitoring. This phase also entails project completion, which involves verifying that the project tasks have been completed satisfactorily within the specified contract period, cost and quality, and checking whether there are any adverse outcomes due to the project.

iv) **Operation and ex-post evaluation phase:** This is the final phase, where the completed project evolves into its operation stage when it is able to deliver its expected goods and services for which it was implemented. The phase also involves setting up appropriate organisational structures and allocation of resources for operations and maintenance for the proper running of the new facility. It is also under this phase that ex-post evaluation studies or impact assessments are carried out to assess the positive or negative impacts that the project generated as well as to evaluate whether the project provided value-for-money relative to other possible interventions.

4.4. The Medium-Term Expenditure Framework (MTEF) Approach

The MTEF comprises a process of estimating a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, finally the matching of the costs with available resources in line with government policies and priorities.

Figure 4.1.Overview of MTEF Process



Bottom Up: MDAs

The detailed process for an MTEF based budget is shown in Figure 4.1 above. The process involves:

i) ***Development of Macroeconomic and Fiscal Framework:*** from the top down the Ministry of Finance estimates the total resources available through the updating of the macroeconomic and fiscal framework.

ii) ***Review of performance: Public Expenditure Reviews or Budget Framework Papers:*** MDAs prepare a document that summarises their past performance, identifies issues that need to be addressed and estimates any additional funds required for the next three-year period.

iii) ***Development of ceilings:*** The Ministry of Finance develops proposed ceilings by:

- Taking the total resources available over the three (3) years.
- Deducting statutory and other non-discretionary expenditures.
- Allocating the discretionary expenditures between ministries based on government priorities.

iv) ***Cabinet reviews the proposed ceilings and fiscal framework:*** to assess whether the proposed allocations are in line with government priorities. The final ceilings are included in the budget call circular issued to the MDAs.

v) ***Ministries produce multi-year estimates for both recurrent and capital that fit within the ceilings:*** these estimates are reviewed by Ministry of Finance to ensure that they are in line with priorities and fit within the agreed ceilings.

vi) ***Presentation of the three-year estimates to Cabinet and Parliament:*** although the Budget documents may present three-year estimates, ***it is only the first year which is formally approved by Parliament.*** The two (2) forward years are presented as indicative figures to provide an indication to MDAs of the funds they are likely to receive over the three-year period. These two (2) forward year figures are updated and rolled over each year.

Key Elements of the MTEF Process

Allocating resources between ministries and priorities (setting sector ceilings)

Unlike the current incremental approach, the MTEF involves dividing resources between ministries based on government priorities. MDAs develop comprehensive plans focused on achieving agreed objectives, outputs and outcomes, including both government and donor resources, moving away from the incremental approach. Ministries can propose changes in policy or make a case for additional resources based on this analysis. The information is used at the centre to make reallocations between ministry ceilings based on achieving government objectives. Government will make clear choices about how funds will be allocated between sectors based on clearly defined priorities.

There is increased transparency in the way that resources are allocated between and within ministries both in terms of involving MDAs in allocating resources and through preparation and discussion of documents that set out ministry ceilings over the medium term.

Basing the Budget on the achievement of targets (outputs) and objectives

From the bottom up, ministries move away from an incremental approach to budget preparation and start by defining their objectives and performance indicators, reviewing their performance and identifying issues that need to be addressed in order to improve their performance.

In defining their objectives, outputs and activities, ministries define a set of performance indicators so that they can begin to measure whether their programmes achieve the planned objectives. There is increased focus on improving service delivery and ministries develop performance indicators to assess.

Three-year comprehensive budget

The Budget is set within a three-year framework including all resources, both domestic and foreign, so that MDAs can plan their activities over the medium term. The three-year estimates provide MDAs with predictability in planning their activities:

estimates are reviewed and rolled over each year rather than from scratch. The budget process becomes comprehensive: all resources are planned and budgeted for together: donor and government, recurrent and capital.

Increased stakeholder consultation
The MTEF process involves increased participation of and consultation with MDAs in the setting of ceilings. This ensures that the ceilings are based on their requirements.

Ideally, the MTEF process involves greater discussion of government priorities and how these are reflected in the budget ceilings and estimates.

Various country approaches to this stage in the MTEF process are summarised in Box 4.1 below.

Box 4.1. Country Approaches to the Sectoral Allocations Process

In Uganda, Sector Working Groups prepare Budget Framework Papers that are aggregated into a national Budget Framework Paper discussed by Cabinet and Parliament prior to detailed annual budget preparation. This approach is also followed in South Africa with their Medium-Term Budget Statement.

In Tanzania, a sector Public Expenditure Review process is undertaken that identifies issues to be included in setting of ceilings. The call circular includes three-year ceilings, but these are not approved by Parliament.

In Ghana, ministries go through a "Policy Review" process in which sectors review expenditure and policy issues as input into development of ceilings.

In Zambia, the ceilings are incorporated into a Green Paper which is published and subject to debate in Parliament. Feedback is invited from other stakeholders.

In Kenya, the budget process starts with a Budget Outlook Paper that sets out nine (9) sector ceilings, and the ministries in each sector produce a Ministerial Public Expenditure Review Report which is discussed within the sector to arrive at the ministry ceilings within the sector. The Treasury uses the information from the Ministry PERs to produce a Budget Strategy Paper and ministry ceilings to guide the preparation of the detailed estimates by MDAs.

In Lesotho, ministries prepare Budget Framework Papers which review their performance and identify issues that need to be addressed to improve performance. These issues are used to identify possible savings and new areas that require funding. This information is discussed with Ministry of Finance at sector hearings.

Detailed Process of Setting Ministry Ceilings under MTEF

The setting of ceilings is the first stage in the budget preparation process and should provide the link between the national and sectoral priorities as defined in a planning document and the allocation of funds in the Budget.

Setting ceilings follows six (6) steps:

- Step 1: Development of a macroeconomic and fiscal framework.
- Step 2: Ministries define their requirements.
- Step 3: Ministry of Finance discusses the requirements with each ministry.
- Step 4: Ministry of Finance develops proposed ministry ceilings.
- Step 5: The proposed ceilings are presented to Cabinet for discussion and approval.
- Step 6: The ceilings are included in the Budget Call Circular to guide the MDAs in budget preparation.

In some countries the document produced under Step 5 is printed and discussed in Parliament and with wider civil society, for example in the Medium-Term Budget Statement in South Africa.

Each of these steps are described in detail in the sections below.

Development of the Macroeconomic and Fiscal Framework

The process starts with the development of a macroeconomic framework. The macroeconomic framework is used to develop the fiscal framework which sets out:

- Revenues (domestic revenue and foreign grants).
- Expenditures (recurrent and capital).
- Budget balance - deficit or surplus (i.e., the gap between revenues and expenditures)
- Financing (how the deficit will be financed).

The fiscal framework provides an indication of additional resources available and it is important that this includes all external resources (donor funding) so that total resource availability can be considered.

In some cases, the ceilings are set within the three-year rolling framework and the Ministry of Finance uses the ceilings from the previous years as the starting point for the baseline in future years.

Definition of Ministry Requirements

As noted above in Box 4.1, in some countries, MDA ceilings are developed with no inputs from the MDAs themselves. However, as part of improvements to PEFM systems governments introduced processes through which MDAs identify their expenditure requirements.

The exact process for defining ministry requirements varies between countries. Some governments require the preparation of a Budget Framework Paper and others a Ministry Public Expenditure Review. Rather than MDAs simply requesting additional funds, the MDAs request need to be set in the context of the following information:

- *Defining MDAs' mission statement and objectives:* this sets out why the Ministry exists and the objectives it aims to achieve over the medium term.

- *Reviewing MDA's performance:* reviewing MDA performance in terms of the efficiency and effectiveness of its programmes. This can be linked to a review of the outcomes and outputs for each programme.

- An analysis of planned policy changes and their likely impact on the need for additional resources.

- Priority areas for the MDA over the forthcoming three (3) years.

- Details of specific requirements for additional funds as well as identifying possible savings.

This analysis usually involves the preparation of some form of document which is submitted to the Ministry of Finance and used as an input into the setting of ceilings. The document attempts to answer some of the following questions:

- *Why were performance levels not as envisaged? Has the ministry identified remedial actions to be implemented in subsequent years?*

- *Are MDA priorities in line with government priorities?*

- *Are the proposed policy changes appropriate and in line with overall government policies?*

- *Are the estimates of additional expenditures realistic? Have they been fully costed, does the MDA have the capacity to spend the proposed funds within the period of the Budget?*

The preparation of these types of documents needs to be seen not only as a bidding document, but also as an opportunity for the MDA to review issues of policy change or increase/decrease in provision of certain services before focusing on the detailed budget preparation.

Discussion of Requirements with MOF

Once the documents have been prepared by the MDAs, there needs to be a forum for discussion of the funds required by each ministry with the Ministry of Finance. These discussions would focus on:

Determining Ministry Ceilings

The resource envelope (i.e., total resources available over the medium term) needs to be divided into:

- Statutory/Mandatory Expenditures (i.e., those expenditures which government is required by law to honour): pensions, public debt.
- Discretionary expenditures: those expenditures which government has freedom to allocate.

Within the Discretionary category of expenditures, these can be allocated in at least three (3) ways:

- By type of expenditure: wages, goods and services, capital etc
- By sector and line ministry: broad sectors and specific ministries and organisations within the sector
- By level of government: central government, regional or provincial government, district or local government.

By Type of Expenditure

The total budget is typically made up of four (4) types of expenditures:

- Wages and salaries
- Goods and services that fund the running costs of an organisation as well as the services provided by the organisation such as teaching, training farmers etc.
- Transfers and subsidies provided to other organisations.
- Capital expenditures: these are usually grouped into capital projects in the capital or development budget.

The issues to consider in relation to these broad types of expenditure include:

- ***Wages:*** there needs to be an assessment of current and future staffing levels, are there plans to either increase or decrease the size of the civil service? What are current wage policies, are there plans to increase wages?

- ***Goods and Services:*** is the share of goods and services within the overall budget appropriate? For example, if wages constitute 90 percent of the recurrent budget and therefore only 10 percent is available for goods and services, are there any policies that are being put in place to increase funds to be spent on goods and services?

- ***Subsidies and Transfers:*** are these in line with government priorities and policies? Are they affordable in the medium to long term? Does the use of the funds contribute to government objectives?

- ***Capital:*** is the size of the existing capital or development budget sustainable?, are ministries currently under spending or overspending on the capital budget?, are there large projects in the pipeline?, is there a move to budget support so that donor funds will be spent in the recurrent budget in future?

- ***Recurrent/Capital Mix:*** is there an appropriate share of recurrent and capital in the Budget, i.e., sufficient funds to cover the costs of providing services compared to funds being spent on new infrastructure and to fund the recurrent costs arising from completed projects? This involves consideration of both budget allocations, i.e., a move to a more integrated planning and budget preparation of the two budgets.

Allocations Between MDAs

The total of all MDA requests as outlined above would most likely exceed the total resources available to government. In the incremental approach to setting ceilings, the Ministry of Finance simply add a percentage to the previous year's budget. Under the MTEF approach the Ministry of Finance will need to analyse the requests from each MDA and use this information to propose MDA ceilings to Cabinet.

The process of allocating funds between MDAs can be based on:

- Taking the current year's budget allocation as the baseline, i.e., as given, and only focusing on the allocation of the additional resources that will be available in the next three (3) to five (5) years (this sometimes referred to as the fiscal space).

- Consideration of the total ceilings between MDAs so that MDAs have to justify their total budget requirements, not only any additional funds they are requesting.

Ministries will have prepared a document that sets out their requests for the next three (3) to five (5) years. As the requests from all MDAs are likely to exceed the total funds available the Ministry of Finance will need to consider some of the following issues:

i. Whether the ministry has been performing with the existing budget levels.

ii. Whether any proposed change in services or policies is appropriate in relation to overall government objectives and priorities.

iii. Whether there are any changes to legislation or activities of other stakeholders that are required before a ministry can implement agreed changes to its services.

iv. Whether increases in the implementation of services or a large capital project can be more realistically phased over the medium term rather than "frontloading" the expenditure.

v. Whether a ministry has the capacity to implement any changes or increases in services.

vi. Whether some of the proposed activities are already being funded by donor funded projects or programmes.

vii. Whether some existing services and activities will be scaled down in scope, i.e., will there be any savings.

viii. An analysis of the trends in approved budget and actual expenditures in the previous years, (ideally three (3) years) to have a picture of the trends of expenditures to show:

- The variation between approved budget figures and actual expenditures. This provides an indication of a ministry's performance in spending approved budget amounts in previous years.

- The percentage share of the total budget allocated to each ministry in previous years.

At the same time even if all MDA requests for additional funds could be justified on the basis of the above criteria, it is likely that the total request will exceed the total resources.

Therefore, choices between MDAs will need to be made on the basis of:

i) ***Government Priorities:*** those MDAs which directly contribute to the achievement of government objectives would receive higher priority. Government priorities are usually stated quite broadly such as economic growth which would make a number of ministries a priority. However, it is the more detailed strategies for achieving the objectives that will also need to be taken into account. For example, if economic growth is to be achieved through a focus on education and training, it would be the Ministry of Education that would be a priority MDA.

ii) ***Role of Government:*** priorities alone cannot be the only factor. Although a sector may be a priority to Government, it is the role of government in the sector that will determine the funds required to achieve government objectives. If government is a ***provider of services***, e.g., provision of extension services, the funds will be greater than if government is a ***facilitator of private sector development***, e.g., providing market information to increase access to market; or government is a ***regulator of private sector activity***, e.g., defining the legal framework for agricultural marketing.

iii) ***Level of and Costs of Services to be Provided:*** it is also the level of services to be delivered by a ministry that will determine the funds provided to that ministry. Therefore, if the Ministry of Trade is mainly a facilitator of private sector development, but has decided it will construct factory shells for the private sector, this will require a higher level of funds than if the main function of the ministry was simply to provide an enabling environment through review of legislation etc.

iv) ***Political Choices:*** political involvement in the process can be seen as "interference". However, it is the appropriate role for Cabinet as choices on how to allocate funds are really political in nature. While politicians may "interfere" in the budget process by parachuting projects or policies without explicit links to national priorities and resource constraints, an improved process for setting ceilings should enable politicians to make better informed decisions. Cabinet needs to be provided with detailed information on the costs of new policies and projects and encouraged to make trade-offs between new and existing policies and programmes. Thus, if politicians want to introduce a new policy, a lower priority programme needs to be identified which would be reduced in scope so as to generate the necessary savings to cover the costs of the new policy/programme.

Specific Issues in Developing Ceilings

Most countries grapple with the following issues when developing expenditure ceilings:

i) Developing models for setting ceilings
ii) Integrating ceilings for recurrent and development budgets
iii) Including off budget donor funds in ceilings
iv) Providing MDAs with ceilings prior to budget preparation
v) Allocating funds by level of Government
vi) Linking expenditure ceilings and MDA performance
vii) Documentation and consultation on MDA ceilings

Developing Models for Setting Ceilings

There is a misconception that setting ceilings can be achieved through the development of a mathematical model, which would build a link between the contribution of a particular sector to economic growth and the share of government expenditure that this sector/ministry should receive. However, this practice is not feasible because:

- There is no a direct link between the contribution of a sector to economic growth and its expenditure requirements.
- Decisions on allocation of funds between MDAs are ultimately political rather than technical in nature.

Integrated Ceilings for Recurrent and Development Budgets

As part of focusing on a more integrated approach to expenditure planning and management, there is a need for ministries of finance and MDAs to consider all resources together. Thus, decisions on allocating funds to MDAs should take account of all funds available to the ministry, recurrent, development, government and donor.

By considering each part of the Budget separately it is possible that:

- MDAs may be allocated an increased recurrent budget when some of the activities are already being funded in the development budget.
- There is no link between a planned increase in development spending which will lead to increased needs in the recurrent budget in future years.
- Government funds may be allocated to an MDA which is already receiving significant external resources to fund government priorities.

Ideally MDAs would be allocated one (1) ceiling for all funds (recurrent and development, government and external) and the implication of this would be that the MDAs could make decisions on how to allocate the total ceiling between the two (2) budgets. These decisions would be based on MDA's own priorities in terms of recurrent and capital expenditures. This requires that funds are "fungible", i.e., they can be moved from the recurrent budget to the development budget.

However, in practice this approach has some difficulties:

- The development budget consists of ongoing projects and it is not sensible to bring these projects to a stop or to postpone implementation in order to switch funds to the recurrent budget.

- The development budget is also funded by development partners and their funds are not "fungible", i.e., the funds cannot be used for other purposes.

Thus, it is not always possible to provide MDAs with one (1) integrated ceiling, therefore separate ceilings need to be developed for the recurrent and development budgets. However, it is important that these two (2) ceilings are presented to Cabinet for approval, also showing the total ceiling.

Including Off Budget Donor Funds

Some governments still have significant levels of donor funds which are off budget, i.e., not included in the Budget Estimates and do not pass through government accounting systems. If these funds are not included in the MDA ceilings the percentage shares for each MDA will not be a true representation of the actual allocations.

However, the MDA ceilings are used to indicate the funds that will be approved for each MDA, i.e., those funds over which the government has control, and it would therefore not be appropriate to include the off-budget funds in the formal MDA ceilings.

Development partners are being encouraged to provide full information on the funds they provide, including those that are not passed through the government Budget. Some governments require development partners to submit information on planned disbursements and actual expenditures on a regular basis. MDAs will also have information on the external resources they receive which are not included in government budgets and accounts.

This information on off budget funds needs to be included with the funds that are included in the Budget to indicate the total funds being provided to a ministry.

One option would be to present the ceilings in three (3) parts as shown in Table 4.9:

- Government funds: recurrent and capital.
- Donor funds on budget.
- Total funds which pass through the Budget.
- Off budget funds.
- Total funds (i.e., on and off budget).

Table 4.9. Including Off Budget Funds in the Presentation of the Ceilings

Government		Donor (on Budget)	Total Ceiling	Off Budget Funds	Total funds available
Recurrent	Development				

Providing MDAs with Ceilings Prior to Budget Preparation

Where MDAs are not provided with ceilings prior to the start of budget preparation or where ceilings are provided very late in the process, this encourages MDAs to submit budgets that are well in excess of the likely resource availability. This often results in MDAs being unwilling to reduce their estimates to fit within the ceiling and the Ministry of Finance typically making arbitrary cuts in the estimates of MDAs. These cuts are not linked to MDAs' priorities and usually MDAs do not revisit the Budget estimates and adjust the figures to reflect their priorities.

This approach tends to focus the finalisation of budget estimates on line-item details rather than ensuring that budgets are based on achieving government objectives and addressing larger policy issues.

In an ideal situation, where MDAs submit budget estimates which exceed their ceilings, they would be required to:

- Review their estimates again to reduce them to the ceilings.
- Prepare and submit a justification for the additional funds.

Allocating Funds by Level of Government

In countries where local government exists, this complicates the expenditure allocation process significantly. The decisions on resource allocation between levels of government will be determined by the responsibilities of each level of government and by the resource allocation mechanisms between the levels of government. Often these inter-governmental fiscal arrangements are enshrined in law.

One option is for MDAs to define overall government objectives and policies, with local government being responsible for actual implementation of these objectives at the local level. Thus, funds would be provided to local government for the delivery of these services.

Linking Expenditure Ceilings and Ministry Performance

In some resource allocation systems, poorly performing organisations are "punished" by being allocated a lower level of funds than they may have requested. A danger of this approach is that the beneficiaries of such MDAs' services will also be punished if reduced levels of funding are allocated to an MDA because of mismanagement of the MDA.

In linking performance and expenditure allocations, the following issues need to be addressed:

- The reasons why a ministry is not able to spend the approved budget and implement the agreed activities need to be identified. Remedial actions need to be taken to address these problems, some of which may require additional resources.
- It is important that the appropriate performance indicators are being measured.

Documentation and Consultation on Ministry Ceilings

One of the objectives of improving the process of setting ceilings is to make these decisions more transparent and to also increase participation in the process. Therefore, the way in which this information is presented is very important.

Documentation

In some countries the information is brought together in one (1) document which is presented to Parliament and the public to allow for wider debate of government priorities and plans prior to the detailed budget being developed.

These documents would contain the following information:

- The macroeconomic policy framework over the medium term and the fiscal framework including projections of revenues, expenditures and borrowing.
- National objectives and priorities for the medium term.
- The translation of these priorities into MDA ceilings (for recurrent and capital, including donor funds where possible).
- An overview of the performance and priorities of each MDA.

The production and dissemination of this document enables Parliament and civil society to review government's plans and priorities and to comment on these before work on the detailed budget starts. This means that the larger issues of priorities and policies can be discussed before the detailed budget is presented, when it is more likely that Parliament and other stakeholders will focus on these details.

Stakeholder Consultation

The preparation of the macro-economic framework document enables the government to present its proposals for the medium term not only to Parliament but also to the wider civil society. In order for this consultation process to be effective the following issues need to be considered:

- The documentation needs to be user friendly so that all stakeholders can fully understand the issues being presented (a separate simplified version of the document may be required for this purpose).
- There needs to be sufficient time for all stakeholders to discuss and give their comments back to government (however this process should not lead to delays in the actual budget preparation process).
- Mechanisms need to be in place for the stakeholder feedback.

While it is not necessary to include all stakeholder views in the medium-term plans and priorities of the government there needs to be a transparent process of responding to stakeholder views so that there is a continued incentive for participation in the consultation process.

OECD Approaches to Setting Ceilings

In some OECD countries, the process of setting ceilings involves agreeing on a baseline level of the Budget (i.e., current salaries, levels of service, etc) and then negotiating with spending agencies on the additional funds required to implement new policies.

This approach means that only the additional funds are negotiated with the Ministry of Finance and Cabinet. Ongoing services and capital projects are seen as being already approved. However, there are some services for which expenditure requirements would increase over the medium term, for example primary school enrolments would be increasing due to population growth.

The assumption of this approach is that the baseline programmes and activities and their budgets are “appropriate” in terms of being the most efficient and effective means of achieving government objectives.

In some OECD countries, spending agencies are required to achieve “efficiency dividends”, i.e., each entity has to make savings equalling a percentage of the total recurrent budget every year. Therefore, entities’ budgets will be reduced by this percentage (1.5 percent annually in Australia and Sweden) each year and the entity will decide where the savings can be made. The intention is for entities to respond to these cuts by improving the efficiency of their services rather than reducing the level of services to their beneficiaries.

However, these two (2) approaches may not be appropriate in MEFMI countries:

- Only focusing on the additional funds to be provided assumes that the baseline is already in line with government priorities and existing services are fully funded, which is often not the case.
- As expenditures are not yet in line with the requirements of priority services, i.e., some services are underfunded, the issue for developing countries is to reallocate the limited resources to a few adequately funded services, rather than attempting to generate efficiency savings in all services.

4.5. Expenditure Tracking

Several initiatives have been introduced to improve the accountability and transparency in the use of public expenditures including assessing whether the funds approved in the budget actually reach the targeted spending units and are spent on the intended activities.

Public Expenditure Tracking Survey (PETS), which when undertaken by the World Bank in Uganda showed, that of the money that government had allocated for education from 1991-95, less than 30 percent was actually being received at the school level, i.e. reaching its intended target.

The Government Watch (or G-Watch) Project of the Philippine Governance Forum. G-Watch examined the expenditures for specific projects in health, education and public works. G-Watch selected certain projects in each of the three (3) agencies identified following predetermined criteria to check the quality of the projects that were reported completed. In all cases, the projects proved what most people already knew in these countries: that government budget allocations and the reported actual expenses from such allocations are very much bigger than the actual quality and quantity of results produced by them.

The Concerned Citizens of Abra for Good Government (CCAGG), Philippines. CCAGG, on the other hand, mobilised local engineers and other professionals to measure the quality of roads and buildings constructed by the public works department in their province. CCAGG exposed the reason behind the unfinished roads and bridges in the province despite millions of pesos having been spent for them.

Mazdoor Kashan Shakti Sangathan (MKSS or Organisation for the Empowerment of Workers and Peasants) in Rajasthan, India. MKSS, also tracking expenditure on government projects, exposed expenses of the local government for clinics, schools and public toilets which were never built.

Weaknesses and Challenges in Tracking Systems
The above initiatives have highlighted the need to fully understand and assess the flow of funds through a government budget implementation and accounting system. These tracking initiatives have tended to focus on specific sector issues such as health spending rather than on reviewing the overall systems for budget implementation etc. Therefore, the studies can identify specific issues within one (1) sector rather than common issues across the whole PEFM system.

4.6. Effective Fiscal Expenditure Rules

According to Till Cordes et al (2015)[8], expenditure rules are defined to include both specific numerical targets fixed in legislation and expenditure ceilings for which the targets can be revised, but only on a low frequency basis as long as they are binding for a minimum of three (3) years. In practice, expenditure rules typically take the form of a cap on nominal or real spending growth over the medium term. Often, expenditure rules are used in connection with other national rules e.g., debt rules, revenue rules, etc.

Expenditure rules may be established through statutory norms (e.g., a number of countries cap supplementary budgets not to exceed 3 or 10 percent of the original budget). Expenditure rules can also be integrated into MTEFs e.g., maximum of 15 percent adjustment for MDA allocations during a 3-year period.

Joaquim Ayuso (2012)[9] observes that expenditure rules present a number of features in terms of simplicity, transparency, monitoring and accountability that make them particularly appealing relative to other types of rules and may substantially contribute to an improved fiscal policy making. They also show an appropriate balance between budgetary discipline and macroeconomic stabilisation.

The IMF Fiscal Affairs (2020)[10] advises that fiscal rules must be sufficiently flexible to manage unexpected economic or other large shocks. This is particularly relevant for rare events that can have very large fiscal and economic impacts, such as the COVID-19 pandemic, which would likely require escape clauses to allow temporary deviations from the rules. The use of escape clauses, however, should involve a well specified and transparent process to preserve the credibility of the fiscal framework. While the high degree of uncertainty around crises or shocks calls for greater flexibility, this should not be at a cost of excessive discretion that could be abused and undermine the return to the fiscal rules once the crises or shock are over.

More specifically, spending rules are featured by the following characteristics:

- They focus on the part of the budget most directly controlled by the government, reducing uncertainty for the attainment of the target and promoting accountability.
- They target the main source of the deficit bias, i.e., recurrent spending overruns.
- They hardly prevent automatic stabilizers from operating, particularly on the revenue side, and may limit spending pressures in good times.

[8] Till Cordes, Tidiane Kinda, Priscilla Muthoora, & Anke Weber (2015); "Expenditure Rules: Effective Tools for Sound Fiscal Policy?" IMF Working Paper (WP/15/29), prepared for the IMF Fiscal Affairs Department, February 2015
[9] Joaquim Ayuso-i-Casals (2012); "National Expenditure Rules – Why, How and When." Economic Papers No. 473, December 2012
[10] IMF Fiscal Affairs (2020); "Fiscal Rules, Escape Clauses, and Large Shocks." Special Series on Fiscal Policies to Respond to COVID-19. Downloaded from https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes.

- Their target formulation and monitoring are simpler than those of other rules (e.g., cyclically adjusted budget balance or debt rules) and easy to communicate to the public and elected bodies, i.e., they are conducive to transparency and simplicity.
- They may improve expenditure composition by breaking down the overall spending ceiling into separate thresholds for each main expenditure area, which in turn requires the establishment of public spending priorities and provides policy guidelines for policy makers.

The main objective of these rules is to promote fiscal discipline through an improved expenditure control. A significant number of these rules are embedded into a medium-term expenditure framework and their features are meant to tackle some of the observed pitfalls in domestic fiscal policy making particularly recurrent primary spending overruns.

Elements and characteristics of spending ceilings:

i) ***A rule must be well-defined:*** The budgetary aggregate to be constrained (i.e. expenditure) is unambiguously defined and simpler to monitor than other target definitions. E.g., if the assessment of the real fiscal effort by the government to contain public spending is a main issue, interest payments can be excluded from the coverage without hampering a clear definition of the rule.

ii) ***Rules should be transparent:*** Overall, data reporting, accounting, forecasting practices and other similar operational arrangements related to monitoring should be relatively easier.

iii) ***Fiscal rules should be adequate with respect to their fiscal targets:*** If the main objective is to dampen down the main source of the deficit bias, i.e., overspending slippages, then spending rules may be a proper instrument to tackle this problem while helping achieve a budget balance objective set according to a debt reduction path. However, adequacy would also hinge on a broad coverage of the general government sector by the rule, as opposed to a partial application.

iv) ***A fiscal rule should be consistent internally with other rules into operation and with other macroeconomic policies and objectives:*** Expenditure limits stemming from spending rules must be coherent with the budget balance.

v) ***The proper functioning of fiscal norms calls for simplicity:*** Compared to other kinds of rules, expenditure rules defined in level or growth rates are easier to apply and monitor, and are generally more understandable for the public opinion in general and for the elected bodies in particular.

vi) ***Rules need to be flexible in order to allow accommodating of exogenous shocks:*** Overall, expenditure rules defined in level or growth rate hardly prevent automatic stabilisers from operating, particularly on the revenue side and may therefore contribute to macroeconomic stabilisation (i.e., they are cycle-friendly), while allowing for the traditional tax smoothing argument.

vii) ***A fiscal rule must be enforceable:*** As for any other kind of rules, enforceability primarily depends on the existence of corrective mechanisms to ensure the fulfilment of the rule (i.e., pre-established procedures and measures to correct deviations from the initial fiscal target). In turn, consequences in case of noncompliance must be clearly stipulated, preferably on a legal basis. These can range from financial and judicial consequences to simple reputational sanctions (e.g., for the latter, the obligation for the government to explain the causes of the expenditure slippages and the envisaged corrective measures in the Parliament).

viii) ***Rules must be supported by efficient policy actions and underpinned by structural reforms to achieve fiscal targets:*** An expenditure ceiling may be respected temporarily by resorting to one-off measures whereas a long-lasting expenditure control can only be ensured over the medium and long-term when more fundamental and far-reaching reforms are implemented. In this respect, expenditure rules may be instrumental in providing more clear policy guidelines than other types of rules to achieve the envisaged fiscal targets. Total spending limits may be set up within a more general fiscal plan targeting expenditure control.

Effectively implementing expenditure rules has to be underpinned by a robust legal and institutional framework. This is the focus of the next chapter.

CHAPTER

5

INSTITUTIONAL AND LEGAL FRAMEWORK

Chapter 5: Institutional and Legal Framework

5.1. Introduction

This Chapter sets out the institutional and legal frameworks for Public Expenditure and Financial Management (PEFM) systems, describing the systems as they operate in most countries in the MEFMI region as well as experiences from OECD countries. It also sets out the issues to consider in reforming these frameworks.

It discusses the institutional framework for Public Expenditure and Financial Management, which consists of the key stakeholders who have an interest in the PEFM system, both within and outside government, the roles of the stakeholders, the information provided to them and how they interact with each other.

The Chapter also explains the roles of the key stakeholders in the PEFM system, including civil society groups, a number of which have been established in the MEFMI region. It also discusses the Legal Frameworks within which the PEFM system operates. The Chapter concludes with suggestions on the key principles to take into account when reviewing and updating a government's financial legislation framework.

5.2. Overview of Institutional Arrangements

The institutional framework for Public Expenditure and Financial Management (PEFM) includes:

- The roles and responsibilities of all stakeholders: Parliament, Cabinet, Ministry of Finance, planning commission, sector MDAs, local government, civil service commission, etc.
- The operating rules which bind the way in which each stakeholder can behave.
- The ways in which the various organisations coordinate with each other and with other stakeholders outside the system.

Definitions of Government

Governments collect revenue resources and spend these resources on the delivery of services to the public. Governments can be classified into four (4) categories:

Central Government: responsible for activities that affect the country as a whole, e.g., national defence.

Local Government: lower level of government responsible for revenue collection and expenditures for a specific area within a country and has a level of independence from higher levels of government. In some countries, there are several levels with the local government structures, such as provinces, regions and districts.

State Government: these have responsibility for certain functions in a significant part of a country. This level of government usually exists in a federal constitution.

Social Security Funds: these are the organisations that manage the funds that provide benefits to the population through a compulsory contribution scheme. Often these schemes are separate from the rest of government revenues and expenditures.

Public Sector: in addition to government ministries the public sector includes non-financial or financial organisations (parastatals, or state own enterprises) owned by the government which operate on a commercial or semi-commercial basis.

