

MINISTRY OF FINANCE FISCUS BUILDING

Political Economy of Public Financial Management Reforms

Experiences and Implications for
Dialogue and Operational Engagement



WORLD BANK GROUP

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Acknowledgements

The report was prepared by a team comprising Verena Fritz, Marijn Verhoeven, and Ambra Avenia, with contributions by Stephanie Sweet. It is based on the inputs received from a range of individuals and teams, to whom the team would like to extend its profound appreciation.

Individual case studies were developed by the following authors: Allan Gustafsson, Alexi Gugushvili, Verena Fritz, Liana Skhirtladze, and Heidi Tavakoli, with advice and comments provided by Aleksi Aleksishvili and Zaza Broladze of the Policy and Management Consulting Group (Georgia); Stephanie Sweet (Nepal); John Heilbrunn, Stephanie Sweet, Elijah Udo, Verena Fritz, as well as Stephen Jones, Gabriel Ojebile, and Tochukwu Nwachukwu from Oxford Policy Management (Nigeria); Stephanie Sweet, Ronald Holmes, Marijn Verhoeven, and Allan Gustafsson (Philippines); Helen Tilley, Revocatus Sangu, Kenny Manara, Shakira Mustapha, and Stephanie Sweet (Tanzania).

Key collaborators from each of the country teams include: Mariam Dolidze, Inga Paichadze, and Mediha Agar (Georgia); Bigyan Pradhan and Sudyumna Dahal (Nepal); Ismaila Ceesay,

Roland Lomme, Jens Kristensen, and Gloria Joseph Haji (Nigeria); Kai Kaiser and Saeeda Rashid (Philippines); and Chiara Bronchi, Denis Biseko, and Mahjabeen Haji (Tanzania). Managerial guidance was provided by Adrian Fozzard and Jim Brumby at the outset, and Hisham Waly and Jim Brumby during finalization. Aart Kraay gave helpful guidance and advice for the quantitative analysis. The team would also like to thank the formal peer reviewers Rachel Ort, Nicola Smithers, Manuel Vargas, and Tim Williamson for their excellent comments and suggestions, and Richard Allen who provided earlier comments and feedback. Research assistance was provided by Matthew Collin and Maximilian Mareis.

The team wishes to thank all the government and nongovernment counterparts met during the missions for their time and generous sharing of information, experiences, and views, as well as numerous interlocutors in World Bank offices and from among other development partners.

The team is grateful to the Governance Partnership Facility and the Korean Development Institute Trust Funds for the funding provided.

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Foreword

Ensuring that public money is well managed has been a central concern of citizens and the state since ancient times, motivating an accumulation of technology and knowledge of how to arrive at well-functioning systems. Equally, it is incontrovertible that public money plays a central role in the development process, and that better management of public money is important to achieving inclusive development. So, one could expect that better harnessing of public money is a shared objective across individuals, professions, and communities.

Yet, in many contexts, the management of public money is not driven by a concern for development impact and equity; but rather, by concerns to provide some with preferential access to public money, while leaving less for the majority of citizens and for achieving public policies. In other words, there are winners and losers, and disputes over who takes the larger share of public money are common.

While technology and knowledge about good management of public money have come a long way, we do not always see these applied. Also, in many places we see slow adoption of better practices, and repeated efforts, despite there being observable available capacity to do much better.

In this report, rather than looking at the technical factors that make for better public financial management, the authors look at the non-technical factors, that is the political economy of the management of public money. Through country studies from around the world, the report examines the level and durability of political commitment to reform, and associated high-level policy goals, as well as the implications of underlying fiscal trends; institutional and legal starting points and conditions, including the relationship between the executive and the legislature in public

financial management; and the role of citizens in demanding reforms to ensure a better use of funds. The authors also examine the stated intentions of public financial management reforms across countries, and how these were pursued, or not, over a period of 10 to 15 years. Quite simply, what you see at the outset is rarely what you get in the end.

Over the past two decades, we have seen many approaches to public financial management reform. For instance, reformers have treated public financial management reform as theater, with an emphasis on shaping stakeholder perceptions and removing roadblocks through soft and harder methods. We have also seen the reform process treated as an engineering project, with a tightly defined critical path and intending to proceed along a sequence of pre-defined steps. This report draws conclusions about what is likely to work in different circumstances and why it is likely to work—based on close attention to how political, institutional, and fiscal drivers intersect.

From a methodological point of view, the report provides a strong empirical basis to our understanding through a combination of sophisticated econometric analysis with some of the nuance and understanding that can only be gleaned from case studies. It is a report that many have wanted to see for a long time; providing real insight and wisdom on this subject. Some of the results are surprising and some are somewhat counter-intuitive, but they are all highly relevant for development practitioners and public financial management reformers.

Congratulations to the authors; I commend the work to you.

Jim Brumby
Director
Governance Global Practice

Abbreviations

AFROSAI	African Organization of Supreme Audit Institutions	GDP	Gross Domestic Product
APC	All Progressives Congress	Ge-GP	Georgian Electronic-Government Procurement
BMIS	Budget Management Information System	GFS	Government Finance Statistics
BMPIU	Budget Monitoring and Price Intelligence Unit	GFSM	Government Finance Statistics Manual
BoT	Bank of Tanzania	GIFMIS	Government Integrated Financial Management Information System
BPP	Bureau of Public Procurement	GIZ	<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i> (German Agency for International Cooperation)
BRN	Big Results Now	GOCC	Government-Owned and Controlled Corporations
BTMS	Budget and Treasury Management System	GPPB	Government Procurement Policy Board
BTr	Bureau of Treasury	HIPC	Heavily Indebted Poor Country
CAG	Controller and Auditor General	IAG	Internal Auditor General
CAO	Central Accounting Office	IASB	International Accounting Standards Board
CFA	Central Finance Agency	IFAC	International Federation of Accountants
CCM	<i>Chama Cha Mapinduzi</i> (Party of the Revolution)	IFMIS	Integrated Financial Management Information System
CIDA	Canadian International Development Agency	IMF	International Monetary Fund
CME	Coordinating Minister for the Economy	INTOSAI	The International Organisation of Supreme Audit Institutions
CMU	Country Management Unit	IPSAS	International Public Sector Accounting Standards
COA	Commission on Audit	IT	Information Technology
COTS	Commercial off-the-shelf	LAC	Latin America and the Caribbean
CPAR	Country Procurement Assessment Report	LEPL	Legal Entity of Public Law
CPIA	Country Policy and Institutional Assessment	LGA	Local Government Authority
CSO	Civil Society Organization	LGU	Local Government Unit
DBM	Department of Budget and Management	LIC	Low-Income Country
DECS	District Expenditure Control System	LMBS	Line Ministry Budget System
DoF	Department of Finance	LMIC	Lower-Middle-Income Country
DP	Development Partner	LOLF	<i>Loi organique relative aux lois de finances</i> (Organic Law pertaining to Budget Acts)
DTCO	District Treasury Comptroller Office	MAPS	Methodology for Assessing Procurement Systems
EAP	East Asia and the Pacific	MDAs	Ministries Departments and Agencies
EAMP	East African Monetary Protocol	M&E	Monitoring and Evaluation
ECA	Europe and Central Asia	MENA	Middle East and North Africa
EFCC	Economic and Financial Crimes Commission	MIC	Middle-Income Country
EU	European Union	MILF	Moro Islamic Liberation Front
FAAC	Federation Account Allocation Committee	MoF	Ministry of Finance
FCGO	Financial Comptroller General Office	MP	Member of Parliament
FCS	Fragile and Conflict Situation	MTEF	Medium-Term Expenditure Framework
FEC	Federal Executive Council	MTFF	Medium-Term Fiscal Framework
FGN	Federal Government of Nigeria	NAO	National Audit Office
FIRS	Federal Inland Revenue Service	NCP	National Council on Public Procurement
FMBNP	Federal Ministry of Budget and National Planning		
FMIS	Financial Management Information System		
FRC	Financial Reporting Council		
FTE	Fiscal Transparency Evaluation		
GAM	Government Accounting Manual		

NGAS	New Government Accounting Standards	PSASB	Public Sector Accounting Standards Board
NGO	Nongovernmental Organization	PWI	Procurement Watch Inc.
NPC	National Planning Commission	QWIDS	Query Wizard for International Development Statistics
NPI	Nonprofit Institutional Unit	RMIS	Revenue Management Information System
NPM	New Public Management	ROSC	Report on the Observance of Standards and Codes
NPSAS	Nepali Public Sector Accounting Standards	SAI	Supreme Audit Institution
OAGF	Office of the Accountant General of the Federation	SAM	Social Accountability Monitoring
OBI	Open Budget Initiative	SAO	State Audit Office
OECD	Organisation for Economic Co-operation and Development	SAR	South Asia Region
ODA	Official Development Assistance	SBAC	Special Bids and Awards Committee
OGP	Open Government Partnership	SIDS	Small Island Developing State
PAA	Public Audit Act	SIGMA	Support for Improvement in Governance and Management
PAC	Public Accounts Committee	SOEs	State-Owned Enterprises
PDP	People's Democratic Party	SSA	Sub-Saharan Africa
PDIA	Problem-Driven Iterative Adaptation	TAN	Transparency and Accountability Network
PEFA	Public Expenditure and Financial Accountability	TISS	Tanzania Interbank Settlement System
PER	Public Expenditure Review	TRA	Tanzania Revenue Authority
PETS	Public Expenditure Tracking Survey	TSA	Treasury Single Account
PFM	Public Financial Management	UMIC	Upper-Middle-Income Country
PFMRP	PFM Reform Program	UNCITRAL	United Nations Commission on International Trade Law
Phil-GEPS	Philippines Government Electronic Procurement System	UNDP	United Nations Development Programme
PforR	Program-for-Results	USAID	U.S. Agency for International Development
PO-PC	President's Office—Planning Commission	VAT	Value-Added Tax
PPA	Public Procurement Act	WAEMU	West African Economic and Monetary Union
PPAA	Public Procurement Appeals Authority	WDI	World Development Indicator
PPSAS	Philippines Public Sector Accounting Standards	WEO	World Economic Outlook
PPMO	Public Procurement Monitoring Office	WGI	Worldwide Governance Indicators
PPRA	Public Procurement Regulatory Agency	WDR	World Development Report
PSAO	Provincial Satellite Audit Office		

Executive Summary

Using fiscal resources to achieve results is critical for equitable development. Low- and middle-income countries face many critical expenditure pressures, from expanding access to and improving the quality of services to improving infrastructure to developing an ability to respond effectively to shocks such as droughts, natural disasters, or volatility in the prices for key imports or exports.

Accordingly, many countries have sought to strengthen their public financial management (PFM) systems. PFM reform efforts are widespread. As a rough indicator, nearly 150 countries had undertaken at least one Public Expenditure and Financial Accountability (PEFA) report as of early 2017, which serves to assess the status of PFM, as well as typically leads to the preparation of (further) reform efforts. Development partners (DPs) support efforts at PFM strengthening with about US\$1.3 billion annually and nearly US\$20 billion in total since 2002, based on Organisation for Economic Co-operation and Development (OECD) data.

However, following nearly two decades of intensive effort, what has been achieved, where, and why is not very clear. From an impact perspective, it is critical to understand whether efforts at reforming PFM have been successful, how progress may have varied, and what accounts for different rates of progress among different countries.

Approach and Intention of this Report

This report pursues two main lines: first, it maps out what PFM progress looks like across countries, regions, and income groups; then, based on this mapping, it drills down into specific experiences and issues of how efforts at strengthening PFM have progressed or struggled. The first aspect provides important insights as to where and how much progress has been made among all low- and middle-income countries for which relevant data is available. The second aspect builds on this mapping and seeks to understand in detail what PFM strengthening efforts were made in a small N sample of countries and explores the underlying nontechnical drivers and constraints.¹

The intention is for the resulting insights to provide a basis for reflection, as well as some concrete guidance on how reform

stakeholders and external supporters can better calibrate their approaches to PFM reforms. Regarding the latter, the intention is to start a discussion and provide an initial set of ideas and empirically grounded insights, rather than presuming that a single effort can provide a definitive set of answers.

In line with the World Development Report (WDR) 2017, the report also asks whether the improvements in PFM systems pursued had tangible impacts. Evidence on this is still difficult to assemble, and one part of the recommendations emerging from this analysis is to ensure that ‘functional progress’ made needs much greater efforts at monitoring.

The report focuses on the expenditure side of public finances, considering reforms across the budget cycle. The quality of PFM and changes over time constitute the main result to be explained (‘dependent variable’), but as noted, comprising also questions about whether reformed systems are functioning as intended. In terms of explanatory factors, the analysis deploys a wide lens. It starts off with considering potential factors for which data is available across countries, including broad economic, fiscal, and political characteristics.

Regarding the how and why of PFM reforms, drawing on five case studies, the analysis hones in on several key factors: first, levels and durability of political commitment, high-level policy goals, and fiscal trends; second, institutional and legal starting points and conditions, including the relationship between the executive and the legislature with regard to their roles in PFM as well as whether citizens are demanding such reforms; third, it looks at the specific reform intentions as set out in the PFM reform plans, and one by one at how these were pursued over a period of 10 to 15 years.

Inevitably, there are limitations to the approach. The first limitation is that including a wider range of countries as drill-down case studies would be desirable, but was not feasible in practice. A second limitation is that while information on overall official development assistance (ODA) and ODA dedicated to PFM reforms is considered, the process tracing conducted does not look at the interventions and support provided by various DPs in detail for each country. Tracking such support comprehensively, project-by-project for each country, would have absorbed a level of effort beyond what has been feasible.² A third limitation is that it is not

1. Nontechnical drivers and constraints include institutional incentives and constraints, as well as political commitment, capabilities, and demand to pursue reforms, interacting with institutional aspects; see also Diamond (2011).

2. The statistical analysis and broad country-by-country data on levels of PFM support suggest that the level of effort by DPs to support or leverage PFM strengthening is not related to the degree of actual progress made.

always possible to trace in full detail who promoted or obstructed progress of PFM reforms and based on what specific motivations. The report documents some specific instances and hence provides, at least selectively, an understanding of such specific stakeholder dynamics.

Key Findings on Patterns of Progress and Drivers of PFM Performance Across Countries

Aggregating data on PFM performance by income groups suggests that global progress on PFM reforms has been somewhat disappointing in recent years, especially among middle-income countries (MICs), while low-income countries (LICs) have made some gains starting from lower levels. Across regions, Europe and Central Asia (ECA) stands out as a group of mostly MICs that has seen significant progress. In ECA, this includes strong progress on ‘accounting and reporting’, the PFM dimension which tends to be the weakest among other countries. The progress registered by LICs is regionally concentrated in Sub-Saharan Africa (SSA), where most current LICs are located.

During regression analysis of which countries performed better or worse, the following picture emerges: the quality of PFM systems is most significantly and robustly associated with two variables, a country’s income per capita (positively) and a high share of revenues being obtained from natural resources (negatively). In addition, we find statistically weaker associations with being a small island developing state (SIDS) (negative) and per capita growth, political stability, and having a more democratic regime (positive, but small coefficients). Programmatic parties appear to possibly also have a positive impact. The significance and impact of these additional factors varies, depending on how PFM performance is measured (PEFA or CPIA 13) and what observations are included (all PEFA assessments or only most recent ones).

Looking at dynamics over time, that is, potential patterns between characteristics and PFM improvements, the strongest association is with the relative initial performance—that is, countries that had an initially weaker PFM performance show relatively greater progress than those with already stronger PFM. Recent growth also shows a positive relationship, and higher population growth shows a negative one. In addition to the main results, some less robust associations appear with being a SIDS and changes in the level of tax revenue.

The five case study countries cover a diversity of situations in terms of income levels and other characteristics identified as associated with PFM performance. Nepal and Tanzania have continuously been LICs, the Philippines has been an MIC, and Georgia and Nigeria have moved from low to middle income status over the

past 15 years.³ Legacies of instability have been greatest in Nepal which experienced 10 years of conflict from 1996 to 2006,⁴ while Georgia and Nigeria also experienced conflict, and the Philippines experienced it in certain regions. Natural resource dependence has been high in Nigeria. In Tanzania, a resource boom was anticipated, but large-scale offshore gas production remains delayed.⁵

The PFM performance of the five cases and trends over time offer interesting contrasts. Tanzania had a notably high PFM performance relative to income group peers in the early 2000s, but saw a decline over the following decade. Georgia took the opposite path, from a low performance in the early 2000s to an overall good performance by the mid-2010s. In Nigeria, PFM reforms had been initiated, but PFM performance remained very low when the first PEFA assessment was undertaken in 2012, and the Country Policy and Institutional Assessment (CPIA) data similarly does not yet indicate an improvement over time (although some reforms were implemented since 2015 as discussed in the report). Nepal and the Philippines both achieved some progress.

Thus, the country characteristics that are statistically relevant explain some of the specific cases’ individual status and trajectories, while also leaving a number of puzzles. Change in Georgia was exceptionally rapid and has gone farther than regional and income group comparators on average. Tanzania’s regressing trend would not have been predicted, given its continued growth and political stability. Nepal’s progression is stronger than would be expected given its postconflict situation and still low per capita incomes. For the Philippines, the overall observed strengthening of PFM systems has been broadly in line with the country’s characteristics.

Tracing the How and Why of Progress in Detail

Chapters three to five drill down into how these specific dynamics—in how and how far PFM systems have strengthened—have come about.

The analysis proceeds from a ‘big picture’ perspective on political commitments and fiscal trends to the institutional and legal situation, and to the specific processes of pursuing individual reform ‘packages’ such as improving budget preparation, adopting new accounting rules, and establishing financial management information systems (FMISs).

3. Georgia transitioned to lower-middle-income status in 2003 and to upper-middle-income status in 2015. Nigeria transitioned to lower-middle-income status in 2008.

4. Nepal was included on the World Bank’s list of fragile and conflict situation (FCS) countries until FY2014. For IDA18, Nepal has been classified as “exceptional FCV risk mitigation regime” along with three other countries (Niger, Guinea, and Tajikistan).

5. Production is expected to begin in the 2020s.

The analysis starts with three broad factors: the intensity and durability of political commitment to pursuing better governance in general terms, the relative strength and nature of rent-seeking interests, and the fiscal situation and trends for each of the five countries over the period 2000–2015. While political commitment is widely held to matter in PFM reforms, how it does so exactly, or how it could be quantified has not been systematically considered. Among the case studies, Georgia and the Philippines stand out as countries that had governments with strong commitment to governance reforms during the period reviewed, with the initial mandate being strongest in the former. Vested interests and nonproductive rents have been particularly significant in Nigeria, linked to natural resource production, but were also quite prominent in Georgia in the early 2000s, in the Philippines, in the form of a small economic and political elite, and in Tanzania, as a close alliance between business and political interests formed in the 2000s.

Fiscal trends have been relatively benign during the period under investigation. All five countries saw relatively strong growth and declining debt-to-GDP ratios during the decade 2000–2010, in line with general trends across low- and middle-income countries. Nigeria and Tanzania additionally benefited from debt relief. Georgia and Nepal used this period to increase their revenue to gross domestic product (GDP) ratios. Revenues flatlined in Tanzania and the Philippines at around 15 percent and 18 percent respectively, with both falling behind the trends in their respective income groups toward increasing revenues (with global averages for LICs and LMICs reaching 21 percent and 29 percent of GDP respectively). Nigeria experienced rising revenue in nominal terms, but had a steep and extended decline in its revenue-to-GDP ratio as GDP rapidly expanded due to rising oil prices, and a GDP re-basing was undertaken in 2014, while few efforts were made to expand non-oil revenue collection.

Given the largely benign environments, the selected cases and period offer only limited insight into the question whether fiscal pressures may stimulate PFM reform efforts. Some link can be seen for the early years in Georgia, as it experienced serious cash shortfalls until the start of reforms which targeted both revenue increases and better expenditure management. In Nigeria, fiscal pressures appear associated with a leap forward since 2015 in completing the establishment of a Treasury Single Account (TSA) which had previously lingered for several years. In Tanzania, the particularly high PFM performance at the start of the period reviewed was the result of a previous reform episode in the late 1990s associated with fiscal pressures and seeking to achieve heavily indebted poor country (HIPC) completion.

Institutional Factors

The potential role played by institutional factors is reviewed in Chapter 4, indicating some important aspects of variation with regard to three main institutional factors: the relationship between the executive and the legislature regarding budget approvals as well as approvals of reform legislation, the setup of central finance agencies (CFAs), and the structure of intergovernmental relations. Having strong parliamentary powers over budgets can lead to a situation where budget approvals are significantly delayed, as has been the case in particular in Nigeria, with negative impacts on budget execution, while in Nepal, budget delays emerged due to extended political deadlock. The setting up of CFAs has been particularly fragmented in the Philippines and Nigeria. In the Philippines, which had a government that was in principle committed to reforms, this has contributed to challenges with getting reforms done.

Intergovernmental relations play a crucial role in terms of the acceptance of PFM reforms as well as for getting from core PFM reforms to actual functional improvements. Remarkably, all five countries either had federal systems in place (Nigeria) or had at least some ongoing discussions over greater decentralization or introducing federal systems, potentially requiring substantial additional investments in subnational-level PFM capacities (notably in Nepal). Effective oversight and accountability across levels of government poses challenges, particularly so in highly decentralized or federal systems.

Regarding organic budget or PFM laws, three of the five countries had new comprehensive legislations under discussion, but experienced difficulties in getting these passed in parliaments. These challenges are rooted in having constitutional arrangements more prone to legislative deadlock and may also be rooted in the fact that some members of parliament (MPs) represent rent-seeking more than ‘good governance’ interests. Remarkably, over the past 15 years, all five countries passed new procurement legislation, even though this is an area where rent-seeking has typically been concentrated. It appears that international pressures and incentives for passing new procurement laws have been greater and more focused than with regard to improved PFM legislation in general. While, as highlighted by WDR 2017, laws may not consistently be observed in practice, improved PFM rules are an important foundation for seeking better de facto management of public resources.

A further important aspect which Chapter 4 considers is the role of demand-side stakeholders in PFM reforms. The analysis across the five countries indicates that demand-side involvement was relatively stronger in the Philippines, but relatively weak in the four other cases. Budget monitoring activities by civil society

organizations (CSOs) are present but have tended to remain fragmented. PFM reforms are typically not well-known or of specific interests to citizens at large, and their specifics can be difficult to understand. The main link between citizens and PFM reform tends to be through the long route of accountability, that is, through electing governments that make electoral pledges to improve governance, including the use of public resources.

Tracing Individual PFM Reforms

Chapter 5 turns to the specific aspects of what and how progress on specific PFM reforms were pursued. It maps out to what extent the reform intentions across the cases were differentiated or similar, and finds a strong tendency toward a similar ‘menu’ of reforms. Furthermore, important cross-cutting features are that reforms tend to remain partially completed in many cases for extended periods of time, and that the advocated expected impacts of reforms tend to exceed the actual impacts of such reforms across countries. The chapter, furthermore, explores the extent to which PFM reforms are embedded in a wider set of public sector reforms. Pursuing a broader governance agenda can be a signal of stronger government commitment in achieving deeper changes in outcomes such as improving service delivery and in containing corruption.

Reforms to budget planning have targeted the introduction of Medium-Term Expenditure Frameworks (MTEFs) and of developing program budgets, but tend to neglect some of the aspects that are most critical to preparing and approving credible budgets on time. The introduction of MTEFs has been pursued across all five countries, and program budgeting across three of the five. In terms of reform achievements, the MTEFs are seen as reasonably established and effective in Georgia and the Philippines, but in the other three countries the reform remains partially implemented and has at best limited impact on actual medium-term budget allocations; in the case of Tanzania, this is so even after nearly two decades of producing MTEF documents. Program or performance budgeting has been pursued since 2006 in Georgia and more recently in the Philippines and Tanzania; so far, real impact has remained limited. In Georgia, demand either from the parliament or from the wider public has remained weak, and so the incentives for ministries, departments, and agencies (MDAs) to demonstrate good performance are limited.

Considering the ‘basics’ of timely budget approvals and the expected outcomes of budgets that are credible, progress is still quite limited. Timely budget approvals are common in Georgia, the Philippines, and Tanzania, while delays have remained substantial in Nigeria. In Nepal, eventual constitutional reforms enabled timely approvals in the most recent years. Moreover, credibility in sectoral budget allocations remains low in four of the five countries, and even aggregate credibility is low in the Philippines and, to a lesser extent, in Nigeria. Georgia and Nepal, the two countries which

saw increases in revenue, have the best aggregate credibility and improved credibility in allocation across sectors.

With regard to budget execution reforms, Chapter 5 considers the introduction of TSAs, FMIS, and of new accounting and fiscal reporting standards. All three of these reforms have been extremely widespread across countries, including being pursued across all five case study countries.

TSAs are a fiscally attractive reform for central governments, but are generally not attractive for line ministries and subnational governments (if they are to be included); a further potential source of resistance are commercial banks which lose valuable liquidity. While, in principle, a relatively simple reform which requires limited capacity strengthening or systems rollout, a lack of trust among stakeholders on the one hand, and various interests to maintain separate accounts on the other hand, make TSAs a reform that has remained partially implemented in several of the countries examined. Georgia and, to some extent, Nepal pursued a deliberate gradual strategy with good results. In the Philippines, a TSA was pursued, but still only extends to revenue accounts. Nigeria experienced a particularly dramatic process. While the TSA reform effort was first started in 2010, by early 2015, MDAs still held the equivalent of US\$11 billion in accounts with commercial banks. Among a brewing fiscal crisis due to fast shrinking oil revenues, the newly elected President ordered all MDAs to comply. The large-scale transfer of funds triggered a public row, as the transferring MDAs were required to pay a 1 percent fee to an electronic platform channeling the funds to Central Bank accounts (e-Remita), that is, around US\$100 million, with the fee to be split between the provider, commercial banks, and the Central Bank. Thus, seeking to compensate one opposed stakeholder, that is, commercial banks, the government triggered new allegations of improper management. Still, TSA rollout was judged to be completed by the International Monetary Fund (IMF) by early 2016.

FMIS reforms—which tend to be relatively expensive and considered challenging in terms of change management—proceeded in all five countries, but (a) experienced a number of challenges and (b) had significantly less impact than anticipated. After considering a commercial off-the-shelf (COTS) software system, Georgia decided in favor of gradually developing a system in-house, an unorthodox approach which worked reasonably well given its strong commitment and an ability to mobilize substantial information technology (IT) capacities. In Nepal, the establishment both of a TSA and a rudimentary (and still fragmented) FMIS took a deliberately gradual route, in the absence of much support, but also limited opposition from national MDAs. Tanzania has the longest established FMIS, which was introduced during its main earlier wave of PFM reforms which started in the late 1990s. While on the one hand, it demonstrates that an FMIS could be successfully introduced in a low-income environment, it also shows most clearly that the system has not fulfilled expectations in terms of ensuring effective

commitment controls and credible and accountable budget execution. In the Philippines, the government pursued ambitious plans of introducing a nationwide FMIS. However, following a drawn-out process of system specification, the procurement eventually spectacularly failed, due to the refusal of the President to approve the contract award shortly before the end of his constitutionally mandated single term. A much smaller core system is now being pursued, likely to provoke less opposition.

A third element of budget execution reforms is the introduction of accounting standards following International Public Sector Accounting Standards (IPSAS) guidelines—intended to be accrual-based in Georgia, Nigeria, the Philippines, and Tanzania, and cash-based in Nepal. This transition requires a substantial re-tooling of accounting capacities, as well as valuing a wide range of public sector assets and liabilities. Of the five countries, Tanzania has been the first to actually start the use of IPSAS, first adopting the cash-based, and most recently accrual-based standards. Introduction plans are the most ambitious in Nigeria, which seeks to introduce IPSAS across all three main levels of government—in contrast to all other PFM reforms which are separately introduced at the federal and state levels. Given the reform status, it is as yet too early to assess impact. A key concern is that accrual standards may not be accurately applied—intentionally or unintentionally—and that oversight will be insufficient. Without adequate explanations, accrual accounts may also be more challenging for demand-side stakeholders to review and interpret.

In addition to these core budget execution reforms, procurement stands out as an area in which the five countries have sought reforms, although this is a politically and particularly charged expenditure aspect. The use of public contracting to divert resources for political financing as well as personal enrichment is widespread globally. All five countries adopted new procurement legislation over the past two decades. Different sequences were deployed in terms of establishing e-procurement platforms and e-bidding as an option for suppliers. In none of the countries are procurement rules and processes fully settled due to a range of remaining concerns. Also, remarkably, there is little existing evidence about whether value for money has improved.

The final two substantive sections of Chapter 5 address internal and external audit. In principle, establishing effective audit systems is not very attractive from a political economy perspective, in the sense that effective audit capacities reduce the discretion of decision makers. All five countries have struggled to strengthen these dimensions, but there has also been some progress. In Tanzania, while several other PFM reforms saw backsliding, the capacity and efficacy of the external audit office improved, and this also triggered efforts at and some progress with strengthening internal audit. Georgia experienced a remarkable turnaround from an initial control chamber which was itself bribing audited agencies to a fairly capable State Audit Office (SAO). Generally, external audit

offices saw greater development than either internal audit or parliamentary follow-up and oversight. On the latter dimension, none of the five countries was rated better than a D+ by the most recent PEFA assessments. These continued low ratings reflect the general disincentives for MPs to pay attention to how budget funds were used ex post, as well as some specific factors such as the absence of a regular parliament for several years in Nepal.

Key Implications and Recommendations

The analysis leads to several implications and recommendations, intended both to be immediately useable as well as stimulating a wider discussion on the what and how of PFM reforms.

- **A perspective on nontechnical drivers for PFM reforms suggests a need to reconsider and nuance arguments about the sequencing of PFM reforms.** Improving ‘the basics’ is critical in terms of key expected impacts of PFM reforms. However, it is also the relatively harder aim to achieve. Including ‘nontechnical drivers’ into sequencing considerations implies that it is important to continuously keep some focus on the basics, without assuming that these are likely to be completed before advanced reforms are initiated.

Furthermore, since de facto, real sequencing between basic and advanced reforms has rarely happened consistently, many countries present a mixed challenge of various partially implemented bits of both types of PFM reforms. Reformers and DPs should keep track of where ‘basic’ functional improvements stand and how they can be continuously supported, also with a view to avoiding backsliding from improvements that have already been achieved. This includes paying attention to whether ‘advanced reforms’ that have been (partially) implemented are contributing to basic functionalities (such as whether FMIS is actually used for controlling commitments).

- **While transformational—rapid and substantial—PFM strengthening is rare, slow and incremental improvements are common, but risks of backsliding also exist.** As the quantitative analysis indicates, countries with initially lower PEFA scores saw greater improvements over time than those with already better systems, however, the gains are relatively small over a 10-year period. At the same time, global indicators also suggest limited aggregate improvement due to cases of backsliding; illustrated among the case studies by Tanzania’s experience. Efforts at strengthening PFM systems need to be calibrated to these different ‘opportunity environments’. This should include having some in-built flexibility to change between a more incremental and a more

fundamental reform agenda, that is, following changes in government. During non-transformational periods, a deliberate focus on (a) developing a reform agenda and (b) monitoring and seeking to counteract backsliding risks should be pursued.

- **A further crucial implication from the analysis is that windows of opportunity are very important—but it can be difficult for DPs to effectively provide support to incoming, highly reform-oriented governments.** The opportunities for PFM reforms can vary considerably between one government and the next. A government that is strongly interested and motivated to pursue reforms can achieve more in two to three years than it is likely to be achieved with a government not interested in improving governance and the management of public finance over a period of eight or ten years.
- **One important question is how best to use windows of opportunity—developing new support within a few months from new leadership being in place to the closing of the peak ‘honeymoon period’ is difficult.** One option can be to have an existing project in place that straddles an election period with sufficient built-in flexibility to be adjusted to a new government’s needs and intentions, either through a rapid restructuring and reauthorization process, or through within-project flexibility. More ‘advanced’ options such as a pooled mechanism with flexible funding can also be envisaged, but none of the five case studies offers an example in this regard.
- **For the majority of time outside of windows of opportunities, it remains worth pursuing improvements, but progress is likely to be incremental and frustrating to those seeking a faster pace and tangible results.** A key potential benefit is to ‘have something ready to move’ when windows of opportunity arise and—also importantly—to sustain some of the gains that may have been made during previous ‘windows’.
- **Fiscal pressures can play a role in accelerating reforms and the links between fiscal trends and PFM reforms should receive greater attention. When governments are motivated to pursue PFM reforms due to fiscal challenges, they are likely to seek reforms both on the revenue and expenditure side, with implications for the design of support.** To overcome a fiscal crisis typically requires measures on both sides, and attention to revenue trends should be reflected routinely in PFM operations (for example, the decline in revenue was neglected in Nigeria for some time before the fiscal situation became severe). Governments are likely to seek support on multiple aspects, including debt management, fiscal policy, revenue administration, and expenditure management. This poses some challenges for how (at least broadly) coherent support can be provided.

- **Addressing and engaging with stakeholder interests more explicitly.** An understanding of the motivation and aims of stakeholders is important to understand what reforms are likely to be feasible and ‘stick’. In this regard, it is important to avoid overly simple categorization of stakeholders into ‘reform proponents’ and ‘reform opponents’, as most stakeholders have somewhat complex motivations, for example, they may endorse some reforms, but may be cautious about pushing too far in a difficult environment, such as with regard to procurement reforms.

In addition, motivations and interests are likely to differ across categories of stakeholders. Decision makers such as Prime Ministers or Presidents may be particularly interested in PFM reforms if they have made electoral pledges to improve service delivery and governance and seek to show progress. Senior civil servants and professionals will often be keen to show that they are aligned with the ‘vision at the top’.⁶ At the same time, they play a critical role in shaping the specifics of PFM reforms; and it can be important to discuss and mull over the specific reform approaches they seek to pursue.⁷ Stakeholders in line ministries and at sub-national levels are a further important group to consider and engage with. One important aspect for reform stakeholders is that initial progress can help to build the credibility of reforms. Especially at early stages, reform stakeholders may want to be careful about reform approaches that entail very long planning phases or that are very complex or likely to face stronger resistance.

- **Being clear about institutional arrangements and roles is essential for assessing bottlenecks and likely difficulties, as well as for identifying priorities for engagement on institutional changes.** Institutional arrangements, including the setup of CFAs, the executive-legislative relationship and powers over fiscal and budget matters, and intergovernmental arrangements including those for oversight and accountability, are critical and can enable or pose significant obstacles to reform progress. On the one hand, coordination challenges, challenges of parliamentary approval, or subnational resistance should truly be taken into account when considering reform strategies. On the other hand, it can also be

6. Conversely, these stakeholders typically would be reluctant or have at best limited ability to ‘swim against the tide’ of top-level leadership preferences.

7. This report has not explicitly explored whether particular organizational arrangements, such as creating dedicated reform units, have been associated with better results. From a political economy perspective, a particular issue of interest is whether more committed governments achieve more when adopting certain mechanisms such as reform units and/or interministerial steering committees. These are issues for further exploration in future analytic work.

important to consider whether seeking to change existing institutional arrangements is essential to be able to achieve tangible progress. Whether this is needed, and whether and when a window of opportunity might arise can only be judged on a case-by-case basis, but should be considered if there is evidence that progress has gotten stuck due to such institutional challenges.

- **Clearly identifying priority functional gaps is important, as is being realistic about what instruments are likely to deliver which kind of improvements.** The need to focus on functional improvements is highlighted in WDR 2017. Functional gaps such as effective controls against leakages and excessive commitments, as well as ensuring that funds are spent in a cost-effective way remain substantial in most countries. It is critical to identify what key gaps are at the outset of developing reform efforts and operational support. While counterparts may be more used to developing lists of technical assistance proposals, many will appreciate a more functionally focused and ‘problem-driven’ discussion about what are the most urgent issues in PFM and how these affect service delivery.

A key challenge is then to prioritize what can be done and how. For example, to ensure that a medium-term perspective is really integrated into the annual budget preparation process or that excessive commitments are monitored and trigger a leadership reaction if needed. It is critical to move beyond the facile assumption that simply introducing a certain reform instrument will trigger the expected change in the PFM results chain.

- **Moreover, it is important to be more realistic about what functional improvements a given instrument is likely to deliver given continuous challenges.** This requires some honest stock-taking of why bottlenecks to certain functional improvements exist. As part of prioritizing which functional gaps to pursue and which instruments to utilize, it would also be desirable to develop a more systematic understanding of the costs of various PFM reform packages.

Regarding risks of ‘isomorphic reforms’ and ‘isomorphic mimicry’, DPs may need to become more reflective of the international norms and standards they promote. Setting international norms and encouraging their adoption is not good or bad per se, but depends on what these target and how they are used. A political economy perspective suggests that it is most important to have international norms for those issues that go ‘against the grain’ of key national stakeholders—such as establishing an independent external audit institution or improving procurement—as these can help national reform stakeholders to leverage improvements.

- **As international norms and standards are promoted, it is also critical that national stakeholders—accountants, auditors, nongovernmental organizations (NGOs), or staff of parliamentary budget offices—have training opportunities to understand these in depth.** This is critical for enabling such stakeholders to have an informed discussion both about how principles and standards should be adopted and adapted into national systems, as well as to judge whether applications once introduced are done appropriately. Conversely, if standards are widely promoted, but with little check on how they are applied in practice, this can incentivize mimicry, that is, an imitation of standards without a real intention or capacity to use these toward intended effects.
- **Among the cases studied, especially ‘short route’⁸ demand-side factors have been rather weak; nonetheless it may still be beneficial to explore further how these can be strengthened.** The key finding that citizens and civil society have not been strongly involved in, demanding, or encouraging PFM reforms raises the question whether stakeholders seeking to pursue and support such reforms should encourage and stimulate citizen engagement.
- **Overall citizen expectations are crucial for electing governments promising to deliver governance reforms as has happened in Nigeria and Tanzania in 2015, and in Georgia since 2004, creating a ‘long route’ of demand for improving PFM.** However, since such a ‘long route’ is not very specific, complementing it by stronger specific citizen interest and demands regarding good use of public funds is potentially valuable.

In principle, citizen and media interest has the potential to incentivize political commitment to sustain PFM reforms and make them impactful. However, to make this happen, better information and communication is likely to be required: Among governance reforms and compared to other aspects of economic governance such as taxation, PFM reforms are among the most obscure for citizens, both in terms of happening ‘inside government’ and being difficult to grasp. Reformers and DPs can do much more to open up PFM reforms and to explain what is being pursued and why in plain language and concepts. Balancing revenue and expenditures and keeping track of how much funds are spent and on what are concepts that are in principle quite clear to any household.

At the same time, it is important that citizens are enabled to see whether funds are used well and responsibly, rather than engagement primarily being channeled toward demanding

8. The ‘long route’ and ‘short route’ refer to the two stylized paths for citizens to influence state action, as set out in WDR 2004.

more funds for a particular group or locality, but not being able to see the bigger picture. The emergence of more NGOs specialized on PFM issues as well as caring about sector performance, combined with the spreading of provisions in favor of fiscal transparency, are opportunities for moving in this direction. As the Philippines experience indicates, it is important that fiscal transparency involves not just making information available, but also coherence and clarity in the accounts presented.

- **Should reform stakeholders deliberately target partial reforms and unorthodox approaches?** As is covered in Chapter 5 of this report, many PFM reforms remain partially completed for many years. There appears to be some benefit to introducing reforms deliberately in an incremental way rather than seeking all out comprehensive reforms which are at a higher risk of failure, as has happened in some of the cases covered. Overall, it is likely that for countries and time periods that are not windows of opportunity, deliberately targeting partial reforms is a smarter approach than seeking more comprehensive reforms that get stuck.

A related question is whether to consider ‘unorthodox approaches’, that is, approaches to PFM reforms that contradict conventional notions of ‘best practice’. Both Georgia and Nepal offer examples of rather successfully introducing ‘unorthodox’ approaches to treasury automatization. Some may consider ‘unorthodox’ approaches as inherently attractive, in line with criticizing ‘best practices’ as typically lacking a good enough fit and promoting isomorphic mimicry. However, there are also some important caveats. Certain ‘unorthodox solutions’ such as nationally programmed rather than ‘off-the-shelf’ IT systems can be costly and become failures if national IT capacity is weak, or if the firms or staff to develop these are not selected based on meritocratic criteria in a weak governance context.