Responsibilities of Key Stakeholders in PEFM

The various roles of the key stakeholders in the PEFM system need to be clearly defined so as to ensure that stakeholders are aware of their roles, that overlapping roles are avoided and that the necessary controls or checks and balances are in place. The roles of the key stakeholders are described in the following section.

The Organs of the State

The state comprises the Executive (Government), the Legislature (Parliament) and the Judiciary. The relationship between the organs of state and their degree of independence affects the quality of the governance system including PEFM. Each of the organs of the state should work independently of the others and should result in a strong system of "checks and balances" for the overall benefit of the nation.

An effective system of checks and balances requires the following:

- Independence of the Legislature and the Judiciary from the Executive so that they can independently monitor the performance of the Executive.
- Effectiveness and efficiency of the Legislature and the Judiciary to provide oversight of the Executive: i.e., they should have sufficient capacity to play their roles.
- Effective governance arrangements, systems, procedures and processes for the Executive so that the government can be held accountable.
- An active role for non-state actors (civil society) to also hold the state accountable to the population.

Parliament

The elected Parliament holds the "power of the purse" which means that Parliament makes the ultimate decisions on how revenues should be collected, how government funds should be spent and how funds borrowed for use by the government are spent. Parliament also holds the Executive accountable for the use of government funds and the delivery of agreed services. Parliament can therefore control the Executive by ensuring that the Budget reflects national priorities but also has to rely on the Executive to make the most efficient and effective use of public funds.

The power of Parliament to change the content of the proposed budget varies between countries as does the level of detail at which the budget is appropriated, i.e., approved by Parliament. These different arrangements can be classified as one of the following:

- Unrestricted power to either increase or decrease revenue and expenditures without the consent of the Executive.
- Restricted power which allows for some changes to the budget within limits, defined as a maximum increase or decrease.
- Balanced changes to the budget, i.e., it is possible to increase expenditures but a balancing increase in revenues would also be required.

In some countries, Parliamentary committees exist with the responsibility for scrutinising the budget in more detail. These can include a Budget and Finance Committee which reviews the revenues and expenditures proposed by the Executive; sector or ministry specific committees which review the budget estimates of the MDAs; and the Public Accounts Committee which provides oversight on the implementation of the Budget.

It is important that these committees have the necessary capacity to scrutinize the budgets, which includes effective briefing and research support on issues within a sector, and sufficient time to review the estimates in detail. Such capacity does not exist in many countries although in recent years there have been a number of efforts to increase Parliamentary capacity. Some of the efforts made in this area include the recent workbook[11] developed in 2019 by CABRI which attempts to guide African countries in establishing functional parliamentary budget offices.

Another particular initiative in this area is the Parliamentary Centre in Africa under the Parliamentary Centre, a Canadian not-for-profit, non-partisan organisation devoted to improving the effectiveness of representative assemblies around the world. The Parliamentary Centre[12] in Africa supports Parliamentary organisations in developing their capacities, through

[11] Establishing Functional PBOs in Africa Training Workshop (cabri-sbo.org).
[12] https://parlcent.org/our-programs/africa.

assessment missions, programme development and management, technical assistance and workshops. The Centre runs programmes in Ethiopia, Ghana, Kenya, Sudan, Southern Africa as well as pan African programmes.

Cabinet

The Cabinet is the key decision-making body in government. In terms of the budget, it is responsible for approving the fiscal framework (i.e. total resources based on fiscal policies, divided into line ministry ceilings) and draft estimates before they are submitted to Parliament. This involves:

- Agreeing on the macroeconomic and fiscal policies and targets.
- Agreeing on government priorities and how these should be translated into ministry ceilings.
- Approving the final budget estimates prior to submission to Parliament.

The Ministers in Cabinet will represent the views of the Executive to Parliament and ideally will present the collective priorities of government. If the Cabinet system is not well-developed, stronger Ministers can tend to dominate the prioritisation process and the budget will reflect the interests of these few Ministers rather than the government as a whole- however, this can be minimized through the development of a robust PFM policy and regulatory framework, in addition to streamlining and strengthening a country's cabinet system.

The Cabinet is also responsible for making policy decisions, which can have a significant impact on the budget. For example, a decision to introduce free education (at primary, secondary and tertiary levels) will require substantial additional funding. Therefore, it is important that Cabinet is fully briefed and informed on the expenditure implications of new policies, and that these proposals should be assessed in detail by the Ministry of Finance to provide their inputs and recommendations on the financial implications of new policy proposals.

In some countries such as Uganda, India, Japan, specific research support is provided to Cabinet on policy and budget proposals in the Cabinet Office. This office (often called Cabinet Secretariat or Cabinet Intelligence and Research Office) is staffed with professionals who review policy proposals and provide recommendations to Cabinet.

Auditor General

In most countries, the constitution requires the setting-up of independent audit institutions (Supreme Auditing Institutions (SAIs)) to audit and review government financial statements, to assess whether procedures have been properly followed, funds spent as approved by Parliament and activities implemented as planned. The office of the Auditor General is also responsible for ensuring that government ministries follow internationally accepted accounting standards.

Audit Institutions are answerable to Parliament and their reports are submitted to Parliament through the Public Accounts Committee (PAC) of Parliament. The roles and functions of the head of a Supreme Audit Institutions will normally include the following:

i. Audit of Public Accounts, i.e., the government's financial statements.
ii. Audit of financial statements of Local Authorities.
iii. Audit of foreign exchange transactions.
iv. Examination of accounts and financial statements of projects and programs financed fully or partly with public funds.
v. Auditing of statutory commissions, corporations, parastatals and public enterprises.
vi. Submission of special audit reports to Parliament.
vii. Submission of Auditor-General's report to Parliament.

Ombudsman and Anti-Corruption Organisations

In addition to the oversight role played by Parliament, the judiciary and external audit organisations, many governments have established organisations that monitor, investigate and report on cases of corruption or malpractice in public administration.

These organisations can include an Ombudsman and/or an anti-corruption body. The Government of Uganda has combined these two (2) functions in the Inspectorate of Government as described in Box 5.1.

Governance and anti-corruption have become of increasing interest to the donor community and there are a number of initiatives focused on this issue.

One example is the World Bank Communication for Governance and Accountability Program (CommGAP)[13]: which promotes the use of communication in governance reform programs and supports the building of democratic public spheres. Through its three (3) program areas: Research and Advocacy, Training and Capacity Building, and Support to Development Projects and Programs, CommGAP is demonstrating the power of communication in promoting good and accountable governance and hence better development results.

Box 5.1. Functions of the Uganda Inspectorate of Government (IGG)

Article 225 of the constitution sets out the functions of the Inspectorate and provides as follows:

"(1) The functions of the Inspectorate of Government shall be prescribed by Parliament and shall include the following:

(a) To promote and foster strict adherence to the rule of law and principles of natural justice and administration.

(b) To eliminate and foster the elimination of corruption, abuse of authority and of public offices.

(c) To promote fair, efficient and good governance in public offices.

(d) Subject to the provisions of this Constitution, to supervise the enforcement of the Leadership Code of conduct.

(e) To investigate any act, omission, advice, decision/recommendation by a public officer or any other authority to which this article applies, taken, made, given or done in exercise of administrative functions; and

(f) To stimulate public awareness about the values of constitutionalism in general and the activities of its office, in particular, through any media and other means it considers appropriate.

See: www.igg.go.ug

Ministry of Finance

The Ministry of Finance is responsible for overseeing and maintaining fiscal discipline, allocating resources between MDAs and ensuring that budgets are implemented in line with the legal and regulatory requirements of the government.

The head of the Ministry of Finance will play two (2) roles:

- The oversight and management of all government funds as described above.
- Oversight and management of the resources (financial and human) of the Ministry of Finance.

In some countries these two (2) roles are played by the Permanent/Principal Secretary, while in others the two (2) roles are the responsibility of two (2) officials.

The specific functions of a typical Ministry of Finance are the responsibility of the following departments and divisions:

Macroeconomic Division or Unit

- Developing and managing macroeconomic policies.
- Developing and updating on regular basis the macroeconomic projections of revenues, expenditures and government borrowing.

[13] www.worldbank.org/topics/developmentcommunications/

Debt Management Division or Unit

- Recording of and reporting on debt data, both domestic and foreign.
- Payment of debt: principle and interest.
- In some cases, debt units are also responsible for recording and management of information on grants from donor organisations, using the systems that are available for managing this information.

Aid Management Division or Unit

- Coordinating donor or development partner activities within the country.
- Liaison with individual donors or groups of donors on funding including negotiation of agreements.
- Acting as liaison between the Ministry of Finance, donor organisations and MDAs to follow up on all stages in donor support, i.e., identification, negotiation, budget preparation and implementation, release of donor funds, and monitoring and evaluation.
- Preparation of reports on donor funded programmes and expenditures.

Sector Planning (sometimes this function is under a planning ministry or planning commission)

- Review of macroeconomic and sector policies.
- Preparation of National Development Plans (NDPs), Poverty Reduction Strategies or Growth Strategies.
- Monitoring and evaluation of implementation of national plans.
- Collection, analysis and reporting on macroeconomic and sector performance.

Budget Department

The Budget Department is responsible for overseeing both budget preparation and budget implantation.

Budget Preparation

- Overseeing preparation of national budgets: provision of call circular, ceilings, guidance to MDAs
- Scrutiny of budgets submitted by ministries.
- Consolidation and presentation of ministry budgets into national budget document for submission to Cabinet and Parliament.

Budget implementation

- Processes warrants for MDAs authorizing to incur expenditures.
- Specific approval for capital projects.
- Approval for virement or reallocation of funds during the year, within agreed limits
- Monitoring implementation of the budget.
- Preparation of supplementary budgets.

Treasury or Accountant General

i. Implementation of cash management systems including management of government bank accounts.
ii. Monitoring budget implementation in conjunction with Budget Department.
iii. Overseeing implementation of accounting and internal audit procedures in MDAs.
iv. Overseeing the preparation of financial statements by MDAs on a regular basis.
v. Preparation of regular reports presented to Cabinet and Parliament on government revenues and expenditures.
vi. Preparation of annual accounts and financial statements.

The Internal Audit function is usually within the Accountant General's office however in some countries this function has become more independent of the Accountant General through the establishment of a separate office.

Revenue Collection

Most governments in the MEFMI region have established semi-autonomous organisations (Revenue Agencies) which have responsibility for tax collection including income, corporation tax and Value Added Tax. Non–tax revenues (i.e., fees and charges) are collected by MDAs.

Bureau of Statistics

This organisation (usually part of the Ministry of Finance) is responsible for the collection, analysis and reporting on national statistics, such as the national census, economic data such as trade figures, etc. Sector specific data will usually be collected by MDAs.

Planning Ministry or Planning Commission

The responsibilities of these organisations vary between countries and many MEFMI countries have experienced the merging and separation of Planning and Finance ministries.

Generally, a planning organisation has the following responsibilities:

- Macroeconomic planning over the medium to long term
- National development planning particularly preparation of National Development Plans, Poverty Reduction Strategies, Growth Strategies, etc
- Assessment of capital projects submitted by MDAs and preparation of the capital budget and in some cases the Public Investment Programme
- Monitoring and evaluation of capital project implementation
- Coordination and management of external resources (aid funds) can also be the responsibility of a planning ministry.

Line Ministries, Departments and Agencies (MDAs)

- Principal (Permanent) Secretary: Accounting Officer
- Responsible or accountable for delivery of services with funds provided by government.
- Responsible for overseeing the preparation and implementation of the budget and preparation of financial reports.
- Planning Unit.
- Usually responsible for capital project planning, preparation and monitoring.
- Planning units should also be responsible for initiating review of existing policy and formulation of new policies.

Finance or Accounting Sections

i. Responsible for overseeing preparation of recurrent budget.
ii. Responsible for overseeing procurement of goods (unless there is a separate procurement section).
iii. Initiating expenditures through agreed procedures as set out in Financial Regulations.
iv. Recording payments and preparation of financial reports on regular basis.
v. Recording revenues collected.
vi. Briefing the senior management of the ministry on financial management issues.

- Technical Departments
- Responsible for delivery of services and creation of new infrastructure.
- In some cases where budget processes have been reformed technical departments now play a more significant role in budget preparation, implementation and monitoring.

Ministries responsible for Civil Service

The management of civil service recruitment, employment terms and conditions, salaries, changes to MDA structures and staffing levels will be the responsibility of a civil (or public) service ministry. These ministries will be responsible for managing civil service reforms including pay reforms, ministry restructuring and introduction of performance management systems such as strategic planning and monitoring, performance contracts etc.

Regional Organisations

In addition to these national government organisations, PEFM operates within international and regional systems such as the United Nations, International Monetary Fund, Southern African Customs Union (SACU), East African Community, etc.

These international systems will have institutional and legal frameworks which can have a significant impact on the operation of PEFM systems in individual countries.

Civil Society Involvement in the Budget

As countries have become more open and democratic, there is a growing demand from the public to hold governments accountable for good governance and for the delivery of effective services with public funds. Civil society groups have been formed and a number of these are focusing on the budget in particular as the mechanism through which governments can be answerable to the public.

These functions include:

- Analysis of government budgets to assess the impact on poverty reduction.
- Monitoring the implementation of the budget, for example release of funds to poverty reduction priority programmes.
- Developing user friendly documentation to present budget information to the public.
- Undertaking an advocacy role to put pressure on governments to allocate funds in line with national priorities.
- Educating the public and specific stakeholders on budget issues.

In order to support these groups, the International Budget Partnership (IBP) was established in 1997 (see www.internationalbudget.org for more information about their work, manuals and studies, and information on Civil Society Groups working on budget issues).

According to the IBP, budget work is advancing in every region, in both middle and low-income countries, among think tanks and grassroots organisations, and within individual organisations and across coalitions. The work first took root successfully in middle income countries, such as Brazil, India, Israel, Mexico, Poland, Russia, and South Africa, predominantly among NGOs and think tanks.

More recently, a second wave of organisations, typically more community based or grassroots in nature, has emerged in low-income countries in Africa (Malawi, Nigeria, Tanzania, Uganda), South and Central America (Ecuador, Honduras, Nicaragua, Peru), Southeast Asia (Indonesia), and Central Asia (Azerbaijan, Kazakhstan).

The role of civil society in improving and monitoring public expenditure systems, revenues and expenditures is being increasingly recognised on the international stage. Donor organisations now frequently support budget groups as a way of complementing the support they provide to national governments.

There are a number of civil society groups in the MEFMI region who focus on improving the understanding of and debate on PEFM issues in their respective countries, as listed in Table 1 below.

Table 5.1 Civil Society Budget Groups in the MEFMI Region

Country	Organisation	Website
Angola	None	
Botswana	Botswana Council of Non-Governmental Organisations (BOCONGO)	www.bocongo.org
Eswatini	Coordinating Assembly for Non-Governmental Organisations (CANGO)	https://cangoeswatini.weebly.com
Kenya	Institute of Economic Affairs (IEA)	www.ieakenya.or.ke
Lesotho	None	
Malawi	Malawi Economic Justice Network	
Mozambique	Centro de Integridade Publica	www.integridadepublica.org.moz
Namibia	Institute for Public Policy Research (IPPR)	www.ippr.org.na
Rwanda	CLADHO (Collectif des Ligues et Associations de Défense des Droits de l'Homme au Rwanda)	https://cladho.org.rw/
Tanzania	Hakikazi Catalyst	
Uganda	Uganda Debt Network. Civil Society Budget Advocacy Group (CSBAG)	www.udn.org.ug; www.csbag.org.
Zambia	Civil Society for Poverty Reduction (CSPR)	www.cspr.org.zm
Zimbabwe	Zimbabwe Coalition on Debt and Development (Zimcodd)	zimcodd.org

5.3. Effective Institutional Arrangements for PEFM

Recent thinking in the area of PEFM reforms is placing increased emphasis on the institutional side of management of government resources.

This has encouraged greater focus on ensuring that there is—

- Clarity in roles and responsibilities.
- Appropriate institutional arrangements such as coordination mechanisms.
- Clear "Rules of the Game" as defined in the legal and administrative framework.

Clear Stakeholder Roles

Ensuring clarity in PEFM roles and responsibilities involves addressing the aspects in Box 5.2, below.

Box 5.2. Clear PEFM Roles and Responsibilities

A clear definition of roles and responsibilities would cover the following:

i. ***Purpose:*** what is the role of the organisation in the PEFM system?
ii. ***Boundaries of purpose:*** different parts of an organisation are clear on where their responsibilities begin and end.
iii. ***Accountabilities:*** what each organisation and individual can be held responsible for.
iv. ***Authority:*** how much control each organisation or individual has over the use of resources.
v. ***Delegation of authority for all stages:*** how much authority has been delegated to all levels of the system.
vi. ***Linking incentives and sanctions to roles and responsibilities:*** what incentives and sanctions go along with responsibilities and who is responsible for imposing incentives and sanctions.
vii. ***Information and communication:*** about roles and responsibilities, and changes to these.

Coordination between Organisations responsible for PEFM

Lack of effective coordination between and even within organisations can be a major constraint to the use of scarce resources including the use of human resources. Although steering committees and other mechanisms for improving coordination can be established to improve coordination, these do not always lead to the intended benefits.

Improving coordination is therefore dependent on:

i. Having clearly defined roles of all stakeholders in the specific function, programme or activity that requires coordination.
ii. Ensuring that there is no overlap in these responsibilities and no confusion about who is responsible for which function.
iii. Having a clear and detailed action plan of what is to be achieved, by whom and when.
iv. Ensuring that the committee meets on a regular basis and that the appropriate officials from each organisation attend, i.e., that junior staff are not sent to represent the senior staff and are therefore unable to contribute to the decision-making process.
v. Ensuring that there are mechanisms for members to coordinate with each other between meetings.
vi. Ensuring that the committee reports to a senior level within government so that they are held accountable for their performance.

Coordination of functions can also be supported through the establishment of programmes that cut across MDAs, for example a Rural Development Programme implemented by several MDAs such as agriculture, trade, local government, etc.

This was one of the objectives of the US Programme Budgeting implemented in the 1960s. However, the experience of this approach has not always been successful as it means that there is no single organisation which is held accountable for the performance of the programme.

In the Australian Government this was addressed by establishing super-ministries ("portfolio ministries") which were made responsible for defining priorities in the sector and for making the trade-offs within a sector.

Restructuring of Roles and Responsibilities

When new systems are introduced or existing systems and processes modified, there is a need to review the current stakeholder roles and responsibilities to ensure that they are aligned with the new processes.

Examples of where changes to PEFM process can have implications for the roles and responsibilities of key stakeholders are presented in Table 5.2 below.

Table 5.2 Organisational implications of Changing PEFM Processes

Change to process	Process Implications	Responsibilities or organisational structures
Integrating planning and budgeting under an MTEF	Previous separate processes of preparing plans and budgets are now integrated into one process	There is need for closer collaboration or even merging of the functions of planning and budgeting in Ministries of Finance and in MDAs
Integrating preparation of recurrent and capital budgets	Previous separate processes of preparing recurrent and capital budgets are now integrated into one process	Closer collaboration or even merging of the functions of budget preparation and implementation in Ministries of Planning and Finance and in MDAs
Introduction of a performance focus in the budget	Performance information needs to be collected to be linked to financial information	MDAs need to have capacity within their departments to collect performance information

Merging Ministries of Finance and Economic/Development Planning

Many governments in the MEFMI region have undergone the restructuring of central ministries, in particular merging and separating Ministries of Finance and Development Planning.

The rationale for merging Ministries of Finance with Planning Ministries was the need to increase the linkages between:

- Macroeconomic planning which was sometimes in a planning ministry and the fiscal management role of Finance.
- The processes of development planning, usually goes through the preparation of National Development Plans, and the preparation and execution of the budget.
- Between the capital budget (often in a planning ministry) and the recurrent budget (usually in Ministry of Finance).

Experience has shown that simply merging two (2) organisational charts without reviewing and integrating the actual processes does not result in the intended benefits.

In some countries, the processes have remained separate while others have attempted to move the macroeconomic planning function into the Ministry of Finance and have integrated the responsibility for both recurrent and capital budgets within one (1) department. Recently some governments, although having made these mergers, have established a separate Planning Council and the separation of functions is gradually re-emerging.

The lessons to be learnt from these experiences:

- It is important to be clear about the objectives of the merger - is it a simple institutional merger, i.e., for efficiency reasons or is it to merge the functions and processes of planning and budget.
- To have a clear view about the scope of an integrated planning and budget system.
- To define clear roles for all departments in a merged ministry or where there are two separate systems, to avoid overlap and duplication of functions.

Professional Cadre System

Many MEFMI governments also operate a cadre system in which groups of professionals belong to a particular cadre such as the planning or economists cadre, the accounting or financial controller cadre, and internal auditor cadre.

There are two (2) ways in which these cadre systems operate:

- The cadre is managed by the relevant department in the Ministry of Finance, e.g. the planning cadre will be managed by the planning department and the officials within the accounting cadre belong to the Ministry of Finance.
- The responsible department does not employ the staff in the cadre, they will be employed and managed by the relevant line ministry, but the head of the cadre will provide professional support to the staff in the cadre such as ensuing that sufficient training is provided and that the members of the cadre meet on a regular basis to share information.

Each approach has its positive and negative implications. The centralised cadre approach means that officials in the cadre can be promoted by transfer between organisations, but this then limits the management of the cadre officials by the line ministry where they are posted.

For the devolved approach, the opportunities for promotion within government can be more limited as officials will have to wait for vacancies in other ministries in order to be promoted.

For the MDAs, the senior management can hold the economists or accountants more accountable for their performance if they are appointed within their own ministry.

Devolving Responsibilities

One of the key elements of the "New Public Sector Management" approach is devolving responsibilities to managers, while also holding them more accountable for delivering agreed performance.

In governments such as New Zealand and Australia, MDAs have complete freedom to recruit their own staff, agree on salary levels and use funds as they require in order to produce agreed performance. In return, Parliament approves the ministry budgets in terms of the outputs to be delivered and senior staff are employed on performance contracts, i.e., their pay and promotions are linked to their performance and the performance of their ministry.

In the MEFMI context it may not be possible to reach these levels of devolving responsibilities to MDAs, but the following issues could be considered:

- **Reducing the level of Control**
    - Enabling MDAs to recruit their own staff within the professional cadres.
    - Providing additional flexibility in the use of funds, i.e., changing the virement rules so that ministries do not need Ministry of Finance approval to change the use of funds at a detailed level (see Chapter 9 on Budget Implementation).

- **Increasing the Level of Accountability**
    - Requiring ministries to present performance information in the Budget, including both a review of past performance and planned performance
    - The budget discussion with MDAs and the Ministry of Finance as well as in Cabinet and Parliament to focus on performance rather than line-item details.
    - Requiring MDAs to explain or be held accountable for differences between planned and actual performance, both physical (e.g., number of classrooms constructed) and financial performance.
    - Ministry of Finance providing reports to Cabinet and Ministry of Civil Service on each line ministry's performance both in terms of spending discipline and service delivery achievements.

5.4. Legal Framework for PEFM

The legal framework for Public Expenditure and Financial Management includes:

- The Constitution
- Public Finance Management Act/Law
- Financial Regulations
- Some countries are introducing a specific Budget Law.

The Constitution

The Constitution will cover the broad issues of PEFM including:

- The requirement that all funds should be paid into a Consolidated Fund and that these funds can only be spent with the approval of the Legislature.
- The relationship between central and local government.
- The roles and authority for budget preparation and management for the Executive and the Legislature.

Public Finance Management (PFM) Act/Law

The PFM Act/Law describes the key roles and relationships that determine the implementation of PEFM systems and procedures. In most MEFMI countries the PFM Act will provide a comprehensive basis for defining the implementation of the PEFM system while the detailed procedures are defined in Financial Regulations which are updated on a regular basis to reflect changes in budget and accounting processes.

Some MEFMI governments are in the process of introducing a Budget Law that covers the requirements of the budget preparation process although in some other cases financial legislation reforms cover all aspects of PEFM systems as described below.

The PFM Act/Law should cover three areas:

- **General Principles:** principles of good budget preparation, concepts and definitions, scope of the budget, accounting and classification, appropriations and cash limits, roles and responsibilities, relationship with other budget laws, powers of the Ministry of Finance.

- **Budget Formulation:** budget timetable, period of budget, setting ceilings, budget calendar, procedures for budget preparation, analysis of budget requests, preparation of draft budget law, submission to Parliament, content of budget documents, rules for supplementary budgets.

- **Budget Execution and Audit:** treasury/cash management function, in-year cash limits, internal control, incentives and sanctions, fiscal impact analysis, end of year accounts, periodical financial statements, external audit procedures, management of government debt, fiscal risks, contingent liabilities, fiscal rules for extra budget funds and sub national government.

The PFM Act should define the requirements as follows: Payment of Funds into and Withdrawal of Funds from the Consolidated Account

i. Authorise the payment of all public funds into one (1) account, disbursements from which can only be approved by Parliament.
ii. Enable the Ministry of Finance to delegate the management of additional accounts to MDAs but these funds should be shown in the consolidated government accounts.
iii. Stipulate that the creation of special accounts or extra budgetary funds should only be authorised by law and that these revenues and expenditures should be included in the government accounts.
iv. Set out the basis for budget and accounting classification of revenues and expenditures.
v. Define the deficit/surplus and that the deficit/surplus should be included in the annual Appropriation Act.
vi. Define the powers of the Ministry of Finance.

Authorization or Appropriation of Funds
This should set out the authorisation of use of public funds or appropriation by Parliament including:

- The levels of the budget which are authorised by Parliament.
- Rules for reallocation of funds by MDAs or virement.
- Time limit for use of funds: most systems limit spending to the current financial year although in more advanced countries particularly capital budgets can be carried over into the next financial year.
- The inclusion of contingencies in the budget and the rules that govern the use of the contingency. Contingencies should be restricted to specific uses, form only a small percentage of about 2-3 percent the total budget and their use should be reported to Parliament.
- Provisions for continuation of spending if Parliament is unable to approve the budget before the beginning of the financial year. In some countries this is a routine occurrence in which the PFM Act provides an automatic approval for the government to spend a certain percentage of the current year's budget and is known as the "Vote on Account" or "Supply Warrant".

Revenues: the powers of the government to collect revenues should be defined in the Finance Act that often consolidates into one (1) statute many tax provisions from different tax statutes.

Presentation of the Budget to Parliament should include:

i. The time by which the estimates must be presented to Parliament.
ii. The time by which Parliament must approve the estimates.
iii. The form and contents of the Budget.
iv. Specification of fiscal targets in budget documentation and the medium-term economic strategy of government.
v. Provisions to regulate Parliamentary debate and powers to amend the Budget.
vi. Provisions that control increases in expenditures and presentation of supplementary budgets.

Budget preparation processes should be defined in broad principles in the PFM Act although the detailed procedures are usually set out in the annual Budget Call Circular which guides the preparation of the budget by MDAs.

Budget implementation provisions should cover the following issues:

- No expenditure can be incurred without authorisation of the Minister of Finance which is provided through the issue of a warrant.
- Control of virements or reallocation of funds between items of expenditure by MDAs.
- Provision for the Minister of Finance to report back to Parliament on the implementation of the budget, and that monitoring reports on revenues, expenditures and borrowing should be provided regularly to Parliament, including a mid-year Report.
- Definition of the responsibility of the treasury for financial execution of the budget.
- Definitions for the implementation of internal control procedures and internal audit.

Government Borrowing and Issue of Guarantees

- Limiting the authority to borrow and grant loan guarantees to the Minister of Finance.
- The amounts to be borrowed are limited by amounts indicated in the annual Appropriation Act.
- The Minister can issue loan guarantees.
- The government has no liability for the debt of autonomous agencies except for loans it has guaranteed.
- Controls on local government borrowing.

Banking and Financial Assets

The Minister of Finance should be responsible for the opening, closing and operating the bank accounts of central government. These accounts will be held by the central bank operating as the government's banker. Some countries also open and hold government accounts in commercial banks. However, many countries experienced problems managing a large number of government accounts in commercial banks, in addition to governments borrowing its own funds from commercial banks through sale of treasury bills. As a solution to these problems, most countries have introduced Treasury Single Accounts (TSA) within the central banks where all government accounts are held and helps governments in maintaining an up-to-date picture of the government's liquidity position and cash requirements.

Financial Reporting and Audit of Financial Statements

The Minister of Finance should ensure that appropriate reports are prepared and submitted to an external auditor, usually the Auditor General. The provisions should include:

- The scope of the reports to be submitted to Parliament.
- That the Auditor General is independent of the Executive and is responsible for auditing all public moneys, assets, financial statements, and other financial records.
- The timeframe for Ministry of Finance to submit the financial statements to the Auditor General and for the Auditor General to issue and audit opinion on the financial statements.
- The agreed accounting practices for preparation of government financial statements.

Accountability and Sanctions: the PFM Act should set out the procedures and administrative sanctions to be applied in cases of misuse of public funds.

Local Government PEFM Systems: the PFM Act should define the principles and procedures to be used at the local government level.

Definition of government entities: the PFM Act should define the difference between agencies of central government and those that function in their own right and should define the different types of public sector entities and the financial management rules that should apply to each category of public sector entity.

Manuals, Circulars and Financial Regulations

The detailed implementation of the above issues will be defined in a set of more detailed documents that may be updated or even produced on an annual basis to reflect detailed changes to PEFM systems and procedures. These will include:

- ***Planning Manuals:*** particularly focused on preparation and implementation of development or capital projects
- ***MTEF/Budget Manuals:*** the introduction of new budget processes such as the MTEF will usually involve the preparation of a detailed manual describing the processes and formats to be used in the process in each country.
- ***Budget Call Circulars:*** these will be produced each year to set out the policy and priority guidelines, processes and formats to be used, timetable and budget ceilings to guide the preparation of the budget.
- ***Financial Regulations:*** these will provide detailed instructions (rather than the principles set out in the PFM Act) on the roles and responsibilities, procedures to be followed, formats to be used in the budget implementation and accounting processes.
- ***Treasury Circulars*** providing detailed and regular guidance on specific issues e.g., annual closure of accounts.

Effectiveness of the Legal Framework

The effectiveness of PEFM systems will depend on having a clear and consistent set of rules and regulations that define the roles and responsibilities of the stakeholders and are in line with the PEFM systems in use. Therefore, the legal framework needs to be:

- Consistent without conflicting rules or regulations, i.e., the requirements as defined for budget preparation need to be consistent with those in the accounting processes.
- Clear in their definition of stakeholder roles.
- Consistent with any changes/reforms to PEFM systems, e.g., if a performance or three-year focus is introduced, the legal framework may need to be revised.
- Clearly define the incentives/sanctions used to enforce laws and regulations.

The principles to guide effective financial legislation are indicated in Box 5.3 below:

Box 5.3. Principles of an Effective PEFM Legal Framework

The principles include:

i) Feasible and forward-looking and can be developed further and implemented in conjunction with continued progress on reforms.
ii) Clear and easy to understand by professionals and political appointees. Contains separate sections for major activities.
iii) Consistent internally, and with related laws (unless they are subject to change).
iv) Comprehensive, and includes all areas of public financial management, such as: budgeting, financial management, public borrowing and debt (including budget deficits), auditing, analysis, and reporting.
v) Transparent, and does not include "hidden" powers or responsibilities.
vi) Sustainable, and can remain in place for many years.
vii) Stipulates specific accountability by public officials for various activities.
viii) Balances responsibility and authority on the part of government agencies and officials.
ix) Conforms to international standards in relevant technical areas, especially regarding budgeting and financial management and control.
x) Strengthens and clarifies the functions of the Ministry of Finance.
xi) Has the support of the Minister of Finance and the government (especially the President/Prime Minister).
xii) Mutually supportive of National Objectives and Priorities.

Clear Rules of the Game

The legal framework should clearly define the powers/authority, responsibilities and control for stakeholders in the PEFM system, i.e., the "Rules of the Game" that define the PEFM system.

This should set out:

- ***The levels of autonomy granted to spending ministries:*** the level of freedom that ministries have in the use of funds.
- Controls imposed by the central agencies such as the Ministry of Finance over the way in which are funds, e.g., the level at which ministries require approval from the Ministry of Finance to change the use of funds.
- Responsibility for performance: whether ministries are only responsible for keeping spending within the approved Budget Estimate levels or are also responsible for delivering the agreed-on performance as defined in performance indicators (see Chapter 4: Expenditure Frameworks).
- The sanctions and incentives framework for use of public funds: the measures that will be taken against individuals and organisations for misuse of public funds, and the benefits that will be provided for good performance.

These rules will usually cover a wide range of issues in terms of:

- ***Budget preparation:*** coverage, scope, presentation formats and approval processes.

- ***Budget implementation:*** release of funds, control over use of funds, flexibility in changing the use of funds, authority for making commitments and spending, internal audit procedures.

- ***Budget reporting and monitoring:*** accounting procedures and reporting, responsibilities and timeliness of reporting, monitoring procedures.

- ***Budget evaluation and audit:*** the roles and responsibilities, scope of audit (i.e., performance or value for money audit).

Use of Sanctions and Incentives

The scope and application of sanctions, which are applied against officials who misuse public funds, are usually described in the Financial Legislation. The misuse of public funds can take various forms with different degrees of severity:

- Not following correct procedures for procurement or use of funds.
- Corrupt practices such as influencing the award of tenders etc.

Such practices can be uncovered at various levels and stages in the PEFM cycle:

- As part of the tendering process, the procurement authority can identify possible weaknesses.
- During budget implementation, problems relating to following correct procedures and inappropriate tendering processes can be found during the internal audit process.
- Misuse of public funds can also be identified by the Auditor General (see Chapter 6: PEFM and Effective Controls).

The sanctions to be applied will depend on the severity of the misuse of funds and can take various forms: (see the section on Fraud and Corruption in Chapter 6). However, the use of the legally binding sanctions and prosecution of government officials for corrupt practices will depend on the political commitment of a government and attitudes to fighting corruption. Thus, the existing legal framework may have sufficient provision for the use of sanctions, but it may be the lack of political will to implement these sanctions that is the cause of the breakdown in fiscal discipline.

Incentives: in most governments there are no explicit incentives for good performance in the use and management of public resources. However recent reforms to PEFM systems have introduced a performance focus to the planning and management of public funds and these provide for incentives for good performance at two levels:

- Institutional level: ministries can be rewarded for good performance in the use of public funds through additional funds being provided to implement priority activities.

- Individual level: some countries are introducing performance contracts for civil servants through which pay increases and promotions are linked to an individual's performance. These performance criteria can include effective management of funds.

Bypassing Formal Rules

Although a wide-ranging set of formal rules will be in place, in many countries these will be bypassed in certain situations. Decisions on budget allocations and actual expenditures may take place outside the formal budget preparation and management procedures, and sanctions are not applied for breach of the financial regulations etc. As noted in Institutional and Incentive Issues in Public Financial Management Reform in Poor Countries by Mike Stevens (October 2004), PEFA in developing countries has a mismatch between the formal rules as defined in the financial legislation and the way they are implemented in practice.

The reasons for the collapse of the formal rules are:

i. The collapse of civil service pay structures, which mean that civil servants are unable to survive on government salaries and need to rely on other means such as seeking additional allowances, supplements through donor projects, private earnings through consultancy work, etc.
ii. The difficult working conditions (lack of well-maintained offices, equipment and operating budgets) which hamper effective management and service delivery.
iii. Scarcity of funds and effective working environment increases the potential for patronage or institutional conflicts that prevent the effective operation of the existing rules.
iv. The influence of large donor inflows and the establishment of parallel systems and procedures which have undermined the operation and adherence to the existing formal rules.
v. Lack of experience and capacity of the oversight organisations such as the Public Accounts Committee, Parliament and civil society to hold the Executive accountable for the proper use of public funds.
vi. In some instances, the rules tend to be inappropriate for the local context and create unnecessary inefficiencies e.g., overly cumbersome procurement rules in Central African Republic (CAR)[14] made executing capital projects nearly impossible. This becomes an incentive to bypass such rules.

The above issues result in the formal rules being bypassed as sanctions are not imposed for not adhering to the formal rules and officials are able to make use of donor funds using parallel systems.

Interest in government compliance with existing financial legislation and regulations is increasing for a number of reasons:

- Recent improvements in democratic processes and civil society efforts to hold governments more accountable for use of public funds are beginning to increase pressure for compliance with existing rules and regulations.
- As development partners seek to make use of government PEFM systems, compliance with best practice and financial regulations are now under detailed scrutiny through assessments of government systems using instruments such as the PEFA PFM Framework (see Chapter 1).

Updating and Revising PEFM Legal Framework

As governments introduce reforms to PEFM systems and new procedures and international guidelines are developed, it is important to review and if necessary, update the existing legal framework for PEFM.

As noted above, many developing countries have effective Financial Legislation already in place that guide the budget preparation and management processes. It is the poor implementation of these regulations that is the cause for concern.

[14]https://www.cabri-sbo.org/en/publications/improving-the-execution-of-capital-expenditure-financed-from-state-resources-in-the-central-african-republic

However, there are some areas where existing financial legislation may require review and updating to conform with recent reforms to PEFM systems. These include:

- Improving the level of transparency in the budget processes and documentation to provide better information to Parliament and the public about the services or performance to be delivered with the approved funds, including improving the presentation of budget documents as described in Chapter 8: Budget Coverage, Presentation and Approval.
- Improving the information in the budget on the economic assumptions underlying the budget estimates.
- Improved reporting throughout the year on budget implementation to Parliament.
- Introducing a medium-term focus in the budget estimates.
- Requiring MDAs to produce a report which describes their physical and financial performance.

In reviewing existing legislation, it is important to consider the following issues:

i. To have a clear understanding of the existing financial legislation: often existing legislation does provide for changes to PEFM systems; rather the problem is that the existing legislation is not being implemented.

ii. To assess the gaps between existing legislation and the areas where improvements are being introduced and changes are required.

iii. To identify the timeframe required for introducing a revised Finance Act based on when the new systems and procedures are to be implemented.

iv. To ensure that there is effective consultation with all stakeholders during the review and revision of the legislation to take account of the various stakeholder requirements.

v. The related financial procedures and regulations will also need to be updated to ensure conformity with the new legislation.

vi. To ensure that once the legislation is amended that there is sufficient training and awareness of the new laws and how they are to be implemented in practice.

Ministries of Finance will need strong legal departments to assist in reviewing and drafting revisions to financial legislation.

Reforms to the Legal Framework in OECD Countries

New Zealand's Fiscal Responsibility Act (FRA) of 1994 is a benchmark piece of legislation, which sets legal standards for transparency of fiscal policy and reporting and holds the government formally responsible to the public for their fiscal performance.

The FRA principles and standards

The FRA sets out five (5) principles of responsible fiscal management: reducing public debt to prudent levels; requiring an operating balance to be maintained on average over a reasonable time; maintaining a buffer level of public net worth; managing fiscal risks; and maintaining predictable and stable tax rates. The government is permitted to depart from these principles temporarily, provided such departure is clearly justified and a clear plan and time to return to the principles are given.

The FRA then specifies clearly how the government is to report on proposed policies and actual achievements to assure the Legislature and the public that the fiscal management principles are being followed. The FRA requires the government:

- To publish a "Budget Policy Statement," containing strategic priorities for the upcoming budget, short-term fiscal intentions, and long-term fiscal objectives, no later than March 31 for a July 1 financial year.
- To disclose the impact of fiscal decisions over a three-year forecasting period in regular "economic and fiscal updates".

- To present all financial information according to generally accepted accounting practices.
- To refer all reports required under the Act to a Parliamentary select committee.

See http://www.treasury.govt.nz/pubs/bmb/fra/details.htm)

Similar legislation, the Charter of Budget Honesty (CBH), has recently been enacted in Australia; and the United Kingdom has enacted a Code for Fiscal Stability (CFS). Standards of fiscal transparency under such national legislation are generally more demanding than those suggested under the Code.

To ensure that the institutional and legal framework is complied with, there needs to be effective controls aided by a mechanism that provides assurance that public sector officials are in compliance with the policies, standards, procedures, code of ethics and applicable laws and regulation. This is the focus of the next chapter.

CHAPTER

6

PEFM AND EFFECTIVE CONTROLS

Chapter 6: PEFM and Effective Controls

6.1. Introduction

This Chapter describes the processes and types of audit. It explains the responsibilities for internal and external audit within government.

The chapter also provides details of the approaches used in the various types of external audits – financial audit, performance audit and special audits such as compliance audits. This is followed by a description of the processes followed by an auditor in undertaking an audit, and an overview of the common weaknesses in public sector audit in developing countries.

The chapter also outlines the prerequisites for effective public sector audits and provides guidelines for the presentation and follow up of audit reports.

Key Message

Internal and External audit are key elements in the PEFM cycle that involves an independent assessment of:

- The appropriate processes and regulations that have been followed in the implementation of the Budget.
- Whether the funds spent by the government are line with the approved Budget and revenues collected as planned.
- Whether the expenditures have led to the planned improvements in services provided to the public.

Having an independent body to audit government accounts is usually defined in the Constitution and is an important part of the oversight of the Executive.

There are various types of audit:

- The audit of government accounts at the end of the financial year in which the Auditor General will give an opinion on whether the financial statements are correct.
- More specific audits which can include performance audits, financial audits, compliance audits, controls audits, forensic audits, and computer audits.

Some of the common weaknesses faced by external audit organisations in developing countries include:

- Procedures are not always followed, where these are not available or clearly defined.
- Difficulties of retaining well qualified and motivated staff.
- Audit findings are not always acted upon.

Recent reforms to external audit processes are focusing on improving audit procedures and capacity building initiatives.

6.2. Internal Audit

The Institute of Internal Auditors (IIA)[15] defines internal audit as "an independent, objective, assurance and consulting activity designed to add value and improve an organisation's operations."

[15] www.theiia.org

Internal audit staff are responsible for ensuring that ministries comply with the financial rules and regulations during the budget implementation process and that funds have been spent as approved by Parliament. Their general scope of work is to determine whether MDAs systems of risk management, internal controls, and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure —

- Risks are appropriately identified and managed.
- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Employees' actions are in compliance with policies, standards, procedures, code of ethics and applicable laws and regulations.
- Resources are acquired economically, used efficiently, and adequately protected.

Internal auditors can either be centrally located in the Ministry of Finance with responsibility for internal audit programmes within MDAs, or recent practice is to decentralise the internal audit function to MDAs.

Internal audit staff should report to the head of the relevant MDA and it is important that they are able to provide independent conclusions and advice. This means that internal auditors should remain separate from the management and service delivery functions of the ministry or organisation. However, in several countries Internal auditors report functionally to Audit Committees and administratively to the head of the MDA where they are deployed.

While internal audit staff are an independent source of advice to the management of a ministry, they are still part of the organisation, and therefore not as independent as the external audit organisation.

In addition, reforms to internal audit are focusing both on expanding the scope of internal audit and on providing a support service to a ministry in the management of risks. Implementing this new approach to internal audit will require new skills and professionalisation of the internal audit role. The Institute of Internal Auditors (IIA) has developed a globally recognised certification[16] for internal auditors as well as a number of standards and guidelines. These guidelines are mandatory for IIA members and internal audit organisations claiming to complete audits to IIA standards around the world.

Internal audit versus internal control

These two (2) terms are often confused and used interchangeably. Nonetheless, they are different from each other. Internal audit is a function that provides independent and objective assurance that the MDA's internal control and risk management system are functioning effectively whereas the purpose of internal control is to address all forms of risks to the efficient, effective and ethical operations of MDAs and to prevent or detect fraud and any other irregularities and ensure compliance with PFM laws and regulations.

Although internal control is a part of day-to-day management and administration of the MDA, establishment of internal control systems is usually the responsibility of the Accountant General or head of Treasury departments, who is expected to put in place necessary institutional, procedural and administrative arrangements to ensure that the internal financial control system of every MDA is adequate and effective, and consistent with best practice and internationally recognized standards.

The role of an internal auditor in respect to internal control systems is to evaluate the established internal control system and provide reasonable assurance regarding reliability of the system. In assisting the Accounting/Authorising Officers to maintain efficient and effective internal controls within their MDAs, internal auditors often evaluate those controls and recommend improvements in regard to the following, among others:

i. The PEFM information systems.
ii. The reliability and integrity of financial and operational information.
iii. The effectiveness and transparency of operations.
iv. Safeguarding of assets.
v. Compliance with laws, regulations and controls.
vi. The functioning of other operating systems and practices.

[16] https://www.iia.org.au/

Internal auditors also assist accounting/authorising Officers to achieve the performance required from their MDAs by making recommendations for the enhancement or improvement of the processes through which —

- Performance requirements are set, reported and monitored.
- Accountability is ensured.
- Corporate values are set and preserved.

6.3. External Audit

Overview of External Audit
External audit consists of systems and procedures that are designed to ensure that:

- The processes of planning and use of public resources conform to laid down rules and regulations.
- MDAs deliver the required goods and services as defined and approved by government.

When these systems and procedures are ineffective, there is the likelihood that resources will be misused, misapplied or misappropriated.

External audit therefore has an important function within the Public Expenditure and Financial Management system. The auditing process, together with internal controls are aimed at providing Parliament, government and citizens with reasonable assurance that the taxpayers' money has been spent in accordance with the Budget as approved by Parliament and in line with financial regulations, and that public managers and administrators have managed public assets in an efficient and effective manner.

Government Audit Organisations
In most countries, including those in the MEFMI region, the constitution requires the setting-up of independent audit institution (supreme auditing institutions (SAIs), also known as the Auditor General) to audit and review government activities including financial transactions, programme performance and other activities. Audit institutions are answerable to Parliament and their reports are often submitted to Parliament through a Public Accounts Committee (PAC) of Parliament. The roles and functions of the head of an SAI may include the following:

i. Audit of public accounts or annual financial statements.
ii. Audit of foreign exchange transactions.
iii. Examination of accounts of projects and programs financed fully or partly with public funds.
iv. Auditing of statutory commissions, corporations, parastatals and public enterprises.
v. Examination on receipt of Accountant General's report on public accounts.
vi. Submission of special audit reports to Parliament.
vii. Submission of Auditor General's report to Parliament.

There are a number of international and regional Audit Bodies including The Southern African Development Community Organisation of Supreme Audit Institutions (SADCOSAI) that was established as an independent organisation in 1991. Subsequently, in 1996, the Assembly of English-Speaking Supreme Audit Institutions in Africa was conceived as a loose association of Auditors General at the initiative of the International Organisation of Supreme Audit Institutions (INTOSAI). With effect from 1 January 2005, the Auditors General agreed to regroup the English speaking SAIs in the region to form one (1) effective organisation called the African Organisation of English-Speaking Supreme Audit Institutions (AFROSAI-E) with its own statutes and annual membership fees.

AFROSAI-E currently consists of twenty-one English and two (2) Portuguese speaking SAIs. The governing board comprises of the heads of all the SAIs that are members of AFROSAI-E. Each board member is assigned to one of the four (4) committees that were established to consider and make recommendations on matters pertaining to human resources, finance, audit and capacity building. The organisation is managed and administered from a secretariat situated at the office of the Auditor General in South Africa [17]

[17] See: http://www.afrosai-e.org.za

Auditing standards are guidelines to aid auditors in fulfilling their professional responsibilities. Public sector audit organisations adopt the Generally Accepted Auditing Standards (GAAS) which focus on:

i. Adequate technical training and proficiency.
ii. Independence.
iii. Due professional care.
iv. Adequate planning and supervision.
v. Proper study and evaluation of internal control.
vi. Sufficient competent evidence.
vii. Reporting standards.

Private Sector Audit Firms

Private auditing firms play a crucial role in auditing the public sector. They are contracted by the government auditor to perform specific audits where capacity is lacking or to assist in meeting heavy workloads. In all cases auditing firms are required to apply and adopt both the government auditing requirements and professional auditing and accounting standards.

Types of Audits

All audits begin with objectives which determine the type of audit to be conducted and the audit standards to be followed. There are two (2) types of government audits, as defined by their objectives, that is, financial and performance audits. However, there are also special audits conducted to supplement financial and performance audits as described below.
An Auditor General's Office will undertake two (2) types of audits:

- The audit of government accounts at the end of the financial year (Attestation Audit) in which the Auditor General will render an opinion on whether the financial statements of government are correct.
- Audits of specific issues within an organisation which can include performance audits, financial audits, compliance audits, controls audits, forensic audits, and computer audits.

Financial Audits

The purpose of a financial audit is to give assurance that the financial statements are not misleading and that they give a true and fair view of the financial situation of the government, line ministry, department or an agency.

Financial statement audits determine:

- Whether the financial statements of an audited entity present an accurate picture of the financial position, results of operations, and cash flows in accordance with generally accepted accounting principles.
- Whether the entity has complied with laws and regulations for those transactions and events that may have a material effect on the financial statements.
- Whether financial reports and related items, such as accounts, or funds are fairly presented.
- Whether financial information is presented in accordance with established or stated criteria.
- Whether the entity has adhered to specific financial compliance requirements.

Financial related audits will include the audits of all the sub-systems of the accounting system including but not limited to:

i. Payroll system.
ii. Acquisition and payment systems.
iii. Computer based systems.
iv. Procurement procedures.
v. Inventory.
vi. Capital acquisition.
vii. Payment procedures.

Audits may also include projects and programmes financed fully or in part from public funds and external resources.

Performance Audits

Performance audits examine the extent to which government programs or activities have achieved expected performance. It is a systematic process of objectively gathering and evaluating evidence about the performance of an organisation's operations, services and functions.

Therefore, the process provides information and assurance about the quality of the management of public resources. It assesses the economy, efficiency, and effectiveness of the operations of organisations by examining resource use, information systems, delivery of outputs, and the impact or outcomes.

There are two (2) main types of performance audits:

- Economy/efficiency audit.
- Programme results audit.

Economy and Efficiency (Productivity) Audits

The purpose of this type of audit is to assess the economy and efficiency of the use of public resources. It involves a review of management systems and an evaluation of the economy and efficiency of operations to determine whether:

- Resources are necessary and sufficient for operations at authorised service levels.
- The management system provides the capacity for adequate control over costs.
- The costs of operations are reasonable, relative to the results achieved.

Economy and efficiency audits include determining:

- Whether the entity is acquiring, protecting, and using its resources (such as personnel, property and space) economically and efficiently as well as the causes of inefficiencies or uneconomical practices.
- Whether the entity has complied with laws and regulations concerning matters on economy and efficiency.

Economy and efficiency audits may, for example, consider whether the entity:

i. Is following sound procurement practices.
ii. Is acquiring the appropriate type, quality, and amount of resources when needed at the lowest cost.
iii. Is protecting and maintaining its resources.
iv. Is avoiding duplication of effort by employees and work that serves little or no purpose.
v. Is avoiding overstaffing.
vi. Is using efficient operating procedures.
vii. Is using the minimum amount of resources (staff, equipment, and facilities) in producing or delivering the appropriate quantity and quality of goods or services in a timely manner.
viii. Is complying with requirements of laws and regulations that could significantly affect the acquisition, protection, and use of the entity's resources.

ix. Has an adequate system for measuring and reporting performance on economy and efficiency.

Programme Results Audits (Effectiveness)

A programme audit aims to assess the effectiveness of the operations of organisations in producing outputs and intended outcomes. It involves the review of the management system and an evaluation of the results of the organisation's operations to determine whether:

- Goals and objectives are appropriate to the entity's mission and activities.
- The goals and objective's structure are internally logical.
- The management system provides the capacity for adequate control over programme results.
- The entity is effectively achieving its stated goals and objectives.

- Operations result in a new benefit to the community.

Programme audits include determining:

i. The extent to which the desired results or benefits established by the legislature or other authorising body are being achieved.
ii. The effectiveness of organisations, programmes, activities, or functions.
iii. Whether the objectives of a proposed new, or ongoing program are proper, suitable, or relevant.
iv. Any factors inhibiting satisfactory performance.
v. Whether management has considered alternatives for carrying out the program that might yield desired results more effectively or at a lower cost.
vi. Whether the programme complements, duplicates, overlaps, or conflicts with other related programs.
vii. Ways of making programs work better.
viii. The adequacy of management's system for measuring and reporting effectiveness.

Special Audits

There are special audits conducted to supplement financial and performance audits namely:

- Compliance audits
- Controls audits
- Forensic audits
- Computer audits.

Compliance Audits

This form of auditing involves checking individual transactions after the fact to ensure that the appropriate authorizations and documentations have been complied with. It involves a review of management procedures and of operations to determine whether:

- All expenditures are properly authorized.
- All activities required by policy are being carried out.
- The management systems provide for adequate control and compliance with applicable laws and policies.
- Operations actually conform to applicable laws and policies.

Fraud and corruption are often identified through compliance audits, which are designed to ensure that laws, rules, agreements and regulations are observed. Non-observance may point to a fraudulent transaction, although not all cases of non-observance are fraudulent.

Controls Audits

Controls audits are designed to ensure that appropriate controls are in place and are functioning as designed. Controls audits can have features built into them to ensure that fraudulent transactions are flagged or made difficult, if not impossible, to transact.

Forensic Audits

Forensic auditing has been developed to deal with corruption and fraudulent activities that the normal financial and programme audits are unable to detect. For example, the use of computer technology to conduct criminal activities exceeds the audit skills required to conduct a financial or compliance audit, and this presents new challenges to the auditor.

Computer Audits

Computer audits are designed to provide assurance that computer generated financial records were correctly prepared and comply with the accounting policies and standards of an organisation.

Computer audits explore the risks associated with equipment malfunction, system design errors, calculation correctness, and human error, and these together will provide assurance that the computer systems will deliver accurate and correct information. Computer audits can also be designed to test whether laws, rules, and regulations are observed correctly, making a computer audit potentially useful in detecting fraud and corruption.

Stages in the Audit Process

Auditing is carried out in stages: audit planning; information gathering; assessing risk; identify internal controls; evaluating and testing controls; developing observation/findings; and audit reporting as described below. The methods used to carry out the phases can vary among auditing organisations around the world.

Audit Planning

Preparation for the audit involves determining the scope of the audit, the timing of the audit assignment, identifying staff for the assignment, and also determining whether there is the need to contract a consultant or an expert to augment the team. Assigning the right calibre of staff to the assignment is important so as to ensure audit efficiency and meet acceptable auditing standards. The plan should include logistics and the budgetary support necessary for the assignment. This stage will assist the auditor to develop an effective and efficient audit plan and audit program.

Gathering information

The audit generally begins with what is referred to as an "entrance conference," which is used to introduce the audit team to the management staff and key employees of the agency that is being audited. The audit team will collect such information as the agency's legal mandate and obligations, by laws, policies, and its relationship with third parties, for example, where the agency is undertaking a special project for a donor, or working together with a non-government

organisation (NGO) on a project. Information gathered will assist the auditors to understand the functions of the agency and its operations, and thereby familiarize themselves with its plans, budget and policies.

Risk Assessment

Risk assessment involves two (2) steps. The initial step is identifying risks associated with or arising from the activities of the agency, while the second step involves ranking the risks based on their potential impact on the organisation.

Basic risk assessment involves asking the question, for example, how great will the impact be if this risk event occurs? There are two (2) types of risks— "inherent" and "control" risk. Inherent risk refers to risks the organisation faces by the very nature of its activities. Police officers, for example, face safety risks in engaging in law enforcement activities. Control risk assesses the probability of a risk occurring given the control procedures that are in place (or not) to prevent it. Thus, auditors assess risks by evaluating the controls and making judgments about whether the controls are likely to be effective or not.

Identify Internal Controls

Internal controls are established by management and administrators to ensure that operational and administrative systems and procedures are efficient and effective. Controls are established to:

- Provide reliable data.
- Safeguard assets and records.
- Promote operational efficiency and effectiveness in service delivery.
- Encourage adherence to rules and regulations.

Thus, when controls are absent or weak, the result is that the accounting system is not likely to detect errors and is more likely to produce inaccurate information. For example, in a purchasing system, authorised invoices are checked by an accounts clerk for arithmetic accuracy before processing. The check for arithmetical accuracy constitutes a control.

Evaluate and Test Controls

Generally, control procedures aim to ensure that:

i. Recorded transactions are valid.
ii. Transactions are properly authorised.
iii. Existing transactions are recorded.
iv. Transactions are properly valued.

v. Transactions are properly classified.
vi. Transactions are recorded at the proper time.
vii. Transactions are correctly posted.

The question for the auditor is whether the internal controls identified are adequate and effective and whether to place reliance on them or not. By definition, controls are considered adequate and effective when their existence will reduce the likelihood of errors to an acceptable level. In this case, the auditor will be confident to rely on the controls to conduct the audit. On the other hand, the controls could be described as weak, that is, there is the likelihood that errors are being committed. The auditor will then not rely on the controls. Information obtained during the review is then used to identify the adequacy and/or the weaknesses of internal controls and the extent to which the controls can be relied on.

Methods applied by auditors to review and test internal controls include the review of procedures manuals, narrative descriptions of the systems and procedures, flowcharts, internal control questionnaires, and walk through tests where a transaction is followed from its origin to final destination.

Observation/Findings

This is the stage when the auditor records his observations from the evidence gathered, summarise the findings and provide an opinion on the audit conducted. Generally, the auditor will determine whether the financial statements are fairly stated. For each audit, during the planning stage, the audit team will develop a report format for setting out the audit findings and recommendations. Audit reports may take the form of a complete report that describes the audit objectives and fully describes the conclusions along with the evidence that supports those conclusions, or they may be provided in summary form.

The content of the report will depend on the objective and scope of the assignment and the nature of operations of the organisation being audited.

All audit reports must contain:

- An explanation of the origination or reason for conducting the audit.
- Sufficient background on the audited activity to enable readers to understand its findings.
- A clear statement of the audit objectives.
- A description of the scope and methodologies.
- The audit findings, and conclusions.
- Comments by management of the organisation on the audit report.

Weaknesses in Audit and Recent Reforms

An efficient and effective audit process provides Parliament, government and/or citizens with assurance that public funds have been spent in accordance with the Budget for their intended purpose. However, certain weaknesses constrain the auditor's performance including:

i. ***Systems and procedures.*** Audit rules and regulations are not followed by both the auditor and the auditee often because they are not well defined and sometimes not available.

ii. ***Logistical support.*** Lack of logistics such as transport can be a constraint for undertaking effective audits.

iii. ***Computer technology.*** This is a major challenge to auditors particularly when Ministries of Finance may have introduced computerized financial management systems while auditors may have little or no training in computer systems and applications.

iv. ***Adequate staff and training.*** Often there are insufficient audit staff to meet the workload, and those who are in the post do not receive sufficient training and are therefore lacking the requisite skills for modern auditing work.

v. ***Professional qualifications.*** Developing countries are faced with the difficulty of retaining qualified staff due to the low salary levels, and therefore audit offices will often have very few auditors with professional qualifications. This affects the quality of audit work.

vi. ***Remuneration.*** Remuneration packages are not attractive enough to attract, retain and motivate auditors.

vii. ***Findings not acted upon.*** In many cases the findings of auditors are not acted upon either due to the general lack of accountability within a government, or lack of skills within the organisation being audited to follow up on the audit findings. This acts as a de-motivating factor that can affect the performance of an auditor.

viii. ***Resident auditors.*** In some countries, auditors are permanently assigned to MDAs and large agencies and the result is that they may compromise auditing standards.

Most countries are reforming the external audit function as part of PEFM reforms. World Bank and Brookings survey of 31 African countries, found that at least 25 had adopted reforms involving payroll, procurement, internal audit, and external audit (World Bank, 2020). The audit reforms are focusing on ensuring that auditing procedures are clearly defined and up to date, audit manuals prepared and implemented, and audit staff are trained including in computer auditing.

Auditing is essentially the last stage in the PEFM cycle and concludes the section on the core PEFM elements. The next section addresses a few topics that have gained traction in the recent past which affect PEFM.

SECTION II: RECENT DEVELOPMENTS AFFECTING PEFM

This section comprises five (5) chapters that explore recent developments affecting PEFM. The section also covers other material not usually included in the core chapters, particularly PEFM reporting systems. Chapter 7 discusses how Sustainable Development Goals can be incorporated in PEFM. Chapter 8 focuses on how to achieve effectiveness in PEFM in a technologically changing environment. Chapter 9 discusses how to incorporate climate change in PEFM including how to account for climate change related public expenditure. Chapter 10 discusses effective gender mainstreaming within PEFM systems. Chapter 11 discusses PEFM Reporting Systems.

CHAPTER

7

PEFM AND SUSTAINABLE DEVELOPMENT GOALS

Chapter 7: PEFM and Sustainable Development Goals

7.1. Introduction

This chapter discusses how Sustainable Development Goals (SDGs) can be mainstreamed into national and sectoral plans and budgets to ensure a successful implementation of the Goals. The SDGs were born at the United Nations Conference on Sustainable Development in Rio de Janeiro in 2012 and signed off on 25 September 2015 as a set of 17 goals and 169 targets to be pursued by 193 UN member countries to meet the urgent environmental, political and economic challenges facing the world by 2030. The SDGs replaced the Millennium Development Goals (MDGs), which started as a global effort in 2000 to tackle the indignity of poverty. The MDGs established measurable, universally agreed objectives for tackling extreme poverty and hunger, preventing deadly diseases, and expanding primary education to all children, among other development priorities. SDGs are more diverse than MDGs, encompassing three (3) core dimensions of economic, social, and environmental development. All the 17 SDGs are integrated— that is, they recognise that action in one area will affect outcomes in others, and that development must balance social, economic and environmental sustainability.

The 17 Goals include:

- ***Goal 1***— End poverty in all its forms everywhere.
- ***Goal 2***— End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
- ***Goal 3***— Ensure healthy lives and promote well-being for all at all ages.
- ***Goal 4***— Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
- ***Goal 5***— Achieve gender equality and empower all women and girls.
- ***Goal 6***— Ensure availability and sustainable management of water and sanitation for all.
- ***Goal 7***— Ensure access to affordable, reliable, sustainable and modern energy for all.
- ***Goal 8***— Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
- ***Goal 9***— Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
- ***Goal 10***—Reduce inequality within and among countries.
- ***Goal 11***—Make cities and human settlements inclusive, safe, resilient and sustainable.
- ***Goal 12***—Ensure sustainable consumption and production patterns.
- ***Goal 13***—Take urgent action to combat climate change and its impacts.
- ***Goal 14***—Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
- ***Goal 15***—Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.
- ***Goal 16***—Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.
- ***Goal 17***—Strengthen the means of implementation and revitalize the global partnership for sustainable development.

Since their adoption in 2015, SDGs have become the centre of a renewed development framework for countries of the world, including MEFMI member countries, to meet the changing development priorities and development gaps that previous strategies under MDGs have been unable to close. MEFMI countries fared well on several Millennium Development Goals (MDGs) including the poverty reduction goal. But progress was uneven across goals, and across as well as within countries. Despite these achievements, MEFMI member countries still grapple with poverty and hunger and other development challenges. Hence, the SDGs provide to the region a transformative opportunity for a life of dignity and sustainable prosperity to all.

7.2. Planning for Sustainable Development Goals (SDGs)

SDGs came into effect on 1 January 2016 and will guide the decisions countries take until 2030. Implementing the SDGs calls for establishing frameworks that can facilitate the effective translation of sustainable development policies into concrete actions at the national level. From a public expenditure and financial management perspective, this means that member governments ought to mainstream SDGs into their national and sectoral plans and budgets to ensure a successful implementation of the SDGs. UNDG (2015)[18] recommends three (3) steps that can be applied in mainstreaming SDGs into national and sectoral plans:

- Review of existing strategies and plans, and identification of areas for change: to scan and detail the landscape of existing strategies and plans at the national, sub-national and local levels and then compare against the global SDGs and targets to identify gaps and provide the basis for areas for change.

- Setting of nationally relevant targets: for nationally adapted and inclusive SDGs that are achievable.

- Formulation of strategy and plans using integrated systems thinking: to incorporate the recommendations and the insights from the above steps into strategies and plans and matching commitments with resources and capacities.

The mainstreaming of the SDGs can be a complex endeavour, especially because there is a mismatch between SDGs and countries' budget classification systems—which makes it hard to effectively transform SDGs into national plans and budgets. Currently, there is no systematic system that countries can use to track expenditures easily and analytically on specific SDG related activities. Suggestions have been made to the UN to design a universal SDG budget classification system (a sort of budget code structure that incorporates all the SDGs) and to propose a methodology for mapping this system with countries' budget classifications—however, it could take some time for such a system to be developed. In the meantime, member countries may take the following two (2) steps to establish a quick framework with which to plan and track expenditures on SDGs:

- Undertake a manual mapping of the SDGs with existing budget heads (at high level) and integrate the mapping into Financial Management Information Systems (i.e., mapping the SDG classification with the existing structure in the chart of accounts) to be able to produce reports as per SDGs.

- Countries with a program-based budgeting system can introduce a budget classification that groups and then bridges programs with the SDGs. Whereas this may not be ideal, it could eventually facilitate some regular (albeit rough) budget planning and reporting on SDG policy targets, including allowing an indicative presentation of budget allocations linked to SDGs.