Thus, while unorthodox solutions can be attractive in terms of offering a good fit with specific reform needs and opportunities, they require due consideration of potential risks and downsides and how these stack up relative to pursuing a more standard approach. A significant benefit of considering unorthodox solutions is the opening up of options relative to exclusively considering a binary choice between leaving things as they are and pursuing all out best practice reforms for a given aspect of PFM.

Thinking beyond the box of standard reform approaches should be encouraged considering what is technically and politically feasible and likely to have at least a limited but tangible impact. For example, in the Philippines, the right of the Central Accounting Office (CAO) to publish its reports

and its direct follow-up with audited agencies significantly compensate for the lack of a direct link to the legislature and of parliamentary follow-up.

- **Tracking what functional improvements are being made and sustained is critical in terms of incentivizing real reforms, as well as for planning further steps.** Tracking of PFM systems and functions over time provides a chance to understand what has been achieved, to make corrections where necessary, and to plan further reform efforts. Assessments focused on expected outputs and outcomes, are critical to assess to what extent the introduction of particular instruments or ‘forms’ are actually associated with functional improvements. Government leaders and specific institutions tasked with undertaking PFM reforms are more likely to care about real impacts if these are being tracked (and results are made public). Without such tracking, pursuing façade reforms remains more attractive.

Repeat PEFA assessments have become one important instrument for tracking what progress is actually being made; but they leave some important gaps which would need to be filled by complementary efforts. For example, PEFA assessments cannot assess in detail whether accounting standards are actually applied as intended, whether procurement reforms have actually resulted in greater value for money, or whether funds reach frontline service delivery units more reliably. Assessing these functional improvements requires complementary efforts, but these have been made only to a rather limited extent in recent years in most countries.

- **Reform support tends to be focused on moving from one set of issues to the next, without sufficiently considering full implementation and sustention over time.** New processes take time to be fully embedded and routinized, thus leaving them at considerable risk of backsliding for a considerable period following the initial introduction. This can happen, in particular, related to changes in government. Therefore, targeting the sustaining and continued implementation and ‘use as intended’ of new systems should receive as much attention from DPs supporting PFM strengthening as the introduction of new systems as such—even if a flatlining of results indicators over a period of time looks less attractive relative to defining progressive rollout indicators for a new area of reforms.

In addition, the report sets out the following specific implications for operational designs:

1. **It is critical to explore with counterparts what they perceive as their core problems and how they seek to address them.** While there may be different views and not a complete or easy set of solutions that emerges, such an approach should help avoid just introducing another reform tool.

2. In the same vein, raising the question of potential blockages.

As we increase knowledge from various countries about blockages—for example, subnational governments/power holders, line ministries—we can probe whether such blockages are likely to play a role in a given context and discuss what this implies for reform design.

3. Understanding and discussing with the client what has gone wrong or has not worked as expected in the past and why.

Much better knowledge about ‘what has gone wrong where’ can also help teams test what risks might exist based on experience from other countries.

4. Probing the views and buy-in from stakeholders beyond core CFAs is critical for most PFM reforms.

As the experiences discussed indicate, resistance to reforms can come from parliaments, subnational levels, as well as banks or other stakeholders that are often not fully considered. Subnational governments and frontline spending units may have important perspectives on what the key bottlenecks are toward ensuring that PFM contributes to better service delivery. Broad enough buy-in is also important within CFAs, as in many countries, ministers come and go, but at least core staff often stay.

5. Encouraging frank discussions between teams, practice managers, and Country Management Units (CMUs) about whether an engagement is likely to be able to use a ‘window of opportunity’ or is more intervening during a period of relative stagnation.

This should help to set realistic expectations. It also offers an early opportunity to consider potential points at which it may be opportune to restructure a project, for example, if a window of opportunity might arise following an election.

6. Contributing to setting realistic expectations rather than ‘will work as advertised’.

Especially in a Program-for-Results (PforR) design, there is the scope as well as a critical importance to be realistic about what particular PFM reform tools will achieve.

7. Among operational design choices, one key choice is whether to include a range of components or seeking to be (truly) selective.

In many situations, there are more challenges than can be reasonably worked on by one project on the one hand, while multiple donors are engaged on the other hand—often involving some degree of friction and inconsistencies. Especially in more challenging situations, an ideal approach could be a ‘pooled fund’ for PFM reforms that can respond with some flexibility to a range of needs—for example, developing better rules and systems, developing meaningful training systems for PFM related staff, and so on—in a reasonably coordinated way.

If stakeholders know and agree on what they want and how they will pursue this, a corresponding and relatively narrow design is likely to work best; while starting somewhat

more broadly is more appropriate when there is less clarity or agreement among stakeholders, and therefore less clarity about where progress is most likely. The overall principle of focusing on functional improvements and sustainability rather than on introducing various new tools still applies, even when pursuing a broader agenda.

8. In addition, PFM operations must pay greater attention to the intended results chain, and in many situations this involves some operational engagement on how funds move across levels of government to frontline units.

Where core systems are a full-blown bottleneck, this may be premature, but in most situations, the flow of funds, as well as of performance information across the expenditure chain is important to consider to ensure that operations actually enable the improved functioning of governments.

9. With regard to investing in embedding already existing or recently established systems versus breaking new ground, greater attention should be focused on the former.

After one or two decades of PFM reforms being pursued in most countries, embedding systems and ensuring that they work as intended, or adapting them to move functionality forward is critical. Certain expansions in functionality may be (very) difficult given political economy constraints, but it can be important to probe these boundaries, as often at least some further gradual improvements are feasible.

10. Investing more in monitoring whether systems are actually used as intended is critical.

Reforms are more likely to be pursued with a view to generating functional improvements if these are actually monitored. Monitoring the effects of reforms can be a direct operational target, or (more weakly) can be built into the monitoring and evaluation (M&E) framework of an operation.

11. Considering the interface with other ongoing public sector reforms and with other DPs.

Especially for reforms such as program budgeting, there are often critical links to other ongoing reform efforts to consider, such as the establishment of central M&E functions, or the introduction of performance management tools for civil servants. A performance management system that actually makes a difference is more likely to emerge if these different aspects establish coherent incentives and practices. A second interface that is often very important is an interface with other DPs working on PFM reforms.

12. Raising ‘blind spots’ with counterparts and with other DPs working on PFM.

When institutional fragmentation or outdated legal provisions are a true bottleneck to moving PFM reforms forward, World Bank Group teams can potentially play an important role in convening discussions on reforms, also bringing expertise and options from other countries to bear.

The report concludes with outlining selected areas for further analysis.

Rationale for the Report and Methodology

1

Public financial management (PFM) reforms are widely seen as essential for achieving several aims: ensuring that a country's own public resources as well as aid can be accounted for, optimizing effectiveness and efficiency of spending across public sector tasks, and maintaining fiscal stability and appropriate management of public assets. PFM reforms are one pillar of overall fiscal reforms that countries have to periodically implement as they seek to undertake a growing range of tasks within often expanding, but still inevitably limited fiscal envelopes. Conversely, shortcomings in PFM systems can lead to lack of fiscal discipline and macroeconomic instability, weaken the alignment between the allocation of public resources and national policy priorities, and contribute to greater waste and corruption in the delivery of public services.

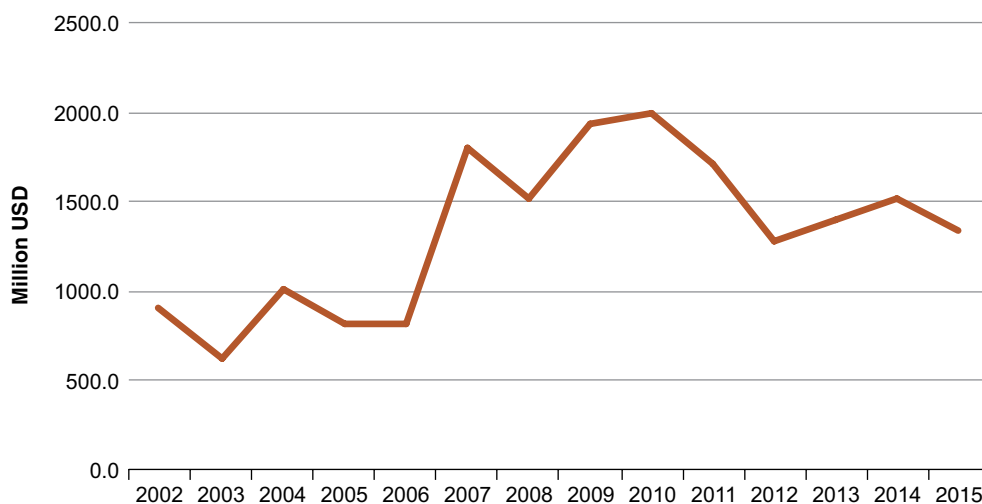
Because of the centrality of PFM systems, donors have been actively engaged in supporting the reform and strengthening of these across many developing countries. The average annual official development assistance (ODA) spending on PFM reforms since the early 2000s has been US\$1.3 billion, with spending particularly high from multilateral institutions. Support peaked in 2009 and

2010 when it reached US\$1.9 billion and has somewhat declined since then (Figure 1.1). At the same time, support is evolving, expanding from reforms that primarily target public expenditure systems to adjacent areas, including reforms of state-owned enterprises (SOEs), procurement reforms, and reforms of revenue policy and administration systems.

Reform packages targeting PFM reforms remain rather homogeneous. They include a list of around 10 items: Medium-Term Expenditure Frameworks (MTEFs) and program budgeting to achieve a better policy orientation of budgets, introduction of new budget classifications and accounting standards (including in many countries, the ambition to shift to International Public Sector Accounting Standards [IPSAS]), establishing and upgrading information technology (IT) systems for managing public expenditures, better cash management, including the introduction of Treasury Single Accounts (TSAs), strengthening internal audit and external audit, and ex post accountability. Reform packages typically focus on a selection of this set and, in some cases, most or all of these areas.

The results of PFM reforms remain, however, very diverse. Some countries have made rapid progress in recent years, while

FIGURE 1.1. ODA for PFM, 2002–2015



Source: Organisation for Economic Co-operation and Development (OECD) Query Wizard for International Development Statistics (QWIDS) 2017.

(similar) reform agendas are stagnating in others. Data from repeat Public Expenditure and Financial Accountability (PEFA) reports indicate overall progress. More countries progress than regress, and the range of indicators along which progress happens is wider and more frequent. However, within this overall diagnosis, there is great variation. Countries tend to progress on some indicators but not on others, and in many cases, repeat PEFA assessments record both progress and slippages.

The combination of considerable international efforts, relatively standardized reform approaches,⁹ and yet quite widely diverging outcomes raises the question of why this is the case. A first potential hypothesis is that differences in how much PFM strengthening achieves largely depends on a country's overall level of development. In principle, countries that are wealthier are likely to have better preconditions—typically, they have a more educated public sector workforce, better IT capabilities, and more experience with complex management tasks.

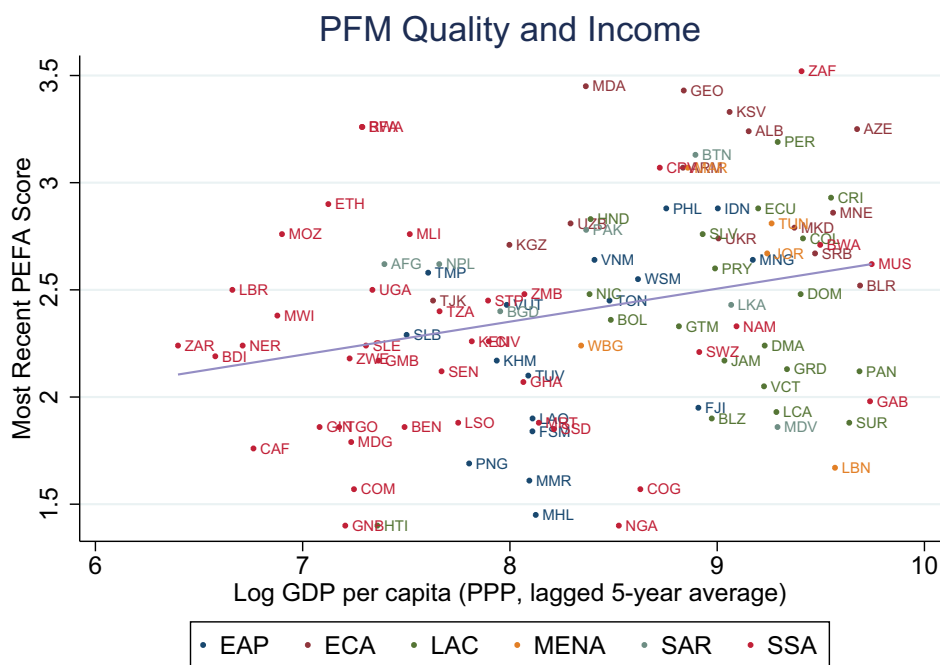
The quantitative analysis undertaken for this study indicates that while there is some relationship between income levels and the relative strength of PFM systems, the relationship is

less strong than expected. Jointly, all the factors tested explain about 40 percent of the observed variation (based on PEFA and Country Policy and Institutional Assessment [CPIA] data to measure a country's quality of PFM systems). Figure 1.2 reflects the considerable divergence from the trend line when mapping per capita incomes and the quality of PFM systems. There are several countries at various income levels that are well above, and others that are well below the line; and the variation is observable for countries from various regions.¹⁰

A further possible explanation is that progress depends on the level of external support. However, as de Renzio, Andrews, and Mills (2011) have shown, the divergence in PFM systems performance is only weakly related to the degree of ODA support for PFM reforms. Our analysis in Chapter 2 confirms this finding.

In addition, there is concern about the fact that reform approaches are not sufficiently targeting functional improvements and that they do not sufficiently involve iterative problem solving (Andrews 2013). Such concerns are also consistent with the emphasis in the World Development Report (WDR) 2017 that formal or de jure changes may not be equivalent to real functional improvements

FIGURE 1.2 Levels of GDP and PFM Performance



Note: (a) 'PEFA score' is the average of 21 indicators (PI-5 to PI-12 and PI-16 to PI-28 as per the 2011 PEFA methodology), that is, we exclude PI-1 through PI-4, which measure PFM outcomes, indicators PI-13 to PI-15, which cover revenue administration, and D1 to D3, which are donor-related indicators; (b) scores from the 'most recent' assessment for each country were utilized (for example, Afghanistan has a 2005, 2008, and 2013 assessment; only 2013 is included here); (c) 13 observations were dropped; and (d) high-income countries were excluded.

9. For the five case study countries, reform approaches are discussed in detail in Chapters 4 and 5.

10. The only region for which most countries are on one side of the trend line is Europe and Central Asia (ECA) (above the trend line).

(World Bank 2017). The considerable homogeneity of reform intentions—also reflected in the five case studies on which this synthesis builds—suggests that there may well be problems with adequately tailoring reforms. However, countries which made significant progress on PFM reforms appear to also have pursued relatively standard reform approaches.

A further hypothesis is that there are considerable nontechnical factors that play a role in influencing whether a government manages to pursue and achieve reform progress.¹¹ These factors may also account for whether governments are interested in pushing to solve particular functional bottlenecks, or are more likely to halfheartedly pursue solutions that are perceived as ‘international standards’. Traditionally, such nontechnical factors have been designated as ‘political will’ to pursue reforms, and the importance of such ‘will’ is widely assumed among practitioners. As Allen, Hemming, and Potter (2013) have emphasized, “PFM is no longer viewed a purely technical finance and accounting topic (as it once was); rather, it has become a subject where institutions and political factors play an important role.” And further, “We anticipate that, over the next ten years, the importance of political economy analysis as applied to PFM will continue to grow both as an area of research and in its practical application.” (Allen, Hemming, and Potter (2013), 6).

Rather little effort has been made to-date to really explore such factors empirically, in particular for PFM reforms in low- and middle-income countries. There has been some discussion about the possible importance of ‘political economy’ and related nontechnical factors for PFM reforms (Diamond 2012; Wehner and de Renzio 2013). An earlier literature explored political economy drivers of budgeting and fiscal policy focusing on OECD countries (Wildavsky 1986; Von Hagen and Harden 1994). Furthermore, a small number of studies describe political economy factors underlying dysfunctions in budgeting in individual low- and middle-income countries (Killick 2005 on Ghana and Rakner et al. 2004 on Malawi).

This report is an effort to address this gap and to begin developing a more systematic empirical exploration. The purpose is to ‘test’ whether such nontechnical factors in fact play a significant role and to capture how they do so. Moreover, if this is the case, are there options for the international community to integrate a recognition of such factors into support approaches in a way that facilitates greater progress?

Most teams working on support for PFM reforms have some notion of how nontechnical drivers, including the wider institutional context and political economy aspects, affect opportunities for reforms. The overall political make-up of the country is known;

and often, also some of the micro-issues, such as the political and other relevant ties of the Minister of Finance and possibly of other key government staff. However, overall, there is typically little systematic analysis of the wider political economy drivers and dynamics affecting the prospects for PFM reforms. Discussions of political economy and related nontechnical drivers are also not systematic in project documents. They are most commonly addressed in the risk section of program assessment, not always with a clear or substantial link to project design.

The intention of this report is to distill insights from a set of empirical work on potential nontechnical drivers of PFM reforms and to propose a set of potential implications. The work is based on a quantitative analysis on the patterns of progress with PFM reforms and correlations with various country characteristics, as well as five in-depth case studies (see further detail on the methodology in Section 1.1).

Based on the insights gained, Chapter 6 sets out implications in the form of proposals for what could be done additionally or differently to render approaches and support to PFM reforms more effective. The report hopes to stimulate both debate on what extent such aspects can be integrated into PFM reform efforts and experimentation with actually doing so.

1.1 Approach and Methodology

The focus of this report is on how public expenditures are managed, that is, the spending and utilization rather than the collection side of public resources. The two areas are linked; however, it would exceed a reasonable scope of analysis to treat both in one report. That said, this analysis includes some discussion of how efforts at strengthening revenue collection and expenditure management are linked. It addresses this in the quantitative analysis reflected in Chapter 2, as well as where relevant in the discussion of the case studies. While this report can touch on whether or not governments have tended to pursue both revenue and expenditure reforms simultaneously, going into detail on how revenue collection reforms were pursued goes beyond the scope of this effort.¹²

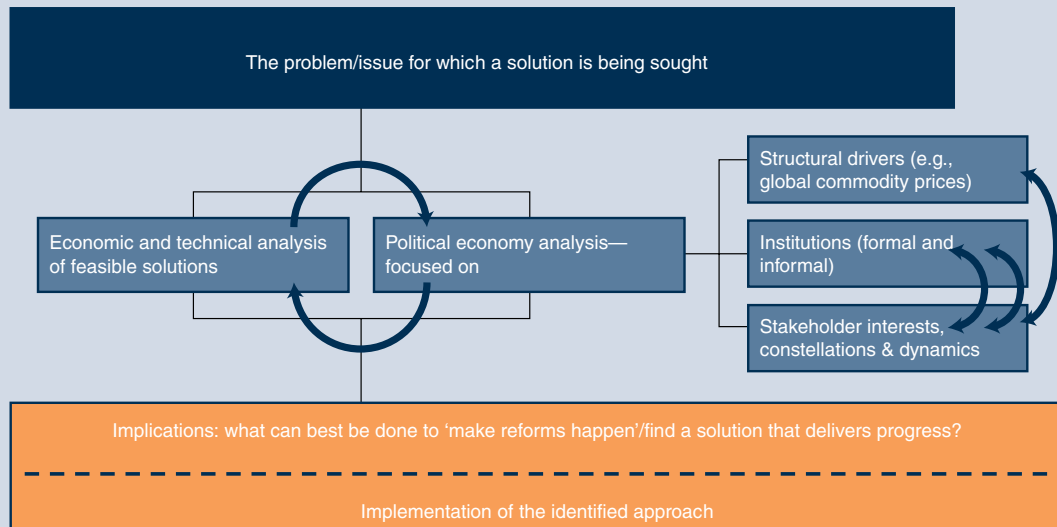
The understanding of nontechnical drivers used in this report is based on the emphasis of the WDR 2017 regarding the importance of functional improvements, while for the operationalization of political economy drivers it draws on the framework developed in Fritz, Kaiser and Levy (2009). Therefore, it covers stakeholder incentives, interests, relationships and powers, existing institutional provisions, discrepancies, and changes being pursued, as well as structural factors such as fiscal dynamics (see Box 1.1). With respect to a number of specific aspects such as the legislature’s role in budget

11. Nontechnical drivers and constraints include institutional incentives and constraints, well as political commitment, capabilities, and demand to pursue reforms, interacting with institutional aspects; see also Diamond (2011).

12. The World Bank Group launched a global study on revenue-related reforms in late 2016.

OVERVIEW OF NONTECHNICAL DRIVERS AND THEIR INTERACTION WITH TECHNICAL ASPECTS

The Problem-Driven Framework in a Nutshell

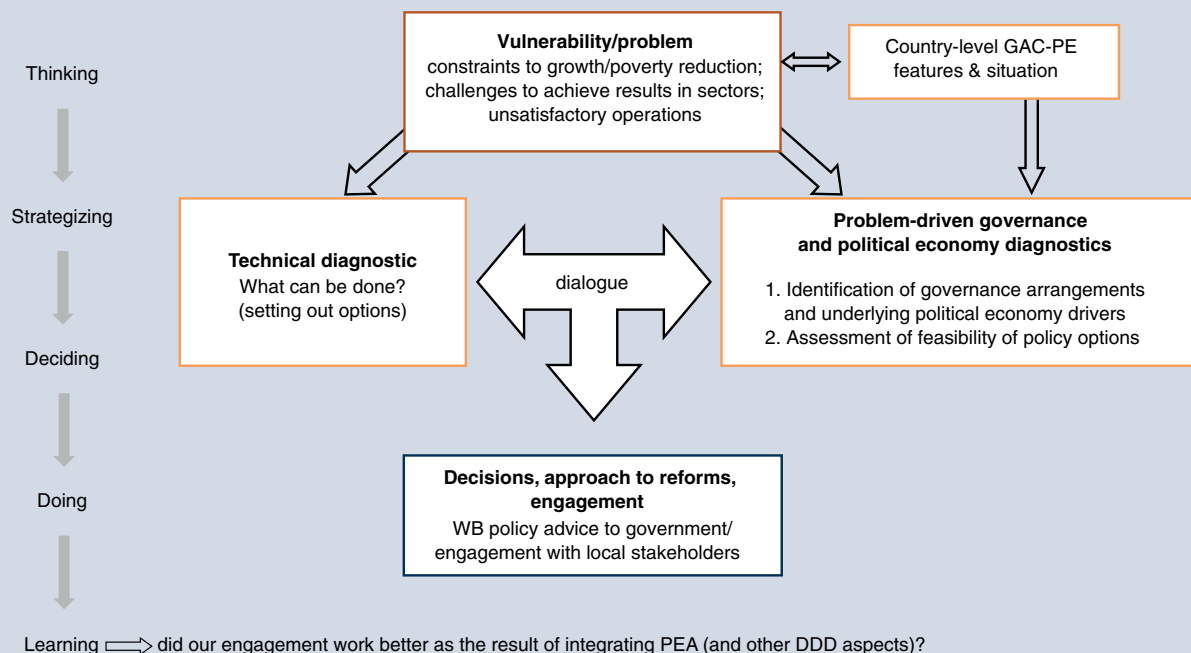


Note: This framework can be used for country and sector/issue specific analysis; certain issues (e.g., PE dynamics between countries) involve additional layers.

Stakeholders are identifiable individuals or groups that have specific interests. Stakeholders interact with each other as well as with existing institutions (formal and informal, including gaps in formal institutions). Stakeholders may seek to influence institutional changes. Structural drivers are those that are not subject to direct influence

by stakeholders; while conversely, structural conditions or shifts in these conditions can influence the interests and opportunities that stakeholders have. Prime examples are natural resource endowments and shifts in the valorization of such endowments, as well as in global prices and opportunities.

Technical Analysis and GPE Perspectives Are Complementary



approval, it draws on the existing literature on political economy aspects of PFM/budgeting as outlined earlier.

This perspective on nontechnical drivers also links to a wider debate about innovative approaches to challenging reforms and institutional strengthening. Contributions to this debate have included an emphasis on the need for adopting more iterative and adaptive solutions rather than more standardized designs (Andrews, Pritchett, and Woolcock 2017), as well as on taking a ‘power and systems approach’ when considering change (Green 2016). One overarching umbrella for these ideas are the proposals for ‘doing development differently’ (Bain, Booth, and Wild 2016).

The specific focus and contribution of this report is on how to consider political economy drivers, how these affect opportunities for PFM reforms, and how such insights can be used to shape future PFM reform efforts. The report is focused on understanding political commitments and interests in PFM reforms, as well as obstacles and challenges, how these shaped actual reform progress, and the likelihood of such reforms to realize expected impacts.

There is frequently an implicit ‘functional’ assumption that PFM reforms are in public interest and hence should also be in the interest of decision makers and participating stakeholders. Such a perspective can easily overlook that stakeholders expected to propose, authorize, and implement PFM reforms may well have divergent interests, for example, to accommodate excessive demands for budget allocations even when it is known that actual revenue will be insufficient; allow powerful allies in the cabinet to use more funds than allocated; generate resources for election campaigns through allocating contracts to allied firms, which are then allowed to overcharge and split the difference; or obscure how exactly funds are allocated and used through limited quality of accounting, reporting, and auditing.

Conversely, from a political economy perspective, an overarching question is why politicians would ever be interested in PFM reforms that reduce discretion and opportunities to maintain power. Taking political economy interests into account, it can appear as if poor PFM practices may be a rather stable negative equilibrium, as these provide discretion and opportunities to elites to maintain power and influence in ‘limited access order’ contexts as described by North et al. (2013). However, there are several potential motivations, that we can surmise, to seek moving out of a negative equilibrium of poor PFM practices. One is the fact of facing increasing citizen expectations and seeking to respond to these within limited fiscal space, which in turn requires to constrain the discretion and opportunities for diverting funds of stakeholders along the public expenditure chain. External or other significant security threats—which have long been analyzed to motivate the creation of more effective states—may also compel stakeholders to seek establishing systems and processes which allows to track that funds are (by and large) spent as has been decided, and to constrain opportunities for diverting funds. External conditionalities

could be another motivating factor, but these have been shown to often not produce effective and sustained reforms unless they coincide with other motivations. Chapter 3 of this report considers to what extent motivations to improve PFM were present in the case studies and across successive governments.

The report deals with several topics that have emerged in recent discussions on PFM and wider public sector reforms, while its main objective is to consider operationally useable and useful implications. Recent discussions have focused on concerns that the introduction of systems has not been matched by actual functional improvements, that reform approaches entail superficial copying and not always a real intent to achieve improvements (‘isomorphic mimicry’), and calls for more adaptive as well as for more ‘politically smart’ designs (World Bank 2012 and 2017). A further strand of the discussion has focused on questions of how best to sequence reform efforts and lessons learned in this regard (Diamond 2012).

This synthesis report is based on a combination of quantitative and qualitative assessments of experiences with PFM reforms over the past 10 to 20 years. The first component is a quantitative analysis of patterns of PFM performance and associated country characteristics. The analysis explores which characteristics are associated with better or worse PFM systems, and also traces the degree to which countries have experienced improvements between successive rounds of PEFA assessments. The second source are five country case studies, which trace the specific processes through which PFM strengthening was pursued, the stakeholders involved, and the actual improvements achieved (see also Figure 1.3 regarding the expected PFM change and results chain).

The case studies include countries of different sizes, income levels, and regions. The five cases are Georgia, Nepal, Nigeria, Philippines, and Tanzania. They span four global regions (Europe and Central Asia [ECA], South Asia Region [SAR], Sub-Saharan Africa [SSA], and East Asia and the Pacific [EAP]), and include three middle-income, and two low-income cases, one resource rich case (Nigeria), and one postconflict context (Nepal, with other cases also experiencing shorter-term or regional conflicts). In all of these, there has been substantial pursuit of PFM reforms by governments and support by the international community. Nigeria and Tanzania, in particular, stand out as countries with large-scale support for PFM reforms. While smaller in absolute terms, relative to the population and the overall ODA, support targeting PFM reforms has also been substantial in Georgia, while Nepal and the Philippines represent countries with more limited levels of support.

The time frame for each case study is approximately a decade, that is, typically since the mid-2000s up to mid-2016, with some variation in the most relevant starting points, as well as selected key reforms that may have happened earlier (for example, PFM reforms in Tanzania and procurement reform in the Philippines in the late 1990s). The specific PFM reforms traced were mostly set

CHANGE MANAGEMENT, POLITICAL ECONOMY, AND PDIA PERSPECTIVES ON PFM REFORMS

Considerations about change management and the political economy of PFM reforms are related, but cover distinct aspects of reform authorization, implementation, and effective use.

Change management has been developed as a business management concept and is focused on how leaders can bring organizations and people along, typically following a top-level decision that change is needed, for example, to increase productivity and sustainability of a company. It refers to the ‘process of helping people understand the need for change and to motivate them to take actions, which results in sustained changes in behavior’ (World Bank 2015). The process is important, as the introduction of new ways of working will only deliver results if they are widely accepted and actively utilized, rather than resisted or circumvented. While change management ideas have originated in the private sector, they have also been applied to public sector organizations, with most observers noting some specificity (Van der Voet 2014 and Kuipers et al. 2014).

A political economy perspective in contrast is primarily concerned with whether leaders have an interest to pursue change. As is discussed in Chapter 3 of this report, political commitment has several roots, including whether there is a perceived need and/or demand from citizens, and whether top-level decision makers have a sufficiently strong mandate. One indication of political commitment is whether decision-makers are willing to commit political capital to a reform, such as explicitly backing changes against resistance from some stakeholders.

In addition, recent thinking on problem-driven iterative adaptation (PDIA) has emphasized that reform efforts should entail a more iterative and adaptive process (Andrews 2013). Regular discussions with stakeholders would bring out ideas, demands, and insights as to what is working and what is not. Greater flexibility in donor support (‘from logframes to searchframes’) could then enable adapting projects and programs in place.

These perspectives on PFM reforms can be combined in actual operational work. One is to be clear and honest about the level of political commitment that exists for

a certain reform and for overall goals, such as improving governance and using funds effectively for service delivery. This includes being clear about likely limits and volatility of political commitment. For example, volatility due to uncertain support for a government in the legislature, due to upcoming elections, or due to growing security concerns which can draw attention away from economic governance reforms.

Depending on the level and solidity of political commitment to PFM reforms, it is then sensible to design a reform strategy that corresponds to the relative ‘window of opportunity’ and a change management effort.

As discussed in this report, for contexts with more volatile or limited political commitment, pursuing a gradual and partial strategy may be most reasonable while situations of strong commitment provide a basis for pursuing bolder and more comprehensive reforms. Change management then entails deliberate efforts to communicate effectively within affected organizations on why a certain change is being made, what to expect in terms of sequencing of reform steps, setting out what training will be needed and offered, and so on. This is particularly relevant for reforms which affect a large number of staff and of how things are done, for example, the introduction of a new accounting system or of large-scale IT applications. This type of change management may also involve nongovernment stakeholders, for example, suppliers, when rolling out changes to procurement systems.

As this report discusses, in particular, in Chapter 5, many PFM reforms remain only partially completed or utilized, often for many years. In such contexts, seeking to identify areas of potential gradual improvements through PDIA-type processes may be particularly useful. Consulting with stakeholders involved along different parts of the public finance and results chain (for example, MoFs, planning and budget directorates of sector ministries, regional bureaus, and frontline organizations), can be very helpful in identifying what is working and what is not and to generate ideas about improvements. At the same time, one has to manage the risk of facing an overwhelming set of problems or of demands for additional funding needed to generate improvements. Moreover, greater adaptiveness of donor programming would be a great asset for responding in a timely and pertinent way to windows of opportunity.

Source: Authors, based on referenced material.

TABLE 1.1. Support to PFM Reforms in US\$, millions

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Georgia	7.7	9.1	12.6	28.2	42.3	17.6	24.4	27.1	9.3	37.2	21.6
Nepal	0.4	0.4	0.2	0.3	0.7	1.0	9.8	5.7	15.6	6.9	5.7
Nigeria	11.5	15.8	48.7	24.3	39.5	389.6 ^a	200.3	81.5	81.9	167.4	19.1
Philippines	0.6	3.6	2.8	1.8	3.5	5.1	3.0	12.2	11.8	17.3	8.1
Tanzania	59.3	77.9	85.0	83.1	64.2	62.0	11.7	45.5	72.7	72.6	66.6

Source: QWIDS 2016.

Note: a. The 2010 figure for Nigeria includes a US\$350 million IDA Development Policy Operation with PFM-related triggers. Policy operations are also included for other countries.

out by governments in some form of PFM reform plans, while the level of detail of these varies. For each case study, the main factors covered include fiscal dynamics, institutional arrangements of PFM functions, wider political constellations and goals—such as the stability in government and overarching government aims—stakeholder interests and incentives related to the relevant PFM reform aspects, and, as the ‘dependent variable’, the actual progress made with regard to key reforms.

Both the quantitative analysis and the five case studies draw on the data and information generated by PEFA reports to assess the status of PFM performance and the degree of PFM progress achieved, triangulated with other sources of information. Since being launched in 2005, PEFA assessments have become an important source of information on the status of PFM across a growing number of countries.¹³ Furthermore, correlations were tested for robustness also with an alternative indicator, the CPIA assessments of PFM.¹⁴

As is the case for any indicators, it is important to be mindful of how PEFA data are generated. PEFA reports reflect primary data collection based on a framework first developed in the early 2000s and subsequently updated several times, most recently and significantly in 2016. An additional point to consider is that while there is a detailed framework of ratings on which PEFA assessments are based, there is still some discretion in how final ratings are established, and there can be some pressure to consider higher rather than lower ratings when the information available suggests a borderline case. A number of repeat assessments have highlighted earlier ratings as too positive. The study team still considers it better to utilize this standardized source of information than to leave it aside, but these caveats should be noted to avoid an overly rigid interpretation of results.

The main benefit of the case studies is the ability to undertake ‘process tracing’ (Collier 2011) of who and what has led to the

initiation and support for PFM strengthening, and what factors and stakeholders have limited or constrained such reform efforts. Based on this, the case studies explore the extent to which forward-looking implications and guidance can be derived. This is particularly relevant with regard to whether support to PFM reforms can be calibrated in ‘smarter’ ways, cognizant of opportunities and constraints.

Case studies were developed by a dedicated analytical team for each country, with some staff participating in more than one case. Teams included members particularly knowledgeable about a particular country and relevant political economy dynamics, as well as PFM experts. Each case study involved one mission, as well as follow-up discussions with country office-based staff on draft findings. Two initial case studies, first undertaken in 2013, Tanzania and Nigeria, were updated in 2015–2016.

Each case study followed a case-study protocol developed at the outset to provide a common framework (see Annex 3). The case-study protocol is based on the framework as reflected in Box 1.1, and corresponds to a number of the dimensions highlighted in WDR 2017. The protocol provides guidance on the specific information to collect and issues to focus on. In addition, individual teams also sought to respond to specific issues of interest or concern to country teams. For each case study, issues covered include (a) key fiscal and political country features relevant for PFM reforms, (b) PFM system status and overall reform agenda, (c) specific PFM reform aspects and underlying PE drivers, and (d) guidance to help inform an overall story line and recommendations.

The case studies take a broad perspective on possible nontechnical drivers, while seeking to understand how these come to specifically affect PFM reform efforts (positively or negatively). Potential drivers explored include main domestic and foreign policy goals, fiscal dynamics, including revenue and deficit trends, as well as the dynamic between the executive and the legislature, and other institutional features which may have a significant bearing on PFM. To the extent possible it also seeks to trace the specific policy goals and commitments of successive governments, as well as the potential influence of nonstate stakeholders. The presumed logical chain of PFM changes is reflected in Figure 1.3.

13. For extensive background information, see www.pefa.org.

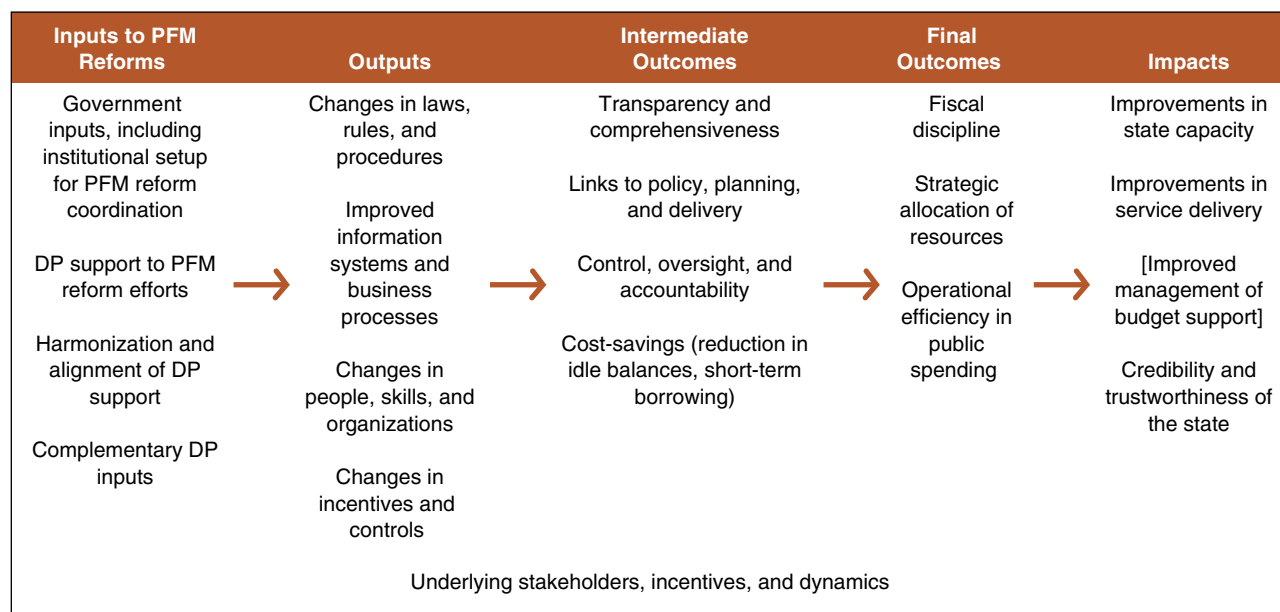
14. Quality of Budgetary and Financial Management, Indicator 13 of the CPIA. Note that teams developing CPIA ratings are guided to draw on available information from recent PEFA reports wherever available, so the two indicators should not be considered as fully independent of each other, but CPIA ratings are produced more frequently (on an annual basis) and draw also on other information.

The synthesis draws on the combined findings from the quantitative analysis and the case studies. This also allows exploring the comparative findings across the cases reviewed (Byrne and Ragin 2009; Collier 1993; Lijphart 1971). For example, if we ascribe the achievement of reform progress in one case to a particular factor, do we find that the same factor was also present in other cases achieving progress on the same PFM reform aspect? Conversely, if we argue that something posed an obstacle to reform progress do we find that a similar pattern prevails in other countries (of the same causal factor having the same association with more or less progress)?

The ultimate—and most challenging—aim of the synthesis is to be operationally relevant and forward looking. Given what we can learn about where PFM reforms have made progress, why and how, what can we recommend for efforts at moving such reforms forward and supporting them externally? Chapter 6 focuses on the forward-looking implications, both in terms of generalizable insights that appear to be relevant for various potential situations, as well as on selected specific implications for the countries that were reviewed as a way of illustrating what this can look like.

FIGURE 1.3. PFM Change and Results Chain

Country choices and experiences of PFM reforms: reform outputs, intermediate and final outcomes achieved (with a focus on selected PFM results); and mapping of underlying stakeholders, incentives, and dynamics, with a view to develop (a) a systematic as well as practical way of mapping PE factors relevant for specific areas of reform and relevant ‘monitoring indicators’; and (b) guidance on whether and how typical obstacles, pitfalls, as well as opportunities can be addressed proactively.