To achieve this, countries could take the following steps:

- Ensure political support (in a form of government directives, etc).
- Ensure clear understanding of the role of SDGs in the policy cycle, especially the budget cycle.
- Set up a small unit or task force to work on the mapping exercise using the information available.

To aid the process of mapping SDG classification' with existing structures in the countries' charts of accounts, MEFMI has proposed a simple tool (SDG planning table, see Table 7.1) that could be used.

The aim of the SDG planning table/tool is to ensure that decision makers are able to see the "SDG" layout of their budget decisions which would assist them to:

(i) Assess the impact of their ordinary budget decisions from the SDG perspective; and

[18] United Nations Development Group (2015); "Mainstreaming the 2030 Agenda for Sustainable Development." Interim Reference Guide to UN Country Teams, 7 October 2015

(ii) Identify issues that need to be fixed and measures to be taken in the next budget cycle including decisions on allocations to ensure implementation of the agreed measures, and communicate the budget to the key stakeholders (public) in the language of SDGs.

Table 7.1. Proposed SDG Planning Tool

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G1	**End poverty in all its forms everywhere**													
G0101	1.1 By 2030, eradicate extreme poverty for all people everywhere, currently measured as people living on less than $1.25 a day													
G0102	1.2 By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions													
G0103	1.3 Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable													
G0104	1.4 By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance													
G0105	1.5 By 2030, build the resilience of the poor and those in vulnerable situations and reduce their exposure and vulnerability to climate-related extreme events and other economic, social and environmental shocks and disasters													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G1	**End poverty in all its forms everywhere**													
G010A	1.a Ensure significant mobilization of resources from a variety of sources, including through enhanced development cooperation, in order to provide adequate and predictable means for developing countries, in particular least developed countries, to implement programmes and policies to end poverty in all its dimensions													
G010B	1.b Create sound policy frameworks at the national, regional and international levels, based on pro-poor and gender-sensitive development strategies, to support accelerated investment in poverty eradication actions													
G2	**End hunger, achieve food security and improved nutrition and promote sustainable agriculture**													
G0201	2.1 By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round													
G0202	2.2 By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G2	**End hunger, achieve food security and improved nutrition and promote sustainable agriculture**													
G0203	2.3 By 2030, double the agricultural productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers, including through secure and equal access to land, other productive resources and inputs, knowledge, financial services, markets and opportunities for value addition and non-farm employment													
G0204	2.4 By 2030, ensure sustainable food production systems and implement resilient agricultural practices that increase productivity and production, that help maintain ecosystems, that strengthen capacity for adaptation to climate change, extreme weather, drought, flooding and other disasters and that progressively improve land and soil quality													
G0205	2.5 By 2020, maintain the genetic diversity of seeds, cultivated plants and farmed and domesticated animals and their related wild species, including through soundly managed and diversified seed and plant banks at the national, regional and international levels, and promote access to and fair and equitable sharing of benefits arising from the utilization of genetic resources and associated traditional knowledge, as internationally agreed													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G2	**End hunger, achieve food security and improved nutrition and promote sustainable agriculture**													
G020A	2.a Increase investment, including through enhanced international cooperation, in rural infrastructure, agricultural research and extension services, technology development and plant and livestock gene banks in order to enhance agricultural productive capacity in developing countries, in particular least developed countries													
G020B	2.b Correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round													
G020C	2.c Adopt measures to ensure the proper functioning of food commodity markets and their derivatives and facilitate timely access to market information, including on food reserves, in order to help limit extreme food price volatility													
G3	**Ensure healthy lives and promote well-being for all at all ages**													
G0301	3.1 By 2030, reduce the global maternal mortality ratio to less than 70 per 100,000 live births													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G3	**Ensure healthy lives and promote well-being for all at all ages**													
G0302	3.2 By 2030, end preventable deaths of new-borns and children under 5 years of age, with all countries aiming to reduce neonatal mortality to at least as low as 12 per 1,000 live births and under 5 mortality to at least as low as 25 per 1,000 live births													
G0303	3.3 By 2030, end the epidemics of AIDS, tuberculosis, malaria and neglected tropical diseases and combat hepatitis, water-borne diseases and other communicable diseases													
G0304	3.4 By 2030, reduce by one third premature mortality from non-communicable diseases through prevention and treatment and promote mental health and well-being													
G0305	3.5 Strengthen the prevention and treatment of substance abuse, including narcotic drug abuse and harmful use of alcohol													
G0306	3.6 By 2020, halve the number of global deaths and injuries from road traffic accidents													
G0307	3.7 By 2030, ensure universal access to sexual and reproductive health-care services, including for family planning, information and education, and the integration of reproductive health into national strategies and programmes													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G3	**Ensure healthy lives and promote well-being for all at all ages**													
G0308	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all													
G0309	3.9 By 2030, substantially reduce the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination													
G030A	3.a Strengthen the implementation of the World Health Organisation Framework Convention on Tobacco Control in all countries, as appropriate													
G030B	3.b Support the research and development of vaccines and medicines for the communicable and non-communicable diseases that primarily affect developing countries, provide access to affordable essential medicines and vaccines, in accordance with the Doha Declaration on the TRIPS Agreement and Public Health, which affirms the right of developing countries to use to the full the provisions in the Agreement on Trade-Related Aspects of Intellectual Property Rights regarding flexibilities to protect public health, and, in particular, provide access to medicines for all													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G3	**Ensure healthy lives and promote well-being for all at all ages**													
G030C	3.c Substantially increase health financing and the recruitment, development, training and retention of the health workforce in developing countries, especially in least developed countries and small island developing States													
G030D	3.d Strengthen the capacity of all countries, in particular developing countries, for early warning, risk reduction and management of national and global health risks													
G4	**Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all**													
G0401	4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes													
G0402	4.2 By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education													
G0403	4.3 By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	Performance%	Budget	Estimate	Estimate
G4	**Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all**													
G0404	4.4 By 2030, substantially increase the number of youth and adults who have relevant skills, including technical and vocational skills, for employment, decent jobs and entrepreneurship													
G0405	4.5 By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations													
G0406	4.6 By 2030, ensure that all youth and a substantial proportion of adults, both men and women, achieve literacy and numeracy													
G0407	4.7 By 2030, ensure that all learners acquire the knowledge and skills needed to promote sustainable development, including, among others, through education for sustainable development and sustainable lifestyles, human rights, gender equality, promotion of a culture of peace and non-violence, global citizenship and appreciation of cultural diversity and of culture's contribution to sustainable development													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G4	**Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all**													
G040A	4.a Build and upgrade education facilities that are child, disability and gender sensitive and provide safe, non-violent, inclusive and effective learning environments for all													
G040B	4.b By 2020, substantially expand globally the number of scholarships available to developing countries, in particular least developed countries, small island developing States and African countries, for enrolment in higher education, including vocational training and information and communications technology, technical, engineering and scientific programmes, in developed countries and other developing countries													
G040C	4.c By 2030, substantially increase the supply of qualified teachers, including through international cooperation for teacher training in developing countries, especially least developed countries and small island developing States													
G5	**Achieve gender equality and empower all women and girls**													
G0501	5.1 End all forms of discrimination against all women and girls everywhere													
G0502	5.2 Eliminate all forms of violence against all women and girls in the public and private spheres, including trafficking and sexual and other types of exploitation													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	Performance%	Budget	Estimate	Estimate
G5	**Achieve gender equality and empower all women and girls**													
G0503	5.3 Eliminate all harmful practices, such as child, early and forced marriage and female genital mutilation													
G0504	5.4 Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate													
G0505	5.5 Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life													
G0506	5.6 Ensure universal access to sexual and reproductive health and reproductive rights as agreed in accordance with the Programme of Action of the International Conference on Population and Development and the Beijing Platform for Action and the outcome documents of their review conferences													
G050A	5.a Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G5	**Achieve gender equality and empower all women and girls**													
G050B	5.b Enhance the use of enabling technology, in particular information and communications technology, to promote the empowerment of women													
G050C	5.c Adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels													
G6	**Ensure availability and sustainable management of water and sanitation for all**													
G0601	6.1 By 2030, achieve universal and equitable access to safe and affordable drinking water for all													
G0602	6.2 By 2030, achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations													
G0603	6.3 By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally													
G0604	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G6	**Ensure availability and sustainable management of water and sanitation for all**													
G0605	6.5 By 2030, implement integrated water resources management at all levels, including through transboundary cooperation as appropriate													
G0606	6.6 By 2020, protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes													
G060A	6.a By 2030, expand international cooperation and capacity-building support to developing countries in water- and sanitation-related activities and programmes, including water harvesting, desalination, water efficiency, wastewater treatment, recycling and reuse technologies													
G060B	6.b Support and strengthen the participation of local communities in improving water and sanitation management													
G7	**Ensure access to affordable, reliable, sustainable and modern energy for all**													
G0701	7.1 By 2030, ensure universal access to affordable, reliable and modern energy services													
G0702	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix													
G0703	7.3 By 2030, double the global rate of improvement in energy efficiency													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	Performance%	Budget	Estimate	Estimate
G7	**Ensure access to affordable, reliable, sustainable and modern energy for all**													
G070A	7.a By 2030, enhance international cooperation to facilitate access to clean energy research and technology, including renewable energy, energy efficiency and advanced and cleaner fossil-fuel technology, and promote investment in energy infrastructure and clean energy technology													
G070B	7.b By 2030, expand infrastructure and upgrade technology for supplying modern and sustainable energy services for all in developing countries, in particular least developed countries, small island developing States and landlocked developing countries, in accordance with their respective programmes of support													
G8	**Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**													
G0801	8.1 Sustain per capita economic growth in accordance with national circumstances and, in particular, at least 7 per cent gross domestic product growth per annum in the least developed countries													
G0802	8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high value added and labour-intensive sectors													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G8	**Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**													
G0803	8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services													
G0804	8.4 Improve progressively, through 2030, global resource efficiency in consumption and production and endeavour to decouple economic growth from environmental degradation, in accordance with the 10 Year Framework of Programmes on Sustainable Consumption and Production, with developed countries taking the lead													
G0805	8.5 By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value													
G0806	8.6 By 2020, substantially reduce the proportion of youth not in employment, education or training													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G8	**Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**													
G0807	8.7 Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms													
G0808	8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment													
G0809	8.9 By 2030, devise and implement policies to promote sustainable tourism that creates jobs and promotes local culture and products													
G0810	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all													
G080A	8.a Increase Aid for Trade support for developing countries, in particular least developed countries, including through the Enhanced Integrated Framework for Trade-related Technical Assistance to Least Developed Countries													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G8	**Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all**													
G080B	8.b By 2020, develop and operationalize a global strategy for youth employment and implement the Global Jobs Pact of the International Labour Organisation													
G9	**Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation**													
G0901	9.1 Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all													
G0902	9.2 Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries													
G0903	9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G9	**Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation**													
G0904	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities													
G0905	9.5 Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending													
G090A	9.a Facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States													
G090B	9.b Support domestic technology development, research and innovation in developing countries, including by ensuring a conducive policy environment for, inter alia, industrial diversification and value addition to commodities													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1 Approved budget (for program)	Year t-1 Outturn expenditure	Year t-1 Performance%	Year t Budget	Year t+1 Estimate	Year t+2 Estimate
G9	**Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation**													
G090C	9.c Significantly increase access to information and communications technology and strive to provide universal and affordable access to the Internet in least developed countries by 2020													
G10	**Reduce inequality within and among countries**													
G1001	10.1 By 2030, progressively achieve and sustain income growth of the bottom 40 percent of the population at a rate higher than the national average													
G1002	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status													
G1003	10.3 Ensure equal opportunity and reduce inequalities of outcome, including by eliminating discriminatory laws, policies and practices and promoting appropriate legislation, policies and action in this regard													
G1004	10.4 Adopt policies, especially fiscal, wage and social protection policies, and progressively achieve greater equality													
G1005	10.5 Improve the regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1 Approved budget (for program)	Year t-1 Outturn expenditure	Year t-1 Performance%	Year t Budget	Year t+1 Estimate	Year t+2 Estimate
G10	**Reduce inequality within and among countries**													
G1006	10.6 Ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions													
G1007	10.7 Facilitate orderly, safe, regular and responsible migration and mobility of people, including through the implementation of planned and well-managed migration policies													
G100A	10.a Implement the principle of special and differential treatment for developing countries, in particular least developed countries, in accordance with World Trade Organisation agreements													
G100B	10.b Encourage official development assistance and financial flows, including foreign direct investment, to States where the need is greatest, in particular least developed countries, African countries, small island developing States and landlocked developing countries, in accordance with their national plans and programmes													
G100C	10.c By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G11	**Make cities and human settlements inclusive, safe, resilient and sustainable**													
G1101	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums													
G1102	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons													
G1103	11.3 By 2030, enhance inclusive and sustainable urbanization and capacity for participatory, integrated and sustainable human settlement planning and management													
G1104	11.4 Strengthen efforts to protect and safeguard the world's cultural and natural heritage													
G1105	11.5 By 2030, significantly reduce the number of deaths and the number of people affected and substantially decrease the direct economic losses relative to global gross domestic product caused by disasters, including water-related disasters, with a focus on protecting the poor and people in vulnerable situations													
G1106	11.6 By 2030, reduce the adverse per capita environmental impact of cities, including by paying special attention to air quality and municipal and other waste management													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	Performance%	Budget	Estimate	Estimate
G11	**Make cities and human settlements inclusive, safe, resilient and sustainable**													
G1107	11.7 By 2030, provide universal access to safe, inclusive and accessible, green and public spaces, in particular for women and children, older persons and persons with disabilities													
G110A	11.a Support positive economic, social and environmental links between urban, peri-urban and rural areas by strengthening national and regional development planning													
G110B	11.b By 2020, substantially increase the number of cities and human settlements adopting and implementing integrated policies and plans towards inclusion, resource efficiency, mitigation and adaptation to climate change, resilience to disasters, and develop and implement, in line with the Sendai Framework for Disaster Risk Reduction 2015–2030, holistic disaster risk management at all levels													
G110C	11.c Support least developed countries, including through financial and technical assistance, in building sustainable and resilient buildings utilizing local materials													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	Performance%	Budget	Estimate	Estimate
G12	**Ensure sustainable consumption and production patterns**													
G1201	12.1 Implement the 10 Year Framework of Programmes on Sustainable Consumption and Production Patterns, all countries taking action, with developed countries taking the lead, taking into account the development and capabilities of developing countries													
G1202	12.2 By 2030, achieve the sustainable management and efficient use of natural resources													
G1203	12.3 By 2030, halve per capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses													
G1204	12.4 By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment													
G1205	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse													
G1206	12.6 Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	Performance%	Budget	Estimate	Estimate
G12	**Ensure sustainable consumption and production patterns**													
G1207	12.7 Promote public procurement practices that are sustainable, in accordance with national policies and priorities													
G1208	12.8 By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature													
G120A	12.a Support developing countries to strengthen their scientific and technological capacity to move towards more sustainable patterns of consumption and production													
G120B	12.b Develop and implement tools to monitor sustainable development impacts for sustainable tourism that creates jobs and promotes local culture and products													
G120C	12.c Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor and the affected communities													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	Performance%	Budget	Estimate	Estimate
G13	**Take urgent action to combat climate change and its impacts**													
G1301	13.1 Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries													
G1302	13.2 Integrate climate change measures into national policies, strategies and planning													
G1303	13.3 Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning													
G130A	13.a Implement the commitment undertaken by developed-country parties to the United Nations Framework Convention on Climate Change to a goal of mobilizing jointly $100 billion annually by 2020 from all sources to address the needs of developing countries in the context of meaningful mitigation actions and transparency on implementation and fully operationalize the Green Climate Fund through its capitalization as soon as possible													
G130B	13.b Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries and small island developing States, including focusing on women, youth and local and marginalized communities													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	**Year t-1**			Year t	Year t+1	**Year t+2**
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G14	**Conserve and sustainably use the oceans, seas and marine resources for sustainable development**													
G1401	14.1 By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution													
G1402	14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans													
G1403	14.3 Minimize and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels													
G1404	14.4 By 2020, effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics													
G1405	14.5 By 2020, conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G14	**Conserve and sustainably use the oceans, seas and marine resources for sustainable development**													
G1406	14.6 By 2020, prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organisation fisheries subsidies negotiation4													
G1407	14.7 By 2030, increase the economic benefits to small island developing States and least developed countries from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism													
G140A	14.a Increase scientific knowledge, develop research capacity and transfer marine technology, taking into account the Intergovernmental Oceanographic Commission Criteria and Guidelines on the Transfer of Marine Technology, in order to improve ocean health and to enhance the contribution of marine biodiversity to the development of developing countries, in particular small island developing States and least developed countries.													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G14	**Conserve and sustainably use the oceans, seas and marine resources for sustainable development**													
G140B	14.b Provide access for small-scale artisanal fishers to marine resources and markets													
G140C	14.c Enhance the conservation and sustainable use of oceans and their resources by implementing international law as reflected in the United Nations Convention on the Law of the Sea, which provides the legal framework for the conservation and sustainable use of oceans and their resources, as recalled in paragraph 158 of "The future we want"													
G15	**Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss**													
G1501	15.1 By 2020, ensure the conservation, restoration and sustainable use of terrestrial and inland freshwater ecosystems and their services, in particular forests, wetlands, mountains and drylands, in line with obligations under international agreements													
G1502	15.2 By 2020, promote the implementation of sustainable management of all types of forests, halt deforestation, restore degraded forests and substantially increase afforestation and reforestation globally													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G15	**Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss**													
G1503	15.3 By 2030, combat desertification, restore degraded land and soil, including land affected by desertification, drought and floods, and strive to achieve a land degradation-neutral world													
G1504	15.4 By 2030, ensure the conservation of mountain ecosystems, including their biodiversity, in order to enhance their capacity to provide benefits that are essential for sustainable development													
G1505	15.5 Take urgent and significant action to reduce the degradation of natural habitats, halt the loss of biodiversity and, by 2020, protect and prevent the extinction of threatened species													
G1506	15.6 Promote fair and equitable sharing of the benefits arising from the utilization of genetic resources and promote appropriate access to such resources, as internationally agreed													
G1507	15.7 Take urgent action to end poaching and trafficking of protected species of flora and fauna and address both demand and supply of illegal wildlife products													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	Performance%	Budget	Estimate	Estimate
G15	**Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss**													
G1508	15.8 By 2020, introduce measures to prevent the introduction and significantly reduce the impact of invasive alien species on land and water ecosystems and control or eradicate the priority species													
G1509	15.9 By 2020, integrate ecosystem and biodiversity values into national and local planning, development processes, poverty reduction strategies and accounts													
G150A	15.a Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems													
G150B	15.b Mobilize significant resources from all sources and at all levels to finance sustainable forest management and provide adequate incentives to developing countries to advance such management, including for conservation and reforestation													
G150C	15.c Enhance global support for efforts to combat poaching and trafficking of protected species, including by increasing the capacity of local communities to pursue sustainable livelihood opportunities													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G16	**Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels**													
G1601	16.1 Significantly reduce all forms of violence and related death rates everywhere													
G1602	16.2 End abuse, exploitation, trafficking and all forms of violence against and torture of children													
G1603	16.3 Promote the rule of law at the national and international levels and ensure equal access to justice for all													
G1604	16.4 By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime													
G1605	16.5 Substantially reduce corruption and bribery in all their forms													
G1606	16.6 Develop effective, accountable and transparent institutions at all levels													
G1607	16.7 Ensure responsive, inclusive, participatory and representative decision-making at all levels													
G1608	16.8 Broaden and strengthen the participation of developing countries in the institutions of global governance													
G1609	16.9 By 2030, provide legal identity for all, including birth registration													
G1610	16.10 Ensure public access to information and protect fundamental freedoms, in accordance with national legislation and international agreements													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G16	**Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels**													
G160A	16.a Strengthen relevant national institutions, including through international cooperation, for building capacity at all levels, in particular in developing countries, to prevent violence and combat terrorism and crime													
G160B	16.b Promote and enforce non-discriminatory laws and policies for sustainable development													
G17	**Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development**													
G1701	17.1 Strengthen domestic resource mobilization, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection													
G1702	17.2 Developed countries to implement fully their official development assistance commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of gross national income for official development assistance (ODA/GNI) to developing countries and 0.15 to 0.20 per cent of ODA/GNI to least developed countries; ODA providers are encouraged to consider setting a target to provide at least 0.20 per cent of ODA/GNI to least developed countries													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	Performance%	Budget	Estimate	Estimate
G17	**Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development**													
G1703	17.3 Mobilize additional financial resources for developing countries from multiple sources													
G1704	17.4 Assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress													
G1705	17.5 Adopt and implement investment promotion regimes for least developed countries													
G1706	17.6 Enhance North-South, South-South and triangular regional and international cooperation on and access to science, technology and innovation and enhance knowledge-sharing on mutually agreed terms, including through improved coordination among existing mechanisms, in particular at the United Nations level, and through a global technology facilitation mechanism													
G1707	17.7 Promote the development, transfer, dissemination and diffusion of environmentally sound technologies to developing countries on favourable terms, including on concessional and preferential terms, as mutually agreed													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	Performance%	Budget	Estimate	Estimate
G17	**Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development**													
G1708	17.8 Fully operationalize the technology bank and science, technology and innovation capacity-building mechanism for least developed countries by 2017 and enhance the use of enabling technology, in particular information and communications technology													
G1709	17.9 Enhance international support for implementing effective and targeted capacity-building in developing countries to support national plans to implement all the Sustainable Development Goals, including through North-South, South-South and triangular cooperation													
G1710	17.10 Promote a universal, rules-based, open, non-discriminatory and equitable multilateral trading system under the World Trade Organisation, including through the conclusion of negotiations under its Doha Development Agenda													
G1711	17.11 Significantly increase the exports of developing countries, in particular with a view to doubling the least developed countries' share of global exports by 2020													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G17	**Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development**													
G1712	17.12 Realize timely implementation of duty-free and quota-free market access on a lasting basis for all least developed countries, consistent with World Trade Organisation decisions, including by ensuring that preferential rules of origin applicable to imports from least developed countries are transparent and simple, and contribute to facilitating market access													
G1713	17.13 Enhance global macroeconomic stability, including through policy coordination and policy coherence													
G1714	17.14 Enhance policy coherence for sustainable development													
G1715	17.15 Respect each country's policy space and leadership to establish and implement policies for poverty eradication and sustainable development													
G1716	17.16 Enhance the Global Partnership for Sustainable Development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the Sustainable Development Goals in all countries, in particular developing countries													

SDG Code	Description of Goal/targets	Responsible MDA(s)	Related program code (in	Related program name	Baseline indicator value (2015)	Target value Year(t-1)	Achievement Year(t-1)	Target Year(t)	Year t-1			Year t	Year t+1	Year t+2
									Approved budget (for program)	Outturn expenditure	**Performance%**	**Budget**	**Estimate**	**Estimate**
G17	**Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development**													
G1717	17.17 Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships													
G1718	17.18 By 2020, enhance capacity-building support to developing countries, including for least developed countries and small island developing States, to increase significantly the availability of high-quality, timely and reliable data disaggregated by income, gender, age, race, ethnicity, migratory status, disability, geographic location and other characteristics relevant in national contexts													
G1719	17.19 By 2030, build on existing initiatives to develop measurements of progress on sustainable development that complement gross domestic product, and support statistical capacity-building in developing countries													

CHAPTER

8

PEFM AND TECHNOLOGICAL INNOVATIONS

Chapter 8: PEFM and Technological Innovations

8.1. Introduction

This chapter discusses PEFM experiences in a technologically changing environment, and highlights what needs to be done to ensure effective PEFM in a technologically changing environment.

Governments around the world have embraced ICTs including e-government as a means of reducing costs, improving services for citizens and increasing effectiveness and efficiency at national, regional and local levels of the public sector (Mohammed Alshehri & Steve Drew, 2010[19]; Omwoyo, B., O., 2010[20]). According to the UN (2008)[21], 179 out of 192 UN members identified e-government as one of their top priorities and subsequently developed strategies to implement e-government systems to reap the benefits associated with e-government e.g., reduction in operational costs. Within the Eastern and Southern Africa region, all member countries have to a large extent introduced ICTs, such as:

i. Introduced computerized accounting systems (mostly IFMIS) and electronic funds transfer (EFT).
ii. Use of websites to make public information accessible.
iii. Online interaction with citizens e.g., through citizens budget surveys.
iv. Making certain transactions online, such as certifications, paying governmental fees, and applying for benefits.
v. Automating and streamlining intergovernmental business processes such as online distribution of government policies, memos, rules and regulations, sharing of databases and resources, fusion of skills and capabilities, online training and troubleshooting, online reporting, etc.
vi. Online interaction and transactions between government and businesses e.g., downloading application forms, lodging taxes, renewing licenses, registering businesses, obtaining permits, etc.
vii. Introduction of electronic government procurement (E-GP).

All these initiatives have not only allowed governments to cut costs (e.g., reducing time spent in bureaucracy) but have also improved service delivery—which are key outcomes of public expenditure and financial management systems.

On the other hand, ICT innovations have also created challenges in PFM that need to be managed. For example, according to the East African (2017)[22], countries in the East African region have registered several attempts by cyber criminals to steal government funds via the EFT system. How to ensure tight cyber security to protect a country's PEFM systems is therefore very critical. Dealing with e-government also means signing a digital agreement, which has to be protected and recognised by a formalised law to protect and secure electronic related activities or processes.

However, robust e-government laws are not yet available in some member countries. Furthermore, the constant lack of qualified ICT staff and inadequate human resources training is another challenge that needs to be addressed. The ability to use computers also remains low in member countries, yet computer literacy is required for people to be able to take advantage of e-government applications. Lack of internet access among certain sections of the population is another critical challenge.

According to the World Bank (2001)[23], introduction of advanced ICTs (particularly e-government) is not just about automation of existing procedures, but about changing the way in which government conducts business and delivers services. Given

[19] Mohammed Alshehri & Steve Drew (2010); "E-Government Fundamentals;" Paper delivered at the IADIS International Conference ICT, Society and Human Beings, at the School of ICT, Griffith University Brisbane, Australia, 2010.

[20] Omwoyo Bosire Onyancha (2010); "E-Governance and E-Governments in Africa: A Webometrician's perception of the challenges, trends and issues;" Department of Information Science University of South Africa. Published by Unisa Press, 2010.

[21] United Nations, (2008). UN e-government survey 2008: from e-government to connected governance. http://unpan1.un.org/intradoc/groups/public/documents/UN/UNPAN028607.pdf.

[22] The East African (2017); "Uganda's tech regulator worried as foreign hackers expand frontiers;" Article published by the East African Newspaper, August 9, 2017. https://www.theeastafrican.co.ke/business/Tech-regulator-worried-as-foreign-hackers-expand-frontiers/2560-4051478-4hxxxd/index.html.

[23] The World Bank (2001); "The E-Government Handbook for Developing Countries." November 2002, http://documents.worldbank.org/curated/en/317081468164642250/pdf/320450egovhandbook01public12002111114.pdf

this observed role of ICTs, in addition to lowering operational costs of government, it is important to bring this subject to the fore to motivate public finance officials in MEFMI member countries to learn from other countries' PEFM experiences regarding ICT innovations.

The aim of this chapter is therefore to accentuate PEFM experiences in a technologically changing environment, and to highlight what needs to be done to ensure effective PEFM in a technologically changing environment.

8.2. Experiences with PEFM in a Technologically Changing Environment

Over the last two (2) decades, many developing countries have embarked on plans to modernise their public expenditure and financial management systems through possibilities offered by the ever-improving ICTs. The objective was to increase the efficiency and effectiveness in the delivery and accessibility of public services, cut costs as well as increase quality of services, thereby creating a government that works better and costs less. This has entailed redesigning government business processes, restructuring relevant institutions, and implementation of major ICT projects relating to PEFM processes.

PEFM systems consist of processes relating to expenditure forecasting, budget preparation, budget execution, accounting and financial reporting, payroll management, programme management and auditing. Until around early 2000, these sub-systems were being implemented through separate information systems by most countries. However, thereafter, countries started adopting advanced computerised information systems that made it possible to e.g., integrate transaction classification and posting, with transaction processing. That is, as a payment is made, it is simultaneously classified and posted to the relevant account and, at the same time as the transaction is processed, the system can apply the necessary controls e.g., to ensure that a proper budget allocation exists prior to making a commitment or prior to approving payment.

Table 8.1 provides a snapshot of the PEFM subsystems and the computerised systems that have been adopted and operating in some MEFMI member countries since early 2000. A brief description of the mostly implemented systems (accounting, human resource management and procurement systems) is also provided below.

Table 8.1. PEFM and information systems

PEFM process	Process description	Typical systems implemented	How systems support the processes
Budget preparation	The process of budget preparation starts with the development of a budget circular indicating economic prospects, broad policy objectives and how the budget is expected to attain them, and sectoral allocations/ ceilings consistent with the macroeconomic framework. The next step is the preparation and analysis of MDA expenditure proposals and revenue forecasts and their consolidation into an annual budget document after a series of discussions at the Cabinet level, between MDAs, the MOF, and budgetary committees of Parliament and approval by the legislature. These discussions focus on how the budget proposals would meet the policy objectives outlined in the budget circular, on priorities of the various proposals, the validity of the resource requirements contained in these proposals, and how they can best be accommodated in the overall budgetary envelope.	IFMIS—Integrated Financial Management Information Systems PBS—Program Budgeting Systems OBT—Output Budgeting Tool (for budgeting in local governments) IBP—Integrated Bank of Projects (database that contains all information about a public project during the pre-investment, implementation, and monitoring and evaluation phases)	The budget preparation systems receive details of ongoing and planned programs and projects from the various MDAs, consolidate them, and produce from them the documents that form the basis of the negotiations between MDAs and MOF. After the budget is approved by Cabinet, the systems produce the approved budget estimates. The systems record and maintain the budgetary proposals and income estimates of all MDAs and record any changes during the budget preparation, approval, and amendment processes. To assist in the evaluation of the budget proposals, the system should be able to access and generate the baseline data on the manpower component, maintenance, and other operating expenses from the relevant past-year databases. Examination of the capital expenditures requires data on the status (physical and financial) of the approved projects.

PEFM process	Process description	Typical systems implemented	How systems support the processes
Budget Execution, Accounting, and Fiscal Reporting	This set of processes cover the functions associated with implementing the budget, including the procurement of goods and services in accordance with budget estimates, the recording and accounting of all government transactions and development of periodic reports to monitor the overall flow of spending or use of appropriations, over the course of the year, highlighting major deviations from the planned budget and suggesting corrective measures.	Integrated Financial Management Information Systems (IFMIS) Treasury Accounting System (TAS) Electronic funds transfer (EFT) Real time gross settlement system (RTGS)	These systems are the primary repository of financial data and serve as the basis of the government's Financial Management Information Systems (FMIS). These systems are used to perform the processes associated with budget execution, monitoring, and control, to obtain the status of actual expenditures on ongoing projects. These systems also monitor and evaluate the overall budget implementation processes and produce the necessary fiscal reports. In addition, these systems would provide useful financial information to MDA spending units to enable them to better manage their work programs. Systems support is focused on four main systems (i) budget and warrant control; (ii) accounts payable; (iii) accounts receivable; and (iv) the treasury general ledger system (TLS) or the financial general ledger (FLS) system, and together they constitute the government's Core Accounting System (CAS). The first of these is concerned with maintaining data on spending authority. These systems maintain data on approved budgeted appropriations (both capital and recurrent), sources of financing for programs and projects, budget transfers, supplementary allocations, and budget releases (warrants) against budgetary allocations over the course of the year. The second and third groups of systems are used to process

PEFM process	Process description	Typical systems implemented	How systems support the processes
			transactions as soon as possible after they occur, and record data on commitments and actual expenditures against budgeted allocations. The TLS/FLS is used for the compilation of summary records for control and analysis.
Cash Management	This includes the processes of developing MDAs cash flow forecasts, the release of funds to spending agencies, the monitoring of cash flows and expected cash requirements, the issue and redemption of government securities for financing government programs.	Treasury Single Account (TSA)	The Cash Management System assists the government in maintaining an up-to-date picture of the government's liquidity position and cash requirements. It obtains information on actual MDA expenditures and cash balances in government accounts from the general ledger. Revenue inflows, borrowing, loan disbursements, Treasury bills, government bonds, and cash deposit maturities are obtained either from the general ledger or from the specific systems for these areas, for example, the debt management system. Using this information, the government can decide on (i) budget ceilings and fund releases to MDAs; and (ii) the timing of the issues and redemptions of government securities, to provide short-term financing for shortfalls.
Debt Management	This process defines the tasks associated with maintenance of records on all contracted public debt on an individual loan basis and classified according to source and type of loan. This process also assists in economic and policy analysis by determining, for example, the debt implications of different fiscal and deficit financing policies by preparing projections of debt service commitments under existing and anticipated contracts.	Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) Debt Management and Financial Analysis System (DMFAS)	The systems maintain information on public domestic and external borrowings. This includes information contained in loan documents and transactions and issues of government securities. In addition to accounting information, this system also provides important information required in the formulation of fiscal policy, such as forecasts of drawdown and debt servicing liabilities and debt implications of different fiscal and deficit financing policies. Payment related to government borrowings are carried out by the central system based on the data in the debt management system. Loan receipts recorded in government accounts are processed by the central accounting system and then used to update the debt data base maintained by the debt management system.