PFM Progress and Association with Country Characteristics—Key Findings from Analyzing Relevant Indicators

2

The aim of this chapter is to set out PFM performance and recent trends globally, regionally, and by income groups, to summarize key findings from the correlation analysis, and to situate the five case studies against this background. The detailed reform efforts and underlying drivers for the five countries investigated in depth are traced in subsequent chapters, especially Chapters 4 and 5.

The chapter proceeds in three sections. Section 2.1 reviews the variation in PFM performance, including the trends as traceable over the past 10 to 15 years based on CPIA and PEFA data, globally and disaggregated by region and income group. Section 2.2 summarizes key findings from a quantitative analysis focused on what country characteristics are associated with better or worse PFM performance.¹⁵ Section 2.3 looks at how the five cases reviewed in depth in this report perform on publicly available indicators, and how this corresponds to the findings from the analysis of country characteristics.

2.1 Variation in PFM Performance across Regions and Income Groups

Across the world, the status of PFM performance and success with reforms vary significantly as noted in Chapter 1. This section reviews what relevant indicators show regarding the range of performance and performance changes over time. It looks at performance based on PEFA indicators and compares this with data for CPIA-13, that is, the two standard data sets available for measuring the quality of PFM systems. CPIA-13 data has been collected for longer than PEFA data and is generated annually for most low- and middle-income countries, while ratings are only made publicly available for countries receiving IDA-lending. A disadvantage of the CPIA indicator is that it provides only a single indicator rather than a more disaggregated and detailed perspective on PFM performance as PEFA assessments provide. Thus, the time periods covered by the two sets of indicators, the level of detail and the frequency

differ between these two sources,¹⁶ while one would still expect them to generally show the same trends (positive, negative, or stagnating) with regard to PFM performance.

For all low- and middle-income countries collectively, both the PEFA indicators and the CPIA-13 indicator show only a small aggregate improvement for the respective time periods covered. CPIA-13 shows near stagnation, with the aggregate average for all available countries moving from 3.35 to 3.37—on a scale from 1 (worst) to 6 (best) between 2001 and 2014 (see also Vani 2012). The average of PEFA ratings—across all dimensions—improved slightly from 2.4 to 2.5 (changing the letter ratings from D [worst] to A [best] to numbers 1–4) between the earliest and most recent PEFA assessments, corresponding to a ‘C+’ rating.¹⁷

PEFA results by region show that ECA outperforms the other regions in all six PEFA dimensions (see Figure 2.1). CPIA data also shows ECA as the highest scoring region with a 3.79 average rating for CPIA-13 in 2014. The PEFA dimension on which ECA particularly outperforms other regions is accounting and reporting.

The other regions vary significantly across the dimensions. SAR shows the second strongest aggregate average, albeit with noticeably stronger performance on some dimensions than on others (see Figure 2.1). Aggregate performance among EAP, Latin America and the Caribbean (LAC), and Middle East and North Africa (MENA) is relatively close to each other, while SSA is the weakest performing region based on PEFA data. However, PEFA and CPIA data are somewhat inconsistent, with the latter indicating a stronger performance for LAC than for SAR (see Table 2.1).

While SSA is overall the weakest region, it outperforms EAP in predictability and control of budget execution and LAC in external scrutiny and audit. It underperforms all other regions (SAR, ECA, and MENA) in budget credibility, comprehensiveness and transparency, and accounting and reporting.

15. An earlier and more detailed version of the quantitative analysis can be found in Fritz, Sweet, and Verhoeven 2014. The main aspects of this analysis were revisited in 2016 to check for any changes in results due to additional observations becoming available.

16. The two indicator sets are not independent of each other since recent PEFA assessments are likely to influence the assessments of CPIA-13.

17. Clearly, there are methodological concerns about such an aggregation, but at the same time, there is also an interest to check whether any aggregate improvement can be observed, taking the limitations of doing so into account.

FIGURE 2.1. PEFA (most recent) by Region¹⁸

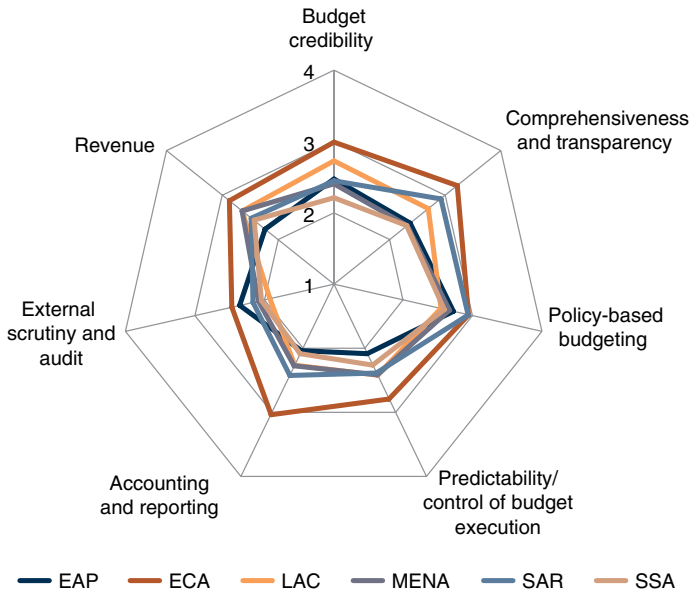
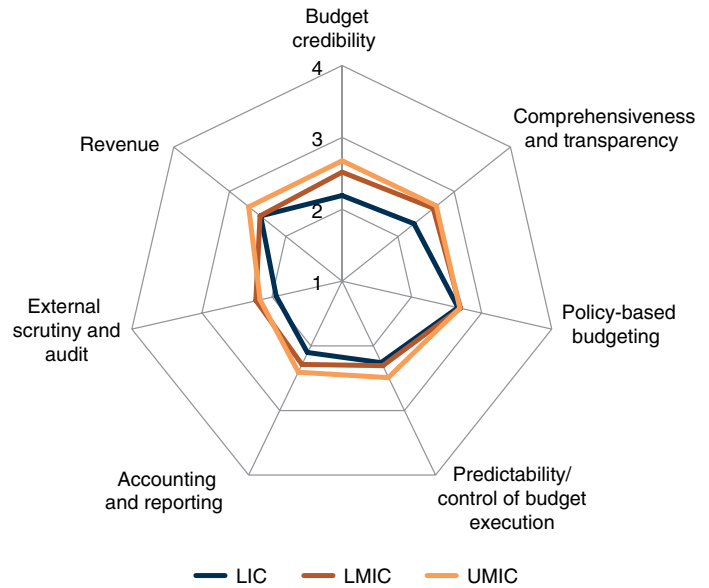


FIGURE 2.2. PEFA (most recent) by Income Group



Note: (a) 4 = A, 3 = B, 2 = C, D = 1, NR = 1, NA/NU = blank; (b) scores from the 'most recent' assessment for each country were utilized (for example, Afghanistan has a 2005, 2008, and 2013 assessment; only 2013 was included in SAR and LIC); (c) dimensions are calculated based on PEFA methodology, except that the 'Revenue' indicators (PI-13, PI-14, and PI-15) were separated out of dimension 4 (predictability and control of budget execution) as a 7th dimension labeled 'Revenue';¹⁹ (d) 13 observations were dropped; (e) high-income countries were excluded. Definitions of the income groups (LIC, LMIC and UMIC) can be found at <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

The variation across dimensions is also evident when examining PFM performance by income group (see Figures 2.1 and 2.2). While low-income countries (LICs) on average perform lower than MICs, there is significant variation by dimension. Low- and middle-income countries perform at similar levels on policy-based budgeting, and LMICs and LICs also overlap or nearly overlap in their performance with regard to revenue collection and to the predictability and control of budget execution.

Looking across PEFA dimensions, the lowest rated one is 'external scrutiny and audit' across all income levels and regions. Accounting and reporting is the second weakest cluster, but as noted above, showing a significantly better performance of ECA countries compared to all other regions. The issue of why these dimensions tend to perform relatively poorly is explored further

in Chapter 5 of this report. Considering 'revenue' as a separate dimension indicates that performance is somewhat stronger than for the remaining indicators under 'predictability and control of budget execution'.

Table 2.1 reflects the change in PFM performance by region and income groups over time based on CPIA data. As noted earlier, because CPIA data are generated annually, it is more suitable for comparisons over time, in particular when trying to capture how ratings evolved across regions or income groups.²⁰ Looking at aggregate performance evolution by income groups, progress has mostly been made by LICs, but not by other income groups. Both LMICs and UMICs saw limited improvements. Regionally, the CPIA indicators indicate improvements in ECA and SSA.

Performance regressed in several regions, albeit only to a limited extent, and in part accounted for by the addition of new countries or declines in small states which may have been overrated during certain years. For SAR, which has a small number of countries (8 total), the negative trend in CPIA data is driven by two countries, which saw significant decline—in one case, Bhutan from an improbably high (6.0 'perfect' score) CPIA rating in 2001. For EAP, the decline in aggregate CPIA performance is partially driven

18. Due to the fact that the cluster 'predictability and control in budget execution' in the PEFA framework covers both public expenditure management and revenue collection, the indicators covering revenue (PI-13–15 [PI-19–20]) are shown as a separate 'Revenue' cluster in Figures 2.1 and 2.2. As throughout this report, the reflection of PEFA data follows the 2011 version of the framework as most assessments included here were done before the changes introduced in 2016. The corresponding indicators of the 2016 framework are provided in square brackets.

19. Dropped assessments include Anguilla (United Kingdom), Bosnia and Herzegovina (no national assessment), Cook Islands (New Zealand), Mayotte (France), Montserrat (United Kingdom), Niue (New Zealand), St. Pierre and Miquelon (France), St. Helena (United Kingdom), Wallis and Futuna (France) as they are not considered countries. Ukraine was dropped because it had multiple scores for some indicators.

20. Using PEFA data for such comparisons poses difficulties since the country's coverage differs for any time period, affecting average ratings in particular for smaller regions. Broadly, using PEFA data shows similar results, but with some contradictory findings for specific regions.

TABLE 2.1. Change in CPIA-13 by Region and Income Groups

Group	No. of Countries	2001 (average)	2007 (average)	2014 (average)	% Increase/ Decrease 2001–2014
LAC	28	3.59	3.68	3.59	0
SAR	8	4.07	3.44	3.38	–17
EAP	22	3.50	3.43	3.34	–5
SSA	47	2.97	3.12	3.17	7
MENA	9	3.38	3.38	3.42	1
ECA	23	3.45	3.71	3.79	10
LIC	29	3.05	3.19	3.10	2
LMIC	49	3.49	3.41	3.33	–5
UMIC	47	3.83	4.02	3.63	–5
SIDS	29	3.24	3.20	3.16	–3
Total	137	3.35	3.42	3.37	1

Note: (a) Ratings are on a scale from 1 to 6 (best); (b) Number of countries is based on year 2014; (c) Income group classification is according to year of CPIA rating; (d) SIDS = Small Island Developing States (according to United Nations Development Programme [UNDP]).

by the addition of new countries to the ratings (Myanmar and Timor-Leste) and half-step declines in several SIDS.

The SSA region has the lowest average rating in both indicator sets at the outset but the gap has narrowed from other regions due to modest improvements. The LAC and MENA regions remained relatively stagnant, with some countries increasing and some declining in PFM performance. By income group, the CPIA data shows a small improvement for LICs, while showing limited declines for LMICs and UMICs.

2.2 Do Country Characteristics Drive PFM Performance? Key Findings from the Quantitative Analysis

The variation of levels and trends in PFM performance raises the question of what drives such variation and the extent to which variation may be explained by structural factors such as income levels. Thus, before launching into an analysis of potential nontechnical drivers, it is critical to explore to what extent structural factors ‘set the scene’ for PFM performance. As the initial exploration in Section 2.1 indicates, not all countries appear to have the same likelihood of having well-performing PFM systems.

This section focuses on analyzing two types of relationships between structural factors and PFM performance:²¹ First, it explores

for countries (‘cross-section’), which factors are associated with better or worse PFM; second, it examines the effects of these country characteristics on PFM performance by looking at changes within the country over time (‘first differences’).

This analysis uses PEFA data to explore how ‘predictable’ the relative strength and progress on PFM systems are based on key country characteristics. If the relative strength of PFM systems is rather closely associated with key country characteristics, this would suggest that specific institutional and stakeholder dynamics or reform strategies do not matter a great deal. It would also imply that in countries with adverse characteristics, the odds for achieving progress against existing patterns are very high. This also helps us to situate the five cases considered in detail, as presented in Section 2.3.

The country characteristics analyzed include macro-social, economic, fiscal as well as political variables. Specifically, the factors explored include the following: population size, levels of gross domestic product (GDP) per capita, recent growth performance, natural resource dependency, and experience of fiscal shocks as the main macro-fiscal variables, aid dependency and tax revenue relative to GDP with regard to sources of revenue, and political stability, political regime, and the presence of programmatic political parties as the main broad political characteristics for which indicators are available for a large number of countries.²² A description of the variables used is provided in Annex 1. The results from the analysis are presented in Table 2.2, with additional robustness checks presented in Annex 2.

The analysis indicates that the quality of PFM systems is most significantly and robustly associated with two variables: a country’s

21. The original analysis, including data up to 2013, was published in 2014 (Fritz, Sweet, and Verhoeven 2014). The analysis in this paper extends that same analysis through 2016 (cross section) and 2015 (first differences). In this update, the cross-section analysis uses all available PEFA assessments and clusters errors at the country level using pooled OLS.

22. For the specification of the variables, see Annex 1.

income per capita (positively) and having a high share of revenues that are obtained from natural resources (negatively). In addition, we find statistically significant associations with per capita growth (positive) and being a SIDS (negative). Programmatic parties appear to possibly have a positive and strong impact.²³ Smaller and/or less robust associations are observed with several other variables: population size, political stability, and regime type. Levels of revenue and ODA relative to GDP are not significant.

We perform a number of robustness checks to test the validity of the results and how sensitive they are to variations. First, substituting CPIA-13 for PEFA average as the Y variable, results in similar magnitudes and significance levels for GDP levels and resource dependency.²⁴ The three political variables (programmatic parties, regime type, and political stability) also remain significant, and

aid and tax remain insignificant. As additional variables, we test a variety of growth and fiscal shocks—as experiencing such shocks could motivate pursuing PFM reforms. Neither growth nor fiscal shocks are found to have a relationship with PFM performance.²⁵

Lastly, we employ the same models using only most recent PEFA's instead of all available ones, that is, multiple observations for some countries. We find the main variables, that is, GDP per capita and natural resource dependence, remain significant, and the magnitudes of the coefficients remain broadly similar across models. However, per capita growth becomes insignificant as does political stability, and the significance of the regime type decreases. Tax revenue to GDP and ODA both become significant. This indicates that depending on the composition of countries and years included, these factors may or may not be relevant.

TABLE 2.2. Cross-Section Analysis: Average PEFA Scores and Country Characteristics

	(1)	(2)	(3)	(4)	(5)	(6)
GDP per capita (log)	0.2378*** (0.0403)	0.1958*** (0.0495)	0.2568*** (0.0580)	0.2171*** (0.0391)	0.2052*** (0.0387)	0.1887*** (0.0489)
Growth (per capita)	0.0276** (0.0115)	0.0335*** (0.0096)	0.0242** (0.0116)	0.0223** (0.0106)	0.0285*** (0.0099)	0.0317*** (0.0112)
Population (log)	0.0411* (0.0232)	0.0579** (0.0241)	0.0481* (0.0255)	0.1085*** (0.0288)	0.0502** (0.0228)	0.0259 (0.0277)
SIDS	-0.2223* (0.1225)	-0.1728 (0.1295)	-0.2216* (0.1242)	-0.2967*** (0.1087)	-0.3336*** (0.1142)	-0.2480* (0.1253)
Resource	-0.3386*** (0.0911)	-0.3498*** (0.0864)	-0.3342*** (0.0931)	-0.3542*** (0.0841)	-0.2777*** (0.0881)	-0.2918*** (0.0911)
Tax		0.0106 (0.0074)				
Aid			0.0017 (0.0037)			
Political Stability				0.0867*** (0.0212)		
Regime					0.0487*** (0.0159)	
Programmatic parties						0.4791*** (0.1639)
Observations	262	244	258	252	256	231
R-squared	0.340	0.384	0.344	0.436	0.386	0.351

Note: (a) the Y variable, 'PEFA score' is the average of 21 indicators as per the 2011 PEFA framework (PI-5 to PI-12 and PI-16 to PI-28); (b) we exclude PI-1 through PI-4, which measures PFM outcomes, indicators PI-13 to PI-15, which cover revenue administration, and D1 to D3, which are donor-related indicators; (c) 13 observations were dropped, and (d) high-income countries were excluded. Standard errors in parentheses, clustered at the country level. Observations weighted inversely to number of PEFA assessments. No influential observations are dropped.

*** p < 0.01, ** p < 0.05, * p < 0.1

23. When using CPIA-13 as the proxy for PFM performance, programmatic parties no longer appear as a significant factor. The measurement of which countries have significant programmatic parties and which ones do not is also open to some interpretation (for the source used, see Annex 1).

24. The main model utilizing CPIA-13 for PEFA is shown in Annex 2. The other specifications are not shown but were tested.

25. The results for growth and fiscal shocks are shown in Annex 2. See also Fritz, Sweet, and Verhoeven 2014.

Jointly, the variables tested are found to account for 35 percent to 40 percent of the variation in PFM performance as measured by PEFA assessments (Table 2.2) and around 27 percent to 35 percent using CPIA data, that is, well below half of the overall variation. Hence, there are *some* patterns of influence of such country characteristics on the likely quality of PFM systems. However, the relationship is relatively loose, that is, there are many countries whose PFM performance would not be well predicted looking at such characteristics. Also, as noted above, only a few variables show a consistently robust relationship, as the results are highly sensitive to the countries and time periods included.

These findings are partially consistent with earlier findings, with some differences. De Renzio et al. (2011) similarly found that the political regime did not have a significant impact on the strength of PFM systems, but that political stability has an impact, using a different set of variables to measure stability. While de Renzio et al. (2011) similarly found GDP levels to matter, Andrews (2009) found that income levels were not significantly indicated using a sample from a single region (SSA). The finding that aid dependency is not associated with PFM performance is also consistent. Population factors had not been explored previously. There is some contradiction with regard to the findings regarding fiscal shocks. Earlier analysis by Krause (2009) found a relationship between experiencing fiscal austerity and strengthening budgetary controls in OECD countries—that is, for a different set of countries.

In addition to the cross-section analysis, we explore within-country changes over time. A subset of repeat PEFA assessments can be used to conduct a ‘first difference’ analysis and relate changes in PFM quality to changes in country characteristics, thus diminishing omitted variable bias (that is, inadvertently not considering an important factor that distinguishes between countries). As of the end of 2016, repeat PEFA assessments were available for 91 countries.²⁶ Some countries have undertaken two PEFA assessments, while the maximum number of repeat assessments is five. For countries with more than two assessments, the first and the most recent available assessments are used for the analysis.²⁷ One important caveat is that there may be two types of bias: one, governments may be more likely to welcome repeat PEFA assessments if they have made efforts at PFM reforms (this bias likely shrinks with a broadening number of countries for which repeat assessments are available). Second, there may be some positive bias in

repeat PEFA assessments, which tend to show greater improvements over time compared to CPIA-13 data.

We find the explanatory power of the variables in the first-differences analysis to be slightly lower (approximately, 30 percent) than the cross-section analysis. The results are presented in Table 2.3. Per capita GDP growth is highly significant and at a large magnitude when using the first and the most recent PEFA assessments (but becomes less significant or insignificant using other specifications—see the following sections). There is also a strong association with initial PFM performance—that is, countries with initially weaker PFM systems show relatively greater progress over time. Counterintuitively, increases in tax revenue collection over time are associated with a small decline in PFM performance.

Testing these patterns for robustness using CPIA-13 data allows using a larger number of 130 countries and shows the following results (see Annex 2): The relationship with initial performance is also highly significant, and in addition, recent growth has a positive effect, but with varying/lower confidence levels than when using the first and most recent PEFA assessments, and population growth a negative effect—the latter more clearly so than when using PEFA data. Using CPIA data, furthermore, being a SIDS or being resource rich has a negative effect on the rate of PFM improvements. In addition, moving toward a less democratic regime may have a small positive effect. In contrast, ODA increases are no longer significant. The overall explanatory power increases to 35–40 percent.

These findings reinforce the overall implication that country characteristics explain some, but not all variation in PFM performance across countries and within countries over time. Only some variables show robust and consistent associations across different specifications, while other relationships should be revisited as longer time-lines become available. At the same time, the analysis underlines that not all contexts are equal—achieving PFM reforms is likely to be harder in poorer and more resource-rich environments than in countries with the opposite characteristics. Still, decision makers and other stakeholders in a range of contexts, including those with more challenging characteristics, can pursue improvements. As the first difference analysis indicates, initially weaker performers can achieve progress.

The results are also consistent with the findings from the comparisons across regions and income groups presented in Section 2.1. The latter showed that LICs—which on average have been performing worse—have seen a gradual increase in performance over time, while performance in MICs has tended to stagnate over the past ten to fifteen years. By implication, if the trend of gradual improvements among initially worse performers was to persist over an extended period, the importance of country characteristics such as levels of per capita income and possibly also natural resource dependence would gradually diminish.

26. Our analysis includes around 80 of these countries due to data availability of the X variables (though declines to approximately 60 countries depending on the model and available data).

27. The length of time between PEFA assessments varies by country, so we compute the per year change in PEFA scores (that is, the overall difference divided by the number of years between two PEFA assessments) as well as the per year change in country characteristics over the same period. For some characteristics that are not subject to year-to-year changes (for example, SIDS, resource dependency), we use a dummy variable.

TABLE 2.3. First Differences Analysis

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
GDP per capita (% change)	0.8797*** (0.3065)	0.8685*** (0.3166)	1.2990*** (0.4004)	0.9420** (0.4407)	0.8054** (0.3203)	0.6902** (0.3089)	1.1012*** (0.3215)
Population (% change)	-0.4732 (0.6365)	-1.8203*** (0.6294)	-0.6073 (0.9291)	-0.8019 (0.8756)	-0.2921 (0.6815)	-0.1237 (0.7958)	-0.7428 (0.6018)
Resource (dummy)	-0.0076 (0.0197)	-0.0078 (0.0197)	-0.0062 (0.0194)	-0.0041 (0.0222)	-0.0067 (0.0202)	-0.0059 (0.0206)	-0.0022 (0.0214)
SIDS (dummy)	-0.0122 (0.0157)	0.0029 (0.0178)	0.0005 (0.0197)	-0.0035 (0.0183)	-0.0157 (0.0155)	-0.0332* (0.0168)	-0.0071 (0.0164)
Initial PFM quality (PEFA) (level)	-0.0723*** (0.0143)	-0.0598*** (0.0163)	-0.0547*** (0.0192)	-0.0591*** (0.0171)	-0.0741*** (0.0143)	-0.0635*** (0.0141)	-0.0735*** (0.0141)
Initial GDP per capita (level in log)		-0.0160* (0.0087)					
Initial regime type		-0.0042 (0.0036)					
Tax (% point change)			-0.0264*** (0.0089)				
Aid (ODA) (% point change)				-0.0078 (0.0085)			
Regime (Freedom House, % change)					-0.0066 (0.0333)		
Programmatic Parties (% change)						-0.0913 (0.1507)	
Political Stability (% change)							-0.0035 (0.0034)
Observations	82	76	59	64	78	70	76
R-squared	0.276	0.406	0.293	0.238	0.302	0.296	0.332

Note: This analysis only uses countries with at least two PEFA scores where both have all the covariates in the basic regression. Out of the available scores, it keeps the first and the last. As a result, countries with a 2016 PEFA assessment are dropped since there is not enough X-variable data.

Robust standard errors in parentheses:

*** p < 0.01, ** p < 0.05, * p < 0.1

2.3 Country Characteristics and PFM Performance Trends in the Five Case Study Countries

Against the background of global and regional trends in PFM performance and the association of PFM performance with various country characteristics, this section considers the specific performance and trends observable in the five case study countries. The countries covered in depth are from four different regions: SSA (Nigeria and Tanzania), SAR (Nepal), EAP (Philippines), and ECA (Georgia). PEFA data are publicly available for four of the five countries. In addition, a draft PEFA assessment carried out for Nigeria in 2012 is used.²⁸ CPIA data are publicly available for Nepal, Nigeria, and

Tanzania for the past decade, and for Georgia, until 2013. CPIA data for the Philippines is not public.

According to the most recent PEFA assessments, Georgia has the highest overall PFM performance. This is followed by Nepal and the Philippines, then Tanzania, and last, Nigeria (based on the 2012 unofficial assessment). Georgia's strong performance is also reflected in CPIA data, on which it improved from a 3.5 rating in 2005 to a 4.5 rating by 2013, the most recent year for which its CPIA scores are publicly available.

The PFM performance in the five countries is broadly consistent with the quantitative analysis, although countries also defy predicted performance in a number of respects. Georgia's strong performance is consistent with overall rather strong PFM in the ECA region and the country's middle-income status, while being 'even higher' relative to regional and income group averages. Tanzania's and Nepal's PFM systems are overall quite closely in line with their relative levels of per capita incomes, while being somewhat ahead

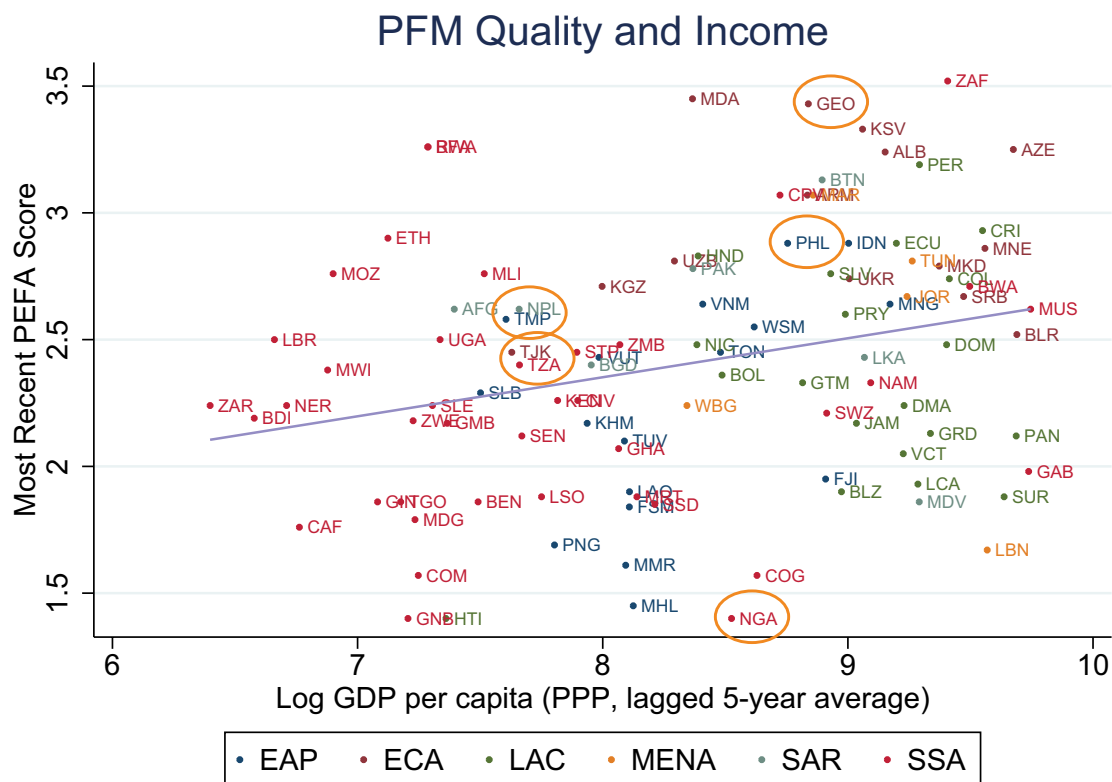
28. The assessment was not endorsed by the Federal Government of Nigeria (FGN) for publication.

on specific dimensions. Nepal is slightly ahead of the average ratings for South Asia as well as of other low-income countries in all dimensions except external scrutiny and audit. Similarly, Tanzania is performing somewhat above average compared to SSA and low-income country averages in all dimensions except budget credibility. The Philippines moved from a performance below the per capita income trend line to one that is above for four out of six dimensions, except for two dimensions—budget credibility and accounting and reporting. Nigeria's low performance is clearly consistent with the finding that PFM performance is lower in resource-rich countries and is well below expected levels relative to its level of income.

Based on repeat PEFA assessments and CPIA data available, the following trends over time can be observed. Georgia saw a gradual, continuous upward trend in its PFM performance since 2005.

Relative to its income per capita, it now performs well above the trend line (see Figures 2.3 and 2.4 (a) and (b)). Nepal increased its performance somewhat between its first and second PEFA assessments (2008 and 2015 respectively). However, CPIA-13 shows no change between those two years. While Tanzania still performs above the trend line relative to its income per capita, its PFM performance deteriorated between the earliest and the most recent PEFA assessment, bringing its average performance level slightly below that of Nepal (Figure 2.4 (a) and (b)). CPIA-13 data also shows a clear and even stronger deterioration from a rating of 4.5 in 2006 to 3 as of 2015. Nigeria's performance on the PEFA assessment is very low relative to its income level (the CPIA-13 indicator for Nigeria is rated continuously at 3.0 for the entire period). For the Philippines, PEFA ratings improved significantly between the two assessments carried out in 2010 and in 2016,

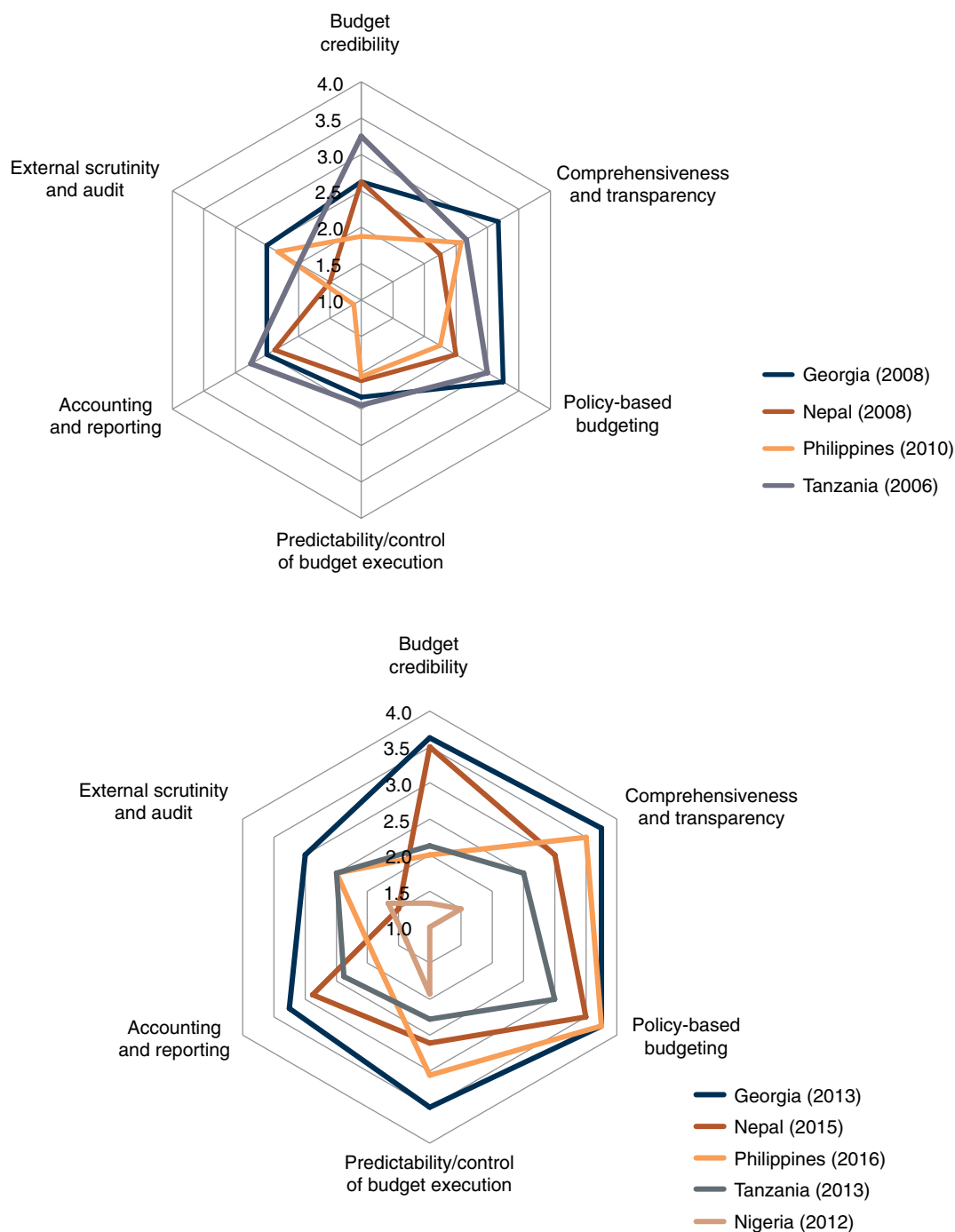
FIGURE 2.3. PFM Quality and Income (most recent)



Note: (a) 'PEFA score' is the average of 21 indicators (PI-5 to PI-12 and PI-16 to PI-28 as per the 2011 PEFA methodology), that is, we exclude PI-1 through PI-4, which measure PFM outcomes, indicators PI-13 to PI-15, which cover revenue administration, and D1 to D3, which are donor-related indicators; (b) scores from the 'most recent' assessment for each country were utilized (for example, Afghanistan has a 2005, 2008, and 2013 assessment; only 2013 was included in SAR and LIC); (c) 13 observations were dropped;²⁹ (d) 5 case studies are highlighted with circles; and (e) high-income countries were excluded.

29. Dropped assessments include Anguilla (United Kingdom), Bosnia and Herzegovina (no national assessment), Cook Islands (New Zealand), Mayotte (France), Montserrat (United Kingdom), Niue (New Zealand), St. Pierre and Miquelon (France), St. Helena (United Kingdom), and Wallis and Futuna (France).

FIGURE 2.4. (a) and (b). PEFA Dimensions for Five Case Studies—Initial and Most Recent PEFA Assessments



Note: The first Philippines PEFA assessment was performed in 2007, but not published until 2010. In the case where two or more indicators were missing for one dimension, the score is a 0, based on the assumption that nonavailability of information points to a problem.

while as noted, CPIA data are not publicly available. As reflected in Figure 2.4, furthermore, the PEFA performance for the Philippines is highly uneven, with strong improvements in some areas, notably policy-based budgeting and transparency, and little or none in others.

Taking a more disaggregated look, between the first and most recent PEFA, Georgia expanded its performance across the board, overtaking Tanzania in all dimensions. For Tanzania, performance was quite strong in the mid-2000s but declined over time, in particular for budget credibility, predictability and control in budget execution, and accounting and reporting, while external scrutiny and audit saw slight improvements. Nepal improved, in particular, with regard to budget credibility and policy-based budgeting, while its performance for external scrutiny and audit has stagnated at a level below all others.

The Philippines originally had a very low performance on a number of dimensions, while for 2016, especially policy-based budgeting and comprehensiveness and transparency are rated well. Budget credibility and accounting and reporting only improve somewhat and remain at low levels; so it has a much more ‘lopsided’ performance than Georgia. As noted earlier, the qualitative assessment undertaken for this report differs in some respects from the progress as reported in the 2016 PEFA report.

For Nigeria—for which only a single unofficial PEFA is available in addition to CPIA data—we cannot judge changes over time across PEFA dimensions. Compared to the PEFA assessments carried out for the other countries in the 2010s, Nigeria underperforms in all six dimensions, except slightly outperforming Nepal on external scrutiny and audit. Its CPIA rating remained unchanged at a ‘3’ for all years from 2005 to 2015. As is discussed in detail in the following chapters, PFM reforms have been pursued in a number of areas since the mid-2000s, notably for accounting and reporting, but actual progress has remained limited.

A further PFM-related indicator that is publicly available for all five countries are the Open Budget Initiative (OBI) ratings for budget

transparency. The ratings cover the years 2006 to 2015 (see Figure 2.5). Among the group, Georgia and the Philippines perform the highest and are nearly on par on this indicator. For Georgia, this has been achieved through a significant improvement since 2006, while transparency was already high in the Philippines in the mid-2000s. In Tanzania, budget transparency has stagnated at an intermediate level; Nigeria has seen a slight improvement in the most recent years compared to 2006. Nepal stands out as having declined in terms of budget transparency. However, as the OBI country report notes, this is due to a one-off non-publication of a key document, and ratings are expected to re-improve to earlier, intermediate levels,³⁰ similar to those of Tanzania.

In terms of country characteristics, the five countries covered in the case study approach stretch across a spectrum of socio-economic and political situations. As reflected in Table 2.4, the set includes two LICs (Nepal and Tanzania) and three LMICs. Nigeria moved from low to lower-middle-income status in 2010. Georgia was a LIC in 2003–2004, moving to lower-middle-income status in 2005 and to upper-middle-income status in 2016. For Nepal, Tanzania, and the Philippines, the income status did not change over the past two decades. Population sizes range from small (Georgia) to medium (Nepal, Tanzania) to large (the Philippines and Nigeria). Average annual population growth has been highest in Tanzania (3.0 percent), followed by Nigeria (2.6); moderate in Nepal and Philippines (1.2 and 1.7 respectively); and negative in Georgia (–1.3 percent).

Economic growth rates have been relatively robust across the five cases in the 2000s and 2010s, with a deceleration in three cases since 2015. Per capita growth rates were the highest in Georgia (6.8 percent—combining robust growth and a shrinking population) and Nigeria (4.3 percent) and lowest in Nepal (2.5 percent).

30. See <http://www.internationalbudget.org/wp-content/uploads/OBS2015-CS-Nepal-English.pdf>: “However, the regression in transparency observed in Nepal appears to be temporary in nature.”

FIGURE 2.5. Progress of Budget Transparency Measured by OBI for Five Case Studies

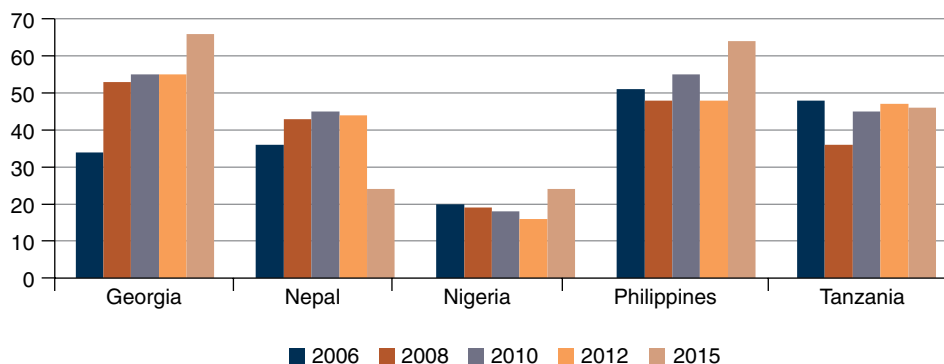


TABLE 2.4. Key Country Data and Dynamics

	Georgia	Nepal	Nigeria	Philippines	Tanzania
Population (millions, 2016)	3.7	29.0	186.0	103.3	55.6
Per capita income (current US\$, 2005)	1,391	293	483	1,355	385
Per capita income (current US\$, 2016)	3,854	730	2,178	2,951	879
Average growth 2001–2014 ^a	6.1	4.1	8.0	5.1	6.7
Average growth 2015–2016	2.8	1.6	0.6	6.5	7.0
Projections 2017–2019	4.0	4.6	1.5	6.9	6.8
Projections 2020–2022	5.3	3.8	1.8	7.0	6.5
Average per capita growth 2001–2016	6.8	2.5	4.3	3.4	3.5
Annual population growth (average 2002–2015)	–1.3	1.2	2.6	1.7	3.0
Natural resource dependence ^b	1.2	5.5	33.2	2.7	7.2 (expected to rise)
Political stability/conflict	Brief war with the Russian Federation in 2008	Civil war, 1996–2006	Decreasing conflict in the South/Delta; increasing conflict in the North	Peaceful in most areas, increasing tensions and conflict in Mindanao	Largely peaceful, some tensions in Zanzibar
Political regime ^c	Partly free	Partly free	Partly free	Partly free	Partly free
Federal or unitary	Unitary	Unitary in transition (2007–2015); Federal (since 2015)	Federal	Unitary (federalism under discussion)	Unitary (union with Zanzibar), some discussions about potential changes
Programmatic parties (0 to 1—higher = more programmatic) ^d	0.25 to 0	0.75	0.25	0.5	0.25

Sources: a. World Bank national accounts data and OECD National Accounts data files—World Development Indicator (WDI) central + IMF World Economic Outlook, April 2017.

b. Natural resource rents as a percentage of GDP from WDI Central, averages for the years 2000–2013.

c. Based on Freedom House ratings.

d. Ratings for programmatic party from Database of Political Institutions (2016).³¹ Higher values indicate a more 'programmatic', or 'policy-oriented and organized' party landscape.