PEFM process	Process description	Typical systems implemented	How systems support the processes
Personnel Administration	This relates to activities associated with the development and maintenance of the government's human resource policies including manpower planning, complement control, civil service pay and pension policies, and the fiscal impact of these policies and their administration.	IPPS—Integrated Personnel and Payroll System Integrated Human Capital Management System (IHCM)	The aspects of personnel management that are relevant are those processes associated with post management and complement control and with payroll and pension payments. The payroll, pensions, and employee advances systems post summaries to a centralized system periodically.
Auditing	The process deals with the analysis and scrutiny of public, financial, and other transactions to ensure compliance with government policies and procedures and to ensure cost-effective use of public funds in accordance with overall government priorities.	Computer Aided Auditing Techniques (CAATs)	Auditing takes place at two levels: internal audit at MDAs during the course of the fiscal year, and external audit by the Auditor General through random checks and on the final accounts for the FY. These systems assist the internal and external audit agencies in their functions.

Source: ADB (1999)[24]

The Integrated Financial Management Information System (IFMIS)

According to Carlos Pimenta & Mario Pessoa (2015)[25], IFMIS are computerised systems that automate financial procedures to support management of public sector budgetary, financial, and accounting operations and promote better public financial management (PFM) with a centralized registry of public sector expenditures and revenues. The IFMIS integrate budgetary, accounting, treasury, and public debt management processes, as well as generate corresponding reporting documents, mainly the financial statements.

An IFMIS is a set of sub-systems (modules) that interrelate with each other and which adopt a comprehensive approach to financial management; that is, a set of tools to achieve effective, efficient, and transparent public resource management within a framework for fiscal solvency. From this perspective, an IFMIS should not be viewed as an end in itself, but rather as an instrument that gathers information to support fiscal policy while improving public policy design through efficient resource allocation. As such, under PFM, it will improve the management of public expenditures and strengthen transparency and accountability.

From an ICT perspective, IFMIS are huge systems, which can accommodate a large number of users (up to 100,000 users).

An IFMIS has three (3) significant operational advantages in terms of budget management:

[24] https://www.adb.org/sites/default/files/publication/27901/managing-government-expenditure.pdf
[25] Carlos Pimenta & Mario Pessoa (2015); "Public Financial Management in Latin America: The Key to Efficiency and Transparency." Book prepared for the Inter-American Development Bank, 2015.

- Timely, reliable, and secure capture and processing of government financial transactions through automated information management systems in compliance with financial and accounting regulations and with a high level of data security and traceability.

- Enhancement of fiscal policy management based on timely information of the financial position at any given moment—only possible with an accurate and consistently updated database that has wide coverage of the public sector.

- Capture and supply of financial, nonfinancial, and performance data that contribute to efficient and effective public management.

Box 8.1. Experience of Implementing IFMIS in MEFMI member countries: The case of Uganda)

Uganda started implementing the IFMS in 2003. The system has been implemented in a phased manner to ensure success and to provide Government with a process of effectively and efficiently managing the transition to the future desired state.

The IFMS focused on key Expenditure Management Systems that include:

i. Accounting and Reporting (General Ledger)
ii. Budgeting, Purchasing and Commitment Accounting
iii. Payments
iv. Cash Management and Revenue Receipting/Accounts Receivable
v. Purchasing
vi. Public Sector Budgeting including Activity Based Costing and OFA
vii. Fixed Asset Management, Inventory Control
viii. Debt Management module

Benefits of the IFMS documented by Users include:

i. Faster operations
ii. Increased level of transparency
iii. Harmonized Chart of Accounts
iv. Timely, relevant and accurate info
v. Effective Budgetary and commitment control
vi. Reduction in number of bank accounts
vii. Reduction in amount of paperwork
viii. Improved Information security
ix. Timely and easy access to information
x. Movement and tracking of documents for approval.
xi. Ease of Monitoring and reporting
xii. Training and skills enhancement for staff

Challenges faced by IFMS documented by Users include:

i. Generates equipment-maintenance costs (but subject to overall cost savings accruing from use of the system)
ii. Fear and resistance by some staff
iii. Sabotage from beneficiaries of the old system
iv. Capacity and skills inadequacy
v. Need to harmonize the Local Government Financial and Accounting regulations with IFMS operations
vi. Negative Attitude of Staff
vii. Learning curve
viii. Occasional System unavailability
ix. Limited Hardware
x. Delays in resolving application bugs
xi. Adjusting to the highly structured requirements of the IFMS e.g., dealing with unbudgeted contingencies

Program Budgeting System (PBS)

The PBS is a computerised web-based budgeting tool designed to help automate and streamline traditional budgeting processes in accordance with program-based budgeting guidelines of a given country. PBS enables public sector organisations to automate all their core budget activities to operate efficiently, transparently and improve productivity, while meeting complex regulatory, budgetary requirements for effective accountability and service delivery, such as better strategic planning, effective cash flow control, a complete budget rules compliance, enhanced citizen services and document security.

According to Techno Brain (2020)[26], PBS offers some basic benefits including:

i. PBS improves cost-efficiency and manages effective budgeting outlays, increasing visibility into how government policies translate into spending and making systematic use of performance information.
ii. PBS has a dashboard, which improves business performance and drives business behaviour by providing critical insights for quicker analysis, decision-making and execution. The dashboard provides interactive visual representations of real-time data in the form of clear pictorial representations, such as pie diagrams and graphs enabling managers to measure and monitor performance and conduct what-if modelling. It is an analytical dashboard where the user can view the data at a single glance of what is happening at a particular time, or drill down to the finest details.
iii. PBS eliminates manual consolidation of the budget estimates.
iv. System provides a deeper level of functional integration and is simpler and less costly to maintain. It allows real time exchange of budgetary data with other systems such as IFMIS and HRM systems.
v. Allows access to historical budget data by users within MDAs.
vi. System facilitates the preparation of budget documents i.e., Budget Framework Paper, Estimates, PIP, Output Budget, Performance Contracts, Ministerial Policy Statements, and Procurement Plans.
vii. PBS is accessible from anywhere over the Internet.
viii. Consolidation of budget books—all financial and non-financial budget data can be developed from PBS.
ix. Audit trail to track user activities in the system.
x. Budget reporting—system enables generation of quarterly progress and performance evaluation and other analytical reports.

The Integrated Personnel and Payroll System (IPPS)

The IPPS is a computerised Human Resource Management Information System that performs various human resource functions in MDAs in countries where the system has been adopted. Implementation of the IPPS has been part of PEFM reforms aimed at strengthening accountability and improved service delivery through automation of Human Resource functions and provision of reliable and timely information for decision making. The system is built on at least four (4) modules notably Payroll Management, Pension Management, Establishment Control and Training Management. The system is used to process salaries, pensions and gratuity for government staff and ensures timeliness, accuracy and accountability of the payments.

Objectives of implementing the system include:

i. To automate human resource functions and processes for improved efficiency and effectiveness in public service delivery.
ii. To provide for a one stop centre for reliable, consistent and accurate human resource information for decision making.
iii. To foster information sharing through integration with other Government ICT systems in order to eradicate duplication of data and improve accuracy.
iv. To enhance capacity of Government to forecast human resource requirements for the Public Service in terms of numbers and skills requirements.
v. To enhance efficiency and effectiveness in the management of establishment and monitoring of wage performance.
vi. To facilitate timely and accurate salary and pension processing for promotion of accountability and transparency of Government payroll.

[26] Techno Brain (2020); "Performance Budgeting System." http://www.technobraingroup.com/

Typical services provided through the IPPS include:

- Decentralised management and processing of salary, pension and gratuity payments for public officers, pensioners and survivors.
- Establishment management for the approved MDA structures.
- Employee information management that stores the master data of a particular officer for the entire work life.
- Payroll cleaning through biometrics validation of Public Officers and authenticating their particulars against National ID database.
- Audit trail for all transactions executed on IPPS.

Integrated Bank of Projects (IBP)

The IBP is an online-based software that assists in carrying out the institutional processes relating to public investment management. It serves as a database that contains all information about a public project during the pre-investment, implementation, and monitoring and evaluation phases. It essentially captures information at all these stages including the various decisions made e.g., whether to approve a project, reject or revise it. The IBP system is designed in such a way that it can interface with existing PEFM systems for example the IFMIS and a country's budgeting system.

Its key advantages include:

i) Provides a single online platform for the monitoring and evaluation of all public projects and programmes.
ii) Enables comparison of project outputs specified at the pre-investment stage with the actual results.
iii) Enhances the performance of the Public Investment Management (PIM) system by linking pre-investment, budgeting, implementation, and monitoring and evaluation stages of the project lifecycle.
iv) Captures and stores information provided on all public investment projects and provide real-time access to this information to all stakeholders.
v) Has the capability to capture all the multiyear funding requirements and disbursement for ongoing and newly proposed projects.
vi) Captures information relating to the physical implementation of the projects, the milestones achieved, challenges and proposed way forward.
vii) Facilitate the linking of all government institutions involved in the PIM thereby improving their institutional coordination, decision-making, and administrative processes.

Overall benefits of advanced computerized systems

ADB (1999, n15) outlines several advantages of implementing advanced computerised systems. They include:

i) Helps in making relevant PEFM data easily available at all government levels.
ii) Vastly facilitates budget analysis and programming.
iii) Improves the timeliness of budget information.
iv) Increases government accountability, transparency, and participation.
v) Improves efficiency and effectiveness of public-sector operations.
vi) Widens access to public services.
vii) Improves the dissemination of information to the public and getting feedback from relevant stakeholders and service users.
viii) Lowers the administrative costs of government (systems enable more data to be shared between different information systems, thereby reducing the number of times the data have to be collected, thus lowering costs).
ix) Enables faster and more appropriate responses to requests and queries, including the provision of services outside normal office hours.
x) Enables access to all departments and levels of government from any location (e.g. through IFMIS, government officials can transact their businesses from any location without having to run back to their stations.

8.3. Effective PEFM in a Technologically Changing Environment

There are two (2) aspects that countries need to focus on as they pursue effectiveness of PEFM in a technologically changing world. First, it is important to understand the caveats for pursuing ICT innovations. Secondly, the need to understand the policies that promote successful ICT innovations.

Caveats in pursuing ICT innovations

Many countries tended to view computerisation of PEFM systems as a silver bullet that would automatically bring about effectiveness in PEFM. However, this has not always been the case. For instance, according to a report[27] by the World Bank's Independent Evaluation Group (IEG) published in April 2016, a functioning IFMIS alone is not sufficient to achieve good public financial management.

The report further observes that for a [PEFM] system to be effective, there must be clear commitment from the Ministry of Finance that all transactions are routed through the system, such that all expenditures are subjected to the IFMIS automated and ex ante internal controls. What this means is that practically, no payment instructions (cheques/vouchers) issued outside of the system should be honoured.

The report warned that in the absence of political will, the ICT system alone is unable to stop people (within the system) who may have vested interests to do what they may want to do e.g., to defraud Government—advanced ICT should go hand in hand with improved rules and processes.

Lessons learnt from CABRI's work on PEFM information systems also indicate that besides the advantages that IT systems present, countries have faced some common challenges including:

i) Dependence on simultaneous reforms: Success in introducing IT reforms depends on simultaneously introducing other complex PFM reforms e.g., SCOA and TSA.
ii) Mismatch between local context and system design: The systems adopted are mostly off-the-shelf, implying they are not designed to suit the local context, and requires existing manual process to fit in with predetermined design and heavily relies on external IT support.
iii) Integration: Countries often try to integrate core budget functions with payroll, public investment management, procurement, and debt management by introducing one central database. However, this approach has proved expensive and complex and has met with limited success. For instance, just a change in one of the modules (e.g., following introduction of new technology) can lead the whole system to fail. Also, the systems tend to be restricted to IT solutions from a single vendor, which has price implications.
iv) Data capability gaps: These are largely attributed to limited understanding of accounting standards and budget practices, inability to migrate and convert data for decision making.
v) Institutional coverage: Many countries have tried to introduce IFMIS to local government and SOEs. However, given the problems experienced with these systems at the central level, there has been lack of user buy-in. Human Resource capacity and connectivity issues have also tended to limit successes in introducing IFMIS at local governments and SOEs.
vi) Donor funds: Progress in incorporating donor funds tends to be slow in some countries, limiting the comprehensiveness of the IFMIS for heavily donor-dependent countries.

ADB (1999, n15) summarizes six (6) other caveats that governments need not to overlook when planning ICT innovations to improve PEFM:

i) **Guard against the urge to computerise anything in sight.** User's needs and requirements must come first and dictate whether and how the ICT tool should be used. For certain functions, pencil and paper, or a telephone, or a face-to-face meeting, or a visit to the library is far more effective than computers or the Internet.

[27] https://ieg.worldbankgroup.org/news/what-can-we-learn-decade-public-financial-management-and-civil-service-reform-malawi

ii) **The costs of a given ICT change must be assessed realistically** and compared with the actual benefits expected from the change.

iii) **Improvements in effectiveness stem largely from better rules and procedures, not necessarily from computerization.** To apply more advanced ICT to obsolete or inefficient rules and processes means, in effect, to computerise inefficiency. On the other hand, the absence of computerization poses the risks of costly mistakes or missed opportunities for dramatic improvements in PEFM.

iv) **ICT cannot substitute for good management and internal controls.** Indeed, the introduction of computers can give a false illusion of tighter expenditure control, in cases where some expenditure is managed outside the computerised system.

v) **Faster and integrated public financial management information systems need to be developed carefully.** Otherwise, the integrity of financial data can be compromised. In addition, inefficiently developed systems can jeopardise the entire financial management system if developed carelessly and without sufficient checks, controls, and security.

vi) **Guard against corruption.** It is increasingly assumed that the introduction of more advanced ICTs reduces opportunities for corruption. However, while IT sometimes detects and removes corruption, it can also have no effect, or even provide for new corruption opportunities. Computerisation creates changes in one or more of the following related aspects:

a. Skills. Computerisation is often associated with an "upskilling" of corruption, providing new corruption opportunities for those with IT skills, and removing opportunities from those without IT skills.
b. Confidence. With computer systems being regarded as an objective, all- seeing, and all-knowing, corrupt staff members lose confidence and refrain from corrupt practices.
c. Access. Computerisation of records often closes down access to some staff members but opens up access to others who operate the IT systems. Depending on relative integrity, corruption may increase or decrease.
d. Control. Data quality and computer omnipotence sometimes make some managers assume that IT completely removes the opportunities for corruption. They may therefore fail to institute sufficient controls on computerised systems. And this last is probably the most dangerous tendency, for the lack of controls will be evident to precisely those in a position to take advantage of it.

To sum up, management decisions about computerised information systems may affect skills, access, confidence, and autonomy. However, they are most unlikely to affect the personal or environmental drivers behind corruption. In most cases, IT-based systems affect symptoms of a corrupt system rather than its causes. Corruption is a phenomenon rooted in the cultural, political, and economic circumstances of those involved. IT does little to affect these root causes, remains in its surveillance potential, and so cannot eliminate corruption in public expenditure management.

Policies to promote successful ICT Innovations.

ADB (1999, n15) suggests the following five (5) policies that are needed to be pursued to ensure successful development of ICT innovations for PEFM.

- **A political climate that supports risk-taking:** For any innovation to be successful there must be willingness to take risks. However, traditional public-service cultures are "risk-averse," in part because scarce public funds are at stake. It is important to create a political climate that promotes and rewards risk taking otherwise change is likely to evolve only incrementally. Top-level encouragement is important in creating this environment and in giving legitimacy to innovative ideas.

- **Encouraging local initiatives:** Local governments can more easily nourish innovations related to their communities because they are closer to the public, community groups, and businesses. Likewise, the large number and diversity of local governments in many countries can greatly facilitate the emergence of innovative ideas, provided a political climate and organisational arrangements are established to nurture them. Moreover, reorganisations of local government structures can offer a "window of opportunity" for authorities to rethink and change the way they do things, including how to deploy ICTs.

- **Institutional development:** Changes in public expenditure management systems are more likely to succeed if transformations are seen as long-term processes. ICTs should be used to create a readiness for organisational innovation, through the development of information and knowledge resources, in ways that are sensitive to the needs of knowledge workers. In turn, government staff should be trained to understand and communicate the nature of the new services they are providing and of the logic of the organisational changes made to support them.

- **Strategic public policies:** To ensure that diverse ICT capabilities are effectively harnessed, there is a need to establish a coherent strategy and appropriate legislation and regulatory framework that would allow efficient implementation of ICT policies.

- **Grassroots' partnerships:** Establishment of working partnerships among citizens, community groups, business enterprises, ICT vendors, and public agencies at all levels and across all functions is critical. To achieve this, the following guidelines are key:

a) *Involve the grassroots:* local citizens; community groups and other non-profit organisations; national and local government agencies; business enterprises; and all others that are significantly affected by ICT innovation.

b) *Develop community infrastructure to facilitate the use of new electronic facilities*, including the provision of adequate training, education and implementation support, for example, through schools, libraries, community centers, and town halls.

c) *Set up a planning task force and explore ideas and alternative possibilities* using techniques like community workshops and technology demonstrations.

d) *In the pre-operation phase, ensure cooperation and resolve key issues,* such as how costs and risks are to be shared. Pilot projects and demonstrations can also be valuable at this point.

e) *At the operational stage, scale up resources and clarify the roles and responsibilities* of lead agencies and participants.

f) Ensure that budgets are allocated specifically to support the above activities.

The next chapter deals with another special topic relating to climate change and PEFM.

CHAPTER

9

CLIMATE CHANGE AND PEFM

Chapter 9: Climate Change and PEFM

9.1. Introduction

Climate change has since the early 1990s been a high priority policy area, given its threat to the natural systems that people and economies depend on, and its potential to increase poverty and inequality—which are the key issues that drive the need for efficient public expenditure and finance management systems to be able to address those issues. This chapter discusses how to integrate climate change in public expenditure and financial management, including how to account for climate change related public expenditures.

Climate change has attracted a lot of attention from both national and international fronts, particularly to ensure all countries respond appropriately to climate change-related development challenges. For instance, at the 2009 United Nations Framework Convention on Climate Change (UNFCCC) negotiations in Copenhagen, developed countries committed to mobilise at least US$100 billion per year by 2020 to address the needs of developing countries relating to climate change.

In tandem, the developing countries also committed to increase efforts to raise domestic funds to address climate change (Bird, N., 2015)[28]. However, the inter play of climate funds from the international community with the domestically raised public funds remains a PEFM challenge that requires attention. Should the climate funds from the international community be channelled through national systems or through extra budgetary funds? If they are to go through national systems, under what circumstances? Also, there is currently little guidance on how to incorporate climate change considerations into national budget planning, and how climate change spending can be tracked, and its performance assessed. These are the issues discussed in this chapter.

9.2. Climate Change and Public Expenditure Management

Climate change[29] refers to periodic modification of the Earth's climate brought about as a result of changes in the atmosphere as well as interactions between the atmosphere and various other geologic, chemical, biological, and geographic factors within the Earth system.

According to the UN (2020)[30], from 1880 to 2012, the average global temperature increased by 0.85°C. Oceans have warmed, the amounts of snow and ice have diminished, and the sea level has risen. From 1901 to 2010, the global average sea level rose by 19 cm as oceans expanded due to warming and ice melted. The sea ice extent in the Arctic has shrunk in every successive decade since 1979, with 1.07×106 km^2 of ice loss per decade.

Climate change is mainly attributed to unsustainable patterns of consumption and production that have been developed during the past two (2) centuries. The changes in lifestyle, the persistent increase in the burning of fossil fuels and the land use changes that followed the industrial revolution, have led to a sharp increase in the emission of Green House Gases (GHGs). The accumulation of the GHGs in the atmosphere prevents radiations from being freely reflected back from the earth. The resulting increase in heat retention in the planet results in global warming and consequently in climate change.

Climate change impacts the entire globe including MEFMI member countries in various ways. These include:

i. Rise in earth temperatures.
ii. Decreasing trend in annual rainfall.
iii. Accelerated rise in lakes/sea levels.
iv. Lengthening of intermediate dry or wet seasons between seasons.
v. Shift in start and end of rain or dry seasons.
vi. Increase in number of consecutive dry days and decrease in number of rainy days.

[28] Bird, N. (2015); "Climate finance and public finance management." Professional Development Reading Pack No. 16, GSRDC, June 2015. www.gsdrc.org
[29] https://www.britannica.com/science/climate-change
[30] https://www.un.org/en/sections/issues-depth/climate-change/

vii. Increase in heavy rainfall events leading to increased flash floods.
viii. Increase in frequency of extreme weather events.

Due to climate change and its associated impacts, countries around the globe agreed to take urgent action to address climate change problems.

As a result of these [associated] impacts, countries have had to deal with a number of problems such as:

- Water bodies becoming acidic due to increased absorption of carbon dioxide, leading to the destruction of marine biodiversity, beaches, etc.
- Severe soil erosion and damage to infrastructure.
- Increase in temperature which threatens food security through its effects on agriculture, health, biodiversity, rate of evaporation of water, food production and animal production.
- Water shortages, which directly impacts the agriculture, health, livestock, industry and other sectors.
- Destruction of flora and fauna thereby threatening tourism.

In 1992, the UN organised an "Earth Summit" which produced the United Nations Framework Convention on Climate Change (UNFCCC) in which countries including MEFMI members committed themselves to address the climate change problem. In 1997, countries adopted the Kyoto Protocol aimed at strengthening the global response to climate change, particularly to reduce carbon dioxide emissions. In 2015, countries negotiated yet another agreement (the Paris Agreement) which brought all nations into a common cause to undertake ambitious efforts to combat climate change and adapt to its effects, with enhanced support to assist developing countries to do so.

To be able to cope with climate change, countries agreed on two (2) principal measures, i.e. mitigation and adaptation.

Mitigation

Climate change mitigation is concerned with activities towards the stabilisation of greenhouse gases (GHG) concentrations in the atmosphere at a level that prevents dangerous anthropogenic interference with the climate system by promoting efforts to reduce GHG emissions or enhance GHG sequestration (OECD, 2011)[31]. Examples of climate change mitigation measures include:

- Use of clean renewable energy such as solar power in order to limit sources of emissions that emanate from burning fossil fuels.
- Improving energy efficiency such as the replacement of fluorescent lamps with light emitting diodes (LEDs) which consume less energy for same lighting output, use of more efficient vehicles that consume less fuel, conserving energy through switching off lights when not required, etc.
- Growing more forests to absorb greenhouse gases.
- Promoting climate smart agriculture such as bio-farming.

Adaptation

Adaptation refers to activities or measures taken when climate change cannot be avoided such that countries have to adjust to the actual or expected climate and its effects and to minimise expected harm. According to OECD (2011, n22), an adaptation activity intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate related risks, by maintaining or increasing adaptive capacity and resilience. Examples of climate change adaptation activities include:

i. Planting trees or laying sandbags to decrease beach erosion.
ii. Promote climate smart agriculture practices to increase outputs, food security and water storage measures.

[31] OECD (2011); "Handbook on the OECD-DEC climate markers."

iii. Promote climate smart fishing.
iv. Establishment of meteorological stations to provide timely and vital information to farmers.
v. Setting up climate change information centres/early warning and emergency alert systems.
vi. Development of disaster risk reduction maps and action plans regarding flooding, landslides, etc.
vii. Sensitising the public on climate change.
viii. Boosting efficiency of water usage e.g., building of new treatment plants and reservoirs and reducing water losses in the distribution system.
ix. Promoting rainwater harvesting.
x. Protecting infrastructure against climate change calamities.
xi. Desalination.
xii. Regulate use and disposal of pesticides.
xiii. Investment in water infrastructure to support irrigation projects.
xiv. Improve marine biodiversity resilience e.g., expansion of protected area network, rehabilitation of wetlands, increase tree coverage areas, etc.
xv. Mainstream climate change adaptation in health sector.
xvi. Surveillance of diseases associated with climate change.
xvii. Acquisition of hybrid and electric means of mass transportation.

Linking climate change to PEFM

As already noted above, under the 2015 Climate Change Paris Agreement, countries committed themselves to:

(i) Implement domestic mitigation and adaptation measures regarding climate change;
(ii) Prepare and communicate successive Nationally Determined Contributions (NDCs) to contribute towards the global effort to limit the temperature increase of the planet to within 2°C by the end of the century; and
(iii) Provide regular updates on the implementation progress and report on the level of the GHG emissions.

Fulfilling these three (3) commitments requires countries to undertake systematic planning, budgeting, management and reporting of public resources (both financial and nonfinancial) relating to climate change expenditures. **That is, countries must;**

(i) identify climate change mitigation and adaptation measures (as required under the Paris Agreement),
(ii) allocate resources for their implementation, and
(iii) monitor and report on the implementation of the agreed measures—which are principally public expenditure management processes.

Countries have, however, faced several challenges in planning, tracking, and reporting climate change expenditures. For instance, the World Bank (2014)[32] made the following observations:

- Classification of expenditures as climate-change related is far from clear cut and will always be a matter of judgment and degree.
- Climate change expenditures are rarely discrete; they typically relate to a particular component or design feature of a program or project, such that tracking these expenditures during implementation adds complexity to financial reporting.
- Budget classifications cannot distinguish climate change expenditures when these are embedded in programs, projects and activities that have a primary purpose other than climate change; it would require further analysis to disentangle climate change related expenditures from information sources other than the budget and chart of accounts.

[31] The World Bank (2014); "CPEIR Source Book."

9.3. Accounting for Climate Change Related Public Expenditures

Climate Public Expenditure and Institutional Review (CPEIR) methodology

The CPEIR is a systematic qualitative and quantitative analysis of a country's public expenditures and how they relate to climate change. It identifies and tracks budget allocations that respond to climate change challenges. The methodology generally assists in presenting evidence on public expenditures related to climate change across all MDAs. In addition to reviewing the public expenditures of a country, the CPEIR also reviews the country's climate change plans and policies, institutional framework and public finance architecture in order to make recommendations to strengthen them.

The CPEIR methodology is largely based on the World Bank's Public Expenditures Review (PER) method. Usually, the PER is based on financial data on planned and actual budget expenditures which are explicitly recorded in Government systems such as IFMIS in line with countries' charts of account. However, in the case of climate change expenditures, information on such expenditures cannot be readily generated by a touch of a key and therefore analysts have to go an extra mile to be able to identify expenditures that are related to climate change, given the cross-cutting nature of such expenditures. Box 9.1 presents a step-by-step process which has been applied by countries such as Nepal, Mauritius, Uganda and Kenya to identify and track climate change related expenditures using the CPEIR methodology. The key stages of the methodology are represented in Figure 9.1 (see next page).

Box 9.1 CPEIR methodology

The methodology has the following six steps:

Step 1

Identify MDAs which have expenditures (both recurrent and capital) that are related to climate change, considering the objectives of the expenditures. Box 9.2 provides a suggested list of key words to look out for when identifying climate change expenditures from MDA programs or activities.

Step 2

Are the expenditures of the identified MDAs (i) partly or (ii) 100 percent related to climate change? If 100 percent related, Go to step 4. If partly related, Go to step 3.

Step 3

Determine/estimate what amount/proportion/fraction/percentage of MDA that can be attributed to climate change.

Step 4

- Determine whether the identified expenditures are related to climate change adaptation or mitigation and allocate accordingly.
- If the activities contribute to improve resilience to climate change, then, classify the expenditures as related to adaptation.
- If the activities contribute to reduction of GHGs emissions, then, classify the expenditures as related to mitigation.
- In case of mixed outputs/contributions (both to mitigation and adaptation), then, allocate accordingly while ensuring there is no double counting.

Step 5

Using the CPEIR definitions of climate level of relevance, determine the level of relevance of the climate change expenditures based on their objectives. Make use of three (3) levels—high, medium, low to determine the climate level of relevance (see guidance in Table 9.1).

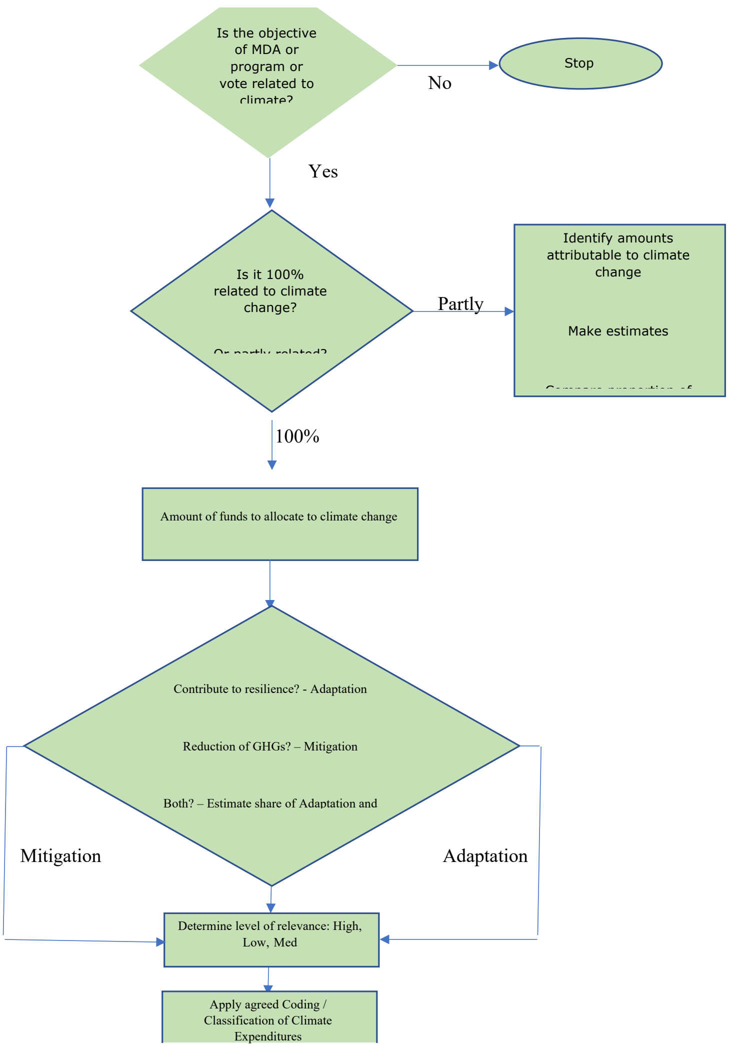
Step 6

Prepare a summary of public climate change expenditures using an appropriate template (see sample in Table 9.2).

Box 9.2 Key words to look out for when identifying climate change expenditure

a) Climate smart agriculture
b) Climate resilient agriculture
c) Sustainable agriculture
d) Water efficient irrigation
e) Agroforestry
f) Biodiversity conservation
g) Food security
h) Forest restoration
i) Energy auditing
j) Green manufacturing
k) Fuel switch to cleaner fuels
l) Renewable/clean Energy
m) Energy efficient mass transportation systems
n) Cycle and pedestrian tracks
o) Car pooling
p) Water recycling
q) Efficient irrigation
r) Rainwater harvesting
s) Sustainable fishing management
t) Rehabilitation of wetlands
u) Early warning systems
v) National disaster management strategy
w) Flood control/reduction measures
x) Surveillance of diseases associated with climate change.
y) Waste management
z) Eco tourism
aa) Sustainable land management
bb) Sustainable production

Figure 9.1. Flowchart illustrating a modified CPEIR methodology.



Level of Climate Relevance

It so happens that all expenditures that are considered relevant to climate change may not have the same degree of relevance. As such, the degree of relevance of activities or programs or projects needs to be appropriately classified. Countries that have used the CPEIR methodology have adopted a classification ranging from High to Low, with each classification assigned an appropriate weight as illustrated in Table 9.1.