Overall GDP expanded most strongly in Nigeria during the period 2001 to 2014 (8 percent), followed by a sharp deceleration due to falling oil prices and other factors since 2015. It was second highest in Tanzania, where robust growth continued in 2015–2016. Growth was lowest in Nepal, including a deceleration in 2015–2016. Except for Nigeria and, to a lesser extent, Nepal, growth was expected to remain robust for upcoming years based on IMF forecasts.

Natural resource dependency is most significant in Nigeria.

Revenues from natural resources made up around 70 percent of total government revenue on average between 2005 and 2015.³² A rise in natural resource production has been expected in Tanzania, with initial larger-scale gas production starting in spring

2016. Georgia, Nepal, and the Philippines have a low dependency on natural resources in terms of revenue collection and exports.

Three of the five countries have experienced larger-scale conflicts, and two have had limited regional conflicts or tensions. Nepal is a postconflict country after going through a civil war from 1996 to 2006. Nigeria experienced conflict in its Delta region until 2009, which consumed significant fiscal resources. Lower-level conflict and tensions still persist and negatively affect petroleum production. In addition, fighting started in the northern states and has continued since 2009 due to the Boko Haram insurgency. Two 'frozen conflicts' over breakaway regions have plagued Georgia since the 1990s. In August 2008, the country went through a brief but damaging armed conflict with Russia. In the Philippines, the Mindanao region has seen conflict and tensions since the 1960s, partially due to religious tensions between the regional Muslim majority and the national government, combined with discontent in an economically less developed region. In Tanzania, there are demands for greater autonomy by groups on the island of Zanzibar

31. Updated version of Thorsten Beck, George Clarke, Alberto Groff, Philip Keefer, and Patrick Walsh. 2001. "New Tools in Comparative Political Economy: The Database of Political Institutions." 15:1, 165–176 (September), *World Bank Economic Review*.

32. Based on data from IMF Art IV reports.

which involve tensions, some attacks, and suppression, especially during election periods.

In terms of the political regime, the five countries are closely clustered in that they are somewhat democratic, but democratic processes and civil liberties are not fully consolidated. All are rated as ‘partly free’ by Freedom House, with Georgia, the Philippines, and Tanzania being closer to being considered fully democratic. Civil liberties are potentially an important precondition for enabling civil society engagement on PFM and for facilitating fiscal transparency. Moreover, holding regular elections without predetermined outcomes creates a set of incentives for political leaders that differs from countries where elections are strongly controlled and where citizens cannot truly exercise their voice through this channel.

A further interesting parallel is that discussions over the reconfiguration of national-subnational relations are ongoing in several countries. Tensions around fiscal federalism have been most prominent in Nepal. There, discussions about federalism were responsible for long delays in agreeing a new constitution,³³ as is further discussed in Chapter 5. In the Philippines, moving to a federal system is under discussion, while in Tanzania, the constitutional review process includes potential changes to the unitary system.³⁴ Nigeria has an established federal system, with significant powers allocated to the country’s 36 states and respective governments. Intergovernmental relations and changes to these can have significant impacts on PFM and on how to approach PFM strengthening.

Nepal and the Philippines score relatively highly on the measure for programmatic parties, while in the other three cases, only one or no politically significant programmatic party is present. Nepal, in particular, has a collection of left-wing political parties, including Communists and Maoists, and various factions of these, as well as a more conservative party (Nepali Congress). However, as is discussed further in Chapter 3, the presence of programmatic parties in this case does not align with a stronger ability to make credible commitments (as postulated by Cruz and Keefer 2010), due to a high degree of political fragmentation and resulting instability of governments.

In sum, country characteristics are overall most facilitating in Georgia and least in Nigeria and Nepal. Georgia is a MIC and has experienced solid growth, while on the downside, it experienced a period of instability/conflict in 2008. Nigeria is affected by two negative drivers, high dependency on natural resources for revenue and exports, as well as significant instability. In

Nepal, political instability appears as the main negative context characteristic. The Philippines and Tanzania both appear as intermediate.

Considering relative PFM performance relative to country characteristics, several puzzles stand out. One is the significant gap in performance between Nigeria and Nepal, with the latter performing well above the former, and slightly above the trend line, despite being a postconflict environment. A second puzzle is Georgia’s rapid transformation, from relatively low performance based on early CPIA data to performance well above the trend line in most recent years. A further puzzle is why Tanzania saw backsliding rather than at least stagnating trends, given its political stability, solid growth, and at least until most recently, absence of natural resource dependence.

2.4 Chapter Summary

As indicated at the outset, the intention of this section has been to ‘set the scene’ in terms of taking a broad look at what PFM performance looks like globally and across key country groupings, what we can discern about trends over time, and factors that appear to be associated with better or worse performance. This broad perspective also allows situating the five cases that are explored in detail in the following sections.

Several findings stand out. One is that performance has not seen a great deal of further improvements in MICs on average over the past 15 years, while LICs—on average—have seen gradual gains. Regionally, progress has been greater among ECA countries and, conversely, less so among other middle income regions.

Regression analysis indicates which country characteristics are associated with better or worse PFM performance. Key factors include income levels per capita—which are generally associated with the quality of institutions—and a negative influence of high natural resource dependency, also highly consistent with the available literature on institutional quality. Other variables such as growth, political stability, and being a small island state, vary in their significance and impact depending on how PFM performance is measured (PEFA or CPIA 13) and what observations are included (all PEFA assessments or only most recent ones). An analysis of initial trends over time (‘first differences’) indicates that countries with initially weaker performance on average saw gradually greater improvements, suggesting some potential convergence, albeit at a slow pace.

Situating the five case study countries, Section 2.3 sets out their PFM performance relative to the distribution of performance relative to incomes and maps out what trends in PFM performance can be observed. Two of the five cases appear as relative ‘outliers’: Georgia, which has developed a very strong performance,

33. Constitutional debates lasted from 2008 to eventual adoption in 2015.

34. In Tanzania, the main subnational entity demanding federalism is the island of Zanzibar.

and Nigeria, which has a weak performance relative to its current level of income. The Philippines also performs rather well relative to per capita incomes (while as noted in the section, ratings are highly uneven across different dimensions).

In terms of changes over time, available indicators suggest improving trends for three cases, declining performance for one, and stagnation for another case. Repeat PEFA assessments indicate improving performance for Georgia, Nepal, and the Philippines; and in contrast, declining performance for Tanzania. CPIA-13 is consistent with trends as reflected by repeat PEFAs for Georgia and Tanzania, shows a decline and then re-bounce for Nepal, and stagnation in Nigeria over a 10-year period at an intermediate-low level.

The following chapters are dedicated to tracing the how and why of these contrasting trends in PFM performance across the five countries. Chapter 3 discusses wider country contexts, including levels of political commitment to governance reforms in general terms, high-level policy goals, and fiscal dynamics. Chapter 4 considers the specific institutional and legal starting point and key changes made or stalled, including the setup of central finance agencies (CFAs) and key legal provisions and efforts at changing PFM-related legislation. Chapter 5 takes a detailed look at what PFM reforms were proposed and what actual progress was subsequently made.

Political Commitments and Fiscal Trends

3

The purpose of this chapter is to look at the ‘big picture’ of incentives and constraints that can be expected to influence a government’s interest in PFM reforms. Section 3.1 considers political commitment and interests that may be relevant for the pursuit of reforms. First, it looks at high-level political commitment to reforms, drilling down into specific aspects influencing the intensity and stability of such commitment. Second, consistent with the emphasis of WDR 2017 on inequities and their effects on various aspects of governance, the section explores the nature of economic rents and their distribution. A prevalence of nonproductive rents and associated rent-seeking may create more interests opposed to reforms. As identified in Chapter 2, a high level of natural resource dependency is associated with lower PFM performance, and so it is relevant to consider some of the mechanisms at play, as well as other forms of rent that are less readily captured by cross-country data on key characteristics.

Section 3.2 provides a summary of the main policy goals of the governments holding office during the period under review in this report. This includes not only the overarching policy goals on the one hand, but also the fiscal pressures faced by these governments on the other hand. The latter comprises fiscal trends, including revenue and expenditures, debt dynamics, and the level of aid relative to GDP. Together, these fiscal dynamics can influence high-level policy options and incentives. The sections also explore to what extent, governments were able to expand the available fiscal space through revenue increases.

Overarching goals and fiscal trends matter to understand a government’s motivation for PFM reforms. Government decision makers will tend to be interested in PFM reforms not as an end in itself, but as a means to wider goals, such as ensuring a functioning state, being able to deliver more public goods and services within existing fiscal envelopes, or signaling reforms to external stakeholders, as well as shorter term political goals such as maintaining loyalty of key supporters and/or ensuring broader popular support.

3.1 Political Commitment to Reforms—What Would We Look For?

High-level or leadership commitment is widely reported in the literature (for example, Robinson 2009) and among practitioners as being crucial for PFM as well as for a range of other reforms.³⁵ However, few efforts have thus far been made to empirically capture or compare levels of commitment, and high-level commitment largely remains in the realm of ‘anecdotal’ treatment. In many cases, political commitment is assumed to be present, for example, because it is expressed in national development strategies or in PFM strategies; however, these are done with some degree of routine and often in response to donor requests linked to financial support, and therefore may not reflect real commitment. None of the governance indices available to date capture ‘government reform commitment’.³⁶ Therefore, there is no easy way of comparing the levels of commitment between different countries, or testing whether its assessed strength is actually associated with better or worse progress being made. Weaknesses in reform commitment are often diagnosed ex post as a reason for why reforms were not able to progress.

A relevant issue is therefore if and how we can capture government commitment; and related to this, whether we can better understand the link between high-level commitment and the actual reforms undertaken. This section seeks to systematically describe the level of commitment to the public sector and PFM reforms in the five countries that are analyzed. This includes looking beyond PFM and at the overall goals that each government pursued.

35. For example, Allen, Hemming, and Potter (2013, 5) “Politics and politicians play a large role in the process of change [i.e., PFM reforms].”

36. The index developed and updated by Cruz, Keefer, and Scartascini (2016) on programmatic parties is one effort at approximating the ability to make binding commitments; but there are cases of political commitments without programmatic parties being present.

One key aspect of political commitment to reforms is the nature and strength of a government's mandate, and the promises made to citizens during elections.³⁷ Promises of reforms made during election campaigns are often exaggerated relative to what politicians actually intend to do or are able to do if voted into office; but they create expectations that many politicians will subsequently try to take some action on. Conversely, an absence of reform promises made during an election, typically, is a negative indication regarding a government's intention to reform the public sector (see also Keefer and Vlaicu 2008).

In addition to the electoral commitments or promises made, the strength of the electoral mandate received also matters. Taking decisions and implementing measures is easier for governments that have a strong and clear electoral mandate, while it is more difficult for governments with weaker mandates. For example, holding the presidency without a majority in parliament can lead to political deadlock or at a minimum, can make decisions on reform measures difficult. Electoral rules also matter in this regard because they determine how a given share of votes translates into seats or into who wins a particular office. Winning 40 percent of the popular vote can translate into quite different shares of seats in the legislature across different countries, depending on the electoral rules.

37. The group of countries reviewed here have all held regular elections during the period covered. Somewhat different considerations apply to countries that hold no elections or only highly controlled elections.

A third dimension is the issue of whether an incoming government has a clear idea of what to do and how to pursue reforms. This can depend on whether key members of the government with responsibility for PFM have previous experience in government (specifically in PFM-related positions), and also, whether there are any existing reform plans or options that are 'ready to go' once a political mandate is available (see also Kingdon 1995). Without clear plans, it will take a new government more time to establish a clear and specific reform agenda, which is costly given that the window of opportunity for key reforms is often limited.

It is inevitably challenging to identify unambiguous indicators and thresholds for each of these aspects, such as a specific share of votes won to consider a mandate as strong or weak. However, it is possible to capture all three aspects empirically with some precision. The main elections that are considered here are those at the expected 'starting point' of PFM reforms. In all five countries, additional elections and rotations in government have taken place since then. These subsequent cycles are discussed briefly for each country.

Across the five cases, the strength of the political mandate was distributed as follows (see Table 3.1):

- **In Georgia, all three dimensions (electoral commitment, mandate, and preparedness) were relatively or very strong in 2004.** The incoming leadership had based its electoral appeal on completely changing the government (aimed at eliminating corruption and regaining state effectiveness); it won a very strong and unified mandate in the elections for both the

TABLE 3.1. Indications of Overall Political Commitment to Public Sector and PFM Reforms at the Outset

Election Year	Georgia 2004	Nepal 2008	Nigeria 2007	Philippines 2010	Tanzania 2005
Electoral commitment to governance and public sector reforms?	Yes , electoral platform to overhaul governance	Somewhat , large parties favor greater inclusion of and service delivery for disadvantaged groups	No , commitment to 'national unity' rather than reform after the first more or less democratic leadership transition	Yes , significant commitment to governance reforms	No , some reform orientation and promises, but overall continuity rather than change
Strong mandate?	Yes , very high support, both President (96%) and parliamentary majority (67% of votes)	No , highly fragmented vote and difficult to form a government (Maoists as largest party win 229 out of 601 seats)	Yes , President with 70% of the vote Parliament: 79 % PDP: 68% House of Representatives: 28/36 governorships; ^b losing strength due to death of incumbent	Somewhat , President elected with 42% of the vote. ^a President's party controlled the House of Representatives, but only part of a coalition in the senate.	Yes , President won with just over 80% of the vote; aligned party wins over 80 percent of seats in parliament (264 out of 324 seats)
Being prepared?	Yes , relatively well prepared, key ministers had previously served in the government	No , initial incoming government is composed of former rebels	Yes , relatively strong and experienced key technical appointments	Yes , in particular, well trained and experienced Secretary of Budget	Somewhat , the same party has held the government since independence, so in principle prepared to operate, but limited commitment

Note: PDP = People's Democratic Party.

a. The electoral system does not foresee a runoff; the candidate with the highest share of votes is elected. The constitution limits each President to a single term.

b. http://www.eods.eu/library/FR%20NIGERIA%202007_en.pdf.

executive and the legislature, and the leadership assuming office was reasonably well prepared, given that several of its members had previously served as ministers or in other positions in the government. The initial window of opportunity of the 2004 government lasted for about three years. In 2008, the next elections were held, yielding a somewhat reduced but still solid mandate (60 percent of votes and 80 percent of seats in parliament for the incumbent party and a 54 percent majority for the incumbent President). The 2012 elections then brought a change in the government,³⁸ with the incumbent government again being successful—with a higher number of seats won—in 2016.

- **In Nepal, there was a significant commitment to pursue political reform, in particular toward inclusion of traditionally disadvantaged groups; however, the electoral mandate resulting from the 2008 elections was highly fragmented resulting in a rapid succession of different governments.** Due to the electoral system adopted and the context of social fragmentation, 25 parties won representation in the Constituent Assembly elected in 2008. Consequently, the mandate and the decision-making ability of the government being formed based on the distribution of seats was weak. Moreover, as no political force had a majority or even near majority, governments changed frequently, with five different governments being formed between 2008 and 2013³⁹ when elections were next held. The level of experience and preparation of key government figures varied across these rapid successions. Some of the successive Prime Ministers and Ministers of Finance had previously been in government, others had no experience; and all faced a very short and uncertain tenure. In 2013, voter support shifted toward the more conservative Nepali Congress (winning 196 out of 601 seats), and the Communists (175 seats), with the Maoists losing support (down to 80 seats), representation remained fragmented. Changes in government have remained frequent since then.⁴⁰
- **In Nigeria, the 2007 electoral mandate for the second government led by the PDP was still relatively strong, but was not linked to a commitment to reforms.** The PDP's electoral support had already weakened relative to previous elections, and the ability to transfer power from one president to

another through an electoral process, as happened in 2007 for the first time, was widely regarded as a key achievement in itself. The electoral commitment was primarily to preserve 'national unity' in a federal and complex country with significant internal divisions, rather than to improve governance. The incoming government was relatively experienced.

The illness and passing away of an incumbent in office led to a weakening in the political mandate. The overall ability of the government to act was weakened by the illness of President Yar'Adua. His condition turned critical after two years into the government's term. After he passed away, he was succeeded by Vice President Goodluck Jonathan, who also won the subsequent presidential elections in spring 2011 (winning 59 percent of the vote). The 2011 government continued along similar lines as the previous PDP-led one; while struggling even more to address violence and conflict in the north/north-east.

A major change then occurred in the 2015 elections, won by the candidate of the opposition coalition, running on an electoral platform that emphasized the need for improving governance and combating corruption. The presidential contest was won by Muhammadu Buhari running as the head of the All Progressives Congress (APC), and winning with 54 percent of the vote. In the parliamentary elections held simultaneously, the APC also won majorities in the House of Representatives (225 out of 360) and in the senate (60 out of 109).

- **In the Philippines, President Aquino won the 2010 elections on an electoral platform with a clear commitment to fight corruption and improve governance, and the staff in key PFM-related positions were well prepared, but the electoral mandate was mixed.**⁴¹ Similar to previous presidents, Aquino won with a plurality of the vote (42 percent) rather than an outright majority (no runoffs are being held). His party only held a majority in the Lower House with the Upper House being ruled by a coalition agreement. From the start, his term was affected by a difficult relationship with the judiciary, which diverted political attention and contributed to slowing down the reform process.⁴²

The President's political capital in the legislature waned over the period of his administration, reinforced by the single-term rule that excludes presidents from running for a second consecutive

38. Presidential elections followed in 2013. The same political grouping won the parliamentary and the presidential elections.

39. Prachanda: August 2008–May 2009; Madhav Kumar Nepal: May 2009–February 2011; Jhala Nath Khanal: February 2011–August 2011; Baburam Bhattari: August 2011–March 2013; and Khil Raj Regmi: March 2013–February 2014. The latter was a nonpartisan caretaker Prime Minister until the newly elected government took over.

40. Sushil Koirala (Nepali Congress): February 2014–October 2015; Khadga Oli (Communists): October 2015–August 2016; and Pushpa Dahal (Communists) since August 2016.

41. http://www.eiu.com.libproxy-wb.imf.org/FileHandler.ashx?issue_id=1187558903&mode=pdf

42. The outgoing President, Arroyo, had appointed a new Chief Justice in May 2010, two days after the elections were held, but before she left office. The President elect opposed this appointment and sought the removal of the Chief Justice, which happened in 2012, following impeachment procedures by Congress (for failure to comply with asset declaration provisions).

term. Internal government coherence also declined from 2014 onward when the relationship between the President and the Vice President became strained.⁴³ In 2016, the Philippines held nationwide elections, which resulted in the win for a candidate, Rodrigo Duterte, from a different political party, with 39 percent of votes. Duterte ran on a platform centered on populism, anti-crime, and anticorruption. The political style and policy orientation shifted significantly with the change in administration.

- **In Tanzania, the government that was elected in 2005 had a (relatively)⁴⁴ strong mandate being backed by 80 percent of the vote, but was primarily committed to preserving the status quo; while some reform momentum re-emerged in the 2010s.** Tanzania has been governed by a single party, the *Chama Cha Mapinduzi* (Party of the Revolution, CCM), since 1977, making it the longest running ruling party in the region. The system has been relatively institutionalized and enabled a succession of presidents every 10 years since 1985. Constitutionally, multiparty elections have been permitted since the early 1990s, with the first competitive elections held in 1995.

During President Kikwete's first and second term, from 2005 to 2015, the need to please different factions to maintain the CCM's unity affected the government's interest in public sector governance. Increased political competition was accepted to continue the legitimacy of the ruling party.⁴⁵ The government's interests evolved in the specter of likely significant future revenue windfalls from gas production under preparation during this period. The 2010 elections saw a further decline in electoral support to 60 percent (on a turnout of 43 percent), still delivering a second term for the President and a continuation for the ruling party, but also signaling growing discontent among citizens. In reaction, in 2012, the government adopted a large-scale reform strategy 'Big Results Now' (BRN), modelled on Malaysian reforms.

For the 2015 elections, the CCM selected a candidate who ran on a strong anticorruption platform. To best confront increased competition, the ruling party sought to select a candidate most likely to be popular, which also required the candidate

to be seen as untainted by corruption. John Magufuli, who had held ministerial portfolios for labor, rural development, and agriculture, ran on a programmatic platform committed to combating corruption and was regarded by the public as an outsider to the political establishment. He won with 58 percent of the vote. As President, Magufuli developed a reputation for austerity following several measures to reduce expenditures, improve the delivery of essential public services, and fight corruption.

Overall, there is considerable variation across the five cases regarding the high-level commitment to governance and public sector reforms that governments had at the outset of the specific periods reviewed here. Clearly, a political mandate for reforms is rarely as strong as that held by the incoming government in Georgia in 2004. However, the turn to more reform-committed governments in Tanzania and in Nigeria in 2015 shows that political swings in favor of governance reform can happen in quite different countries. Furthermore, institutional rules matter for how strong political mandates are likely to be. For example, Nepal had no threshold for parties for the allocation of parliamentary seats selected through proportional electoral rules for its 2008 elections, resulting in a very fragmented parliament. Electoral rules in the Philippines, such as the President and the Vice President running on separate tickets, for a single term, and without a runoff also favor distribution of power, which can involve some costs in terms of the strength of political mandates and coherence of decision making.

In the round of elections considered as 'reform starting points' electoral commitment to reforms was thus strongest in Georgia, followed by the Philippines. Between these two, the political mandate was considerably stronger in the former, while technical readiness was good in both. In Nepal, the largest political parties were committed to a government more oriented toward the poor and excluded groups, but the political mandate remained diffuse. In Nigeria and Tanzania, the 2007 and 2005 governments held reasonably strong electoral mandates and had some good technical leaders in relevant positions, but neither had a commitment to reforms.

The case studies also illustrate that political commitment to reforms can change considerably over time and with subsequent elections. In the Philippines, political commitment waned over time, due to a confluence of factors, and shifted to other policy areas following the 2016 elections. On the contrary, reform commitment became stronger in Nigeria and Tanzania from 2015 onwards, after having stagnated for the previous decade.

All five countries had reasonably well qualified technical teams in place at the starting points considered here, reflecting the fact that PFM reforms have been pursued in many countries for some time. The level of preparedness was relatively lower in Nepal, given the background of the initial post-2008 Ministers of Finance; at

43. The Vice President is elected on a separate ticket and in 2010 was elected from a different party than Aquino's by a narrow margin. Still relations were initially good due to a long family relationship; but turned sour in 2014 with corruption allegations being raised against the Vice President, possibly in the context of his popularity relative to the preferred successor for the outgoing President.

44. Such a high level of support would be considered 'very strong' in a fully democratic context; but in the wake of a one-party tradition was at least partially a sign of discontent with the ruling party.

45. Formally, alternative parties have been allowed to register and compete elections since 1992.

the technical level, technical staff were committed and relatively experienced, but this level has also suffered from frequent rotations as discussed later in the report. The specific link between the political level and the technical level, including key appointments in CFAs, is discussed further in Chapter 5.

3.2 Overarching Policy Goals

For most governments, PFM reforms are a means to an end, rather than an end in itself; therefore it is important to understand the high-level policy goals, and how they relate to a potential interest in PFM strengthening. Higher-level goals may involve policy aims such as ensuring better social cohesion and reducing poverty, seeking to transform an economy, or pursuing foreign policy goals such as building a good relationship with particular countries or groups of countries, often involving foreign trade opportunities, and the extent of external aid dependency and relationships. Goals may also be more short-term and ‘non-policy’ goals such as pursuing survival of the current elite group or leader in power. In addition, high-level policy goals can be influenced by fiscal trends: fiscal crises can focus attention on resolving these through PFM and revenue-related reforms—even if a systematic impact on strengthening PFM appears to be lacking, as explored in the quantitative analysis.⁴⁶ Conversely, expected fiscal windfalls may raise many new demands for spending.

This section first considers general high-level policy goals as they can be identified retrospectively for the five countries analyzed. It then moves to looking at potential fiscal drivers, including revenue and expenditure trends, debt dynamics, and the levels of aid relative to GDP.

For the Georgian Government elected in 2004, two overriding policy goals stood out. First, to resurrect the country as a functioning state and to reverse the extensive state capture and corruption. Second, to more closely integrate with Western Europe and the United States, and reunite the country’s territory. Related to this was a vision of establishing a libertarian model of a state, which several key government leaders subscribed to.

The opposition party elected in 2012 in turn ran on electoral promises to curtail the excesses of the Saakashvili Government, to restore more normal relations with Russia, and to promote social equity. While the outgoing government had managed to transform governance from a previous equilibrium of pervasive corruption, it had also deployed harsh measures, including accusations that it condoned the use of torture by law enforcement agencies. Confrontation with Russia had been economically costly, and

economic and fiscal liberalism had delivered growth, but without sufficiently benefiting many people especially in rural areas. The incoming government continued to seek closer integration with western countries, in particular the European Union (EU). Given this significant external anchor, the commitment to governance improvements continued.⁴⁷

In Nepal, key common goals of the left-wing parties successively heading the government were to foster socioeconomic transformation, to strengthen Nepal’s position in relation to India, and to move from a unitary to a federal state; although agreement was lacking on how to pursue these aims. Given the short duration of successive governments and the fact that none held a majority, pursuing major policy goals remained highly constrained. There were long periods of political deadlock and multiple tenure extensions for the Constituent Assembly. Eventually, the main political parties came to an agreement on a new constitution in September 2015, supported by a large majority of voters. However, politics remained unstable even after this milestone was attained.

For the Nigerian Government elected in 2007, key high-level policy goals included preserving and strengthening national unity. Key issues in this regard were to manage the transition from a southern to a northern president as well as addressing the intensifying conflicts first in the south and then in the north. External dependency of the incoming government was low and had been further reduced due to Nigeria reaching the completion stage of the Heavily Indebted Poor Country (HIPC) Initiative in 2006. This reduced Nigeria’s debt by US\$18 billion, an overall debt reduction of about 60 percent.⁴⁸ As a large country within its own region, external dependencies have not played a major role.

Preserving political stability and addressing security threats remained key issues on the political agenda. Political stability came under increased pressure when the sitting President passed away in May 2010. Political power then passed to the Vice President, Goodluck Jonathan, who again was a southerner. Considerations about preserving political stability dominated the 2011 elections, in the shadow of the intensifying conflict with Boko Haram in the north/northeast. A major policy shift eventually took shape in the 2015 elections, in which Jonathan lost to a challenger (Buhari), a northerner who had united several parties around a policy platform of improving governance and combating corruption.⁴⁹

The Philippine Government formed in 2010 came into power with three main policy goals. First, it had campaigned on a strong anti-corruption platform, promising to reverse the course of the previous administration. Second, reviving a struggling economy

46. For example, if fiscal challenges motivate many governments to seek PFM reforms, but not all succeed to the same extent, the quantitative analysis would not detect a pattern when focusing on the actual extent of PFM improvements.

47. Georgia is a priority country under the European Neighborhood Policy and the Eastern Partnership. In June 2014, the EU and Georgia signed an Association Agreement, which includes a Deep and Comprehensive Free Trade Area (AA/DCFTA).

48. <https://www.oecd.org/countries/nigeria/48481192.pdf>.

49. This also represented a shift back to a northerner as President.

with a strong focus on employment, while also promising a gradual elimination of the budget deficit. A third goal was to bring political stability to areas with significant Muslim populations, by pushing forward negotiations with the Moro Islamic Liberation Front (MILF) in Mindanao, among other rebel groups.

In Tanzania, President Kikwete, in office from 2005 to 2015, focused his efforts on four policy goals. First, continuing economic reforms necessary after a period of structural reform and debt relief that the country had undergone.⁵⁰ Second, preserving national unity, by forging a political accord between two opposing parties in Zanzibar. Third, tackling poverty reduction, and improving delivery of public health, and of social services. Fourth, improving public governance and fighting corruption. Following declining support for the CCM in the 2010 elections, the government subsequently focused more on public perceptions of service delivery in the run-up to the 2015 elections. It adopted the BRN program to address the lack of progress made toward service delivery improvements.

The new administration elected in October 2015 campaigned on promising to bring change with regard to reducing corruption and elite enrichment and of delivering better services for ordinary citizens. As part of this, the government declared its objectives to improve public revenues by curbing tax evasion and strengthening tax administration through efforts to increase compliance.

3.3 Rents and Rent Distribution

In addition to electoral mandates and overall policy goals of governments, the nature of available rents and how they are distributed and allocated typically plays a significant role in shaping reform options and implementation (Levy 2014). Rents—defined as returns exceeding the opportunity cost of resources that might otherwise be deployed in a competitive market—are common in all economies; particularly large-scale rents are available in resource-rich economies (see also Barma, Kaiser, and Le 2012). The large negative impact of natural resource rents that appear in the quantitative analysis also indicates that the nature and distribution of rent matters, and can affect PFM performance.

The nature of the rents, and how they are being allocated is crucial (Khan and Jomo 2000). While rent-seeking matters most directly for economic policies, such as restrictions to competition, rents and rent allocations can also affect the quality of PFM. Uncontrolled rent-seeking can undermine revenue collection and consequently affect cash management. Another aspect of PFM that can suffer significantly from rent-seeking is procurement. Where rent-seeking is significant and benefits narrow groups, it can become more difficult to effectively pursue governance improvements even for a government that has made electoral commitments to reform.

In Georgia, before the start of the 2004 reforms, the state had been captured to a significant extent by ‘thieves-in-law’ (mafia type networks that had formed during the Soviet and early post-Soviet period), which operated without restraint and often in collaboration with the police, the justice system, and other parts of the state apparatus (Shelley, Scott, and Latta 2007). Government offices were for sale, in particular in customs, because much of the illicit activities focused on imports and exports; while revenue collection from tax and customs had become very low for an MIC.⁵¹ Given the absence of large natural resource rents and of large industrial centers and companies in the country, Georgia did not have the large-scale oligarchs as they had emerged in Russia and some other post-Soviet countries during the 1990s.

A potential source of rent available in Nepal is having unique tourism assets, while similar to Georgia, there are few (other) natural resource rents. As a relatively small country, business has been dominated by a few large business groups, including one internationally operating conglomerate. Most of these are involved in trading and light manufacturing of food and beverages, construction and development, hotels, banking and insurance, and telecommunications. As elsewhere in Southeast Asia, many of these groups grew from original family traders; and were often given some form of protected markets during the period of the royal government to promote economic and sectoral development.⁵² Business groups have sought favorable treatment in procurement contracts. Furthermore, in a socially and ethnically highly fragmented society, business houses are also seen as associated with a subset of groups. In Nepal, social networks and having the ‘right connections’ (*afno manche*) have a strong tradition, reinforced by the royal form of government that formally only ended in 2008 (Subedi 2014).

As a resource-rich country, Nigeria has been a classic example of a country with large-scale rents and associated significant elite capture of the state and of available rents. Since the 1960s, large-scale corruption has affected many aspects of public sector operations at all levels of government. This includes diverting revenue flows from oil, mismanagement in public procurement, inflated payrolls, and other forms of leakage (Okonjo-Iweala 2012). Non-transparent allocation of oil and mining licenses also negatively affect the revenue that accrues to the government (Global Witness 2015). One mechanism for extracting rents has been oil bunkering, which is estimated to have accounted for losses to the treasury of US\$6.7 billion in 2013.⁵³ Beneficiaries of an economy built

50. Tanzania completed the HIPC program and received debt relief in 2001. <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr0148>.

51. Entrenched Corruption Begins at Georgia’s Border (2002). <http://www.eurasianet.org/departments/insight/articles/eav062702.shtml>.

52. http://www.gefont.org/uploads/publications/9733_The%20Big%20Business%20Houses%20in%20Nepal.pdf; <http://bossnepal.com/top-group-companies-nepal/>

53. William Wallis, “Nigeria: The big oil fix,” *Financial Times*, May 26, 2015. Other sources cite a somewhat lower amount of US\$1.25 billion per quarter or US\$5 billion per year.

around rents from the oil sector have been elites composed by classes of politicians, connected business interests, high-ranking civil servants, and military officers (Lewis and Watts 2015).

In addition, Nigeria also has large business groups, which have flourished due to several factors, including favorable regulatory treatment, as well as business acumen. The latter includes an ability to work in a diverse market that international competitors found difficult, not least due to widespread corruption (Akinyoade and Uche 2016). Nigeria's richest business family is engaged in cement rather than oil, riding a wave of population growth and expansion of buildings and infrastructure.

Although Nigeria has established a number of dedicated institutions to constrain corruption and rent-seeking, these have often not functioned as intended. Transnational and local companies have frequently engaged in shadow practices to participate and benefit from available rents. Elites benefiting from large-scale rent-seeking include various ethnic, regional, and religious groups. Nonetheless, the system is deeply exclusionary, limiting most gains to a narrow group of elites from various communities.

Against this background of deep-seated rent-seeking and scale of nonproductive rents available, the government elected in 2015 has pledged to improve governance and bring about a state that works for all citizens. This electoral shift occurred against a background of a sharp decline in the value of oil since mid-2014. Sharply shrinking fiscal resources (discussed further also in Section 3.3), began to negatively affect the government's ability to deliver services and pay civil servants, as well as to co-opt various groups. Main challenges included a worsening conflict and perceptions of economic neglect in northern Nigeria, after previous high spending to resolve the conflict in the south. Therefore, the new government pledged to improve the collection and use of fiscal revenue. However, swimming 'against the tide' of rent-seeking interests and achieving success in a period of much reduced fiscal resources and economic deceleration has proven to be extremely challenging.

In the Philippines, public procurement and industrial policy have been two major sources of rent. Natural resources have not played a significant role. Further specific rent-seeking opportunities exist in the domestic manufacturing sector and concentration of ownership in the financial industry and airlines (North et al., 2013). In an effort to curb corruption, President Aquino, elected in 2010 on a good governance platform, continued the procurement reform started under President Estrada and initiated other fiscal transparency-related initiatives.

An important aspect of the Philippines is the presence of well-established political dynasties (North et al., 2013; Tusalem and Pe-Aguirre 2013; You 2014). Highly unequal land distribution with a majority of land owned by a small group of landowners, emerged in the first half of the 20th century and served as a basis for political dynasties. A key feature of dynastic politics is that the same families are represented in regional and national

politics with multiple family members over time—and the share of seats controlled by individuals linked to such dynasties significantly exceeds similar trends in most other countries.⁵⁴ The family groups acquire both power and wealth, thus entrenching their electoral advantages.

In Tanzania, economic liberalization and privatization in the late 1990s offered an opportunity to political insiders to purchase formerly state-owned companies, or channel such purchases to associates, who would in turn provide funding support to electoral campaigns. The patronage relationship seems to have evolved as a response to the limited progress made in pursuing genuine reform strategies. There have been repeated allegations of collusion between senior politicians and large businesses around procurement contracts. The Richmond case of 2006 provides an example of competing powerful interest groups within the executive, with close ties to business, redistributing resources to secure elites' support for the ruling party. At the same time, as part of decentralization, local governments have been given increasing control over local service delivery and its finances, whereas line ministries have lost both legal control over resources and associated rent-seeking opportunities.

Available natural resource rents in Tanzania are expected to increase significantly. Major natural gas deposits were first confirmed in 2011, and additional deposits have been discovered since then.⁵⁵ Such an initial natural resource boom period creates new rent-seeking opportunities and in turn affects the stakes in elite competition.

Looking at the nature and scale of rents across the five countries, Nigeria stands out in terms of rents being available from one particular source (oil production), and its direct and negative impacts on a government's incentives related to manage public resources well. As is discussed further below, rising oil prices in the late 2000s provided an easy source of additional revenues and, consequently, disincentives to seek revenue collection through taxing the non-oil economy, as well as careful husbanding of expenditures. At the same time, consistent with the findings from WDR 2017, the discussion also indicates that most countries have some form of entrenched interests which benefit from the fiscal and regulatory status quo.

It is important to stress that rents and rent distribution are not static, but evolve over time due to shifts in opportunities. Sources of rent change in value over time, most notably with regard to natural resource rents following the end of the 'commodities super cycle'

54. According to Acemoglu and Robinson (2013), "60% of congress-people elected in 2007 had a previous relative who were also in congress." See: <http://whynationsfail.com/blog/2013/1/9/political-dynasties-in-the-philippines.html>. See also Cruz, Labonne, and Querubin (2014).

55. For example, see Oilprice.com: "\$8bn Natural Gas Find Re-affirms Tanzania's Status as a Gas Giant," James Burgess, March 28, 2016. <http://oilprice.com/Energy/Energy-General/8-Billion-Natural-Gas-Find-Re-Affirms-Tanzanias-Status-As-Gas-Giant.html>.

which has affected oil-related rents in Nigeria, or the discovery of large-scale new resources in Tanzania. Technological change can disrupt rents, for example, as in the telecommunications and to some extent in the financial sector over the past decade. Some countries, such as Georgia and Nepal inherently have fewer large-scale sources of rent, which in principle, makes it easier to focus economic ambition on ‘value adding’ activities. However, privileged access to contracts or licenses, for example, for imports, can still bestow important advantages on some economic actors over others. Conversely, voters in the countries studied here have at times favored governments committed to constraining rent-seeking and to improve governance. As the cases also indicate, electoral support for better governance is not consistent over time and can erode if economic benefits are not forthcoming.

3.4 Fiscal Trends—Limited Pressures to Reform

Existing literature and research provides two main hypotheses on potential links between fiscal dynamics and government commitment to seeking PFM reforms. One assumption is that fiscal crises or austerity periods can be a trigger for PFM reforms (de Gramont 2014; Krause 2009; Pretorius and Pretorius 2009). Reforms initiated in Tanzania in the 1990s, in Turkey in the early 2000s, and in several OECD countries are widely seen as having been precipitated by fiscal challenges. The specific reforms initiated have differed—focusing on greater efficiency through New Public Management (NPM)-inspired reforms in several OECD countries, versus strengthening and centralizing controls over cash management in Tanzania.

Another strand of literature has proposed that a higher share of tax-based revenue leads to better PFM through stronger citizen demand for better services and greater accountability (Moore 2004; Prichard and Leonard 2010). This would imply that countries with larger (non-resource related) fiscal revenues experience a rising demand among citizens for spending funds effectively, which in turn should result in a process of strengthening PFM systems.

The analysis of correlations could not find a link between the experience of fiscal crises and progress on strengthening PFM, while the case studies indicate that for each country, fiscal trends are important, but how this happens varies. For the period tested, the statistical relevance is weak or disappears depending on time lags used (four versus five years). As is discussed further below, the case studies indicate that there is a potential link between facing fiscal challenges and political interest in PFM reforms—but with variation in whether and when strengthening of PFM systems actually proceeds, and a limited incidence of fiscal shocks during the main period reviewed. This may explain the absence of a systematic relationship across a large number of countries.

Regarding the second presumed dynamic, in the cross-country analysis we find a weak positive relationship between tax revenue and PFM performance as measured by PEFA. The five case studies also show a positive relationship between revenue performance and PFM quality (as discussed further below). Countries with increasing revenues and expenditures experienced strengthened PFM performance, while countries with lower, stagnating, or declining budgets saw less PFM progress. However, as is discussed further in Chapter 4, the presumed mechanism—that this relationship is due to a greater demand for financial accountability from citizens—is not clearly supported by the case studies.