Table 9.1. CPEIR climate relevance index

Relevance	Assigned weight	Description
High (H)	At least 75 percent	Clear primary objective of delivering specific outcomes that improve climate resilience (adaptation) or contribute to mitigation.
Medium (M)	Between 50 percent and 74 percent	Either (i) secondary objectives related to building climate resilience or contributing to mitigation, or (ii) mixed programs with a range of activities that are not easily separated but include at least some that promote climate resilience or mitigation.
Low (L)	Between 25 percent and 49 percent	Activities that display attributes where indirect adaptation and mitigation benefits may arise.

Source: Adapted from UNDP CPEIR Methodological Guidebook (2015)

It should be noted that the climate relevance level depends on the context, for example the location, the potential vulnerability, and the nature of the MDA program activities. For instance, a water harvesting program may be considered as 'high' in terms of relevance in a country or area that is highly affected by water shortage and where such circumstances are likely to get worse due to climate change. For countries or areas that may not be 'water stressed' the water harvesting program may be classified as low in terms of climate change relevance. Below are some examples[33] of high, medium and low climate relevance level expenditures.

Possible examples of high relevance (with a weight of more than 75 percent)

i. Energy mitigation (e.g. switching to renewables, promoting energy efficiency)
ii. Costs related to changing the design of a program to improve climate resilience (e.g. extra costs of climate proofing infrastructure, beyond routine maintenance)
iii. Activities or programs responding to recent drought or flooding
iv. Relocating communities to give protection against cyclones or rise in water levels (sea, lakes)
v. Healthcare for climate sensitive diseases
vi. Capacity building to plan and manage climate change
vii. Awareness campaigns about climate change

Possible examples of medium relevance (50-74 percent weight)

- Forestry and agroforestry that is motivated primarily by economic or conservation objectives because this will have some mitigation effects.

[33] Adapted from UNDP (2015); "Climate Budget Tagging."

- Water storage, water efficiency and irrigation primarily motivated by improved livelihoods because this will also provide protection against drought.
- Biodiversity and conservation unless explicitly aimed at increasing resilience of ecosystems to climate change (or mitigation).
- Eco-tourism because it encourages communities to put a value of ecosystems and raises awareness of the impact of climate change.
- Livelihood and social protection programmes motivated by poverty reduction but building household reserves and assets and reducing vulnerability.

Possible examples of low relevance (25-49 percent weight)

- Water quality (unless the improvements in water quality aim to reduce problems from extreme rainfall events in which case the relevance would be high).
- General livelihoods motivated by poverty reduction but building household reserves and assets and reducing vulnerability in areas of low climate change vulnerability.
- General planning capacity building (unless it is explicitly linked to climate change in which case it would be high).

Compilation of a summary table

With the above kind of classification, a country can summarise the information and generate a report on climate expenditure by the level of relevance (high/medium/low, both weighted and unweighted) according to programs or objectives by MDA (see Tables 9.2 & 9.3). The total climate relevant expenditure can then be reported along with a breakdown of the total for each climate relevance classification and published to inform policy makers and other stakeholders in undertaking the following:

- An assessment of current policy priorities and strategies as they relate to climate change.
- A review of institutional arrangements for promoting the integration of climate change policy priorities into budgeting and expenditure management.
- A review of the integration of climate change objectives within the budgeting process, including as part of budget planning, implementation, expenditure management and financing.

Table 9.2. Climate Change Data Collection Form

Vote	Program name/ activities	Total budget estimate for program $m	Adaptation		Mitigation		Notes
			Climate level of relevance High/ Medium/ Low?	Estimated funds ($m)	Climate level of relevance High/ Medium/ Low?	Estimated funds ($m)	
(i)	(ii)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)
e.g. 301	e.g. water harvesting project in Gege	e.g. $1.2m	e.g. H (75%)	e.g. $0.8m	e.g. L (25%)	e.g. $0.4	
e.g. 302	e.g. Capacity building for adaptation to climate change	e.g. $0.3m	H (100%)	$0.3m	N/A	Nil	
e.g. 303	e.g. rural electrification project for district Z[34]	e.g. $6.5m	N/A	Nil	e.g. H (85%)	e.g. $5.5	
e.g. 304	e.g. promoting value addition to agricultural produce	e.g.$10m	N/A	Nil	N/A	Nil	
Etc.							
Etc.							
TOTAL		**$18.0m**		**$1.1m**		**$5.9m**	
as % of total vote exp		***100%***		***e.g. 6.1%***		***e.g. 32.8%***	
as % of GDP		***x.x%***		***y.y%***		***z.z%***	

Notes:

i. *Column (i)—input the appropriate vote code.*
ii. *Column (ii)—indicate the program or activity name*
iii. *Column (iii)—input the total funds allocated to the program/activity in a given fiscal year*
iv. *Column (iv)—make a qualitative assessment and indicate level of relevance (H/M/L) and make a judgment about the percentage/proportion of the program or activities that are related to* ***adaptation*** *and indicate it as well e.g. low (25-49%), medium (50-74%), high (75-100%).*
v. *Column (v)—estimate the expenditure allocated to climate change* ***adaptation*** *e.g. by multiplying the total estimated budget in column (iii) by the percentage/proportion in column (iv).*
vi. *Column (vi)— make a qualitative assessment and indicate level of relevance (H/M/L) and make a judgment about the percentage/proportion of the program or activities that are related to* ***mitigation*** *and indicate it as well e.g. low (25-49%), medium (50-74%), high (75-100%).*
vii. *Column (vii)—estimate and input the expenditure allocated to climate change* ***mitigation*** *e.g. by multiplying the total estimated budget in column (iii) by the percentage/proportion in column (iv).*
viii. *Column (viii)—provide any comments e.g. justification for judgment regarding level of relevance and associated percentage.*

[34] Objective of project is twofold—climate change mitigation (85%) and poverty reduction (15%).

Table 9.3. Template for Summary of climate change expenditures

MDA code	MDA name	Total MDA budget $m	Adaptation		Mitigation		%Climate change expenditure to total
			Climate level of relevance High/ Medium/ Low?	Estimated funds ($m)	Climate level of relevance High/ Medium/ Low?	Estimated funds ($m)	
(i)	**(ii)**	**(iii)**	**(iv)**	**(v)**	**(vi)**	**(vii)**	**(viii)**
e.g. 01	e.g. Ministry of Agriculture	e.g. $60m	e.g. H	e.g. $1.1m	e.g. L	e.g. $5.9m	11.7%
e.g. 02	e.g. Ministry of Defence	e.g. $105m	e.g. L	e.g. $3m	e.g. L	e.g. $2.5m	5.2%
e.g. 03	Ministry for Gender	e.g. $10m	e.g. L	e.g. $0.2m	e.g. L	e.g. $0.6m	8.0%
Etc.							
Etc.							
TOTAL		**$175m**		**$1.1m**		**$5.9m**	**10.1m**
as % of total vote exp		***100%***		***e.g. 2.5%***		***e.g. 32.8%***	***5.8%***
as % of GDP		***x.x%***		***y.y%***		***z.z%***	***k.k%***

Another important topic that has emerged in the recent past is how to mainstream gender in public expenditure and financial management. This is the focus of the next chapter.

CHAPTER

10

GENDER MAINSTREAMING IN PEFM SYSTEMS

Chapter 10: Gender Mainstreaming in PEFM Systems

10.1. Introduction

This chapter contextualises gender mainstreaming in public expenditure and financial management. The chapter is largely built on the work of other organisations, particularly the PEFA Secretariat, which recently developed a supplementary framework for assessing gender responsive public financial management (GRPFM), which is a set of supplementary indicators that builds on the PEFA framework to collect information on the degree to which a country's public financial management (PFM) system addresses the government's goals with regard to acknowledging different needs of men and women and promoting gender equality. In some organisations gender mainstreaming in the context of PEFM is referred to as gender responsive PEFM. These terms are used interchangeably in this chapter.

10.2. Understanding Gender Mainstreaming in the Context of PEFM

Since the Fourth World Conference of Women held in 1995 in Beijing, gender mainstreaming has become an internationally acknowledged strategy for promoting gender equality (GTZ, 2006)[35]. According to the Council of Europe (2009)[36], gender mainstreaming is the "(re)organisation, improvement, development, and evaluation of policy processes, so that a gender equality perspective is incorporated in all policies at all levels and all stages, by the actors normally involved in policy making." Gender equality refers to how social, behavioural, and cultural attributes, expectations, and norms associated with being a woman or a man determine how women and men relate to each other and the resulting differences in power between them (World Bank, 2011)[37] .

In the context of PEFM, gender mainstreaming is about ensuring that the gender equality perspective is incorporated throughout the budget cycle, including in the planning and design of budgetary policies that promote gender equality, the allocation of resources to implement them, the tracking of resources to ensure that adequate resources are allocated and policies are implemented as intended, and the monitoring and evaluation of the efficiency and effectiveness of policies, including their impacts evaluated or differentiated by gender.

According to Stotsky (2016)[38], it is "an approach to budgeting that uses fiscal policy and administration to promote gender equality and girls' and women's development."

In brief, gender mainstreaming in PEFM relates to

(i) Formulating the budget in a gender-responsive way;
(ii) Linking gender-responsive policies with adequate budgetary funds;
(iii) Executing the budget in a way that benefits women and men, girls and boys equitably; and
(iv) Monitoring the impacts of expenditure and revenue-raising from a gender perspective (OECD, 2016[39]).

Gender mainstreaming in PEFM is intended to ensure that PEFM can contribute to addressing gender-specific needs and closing gender gaps in men and women's opportunities for economic, social, and political participation and thus, development outcomes (PEFA, 2020)[40].

Gender-responsive budgeting does not entail separate budgets for men and women (Elson, 2006)[41], instead, it requires "an explicit recognition of the existence of gender elements paired with an adaptation and reinforcement of existing institutions

[35] GTZ (2006); "Manual for Training on Gender Responsive Budgeting."
[36] Council of Europe (2009); "Gender Budgeting: Practical Implementation Handbook."
[37] World Bank (2011); "Gender responsive Public Expenditure Management: A Public Finance Management Introductory Guide."
[38] Stotsky, J. 2016. "Gender Budgeting: Fiscal Context and Current Outcomes." IMF Working Paper 16/149
[39] OECD (2016); "Gender Budgeting in OECD countries." OECD Journal on Budgeting, Volume 2016/3.
[40] PEFA (2020); "Supplementary Framework for Assessing Gender Responsive Public Financial Management;" Supplementary Framework for Assessing Gender Responsive Public Financial Management, January 2020.
[41] Elson (2006); "Budgeting for Women's Rights: Monitoring Government Budgets for Compliance with CEDAW. New York: United Nations Development Fund for Women (UNIFEM)."

and tools" (IMF, 2017) and an understanding of how to integrate gender equality objectives into the budget cycle (Anwar, S., A. Downs, and E. Davidson (2016)[42].

PEFA (2020, n31) highlights nine (9) areas where gender mainstreaming in PEFM can best be done. The areas include:

i) Preparation of expenditure policy proposals
ii) Mainstreaming gender in public investment management
iii) Preparation of budget call circulars
iv) Documentation of budget proposals
v) Compilation of sex-disaggregated performance plans
vi) Tracking budget expenditure for gender equality
vii) Budget reporting
viii) Evaluation of gender impacts of service delivery
ix) Legislative scrutiny of budgets and audit reports

Gender mainstreaming during preparation of expenditure policy proposals
Good budget practices require that every MDA or sector presents to their central agencies budget policy proposals to inform the process of allocating resources to spending agencies in a given fiscal year. Good budget practices also require governments to assess how the proposed expenditure policies will impact the delivery of services to men and women. The aim is to improve the design and planning of expenditure policies being proposed by MDAs, in order to strengthen gender equality and/or to avoid any negative impacts on gender equality.

Mainstreaming gender in public investment management

Public investments can serve as a key driver of economic growth. However, the effectiveness and efficiency of public investment are also key determinants in maximising the impact of public investment on the government's social and economic development objectives, including achieving gender equality. Different groups of men and women benefit differently from investment projects, and it is, therefore, important for policymakers to include a gender perspective in the economic analysis of major investment projects.

Gender impact assessments of investment projects are often conducted as part of social effects analysis that aims to understand the impacts of investment on beneficiaries, disaggregated by gender. However, they can be done as a stand-alone activity as well.

OECD recommends sound governance to deliver "gender-conscious, sustainable, and quality infrastructure" that includes the following:

- A strategic long-term vision for infrastructure that ensures a joint gender-sustainability perspective, allowing infrastructure to be planned, prioritised, delivered, and managed in consideration of women's and children's needs and their interlinkages with other sustainable development objectives, such as reducing pollution and fighting climate change.
- Consulting stakeholders including men and women, and gender-related groups to improve legitimacy, buy-in, project quality, and ultimately the effectiveness of infrastructure assets and services.
- A coordinated infrastructure policy across levels and entities of government that addresses the gender gap.
- A strategic approach to collection and analysis of sex-disaggregated data contribute to a better understanding of social needs based on gender and the results and impacts of infrastructure projects on gender.

[42] Anwar, S., A. Downs, and E. Davidson. 2016. "How Can PFM Reforms Contribute to Gender Equality Outcomes?" DFID-UN Women Working Paper, Department for International Development (DFID) and UN Women.

Mainstreaming gender in budget call circulars

The budget circular usually provides instructions and guidelines on how MDAs should prepare their annual or medium-term budget proposals. Mainstreaming gender in budget circulars includes a requirement for MDAs to

(i) Provide justification or planned results for the effects on men and women or on gender equality regarding the proposed new spending proposals or proposed reductions in expenditures, and
(ii) Include sex-disaggregated data for actual or expected results.

Gender Responsive Budget Proposal

Ministries of Finance every year receive budget proposals from all MDAs and analyses and uses the information to prepare a consolidated national budget proposal which is submitted to Parliament for scrutiny and approval. From a gender mainstreaming perspective, the proposals must include the following information:

- An overview of country's policy priorities for improving gender equality.
- Details of budget measures aimed at strengthening gender equality.
- Assessment of the impacts of budget policies on gender equality.

Such information helps countries to articulate their plans for implementing gender responsive policies and programs by identifying the resources being allocated to reach strategic goals regarding gender impacts, as well as to put in place systems for measuring the results of those policies.

Compilation of sex-disaggregated performance information for service delivery

Sex-disaggregated data refer to any data on individuals broken down by sex. Gender statistics rely on these sex-disaggregated data and reflect the realities of the lives of women and men and policy issues relating to gender. Sex-disaggregated data include data collected and tabulated separately for women and men. They allow for the measurement of differences between women and men on various social and economic dimensions and are one of the requirements in obtaining gender statistics. However, gender statistics are more than data disaggregated by sex. Having data by sex does not guarantee, for example, that concepts, definitions, and methods used in data production are conceived to reflect gender roles, relations, and inequalities in society.

Good PEFM practice requires sex-disaggregated data on planned outputs and outcomes to be compiled on a regular basis to help policymakers to assess and develop appropriate, evidence-based responses and policies in effort to promote gender equality. According to Downes, von Trapp, and Nicol (2017)[43], the data should help policymakers in the following ways:

- Identification of realistic objectives and the establishment of linkages between gender objectives and budget resources.
- Enabling comprehensive reporting of gender-related performance indicators in order to monitor progress and identify gaps.
- Generation of sex-disaggregated and gender gap data.

To a large extent, the data should cover most services delivered using public resources e.g. free education, health care, road construction, road maintenance, water and sanitation, defence, policing, agricultural extension services, etc.

[43] Downes, R., L. von Trapp, and S. Nicol. 2017. "Gender Budgeting in OCED Countries." OECD Journal on Budgeting 2016/3

Tracking public expenditure for gender equality

Public expenditure is tracked against budget allocations that are specifically classified in the government's chart of accounts as being associated with targeted gender outcomes. The aim is to understand the impacts of public spending on gender equality, to ensure that resources spent have reached the targeted genders and provided them with meaningful benefits.
Gender mainstreaming in PEFM is built on the premise that public spending can be used as an instrument for achieving gender equality. To have significant impacts on men and boys and women and girls, public spending must be budgeted and disbursed for activities that help to achieve these desired impacts. It is therefore important that resources planned to promote gender equality are actually disbursed, that there is a way to track those resources, and that no major adjustments are made to allocations that are not authorized by the legislature.

Tracking of expenditure for gender equality often focuses on the following:

- Expenditure allocated to the national gender machinery, such as the Ministry responsible for Gender.
- Expenditure allocated to programs to strengthen women's participation in decision making.
- Specific gender-related programs e.g. public expenditure focusing on paid maternal leave, subsidised childcare to allow women to work, programs for prevention of gender-based violence, programs to improve girls' access to and performance in education, etc.
- General public services targeting a specific gender e.g. programs to support women entrepreneurs, street lighting program to prevent rape, etc.

Mainstreaming gender in expenditure reporting

Collecting sex-disaggregated data and other information to analyse the impact of countries' policies on gender equality would be inconsequential if the findings would not be documented or reported on from the PEFM accountability perspective. **As such, good PEFM practice demands that countries mainstream gender in their reporting processes.** This involves producing reports on the implementation of their expenditure policies that include information on gender-related expenditure, including:

- A report on gender equality outcomes e.g. proportion of women/men lifted out of poverty, benefiting from employment programs, etc.
- Data on gender-related expenditure.
- Assessment of the implementation of budget policies and their impacts on gender equality.
- Sex-disaggregated data on gender equity (e.g. data on employment to measure how employment in the public sector is distributed between women and men).

Impact evaluation of gender equality on service delivery

Evaluations of the impact of public services on gender and gender equality provide important feedback to the initial design of services as well as any other unintended consequences for the provision of services for men and women. Such gender-sensitive evaluations can include program evaluation, assessment, and analysis; performance audits; public expenditure reviews; and ex-post impact assessments that are carried out at the completion of implementation of a program or service to provide feedback and use the findings to improve future planning and implementation of gender-related programs.

Ex-post evaluations particularly provide information on:

- Efficiency of programs or services with respect to equal access and equality.
- Whether means and resources are used efficiently to achieve improved benefits for women and men.
- Whether costs and benefits have been allocated and received equitably.

Ex-post evaluations also provide information on the effectiveness of programs or services by providing information on whether programs or services were effective in achieving gender equality and whether they contributed to the achievement of the planned outputs and outcomes and benefited a specific gender target group in line with planned expectations.

Including gender equality impacts assessment as part of ex-post evaluations also enables evaluators to review both the expected and unexpected impacts of programs or services on wider policies, processes, and programs that enhance gender equality and women's rights e.g. whether a program to reduce gender-based violence resulted in a reduction in the number of cases of gender-based violence, whether a program to increase intake of girls in universities resulted in an increase in women employed in both public and private sectors, etc.

Legislative scrutiny of gender impacts of the budget

Gender mainstreaming in respect to Parliament's budget oversight role often entails focusing on gender impacts in Parliament's review of Government's budget proposals and audit and performance reports especially to promote the participation of men and women in the policy-making process and to ensure that their voices are heard and their priorities reflected in government programs and services. In general, legislative budget scrutiny regarding gender may involve the following:

- An analysis of the impact of the proposed budget policies on gender.
- Public hearings as well as presentations by gender advocacy groups, at the request of Parliament, to provide technical support or requirements for gender impact assessments of the budget policies proposed by the Executive.
- Review of gender impacts of service delivery programs that may be included in the audit reports and following up on any gender-related actions recommended by Parliament to be implemented by the Executive.

10.3. Effective Gender Mainstreaming within PEFM Systems

A number of approaches have been suggested through which integrating gender perspectives in PEFM systems can be achieved.

For instance, PEFA (2020, n31) outlines 18 areas where gender equality needs to be deliberately covered for gender mainstreaming to be considered effective in a country's PEFM system. The areas include:

i) Budget call circular
ii) Budget execution report
iii) Ex-ante gender impact assessment
iv) Ex-post gender impact assessment
v) Expert or consultative group on budget issues
vi) Gender audit
vii) Gender budget baseline analysis
viii) Gender budget statement
ix) Gender budget tagging or classification
x) Gender equality policies
xi) Gender perspective in performance setting
xii) Gender perspective in spending review
xiii) Guidelines on gender budgeting
xiv) PEFM legal framework
xv) Legislative scrutiny of budget
xvi) Legislative scrutiny of audit reports
xvii) Publication of gender budget statement
xviii) Training and capacity development

In addition, the UN, IMF, OECD, etc have designed tools that can be used to guide countries in mainstreaming gender into their PEFM systems. These tools are explained below.

Questionnaire relating to SDG 5c

The 2030 Agenda for Sustainable Development Agenda commits to a "significant increase in investments to close the gender gap." In particular, SDG 5 aims at achieving gender equality and empowering all women and girls. SDG 5 has nine (9) indicators, one of which, SDG 5c, implores member countries to **"adopt and strengthen sound policies and enforceable legislation for the promotion of gender equality and the empowerment of all women and girls at all levels."** By implication, the indicator encourages governments to put in place a system to track and make public resource allocations, which can then inform policy review and policy formulation regarding gender equality. The indicator also aims at linking national budgeting systems with implementation of legislation and policies for gender equality and women's empowerment.

To determine if a country has a system to track and make public allocations for gender equality and women's empowerment, the SDG Secretariat administers a questionnaire (see Box 10.1) which is usually sent to Ministries of Finance or a central agency in charge of the government budget.

Box 10.1. The Questionnaire

1. Which of the following aspects of public expenditure are reflected in your government programs and its resource allocations (in the last completed fiscal year)?

    1.1. Are there policies and/or programs of the government that are deliberately designed to address well-identified gender equality goals, including those that do not have gender equality as the primary objective (such as public services, social protection, and infrastructure), but that incorporate action to close gender gaps?
    1.2. Do these policies and/or programs have adequate resources allocated within the budget, sufficient to meet both their general objectives and their gender equality goals?
    1.3. Are there procedures in place to ensure that these resources are executed according to the budget?

2. To what extent does your public [expenditure] financial management system promote gender-related or gender responsive goals (in the last completed fiscal year)?

    2.1. Does the Ministry of Finance or Budget Office issue call circulars, or other such directives, that provide specific guidance on gender responsive budget allocations, that is a gender sensitive call circular?
    2.2. Are key policies and programs, proposed for inclusion in the budget, subject to an ex ante gender impact assessment?
    2.3. Are sex-disaggregated statistics and data used across key policies and programs in a way that can inform budget-related policy decisions?
    2.4. Are there gender statistics backing the budgeting process?
    2.5. Does the government provide, in the context of the budget, a clear statement of gender-related objectives (that is, a gender budget statement or gender responsive budget legislation)?
    2.6. Are budgetary allocations subject to "tagging," including by functional classifiers, to identify their link to gender-equality objectives?
    2.7. Are key policies and programs subject to ex post gender impact assessment?
    2.8. Is the budget as a whole subject to independent audit to assess the extent to which it promotes gender responsive policies?

3. Are allocations for gender equality and women's empowerment made public (in the last completed fiscal year)?

    3.1. Are the data on gender equality allocations published?
    3.2. If published, have these data been published in an accessible manner on the Ministry of Finance (or office responsible for budget) website and/or related official bulletins or public notices?
    3.3. If so, have the data on gender equality allocations been published in a timely manner?

Source: https://unstats.un.org/sdgs/metadata/files/Metadata-05-0c-01.pdf

OECD Gender Budgeting Typology

The OECD (2016) defines gender budgeting as "integrating a clear gender perspective within the overall context of the budgetary process, through the use of special processes and analytical tools, with a view to promoting gender responsive policies." The OECD recommends three (3) approaches (ex-ante, concurrent and ex-post gender budgeting) through which a gender perspective can best be integrated in the budget process. The two (2) approaches are described in Table 10.1 below.

Table 10.1. OECD gender budgeting approaches

Approach		Description of approach
1. Ex Ante Gender Budgeting Approaches		
1.1.	Ex ante gender impact assessment.	An assessment of individual budget measures, in advance of their inclusion in the budget, specifically for their impact on gender equality.
1.2.	Gender budget baseline analysis.	An analysis conducted periodically to assess how the existing allocation of government expenditures and revenues contributes (or otherwise) to gender equality.
1.3.	Gender needs assessment.	A qualitative assessment, including views and opinions from stakeholders and civil society representatives, of the extent to which government policies and programs meet gender equality needs, with a view to identifying priorities for policy action in the budgetary context.
2. Concurrent Gender Budgeting Approaches		
2.1.	Gender perspective in performance setting.	Requirements prescribing that a minimum proportion of budget-related performance objectives be linked to gender responsive policies
2.2.	Gender perspective in resource allocation.	Requirements prescribing that a minimum proportion of overall budgeted resources be allocated toward gender responsive policies
2.3.	Gender-related budget incidence analysis.	An official assessment that accompanies the annual budget and is conducted by the central budget authority (or under its authority) of the budget's overall impact in promoting gender equality, including a gender-disaggregated analysis of specific [expenditure] policy measures
3. Ex Post Gender Budgeting Approaches		
3.1.	Ex post gender impact assessment.	An assessment of individual budget measures, after their introduction or implementation, specifically for their impact on gender equality
3.2.	Gender audit of the budget.	Independent, objective analysis conducted by a competent authority different from the central budget authority, of the extent to which gender equality is effectively promoted or attained through the policies set out in the annual budget
3.3.	Gender perspective in spending review.	Routine inclusion of a gender perspective in the context of a national "comprehensive" spending review, as a distinct dimension of analysis. The review focuses on: • Standard guidelines from the central budget authority on how to apply gender budgeting. • Training and capacity development in the use of gender budgeting. • Expert or consultative group to advise on the application of gender budgeting. • Interagency working group(s) to exchange good practices on gender budgeting. • Annual budget circular that includes details and instructions on the application of gender budgeting.

IMF Questionnaire for Assessment of Gender Responsiveness of Public Financial Management Systems

The IMF has designed a short questionnaire (see Box 10.2) to understand gender budgeting policies and practices in member countries. Although the questionnaire specifically targeted G-7 and other advanced countries at the time it was designed, developing countries can adapt it in their efforts to integrate gender perspectives in their PEFM systems.

Box 10.2. The IMF Questionnaire on gender mainstreaming

1. **Institutional Framework**
   1.1. Does the legal framework for public finance and budgeting include specific provisions related to gender issues or gender budgeting? Where can these provisions be found in the Constitution, an Organic Law, a Public Finance Law, or other laws and regulations?
   1.2. Are there specific arrangements for coordinating discussions within the government on gender-related issues, in particular, decisions related to expenditure programs or tax policy?
   1.3. Who is responsible for coordinating these decisions (for example, a ministry or agency for gender, an inter-ministerial committee on gender, the Prime Minister's Office, or the Ministry of Finance)?
   1.4. Has a gender budget statement been adopted by the government and made public?

2. **Budget Preparation**
   2.1. Does the government occasionally or systematically carry out a gender impact assessment (or a gender incidence analysis) of new government policy initiatives, equivalent to an economic or financial impact assessment, before they are approved by the government? Which government ministries or agencies are responsible for carrying out this work?
   2.2. Does the budget circular issued by the Ministry of Finance at the beginning of the budget cycle each year, or other budget guidelines issued by the ministry, include details or instructions on the application of gender budgeting (for example, how to calculate the gender impact of new spending proposals or tax policies).
   2.3. Does the government have in place a framework for managing and monitoring the performance of ministries and agencies in delivering public services (that is, program or performance budgeting)? Does this framework include specific performance targets or indicators relating to gender equality? Are these data published?
   2.4. Does the government systematically collect fiscal data that are disaggregated by gender? Are these data published, for example, in the annual budget documentation?
   2.5. Does the budget classification or chart of accounts incorporate a gender perspective? Is there a program or subprogram within this classification that specifically relates to gender equality?

3. **Budget Execution, Monitoring, and Control**

   3.1. Do budget execution reports issued by the government or its annual financial statements include information on gender-related expenditures or tax policies?
   3.2. Has the legislature or parliament conducted any hearings or published any reports in the last three years that discuss the impact of the budget or tax policy decisions on gender equality?
   3.3. Has the National Audit Office published any reports in the last three years that analyse the ex post impact of budget or tax policy decisions on gender equality?

4. **General**
   4.1. Please indicate any existing gender budgeting policies or practices of the central government or subnational governments that are not mentioned in the above questionnaire.

Source: IMF (2017)[45]; "Gender Budgeting in G7 Countries."

Tools such as those in the sections above would not have an impact if not administered and reports produced. Reporting is indeed an important aspect given its role in promoting accountability and influencing decision making. The next chapter addresses PEFM reporting systems.

[45] https://www.imf.org/-/media/Files/Publications/PP/pp041917gender-budgeting-in-g7-countries.ashx

CHAPTER 11

PEFM REPORTING SYSTEMS

Chapter 11: PEFM Reporting Systems

11.1. Introduction

The aim of this chapter is to discuss reporting in the context of PEFM, as a process of providing information to various stakeholders so as to enable judging the effectiveness of the PEFM system and become a base for identifying and taking corrective measures, where necessary.

Key stakeholders usually include the Cabinet, MDAs, program managers, Parliament, private sector, media, academia, non-state actors, donors, creditors, and individual citizens. All such groups at some point in time need comprehensive and timely information on public expenditures to use the information in various ways.

For example, Cabinet and MDAs need periodic information about the status of budgetary resources to ensure efficient budget implementation and to assess the comparative costs of different programs. Citizens and Parliament need information on budget allocations and costs and performance of programs that concern their electorates, in addition to holding government MDAs accountable for the use of public funds. International Financial Institutions need information to monitor and ensure that their client countries remain creditworthy.

Reporting also provides an opportunity to a reporting entity to present a statement of its achievements, and to provide information for a wide variety of purposes. Reports are also an important instrument for planning and policy formulation. From a government perspective, PEFM reporting should provide information to be used in assessing how well the government is doing e.g., by providing information on the following:

- Budgetary integrity. Have the resources been used in conformity with legal authorizations and mandatory requirements? What is the status of resources and expenditures (uncommitted balances and undisbursed commitments)?
- Operating performance. How much do programs cost? How were they financed? What was achieved? What are the liabilities arising from their execution? How has the government managed its assets?
- Stewardship. Did governments' financial condition improve or deteriorate? What provision has been made for the future?
- Systems and control. Are there systems to ensure effective compliance, proper management of assets and adequate performance?

Principles of reporting

Reports prepared by the government are governed by the following principles:

i. ***Completeness:*** The measures, in the aggregate, should cover all aspects of the reporting entity's mission.

ii. ***Legitimacy:*** Reports should be appropriate for the intended users and consistent in form and content with accepted standards.

iii. ***User-friendliness:*** Reports should be understandable to the users and should permit information to be captured quickly and communicated easily. They should include explanations and interpretations for non-technical people who are not familiar with technical jargon and methodological issues. For example, financial statements can be difficult for non-accountants; where possible, charts and illustrations should be used to improve readability. Of course, reports should not exclude essential information merely because it is difficult to understand or because some report users choose not to use it.

iv. ***Reliability:*** The information presented in the reports should be verifiable and free of bias and faithfully represent what it purports to represent. Reliability does not imply precision or certainty. For certain items, a properly explained estimate provides more meaningful information than no estimate at all.

v. ***Relevance:*** Information is provided in response to an explicitly recognized need. The traditional function of year-end reports is to allow the legislature to verify budget execution. The broader objectives of financial reporting require that reports take into account the different needs of various users. A frequent criticism of government financial reports is that they are at the same time overloaded and useless.

vi. ***Consistency:*** Consistency is required not only internally, but also over time, that is, once an accounting or reporting method is adopted, it should be used for all similar transactions unless there is good cause to change it. If methods or the coverage of reports have changed or if the financial reporting entity has changed, the effect of the change should be shown in the reports.

vii. ***Timeliness:*** The passage of time usually diminishes the usefulness of information. A timely estimate may then be more useful than precise information that takes longer to produce. However, the value of timeliness should not preclude compilation and data checking even after the preliminary reports have been published.

viii. ***Comparability:*** Financial reporting should help report users make relevant comparisons among similar reporting units, such as comparisons of the costs of specific functions or activities.

ix. ***Usefulness:*** Agency reports, to be useful both inside and outside the agency, reports should contribute to an understanding of the current and future activities of the agency, its sources and uses of funds, and the diligence shown in the use of funds.