The following sub-sections consider several fiscal dynamics to capture the situation of the five countries analyzed: Revenue and expenditure trends over the period 2000–2015, their level of debt (gross debt relative to GDP), and levels of aid dependency. It also sets them in a context of performance by income groups globally.

Revenue and Expenditure Trends

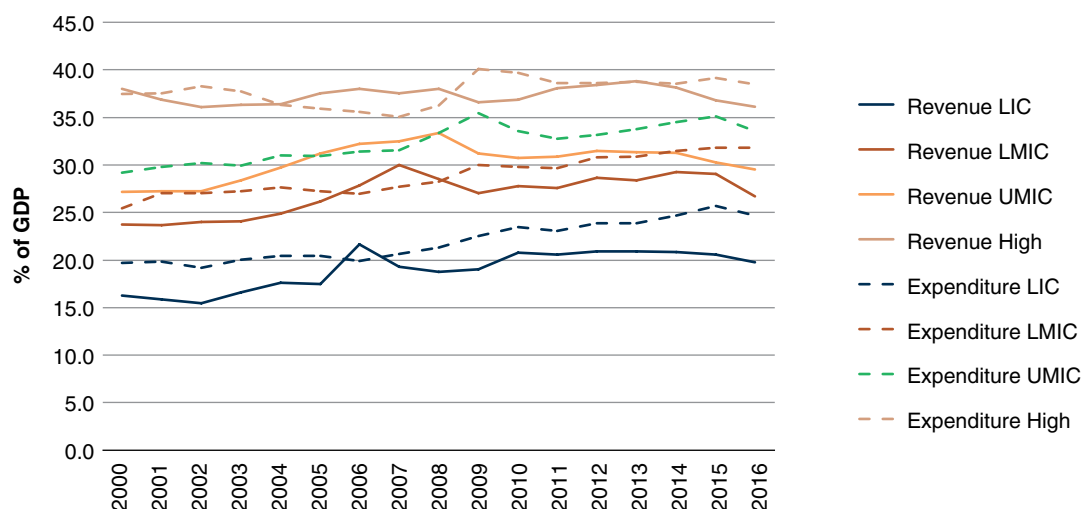
Figure 3.1 reflects global trends in revenue and expenditure over the past 15 years by income group. The figure indicates that the gap between income groups have somewhat declined over this period. High-income countries’ spending levels have remained relatively stable, at around 35 percent to 40 percent of GDP, and somewhat higher during the global financial crises in 2008–2009. UMICs and LICs have seen the highest growth rates in both expenditure and revenue levels, narrowing the gap between income levels. LMICs have also seen a rise in spending and revenue levels, but at a slower pace compared to the other groups. Most recently, revenue appears to level off especially in UMICs and LICs, possibly due to the end of the commodity super cycle, while expenditures still continue on an upward trend—which may also signal some renewed greater fiscal challenges ahead.

Overall, the graph indicates a global trend toward increased revenue and increased expenditures over this period. One probable reason for this is a growing expectation of what states should deliver, or coproduce with the private sector: including free and universal basic services, infrastructure, effective regulation, consumer and social protection, and internal and external security.⁵⁶ At the same time, rising amounts of funds collected and spent by governments is one of the key reasons why further strengthening PFM is critically important.

Against this global background, the countries covered in the case studies show widely varying fiscal performance, with some observable parallels between fiscal and PFM performance trends. All the five countries reviewed in principle sought to achieve some

56. The tendency toward increased government expenditure accompanying economic development was identified as ‘Wagner’s law’ (named after Adolph Wagner, 1835–1917). High-income countries have sought to constrain further growth of revenue and expenditures, but still show a slight upward trend on average.

FIGURE 3.1. Revenue and Expenditure Trends (2000–2016) by Income Group



Source: IMF World Economic Outlook database, October 2016. Figures reflect total revenue, including grants; and general government total expenditure.

Note: Income groups are identified using the World Bank list of economies (December 2016).

increase in revenue. However, only two—Georgia and Nepal—actually achieved notable revenue increases (see Figure 3.2). Notably, these countries also progressed relatively further on strengthening PFM systems. In the Philippines, revenues have flatlined at a comparatively low level, while PFM saw some progress—with a strong tilt to certain areas, but not others as noted in Chapter 2. Tanzania saw a boost in revenue collection in the early 2000s, when it also registered continuing improvements in its PFM systems, and then saw a flatlining in revenues since 2007, when PFM performance also began to stagnate and slide backwards.⁵⁷

Georgia achieved substantial progress in both revenue performance and PFM. At the start of the period covered here, Georgia had a low revenue to GDP ratio for a middle income country, of around 15 percent, and suffered from associated cash management challenges. Increasing revenue was an early priority for the government following the Rose Revolution in 2003/04. The government applied considerable effort to reduce tax evasion and broaden the tax base, which resulted in a large rise in revenue, peaking at 31 percent of GDP in 2008 (see Figure 3.2). Higher revenues in turn allowed the government to raise spending—including investments in better services as well as a better functioning public sector. The specific sequence of reform steps is discussed further in Chapters 4 and 5.

Nepal saw steadily increasing revenue collection and some progress on PFM strengthening—despite a politically complex

situation. Especially after the end of the conflict in 2006, Nepal experienced an increase in revenue and expenditure growth relative to earlier years. By 2010, both revenues and expenditures reached about 18 percent of GDP up from 12 percent in 2001; and by 2013/14, total revenues including grants reached a high of 21.6 percent of GDP. The main proximate drivers of revenue expansion have been high import growth fueled by remittances on the one hand and administrative reforms in the Inland Revenue and Customs Departments on the other hand. Revenue performance as a percentage of GDP is now even somewhat above other LICs (see Figure 3.1 above). In parallel, as discussed in Chapter 2, PFM performance improved between the two PEFA assessments in 2008 and 2015. Tracing CPIA ratings for PFM further back to the early 2000s indicates that this strengthening was in part a recovery toward earlier levels of performance.⁵⁸

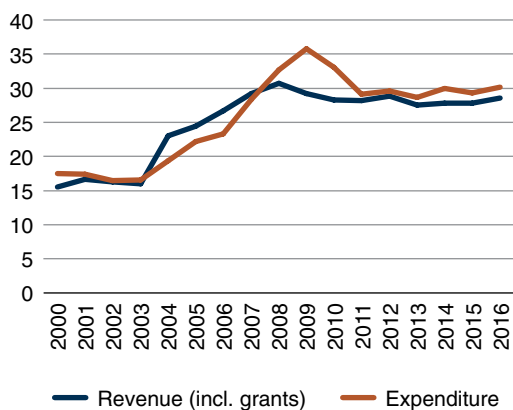
Nigeria stands out as a negative outlier relative to global trends as well as the other case studies during this period, because revenue mobilization declined substantially between the early 2000s and 2015 relative to GDP. While Nigeria benefited from rising global oil prices until the early 2010s, revenue as a percent of GDP had already declined sharply since 2000 (see Figure 3.2)—in the context of a significantly expanding GDP combined with an increasingly narrow tax base. From a peak of over 30 percent of GDP in the early 2000s, total revenue and expenditures dropped to only 8.5 percent and 10.5 percent of GDP respectively by 2015, and

57. For CPIA-13 (budgeting and financial management), Tanzania achieved the highest rating in 2005 and 2006, at 4.5 out of a maximum rating of 6, one of the highest ratings of any IDA country on this indicator.

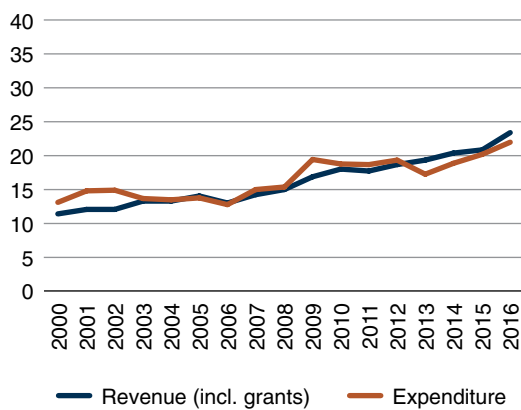
58. The CPIA-13 rating for Nepal was 3.5 in 2000, then declined to a low of 2.5 by 2010, again increasing to a rating of 3 since 2013.

FIGURE 3.2. Revenue and Expenditure Trends (2000–2016)

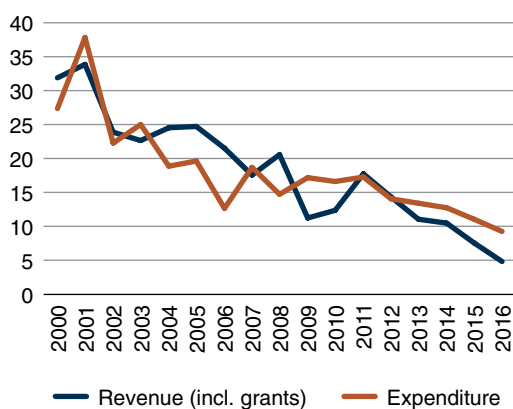
Georgia



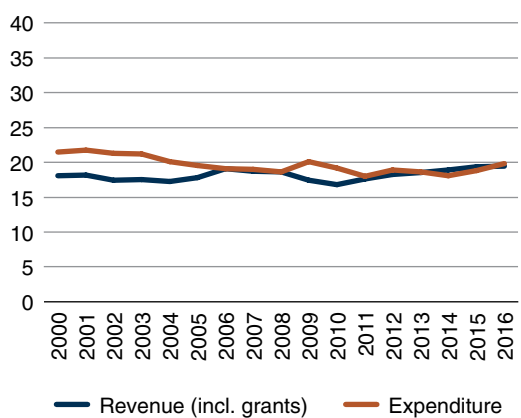
Nepal



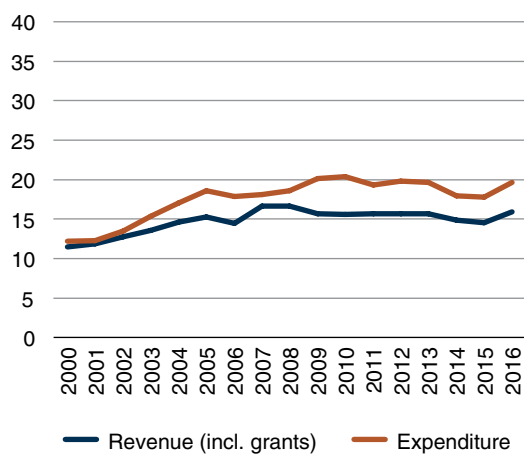
Nigeria



Philippines



Tanzania



Source: World Economic Outlook (WEO) 2017.

even further in 2016.⁵⁹ For several years, readily available revenue that continued growing in nominal terms made it possible for the government not to be overly concerned with this decline and not to seek strengthening revenue collection, although problems with cash management were clearly present. Debt relief achieved in 2006 further facilitated this policy stance.

The fiscal situation worsened dramatically further in 2014–2016 when oil prices declined sharply, triggering a decline in revenue even in nominal terms. As a consequence, the incoming government in 2015 was confronted with an urgent need to strengthen revenue collection as well as to improve spending. Among the five case studies, Nigeria has experienced the most acute fiscal crisis, albeit only at the very end of the analysis period (in addition, as noted above, Georgia had gone through a period of fiscal crisis in the 1990s and early 2000s).

In the Philippines, revenues remained relatively steady for more than 15 years relative to GDP, while some improvements in PFM were being achieved. Since 2000, revenues and expenditures have hovered at an average of 18 percent and close to 20 percent of GDP respectively. While the size of the budget increased by 134 percent in nominal terms over the last decade, public spending however, did not change as a percentage of GDP. Compared to its income group peers, the Philippines fell behind, as LMICs on average saw an increase of their revenue and expenditure relative to GDP during this period (Figure 3.1), reaching closer to 30 percent of GDP.

Tanzania achieved gains in revenue collection mainly in the early 2000s, in parallel to improvements in PFM performance, followed by a leveling off in revenue and a gradual decline in PFM performance. Between 2000 and 2005, Tanzania achieved an increase in its level of revenue collection by about 5 percent of GDP. While these efforts allowed the revenue to reach 16 percent of GDP, it still falls short of LIC averages, which increased even further to above 20 percent on average. Similar to Nigeria, Tanzania also benefited from debt relief achieved in 2001. Both revenue collection and PFM efforts were grounded in an earlier reform period from the mid to late 1990s. Those reforms included establishing an independent revenue authority, with strengthened incentives to pursue revenue collection. On the expenditure side, cash management problems were brought under control (Diamond and Khemani 2005; Gray and Khan 2010), and overall, Tanzania reached a fairly high level of PFM performance for an LIC by the first PEFA assessment undertaken in 2006. However, in both areas, there was backsliding over the decade from 2005 to 2015.

A stimulus package was adopted in 2008/09 to cushion the negative impacts of the global financial crisis on the country, and the 2010 elections further prompted spending increases. Following the 2010 elections, and bolstered by the expectation of future increases as anticipated hydrocarbon revenues come onstream, Tanzania increased its public spending as a share of GDP further above the level of revenue increases (Tilley 2013), with expenditures reaching 20 percent of GDP as of 2015.

Debt Dynamics and Levels of Aid Relative to GDP

Related potentially relevant drivers include debt dynamics and aid dependency. High or rising debt levels and growing risks of debt unsustainability could be a trigger for fiscal austerity and associated efforts to make the most of available funds. Higher debt levels could also increase the relative leverage of aid and associated demands for strengthening PFM systems. It is therefore important to consider the debt levels and trends across the five cases analyzed.

In all five case studies, gross debt declined in the early 2000s and remained at sustainable levels until 2015, albeit with debts again growing in some cases. As Figure 3.3 indicates, significant declines in debt levels were common in the early 2000s—due to a combination of the government's own efforts as well as debt relief in several cases. Since 2007, the debt trends among the five countries have become more mixed. Nonetheless, none of the countries analyzed here has faced significant problems with unsustainable debt levels during this period, while some might again face challenges in future.

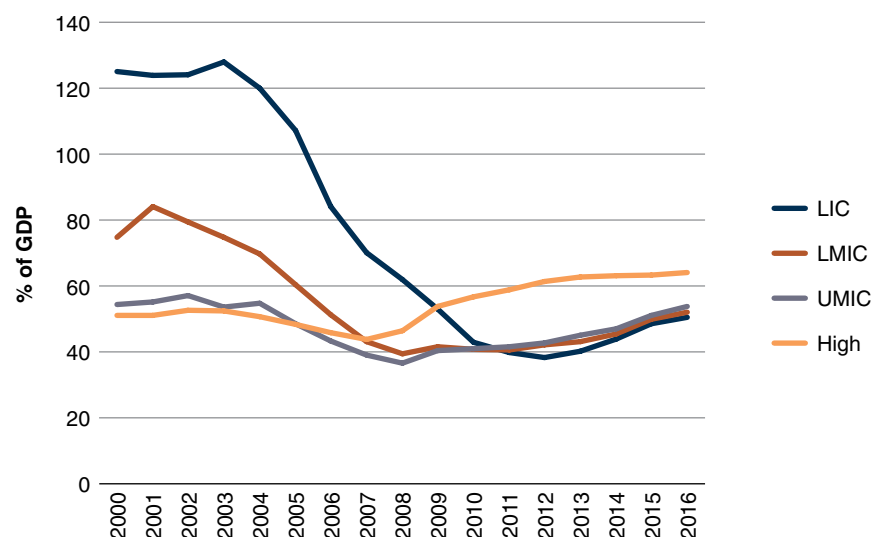
Among the five countries, Nigeria in particular saw a decline in debt levels due to debt relief. According to IMF figures, Nigeria's national debt was reduced from 88 percent of GDP in 2001 to 11 percent of GDP in 2006 following the achievement of HIPC criteria and being granted relief (see Figure 3.4). As is discussed further in Chapter 5, the prospect of debt relief provided some impulses for PFM reforms up until 2006, while subsequently, some of the efforts that had been initiated but not completed remained lingering for several years.

Both Nepal and the Philippines saw a steady decline in their gross debt without receiving debt relief. The Philippines achieved a continuous decline, from 64 percent in 2000, to a gross debt of 35 percent of GDP by 2015. As aggregate spending was kept broadly in line with available revenue, external and overall government debt have declined over the past decade. Thus, while corruption has been a major concern in the Philippines and reducing corruption was a major electoral commitment of the incoming government in 2010, fiscal or debt pressures were less urgent.

Nepal achieved a significant decline in its debt from almost 60 percent in 2000 to 24 percent of GDP in 2015. Much of this is the result of budget surpluses from sluggish execution of capital expenditure and strong revenue growth. Nepal was one of the few

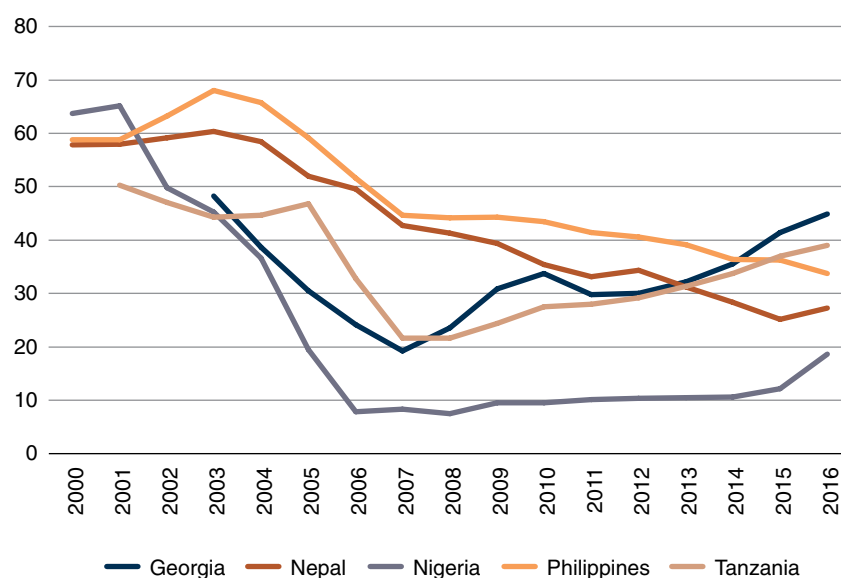
59. 2015 IMF WEO figures. A further issue is highlighted by Nigeria: uncertainty about GDP size and growth can make it difficult to fully identify revenue trends, given that growth and inflation typically lead to a continuous expansion of nominal revenues. Only after Nigeria's GDP was re-based in 2014, did it become clear how dramatically revenues had declined relative to the size of the economy.

FIGURE 3.3. Debt Trends by Income Groups



Source: WEO database, October 2016 (general government gross debt).
 Note: Income groups are identified using the World Bank list of economies (December 2016). Most of 2016 data are estimates of the WEO.

FIGURE 3.4. Gross Debt Trends, Five Case Study Countries (% of GDP)



Source: WEO 2017 (general government gross debt).

countries that in principle qualified for the HIPC Initiative started in 1996, but eventually decided not to request debt relief. Following the end of the civil war, key government and economic stakeholders felt that engaging in the HIPC Initiative might hinder rather than boost opportunities for economic revival.⁶⁰

60. See <https://thehimalayantimes.com/business/nepal-shies-away-from-hipc/>. Nepal's eligibility is discussed in Pant and Subedi (2006).

In contrast, Georgia and Tanzania initially saw a decline in gross debt up until 2006–2007, but increases since then. Both countries had somewhat lower initial debts (about 50 percent of GDP) compared to the other case studies in the early 2000s and both saw a similar initial decline—Tanzania due to the debt relief programs and Georgia due to increased revenue and significant privatization receipts. However, since 2008, domestic and foreign borrowings in the two countries have increased again, raising gross

debt to 42 percent and 35 percent of GDP for Georgia and Tanzania, respectively.

Importantly, during previous decades, debt levels had been much higher in several of the five countries: In Nepal, debt had peaked at around 60 percent in 1999/2000 and the Philippines saw external debt reaching close to 100 percent of GDP in the late 1980s.⁶¹ In Nigeria, external debt reached over 200 percent of GDP by 1993, and in Tanzania 166 percent of GDP in 1993–94. Several of the countries carried high-debt burdens for several years, before bringing these under control. Thus, the period from 2000–2015 is one of comparatively low external public debt in these countries.

Overall, for the 15 years reviewed here, there has been no clear pattern or link between debt trends and success of PFM reforms, in the context of benign economic trends. Debt levels have mostly been reduced, in some countries facilitated by significant debt relief, as well as due to significant economic growth during this period. Given these trends, for the past 15 years, debt levels did not play a role in inducing efforts at improving PFM. To further explore whether high debt levels trigger PFM reforms (and with what probability) would require considering additional time periods and a focus on cases which experienced unsustainable debt.

Looking at the reverse relationship, at least one case (that is, Georgia) contradicts the potential assumption that better PFM systems will be associated with constraining debt levels. This observation is consistent with findings from the quantitative research that looked at the effects of the quality of PFM on fiscal aggregates.

61. For Nepal, the Philippines, and Georgia, data are available both for central government debt and for external debt. For Nigeria and Tanzania, data are only available for 'external debt'. WDI Central Database.

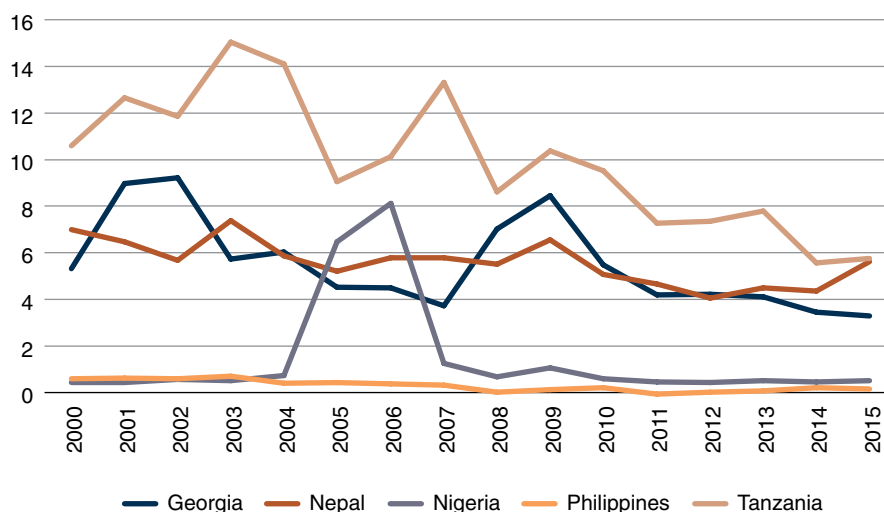
The analysis found that there is a correlation between having better PFM systems and greater budget credibility—as expected, but not between stronger systems and lower deficits (Fritz, Sweet, and Verhoeven 2014). Thus, even after countries have undertaken significant PFM reforms and can keep spending in line with approved budgets, governments may still decide to overspend.

The importance of aid relative to the economy and the budget is a further potentially relevant fiscal aspect. In particular, the extent to which public expenditures depend on external contributions has been considered as a potential driver for countries to pursue PFM reforms (Therkildsen 2000 and 2001), but also conversely as potentially undermining incentives for public sector and PFM reforms (Bräutigam and Knack 2004). In the quantitative analysis, we found no statistically significant relationship between various measures of aid dependency and PFM performance, in line with earlier findings by De Renzio, Andrews, and Mills (2011).

The fact that there is no clear pattern between levels of aid dependency and efforts toward PFM reforms also largely holds true across the five case study countries. Figure 3.5 maps the level of ODA relative to GNI for the five countries, and Table 3.2 presents a broader range of measures, including the annual U.S. dollar amount per capita and the share of aid in total public expenditures. The spike in aid to Nigeria in 2005–06 is due to debt relief received during those years. Generally, as all the economies experienced substantial growth during this period, the aid to GDP ratios somewhat declined.

The case studies confirm that aid dependency is not an unambiguous driver of PFM reforms. Tanzania remained the relatively most aid-dependent country over the period, but as noted in Chapter 2, saw a slippage on PFM performance from an initially intermediate level. Georgia and Nepal both have some aid dependency,

FIGURE 3.5. ODA (% of GNI), Five Case Study Countries



Source: WDI 2017.

TABLE 3.2. Levels of Aid Dependency

	Georgia	Nepal	Nigeria	Philippines	Tanzania	Averages for LICs	Averages for MICs
Aid per capita (average 2000–2015)	121	25	16	5	50	48	10
Aid in % of GNI (average 2000–2015)	5.5	5.6	1.5	0.3	9.9	11.9	0.4

Source: WDI Central 2017.

and additional external incentives (EU association) exist for Georgia as reflected in Section 3.2. Particularly strong PFM reforms were observed in Georgia, and intermediate progress in Nepal. Nigeria and the Philippines both receive little aid relative to GDP. In Nigeria, aid as a share of central government spending is still substantial—but the central level only accounts for a limited share of overall spending due to a federal system. The two countries saw diverging trends on reforms—with some intermediate PFM strengthening in the Philippines, but very little progress in Nigeria between 2006 and 2015.

At the same time, the case studies also indicate that aid is not totally delinked from PFM reforms. As noted above, there is some indication that the promise of debt relief (provided in 2006) induced initial PFM and fiscal reform measures in Nigeria and led to the initiation of a wider PFM reform agenda—albeit one that was subsequently left lingering when the main incentive had been realized. In Tanzania, the pressures from high debt, high-aid dependency, and the prospect of debt relief combined in the late 1990s, and this period was associated with significant PFM reforms. In the 2005 CPIA, Tanzania reached a 4.5 rating (on a scale of 1–6) for budget management, indicating strong PFM performance, before beginning to slide backwards. Thus, fiscal pressures and the prospect of debt relief provided important incentives to pursue PFM reforms for some time. However, reforms pursued in reaction to such pressures were only partially sustained over time, and underlying issues subsequently resurfaced.

3.5 Chapter Summary

This chapter covers the broad picture of incentives and constraints which governments face, with the aim to identify whether and how these factors shape the interest in and commitment to PFM reforms. As emphasized by WDR 2017, commitment is a key feature with regard to the likelihood that policies are actually and effectively implemented.

As discussed in Section 3.1, it is possible to provide at least an approximate account of the political commitment to governance or public sector reforms and strengthening, and the cases suggest an association with the pursuit of PFM reforms. Important ingredients

are whether leading politicians made commitments to reforms during the past elections, combined with the strength of mandates received. Furthermore, Section 3.2 explores high-level policy goals, and whether pursuing PFM reforms provided a good fit with such goals. Georgia stands out as a case with strong public sector reform commitment following the 2004 change in government, which helped to break out of a previously poor governance equilibrium. Subsequent governments then continued the path of improving public sector performance.

In Nepal and the Philippines, political pledges to improve governance and to make the state work better for the poor played important roles in the 2008 and 2010 elections respectively, but in both cases, there were also important constraints at work. In Nepal, electoral fragmentation and a political focus on a new constitution, and how to constitute intergovernmental relations, made it challenging to pursue reforms consistently. In the Philippines, vested interests against a strong reform push from the central government were particularly significant; and reform progress remained particularly uneven. In Tanzania and Nigeria, over the past decade, electoral promises focused more on preserving peace, national unity, and the status quo, rather than governance improvements, at least until the 2015 electoral cycle. The latter brought in much greater government commitment to reforms, and there are at least some initial indications of progress.

As the case study experiences indicate, the relationship between fiscal trends and efforts toward PFM reforms is more complex than might be expected. Across the globe, many governments in low- and middle-income countries have sought to increase revenue and expenditures in recent years (as reflected in Figure 3.1). The five cases suggest that governments in countries with low revenue to GDP ratios typically seek revenue increases. As is discussed further in Chapter 4, this was a powerful motivation in Georgia, and seems to also have played a role in Nepal as well as Tanzania. At least for Georgia and Nepal, this went hand in hand with improving expenditure management. However, as is discussed further in the following chapters, there is less of a clear link between increased revenue and increased demands for accountability—and for PFM improvements specifically—than is assumed in parts of the literature.

Debt seems to have been a greater driver of PFM reforms in the 1990s and up to HIPC, but has not been a strong driver for the countries and years covered here.⁶² The decline in debt ratios indicates that governments have sought to maintain or improve fiscal stability and to avoid unsustainable debt levels. However, levels of debt evolve continuously. There is the risk that even in countries where PFM improvements have been implemented, and where debt and deficits were brought under control through an increase or recovery of revenue levels, new periods of excessive expenditures can emerge. Among the case studies, this is especially an issue in Georgia.⁶³

Fiscal shocks were rare during the period reviewed, except in Nigeria toward the end, and Georgia at the very outset. While the level of revenue relative to GDP had declined in Nigeria for a while, this

remained non-urgent—and not clearly visible—as revenue was rising in nominal terms and GDP was underestimated, thus masking the relationship. The picture in Nigeria only turned into a strongly negative revenue trend once GDP was re-based in 2014. Revenue even exceeded expenditures for several years before the global financial crisis which depressed oil prices in 2008–2009, facilitating a stimulus during those years, and followed by a renewed rally in prices from 2010–2014. A substantial fiscal crunch then emerged since mid-2014 due to the drop in oil prices combined with other factors and there are some early indications that this is contributing to a reviving of efforts at fully implementing earlier conceived PFM reform measures.

The following two chapters zoom into how PFM reforms proceeded in greater detail. Chapter 4 discusses a set of four more direct drivers which are assumed to affect PFM reforms: institutional arrangements and legal provisions, the political-technical interface, focusing in particular on the selection and tenure of Ministers of Finance, the role of the demand side for PFM reforms, and that of ideas and ideology. Chapter 5 then hones in on the specific aspects of PFM and how each of these have developed across the cases.

62. For a review of PFM improvements related to HIPC efforts, see de Renzio and Dorotinsky 2007.

63. Another case is Mongolia where external debt was brought down from 100 percent to 40 percent of GDP between 2003 and 2008, and a range of PFM reforms were implemented in the 1990s and 2000s. Nonetheless, debts rose to over 180 percent of GDP by 2014.

Institutional Conditions and Dynamics for Advancing PFM Reforms

4

Overall political dynamics and policy goals and fiscal trends, as discussed in Chapter 3, are important motivators for pursuing PFM reforms, specifically for providing high-level political backing to such efforts. This chapter hones in on some of the specific challenges and opportunities that are embedded in the institutional environment in which PFM reforms are being sought (see also Dressel and Brumby 2009).

In particular, this chapter considers the institutional and legal setup (and potential efforts at changing this) including the status of key legal provisions, the organization of central finance functions, the relationship between the executive and the legislative, and the nature of intergovernmental relations and the related distribution of responsibilities for managing public funds. In addition, the chapter looks at the link between the political and technical level and how this influences reform commitment and traction.

4.1 Institutional and Legal Arrangements

One important element for making reforms happen are existing institutional and legal arrangements. These concern both the directly PFM-specific institutions—which matter for how far the system is from functioning well—as well as the institutions of the wider authorizing environment. This wider institutional setting can facilitate making changes and improvements, or in a negative scenario, can make this particularly difficult. In line with the importance of these issues, institutional and legal aspects of PFM systems have started to receive greater coverage in PEFA and other PFM-related reports in recent years.

Several types of institutions and institutional relationships matter. A core aspect is the legal provisions that establish the rules of how public funds are to be allocated, used, and accounted for. A second aspect is the structure of the Ministry of Finance (MoF) itself, including how it is internally organized, what functions it comprises, and what other institutions play a role in managing key PFM aspects (see also Allen et al. 2015). A further critical institutional aspect is not only the relationship between the executive and the legislative regarding budget approvals, oversight, and

accountability, but also the adoption of legal changes, such as a new organic budget, procurement, or external audit law. A fourth key aspect is intergovernmental arrangements—that is, the role played by subnational entities in managing public funds, and their rights and responsibilities in this regard.

4.1.1 Public Finance Laws

While laws often do not fully reflect what happens de facto—as underlined also in WDR 2017—legal provisions, their status, and the degree to which they need to be updated or changed matters (see also Lienert 2013a). With regard to organic budget laws or broader laws on public finance, countries range from having very old and outdated laws (Nigeria) to those that have been updated multiple times in the 1990s and 2000s (for example, Tanzania). Apart from organic budget laws, key public finance laws include those governing public procurement, debt, and/or on fiscal sustainability, as well as supreme audit offices. On the revenue side, this is complemented by tax laws and laws governing other forms of revenue.

Table 4.1 summarizes the status of the main PFM-related laws across the five countries covered. Three of the five countries are currently in the process of updating or, for the first time, introducing comprehensive organic budget legislation (Nepal, Nigeria, and the Philippines). Georgia and Tanzania have recent organic budget legislation adopted in the 2000s. The latter two and Nepal also have current legislation pertaining to external audit. In Nigeria, the role of the Auditor General is mainly regulated by the Federal Constitution.⁶⁴ Efforts to adopt a full-fledged law failed in the 2000s, and again failed before the 2015 elections. Following the change in administration, a new effort was started in 2016. In the Philippines, the main legal basis for external audit is similarly a set of constitutional provisions as well as a presidential directive, rather than a dedicated law.⁶⁵ This legal situation reflects challenges in the relationship between the executive and the legislature

64. Articles 85 to 87 for the Federal Level, and Articles 126ff concerning the requirement of states to establish state level Auditor Generals.

65. See: <http://www.coa.gov.ph/index.php/2013-06-19-13-06-03/constitutional-mandate>; and <http://www.coa.gov.ph/phocadownload/userupload/Issuances/rules-and-regulations/PD1445.pdf>.

TABLE 4.1. Key Public Finance Laws in the Five Case Study Countries

Country	Budget Preparation and Execution	External Audit	Procurement	Debt
Georgia	Budget Code (2009)	Audit Office (2008)	Law on State Procurement (2010)	Economic Liberty Act (2011) (limiting government spending and borrowing)
Nepal	Financial Procedures Act (1999) and Regulations Under development: New Fiscal Responsibility and Budget Management Act	Audit Act (1991)	Public Procurement Act (2007)	Public Debt Act (2002)
Nigeria	Public Finance (Control and Management) Act (1958) Last attempt to pass a new law: 2009	Office of the Auditor General regulated by the 1999 Constitution, adoption of separate law failed in the 2000s ^a	Public Procurement Law (2007)	Fiscal Responsibility Act (2007)
Philippines	No unified PFM act Budget Reform Bill drafted and initial discussions in parliament held in 2016; a revised bill was submitted in May 2017	External audit is regulated by the 1987 Constitution and Presidential Directive No. 1445, issued 1978 as amended No separate act	Government Procurement Reform Act (2003)	Foreign Borrowings Act (1966); Central Bank Act (1993)
Tanzania	Public Finance Act (2001; revised 2004)	Public Audit Act 2008	Public Procurement Act (2016; amending the Act of 2011) ^b	Loans, Grants and Guarantees Act (1984)

Source: Authors, based on publicly accessible laws and case study reports.

Note: a. An original Audit Act dates back to 1957 (that is, predating independence). This is partially overridden by the 1999 Constitution, but not absolutely. A separate standalone Audit Bill was resubmitted to the legislature for approval in early 2016. A new Audit Bill was passed by the legislature before the 2015 elections, but was not assented to by the President in time to become law.

b. See Chapter 6. The PPA 2011 replaced an earlier act adopted just 7 years earlier (2004). The 2011 Act only became effective in December 2014, following extensive delays in publishing the regulations. Since the 2011 Act was viewed as not providing value for money in procurement, amendments were passed in June 2016.

discussed below: where this relationship is difficult and prone to deadlock, it can be particularly challenging to achieve improved PFM legislation.

The area where recent international ‘best practice’ models seem to have had the greatest impact is on legal provisions for public procurement. In this area, an international ‘model law’ was developed first in the 1990s, and then updated in 2011, by the United Nations Commission on International Trade Law⁶⁶ (‘UNCITRAL model law’), as part of the global move toward greater trade liberalization and market integration (see also Sanchez 2013). Many countries initiated public procurement reforms since the 1990s also as part of their accession to the World Trade Organization and regional trade agreements. All five countries covered here adopted new procurement legislation in the 2000s or 2010s. As is discussed in Chapter 5, these reforms mostly involved external support and advice based on international best practices, and a key thrust was to make government procurement more open to national and international competition. Tanzania provides an example of first moving toward international ‘best practices’, then going backward, and then pursuing another round of reforms through successive changes and amendments of its procurement legislation.

When and how a particular new law was passed, failed, or stalled typically has deep roots in wider nontechnical factors. The passing of a new law has typically proved to be far more difficult in complex countries with relatively powerful legislatures (Nepal, Philippines, and Nigeria), than in Georgia and Tanzania where the incentives or powers of legislatures to block legislation have been relatively smaller. In the Philippines, the overall constitutional setup as well as political constellations generally make the passing of any legislation difficult (Matsuda 2013). Such situations can leave PFM systems without sufficiently clear legal underpinnings for extended periods of time.

4.1.2 Organization of ‘Central Finance Functions’⁶⁷

What Ministries of Finance are responsible for and how this links to the roles and responsibilities of other ministries, departments, and agencies (MDAs), varies substantially from country to country. As Allen et al. (2015) note, this issue has thus far received rather

66. See: http://www.uncitral.org/uncitral/en/uncitral_texts/procurement_infrastructure/2011Model.html.

67. This section reflects the current organizational arrangements in each country and related reform challenges; while discussing most important changes or new institutions established over the past decade. It would be difficult to fully reconstruct the institutional setup of the mid-2000s for each country.

limited attention in the literature.⁶⁸ However, these arrangements are likely to have an impact on what Ministers of Finance care about and may also entail gaps, blockages, or friction if the roles of various MDAs are not sufficiently well defined or are partially overlapping or competing.

A further area where countries notably diverge is with regard to their institutional setup to coherently pursue planning, budget preparation, and budget execution. The lack of good enough links between planning and annual budget allocations is a widely noted issue (Allen 2009; Dabla-Norris et al. 2010; Wilhelm and Krause 2008), and ‘getting things right’ can be challenging. In terms of reform efforts, the standard tools that are being pursued for improvements are the introduction of MTEFs and of program budgets. However, in contexts where the institutional setup is dysfunctional or not functioning well enough, injecting these tools without making other changes may not be effective.

Among the five cases, Nigeria and the Philippines have the most complex setup of CFAs, Nepal is an intermediate case, and Tanzania and Georgia have currently relatively concentrated central finance functions, coming closer to what one might describe as a ‘standard’ model of a MoF. In Nigeria, the setup of CFAs was changed in late 2015, following the election of the new government. Both before and after the change, the Federal MoF had as its core technical departments, one for Economic Research, one for Reform Coordination, and a Department for International Economic Relations. Neither budget, nor treasury, nor debt management functions were directly under the ministry.

The main budget preparation functions were located in the Budget Office of the Federation, budget execution functions in the Office of the Accountant General, and debt management in the Debt Management Office. In addition, there was a National Planning Commission (NPC) with partial responsibility for the preparation of investment plans. At the same time, at least for the period 2011–2015, the Minister of Finance was concurrently the Coordinating Minister for the Economy (CME), with a remit focused as much on reviving agriculture and seeking economic diversification, as on upgrading public financial management. The main revenue collection responsibility sits with the Federal Inland Revenue Service (FIRS), and similarly, procurement oversight is established as a separate function.

In late 2015, the institutional setup was changed by the new government, but only partially defragmented. The main change was the creation of a Federal Ministry of Budget and National Planning (FMBNP), combining the functions of the Budget Office of the Federation and of the NPC, and becoming responsible for the preparation of the entire federal budget, including recurrent and capital expenditures. A Federal MoF continues to exist alongside

this newly created ministry. The minister now no longer has a formal oversight role over budget preparation, while he/she also no longer has a broader economic management or reform mandate. The Office of the Accountant General and the Debt Management Office continue to be separate offices from both the ministries.

In the Philippines, the central finance institutional landscape is highly fragmented. There is no Ministry of Finance, but rather four main CFAs. The Department of Budget and Management (DBM) is the primary agency tasked with preparing annual budgets, as well as administering and controlling budget execution. It also manages the government’s compensation and position classification. The Department of Finance (DoF) is primarily tasked to handle revenue policies as well as the administration of the revenue generation, debt management, accountability of state-owned corporations and assets, and (indirectly) treasury functions. The Bureau of Treasury (BTr) (which falls under the purview of the DoF but remains autonomous) manages cash transactions and maintains the book of accounts of the national government, as well as foreign and domestic debt. In addition, the National Economic and Development Authority, which is a cabinet-level agency responsible for economic planning, policy coordination, and coordination functions regarding public investments. Lastly, the Commission on Audit (COA) is not only tasked with external oversight of all government accounts but it also oversees the accounting function, which presents a conflict of interest. There are several other agencies involved in PFM activities including the Public Procurement Policy Board and the Central Bank.

In Nepal, the Ministry of Finance⁶⁹ has direct responsibility for budget preparation and for asset management while the remaining CFA functions are shared between the MoF and other agencies or departments. Treasury and cash management are the functions of the Financial Comptroller General Office (FCGO),⁷⁰ headed by a ‘special class’ officer. The FCGO is also responsible for internal audit. Revenue management falls under the Revenue Administration Division within the MoF as well as the Inland Revenue Department,⁷¹ another one of the six departments under the MoF (that is of the same status as the FCGO). A Public Procurement Monitoring Office (PPMO) was established in 2008 as an agency under the Prime Minister’s Office.

An element of complexity concerns the role of the National Planning Commission (NPC), due to its significantly overlapping mandates with regard to the annual budget. The NPC is tasked with formulating and monitoring development plans and policies at a macro level. However, its role as against the MoF and other CFAs has grown over time. It not only approves projects at the

68. Existing discussion and analysis include Allen and Grigoli (2012); Allen and Krause (2013); and World Bank (2013).

69. See: http://mof.gov.np/uploads/cmsfiles/file/Structure%20of%20MOF_Eng_20130730125648.pdf.

70. <http://www.fcgo.gov.np/about-fcgo/> This office is one of six semiautonomous departments under the MoF.

71. <https://www.ird.gov.np/home/index>.

central and district level during budget preparation, but also does so again during budget execution, after formal approval of the annual budget by the parliament. This contributes to delays in executing capital expenditures, and low overall budget execution rates. The NPC has also become highly politicized. Debt and aid management functions are distributed between the MoF, FCGO (ensuring timely payments), and the Central Bank.

In Tanzania, a number of key central finance functions are included under the MoF: budgeting, treasury, accounting, internal audit, and public procurement appeals, while planning has moved in and out of the ministry. The revenue function is organized separately in the Tanzania Revenue Authority (TRA), established in the mid-1990s as an autonomous revenue agency. The Public Procurement Regulatory Agency (PPRA), established through the 2011 Public Procurement Act (PPA), has general policy oversight of procurement. The planning functions for investments have moved in and out of the MoF. In 2008, a Planning Commission was again established in the President's Office—the President's office-Planning Commission (PO-PC),⁷² with a broader role to formulate and monitor implementation of national plans, as well as to plan and oversee major public investments. The latter responsibility entailed some tensions between the MoF and the PO-PC. Following the October 2015 elections and renewed reform drive, the planning function was moved back to the MoF. The external audit function in Tanzania is exercised by the Controller and Auditor General (CAG).

Georgia has developed the most concentrated allocation of central finance functions among the group.⁷³ The MoF holds responsibilities for budgeting (capital and recurrent), treasury, tax policy and administration functions, and public debt. This concentration of functions has been pursued as part of the reforms made over the past 10–15 years, including the full integration of the treasury and revenue functions into the ministry. Public procurement oversight and execution functions are exercised through a State Procurement Agency which has attained its current status through several rounds of reforms. External audit is the responsibility of the State Audit Office (SAO).

One particular feature of the institutional setup in Georgia is the existence of 'Legal Entities of Public Law' (LEPLs). These are divisions within ministries or separate agencies which fall outside the purview of the regular civil service. Generally, LEPLs have a right to generate and manage their own revenue and they can pay salaries outside of and above civil service pay scales. For example, alongside its regular divisions, the MoF of Georgia contains four LEPLs: (a) the Revenue Service, (b) the Service Agency, (c) an Academy of Finance, and (d) the Financial Analytical Service,

which is the ministry's IT department in charge of managing and further developing the ministry's IT systems.

As the overview of these different arrangements indicates, the complexity of the institutional setup can vary significantly, and affects the potential for pursuing PFM reforms. Institutional fragmentation can go far beyond the issue of integrating or not integrating planning functions into the MoFs and can instead also extend to areas typically thought of as core functions, such as budget preparation. The experience across the case studies indicates that complexity tends to become an obstacle to pursuing PFM reforms, as has been in particular the case in Nigeria and the Philippines.

It is possible, but challenging to change the arrangement of CFA functions. Georgia is a case where, as part of the reform efforts made since 2004, the institutional design and allocation of CFA functions was brought more explicitly under the control of a single ministry. A similar trend seems to materialize in Tanzania, following the 2015 elections. The potential cost and benefits of an institutional change should be carefully considered. In particular, in highly fragmented environments, the potential short and longer-term benefits of greater integration are likely to be substantial. One option can be to seek consolidation when governments change, because structures and office holders are less entrenched at those points in time. This has been done in the cases of Nigeria and Tanzania in 2015–16, while in the case of Nigeria, further steps appear as needed.

4.1.3 Relationship between the Executive and the Legislative

The relationship between the (central) executive and legislative is also a crucial factor affecting PFM systems. In the recent donor discourse around PFM, legislatures are often primarily considered as a body exercising oversight and accountability. Therefore, the emphasis of development support in this regard is typically focused on strengthening the role of parliaments to review budget execution ex post (see for example, a summary of such efforts provided by Hudson and Wren 2007). However, parliaments also have a crucial role to play in other PFM aspects: (a) approvals of annual budgets (and MTEFs where these exist) and (b) passing of PFM reform legislation.

In three out of the five case study countries, contestation between the executive and the legislative has repeatedly led to significant delays in budget approvals. As Wehner (2006), Lienert (2013b), and others have emphasized, the budgeting powers that are allocated to legislatures, typically through a constitution, vary significantly across countries. Further variations—within a country over time—result from the fact that the level of support in a legislature for a government can vary and change due to several factors, such as whether and how broad the executive has a supportive/aligned majority in the legislature.

72. <http://www.mipango.go.tz/>.

73. <http://www.mof.ge/en/4479>.

Delayed budget approvals are an important source of distortions and malfunctioning of PFM systems. Delayed approvals create uncertainty for spending agencies, especially around nonsalary expenditures; and they increase discretion within the executive with regard to releases during the initial months. Nigeria is a particularly extreme case, where disagreements between the executive and the legislative have repeatedly led to delays between the budget being submitted to parliament and final signature into law of more than 150 days in recent years.⁷⁴ Budget approval delays have also been substantial in Nepal, due to the political uncertainties and challenges related to the postconflict political transition. Budgets have been submitted in mid-July to the Constitutional Assembly, but have been passed after one- to nine-months delays (the latter in 2012/13), leaving the government to operate with short-term authorizations to continue spending.⁷⁵ Timeliness improved following the passing of the 2015 Constitution. In the Philippines, delays were substantial during the Arroyo administration which had insufficient support in the Congress, but improved significantly during the 2010–2016 Aquino administration, as also reflected in the substantial improvement in PEFA ratings for ‘timeliness of budget approvals’ (Table 4.2). However, this has been due to political constellations rather than changes in relevant rules and may slide backwards whenever there is a period of divergence between the President and the majorities in the two houses of Congress.

Delays in budget approvals almost inevitably reinforce the tendency of under-execution of investment expenditures, changes in allocations during budget execution, and bunched releases and payments at the end of the fiscal year. When budgets are adopted with substantial delays, MDAs have no certainty over their allocations for extended periods of time and hence will typically hold back in particular with moving investment projects forward. This contributes to

changing de facto allocations during budget execution, as well as a bunching of expenditures toward the end of the fiscal year. There can also be a knock-on effect for ensuring proper accounting and timely completion of the annual budget cycle, including finalizing financial statements and external audit reports. Furthermore, long delays and multiple revisions of the budget negatively affect budget transparency, because they lead to delays in the publication of official budgets, and uncertainty about what constitutes the ‘original budget’ against which actual expenditures should be compared.

As reflected in Figure 4.1, the timeliness of budget approvals can improve over time. This has notably happened in the Philippines and in Tanzania. In the Philippines, the Arroyo administration had weak support in the Congress, while this strengthened during the Aquino administration. The Philippines as well as Nigeria have constitutions that seek to emphasize checks and balances between the executive and the legislature with regard to control over the budget, and such arrangements can be prone to deadlock.

In addition to delayed budget approvals, legislatures can also affect the realism of budgets. For example, in some countries, MPs request that estimated revenues are revised upward to accommodate additional spending requests. This can result in revised estimates of expected economic growth, and/or of expected revenue (for example, through upward revision of oil price estimates for the upcoming fiscal year as happened in Nigeria). The degree to which unrealistic budgets are ‘promoted’ by legislatures rather than executives is more challenging to document than delays in budget approvals, because it requires access to the drafts being submitted to legislatures, as well as to the budgets as passed. Given the potential importance of this issue, making the executive budget proposals publicly available should be part of the global pursuit of greater fiscal transparency.

Improving executive-legislative relations around budgets can be very challenging. Typically, the power of the legislature with regard to budget approvals is set out in the constitution and hence requires particularly large-scale majorities to change. Such majorities are particularly unlikely to be a feasible prospect in those countries where long delays with budget approvals occur. As one commentator on the Nigerian experience pointed out, everyone in the MoF and the Federal Budget Office was so exhausted from the annual struggle to get the budget passed by the Legislative

74. These include delays in budget approval by the legislative with delays in executive assent to the budgets as passed by the legislature. Budget approval delays affect the federal budget, but not state budgets. In the states, legislatures mostly ‘rubber-stamp’ budgets proposed by executives. However, in some states, executives include expenditures favoring the political goals of various members of state legislatures, even though these cannot all be funded, in the expectation of adjusting budgets as needed during execution.
75. Nepal’s fiscal year starts in mid-July.

TABLE 4.2. PEFA Ratings for Timeliness of Budget Approvals (PI-11 (iii)/[PI-18.3])^a

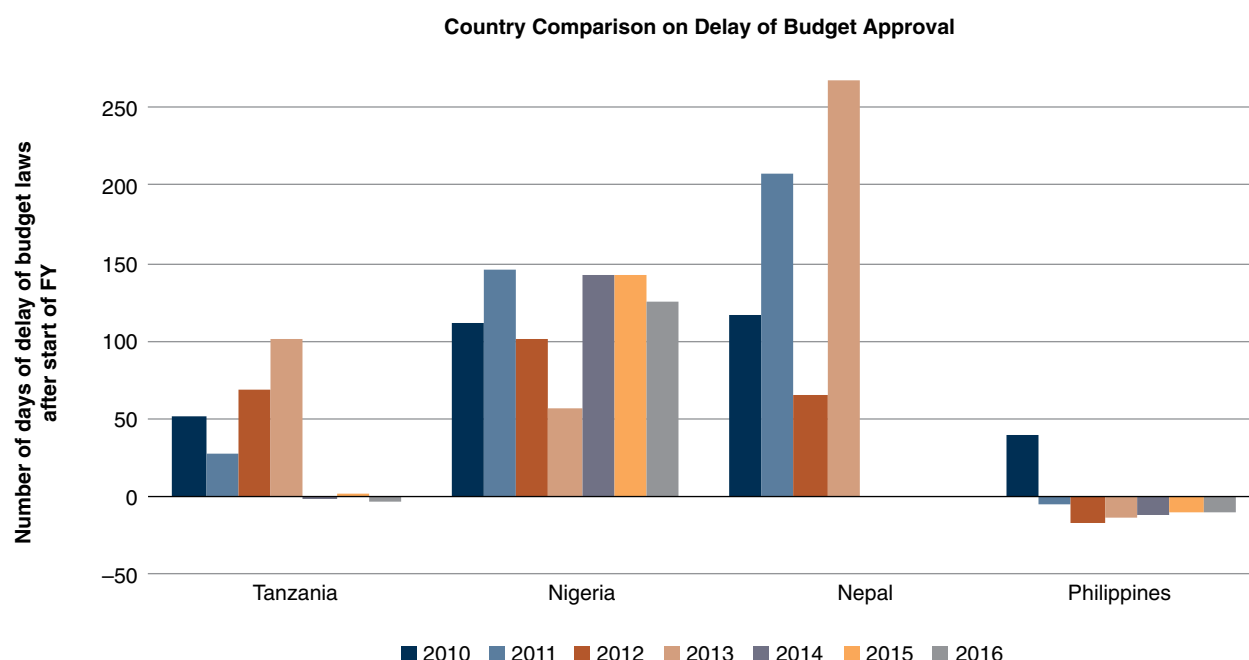
(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years)

	Georgia	Nepal	Nigeria	Tanzania	Philippines
Earliest	A	D	D	B (2009) ^b	D
Most recent	A	NA	—	C	A

Note: a. The main PEFA indicator cited is that as used in the 2011 PEFA framework. The indicator cited in [] refers to the 2016 version of the PEFA framework.

b. In the 2006 assessment for Tanzania this dimension was not rated.

FIGURE 4.1. Timeliness of Budget Approvals Compared



Source: Data from publicly available information and governments documents. Data not available for Georgia, and for 2014–2016 for Nepal.

Assembly that there was little appetite to even consider seeking a constitutional change that would have clarified the respective roles of the executive and the legislature with regard to the budget and to reduce the likelihood of prolonged deadlock.

A further key aspect that tends to be underappreciated is the role of parliaments in approving PFM reform legislation. Across the five cases reviewed here, three (Nepal, Nigeria, and the Philippines) have PFM reform legislation that is pending in parliament; and some have several pending bills (for example, a pending organic budget law as well as pending legislation on the external audit function in Nigeria, and several laws in Nepal and the Philippines). For various reasons, legislatures can hold up such reform legislation for extended periods of time.

The passing of procurement legislation in all five countries indicates that in principle, legislation targeting PFM reforms can be passed even in difficult environments and even if a law potentially goes ‘against the grain’ of vested interests. The new procurement laws typically took about five years from initial design to eventual passage.⁷⁶ However, as is discussed further in Chapter 5, it

is important to consider that despite the new procurement laws having been passed, the change process continues rather than having reached a ‘steady state’ and full implementation in several of the countries. For example, in Nigeria, implementation of the procurement legislation is considered weak both at federal and state levels.⁷⁷

Moreover, despite considerable attention by international development partners (DPs), as noted above, the oversight and accountability role of parliaments has remained stunted. This is illustrated by the fact that the PEFA ratings for legislative scrutiny of external audit reports did not improve in even one of the five countries analyzed (Table 4.3). The lack of improvement in parliamentary scrutiny stands in contrast to the performance of external audit, which while still weak, did see improvements across the case studies (further explored in Chapter 5). This is also in line with the cross-country analysis, which found that external oversight and accountability is the weakest dimension across the six PEFA categories, and this holds true across income levels as well as different types of political regimes (that is, democratic as well as non-democratic).

Legislatures do not take up, discuss, and follow up on audit reports for various reasons. For example, in Nepal, the parliament was either not in session or did not table audit reports for discussion submitted to it before 2014. This is partly due to the postconflict environment of having no parliament and, hence, no

76. In Nigeria, the first Country Procurement Assessment Report (CPAR) was produced in 2000, and the Public Procurement legislation was passed in 2007. In Tanzania, the first CPAR was carried out in 1996 and the Public Procurement Act (PPA) was passed in 2002, and then subsequently changed multiple times. In Nepal, about 5 years elapsed between the first CPAR and the passing of the PPA 2007. In the Philippines, public procurement reform began in 1998 and was approved in 2003. In Georgia, the first Law on Public Procurement after independence was passed in 1999. However, reforming procurement began in earnest in 2010.

77. A majority of states has followed the federal level in passing new procurement laws.

TABLE 4.3. PEFA Ratings for Legislative Scrutiny of External Audit Reports

PI-28 [PI-31]: Legislative scrutiny of external audit reports

	Georgia	Nepal	Nigeria	Tanzania	Philippines
Earliest	C+	D+	D	C	D
Most recent	D+	D	-	D+	D

PI-26 [PI-30]: Scope, nature and follow-up of external audit

	Georgia	Nepal	Nigeria	Tanzania	Philippines
Earliest	D+	D+	D+	D+	B+
Most recent	B+	C+	-	C+	B ^a

Note: PI numbers according to the 2016 PEFA methodology are provided in brackets.

a. In the 2016 PEFA (based on the new methodology) this indicator is rated as C+; but when comparing between 2010 and 2016, the indicator is assessed as B.

parliamentary committee (or Public Accounts Committee [PAC]), but also due to the absence of an Auditor General for seven years. A somewhat different situation prevails in Georgia, where from 2012, the SAO was perceived as partisan due to appointments made by the previous government just before the end of its mandate. More broadly, there are also incentive issues: paying attention to budget allocations ex ante offers more potential political rewards than trying to discern ex post where money was not well spent, and getting the executive to make changes.

4.1.4 The Importance of Intergovernmental Relations and of Effective PFM Systems across Levels of Government

An additional aspect of institutional complexity is the arrangement of intergovernmental relations, and given widespread trends toward increasing decentralization, PFM reform efforts will increasingly have to contend with these. Intergovernmental relations are particularly important insofar as the overall goal of strengthening PFM systems is to strengthen service delivery. In decentralized countries, even more so in federal systems, this means that PFM systems have to be effective and accountable across levels of government rather than just at the center.

Among the five cases covered, intergovernmental arrangements differ, and in several cases, they have either been changed in recent years or discussions on this are ongoing. Nigeria is the only one of the five cases that is an established federal state. This places important limitations on the degree of improvements that can be achieved through PFM strengthening at the level of the federal government. State and local governments have a guaranteed right to substantial fiscal transfers from common resources (the Federation Account and the separate pool of value-added tax (VAT) receipts, as well as a 'derivation allocation' for states where oil is produced). Once funds are transferred, the federal government does not have direct oversight of or influence on how funds are spent to deliver public goods and services. The external audit and

oversight roles rest with state-level audit offices and parliaments. Therefore, efforts to support improvements in PFM have sought to target particular states, for example, those with governors who have signaled greater interest in using public funds well and in achieving better service delivery. Even in this setting of limited direct influence, the federal government still has an important signaling role, because its laws, standards, and practices are often replicated at the state level.

Nepal stands out for the most far-reaching transformation being under way to its system of intergovernmental relations. The country changed from having a unitary system to a federal system of government in 2015, following intense and drawn-out discussions on constitutional reforms. The change is expected to also fundamentally affect the way in which budget plans are developed and allocations are executed. When such large-scale changes happen, they, in principle, require significant investments in training and retraining staff, setting up new offices, and so on—and funding from a country's own resources or from DPs may often fall short or not be on time.

The Philippines, Tanzania, and Georgia are all unitary states, but each still holds some complexity in intergovernmental relations and the configuration of PFM systems. Discussions about how to (re)configure intergovernmental relations are present in all three cases. With a population of under 4 million, Georgia is a comparatively small country. Municipalities were traditionally simply executing levels of government, but have gradually received greater degrees of autonomy since the early 2000s. Still, the central government has a full view of all financial transactions, through the unified treasury system, for example, and there is a single external audit body.

Tanzania has central, regional, and local levels of government with very limited subnational autonomy with regard to allocating and managing public funds. The budgetary votes of Level 1 (central government ministries) and Level 2 (regions) are approved by the national parliament. Level 3 (local government) is under the authority of the Regional Administration and Local Government

under the President's Office,⁷⁸ which thus is a direct powerful lever over spending at local levels. Heads of regions are appointed rather than elected. While local government authorities (LGAs) are responsible for delivering basic health and education services, central ministries retain direct involvement. These arrangements are very much in contrast to those prevailing in Nigeria.

While the Philippines has a particularly dispersed geographic structure (with 7,000 islands) and a large population (over 90 million as of 2010), it still retains a relatively centralized system of government. The Local Government Units (LGUs) comprise 81 provinces, 144 cities, 1,490 municipalities, and over 42,000 *barangays* (villages). Somewhat similar to the situation in Tanzania, local governments are in charge of basic service delivery, but the national government continues to play a significant role in both financing and implementing these. National government agencies are represented in the field by a mix of regional, provincial, and/or district offices, and the national government implements various vertical investment programs, for example, for local roads and health clinics. Regarding ex post oversight, the COA has regional offices, and has started building some Provincial Satellite Audit Offices (PSAOs).

As this discussion indicates, intergovernmental relations are an important aspect of the PFM-related institutional context, and in particular for the intended link between improving PFM systems and better service delivery. With variations depending on the particular intergovernmental arrangements, service delivery improvements can only be achieved if the flow and the use of public funds is improved across the levels of government involved (see also Smoke 2015a, 2015b). Particularly, basic service delivery is typically the responsibility of third or fourth levels of government, and hence there are multiple institutional layers between a national MoF and a local school, health clinic, or agricultural extension service. This can make the pursuit of reforms particularly challenging in a context such as Nigeria, which includes a high degree of subnational autonomy and requires efforts by multiple separate sets of stakeholders.⁷⁹

A second key point is that changes to intergovernmental arrangements and responsibilities for managing public funds are being pursued in a number of countries and can lead to new capacity and oversight bottlenecks. New PFM reform challenges can emerge when changes such as an increase in the number of subnational units or in the share of fiscal responsibilities are being decided. A basic challenge can be to establish new offices, roll out IT systems,

and ensure that sufficiently well-trained staff is locally available, in particular in low-income contexts. Capacities for planning and supervising investment projects can pose a particular problem. Increases in fiscal autonomy can also lead to gaps in oversight that take time to address through strengthening local oversight mechanisms and capabilities.

Third, many centrally implemented PFM reforms require buy-in from subnational stakeholders, and rollout or replication across subnational entities. For example, as discussed in Chapter 5, implementing a TSA raises questions about whether and how subnational entities are part of the system, or should be allowed to maintain separate bank accounts. Similar issues prevail for the implementation of automatization through a financial management system and various potential modules of such a system.

4.2 The Political-Technical Interface for Driving Reforms

As sketched out in Chapter 3, politicians typically have overarching goals and incentives that make them more or less interested in pursuing improvements in how public finances are managed. These goals and incentives can be related to fiscal trends—for example, caring more about the management of funds when a lack of resources threatens the ability to act and less so when there is a steady increase—as well as to other wider issues, including external and internal threats and aspirations.

Taking these motivations as given, the issue of how they are translated into concrete action at the technical level arises; and also, if and how anything can be achieved from within (senior) technical levels during periods when wider political commitment to pursue reforms is weak or absent. The former aspect is particularly interesting for incoming politicians who may want to prepare or make changes. The latter aspect is relevant for stakeholders at the technical level, and also for DPs who often seek to support PFM reforms in environments where political commitment is more lukewarm or volatile.

The case studies indicate several interesting facets around the political-technical interface. First, politicians as well as other stakeholders pay attention to the appointment of Ministers of Finance. The appointments are typically made deliberately, and not as a residual appointment such as sometimes made to more minor portfolios. In some instances, appointments are made with a signaling intention to the international development and/or business community (for example, the two appointments of Ngozi Iweala in Nigeria). Furthermore, among the five case studies, several Ministers of Finance have been relatively high-level politicians who subsequently moved on to the office of Prime Minister (for example, Zurab Nogaideli and Nika Gilauri in Georgia, Baburam Bhattarai of

78. This function has moved multiple times between the Prime Minister's and the President's Office.

79. Intergovernmental relations also often entail their own political economy and fiscal dynamics, such as higher spending on some areas than on others, or less active oversight by the national level of subnational units run by important allies. These issues are beyond the scope of this analysis.

the Maoist party in Nepal), while in other instances they have been primarily technical experts.

The selection and mandate for reforms can be quite explicit. The new 2015 governments in Tanzania and in Nigeria both explicitly appointed reform-oriented Ministers of Finance as a way to signal a renewed focus on governance and PFM reforms (Kemi Adeosun in Nigeria and Phillip Mpango in Tanzania).⁸⁰ In 2004, the post-Rose Revolution government in Georgia appointed as the initial Minister of Finance Zurab Nogaideli, who was one of the ‘internal’ reformers who had served under and then left the previous Shevardnadze Government in protest against its inability to address the subversion of the state by corruption and criminal networks. When Nogaideli was moved to become Prime Minister in 2005 (after the unexpected death of the incumbent), a succession of young, reform-minded successors was appointed, including a second Minister of Finance who then moved on to the post of Prime Minister (Nika Gilauri).

Second, beyond appointments, the direct involvement of political leaders in PFM is typically limited, but at key decision points explicit political backing can be critical. While Presidents or Prime Ministers select Ministers of Finance intentionally—to reform or rather to preserve the status quo—in many situations they will not engage on the detail of PFM reforms. In the words of a former minister (who had been involved with considerable reform progress) “the President did not understand or care about PFM reforms, except for tax collection; and his direct involvement was minimal.” This is likely to be true for many situations; government leaders may be keen on regaining or adding fiscal space as this opens their margins for maneuver and for pursuing their key political agenda. It is very unlikely that they will care about the PFM reform details such as accounting standards or improvements in IT systems.

However, at key turning points and when resistance from stakeholders, in particular within the executive, is significant, clear political signals are crucial. For example, a 2016 senate hearing in Nigeria credited the President directly with forcing MDAs to close their accounts in commercial banks and to complete the TSA for the federal government: “However, full implementation of TSA (recollection) kicked off in March 2015 [that is, still under outgoing President Jonathan] and gained traction when President Muhammadu Buhari mandated the closure of all FGN accounts held in commercial banks by September 2015. This led to a massive one time surge, especially for September and October 2015, as MDAs rushed to comply. [. . .], the senate resolution setting up the Joint Committee, the Senate President and all the testifiers at the hearings applauded the sagacity, foresight, and dogged determination of President Muhammadu Buhari to fully

implement the program, which no doubt compliments the anticorruption crusade.”⁸¹ Political leaders may also care about limiting corruption and mismanagement if this has been a central aspect of their political platform—and may do so to a quite detailed extent as has been the case during the 2010–2016 administration in the Philippines and the administration in Tanzania following the 2015 elections.

Therefore, even if day-to-day involvement of political leaders is usually minimal, it matters whether other ministries and stakeholders believe that the political leadership is backing PFM reforms being pursued by technical leaders. A number of PFM reforms require changes that have to be implemented broadly across government (for example, developing budgets in new formats, ensuring timely and adequate reporting of expenditures, and so on). As discussed above, legal changes as well as timely budget adoption will also depend on a majority in parliament approving these without excessive delays. Political backing of the reform agenda—as well as institutional factors such as the allocation of powers over budget approvals—is therefore important, especially for potentially more contentious reforms and contentious points in reform processes. This is explored further in Chapter 5.

Across the five case study countries, most Ministers of Finance have been in their positions for relatively short periods, hence commitment and continuity provided by senior civil servants is potentially important. Rather short ministerial tenures prevailed both in Georgia—which saw the greatest degree of progress—as well as in Nigeria, which saw the least degree. Each of two countries had seven Ministers of Finance within the decade up to 2015. The number rises to nine Ministers of Finance in Nepal during the period 2003 to 2013. In Tanzania, the ministerial portfolio changed hands five times between 2000 and 2015, and two to three office holders for key CFA positions in the Philippines.⁸² Thus, tenure length as such is not clearly related to the likelihood of reform progress.⁸³ One feature noticeable in Georgia and also to some extent in Nepal is that senior civil servants rather than ministers were also significantly involved in PFM reform efforts, and at least in Georgia, these tended to serve in the ministry for a longer period.

The level of prior experience of the Minister of Finance and senior appointments in the ministry, including specific experience in a country’s PFM system can also be relevant. The background of

80. As noted in Section 4.1.2., the role of the MoF in Nigeria is limited. The appointee as Minister of Budget and Planning, that is, the second and main CFA, is Udoma Udo Udoma, a former two-term senator from a southern state, Akwa Ibom.

81. Available at: <http://www.elombah.com/index.php/special-reports/5624-the-full-senate-report-on-the-abuse-of-the-treasury-single-account>; accessed September 29, 2016.

82. The Philippines had two Secretaries of Finance between 2005 and 2016, three Secretaries of Budget between 2006 and 2015, and three Commissioners of Audit between 2001 and 2015.

83. Some Ministers of Finance who are credited with substantial reforms have served quite long terms, for example, Trevor Manuel of South Africa (1996 to 2009), but such long tenure is quite rare, in particular in more democratic settings.

Ministers of Finance is typically one of the following: from within the ministry (for example, former Directors or Directors General), being transferred from a prior post of minister of another ministry, from the private sector—often a bank or other financial institution, from being an economic and fiscal expert within a political party constituting government, or coming from an international organization or academia.

In principle, having previously served in the MoF bestows some advantages in terms of being familiar from the start with key bottlenecks for progress and potential solutions. Such choices were made following the ‘pro-reform’ elections of 2015 in Tanzania and Nigeria: the newly appointed Minister of Finance in Tanzania previously served as a Deputy Permanent Secretary; while in Nigeria, the new Minister of Finance had previous experience with reforming PFM systems in one of the country’s states (Ogun), while the new Minister of Budget and Planning had served as Chairman of the Committee on National Planning, Revenue Mobilization, and Poverty Alleviation, and Chairman of the Appropriations Committee during his tenure as a senator.

Having a competent team, which has an articulated reform agenda (Kingdon 1995) is helpful, and competency is likely to be a necessary condition for success, but as the example of the Philippines underlines, it is not sufficient. As discussed further in Chapter 5, the heads of offices of key CFAs were quite competent and experienced and had at least a partially clear reform agenda. However, these positive factors were constrained in their effectiveness by the high degree of institutional fragmentation, by staking out an overambitious agenda, and by a political mandate not quite strong enough to clearly go against strong vested interests.

Some limited, incremental, and partial progress may still be possible even in a difficult environment if there are technical teams seeking to pursue improvements; but this cannot have a transformational impact on its own. Most notably, some reform aspects such as the partial and gradual rollout of a TSA still progressed in Nepal, despite political fragmentation and repeated deadlock and very frequent changes of Ministers of Finance.

While political backing is important for enabling PFM reforms to be carried through, conversely political disinterest (or interests opposed to improving the efficient and accountable use of funds) can negatively affect technical capacity. For example, one of the governments in the sample replaced technically and managerially capable staff by weaker appointments over a period of about a decade, thus weakening the role of the MoF. The resulting declining trend is reflected both in stagnating and declining PEFA ratings and ratings by general indices such as the Worldwide Governance Indicators (WGI) (for Government Effectiveness and Control of Corruption). However, even in this case, training opportunities for MoF staff have continued to expand, thus maintaining opportunities for a turnaround of technical capacities as the political commitment re-emerges.

4.3 Demand Side—More a Potential than an Actual Driver for PFM Reform

The role of the demand side in driving PFM reforms across the five countries remained rather limited. This has multiple reasons: the technical issues are diverse and can be challenging to fully be conversant with for nonspecialists. Furthermore, while there is typically some public demand to address corruption where this constitutes a major challenge, the specifics of PFM reforms are typically not widely discussed in the public; and may even be little known outside a relatively small circle of those involved in a particular aspect.⁸⁴ That said, there have been some exceptions, such as considerable attention that emerged on the implementation of a TSA in Nigeria in early 2016, or on the issue of procurement reforms in Georgia, and on budget transparency in the Philippines.

As noted in Chapter 3, all five of the countries are ‘partly free’ or democratic according to international indices, and hence all offer some space for citizen engagement and public debates. At various points in time, discussions about and discontent with corruption has also been running high across these cases. Thus, each of these countries in principle offered some opportunities and reasons for greater citizen engagement on PFM reforms.

Selectively, nongovernmental organizations (NGOs) and public media have been active on issues such as budget monitoring, procurement, and overall fiscal transparency. In Nigeria, NGOs have engaged in some monitoring of budget allocations and to the extent possible also actual expenditures both in individual states and at the federal level. At the state level, governors do not necessarily welcome more active scrutiny and have at times threatened civil society representatives or made it difficult for them to obtain data on planned or actual expenditures in a timely way.⁸⁵ Overall, according to Okonjo-Iweala (2013): “[i]n the case of Nigeria, it is only recently that civil society organizations (CSOs) are engaging more systematically in the budget process.” The author (and former Minister of Finance) puts this more nascent engagement on PFM issues also in contrast to notably greater civil society engagement with regard to the Extractive Industries Transparency Initiative and the repatriation of funds looted by the Abacha regime. Annual budgets, as well as selected specific topics, such as the contested establishment of the TSA, receive some media coverage; including coverage of problems with budgets that relevant CSOs have identified.⁸⁶

In Nepal, during the postconflict period, considerable emphasis was laid and external support provided for more participatory budgeting. However, as a 2011 report finds: “Overall, public demand for

84. See also the recent work by de Renzio and Mastruzzi (2016) focused on how CSOs use budget information.

85. Focus group discussions in Delta and Bayelsa states, May 2013.

86. See for example, <http://www.newsweek.com/nigerias-buhari-finally-passes-2016-budget-456739> on the (late) adoption of the 2016 budget.

information on public finances is weak, linked to a lack of ‘budget literacy’ on the part of citizens and limited expertise on financial and budgetary analysis among CSOs.” (Tamang and Malena 2011). There was also some concern that investing in ‘participatory budgeting’ at local levels can lead to expectations that a district would receive more funds—rather than (or more than) putting a clear emphasis on spending available funds more effectively and with less leakage.⁸⁷

In Tanzania, CSOs have had longer engagement on accountability and developed some technical capacity, but at least up to 2015, government resisted greater CSO involvement in PFM. As the country report notes: “[CSOs’] direct involvement in budget and PFM reform has been limited and had minimal impact due to capacity constraints, resistance from government, and few openings for participation.” CSOs have been involved in Public Expenditure Tracking Survey (PETS) and Social Accountability Monitoring (SAM); and their engagement has focused on expenditures in particular sectors, such as education (HakiElimu⁸⁸). Thus, CSOs have been able to engage more on specific aspects of sector expenditures than on core PFM reforms.

The Philippine civil society community is one of the world’s more vibrant and sophisticated. The interests and effectiveness of these CSOs naturally vary quite significantly, particularly when it comes to advocating for better services or PFM. Several CSOs have been actively involved in various ways to improve the PFM system over the years. Several CSOs were newly formed under President Estrada’s tenure (1998–2001), which created the Transparency and Accountability Network (TAN). During the Aquino presidency, CSOs have been actively involved in a participatory budgeting process.

Over the course of several decades, NGOs have built up stronger technical capacity, benefiting from external financial and technical support (by U.S. Agency for International Development [USAID], the World Bank, and others), and also from the fact that some former civil servants involved in PFM joined key CSOs (Dressel 2012). Following the 2010 elections, several of the key CFA office holders appointed by the Aquino administration had close links with civil society.⁸⁹ The Aquino administration then started a process called ‘Bottom-up-Budgeting’ which engages LGUs and CSOs in identifying programs, activities, and projects for inclusion in the National Budget. This was part of the administration’s commitment to the ‘People Power’ paradigm for ensuring that citizens participate meaningfully in public policy and programs (Dressel 2012).

Overall, civil society influence on budgeting and on PFM reforms has been greater in the Philippines than in any of the other

four case study countries. NGOs are credited with having been closely involved in improving procurement legislation adopted in the early 2000s, as well as with increasing budget transparency and participation in budgeting decisions. There are, however, at least two important limitations: as is discussed in Chapter 2 and in further detail in Chapter 5, some of the envisaged PFM reforms were not successful; notably the implementation of the Government Integrated Financial Management Information System (GIFMIS). Second, the formats in which budget information is presented are not very clear (receiving a ‘C’ rating in the 2016 PEFA; see also IMF 2015), due to a complex structure, earmarking, special purpose funds, and automatically authorized expenditures, as well as considerable powers of the executive to make reallocations during budget execution. Thus, while information is made available, including in Excel formats, it can still be challenging to analyze and interpret.

In Georgia, civil society has played an intermediate role with regard to PFM reforms. Somewhat similar to the Philippines, several individuals have moved between prominent CSOs and positions in the government, albeit not as specifically related to PFM. Several CSOs are able to employ specialist staff, which allows them to monitor government operations, including PFM, overall fiscal management, and procurement. The organizations most significantly engaged on governance issues include Transparency International, the Georgian Young Lawyers Association, the Open Society Georgia Foundation, and the Institute for Development of Freedom of Information. CSOs have been invited to serve as members of a range of government committees and commissions. They are represented in the Dispute Resolution Council of the Procurement Agency, and on the PFM Coordination Council that was established in 2009. At the same time, many former public officials moved back to CSOs (as well as to the for-profit sector) after the 2012 parliamentary elections.

However, there are also continued weaknesses in civil society capacity to engage on PFM and related areas. CSO representatives interviewed in spring 2015⁹⁰ were of the view that their role is still limited—both in terms of their capacity to engage and of the government providing opportunities to do so. Similarly, several media representatives interviewed indicated that there is limited public interest, and hence public finances and how they are managed are only infrequently covered in the news. Three areas that get some coverage are the annual budget, major public procurement contracts, and bonus payments made to public officials. A particular challenge is the fact that civil society itself can be perceived as politicized, and hence its watchdog role can be rejected by governments as politically motivated rather than representing the

87. Interviews, Kathmandu, May 2013.

88. See www.hakielimu.org.

89. Finance Secretary Cesar Purisima, as well as Secretary of Budget and Management, ‘Butch’ Abad.

90. Interviews with various representatives of relevant CSOs, Tbilisi, April 2015.

public interest at large. There is generally very limited discussion on PFM-related issues in the media.

Across the cases, CSOs, media attention, and citizen demand thus have played some role in motivating certain aspects of PFM reforms, but not a very strong one; while a potentially large role is played by the 'long route' of accountability. As captured in Chapter 3, an important channel between discontent of citizens about weak management of public funds and actual PFM reforms to address this tends to run through the election of a reform-oriented government. This happened in Georgia in 2004, in the Philippines in 2010, and in Nigeria and Tanzania in 2015. This long route can be important in bringing about changes; but voter sentiment can of course also swing back. The quality of CSO engagement and of media coverage go hand in hand, in the sense that CSOs are one of the key stakeholders that can provide commentary or criticism on budgets and management of public funds, which the media then report on. On its own, media coverage tends to be very basic, such as simply reporting the breakdown of the annual budget following approval. This is also an area that would benefit from further analysis and exploration of how the role of the demand side can develop.

4.4 The Role of Ideas and Ideology

Ideas and ideology can play a potential role in shaping fiscal policies and PFM. One interesting example is the idea of a 'flat tax' which has been long advocated by more right-wing or libertarian groups in the United States—and which eventually found fairly wide adoption in several post-communist countries since the 2000s.⁹¹ While the experimentation was led by the Baltic countries that have also been frontrunners in other state modernization projects such as e-government, the subsequent spread of the policy was significantly related to Russia's success in reducing tax evasion through the adoption of relatively low and easy-to-administer rates for personal and business profit taxes. Compared with fiscal policies, for PFM, the standardization of reform approaches (as discussed further in Chapter 5), has limited the role of ideas or ideological orientation of governments, while some impacts are still noticeable.

Several governments across the five countries have had a notable ideology or idea-driven policy approach. The ideological orientation has ranged from Maoist (as the dominant party in Nepal after the 2008 elections), to a center-left government in the Philippines from 2010 to 2016, to libertarian (as an influential streak in the Georgian Government from 2004–2012). Governments have been

relatively less ideological in Nigeria and Tanzania. In the latter, the dominant party originally had a strong left-wing orientation, but this had shifted toward a market-oriented position over the course of the 1990s.

In Georgia, libertarian ideas were especially carried out by Kakha Bendukidze, one of the core members of the government and of the President's inner circle between 2004 and 2009 when he left the government.⁹² While some of his liberal reform efforts were focused on business regulations (as Economics Minister) he was also involved in the drafting of the 2011 'Liberty Act' which imposes strict limits on the fiscal expansion of the state at 30 percent of GDP, as well as limits on gross debt and on tax increases. Liberal or libertarian ideas also expedited a loosening up of civil service rules, which in turn facilitated large-scale changes of staff in the areas of tax and customs administrations. It also enabled the establishment of LEPLs, as special entities within the public administration that can set their own wage scales, generate their own revenues, and so on. While an explicit libertarian orientation has since disappeared, some of the institutional features this gave rise to still persist.