Types of reports

International good practice recommends that governments publish eight (8) budget reports at various points in the budget cycle (Vivek Ramkumar & Isaac Shapiro, 2010)[46]. In thinking about the role of these budget reports, it is worth considering that the budget process is not a single event; rather, it is a year-long cycle with four stages:

- Formulation, when the executive branch puts together the budget plan.
- Approval, when the legislature debates, alters, and approves the budget plan.
- Execution, when the government implements the policies in the budget.
- Auditing and legislative evaluation, when the national audit institution and the legislature account for and assess the expenditures made under the budget.

Four (4) of the eight (8) key budget reports discussed here pertain to the formulation and approval stages of the budget process (that is, the Pre-Budget Statement, Executive's Budget Proposal, Enacted Budget, and Citizens Budget).

The remaining reports pertain to the government's execution and oversight of the budget (that is, In-Year Reports, Mid-Year Review, Year-End Report, and Audit Report).

Various reports are often produced to meet various needs. At every stage of the PEFM system from budget formulation to approval to execution to auditing and evaluation there are specific types of reports expected to be produced. Table 11.1 outlines the various types of reports often produced at every key stage of a PEFM reporting system.

[46] Vivek Ramkumar and Isaac Shapiro; Guide to Transparency in Government Budget Reports: Why are Budget Reports Important, and What Should They Include? Paper prepared for the International Budget Partnership.

Table 11.1. Types of PEFM reports

Stage in PEFM processes	Types of reports produced
Budget formulation and approval	• Prebudget statement • Executive's budget proposal • Enacted budget • Citizens' budget
Budget execution	• MDA reports • In-year reports • Half-year reports • End of year reports • Special reports e.g., Development/Investment expenditures reports, gender budget statement, climate change expenditure report, etc…
Audit and evaluation	• Internal audit reports • External audit reports • Ex-post evaluation reports

Pre-Budget Statement

It may also be called the Fiscal Strategy Paper, the Budget Strategy Paper, or the Budgetary Framework Paper. It sets out the government's budget strategies for the coming budget year and, frequently, for the two subsequent budget years. The report is provided to the Cabinet but may also be provided to Parliament and the public. It serves to encourage debate on the budget aggregates and how they interact with the economy and provides the public with a way of understanding the link between policies and budget allocations.

Key content:

- Macroeconomic forecast over the medium term (real output growth, composition of GDP growth, employment, prices, current account, interest rates)
- Government's fiscal objectives over the medium term:
  - Long-term economic and fiscal policy objectives and the government's economic and fiscal policy intentions for the forthcoming budget and, at least, the following two fiscal years.
  - Highlight the total level of revenue, expenditure, deficit or surplus, and debt" and the role that fiscal policy is expected to play in the context of overall macroeconomic policy.
  - Sensitivity of budget aggregates to macroeconomic conditions.
- Estimates of the net borrowing requirement and assumptions concerning debt-servicing costs.
  - Broad sectoral allocations (ceilings):
  - Highlight the broad policy strategy envisaged for different sectors, providing an initial perspective on how different sectors will fare in terms of budget allocations and how these allocations might be influenced by any new policy initiatives.
  - Aggregate estimates for current outlays and investment by sector or ministry.
  - Different elements of expenditure on a functional and economic classification basis (including estimates of spending on personal emoluments, and initial estimates of any prospects for enhanced employment or staff cutbacks).
  - Expectations for broad categories of taxes and revenues:
  - Include developments to date in the budget year in terms of revenue collections and any unanticipated developments in the broader economy that would influence revenue collections.
  - Description and cost of new policy measures:
  - Describe and estimate the costs of any important new policy initiatives that will be undertaken in the coming budget year, highlighting how such initiatives will affect the budget over the medium term and possibly the long term.

Executive's Budget Proposal

The report is prepared in form of a proposal that highlights the priorities where Government plans to direct its expenditures in a given fiscal year or medium term. It particularly determines the distribution of resources among different segments of the population, in addition to determining the tax burden on taxpayers and the costs/debt to be borne by future generations.

Key content:

i. Description of recent economic developments in domestic and international economies, and a summary of forecasts of macroeconomic variables influencing the government's finances.
ii. Discussion of the government's medium-term fiscal strategy and forecasts, and an assessment of the sustainability of current policies.
iii. Detailed explanations of the government's forecast revenues, by main revenue type, describing any new revenue measures being introduced, the contribution they are expected to make to policy objectives, and their individual estimated fiscal impacts. Information on tax expenditures also should be presented.
iv. Detailed explanations of government expenditures, by administrative unit, economic classification, and functional/ program classification.
v. New measures being introduced should be described.
vi. For capital (or development) spending, a table should show at least basic information on each individual project (project name, responsible institution, location, total approved project cost, total expenditure to date, and source and type of financing).
vii. Section on financial and non-financial performance indicators.
viii. Discussion of priority spending programs — such as those focused on poverty alleviation — and an indication of what the government is doing to improve the delivery of public services.
ix. An explanation of how the proposed budget will be financed, with details of domestic and external financing of the deficit.
x. Detailed information on the level and composition of public debt, debt servicing, and how the debt is being managed.
xi. Supporting documents that provide details of fiscal activities that do not require annual appropriations (such as autonomous agencies, off budget funds), including details of any earmarking/ring fencing of revenues.
xii. An overview of the financial position (i.e., assets and liabilities) and financial performance (i.e., profit and loss) of the State-Owned Corporations sector.
xiii. All budget year tables should show totals for the budget year (t, e.g. 2021), plus corresponding information for the two (2) years prior to the budget (t-1 (2020), t-2 (2019)).
xiv. Fiscal risks;

- likely variations in macroeconomic assumptions
- risks in public debt management
- risks from contingent liabilities (guarantees, legal action against the government)
- risks from local governments and state-owned corporations
- risks associated with resource revenues

xvi. Details of transfers to sub national governments
xvii. Resource revenue receipts and operation of any natural resource funds
xviii. Information by donor on assistance received, both financial and in-kind assistance, and by project and program.

Appropriation Act

This is a report in which expenditures authorised to be spent by Parliament are presented. It is the enacted budget and therefore becomes the law of the land. It provides baseline information against which actual budget results can be compared. In other words, it is the starting point for monitoring the execution phase of the budget. It also reports on changes made by Parliament to the budget proposal.

Typical content of an appropriation act:

- Definitions (e.g. Minister, commitments, etc)
- Total budget appropriated
- Articles on the following:

i. Powers of the Federal Government Organs (to disburse funds)
ii. Budget transfers (e.g. no virement from capital to operational)
iii. Budget transfer within public bodies
iv. Budget transfer between public bodies
v. Transfer from contingency fund (in event of emergencies)
vi. Supplementary budget (who authorizes a supplementary budget?)
vii. Arrears (how should they be repaid?)
viii. Borrowing (rules on borrowing)
ix. Sequestration (who gets paid first if cash is insufficient)
x. Deposit of revenue (where to deposit the money, and time within which to make deposit)
xi. Disbursement out of the TSA
xii. Disbursement limits (e.g. can't disburse beyond appropriation figures)
xiii. Commitments (contracting, etc)
xiv. Payment for goods and services (e.g. no payment before evidence of delivery)
xv. Unspent funds (do MDAs keep or lose them?)
xvi. Reporting (MDA reports to AG, utilization of transfers to FMSs, etc)
xvii. Appropriation to public bodies (operational funds, project funds)
xviii. Effective date (when does law enter into force?)

- Annexes:
- Summary of revenue and expenditure for FY
- Detailed Government revenue estimates for FY
- Summary of planned appropriations by MDAs for the FY
- Summary appropriation table for the approved budget
- Detailed planned appropriations

Citizens' budget

This is a report that summarizes and explains basic budget information. It is a report to the people, presented in an accessible format using simple and clear language they can understand. It is an explanation in non-technical terms of provisions within the budget that are of most relevance, importance, and interest to a broader public.

It must:

i. be produced by Government
ii. be produced in consultation with citizens
iii. enable public understanding and ownership of the budget
iv. serve as a door to more information about the budget
v. be published at or around the same time as the budget itself
vi. include significant information about the budget
vii. be produced in at least the official languages of the country
viii. be disseminated widely, preferably in multiple formats

Purpose of a Citizen's Budget:

- Increase citizens' knowledge of what government is doing and enhance their capacity to participate in governmental affairs.
- Citizens can use it to ask questions that ensures government explains what it has done in their name.
- Governments also benefit from Citizens Budgets (demonstration that it holds itself accountable to the people; enhances government's legitimacy in the eyes of the public).
- Citizens Budget can serve as a tool for civic education—can be a vehicle for explaining how the budget is formulated, enacted, and executed, and who is responsible at each stage.
- Can assist in guiding the public where to direct enquiries or requests for information regarding budget issues

Producing a Citizens" Budget typically involves five (5) steps:

- **Developing a strategy for producing a Citizens' Budget** (define goals, objectives, plan for producing the Citizens Budget)

- **Holding a consultation with potential users** (people will use a Citizens" Budget if it speaks to their inter¬ests and needs; consultation with potential users is essential to identify what those are.)

- **Producing the Citizens Budget** (digest information received during consultations, then design, write, and publish the Citizens" Budget accordingly)

- **Disseminating** (there is little purpose in producing a Citizens' Budget if it is not widely read, understood, and used. Choose the right medium or media — print, radio, video, Internet, text messaging, etc.)

- **Evaluating the process, and planning for next year's Citizens Budget** (producing a Citizens Budget is a regular, annual event, and each year should build on lessons learned from previous years' experience)

Typical content:

i. Economic assumptions underlying the budget
ii. The budget process: who proposes, approves, implements and evaluates the budget?
iii. Macroeconomic data underlying the budget, with an explanation of how it is related to the budget
iv. Revenue by source
v. Allocations presented by sectors (e.g., health, education, roads) and/or trends in allocations over years
vi. Subnational allocations: how much is going from the national to subnational governments and for what purposes?
vii. Evidence on impact of expenditures in specific sectors/programs
viii. Significant new measures for revenue and expenditure
ix. Sector-specific information and information about targeted programs (e.g. school feeding, pension for the elderly, upgrading roads, etc.)
x. Donor funds (sources, what it is being spent on)
xi. Debt repayment as a share of the budget, and how debt is being managed

EXECUTION STAGE

Daily/weekly flash reports on cash flows

These reports should distinguish inflows and outflows, but it is better for cash flow forecasting to have a breakdown of expenditure and revenue by broad economic categories (at least weekly).

In-Year Reports

In-year reports provide a snapshot of the budget's implementation during the budget year. They need to be relatively brief, periodic (usually monthly and quarterly) assessing the major components of the budget based on the budget classification system. The objective of in-year reports is to provide a periodic measure of the trends in expenditure and revenue totals to date, with some explanation of any significant deviations from expectations.

Information often included in in-year reports:

- Snapshot of budget implementation (i.e. progress in implementing budget)
- Actual revenues collected and expenditures incurred in each month and year-to-date and comparison with plans
- Initial identification of deviations from budget (if a significant divergence between actual and forecast amounts occurs, an explanation should be made).
- Expenditures by object and by MDAs
- Government's borrowing activities

Mid-Year Report

The mid-year report is often the end result of a mid-year review that analyses the budget's effects provided about halfway through the budget year. The report represents an opportunity to comprehensively assess a government's fiscal performance against the budget strategy. It assesses whether the budget is adequately coping with current macroeconomic developments (e.g. changes in prices, state of implementation of different elements of the budget, changes in revenue collections). It also helps to assess what is on track or off track in terms of programs underspending or overspending relative to the appropriated budget.

Mid-year reports can help to indicate whether the budget needs adjustments or corrective measures in the allocation of resources between MDAs or in the level of overall spending. It often primarily serves to judge whether a supplementary budget is needed to cover items that require additional spending authorization. It also helps take stock of the progress in realizing specific output targets in public programs.

Information to be included in mid-year reports:

- Revisions in economic assumptions and their impact on budget estimates
- Comprehensive identification and explanation of deviations in budget spending and revenues and estimates
- Exploration of policy adjustments
- Details on policy decisions taken and policy developments since presentation of budget

Year-end reports

A year-end report presents Government's discussion of the performance of the budget as executed relative to its original budget and any supplementary budget. It covers what was actually spent and collected relative to the budget. It discusses how Government performed in terms of the physical output targets set in the original budget. It provides an important opportunity for Government to take stock of its previous year's performance, both in macroeconomic terms and for specific sectoral programs. In addition, it assesses whether Government and individual MDAs succeeded in terms of realizing the Government's policy objectives as well as helps to identify policies and programs that need to be strengthened and to begin to provide ideas for future policy directions.

Key content

i. Aggregate spending and revenues, the overall budget balance, and its financing.
ii. Level of public debt.
iii. Expenditures by functional and economic classification.
iv. Actual revenues collected under different categories.
v. A summary presentation of government spending by MDA and programs in comparison to the appropriated budget.
vi. Deviations and explanation of deviations between macroeconomic forecast and actual results.
vii. Summary of year-end reports of different MDAs, highlighting strengths and weaknesses in performance of the MDAs.
viii. Nonfinancial information on government's performance in realizing its targets and performance indicators.
ix. Lessons learnt from the past fiscal year and how this can inform the formulation of future policy.

MDA reports

These reports show the activities and spending of MDAs and give important information for deciding the inter-sectoral allocation of resources. The information in these reports is usually useful in preparing the initial budget ceilings for MDAs.

Key content:

i. Major policy issues in MDA or sector during the period
ii. Goals of the MDA and policies to meet them
iii. Summary of MDA programs and activities
iv. Fiscal performance and financial statement
v. Planned policy changes
vi. Estimated expenditures in future years
vii. Performance of the ministry in achieving the planned objectives, outputs (targets) and activities
viii. Any other relevant information

Development/Investment expenditures reports

These reports entail statements on physical assets and investments for the various government sectors and programs. Reports on development/investment expenditures should show, by program/project:

i. Actual expenditures during the fiscal year
ii. Actual expenditures of the previous fiscal year
iii. Estimate costs of ongoing programs/projects (balance required to complete the project/program)
iv. Increase in asset value (where applicable e.g. for infrastructure projects)
v. Indicators of physical progress
vi. Information on projects financed by external loans and grants

Financial Statements

Financial statements in the context of PEFM are summary reports prepared by MDAs and the Accountant General or Treasury Department to present the financial affairs of the MDA and entire Government in a given period (quarter, six monthly or yearly). Financial statements should cover all government entities. In most cases the financial statements are prepared annually and submitted to the Auditor General to be audited. The audited financial statements are later presented to Parliament to enable Parliament to play its appropriate legislative oversight role. The financial statements are often prepared in accordance with internationally accepted accounting standards. All MEFMI member countries are currently following Cash Basis IPSAS in the preparation of their financial statements.

Typical content of a country's annual financial statements:

i. Summary report on the execution of the government expenditure program (covering at least two (2) fiscal years to allow the user to make comparisons)
ii. Statement of receipts and payments
iii. Statement of financial assets and liabilities (balance sheet)
iv. Statement of cash flows
v. Statement of budget comparison with actuals
vi. Statement of payments by economic nature and sector of government
vii. Statement of payments by functions of government (COFOG)
viii. General information e.g. statement of government expenditure policy, accounting policies, etc.
ix. Explanatory notes to the financial statements
x. Annexes
    a) Analysis of direct payments made by third parties to suppliers during the fiscal year
    b) Analysis of pending payables at the end of the fiscal year

c) Analysis of outstanding advances and other receivables at the end of the fiscal year
d) Summary of government's fixed asset register
e) Statement on stock and flows of expenditure arrears (if applicable)
f) Statement of state-owned enterprises and other government investments
g) Statement of receipts and payments for extra budgetary transactions of public bodies
h) Statement of public debt (debt outstanding and disbursed by creditor, short-term borrowings, rescheduled debt, etc.)
i) Report on lending and on-lending (e.g. loans contracted, interest and principal payments over the period, stock and flows of arrears by beneficiary, problems met in collecting payments from debtors, future risks, etc.)
j) Statement of other liabilities and other contingent liabilities (e.g. pension liabilities, insurance liabilities, etc)
k) Statement on multi-year commitments
l) Statement of tax expenditures by sector/function and type of tax concession
m) List of entities (MDAs) included in the accounts
n) Progress on follow up of the Auditor General's recommendations

Apart from non-financial performance information, much of the financial information used in the preparation of the reports pertaining to the budget execution stage of the PEFM processes is generated from the Integrated Financial Management Information Systems (IFMIS) in countries where such systems are implemented. For instance, IFMIS systems have the capability to generate a consolidated trial balance, bank reconciliations for all accounts involved, fiscal summary showing receipts and payments, statement of financial position, cash flows, notes to the financial statements, statement on budget utilization, fixed asset register, outstanding advances, expenditure arrears, pending payables, etc. The next section provides an overview of IFMIS systems.

11.2. Introduction and Implementation of IFMIS

Over the past one and half decades, developing countries including MEFMI member countries have increasingly embarked on efforts to computerize their government operations, particularly with respect to PEFM. According to Edwin Rodin-Brown (2008)[47], most common among these have been efforts to introduce integrated financial management information systems (IFMIS) that computerise and automate key aspects of budget execution and accounting operations across the institutions of government. IFMIS can enable prompt and efficient access to reliable financial data and help strengthen government financial controls, improving the provision of government services, raising the budget process to higher levels of transparency and accountability, and expediting government operations.

What is IFMIS?

It is an integrated financial management information system that tracks financial events and summarises financial information. In its basic form, an IFMIS is little more than an accounting system configured to operate according to the needs and specifications of the environment in which it is installed. Generally, the term "IFMIS" refers to the use of information and communications technology in financial operations to support management and budget decisions, fiduciary responsibilities, and the preparation of financial reports and statements. In the government realm, IFMIS refers more specifically to the computerization of public financial management (PFM) processes, from budget preparation and execution to accounting and reporting, with the help of an integrated system for financial management of MDAs and other public sector operations.

The principal element that "integrates" an IFMIS is a common, single, reliable platform database (or a series of interconnected databases) to and from which all data expressed in financial terms flow. Integration is the key to any successful IFMIS. In a nutshell, integration implies that the system has the following basic features:

- Standard data classification for recording financial events
- Internal controls over data entry, transaction processing, and reporting
- Common processes for similar transactions and a system design that eliminates unnecessary duplication of data entry.

[47] Edwin Rodin-Brown (2008); "Integrated Financial Management Information Systems: A Practical Guide." Publication produced for review by the United States Agency for International Development, 2008.

Integration oftentimes applies only to the core financial management functions that an IFMIS supports, but in an ideal world it would also cover other information systems with which the core systems communicate, such as human resources, payroll, and revenue (tax and customs). At a minimum, the IFMIS should be designed to interface with these systems.

What does IFMIS do?

An IFMIS stores, organises and makes access to financial information easy. It not only stores all the financial information relating to current and past years' spending, but also stores the approved budgets for these years, details on inflows and outflows of funds, as well as complete inventories of financial assets (e.g., equipment, land and buildings) and liabilities (debt).

The scale and scope of an IFMIS can vary, from simple General Ledger System to a comprehensive system addressing Budget, Revenue, Expenditure Control, Debt, Resource Management, Human Resources, Payroll, Accounting, Financial Reporting, and Auditing processes across central government or even including local government and other public sector and quasi-governmental agencies and operations.

A more comprehensive, well integrated system will:

- Provide timely, accurate, and consistent data for management and budget decision-making
- Support government-wide and agency-level policy decisions
- Integrate budget and budget execution data, allowing greater financial control and reducing opportunities for discretion in the use of public funds
- Provide information for budget planning, analysis and government-wide reporting
- Facilitate financial statement preparation
- Provide a complete audit trail to facilitate audits.

By recording information into an integrated system that uses common values, IFMIS users can access the system and extract the specific information they require to carry out different functions and tasks. All manner of reports can be generated: balance sheets, sources and uses of funds, cost reports, returns on investment, aging of receivables and payables, cash flow projections, budget variances, and performance reports of all types.

An IFMIS can also have libraries consisting of hundreds of standard reports. Managers can use this information for a variety of purposes such as to:

i. Plan and formulate budgets
ii. Examine results against budgets and plans
iii. Manage cash balances
iv. Track the status of debts and receivables
v. Monitor the use of fixed assets
vi. Monitor the performance of specific departments or units
vii. Make revisions and adjustments as necessary
viii. Generate special reports e.g. reports required by external agencies and international institutions like the IMF.

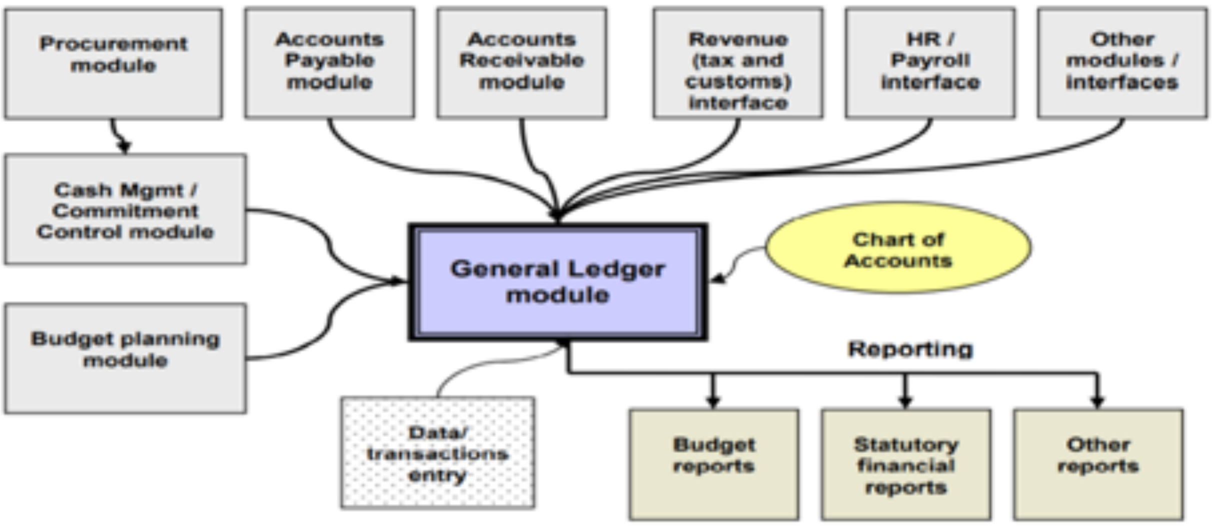
From an accounting perspective, an IFMIS rotates around a 'double entry[48]' system of recording financial information, where every transaction captured involves an exchange between two (2) accounts—debits and credits. For every debit, there is an equal and opposite credit; the sum of all debits must therefore equal the sum of all credits. Where the accounts are not in balance, close scrutiny will reveal any errors or irregularities. Double-entry accounting also facilitates the preparation of financial reports directly from the accounts especially since it provides a full picture of the financial situation of an organisation. The double-entry methodology has not been fundamentally changed since it was invented in the 15th century and the same concept forms the basis of today's modern computerised accounting systems.

[48] Double entry system was introduced in the 15th century by Luca Pacioli, an Italian mathematician.

Basic components of a Government IFMIS

Figure 11.1 presents a basic diagram of a typical government IFMIS, including several core components, as well as non-core components that will either be integrated into the system or connected to the system via an interface. An IFMIS generally consist of several distinct components or modules that use information to perform different functions.

Figure 11.1. Components of a typical IFMIS



Source: USAID (2008)[49]

The core components include:

i. ***General Ledger,*** which constitutes the central "books" of any IFMIS. Every transaction entered into the system posts to the General Ledger, starting with the allocation of budget funds through to the commitments to payment for goods and services. All transactions should simultaneously post to the General Ledger and to all appropriate sub ledgers/modules following the rules imposed by a standardised chart of accounts (see item below for more on the 'Chart of Accounts'). These records remain as a permanent track of the history of all financial transactions and represent the source from which all reports and financial statements are derived.

ii. ***Cash Management*** – monitors and forecasts cash flows and financing requirements and performs reconciliation between bank accounts and IFMIS records.

iii. ***Commitment control*** – ensures that before a purchase is committed to, there is sufficient cash allocated for the expense and the allocation matches the appropriated budget.

iv. ***Accounts payable*** – Processes and generates payments, with built-in checks to ensure invoices match approved commitments.

v. ***Accounts receivable*** – produces bills and processes and records receipts, including all types of inflows received by government units, including nontax revenues and fees.

vi. ***Chart of Accounts (CoA)***—while this is a module within the IFMIS, a CoA represents the basic building block of any accounting system, IFMIS included. The CoA lists all accounts tracked by the system. Each account in the chart is assigned a unique identifier, or an account number, involving a series of information tags that denote certain things about the data being entered into the system. For example, these tags may denote the cost center, the department or unit responsible for the transaction, the program or purpose for which the transaction is being made, the nature of the transaction, and so on. The account number is attached to the data and serves accounting, management and all other reporting purposes. It also forms part of the data validation process, indicating things such as whether or not a vendor exists, whether or not there is an authorized budget, and whether or not funds have been committed. The Chart of Accounts is integral to the success of any IFMIS. Without an intelligently designed CoA, information cannot be stored or accessed properly.

Developing an effective IFMIS

It is important that countries adopting an IFMIS must appropriately design and integrate the system to be able to effectively fulfil the functions the system is meant to operate. The development of an effective IFMIS needs to take account of the following technical issues:

- ***System definition:*** This describes the budget preparation, implementation, accounting, financial management and related non-financial processes such as procurement, performance measurement, etc. These processes need to be described at the start of the IFMIS procurement process so that potential suppliers can respond to the extent to which their systems meet these requirements. System definition should take account of the existing financial management systems but should also include a review of these systems, providing an opportunity to improve and streamline existing processes.

- ***Information technology architecture:*** the design of the systems for transferring data needs to be defined based on existing and planned improvements in a government's information system, i.e. government networks, telecommunications infrastructure and reliability etc. In some cases, the implementation of an IFMIS will include the establishment of government wide networks to ensure reliable and timely data transfer.

- ***Degree of decentralisation in the system:*** while all levels of government will be operating according to the same financial and accounting rules, as explained above, an IFMIS can have varying degrees of controls and managerial freedoms. During the design phase it will also be necessary to agree on the levels of these controls, e.g. will line ministries be responsible for issuing their own cheques or will this be centralised in the Ministry of Finance?

- ***Degree of external integration:*** while an IFMIS aims to include all systems of financial management there will be a need to link to other systems with the data to be shared. For example, an IFMIS will need to share information with a debt recording system and to other systems outside government such as banks, suppliers, employees, etc., with which government has major financial relationships.

- ***Integrated Financial Management Information System Software:*** An IFMIS can be implemented either through a system developed specifically for a government or through the purchase and customisation of an existing accounting package.

Countries can opt to purchase an off the shelf information system. The advantages of using an off the shelf accounting package include:

- Established packages are fully developed, and demonstrably work. They will have been de-bugged.
- They will be supported by manuals, designed for ease of use, and have built in audit trails and security.
- They will be regularly upgraded to take account of new developments, e.g. new versions of operating systems.
- The system is developed and well tested and will continue to be maintained and supported by a software house which should assist with problems.
- Data integrity and security (especially important in accounting systems) is well established, and there will be proper audit trails.

The main disadvantage is that they are largely designed for the private sector and will need some customisation for the public sector.

Implementation Challenges

In recent years there have been mixed experiences of IFMIS implementation with some governments having some degree of success and others being faced with significant delays and cost over-runs.

Some of the lessons learnt from these experiences include:

i. Keep it simple – the more complex and sophisticated the system is, the more extensive its scope significantly increases the risk of failure, which in many cases has been total.
ii. There needs to have a clear vision and expectations of what the system is to deliver so that an appropriate software package is procured.
iii. There needs to be a realistic estimate of the cost and timeline for implementation of the new systems.
iv. Significant attention needs to be paid to training and capacity building in both the PEFM processes and in the use of the software packages.
v. Sufficient provision needs to be made for the cost of maintenance and technical support once the system is installed.
vi. Government officers need to be closely involved at all stages through the system design and implementation, even if this slows the process.
vii. Avoiding dependence on foreign suppliers and/or expatriate staff.
viii. The effectiveness of the new system will be determined to a large extent by factors external to the system: accurate, timely and comprehensive input of data; efficient maintenance of databases; systems management; and ability to use the information provided.
ix. Factors external to a computer system will also influence its effectiveness. For example, the degree to which financial procedures and accounting classifications have been standardised, etc.
x. Difficulty in sustaining system operations after initial funding support.

Roy Kelly (1996)[50] also provides additional, general lessons learnt in building information management systems. They include the following:

- **Mobilize political, managerial and operational support.** Reforms require strong political, managerial, and operational support. Political support is necessary to carry out policy decisions and introduce innovations in the administration, to overcome political and administrative resistance, and to provide the political, financial, managerial, and technical resources to succeed in the reform. To complement top political support, it is also important to mobilise strong leadership in operational agencies. Strong leadership is important to motivate and guide the staff. The success of many reforms is determined by the personality of a leader. There is need for vision, energy, political skill, and technical competence. Operational support is also important to ensure that the system is implemented efficiently and rightfully. The potential of each agency and its ability to cooperate are important.

- **Use pilot projects to test new systems.** Pilot projects should be used to provide an opportunity to test procedures, economise on managerial and operational staff, and gauge possible reactions. New procedures necessarily disrupt existing practices, generating reactions from stakeholders. Since reactions generally increase as implementation results become more visible, it is important to evaluate the nature, intensity and location of these reactions carefully to minimize later disruptions.

- **Keep the system design, structure and operations simple.** Simple systems which narrowly focus on basic operations tend to do better than complex systems.

- **Develop realistic expectations.** Computerised information systems often create unreasonable expectations. People expect computers to solve all administrative and data processing problems with a touch of a button. These expectations should be tempered early.

- **Standardize equipment and software.** Standardization of equipment and software increases the computer centre's ability to provide support and maintenance and it increases the ability of administrators to manage computer applications. Systems with different data file structures, software, and hardware increase the cost of maintenance and operation.

[50] Roy Kelly (1996); "The Evolution of a Property Tax Information System in Indonesia." Chapter published in "Information Technology and Innovation in Tax Administration, edited by Glenn Jenkins, Harvard University.

SECTION III: Developing a Comprehensive Set of Actions and PEFM Assessment Tools

Section III-A: Developing a Comprehensive Set of Actions

The objective of this section is to guide PEFM officials in developing an action plan to reform/improve their country's PEFM system.

Action planning in the context of PEFM relates to a process by which PEFM officials and policymakers make effort to identify and choose between policy alternatives to try to address PEFM issues/problems with a view to improving PEFM in their countries. The process involves the following four steps:

- Definition/verification of the problem or challenge or gap or issue
- Establish evaluation criteria (for alternative actions)
- Identify alternative actions
- Select best action

Step 1: Problem definition/verification

This involves framing the problem in concrete terms that provides a firm understanding of the problem's technical and political dimensions. There is need to be very clear and try to avoid ambiguity when defining the problem. Where necessary, effort should be made to define the problem using numbers. The following steps could help in defining a problem:

i. Think about the problem or gap or challenge or issue at hand. Gather all available data. State the affected areas or entities.
ii. Demarcate clearly the boundaries of the problem—the location of the problem, length of time it has existed, affected entities and historical events that have shaped the problem.
iii. Develop a fact base
iv. List goals and objectives related to the problem
v. Think of possible solutions taking into account available resources
vi. Identify potential costs and benefits related to the problem
vii. State the problem and review it to ensure all dimensions are well stated

From a PEFM perspective, the identification of problems/challenges/gaps/issues can be approached through the assessment of PEFM systems of each country. The assessment often focuses on identification of strengths and weaknesses and gaps in capacities and capacities at every level of the PEFM cycle. Based on this assessment, countries can then identify the problems and follow the steps above to identify a range of interventions/actions that can be implemented to bring about improvements in PEFM systems, processes and capacities.

Annexes 1-12 provide PEFM assessment tools that could be used to undertake the assessment. The suggested assessment tools include the following:

i. MEFMI PEFM Assessment Tool
ii. Assessing Public Investment Management
iii. Assessing Legal and Institutional Frameworks
iv. Assessing PEFM Capacities
v. Assessing Political Economy of PEFM Reforms
vi. Assessing PEFM and Technological Innovations
vii. Assessment Tool for Effective Controls
viii. Assessment Tool for Expenditure towards Sustainable Development Goals
ix. Assessment Climate Change and Public Expenditure Management
x. Assessment Tool for Gender Mainstreaming in PEFM Systems
xi. Assessment Tool for PEFM Reporting Systems
xii. Assessment Tool for Expenditure Frameworks

Step 2: Establish evaluation criteria (for alternative actions)

Having defined a problem, next step is to establish evaluation criteria to be used in comparing alternative actions and judge which will be acceptable to the authorities. The type of criteria depends on the nature of the problem and alternative actions. Nonetheless, typical criteria include the following dimensions:

i. Cost—which alternative action is more attractive from the cost of implementation standpoint? (less costly actions will be chosen)
ii. Benefit —to be gained
iii. Effectiveness—is the proposed action appropriate/responsive/effective in solving the problem?
iv. Political viability—is the action politically acceptable?
v. Administrative operability—is the existing administrative system capable of delivering the action? Which alternative action appears most capable of succeeding under the existing organisational setup, or appears best suited to management's philosophy or personality? Are there sufficient finances to implement the action?
vi. Legality—can the action be legally implemented?
vii. Stakeholder support—which alternative action is likely to attract stakeholder approval and/or financial support (e.g. from donors)?

Step 3: Identify alternative actions

Alternative actions can be sourced from a number of sources e.g. formal research, quick surveys, brainstorming, literature review, proposals from stakeholders, past experiences, fantasy analogy (what ideal solution would be), etc.

Alternative actions need to have the following characteristics:

i. ***Cost effectiveness***—is the action cost effective?
ii. ***Reliability***—what is the probability the alternative will be implementable?
iii. ***Flexibility***—the alternative should serve more than one purpose.
iv. ***Invulnerability***—what happens to the results if some elements of the action fail?
v. ***Riskiness***—alternative should not have chances of failure.
vi. ***Communicability***—alternative should be easily understood by those not involved in action planning.
vii. ***Merit***—alternative should address the problem.
viii. ***Simplicity***—alternative should be easy to implement.
ix. ***Compatibility***—alternative should be in line with existing procedures/acceptable in legal framework.
x. ***Reversibility***—should be easy to return to prior situation if alternative fails other than returning to a worst situation.
xi. ***Robustness***—alternative should succeed in widely different future environments.

Step 4: Select best action

This involves comparing all the proposed alternative actions and deciding which alternative is superior. That is, identifying the alternative that can most efficiently and effectively resolve the problem and satisfies the major and other criteria especially political viability, administrative operability, legality and cost effectiveness.

Table S3.1 provides an illustration that could guide the selection of the best actions using the evaluation criteria in step 2. In the table it is assumed that political viability and legality are major criteria, such that if the action does not satisfy both of them, it is declared impractical and therefore dropped/eliminated (highlighted in red).

Table S3.1.Analysis of alternative actions (an illustration)

Alternative actions	Evaluation Criteria								Comments
	Political viability	Legality	Administrative operability	Cost of implementation	Effectiveness	Stakeholder support	Scores	Ranking	
Alternative action 1	P	P	A	E	A	C	14	2nd	
Alternative action 2	P	F							
Alternative action 3	P	P	C	B	B	E	13	3rd	
Alternative action 4	F	P							
Alternative action 5	P	P	A	A	B	C	17	1st	

Key: P (pass), F (fail), A=5, B=4, C=3, D=2, E=1.

From the analysis in Table S3.1, alternative action 5 is ranked first and therefore should be the one to be recommended for adoption. In some cases, two actions could be needed in which case the alternative action 5 and 1 should be recommended for action.

Putting together the action plans

Once all the above four steps are undertaken (problem definition, evaluation criteria, identifying alternative action, selecting best action), it should be possible to develop a comprehensive set of actions for each PEFM element. The matrix in Table S3.2 below can be used to develop the action plan. There can be a number of actions against each component, and for each action identify which organisation should take the lead responsibility, the timeframe in which the action should be implemented, identify whether this is part of an ongoing reform programme and if additional support would be required to implement the action, the type of support required.

Table S3.2. Action Plan for PEFM Reform

Component	Action	Who should take the lead responsibility	Timeframe	Part of ongoing reform?	Additional support required
Budget Preparation, Presentation and Approval					
Budget Implementation					
Public Investment Management					
Monitoring and Accounting					
Audit and Evaluation					
Legal Framework					
Institutional Framework					
Capacity Building					
Political Economy of PEFM Reforms					
PEFM and Technological Innovations					
Expenditure towards Sustainable Development Goals					
Climate Change and Public Expenditure Management					
Gender Mainstreaming in PEFM Systems					
PEFM Reporting Systems					

Section III-B: PEFM Assessment Tools

This section proposes assessment tools (as annexes) that MEFMI and regional countries could use to establish the state of PEFM in relation to the key areas covered in the chapters in this handbook.

The annexes include:

a) Annex 1: MEFMI PEFM Assessment Tool
b) Annex 2: Assessing Public Investment Management
c) Annex 3: Assessing Legal and Institutional Frameworks
d) Annex 4: Assessing PEFM Capacities
e) Annex 5: Assessing Political Economy of PEFM Reforms
f) Annex 6: Assessing PEFM and Technological Innovations
g) Annex 7: Assessment Tool for Effective Controls
h) Annex 8: Assessment Tool for Expenditure towards Sustainable Development Goals
i) Annex 9: Assessment Tool for Climate Change and Public Expenditure Management
j) Annex 10: Assessment Tool for Gender Mainstreaming in PEFM Systems
k) Annex 11: Assessment Tool for PEFM Reporting Systems
l) Annex 12: Assessment Tool for Expenditure Frameworks

Annex 1: MEFMI PEFM Assessment Tool

Using the Table below, review each indicator and assess your country's performance against the indicator. For example, the first indicator is that a government macroeconomic framework is in place and being used. If there is a framework in place, your country status would be that it is in place, but, if for example, it is not being used, this would be indicated in the box. The reasons are then shown in the next box, e.g. lack of skills, and recommended actions are then shown in the final box, e.g. capacity building required.

Performance Indicator	Country status	Reasons	Recommended actions
Macroeconomic Planning and Forecasting			
1) There is a government macroeconomic framework in place and is being used for development of macroeconomic forecasts			
2) The macroeconomic framework is comprehensive: all donor funds are captured in the forecasts, reliable estimates of other statutory expenditures such as pensions and contingent liabilities			
3) Realistic macroeconomic forecasts are produced: the deviation between forecasts and actuals is not significant			
4) There is a close link between macro and Sectoral policies: Sectoral policies are based on macroeconomic policies			
Developing Sectoral Requirements			
5) Sectoral allocations are policy driven: there is a clear policy framework with costs of policy estimated			
6) There is a close link between the policy planning undertaken for the Sectoral allocations and the activities and expenditures included in the detailed budgets			
7) Sectoral plans are comprehensive: they include all components of a sector, e.g. the education sector plans include all levels of education			
8) Participation: there is effective participation of all stakeholders in discussion of Sectoral priorities			
9) Sectoral plans cover the Medium term and include both recurrent and development funded policies and programmes, as well as focusing on personnel issues			
10) Sectoral plans take account of donor funded programmes			
11) Information on Sectoral requirements and choices is presented clearly to central agencies and Cabinet			
12) Sufficiently detailed Cabinet discussion of policy/budget choices and options			
13) Political commitment to policy choices			
14) Rationale for choices and allocations between sectors communicated clearly to sector ministries			

Annex 2: Assessing Public Investment Management

Using the Table below, review each indicator and assess your country's performance against the indicator. Identify strengths and weaknesses against each indicator area and recommend action for improvement.

Performance Indicator	Country status	Strengths/ weaknesses	Recommended actions
PLANNING PHASE			
1) Economically and fiscally sensible decisions are made on whether to finance investment projects			
2) Public investment is fiscally sustainable and effectively coordinated across sectors			
3) Expenditure rules exist to ensure that overall levels of public investment are adequate, predictable, and sustainable			
4) National and sectoral plans which ensure public investment decisions are based on clear and realistic priorities, cost estimates, and objectives for each sector			
5) Central-local coordination arrangements that integrate public investment plans across levels of government, provide certainty about funding from the central government, and ensure sustainable levels of subnational borrowing			
6) There is effective evaluation, selection, and monitoring of PPP projects and liabilities			
7) Open and competitive markets exist for the provision of infrastructure services			
ALLOCATION PHASE			
8) There exists multi-year budgeting that provides transparency and predictability regarding levels of investment by ministry, program, and project over the medium term			
9) All public investment, regardless of the funding channel, is authorized by the legislature and disclosed in the budget documentation			
10) Decisions about individual projects take account of both their immediate capital and future operating and maintenance costs			
11) Project proposals are appraised using standard methodology and taking account of potential risks			
12) Projects are systematically vetted, selected based on transparent criteria, and included in a pipeline of approved projects e.g. PIP			
IMPLEMENTATION PHASE			
13) Project appropriations are sufficient to cover total project costs and cannot be diverted at the discretion of the executive			

Performance Indicator	Country status	Strengths/ weaknesses	Recommended actions
14) Planning and commitment of investment projects is based on reliable forecasts and timely cash flows from the treasury			
15) Major investment projects are tendered in a competitive and transparent process, monitored during project implementation, and independently audited			
16) Project management is accountable, operating in accordance with approved implementation plans, and provides standardized procedures and guidelines for project adjustments			
17) Assets generated from public investments are properly recorded and reported and their depreciation is recognized in financial statements.			
OPERATION AND EX-POST EVALUATION PHASE			
18) Completed projects are able to deliver their expected goods and services for which they were implemented			
19) Ex-post evaluation studies/impact assessments are carried out to assess the positive or negative impacts that the project generated as well as to evaluate whether the project provided value-for-money relative to other possible interventions.			

Source: Adapted from the 2015 IMF PIM Assessment Framework

Annex 3: Assessing Legal and Institutional Frameworks

Using the Table below, review each indicator and assess your own country's performance against the indicator. Identify the reasons for strengths and weaknesses and develop recommended actions for building on the strengths and addressing the weaknesses.

Performance Indicator	Country status	Reasons	Recommended actions
Legal Framework			
1) Well defined rules of the game and responsibilities spelt out in legal framework covering all aspects of PEFM: budget preparation; implementation, procurement; accounting and audit, for all revenues and expenditures			
2) Incentives for performance and sanctions applied for not following rules			
3) Consistency between constitution, finance act and financial regulations			
4) Relevant institutions should exist for checks and balances, e.g. Anti-Corruption Boards, Institutions governing Integrity and Ethics			
5) Financial laws and regulations should be clear and easy to comprehend, clearly defining responsibilities and activities			
6) No parallel regulations set up for specific purposes, e.g. use of donor funds, except where consistent with existing legislation			
7) Procurement regulations should be updated and governed within PEFM laws and regulations, including disposal of government assets			
8) Financial laws and regulations updated in line with PEFM reforms, e.g. performance management should be included in laws and regulations if introduced into PEFM system			
9) Fiscal decentralisation clearly defined and understood by all stakeholders			
10) Role of Parliament, Executive and civil service clearly defined in regulatory framework and followed			
11) There should be a clear separation of powers between the Executive, Legislature and Judiciary			
12) Degree of controls and freedom/flexibility should be clearly defined			
Institutional framework			
13) Clarity of purpose for organisations involved in PEFM: the roles and responsibilities of all stakeholders should be clearly defined and understood by all to avoid duplications and conflict			

Performance Indicator	Country status	Reasons	Recommended actions
14) Responsibilities in line with PEFM processes: the roles and responsibilities should be updated with the introduction of PEFM reforms			
15) Clear boundaries of responsibility: the areas of responsibility between the Ministry of Finance and Planning Commission clear, or between Ministry of Finance and sector ministries should be clear			
16) Clear areas and mechanisms for integration/coordination between agencies			
17) Transparency and accountability: the institutional framework and code of conduct should ensure transparency and accountability			
18) There should be a clear code of conduct and disciplinary procedures			
19) Integration of reform programmes: PEFM reforms should be integrated within the PEFM system and with other related reforms, such as civil service reform			
20) The Cabinet Office and Cabinet itself should play an effective role in PEFM, i.e. Cabinet should be responsible for approval of sectoral allocations			
21) Parliament should play an effective role in PEFM, i.e. there needs to be an effective debate within Parliament of sectoral allocations and budget appropriations			
22) Civil society should play an effective role in budget debates			
23) The Role of Civil service Commission and Public Service Commission needs to be clearly defined, such as responsibilities for approving new recruitments			
24) The roles of central and Local government, including fiscal decentralisation need to be clearly spelt out, with local government roles and responsibilities in terms of revenue raising and spending clearly defined			
25) Parastatals: there needs to be a particular body with responsibility for managing parastatal activity, including monitoring any fiscal liabilities for government such as loan guarantees			
26) Effective donor coordination mechanisms need to be in placed at the central and Sectoral levels			

Annex 4: Assessing PEFM Capacities

Using the Table below, review each indicator and assess your own country's performance against the indicator. Identify the reasons for strengths and weaknesses and develop recommended actions for building on the strengths and addressing the weaknesses.

Performance Indicator	Country status	Reasons	Recommended actions
Legal Framework			
1) Appropriate numbers of staff for the requirements of an effective PEFM system: may be either insufficient or in excess of actual requirements			
2) Appropriateness of skills to PEFM requirements: there may be sufficient staff, but they may not have the necessary skills			
3) Appropriate pay levels and other incentives to attract and retain staff			
4) Skills being used effectively			
5) Appropriate and effective capacity building programmes may be in place			
6) Local training institutions offering appropriate courses in PEFM			
7) Technical assistance focused on building local capacity			
8) Effective mechanisms for integrating capacity building programmes into reform programmes			
9) Effective mechanisms in place for managing technical assistance so that government needs are met, particularly in developing appropriate, sustainable systems and capacity.			

Annex 5: Assessing Political Economy of PEFM Reforms

Using the Table below, provide a response to each question and assess your own country's performance against the question. Identify strengths and weaknesses in the area that the question focuses on and recommend actions for improvement.

Political economy related questions	Country status	Recommended actions
A. Country Overview		
1. What has been the overall level of spending (absolute and in percentage of GDP) over the past five years and what dynamics are expected to take place over the coming 5 years?		
2. What is the share of natural resource revenue to total revenue?		
3. Have recent actual fiscal deficits been close to ex ante planned/approved deficits?		
4. What is the country's level of public debt (absolute and in percentage of GDP) and the dynamic of debt accumulation?		
5. Has the country received debt relief in recent years? If so, what has been the pace of renewed debt built-up?		
6. What is the level of aid dependence (in percentage of GDP and percentage of annual total public spending)?		
7. What percentage of aid is reported on budget versus off-budget?		
8. What is the balance of power between the center and the regions, and is that stable or shifting?		
9. Is there a clear system for dividing up spending to regions and if so, what rules is it based on (for example, population, existing infrastructure)?		
10. Are there ad hoc decisions made (in general or in addition to regular allocations)?		
11. If a country gets revenues from natural resources, what is the expenditure policy regarding these revenues?		
12. How committed is Government to PEFM related goals such as improving overall governance and/or improving service delivery?		
13. How important is success against these goals for 'political survival'/re-elections/political legitimacy?		
14. How important are illicit and oligarchic interests in the country regarding PEFM?		
15. What types of demands with regard to service delivery are being raised by civil society, organised labor or other 'demand side' actors, if any?		
B. PEFM system features		
16. Is there a unified ministry (comprising finance, planning, treasury functions)? Or are multiple ministries and departments responsible for the three functions?		

Political economy related questions	Country status	Recommended actions
B. PEFM system features		
17. What is the formal administrative weight of the ministry responsible for finance/planning/treasury relative to other MDAs?		
18. What is the relationship like between departments within the ministry responsible for finance/planning/treasury functions?		
19. Are there laws/regulations covering all aspects of the PEFM system and if so, what is the quality of the laws/regulations?		
20. What is known about the quality of staff in the ministry responsible for finance/planning/treasury? Is it a high-quality, relatively stable cadre? Or are there major issues with turnover, and/or with quality? What is the extent of political appointees (formally and de facto)?		
21. How does the ministry responsible for finance/planning/treasury relate to key stakeholders (in regard to reporting and accountability): the top executive, parliament, citizens, local governments, sector MDAs, and donors?		
22. What is the nature of the relationship between the ministry responsible for finance/planning/treasury and MDAs during budget planning, execution, and reporting? What areas are in greatest need of improvement?		
23. Does parliament play a significant role: (i) with regard to shaping the budget ex ante and (ii) reviewing budget execution ex post?		
24. Are there thresholds for changes during budget implementation that require parliamentary approval (virement limits, approval for supplementary budgets)?		
25. Are supplementary budgets frequently used?		
26. What are institutional veto points and other veto opportunities to block or derail PEFM reforms?		
C. PEFM Status and Reform Areas		
27. What is the status quo of the country's PEFM system and reform efforts?		
28. What are key strengths/areas of good performance, and areas of poorer performance?		
29. To what extent are laws on the books (including recent reforms) actually being implemented?		
30. Has Government made PEFM reforms a central part of its reform agenda both currently and for the last five years?		
31. Has it set out any specific PEFM reform plan or just a general commitment?		
32. Does the Head of State ever talk publicly about the need to reform PEFM?		
33. Do the main political parties, opposition or specific politicians hold views on PEFM reforms? Are these views discussed with technocrats?		
34. Are ministers responsible for finance/planning/treasury seen as (a) reform advocates or more neutral? (b) possessing significant influence—or mainly as technical experts?		

Political economy related questions	Country status	Recommended actions
C. PEFM Status and Reform Areas		
35. What have been the main reform proposals for PEFM during the last five years? Who recommended them? Were they adopted? Implemented?		
36. Are the PEFM reforms having expected effects?		
D. LEADERSHIP MOTIVATION/INCENTIVES		
37. How did the specific PEFM reform agendas emerge? Were they developed in reaction to a particular crisis/challenge? Or in reaction to donor demands? Or after a diagnostic study?		
38. Were the specific features of the agenda set by domestic stakeholders or development partners?		
39. Were international consultants significantly involved in the drafting of reform plans?		
40. Has there been enthusiasm for particular types of reforms and if so, what explains that enthusiasm?		
41. Have there been specific demands for PEFM reforms from MDAs and have these been reflected in the reform agenda adopted?		
42. How long were reforms on the agenda before being adopted and implemented?		
43. Are there any reforms that failed to be implemented despite commitments made? If so, what is the likely explanation for the failure?		
44. What is the likelihood of current reform proposals to be adopted and implemented, and to have expected impacts? What are the likely obstacles to effectiveness of the reforms?		
45. Has there been an effort to establish with some clarity whether the reforms sought are likely to result in improved service delivery?		
46. Are there losers from the PEFM reforms being implemented? Who are the losers and what are they losing? Are the losses licit or illicit?		
47. Are there particular winners from PEFM reforms being implemented? If so, who are the winners—politicians, technocrats, MOF, MDAs, LGs?		
48. Is there public knowledge about winners and losers of PEFM reforms, or is that at best known by insiders if at all?		
E. DEMAND-SIDE FACTORS		
49. Do CSOs raise PEFM reforms as an issue?		
50. Are CSOs involved in any PEFM related oversight function?		
51. Do private sector stakeholders hold any particular views on PEFM reforms?		
52. What is the role of MPs and parliament—supportive, neutral, or negative? What are key incentives for MPs and parliament? Do they support the head of state without question? Do they demand more funds for their electorates?		

Political economy related questions	Country status	Recommended actions
F. BUREAUCRATIC INCENTIVES AND INERTIA		
53. To what extent are PEFM officials seen as supportive of reforms—interested, uninterested, opposed?		
54. Are there incentives for technocrats? Or do the reforms bring risks? Are there differences between senior and managerial staff and general staff or by staff in different functional roles?		
55. Overall, do key national level politicians and their core supporters have incentives to pursue (or facilitate the pursuit of) PEFM reforms? What are the incentives?		
56. Are PEFM reforms politically salient?		
57. To the extent that there are incentives to pursue PEFM reforms: is this leaning towards seeking tangible impact? Or more towards 'just enough'/ window-dressing/de jure reforms?		
58. What explains the status of selected PEFM reform efforts to date?		
59. Have recent PFM reform initiatives gone in the right direction?		
60. What are three to four points to note for approaching PEFM reforms going forward?		
61. Are there any contextual changes that would make PEFM reforms more likely, or those under way more robust?		
62. Looking forward, distinguish: (i) reforms on the agenda but unlikely to be feasible, (ii) improvements that are on the agenda that are likely to be feasible, (iii) changes that are important for a better functioning of the PEFM system but that are currently not clearly on the agenda.		

Source: Adapted from The World Bank (2020); "Political Economy of Public Financial Management Reforms: Experiences and Implications for Dialogue and Operational Engagement."

Annex 6: Assessing PEFM and Technological Innovations

Using the Table below, review each indicator and assess your own country's performance against the indicator. Identify strengths and weaknesses and recommend actions for improvement.

Performance Indicator	Country status	Strengths/ weaknesses	Recommended actions
1) Budgeting, accounting and entire financial management systems are computerized and integrated			
2) Consolidation of the budget estimates is automated including system preparation of various budget documents e.g. Budget Framework Paper, Estimates, PIP, Output Budget, Performance Contracts, Ministerial Policy Statements, and Procurement Plans.			
3) Timely, reliable, and secure capture and processing of government financial transactions through automated information management systems in compliance with financial and accounting regulations and with a high level of data security and traceability.			
4) There is no expenditure managed outside the computerised system.			
5) Automation of intergovernmental business processes such as online distribution of government policies, memos, rules and regulations, sharing of databases and resources, fusion of skills and capabilities, online training and troubleshooting, online reporting, etc.			
6) Certain transactions are made online e.g. requisitioning and issuance of budget releases, downloading expenditure report formats, etc.			
7) Users are able to access and transact government business on the system from anywhere over the Internet.			
8) Electronic government procurement (E-GP) has been introduced			
9) All financial and non-financial budget data can be generated from computerized system			
10) Availability of interactive visual representations of real-time PEFM data (both current and historical) in the form of clear pictorial representations, such as pie diagrams and graphs enabling managers to measure and monitor performance and conduct what-if modelling.			
11) Development of fiscal policy based on timely information of the financial position at any given moment			
12) Regular use of websites to make public expenditure information accessible			

Performance Indicator	Country status	Strengths/ weaknesses	Recommended actions
13) There is online interaction with citizens regarding public expenditure			
14) Use of computerized Human Resource Management Information System to process salaries, pensions and gratuity for government staff and ensures timeliness, accuracy and accountability of the payments; and to provide for a one stop centre for reliable, consistent and accurate and historical human resource information for decision making.			
15) Systems enable audit trail to track user activities in the system			
16) Level of success in implementation of major ICT projects relating to PEFM processes.			
17) Use of ICTs in PEFM has reduced opportunities for corruption			
18) There is periodic redesigning of government business processes relating to expenditure forecasting, budget preparation, budget execution, accounting and financial reporting, payroll management, programme management and auditing.			
19) Budgets are allocated specifically to support ICT in PEFM			

Annex 7: Assessment Tool for Effective Controls

Using the Table below, review each indicator and assess your own country's performance against the indicator. Identify the reasons for strengths and weaknesses and develop recommended actions for building on the strengths and addressing the weaknesses.

Performance Indicator	Country status	Reasons	Recommended actions
1) Audit Office is independent			
2) Audit should be composed of an internal & external group of auditors			
3) Auditor General should have power equal to that of the minister			
4) AG should report to the PAC so that the head of government 's office can be audited as well.			
5) Audit Office has necessary skills and logistics to operate effectively			
6) Audit queries are acted upon and necessary sanctions imposed where required as defined within financial laws and regulations			
7) Sanctions to enforce compliance should be clearly spelt out			
8) Audit should be in accordance with internationally accepted standards.			
9) Audit report should cover areas of economic, efficiency & effectiveness of the financial management of the institution			
10) Comprehensive i.e. audit process and audit report should cover all revenues and expenditures.			
11) Donor programmes/projects should be audited by Auditor General			
12) There should be periodic and random checks/audit			
13) The report of the Auditor General should be made available to relevant stakeholders and should be user friendly			
14) Reports should recommend improvements to systems and actions to be taken against non-compliance			
15) There should be other checks and balances including the organisations listed below.			
16) Effectiveness of Ombudsman or inspector general of government.			
17) Effectiveness of Anti-Corruption Organisation			
18) Procurement entities are audited			

Performance Indicator	Country status	Reasons	Recommended actions
19) Performance monitoring and evaluation is undertaken			
20) Central agencies and sector ministries have capacity for evaluation			
21) Evaluation must be comprehensive: financial and performance			
22) Findings from evaluations are built into planning of subsequent programmes/projects			

Annex 8: Assessment Tool for Expenditure towards SDGs

Using the table below, review each indicator and assess your own country's performance against the indicator. Identify strengths and weaknesses and recommend actions for improvement.

Performance Indicator	Country status	Strengths/ weaknesses	Recommended actions
1) There is a framework with which to plan and track expenditures on SDGs			
2) There is guidance to MDAs on how to mainstream SDGs in budget planning, formulation, implementation and reporting			
3) System exists for mapping SDGs with existing budget heads and integrate the mapping into financial management information systems to be able to produce reports relating to public expenditure per SDG			
4) Regular reports are produced relating to resource allocations and expenditure linked to SDG activities			

Annex 9: Assessment Tool for Climate Change and PEFM

Using the table below, review each indicator and assess your own country's performance against the indicator. Identify strengths and weaknesses and recommend actions for improvement.

Performance Indicator	Country status	Strengths/ weaknesses	Recommended actions
1) There is guidance to MDAs on how to incorporate climate change considerations into budget planning			
2) There is guidance on how climate change spending can be systematically tracked, and its performance assessed			
3) System is in place for tracking spending on the implementation of climate change mitigation and adaptation measures			
4) Budget reports provide information on public climate change expenditures including spending on the implementation of climate change mitigation and adaptation measures			

Annex 10: Assessment Tool for Gender Mainstreaming in PEFM Systems

Using the table below, review each aspect where gender is expected to be mainstreamed and assess your own country's performance against each aspect. For aspects where gender is covered, provide evidence. Identify strengths and weaknesses and recommend actions for improvement.

PEFM aspects where gender is expected to be mainstreamed	Is gender covered? Give evidence	Strengths/ weaknesses	Recommended actions
1) Budget call circular			
2) Budget execution report			
3) Ex anti gender impact assessment			
4) Ex post gender impact assessment			
5) Expert or consultative group			
6) Gender audit			
7) Gender budget baseline analysis			
8) Gender budget statement			
9) Gender budget tagging or classification			
10) Gender equality policies			
11) Gender perspective in performance setting			
12) Gender perspective in spending review			
13) Guidelines on gender budgeting			
14) Legal framework			
15) Legislative scrutiny of budget			
16) Legislative scrutiny of audit reports			
17) Publication of gender budget statement			
18) Training and capacity development			

Annex 11: Assessment Tool for PEFM Reporting Systems

Using the Table below, review each indicator and assess your own country's performance against the indicator. Identify the reasons for strengths and weaknesses and develop recommended actions for building on the strengths and addressing the weaknesses.

Performance Indicator	Country status	Reasons	Recommended actions
ACCOUNTING SYSTEMS			
1) Effective accounting systems: produce timely, accurate, sufficiently detailed and clear information			
2) Chart of accounts linked to budget classification			
3) No need to have parallel expenditure tracking system			
4) Regular reports produced in accordance with legal and other performance management requirements			
5) Comprehensive information provided to relevant stakeholders			
6) Final accounts produced within time specified in Financial Legislation/Regulations			
7) Reporting formats user friendly based on needs of various stakeholders			
8) Reported information widely available, e.g. on website			
MONITORING SYSTEMS			
9) Physical performance monitored as well as financial performance			
10) Regular reports produced on performance as well as ad hoc reports			
11) Action is taken to follow up on issues raised through monitoring systems			
12) Monitoring and accounting for donor resources is undertaken through government systems rather than separate systems			
13) Capability to track poverty expenditures or any other specific type of expenditures			
14) Ability to track expenditures at specific levels within government (Chart of Accounts provides for required level of reporting and systems)			
15) Systems in place for monitoring outcomes (impact) as well as physical progress (outputs)			
16) Central agencies (Ministry of Finance, Planning Commission, Cabinet Office) have capacity for monitoring performance			

Annex 12: Assessment Tool for Expenditure Frameworks

Annex 12a: Assessing Budget Preparation, Presentation and Approval

Using the Table below, review each indicator and assess your own country's performance against the indicator. Identify the reasons for strengths and weaknesses and develop recommended actions for building on the strengths and addressing the weaknesses.

Performance Indicator	Country Status	Reasons	Recommended actions
BUDGET PREPARATION			
1) **Policy driven:** there should be a clear link between the policy framework developed for the Sectoral allocations with the detailed estimates			
2) **Comprehensive:** the estimates should include all donor funded activities and those activities funded from internally generated funds			
3) **Participation:** there should be active participation of all key stakeholders in the process, including managers at the field level. Budget preparation should not be left to accounting staff but other stakeholders should have the same level of understanding of budget preparation processes			
4) **Management tool:** the preparation of the budget should be seen as an opportunity to review ongoing programmes and activities and to identify ways of improving efficiency and effectiveness			
5) **Medium term:** the estimates need to be prepared within the context of a medium-term ceiling, but with flexibility to respond to changing circumstances			
6) **Integration of recurrent and development:** the preparation of the budget should consider the recurrent and development budgets at the same time			
7) **Integration of personnel planning:** personnel costs should not be treated as a given, but the budget planning process needs to consider personnel issues and manpower requirements			
8) **Efficiency of budget preparation process:** the timing should be appropriate and realistic, the budget circular should be clear in terms of instructions, and the Ministry of Finance should provide sufficient follow up to sector ministries			
9) Clear and consistent Budget Classification and Chart of accounts, ideally with common codes across the recurrent and development budgets, and use of programme or performance classification			
10) **Performance focus:** the estimates should be linked at all to agreed objectives and/or targets.			

Performance Indicator	Country Status	Reasons	Recommended actions
BUDGET PRESENTATION			
11) **Clarity in presentation of budget information:** the budget presentation should provide information on the agreed objectives, policies, targets.			
12) **Integrated and Comprehensive:** the information should be presented in an integrated and comprehensive manner, showing recurrent and development estimates together, as well as all donor funds			
13) **Level of detail:** the level of detail presented in the budget presented should be appropriate to the needs of the stakeholders receiving the information and the use of the information.			
14) Presentation of previous years' outturns should be presented			
15) Medium term perspective, even at an aggregate level			
16) **The budget statement should cover the elements prescribed by the IMF Code:** (1) fiscal policy objectives and sustainability; (2) fiscal rules; (3) the macroeconomic framework; (4) separating existing commitments from new policies; and (5) major fiscal risks."			
Budget Approval Processes			
17) **Focus on large policy issues:** the budget hearings at all levels (MOF, Cabinet and Parliament) should focus on a discussion of policy/budget choices and options, rather than the main focus being on detailed items			
18) The process should build Political commitment to policy and budget choices			
19) Civil society should be actively involved in debate on budget issues and policy choices			

Annex 12b: Assessing Budget Implementation

Using the Table below, review each indicator and assess your own country's performance against the indicator. Identify the reasons for strengths and weaknesses and develop recommended actions for building on the strengths and addressing the weaknesses.

Performance Indicator	Country Status	Reasons	Recommended actions
CASH MANAGEMENT			
1) Ministries prepare realistic work plans and cash flow forecasts			
2) Government prepares public sector borrowing requirement and borrowing plans			
3) Effective mechanisms for cash management and monitoring public sector borrowing			
RELEASE OF FUNDS			
4) Ministries request funds in line with spending requirements, rather than equal instalments			
5) Ministries of Finance provide information on releases and explanations if funds differ from amounts planned			
6) Funds are released in line with priorities as agreed in the Budget			
7) New priorities only introduced during the year with Cabinet approval and revenue raising measures or lower priority areas to be cut back			
8) Systems are in place for tracking release of funds to ministries and within ministries to lower levels			
9) Donor funds released in line with agreed government requirements			
10) Information on releases provided to relevant stakeholders			
USE OF FUNDS			
11) Internal Audit and controls used effectively and efficiently			
12) Clear procedures for use of funds, widely understood and avoiding duplication of processes and delays			
13) Effective management of government bank accounts: links with government accounting systems and proliferation of special accounts avoided			
14) Maintenance of priorities in the use of funds in centralised treasury systems: where there are district treasuries systems are in place to ensure funds are released in line with priorities			
15) Virement rules: enable some flexibility in use of funds but prevent misuse.			
16) Effective implementation of procurement procedures: minimal "leakages", delays and cost escalations			

Performance Indicator	Country Status	Reasons	Recommended actions
PERSONNEL AND PAYROLL MANAGEMENT			
17) Personnel and payroll management: no “ghost” workers, effective recording and management of information on recruitment, retirements, secondment, pay increases, etc.			

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