In Nepal, political parties with a decidedly left-wing orientation—ranging from Communist to Maoist—won a dominant share of votes in the 2008 elections, albeit as noted in Chapter 3, with a great deal of fragmentation. The basis for the popular support of such left-wing parties was widespread popular discontent with a traditional system of social exclusion (including a rigid caste system), as well as large regional disparities. One might expect a government led by Maoists, emerging from conflict, and elected in reaction to long-standing exclusion of many citizens and districts, to engage in a spending spree. However, rather surprisingly, despite the strong left-wing orientation as well as despite political fragmentation, spending has remained remarkably aligned with revenue in Nepal, as traced in Section 3.3.

In the Philippines, a key dichotomy has been between governing in the interest of a few and in the interest of many; the pro-people and anticorruption agenda influenced the PFM reform agenda after 2010. Over the decades since independence, the Philippines has seen two popular uprisings against governments seen to rule in the interest of a few and as abusing public resources.⁹³ In reaction to a repeated prior history of successive corruption scandals, the 2010 administration was committed to improving government integrity, as well as to be more inclusive and transparent to citizens and CSOs (as discussed above). This commitment also shaped the

91. The Baltic states, Russia, Ukraine, the Slovak Republic, Georgia, Romania, Macedonia, Albania, and others successively introduced flat taxes, with the Baltics starting the 'experiment' in the 1990s and others following subsequently.

92. Bendukidze was a biologist by background, had become an oligarch in Russia and a member of the liberal opposition there before returning to Georgia.

93. The People Power Revolution in 1986 against the Government of Marcos, and People Power II in 2001 against the Government of Estrada, after reports that he had gambled with and otherwise misused public funds.

specific approach taken to PFM reforms—albeit being constrained and filtered by the institutional setup and legacies as discussed above, which made it difficult to effect and entrench changes.

As a large country, Nigeria is intellectually vibrant and diverse, but politics has been more dominated by oil rents, regional issues, and the need for balance between different regions to maintain national unity, than by any particular ideology. As discussed in Chapter 3, the issue of geographic zones and of managing conflict—first in the south, then in the north (and resurgent in the south) have dominated political and public debates. Combating corruption has come into sharper focus in the run-up to the 2015 elections; while in 2016, there was also some backlash against this.⁹⁴ CFA positions have been variously held by technocrats and by loyalists.

Tanzania has seen a somewhat similar pattern, and similarly with a limited specific ideological influence on shaping fiscal policies or PFM reforms. In the 1980s, Tanzania's ruling party, the CCM, espoused 'African socialism' including collectivization of agriculture and of industry. However, in the 1990s, it began swinging toward a more liberal policy agenda; including widespread privatization. This privatization process offered many opportunities for well-connected individuals and groups to benefit. The 2000s are therefore seen as a period that combined a trend toward 'oligarchisation' with some populist policies as an effort by elites to maintain some social cohesion and sufficient political support. The original liberal policy agenda of the 1990s coincided with a period of fiscal crisis, and this triggered a number of PFM reforms, such as introducing an Integrated Financial Management Information System (IFMIS) and strengthening commitment controls, as well as setting up an independent revenue agency. Some of this progress has subsequently slipped back, as documented in Chapter 2 and explored in detail in Chapter 5, during the period of greater insider politics-cum-populist policies. Similar to Nigeria in 2015 and to the Philippines in 2010, this policy orientation has then given rise to a stronger focus on anticorruption since 2015, which has created some renewed attention on PFM (and procurement) reforms.

4.5 Chapter Summary

As for other policy issues, existing institutional arrangements are a crucial aspect for the what and how of PFM reforms. This concerns on the one hand, two core issues—PFM-related laws and the institutional arrangements of CFAs—and on the other hand, the wider

authorizing and implementing environment, that is, the relationship between the executive and the legislature, and intergovernmental arrangements. All of these issues need to be considered when seeking to pursue PFM reforms, and also when identifying, on the one hand, what aspects (most) are in need of reform and, on the other hand, the feasibility of reforms.

A pivotal dimension for enabling PFM reforms and good PFM practices is the relationship between the executive and legislature. In cases where this relationship is difficult or even marked by confrontation and where this coincides with institutional rules not designed to avoid deadlock, there is a high risk that budgets get delayed, and PFM reform legislation becomes difficult to adopt. In turn, the nature of this relationship is itself underpinned by a set of rules, typically at least in part constitutional provisions, on the powers of each side, for example, with regard to introducing changes to the budget brought before the legislature by the executive and obligations to react to proposed changes.

While the relationship is rarely without any problems, there is a great deal of variation, with problems being much greater in some countries and in particular time periods than in others. Countries with a Westminster/United Kingdom tradition tend to have relatively clear rules and veer toward executive dominance. In contrast, countries that have adopted United States-style rules (Nigeria and the Philippines in this sample) tend to give the legislature extensive rights to block executive proposals, and therefore are more prone to deadlock. The Philippines illustrates that the challenge can vary over time when cooperation depends on political alignments between the two branches of government.

Looking at the setup of MoFs and their functions across the five countries analyzed here, a striking aspect is that there are far more 'odd' features than might be expected. Both Nigeria and the Philippines have a particularly fragmented setup of CFAs. In both cases, these make it particularly challenging to decisively and coherently pursue functional reforms. These institutional features need to be carefully considered when developing proposals for PFM reforms.

A key question that will be revisited in Chapter 6 is whether to seek reforms of basic institutional provisions when these have been identified as important bottlenecks. As a central credo of political economy, analysis holds that not every issue that is important to reform is actually feasible to reform, at least not within short-term time horizons (see also Levy 2014). One potential implication is to engage more substantially and deeply with legislatures, so as to prepare the ground for reforms. However, such an engagement would need to be deep and sustained to be likely to be successful. A potential alternative is to prepare changes, such as new PFM legislation, and then to wait for particular windows of opportunity to seek progress, for example, during early stages of a new administration, preferably one based on a substantial majority.

Intergovernmental relations receive considerable attention from the perspective of fiscal arrangements and the quest for

94. As there was some conflation of the economic difficulties resulting from the oil-price decline with the anticorruption efforts. The slogan 'bring back corruption!' became quite popular, including a critique of the anticorruption efforts as being part of an international neo-liberal agenda: Moses Ochonu, Bring back corruption: A critique of neoliberal anticorruption rhetoric, available at: <http://dirayetu.blogspot.com/2016/09/bring-back-corruption-critique-of.html>.

decentralization, but they are less widely considered regarding whether a certain PFM is feasible, can be effectively rolled out, and is likely to contribute to improvements in service delivery. Whether a particular reform is adopted and gains traction can crucially depend on whether there is sufficient buy-in at subnational levels and whether the requisite capacity as well as oversight can be established. This is particularly difficult in federal systems, when major changes to intergovernmental relations are under way, and can be themselves highly contested, as in the case of Nepal. Funds have to flow through subnational levels to reach frontline service delivery, so unless improvements can be made throughout the expenditure chain, central level efforts at improving PFM and frontline service delivery are more likely to remain disconnected. This disconnect was one of the key findings of the cross-country analysis. It has potentially important implications because if PFM reforms deliver only a limited or no impact on the ability to provide services, an important political motivation for pursuing such reforms is lost.

Across the cases and over time, the political-technical interface has ranged from strong political backing, to lukewarm or volatile, to deliberately reducing capacity for good PFM. The person appointed as a Minister of Finance is an important signal setting in many situations; but can also be used as a façade, not followed by actual backing for reforms. Ministers who have come up through the ranks of a ministry tend to have a stronger grasp of and commitment to continue an existing reform agenda—as has worked quite well in Georgia despite a relatively rapid succession of ministers, as initial appointees assumed wider political roles.

The review across the five cases found that the ‘demand side’, that is, organized civil society, tends to be a limited factor in driving PFM reforms, with a gradually intensifying engagement, and an interesting, more advanced experience in the Philippines. In all five cases, there are some specialized CSOs who engage in budget monitoring and to various degrees also in more detailed expenditure tracking and budget allocation discussions, as in Tanzania and the Philippines, respectively. As the Philippines experience indicates, civil society capacity to engage effectively and more deeply on PFM reforms is built over substantial periods of time. The Nepal example furthermore highlights the risk that civil society engagement on budgets can lead to expectations of increased fiscal allocations for example, a particular locality or community,

rather than attention to whether funds are overall well allocated and used.

In the broader picture, as traced in Chapter 3, several of the countries analyzed have experienced shifts in voter preferences in favor of improving governance, which in turn has motivated politicians to provide backing to PFM strengthening efforts. A key limitation is that voters’ preferences in this regard can subsequently again shift toward other priorities, such as delivering immediate economic benefits or being tough on crime, rather than clearly prioritizing better governance over several electoral cycles.

The limited engagement of the demand side can also be seen as a (so far mostly missed) opportunity to better explain and convey PFM reforms to citizens, mixed with occasional overstatements about what specific PFM reforms are likely to deliver, as discussed further in Chapter 5. While PFM reforms are technical and in part difficult to clearly understand for citizens, many of the issues, reform concepts and mechanisms can in principle be explained in ‘plain language’, in particular to CSO staff who follow governance issues over time and hence have an opportunity to build an understanding. Especially as attention is shifting from deploying institutional forms to improving actual functioning, it can be important to involve CSOs and regular citizens more in the monitoring of actual progress made. This may also help to keep reforms on course over time.

The ideological orientation of governments for the cases reviewed has ranged from far left (Maoist) to rather neutral, to being influenced by libertarian ideas regarding the role of the state. As is reviewed in Chapter 5, despite this span in ideological influences, PFM reform agendas have been remarkably similar across countries; and for the time period reviewed, the governments concerned have been relatively fiscally prudent as observed in Chapter 3. From a developmental perspective, there is a range of ideologies which offer some positive aspects for development and poverty reduction, while also entailing some risks (for example, seeking an excessive role for the public sector or being too opposed to having an effective state or insufficient attention to social cohesion on the libertarian side). To avoid being seen as partisan, DPs supporting PFM reforms have typically stayed away from engaging more directly with such ideas. Generally, to truly understand the overarching policy goals, as discussed in Chapter 3, and the resulting specific aims, it is important to consider what ideas or ideology matter to a government.

How Is Progress on PFM Being Made?

Reform Intentions, Steps Taken, and Results

This chapter offers a detailed process tracing of how PFM reforms happened in the five countries reviewed. It first looks at whether PFM reforms were sought in a largely self-contained way, or as part of wider public sector or governance reforms, then at the reform intentions (typically as reflected in PFM reform plans), and also at the cross-cutting challenge of achieving partial reforms rather than as a complete sequence from reform intention to implementation and routine use.

The chapter seeks to follow what has been done relative to initially stated reform intentions, how institutional arrangements and stakeholder constellations promoted or hindered change, and what has been actually achieved with regard to reform progress. Following the cross-cutting sub-sections (5.1–5.4), the chapter broadly follows the budget cycle in addressing the specific reform efforts from budget planning to budget execution and to external audit and oversight.

It should be kept in mind that this section is intended to provide a closer look at nontechnical drivers of specific reform efforts to complement technical analysis of each reform aspect,

rather than providing full-fledged technical analysis. Inevitably, while a number of specific reforms are covered, there are other aspects not included here, for example, subnational PFM.

5.1 Stand-alone Versus Embedded PFM Reforms

PFM reforms have rarely been ‘the only game in town’ with regard to seeking to strengthen public sectors and service delivery. The breadth and depth of related reform efforts varies across countries. Table 5.1 reflects the related public sector reform areas that were pursued in the five countries in parallel to efforts at strengthening PFM. PFM reforms are considered as ‘highly’ embedded if they were pursued as part of other major public sector and governance reforms, while embeddedness is considered ‘low’ if reform efforts were mainly limited to PFM as such, and if there were no or few efforts to achieve related other public sector reforms.

Embeddedness—that is, PFM reform efforts being part of a wider reform package—was highest in Georgia and in the Philippines, which pursued overall governance and public sector reforms, and was lowest in Nepal, with Nigeria and Tanzania as intermediate cases. As the diverging fates of reforms in Georgia and in the Philippines

TABLE 5.1. Related Public Sector and Governance Reform Efforts

	Degree of Embeddedness of PFM Reforms	Related Public Sector Governance Reform Areas
Georgia	High	Early years after 2004: Revenue administration and anticorruption Later years: Public administration, increasing citizen participation, and introducing results-oriented management
Nepal	Medium to Low	Aim to establish good governance and strengthened social accountability; limited direct link/relationship with PFM reforms Need to agree on a new constitution and system of intergovernmental relations
Nigeria	Medium to low up to 2015 Medium to high since 2015 elections	Parallel efforts at civil service and payroll reforms Since 2015 elections strong emphasis on combating corruption with direct links to PFM reform agenda; urgency to improve revenue collection from oil and non-oil sectors
Philippines	High for 2010–2016	Overall governance reforms focused on anticorruption and citizen participation PFM reforms pursued as part of these wider efforts
Tanzania	Medium to low up to 2015 Increased since 2015 elections	Some parallel efforts at strengthening results-oriented management (Big Results Now) Since 2015 elections strong emphasis on anticorruption; links to PFM reforms are not very systematic

Source: Authors based on case study information.

indicate, greater embeddedness does not necessarily bring better results. However, there can certainly be positive synergies. In Georgia, the emphasis on again increasing revenue and on combating corruption created enabling conditions for PFM reforms to progress; and once significant achievements were made, this in turn enabled considerations about other governance reforms in the areas of results orientation, civil service management, and center of government policy coordination and monitoring.

In the Philippines, PFM reforms were similarly pursued as part of a wider package of good governance efforts. The incoming administration created five cabinet clusters, including one on ‘Good Governance and Anti-Corruption’. Among other measures, it also signed up to the Open Government Partnership (OGP). However, progress on the overall governance agenda as well as on the PFM reform agenda ultimately remained limited. Greater institutional and stakeholder complexity (both in terms of the country’s size and overall governance structures as well as the CFA setup) are seen as important contributing factors. For PFM reforms, a key strategic problem was that the adoption and rollout of a new IFMIS solution was made a pivotal part, but ultimately stalled (as discussed in Section 5.5).

In Nigeria, up to 2015, the PFM reforms were not linked to a strong agenda of wider governance or public sector reforms, except for some links to efforts at better payroll management. The years from 2007 to 2015 were overall marked by a slowdown in governance and public sector reforms, following earlier efforts made to achieve the HIPC completion point. One important link was to strengthen payroll management and, in particular, to reduce the number of ghost workers on the payroll.

Following the election of a new government in 2015 and the decline in oil prices since mid-2014, the governance and public reform agenda in Nigeria has widened and is being pursued with greater intensity. In particular, increasing non-oil revenues have become significantly more prominent. The government also sought to reinvigorate a number of the public sector and PFM reforms that had been initiated earlier, but that had been left lingering. In addition to revenue collection and more seriously tackling ghost workers, improving the management of the oil sector has become significantly more prominent.⁹⁵ Thus, given that the country incurs huge losses from poor management of the sector, and that reforms were delayed during good times, the country faces a rather daunting agenda of implementing economic governance reforms while managing a fiscal crisis—both of which are closely linked and influence PFM reforms going forward.

Before the 2015 elections, Tanzania adopted the ‘Big Results Now’ initiative, developed in 2012 and launched in early 2013, that is,

at the midpoint between the 2010 and the next elections.⁹⁶ Modeled on the Malaysian performance management system, the initiative aimed to pursue accelerated reforms and results in key economic sectors, as well as with regard to revenue mobilization. The overall aim of the agenda was to achieve middle-income status by 2025. BRN was in part motivated by the expectation of significant additional public revenue from new natural resource exploitation, and appears to also have been part of a longer standing effort to appeal to voters during a period of gradually declining support for the long-established dominant party.

With the October 2015 elections, there was a change in emphasis. The new government signaled an increased overall emphasis on governance reforms and on reducing corruption and wider rent-seeking. Similar to Nigeria, the government did not initially set out any new broad reform plan. The fiscal trend in Tanzania was, however, rather different. The successive discoveries of significant on-shore and off-shore gas reserves reinforced international interest in Tanzania’s gas fields and infrastructure.⁹⁷

In Nepal, the integration of PFM reforms with other public sector governance reforms was overall more limited. Laws seeking to improve governance and accountability were adopted during the early postconflict period (Right to Information Act, 2007⁹⁸ and Good Governance Act, 2008⁹⁹). However, given the need to devise a new constitutional framework as well as instability and frequent turnover in the government, actual pursuit of a broader good governance or public sector reform agenda remained limited. Building on the legal framework set during the early postconflict years, DPs supported various initiatives aimed at strengthening social accountability, in particular at local levels. The main attention of the government and other stakeholders was focused on developing a viable constitution and intergovernmental relations which remained hotly contested. There was some intersection of these two agendas with regard to intergovernmental fiscal relations.

Across the five cases, there are clearly some important links between PFM reforms and other ongoing public sector and governance reform efforts. There can be important synergies between PFM and other public sector reform efforts, in particular changes to the civil service. Civil service rules, regulations, and (de facto) management influences what options are available, for example, for building capable and effective Ministries of Finance. Moreover, anticorruption efforts, if serious, can have important complementarities with seeking to reduce leakages in the use of public funds.

96. The initiative was unveiled in February 2013 by President Kikwete.

97. See Roe (2016).

98. See: <http://www.moic.gov.np/upload/documents/right-to-information-act.pdf>.

99. See: <http://siteresources.worldbank.org/NEPALEXTN/Resources/223554-1296055463708/PoliticalEconomy.pdf>; for the specific acts: <http://faolex.fao.org/docs/pdf/nep137755.pdf> and <http://www.mopit.gov.np/links/susasan-ain-english.pdf>.

95. See also <http://www.statehouse.gov.ng/index.php/news/speeches/1801-president-buhari-s-2016-budget-address>, and <http://www.reuters.com/article/us-nigeria-politics-idUSKCNOPH1EZ20150707>.

When seeking and supporting PFM reforms, it is important to remain mindful of links between PFM and other reform efforts. Analysis of the status and progress made as well as operational engagement tends to be compartmentalized between PFM, civil service, and other reforms, such as establishing results-oriented management. While compartmentalization is useful to promote the necessary technical depth, it can lose sight of crucial links. One key link is that governments interested in PFM reforms are often at least equally interested in pursuing a strengthening of revenue administrations and of bringing public sector payrolls under control—as each of these measures can contribute some fiscal space, and they are often initiated when such space is urgently needed. Moreover, reform efforts across the range of government functions can affect the overall fiscal position.

Furthermore, looking at PFM reforms in a compartmentalized way heightens the risk that DPs promote expansive PFM reform plans, rather than focusing in a more agile and cross-cutting way on key bottlenecks to improve the overall public sector and to deliver public goods and services. However, it is crucial that such reforms achieve tangible results to make them politically (more) attractive and to ensure that initial plans are actually followed through to full implementation, as discussed below. Compartmentalization can also increase the risk that various initiatives are not well integrated, such as separate efforts at establishing results-based management driven from the center of government and efforts at program budgeting in the Ministries of Finance.

5.2 Reform Intentions—Similar Intentions Despite Diverging Problems

PFM reforms are marked by significant uniformity of reform intentions across countries. This holds true with regard to the overall reform goals, and—possibly even more so—with regard to the reform tools that are being pursued. The standard overarching reform goals are the trio of (a) fiscal stability, (b) allocative, and (c) technical efficiency (Schick 1998; PEFA 2016 Framework). Reform tools refers to the specific institutional mechanisms being introduced that are expected to contribute to these goals, such as MTEFs as an instrument (or tool) to promote fiscal stability.

There are several reasons for the strong similarities in reform aspirations. Managing public finances is an activity that faces in many ways similar fundamental challenges across countries: how to ensure that (a) public funds do not leak, are used effectively and efficiently, and are reported on so as to enable effective oversight and accountability and (b) from a fiscal perspective, how to ensure that spending does not exceed revenue by too large a margin—in the face of (far) greater needs than can be met through available funds. Also, there is a need to weigh the benefits of different spending demands or needs against each other—across sectors

and specific programs and activities, across levels of government, and also between existing commitments and new demands.

Given that institutions and staff tasked with managing public expenditures face these pressures and pursue similar aims across countries, it makes sense to copy good practices that have been developed, rather than seeking to ‘reinvent the wheel’. Good practices for drafting budgets, for cash management, for accounting and auditing, and IT systems to support these functions have been developed and are therefore available to be adopted by countries interested to do so.

At the same time, there are also concerns that this relative standardization amounts to ‘isomorphic mimicry’—that is, superficial copying. The most widely cited concern is that this leads to ‘reform facades’ without actually achieving expected improvements (Krause 2013; Pritchett, Woolcock, and Andrews 2010; Andrews 2009). Other potential concerns are that overly standardized reforms lead to changes that do not really resolve key bottlenecks (Blum, Manning, and Srivastava 2012; Bunse and Fritz 2012; World Bank 2012; Brinkerhoff and Brinkerhoff 2015). Related to this is a concern that at least some of the reform approaches are not sufficiently ‘real’, that is, they are based on ideas about how PFM systems could or should work, but in ways that may not have been practically achieved in any country. For example, while zero-based budgeting is an attractive practice in principle, in particular for an incoming administration, it has rarely been (fully) used in practice; and even full implementation of performance based budgeting remains rare (Curristine 2005; Curristine, Lonti, and Joumard 2007; Robinson and Last 2009; Lienert 2012; Moynihan and Beazley 2016).

Further potential concerns are that strong standardization reduces the room for innovations; and that some reforms which work well in upper middle and high income countries are not fully suited for low and lower middle income countries. Fiscal resources in LICs and LMICs tend to be more constrained and more volatile. At the same time, corruption and other mismanagement risks tend to be greater in such contexts, and are often more systematic rather than limited to individual instances. Moreover, as North et al. (2013) have emphasized, introducing institutional models of overall well-governed countries into a context of countries with great power imbalances and many poorly functioning institutions entails significant risks of failure as well as of unintended negative consequences.¹⁰⁰

Against this background of ongoing debates, reviewing PFM reform plans as developed for the five countries analyzed reveal a considerable degree of similarity. Table 5.2 provides an overview of eight specific PFM reform aspects—ranging from those focused

100. North et al. (2013) use the terminology of ‘Open Access Orders’ and ‘Limited Access Orders’.

TABLE 5.2. Key Elements of Reform Plans Across Countries

	Georgia	Nepal	Nigeria	Philippines	Tanzania
MTEF	✓	✓ (halted)	✓	✓	✓
Program Budgeting	✓	x	x	✓	✓
Introducing TSAs	✓	✓	✓	✓	✓
(I) Financial Management Integrated System (FMIS)	✓	✓	✓	✓	Initial introduction in the late 1990s
Introducing IPSAS	✓	✓ (cash basis)	✓	✓	✓
Procurement reforms and introducing e-procurement	✓	✓	x	E-procurement platform introduced during earlier reform wave, e-bidding still to be completed	Partially in place
Introducing/strengthening Internal Audit	✓	✓	✓	✓	✓
Strengthening External Audit	✓	✓	x	✓	✓

Source: Authors based on reform plans and statements for the five countries. ✓ signifies that reform plans mention the instrument as being intended; x = no mentioning of this reform instrument. Note made if an instrument was already introduced during past reform efforts.

on upstream budgeting to those focusing on budget execution and audit—and checks whether these are mentioned in the reform programs of the five countries covered. With a few exceptions, most of the eight types of reforms are being pursued across all five countries. For a few aspects, selected countries already made progress before the reform periods considered for this report, for example, with regard to the introduction of new procurement legislation and e-bidding in the Philippines (introduced as part of a reform wave that had started in the late 1990s),¹⁰¹ or the initial introduction of an IFMIS in Tanzania. The specific reform attempted least frequently is the introduction of program budgeting, which is widely recognized as a rather advanced reform.

While the cases studies covered here mostly have an anglo-phone heritage or links, the similarity of PFM reform plans is not limited to this group. Notably, francophone countries in West Africa have similarly planned significant reforms to their systems of public financial management over the last decade. This has at least in part been inspired by PFM modernization efforts in France which took off in the early 2000s with the adoption of a new organic budget law, the *Loi organique relative aux lois de finances* (LOLF), adopted in 2001 and fully in force since 2006. In 2009, the West African Economic and Monetary Union (WAEMU) adopted a number of new directives for PFM reform, which member countries are required to transpose into national law.¹⁰² However, actual progress in transcribing them into national law and actual implementation still remains limited.

The uniformity of reform intentions as set out in the reform plans is rather striking in light of the fact that while there are similarities in general PFM tasks, the specific problems faced across the five

countries differ in important respects. Important areas of variation are the track record and rules regarding timely approvals of budgets, variation in the effectiveness of cash management and of controls, capacities for PFM, and transparency, as well as in the institutional setup for effectively linking planning, budget preparation, and budget execution.

Given that major delays in budget approvals have severe knock-on effects on budget execution, one might expect to see intended improvements in this regard, prominently reflected in reform plans and strategies, but this is not the case. Based on the country situations as reviewed in Chapter 4, an emphasis on moving to more timely budget approvals would be anticipated in particular in Nigeria and Nepal, and possibly also for the Philippines. In a sense, seeking to pursue an MTEF ahead of improvements to the annual budget cycle (combined with instruments for managing fiscal volatility), appears to be both an ‘error of exclusion’ and an ‘error of inclusion’ with regard to reform intentions. It may still broadly make sense to develop fiscal plans and projections beyond a single year, but not to try and establish a true MTEF. For Nepal, this challenge was realized, at least to the extent that further efforts to develop an MTEF were halted. However, as is discussed below, such a reform focus has actually been missing in the countries concerned.

Other areas where the problem constellations differ significantly between countries is cash management as well as the effectiveness of controls. Good enough cash management is clearly a crucial PFM function for supporting effective service delivery. Sector ministries and agencies need to have predictability in when and how they can access funds for spending on their service delivery activities, including funds for operations and maintenance, and funds for planned capital investments. Some countries have already well-established cash management systems and an adequate balance between revenues and expenditure commitments, while in others, in the sample notably in Nigeria and recently again in Tanzania, cash management continues to be or re-emerges as a challenging

101. See: <http://adbprocurementforum.net/wp-content/uploads/Phil-eGP-case-study-Sep2011.pdf>.

102. <http://www.internationalbudget.org/2013/12/are-public-finance-management-reforms-working-in-francophone-african-countries/>

issue. Tanzania's PFM Reform Program (PFMRP) IV stands out as a reform plan that encapsulates some notions of what has worked and what has not, and that sets out priorities accordingly, including the issue of cash management. This appears to be motivated also by the fact that a number of reform steps other countries have been grappling with over the past 10–15 years were already started in Tanzania in the late 1990s, thus creating a longer track record of experience with PFM reforms.

While institutional reforms are clearly not an end-goal in themselves, inefficiencies and bottlenecks in the institutional setup—are reviewed in Chapter 4—are something that one might expect PFM reform efforts to address at least selectively. However, this has been much more rarely the case than might be anticipated. The difficulty of agreeing on institutional changes is likely to be one important reason. Institutional issues as a causal factor received significant attention with regard to fiscal issues—notably the size of deficits and the tendency to incur debts (see for instance, Dabla-Norris et al. 2010)—but much less so with regard to strengthening PFM.

After advocating for the need to integrate planning and budgeting for some time in the past, the current international PFM discourse seems to have reduced attention in this regard and seems to pursue more an 'adding on' of additional or new features—such as processes for an MTEF or for program budgeting—to whatever institutional landscape exists. PEFA reports include sections on institutional arrangements, but as these are descriptive and are not rated and as PEFA does not really explore causal relationships, these descriptive sections rarely come into center view in the subsequent discussions on reform plans.

Importantly, while the uniformity in reform intentions is notable and at least in some ways problematic, this is not equivalent to the diagnosis of externally imposed or incentivized isomorphic mimicry. Three of the five countries covered here are MICs and, for most, aid dependency is limited or low. Tanzania is probably the single case with a pronounced tendency toward a donor-driven PFM reform agenda during the period reviewed (with strengthening government commitment since 2015). Thus, aid-related conditionality should not be viewed as the main mechanism (or culprit) for bringing about the observed tendency toward a standardized set of reform intentions.

Rather, two reasons appear to be at play and will be explored further in the following sub-sections of this chapter. One is that international norms, standards, and professional networks constitute a powerful set of drivers toward uniformity and copying. These networks have arguably grown denser and more influential over the past decade, in particular with regard to accounting standards and internal and external auditing. A second reason seems to be that absent major fiscal crises, isomorphic reforms are the 'lowest common denominator' between key stakeholders, including senior technical staff in central finance agencies, development partners engaging in the dialogue on PFM even with limited real leverage,

and political principals, and hence appear as being pursued somewhat by default.

As emphasized at the outset, seeking to approximate or adopt international standards is not a bad idea as such. It would make little sense for each country to 'reinvent the wheel' of medium-term planning, accounting practices, or treasury management. Current international norms and standards have been developed out of decades of practice and refinement. Moreover, having a more standardized way in which budgets and annual accounts are presented can bring important benefits in terms of transparency and comparability of public expenditures.

Nonetheless, too much 'isomorphism' by default is not a good idea. Pursuing reforms that do not really target and hence do not alleviate key bottlenecks in PFM systems risks to sooner or later result in frustration. Various stakeholders may lose the appetite for further dialogue and reform efforts, including development agencies funding engagement on PFM and political principals in the various countries. Also, reforms that fail to stick due to (a mix of) limited political commitment or significant opposition, capacity constraints, and weaknesses in complementary institutions, such as good enough civil service management, or an ability to constrain corruption, can be a waste of effort, which could rather have gone into more feasible areas of reform. At a minimum, greater selectivity of what is being pursued at a given period of time would seem important.

5.3 Partial Reforms as a Frequent Occurrence

Apart from the resemblance of reform intentions, a striking feature when reviewing PFM reforms across countries is the frequency of partial reforms, combined with considerable confusion in whether reforms are or are not (fully) implemented. As will be discussed in detail in the subsequent sections, some years into implementation, reforms frequently remain only partially completed. For example, a TSA may cover some MDAs and levels of government, but others might still hold separate accounts in commercial banks, or an MTEF document was produced for some years, but not for other years, or may be continuously produced, but with limited real effects on annual budget allocations. Different reforms remain 'partially implemented' in various ways—with some remaining at preparatory stages, while others are only applied to some parts of public expenditures.

Partial progress is not a bad thing as such, especially as long as it is an intermediate stage toward eventually more complete reforms. In many situations, a staged or sequenced approach to a particular reform area may be more sensible and realistic than a complete overhaul or very rapid rollout. For some aspects, a partial reform is clearly preferable to inaction, and may have been the only feasible

approach, as was the case, for example, with introducing automation of budget execution in Nepal.

However, there are several important issues to flag. This includes considerable risks of confusion about the actual status of reforms, risks of stagnation and backsliding that need to be recognized, as well as problems with having partial systems in place where ‘old and new’ need to be operated alongside each other. This can lead to conflict with legal rules, for example, if these were changed to endorse the new system only.

A further issue is the fact that partial reforms may not be adequately recognized as such. There is a certain tendency to proclaim that a certain tool—such as an MTEF, e-procurement, or a TSA—is ‘already in place’. In fact, in most countries, there are many years not just between the initial planning and the start of implementation, but also between the start of implementation and having a complete system in place that (at least largely) works continuously and as intended. If partial or incomplete rollouts are not sufficiently recognized as such, then attention can shift too quickly to the next area, neglecting the process of completing what has been started, and ensuring that it becomes fully embedded and useful. Such shifts in attention can also increase risks of backsliding.

A related problem is that partial implementation can get stuck for extended periods of time. This may happen because a reform is not fit for purpose or for the context, as well as due to resistance during implementation. For example, a TSA effort may result in a significant share of commercial accounts of public agencies being closed; and then eventually progress to cover those parts of government earlier left out. However, it may also happen that the effort comes to stagnate in a limbo with some agencies successfully resisting the closure of their accounts. A partial implementation that remains ‘stalled’ is likely to entail a greater risk of eventual backsliding. For example, if a number of MDAs are allowed to keep their own bank accounts, then others may eventually also seek exceptions, resulting in reopening of accounts by many MDAs. In Nigeria, a TSA reform was started in 2010, but by early 2015, there were still numerous separate MDA accounts with very substantial balances.

Furthermore, a partial rollout of new systems which were intended to be rolled out comprehensively or used consistently can create new problems. For example, if new IT systems are only partially rolled out or used due to various constraints, but unintentionally so, this can create problems when there are no explicit provisions for manual or semi-manual backup options. Adopting new accounting standards which are not consistently used can create a host of challenges, including a drop in actual transparency when the government’s accounts become less intelligible and consistent.

Across the five countries covered here, partial and incomplete reforms are common. This holds for reform efforts across the budget cycle. This is highlighted in the discussion of specific

reform aspects below. Chapter 6 outlines some options of how the problem of partial reforms can be built more explicitly into reform planning, as well as into external support programs for PFM reforms.

5.4 Clarity of Expectations—What Are Specific PFM Reform Efforts Expected to Deliver?

A further problem that is noticeable when looking at PFM reform processes is that there is often some confusion about what they are expected to deliver, and how specific reforms are expected to lead to these aims (that is, the specific causal chain or ‘theory of change’). At an aggregate level, as reviewed in earlier chapters, PFM reforms are meant to improve budget credibility and to feed into improved efficiency in service delivery, by creating a better use and availability of funds. Linked to these overarching goals, PFM reforms are also seen as a key component of ‘improving governance’ and reducing (opportunities for) corruption. However, how individual reforms are expected to contribute to these goals is often not explicitly spelled out, for example, in PFM reform plans.

Once a specific PFM reform effort—such as establishing an MTEF or contracting and rolling out an FMIS—starts, attention is drawn to the goal of and difficulties associated with making the reform as such happen, rather than the expected impacts. Hence, the reform then becomes judged as progressing if the specific instrument is being put into use.

There is some tendency to overstate expected likely impacts. For example, program budgeting can be advertised to deliver a more strategic use of public funds—but given the challenges with establishing meaningful indicators and links with budgets, this aim is rather rarely achieved. Rolling out an FMIS may be expected to deliver both much better real-time visibility of how money is spent, greater accountability, as well as providing a system of commitment controls (World Bank, forthcoming). While the former might emerge as a result, its contribution to accountability will depend on whether and how quickly budget execution reports are actually shared with the public. The effectiveness of controlling commitments will remain dependent on whether central political decision makers are interested in reigning in all spending agencies that show a tendency to overspend or do so only selectively; as well as on fiscal trends and on whether a broadly realistic budget was adopted in the first place. As Hashim (2016, ix) has pointed out: “Implementation [of FMISs] is, however, often associated with disappointing results and attribution to higher-level public financial management objectives difficult to establish.” As reviewed in Section 5.5 below, in one country, changes in accounting standards were billed as ‘expunging corruption’, which clearly is an overstatement of what such a specific reform on its own can achieve.

Mechanisms and efforts to track actual impacts of PFM reforms still require greater attention and development. To some extent, regular PEFA assessments offer some check on whether the reforms that have been pursued over the preceding years are yielding results; but these reports still only track parts of the expected results chain. For example, PEFA reports may assess whether reporting is done more regularly and more timely, but do not (and cannot) investigate in depth whether the reporting done by sub-national levels and line ministries is reliable. They also cannot fully track whether funds reach front-line service delivery units in a more regular and complete way, something that requires more of a Public Expenditures Tracking Survey (PETS)-type analysis.

5.5 Upstream Budget Planning: Getting the Basics Working, and Efforts at Introducing MTEFs and Program Budgets

Deciding on budget allocations is an inherently political process, in which key political stakeholders participate on recurrent basis. As Hallerberg, Scartascini, and Stein (2009); Norton and Elson (2002); and others have emphasized, institutional rules and the dynamics among political actors influence decisively whether the process produces budgets that are (broadly) realistic and adopted on time, as well as the actual allocations made. The basic thrust of PFM reform efforts across many countries has been to strengthen links between planning/policy intentions and budgeting and to make these links more tangible and visible through the introduction of program budgeting, and to introduce a medium-term perspective, which also supports planning and budget allocation links (projected to the medium term), as well as supporting fiscal sustainability. Relatively less thought tends to be given to how these reform efforts link back with the political dynamics related to budget preparation.

It is also worth remembering that a basically functioning annual budget process requires quite a few institutional and political factors to be well aligned: laws and regulations, systems to develop budget plans and staff capable of working with these, concertation between stakeholders within the different parts of the executive, as well as between the executive and the legislature to move from stage to stage within prescribed deadlines, and an ability to reach an agreement about expenditure trade-offs along the way. Changes in the political dynamics therefore remain a risk even in countries where such systems have been well established for some time. For example, in the Philippines—which in principle has a powerful Congress deliberating on the budget for several months—there is a risk that timely budget approval could come under pressure again if a future President has to rely on smaller or

more fractious support in the two chambers of the legislature.¹⁰³ New or additional pressures on budget preparation can also come from fiscal contractions, such as that being experienced by Nigeria since 2015.

Efforts at introducing budget preparation reforms have been made across the five countries, as reflected in Table 5.3. The top row revisits the status of ‘budget preparation and adoption basics’, in particular whether budgets have been prepared on time and are reasonably credible. Georgia, Tanzania, and in recent years, the Philippines have had timely budget preparation and adoption. However, even among these three, only Georgia has consistently adopted reasonably credible budgets, when considering subsequent shifts in allocations as measured by indicators PI-1 (aggregate) and PI-2 (composition) of the PEFA framework (last two rows of Table 5.3). Nepal and the Philippines have recorded limited deficits, as reflected in Figure 5.1, while the remainder have seen larger swings, in particular in the wake of the global financial crisis (and conflict in the case of Georgia in 2008).

In terms of realization, MTEFs fall into the category of ‘partial reforms’ in three of the five countries. MTEFs are being produced and discussed to some extent, but are not really used to set expectations about spending beyond the annual budget cycle. This is especially an issue for Nepal and Nigeria. Furthermore, across the five countries, having a functioning MTEF mirrors the degree to which the annual budget process is running well. Countries where annual budgets are delayed—and sometimes delayed for several months—are not in a position to establish functioning MTEFs or even MTFFs (see also World Bank 2013).

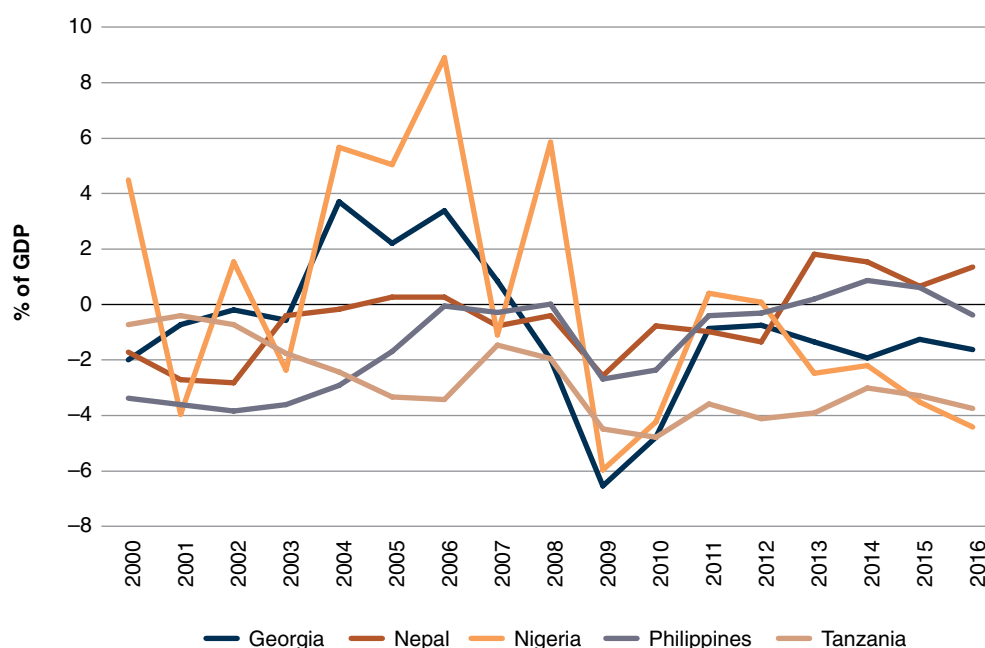
Tanzania is an interesting case where an MTEF was initially introduced during the reform wave of the late 1990s, with efforts continuing for the 15 to 20 years since then. A precursor was introduced even earlier, in the early 1990s, when a Rolling Plan and Forward Budget was first introduced (SADCOPAC n.d.; Holmes and Evans 2003). By 2003, the establishment and use of the MTEF in Tanzania was assessed as being ‘in progress’ (Holmes and Evans 2003). According to Oyugi (2008), the MTEF had become comprehensive and linked planning and budgeting, but at the same time he noted that annual budgets remained unrealistic. One of the most recent assessment concludes that while aggregate fiscal discipline has improved, supported by the MTEF, within-year allocations to line ministries remain variable and subject to cash availability; and variation between budgeted and actual expenditures remain substantial especially for capital-intensive areas of spending (SADCOPAC, n.d.). Thus, utilization and embeddedness is substantial for the Ministry of Finance, but remains in progress and more uncertain for line ministries. Overall, implementing this reform instrument

103. Note that this risk did not materialize following the 2016 elections; and the 2017 budget was passed on time.

TABLE 5.3. Overview of Budget Preparation Status and Reform Efforts

	Georgia	Nepal	Nigeria	Philippines	Tanzania
<i>Budget preparation and adoption basics</i>	Annual budgets adopted on time and reasonably credible	Annual budgets are adopted with significant delays Aggregate credibility has been relatively high	Annual budgets are adopted with significant delays Budget credibility is low in the aggregate and across sectors	Late approvals until 2009, timely approvals since then (but not institutionalized) Problems persist with budget numbers and overall credibility	Annual budgets have been adopted on time Aggregate credibility has been reasonable, but worsening; reallocations across sectors are substantial; development budgets significantly underexecuted
MTEF/MTFF	Basic Data and Directions (BDD) Document introduced since 2005	First introduced in 2002, then withered Efforts restarted in 2015/16	Efforts started in 2004 to introduce an MTEF and medium-term sector strategies, but not seen as having much traction	First tried in 1999, then re-introduced since 2006; relatively effectively during Aquino administration	MTEF first introduced in the late 1990s after fiscal crisis, and requirement for HIPC since 2001; still a number of limitations but progressing
Program budgeting	Piloting started in 2006	Not started	Has not been pursued to date	First introduced in 2014 currently 'performance informed budgeting'	Program-based budgeting initiated under PFM RP IV (2012)
P1 ratings	A	A	C	D	B
P2 ratings	B+	C+	D	D+	D+

Note: MTFF = Medium-Term Fiscal Framework.
<http://www.imf.org/external/pubs/ft/scr/2016/cr1629.pdf>.

FIGURE 5.1. Annual Deficits 2000–2016


Source: International Monetary Fund, World Economic Outlook Database, April 2017. These data are calculated as revenue (including grants) minus total expenditure.

remains partial even after nearly two decades; bringing some benefits, but also clearly having still important limitations.

Program budgeting has been pursued as a reform in three out of the five countries covered—Georgia, the Philippines, and Tanzania—but still remains in early or intermediate stages in each of them.

Among the three, Georgia has sought the longest to establish a system for program budgeting, starting initial pilots in 2006. However, it has been challenging to include meaningful targets and to connect spending to specific results. Ten years into this effort, the government is seeking to ensure that line ministries include more relevant information in this regard into their budget submissions. In the Philippines, the efforts are more recent. The effort can benefit from the fact that other aspects of performance management have been more established as well as the fact that civil society interest in the government performance has been developing since the late 1990s.¹⁰⁴ In Tanzania, program-based budgeting was started as part of the fourth PFM Reform Plan (2012–2016), with individual ministries implementing program-based budgeting on a pilot basis, using a template developed by the MoF.¹⁰⁵

In terms of underlying drivers, the following stand out: at an aggregate level, budgets have been credible in three of the five case study countries during the period reviewed. Thus, the governments managed to keep overall actual spending in line with expected envelopes.¹⁰⁶ As discussed in Chapter 3, aggregate credibility appears to have been helped by conditions of substantial growth in many low- and middle-income countries during this period, and a general awareness that excessive deficits can be costly, following painful ‘structural adjustment’ experiences in the 1980s and 1990s. Still, contentious relations between executives and legislatures can undermine timely budget approvals as well as aggregate credibility, as has been the case in Nigeria, and also in the Philippines.

However, political dynamics within the executive as well as between the executive and the legislature can also be a source of budget planning that lacks credibility with regard to inter-sectoral allocations. As not all line ministries are politically equal, some expect to be able to lobby for additional allocations during budget execution. In Tanzania, politically well-connected ministries deliberately under-budget some high priority expenditures, so as to leverage these for in-year additional demands. In Nigeria at the

state level, interlocutors reported that they include significantly more expenditure requests in the annual budget than they expect to be able to actually fund—signaling that spending trade-offs are not resolved during the preparation process, but deliberately postponed to the budget execution stage to manage political pressures.¹⁰⁷ Such a ‘defensive’ mechanism of the executive when faced with overwhelming demands undermines the aim of having a realistic budget, a close fit between budgets and outturns, and being able to have agreed medium-term ceilings. Line ministries that anticipate receiving fewer resources than allocated are also less likely to seriously engage with more advanced budget preparation reforms.

Realistic budgets are only possible if ‘within government’ stakeholders are interested in and able to come to an agreement on necessary spending trade-offs ex ante and to do so comprehensively for all available fiscal resources. This includes that stakeholders are willing to make these trade-offs transparent to stakeholders outside the government—such as voters and interest groups—through a comprehensive and published budget document. For example, in Nigeria, a large share of fiscal allocations remains outside the federal budget; including spending on fuel subsidies, transfers, and funding for special programs—thus not being part of the discussions about trade-offs within the budget envelope.

Regarding more advanced reforms to budget planning, it appears that in particular MTEFs are frequently tried and are rarely openly opposed by any stakeholders, but it is difficult to make them binding. An effective MTEF relies significantly on whether stakeholders in the budget process are willing to bind their hands to a specific preplanned pattern of allocations. In the Philippines, this process began to work during the Aquino administration when relationships within the executive and between the executive and the legislature were relatively aligned (see also 2016 PEFA report). In Tanzania, although the same political party has been continuously in government and MTEFs have been produced for many years, the mechanism remains relatively ineffective in particular with regard to sectoral breakdowns, as these are not realistically agreed among stakeholders. The low-income context may also make it particularly challenging; a general scarcity of funds relative to an expanding role of the state with regard to the delivery of goods and services makes trade-offs especially difficult.

The experiences with seeking to introduce program budgeting suggest that having clear demand for programmatic and performance information is crucial. Without clear demand—from parliaments, citizens, and/or the top political leadership—the bureaucratic default is toward superficial implementation. Managers are likely to be reluctant to commit to achieving specific outcomes, and they may feel that their degree of control over achieving targets is insufficient especially in contexts with cash constraints, as well as due

104. As argued by Moynihan and Beazley (2016), program or performance budgets are more likely to be meaningful if part of a wider system of performance-oriented management.

105. See: <http://www.mof.go.tz/mofdocs/news/latest%20news/GUIDELINES%20FOR%20THE%20PREPARATION%20OF%20PLANS%20AND%20BUDGET%20201516%20-INSTRUCTIONS%20-Web1.pdf>.

106. A relatively extensive literature looks into some of the institutional and political factors that can lead to excessive fiscal commitments, or commitments which stakeholders expect to be altered during implementation (von Hagen and Harden 1994; Alesina and Perotti 1995; Alesina 2010).

107. Interviews in Bayelsa and Delta State, May 2013.

to other factors (see also Worthington 2013). In Georgia, program budgeting has been pursued with considerable commitment from key stakeholders in the Ministry of Finance; but thus far, neither parliament nor nongovernment stakeholders have really taken a strong interest. As a result, it has been difficult to persuade line ministries to pay serious attention to the design of indicators and the relationship between budget allocations and results promised. In the Philippines, in principle, there could be some opportunity for stronger demand in this regard given its more advanced civil society engagement on budgeting; while in Tanzania, effectiveness could emerge in some sectors but less so across the board.

5.6 Progress and Challenges with Regard to Improving Budget Execution

A range of potential PFM reforms evolve around budget execution.

This includes systems for cash management and commitment controls, for payments, for the management of particular expenditure streams such as payroll on the one hand, and public investments on the other, accounting and reporting rules, standards and practices, and internal audit. Furthermore, while IT applications cut across budget preparation and budget execution stages, they are often first introduced to facilitate managing the execution of budgets, given the high volume of data that needs to be captured.

The particular reform efforts that this sub-section focuses on include efforts to introduce (a) TSAs, (b) FMIS, (c) IPSAS as a new set of accounting standards, (d) the strengthening of internal audit to ensure ongoing checks against leakages during the budget execution process, and (e) the introduction of e-procurement systems and related procurement-focused reforms. As for budget preparation and approvals, the section also looks at some of the ‘basic’ issues in the expenditure process, in particular with a view to basic management of budget releases and of cash during the year and in-year reporting (see also Schick 1998; Welham and Hadley 2015).

5.6.1 Introducing Treasury Single Accounts

The introduction of Treasury Single Accounts has been pursued by Governments of all five countries in the sample. However, progress has been mixed. The greatest degree of progress has been made by Georgia, followed by Nepal. A TSA was initiated but remained largely stalled in Tanzania and in Nigeria at least up to the changes brought about by the 2015 elections. In Nigeria, the government newly elected in 2015 revived efforts to close the accounts held by individual MDAs in commercial banks.¹⁰⁸ In the Philippines, a TSA was established for revenues, but it does not cover expenditures.

108. See various news reports in early 2016, for example, <http://allafrica.com/stories/201602181441.html>.

From a fiscal perspective, a TSA is an attractive reform, since it promises to ‘free up’ resources sitting idle in the accounts of various ministries and agencies with commercial banks. In addition to providing some fiscal space, a TSA gives the Ministry of Finance (or other responsible CFA institution) a tool to see when and on what MDAs spend funds, that is, greater managerial oversight and accountability (see also Fainboim and Pattanayak 2010). Moreover, in combination with automating treasury functions, a TSA can be an important tool for reducing face-to-face interactions between treasury officials and suppliers seeking to get paid, thus reducing a potential source of corruption.

At the same time, there are several potential sources of resistance, with the main ones being line ministries and agencies and other spending entities, including subnational levels of government on the one hand, and commercial banks handling government funds on the other. Line ministries and agencies typically have an incentive against a TSA; including subnational levels and agencies. Having their own accounts can offer a (legitimate) buffer against delayed budget releases, as well as offering greater opportunities for leakage, given the more limited visibility and ‘trackability’ of spending without a TSA. Therefore, the CFA has a stronger case for rolling out a TSA if it can credibly promise¹⁰⁹ that cash releases will be made regularly and as budgeted. There can also be issues around the status of subnational governments, which may argue that they are autonomous and hence should not be part of a TSA operated by the central government. Apart from resistance from within the government, another group of losers from a TSA reform are commercial banks operating accounts for MDAs. In the absence of a TSA, commercial banks may hold considerable deposits from government entities, including from revenue authorities, providing an important source of liquidity. Consequently, banks may lobby against losing this source of funds.

The experience with how treasury management has improved across the five countries illustrates these challenges—as well as suggests some options for how these can be addressed when considering both technical and nontechnical drivers of change. The experience indicates that (a) a TSA quite typically remains a partial reform either by design or by default and that (b) a step-by-step rollout by design may often be the best approach, given the combination of likely points of resistance and limitations to technical capabilities.

In Georgia in 2004, the government was extremely keen to expand fiscal space on the one hand, and to curtail corruption on the other hand. Since independence in the early 1990s, a network of treasury offices had been established; while MDAs as well as local governments maintained their accounts with various commercial banks that had been established since the end of the Soviet Union. As a first step, the new government established the nucleus of a

109. See also the WDR 2017 on the importance of credible commitments.

TSA used for revenues. This was followed in 2006 by establishing the TSA for central-level MDAs. This process involved the closure of around 12,000 accounts at commercial banks. The TSA went hand in hand with the establishment of an e-Treasury system (see below), the nucleus of an IFMIS.

A critical concern of key government officials in the Ministry of Finance at the time was that the daily interactions between treasury officials and those seeking payment was very problematic. Suppliers would often offer or be asked for bribes to receive their payments—with knock-on effects on the quality and quantity on what suppliers would deliver, given their expectation of having to set aside provisions for bribe payments, and for covering extended periods of waiting to receive payments. Breaking out of this negative equilibrium was hence quite crucial as part of the initial reform thrust to restore basic fiscal processes.

At the same time, the government did not try to close all accounts at once. In particular, despite a limited degree of decentralization, local governments were allowed to maintain their accounts with commercial banks. The same was the case for the so-called ‘Legal Entities of Public Law’—a type of quasi-autonomous and quasi-commercial public entity. Many ministries have one or multiple LEPLs, as the administrative unit with specific responsibilities, such as internal academies; large IT departments within ministries also have this status.

The rules for local governments and for LEPLs were then gradually tightened over time. Since 2015, a number of LEPLs, as well as all local governments are required to execute their payments through the e-Treasury system drawing on their subaccounts in the TSA. This more than doubled the number of organizations using the TSA from 415 to 1015, with about 3,000 individual users able to access the system. LEPLs and municipal governments that were brought into the TSA were still allowed to keep excess funds in accounts with commercial banks and to retain the interest earned on balances in these accounts. However, they can no longer make any payments directly from these accounts. To use them, they must first be transferred to the respective subaccount in the TSA and then pay from there.

Thus, in Georgia, implementing a TSA was pursued in a step-by-step approach over a period of about 10 years. It was approached in a way that initially limited the complexity and the number of users involved and also included finding ways to respect the relative autonomy of local governments and to maintain some leeway for MDAs. In parallel, the effort was enabled by the fact that revenues were rapidly increased, and thus there was a credible commitment by the MoF that spending ministries and agencies could access their budgeted funds on time and when needed.

Nepal followed a route somewhat similar to Georgia in terms of a gradual rollout of a TSA, but the reform still remains more partial. Following an earlier attempt made in the late 1990s which had

failed, the efforts restarted in the late 2000s. Initial discussions were held in 2008, following an IMF Article IV, resulting in plans for a new but more gradual attempt. In 2009, piloting commenced for central government and three districts. The process had considerable external support—it was funded by an MDTF, and followed IMF advice, guidelines, and technical assistance. However, the actual design was led by Nepali senior civil servants using Sri Lanka—that is, a regional neighbor—as an example. Moreover, drawing lessons from the earlier failed attempt, the MoF and FCGO as the core CFAs, designed a ‘lighter version’ with regard to central controls over payments. Thus, the preaudit principle, which had been part of the previous attempt, was removed, that is, spending agencies were able to retain sole approval powers within allocated budget lines. District Treasury Comptroller Offices (DTCOs) under the FCGO would simply issue checks upon receiving approved payment requests from spending agency. In addition, the downstream systems (the District Expenditure Control System (DECS) and the FMIS) were programmed only to the Government Finance Statistics (GFS) level in an effort to leave some discretion and win buy-in from district chiefs and spending agencies. CFAs, with external support, also provided extensive training and workshop discussions on the TSA and the FMIS.

Given the political instability in Nepal at the time, strong political backing was not available; while there was some incentive related to relative aid dependency, an effective reform team in the Financial Comptroller General’s Office, and external resources provided to enable the reform effort. Continuous and very short-term changes in the government rendered opposition from central level line ministries less strong—as ministers typically held their positions for less than a year. The previous unsuccessful experience was utilized, in terms of taking a deliberately lighter approach. A key active driver was the reform team that had been pulled together in a so called ‘PEFA secretariat’ under the FCGO, which had been set up following the first PEFA assessment in 2008. With resources provided by development partners, the reform unit was able to invest in a large-scale information and training effort, targeting local leaders across the 75 districts to win buy-in and in training treasury staff on the TSA (rolled out jointly with an FMIS as discussed further below). The treasury worked hard to ensure that it would issue checks promptly upon submission of payment requests from spending units to win credibility and trust that cash management was on a better footing.

Good progress was achieved in terms of the overall thrust of the reform, while sustainability and durable institutionalization still remain as challenges. Good progress was made with regard to closing accounts in commercial banks (involving about 14,000 accounts) and having a much reduced number of accounts with the Central Bank (445). Revenue paid by taxpayers to accounts in commercial banks are largely transferred daily to TSA accounts

in the Central Bank.¹¹⁰ Through this, the central government has gained a daily view of the overall cash available, compared to uploads from districts only on a monthly basis previously; and uses this to steer overall budget execution. Transparency has also been increased through publication of a ‘daily budgetary status’.¹¹¹ Trust between the treasury and spending units improved in terms of providing funding as needed on the one hand, and reporting accurately and timely from spending units to the treasury on the other hand. Key weaknesses are that the system still needs to have a more full-fledged regulatory basis; and sustainability beyond the period for which external funding is available remains to be seen. Furthermore, as covered in Chapter 3, TSA and FMIS implementation proceeded alongside increasing fiscal revenues, thus facilitating credibility. Some sustainability has been proven, as it was possible to rapidly resurrect the system and the IT infrastructure following the devastating 2015 earthquake.¹¹²

In Nigeria, the first round of efforts at establishing a TSA remained at a halfway stage, but in a more haphazard way. Efforts at establishing a TSA were initiated in 2010. Actual rollout started in 2012, with initially 93 federal MDAs beginning to use the Budget Execution System of the GIFMIS, increasing to about 230 by the end of 2013.¹¹³ However, many of the accounts held by these MDAs were not actually closed, and the amount of public funds held in commercial bank accounts actually increased in 2013.¹¹⁴ Also, the TSA did not cover accounts of revenue-related agencies, in particular the Federal Inland Revenue Service and the Customs Service.¹¹⁵ Given a wider context of a government focused on preserving the status quo (as discussed in Chapter 3), and a fragmented setup of central finance functions, it was not possible to go further.

The situation changed following the 2015 elections and the brewing fiscal crisis. The renewed emphasis on the TSA was triggered by the fiscal constraints emerging with the oil price drop that started in the second half of 2014 on the one hand, as well as by a motivation of the new government to reduce opportunities for leakage on the other hand. The incoming government was elected on a platform of anticorruption, as well as of being better at getting things done, and hence had a dual motivation to seek closer control over resources in a context where there have long been concerns about a lack of transparency concerning revenue and potential large-scale losses.

All MDAs, including those responsible for revenue collection, were ordered to use the TSA; and to use any accounts with commercial banks strictly as transit accounts, with all balances being swept to the Central Bank-based TSA at the end of each day. Specific guidance was issued by the Office of the Accountant General, which also established a help desk for MDAs. A ‘Remita e-Collection Platform’ was rolled out for revenue collection. According to published reports, at the start of this renewed push, public sector balances held in commercial banks amounted to NGN 2.2 trillion (approximately US\$11 billion) in the second quarter of 2015 (about 2.3 percent of annual GDP).¹¹⁶ By September 2015, around 600 out of 900 federal MDAs were reported to be in compliance with the new regulations; and by November 2015, NGN 1.5 trillion (approximately US\$7.5 billion) had been transferred into the TSA. By March 2016, the IMF reported the TSA rollout as completed at the federal level, including for main revenue entities. Thus, in the context of a fiscal crisis and a newly elected government, overcoming previous resistance from MDAs suddenly became possible—with very explicit backing from the President for this to happen (see also Section 4.2).

However, the renewed effort to roll out the TSA in Nigeria became an unusually publicly contested case of a PFM reform, in the context of wider growing contestation. The renewed TSA efforts were significantly covered in the press; with emphasis given to the issue that commercial banks would lose from this change. Press coverage also focused on controversies regarding the setting and allocation of fee payments established for banks and IT companies involved, in particular to the company providing the e-Remita system.¹¹⁷ The contract pertaining to e-Remita specified a 1 percent transaction fee—which in principle would have amounted to around US\$100 million—instead of a fixed fee per transaction, to be charged to transferring MDAs and to be distributed between the company that had designed e-Remita (SystemSpecs), commercial banks (40 percent), and the Central Bank (10 percent).¹¹⁸ As stakeholders began to raise red flags, the terms of the contract were adjusted in October 2015.¹¹⁹ The issues raised with regard to

110. See 2015 PEFA report, ratings and assessment for PI-15.

111. Available at: www.fcgo.gov.np/publications. Uploads remained current as of October 2016.

112. See http://mdtftpfn.org.np/uploads/files/document/Nepal_PFM_MDTF_Progress_Report_July_-_Dec_2015_82.pdf. The progress report covers the business continuity achieved for the TSA.

113. Implementation Completion and Results Report for P088150.

114. IMF CR 16102, 2016; p. 23. <http://www.imf.org/external/pubs/ft/scr/2016/cr16102.pdf>

115. See the IMF’s Fiscal Affairs Department report, January 2013.

116. <http://www.systemspecs.com.ng/understanding-the-treasury-single-account-tsa-system-things-you-should-know/>

117. The fee is set at 1 percent of TSA transactions, to be divided between SystemSpec (the company providing the e-Remita platform), the commercial banks operating transit accounts used by MDAs, and the Central Bank of Nigeria. See: https://en.wikipedia.org/wiki/Treasury_single_account#cite_note-15 and <http://www.vanguardngr.com/2015/11/tsa-1-transaction-charges-is-revenue-for-remita-cbn-banks/>. See the details of a senate hearing <http://www.elombah.com/index.php/special-reports/5624-the-full-senate-report-on-the-abuse-of-the-treasury-single-account>.

118. A senate hearing organized in March 2016 shed light on some of the dubious ways in which this contract had been made by the Central Bank.

119. The contestation even led to the creation of a Wikipedia entry under ‘TSA’ exclusively addressing the Nigerian issues and perspectives—see: https://en.wikipedia.org/wiki/Treasury_single_account.

the TSA were linked to wider resistance against the reforms being pursued by the new administration. By spring 2016, there was a full-scale campaign around the slogan ‘Bring Back Corruption’—against the governance reforms being introduced.¹²⁰

In Tanzania, discussions about establishing a TSA had been ongoing for a number of years, but without real traction. In earlier years, a number of accounts were closed, but as the system was not firmly entrenched, accounts subsequently again proliferated. The situation became more difficult again in the mid-2010s as arrears and cash-management problems re-increased, despite the early introduction of an FMIS discussed in the following section.

Following the 2015 elections and facing a constrained fiscal situation, the government made a push toward implementing a TSA. As in the case of Georgia and Nepal, this was pursued in a somewhat incremental way. In early 2016, total balances by MDAs in commercial bank accounts were estimated at TZS 600 billion or around 0.6 percent of Tanzania’s 2015 GDP, that is, significantly less than in the case of Nigeria, but still sizable. Similar to Nigeria, there was substantial resistance from commercial banks, while the move to a TSA had direct presidential backing.¹²¹ Initially, national MDAs and regional administrative secretariats were required to move their funds to Bank of Tanzania (BoT) accounts, by the end of January 2016. They were permitted to maintain commercial accounts to meet monthly operating expenditures; however, the payment of suppliers of goods and services was moved to be directly through a Tanzania Interbank Settlement System (TISS). Local governments are expected to move their cash balances to accounts with the BoT from June 2017.

In the Philippines, introducing a TSA had been proposed as one of the core elements of the PFM Reform Roadmap to be achieved by 2015, but de facto progress remained limited. A TSA was to be rolled out jointly with a comprehensive GIFMIS by 2015. The intention was to cover all spending agencies, including subnational levels. However, by the end of 2016, the system as established since 2011 covers only revenues. Revenues are paid into one of 19 commercial banks designated for revenue collection, and are then transferred daily to the Government’s Common Fund, controlled by the Bureau of the Treasury and held in the Central Bank. Banks had previously held paid-in taxes and other revenue for several days before transmitting them. To compensate them for the loss of this short-term liquidity, the government switched to paying a fee.

On the expenditure side, MDAs continue to use accounts at one of three designated commercial banks. The BTr has only limited

and partial control over these accounts, and a float continues. In late 2013, the government announced that it would accelerate the TSA implementation process for public expenditures starting in early 2014¹²² to improve its ability for short-term cash management and reduce short term borrowing needs and costs; but with limited effect. The government managed to close a number of dormant accounts that had not been used in several years and to recover their balances.¹²³ In June 2015, the Department of Finance issued a new guideline, limiting which banks MDAs may use to maintain balances.¹²⁴ This was followed in September 2015 by another directive, giving MDAs, SOEs, and local governments a one year transition period to transfer their deposits to the government designated banks, considered to be more ‘secure’.¹²⁵

Ultimately, the successive directives reflect the fact that the CFAs, and the Bureau of the Treasury in particular, were not able to ‘impose’ a TSA on other stakeholders. One of the reasons why resistance in the Philippines seems to have been too strong to overcome, is that the government sought to roll out the TSA to all types of entities, that is, MDAs, local governments, as well as Government-Owned and Controlled Corporations (GOCCs) at once—in a large and complex country. Such a large-scale attempt seems to have triggered more resistance than is likely to have been encountered using a more incremental approach. Moreover, there is a close institutional and functional link between establishing a TSA and an FMIS and significant problems emerged with establishing the latter, as discussed in the following section.

The efforts at introducing TSAs and their varied success are a vivid illustration that seemingly highly technical reforms intersect with a number of political and economic interests. Anticipating such interests and identifying options for addressing them has been crucial for making progress in Georgia and in Nepal. In the latter, the second attempt at establishing a TSA illustrates a deliberately gradual and partial approach to reforms—which inevitably carries limitations in terms of impact. In Nigeria, the reform process was particularly messy, with fiscal duress and explicit political backing eventually emerging as crucial drivers. The incentive for MDAs of more credible cash releases still remains missing due to the fiscal crisis, creating a continuing threat to sustainability.

120. The campaign implied that a rising cost of living was related to the anticorruption efforts—rather than to the weakening of the Nigerian economy due to the decline in oil prices.

121. See: <http://www.thecitizen.co.tz/News/Banks-to-lose-billions-in-new-govt-directive/1840340-3054886-qykgaz/index.html>.

122. See <http://business.inquirer.net/153869/single-bank-account-for-govt-launched>, and <http://www.philstar.com/business/2014/01/04/1274884/govt-hastens-implementation-treasury-single-account>.

123. <http://malaya.com.ph/business-news/business/treasury-single-account-dbm-flushes-out-p438m-dormant-accounts>

124. <http://www.dof.gov.ph/index.php/department-of-finance-issues-revised-guidelines-on-authorized-government-depository-banks/>

125. <http://www.businessmirror.com.ph/agencies-given-one-year-to-transfer-deposit-bank-accounts-to-gfis/>

5.6.2 Introducing Financial Management Information Systems (FMISs)

The introduction of FMIS has been a central pillar of PFM and wider government reforms over the past two decades. Growing computing power on the one hand, and growing complexity of governments on the other hand made it attractive and increasingly necessary to capture revenue and expenditure data in databases rather than manually. Additional rationales or expectations are that FMISs will allow strengthened control over commitments and payments and thus help to reinforce fiscal stability and probity (World Bank, forthcoming). However, as Diamond and Khemani (2005) have pointed out, FMIS reforms frequently stall. In contrast, Dener, Watkins and Dorotinsky (2011) note that a strong majority of projects supporting FMIS achieve the installation of operational systems, even in low-income environments. In addition to some comparative treatments, there are several case studies (for example, Peterson 2006; Joshi, Srivastava, and Nguyen 2015). However, overall, systematic evidence and discussion about the introduction of FMIS is still quite limited—in part because this represents a reform with multiple technical challenges—related to IT, procurement, project management, and other factors (Combaz 2015).¹²⁶ Beyond the question of whether an FMIS is successfully installed and rolled out, key questions concern how well they are actually used and sustained and the overall impact on PFM—which has received greater attention and analytic coverage only recently (see Hashim 2016, 12; and World Bank, forthcoming).

Among different types of PFM reforms, introducing an FMIS stands out at being particularly costly and complex—which should provide an incentive for ‘trying to get it right’. Roughly, the cost of an initial rollout of FMIS-type systems in the five countries covered has ranged from around US\$5 million to US\$50 million.¹²⁷ Given variations in comprehensiveness and coverage (for example, only one versus multiple levels of government), a variety of funding sources (the government as well as various contributions from DPs), and modalities, it is difficult to establish actual costs comparably.¹²⁸ The introduction of FMIS also reflects some of the wider issues that stakeholders need to consider when seeking to introduce large-scale IT solutions, such as the need to develop technical specifications that provide a good fit with the requirements and processes. Furthermore, similar to other reforms, but even more so due to continuous evolution in technology, introducing an FMIS is not a one-off reform. Rather, it brings in a

system that subsequently requires continuous efforts—ongoing licensing, hardware and software maintenance, continuous use by and training for staff in MDAs—and repeated rollouts of upgraded systems, to remain fully functional and to continue to contribute to a strengthened PFM system.

From a political economy perspective, a number of potential challenges could be assumed to be relevant. Similar to the issue with implementing a TSA, stakeholders in spending agencies may have incentives to resist an FMIS due to the greater central control that it creates. These reasons for resistance may interact with basic capacity and IT constraints in terms of ensuring that staff and systems are available and accessible for all entities meant to use the system. Preparation periods for FMIS can be lengthy, and hence entail risks of the process being derailed due to changes in key driving stakeholders and agencies (that is, shifts in the window of opportunity). Potential supporting factors are the fact that an increasing number of countries operate some form of FMIS, resulting in a growing body of experiences to learn from (both good and not so good), and the pressure from increasing volumes and complexity of spending. As for other PFM reform aspects, further important issues concern whether implementation and impact can be and remain robust in the context of potential ongoing challenges, such as stakeholders having (continuing) incentives to circumvent controls and oversight mechanisms being created by the FMIS.

Among the five cases included, Tanzania was the earliest to introduce an FMIS, starting in the late 1990s. The system was implemented across national level MDAs and successively also to sub-national levels of government. As Diamond and Khemani (2005, 14–15) emphasize, the introduction of the system had significant political backing at the time and was driven by significant fiscal pressures and problems with excessive commitments made by MDAs.¹²⁹

The Tanzania experience suggests that with a political as well as a fiscal interest, and a reasonable sequenced approach, the implementation of an FMIS can be relatively smooth, even in a low-income context. The introduction of the FMIS happened during a relatively reform-oriented period in government, following the first multiparty elections organized in 1995 and the election of Benjamin Mkapa as President. PFM reforms at the time were focused on bringing significant payment arrears under control that had resulted from excess commitments.¹³⁰ Introducing an FMIS was part of the first PFMRP being adopted. After a first attempt with a system designed by a national consultant proved problematic, the government decided to purchase a customized ‘Enterprise Resource Planning System’, in this case, EPICOR. Once introduced, the

126. <http://www.gsdr.org/wp-content/uploads/2015/06/HDQ1229.pdf>. GSDRC overview paper with useful references.

127. Hashim (2016) provides a range of World Bank funding commitments for IFMISs ranging from US\$3 million in Cabo Verde to US\$231 million in the Russian Federation.

128. For example, the FMIS in Nigeria covers the federal level only, with separate systems being established at the state level. For the four other cases, FMISs have covered both national and subnational levels.

129. http://www.mof.go.tz/index.php?option=com_content&id=34

130. https://extranet.imf.org/depts/fadbank/TAR/Tanzania_Advancing_Public_Financial_Management_Reforms_October_2012.pdf

system has been in continuous use, and software updates were undertaken.

However, the Tanzanian experience also highlights that successful FMIS implementation does not ensure good fiscal management, as overriding commitment controls eventually re-emerged. The FMIS's primary use has been for the budget management and accounting modules (general ledger, accounts payable, accounts receivable). In parallel to the expenditure reforms of the late 1990s, the government established the Tanzania Revenue Authority (TRA) in 1996. It managed to pursue increases in revenue collection up until 2007 (see Chapter 3), but subsequently, revenue plateaued. Once revenues no longer increased further relative to GDP, payment arrears began to re-emerge (IMF 2012). As budget releases again became less reliable, FMIS users in spending agencies reverted to overriding commitment controls in the system. Thus, one of the commitments of Tanzania under its 2014–2017 Policy Support Instrument Agreement with the IMF was a public information campaign launched as part of the 2016 budget speech, that payment orders to suppliers would only be honored if generated through the FMIS.¹³¹

The Philippines provides the most dramatic counter example in terms of seeking, but not succeeding thus far, in implementing an FMIS—although this was intended as the centerpiece of PFM reforms by the 2010–2016 Government. Following the approval of a PFM reform roadmap in early 2011, a PFM Reform Committee, called 'GIFMIS Committee', reflecting the system's central status, was formed under Executive Order No. 55 in 2011 in September.¹³² The committee comprised senior representatives (commissioner, chairperson, secretaries, and undersecretaries), from the COA, DBM, DoF, and BTr—that is, it brought together key representatives of the fragmented CFA agencies involved. The GIFMIS project aimed at phasing out the many dispersed financial management systems and processes in place through the implementation of a unified system and with the aim to reduce fiduciary risk and consolidate reporting. Significant expectations were raised that the GIFMIS would—quasi automatically—deliver solution to key shortcomings of the PFM system, such as fragmentation, insufficiently credibility of budget execution, as well as problems with timely, reliable, and comprehensive reporting on expenditures.¹³³

In 2012–2013, a comprehensive conceptual design was developed, together with functional and technical specifications. The

system as designed was to cover fiscal planning, budget preparation, budget execution and financial reporting comprehensively for all levels of government. The IT project was tendered in 2013, but failed, and then retendered and awarded in 2014. However, the President subsequently did not approve the GIFMIS when he was asked to sign off on the recommendation of the DBM's Special Bids and Awards Committee (SBAC). A key motivation seems to have been that the scale of the project was overambitious and the President was concerned that it would fail—leading to a costly waste of funds and a potential drag on the President's record. It thus also reflects a somewhat surprising breakdown between the technical and the political levels to agree in time on a more manageable approach. This was a very significant drawback for the PFM reform agenda, given the GIFMIS's centrality to it.

Subsequent to the failed attempt, CFAs agreed to pursue a much scaled-down version, a Budget and Treasury Management System (BTMS), to be used initially only by DBM and BTr.¹³⁴ A tender for this much smaller system was successfully completed in late 2015, and design started in 2016. The system is intended to be initially used only by the two main CFAs, the Department of Budget and Management and the Bureau of the Treasury, with actual use scheduled to start in 2017. While starting out with a limited scope, the system is designed to be expandable and can be rolled out to the spending agencies in principle in the future (requiring procurement of additional user licenses and training). The sharp reduction in the scope, strategies, and costs has made progress more manageable, but has also left the overall reform path uncertain.

The Philippines' experience with the GIFMIS indicates that seeking a comprehensive solution is a particularly high-risk approach, even when pursued by a highly reform-committed government. PFM reform plans gave a central place to the GIFMIS as the centerpiece of the overall PFM reform process, further increasing risks that if the project failed it would also delay related reform efforts such as the TSA discussed above.¹³⁵ It also shows the risk of pursuing a large-scale reform within a limited window of opportunity. Given the constitutional provision of a single mandate and hence a maximum of six years duration for a single administration, pursuing a reform that takes several years from concept just to contracting went against a more robust strategy of seeking smaller reform steps that have a more limited span from inception to starting implementation. The detour from investing in a large-scale design and then eventually moving to a much smaller-scale solution had a considerable cost in terms of lost time and at least partially lost efforts and credibility.

131. IMF Country Report 2017/13.

132. The formal approval of the PFM Reform Roadmap was made in January 2011 through a Joint Resolution (01-2011) of the COA, DBM, and DoF, and then in September 2011, Executive Order No. 55 *Directing the Integration and Automation of Government Financial Management System* was signed.

133. "Interviews conducted by the review team with a range of government stakeholders revealed inflated expectations as to the nature of reforms which GIFMIS will automatically deliver." Department of Foreign Affairs and Trade (DEFAT, Australia) review (2014).

134. <http://www.gov.ph/2015/12/16/new-it-system-public-fund-efficiency/>

135. See also Bysouth, Philipsen, and Belisario 2014.

In Nigeria, implementing a GIFMIS was initiated in 2003, during a period of relatively strong pursuit of PFM reforms as noted in Chapter 3. At the time, political backing from President Obasanjo coincided with a strong technical team on the one hand, and incentive to pursue reforms to complete the debt relief process on the other hand. World Bank support for establishing a GIFMIS commenced with the Economic Governance Reform Project approved in 2004, with the intention of starting GIFMIS implementation by 2007. However, as for other aspects of PFM reforms, momentum flagged from 2006 onwards as the main driving factors peeled away. The fragmentation of the CFA system, which has parallels to the situation in the Philippines, further hindered progress. In clear contrast to the Philippines, the system was only intended to cover the federal level of government, with states being expected to adopt their own systems—being spurred to do so by the example set at the federal level.

Between 2004 and 2009, further preparation continued but at a very slow pace, followed by a drawn-out procurement process, concluded only in 2011. Among CFA institutions, the Office of the Accountant General held the main responsibility. Eventually, systems specifications were sufficiently agreed to issue a procurement notice, with the full procurement process to contract signature taking nearly another two years. In line with standard recommendations, in May 2011, the federal government concluded a contract for a customized off-the-shelf solution, provided by a Nigerian subsidiary of Hewlett Packard, for a cost of approximately US\$29 million.¹³⁶ Shortly after, Jonah Otunla was appointed as Accountant General for the federal government, replacing Ibrahim Dankwambo.¹³⁷

Once a contract had been signed, implementation moved forward. Design and testing proceeded rapidly, and the system went live in April 2012 for the Budget Execution System. The reappointment of Ngozi Okonjo Iweala as Minister of Finance in mid-2011 brought further renewed momentum to the GIFMIS effort, given her initial involvement in conceptualizing the reform. The original pilots were 93 MDAs, with coverage increasing to 209 MDAs by mid-2013, 551 MDAs by early 2015, and to all but a few agencies by 2016. One marring aspect was that similar to the establishment to the TSA involving some suspected malfeasance, in May 2015, two officials from the Office of the Accountant General were arrested by the Economic and Financial Crimes Commission (EFCC) on accusations of having established companies to win bids related to the rollout of the GIFMIS (NGN 1 billion).

While there is a sense of achievement against quite a few odds with regard to implementing the GIFMIS, sustained use and impact

still remains uncertain. Reaching a successful procurement and subsequent rollout of the GIFMIS was a major achievement in a complex and fragmented environment with pervasive corruption such as Nigeria. The contrast with the Philippines indicates that a more limited scope likely facilitated progress; and that in this case a combination of a dedicated technical team and external support was able to make a difference, even though with significant delays. However, resistance from line ministries remained significant, albeit being somewhat weaker than with regard to the TSA discussed above. As stakeholders have pointed out, one consequence has been that the quality of FMIS use, including the data being entered into the system, remains inadequate, requiring further effort.¹³⁸ In addition, connectivity problems and constraints in the effective troubleshooting of program bottlenecks have made the system frustrating for users. Thus, while it has been possible to set up a system, thus far it only partially delivers the expected impacts of PFM, due to a combination of incentive as well as capacity constraints.

In Nepal, efforts have been ongoing to use information technology for automating PFM processes and for capturing information; but incrementally, following initial setbacks. The incremental approach taken appears to have been a reasonable choice pursued by mid-level bureaucrats for a situation in which sustained high-level backing for reforms is not available, given continuous political crises and shifts.

For budget preparation, a first attempt to introduce a Budget Management Information System (BMIS) was made in 2005, but met with resistance from line ministries. To deal with this resistance, the Ministry of Finance moved to using the BMIS itself for the central compilation of the budget, while creating a ‘Line Ministry Budget System (LMBS)’ for spending ministries. By putting ‘Line Ministry—LM’ in the title to purposely make it unique from its own IT system (BMIS), greater buy-in was facilitated. The MoF also modified the LMBS so that it was similar in format to the line ministries’ manual budgets to facilitate the change for users. These initiatives ensured the line ministries, in addition to the MoF, would be ‘winners’ of the reform. Implementation progressed gradually. By 2015, the LMBS was fully functional and the MoF began integration with its own BMIS.

For capturing data on budget execution, a similar step-by-step process has been pursued. A unique expenditure system was developed and rolled out for the districts (District Expenditure Control System). The FCGO first piloted the DECS/TSA in three districts before rolling it out to the remaining 72. In addition, once the new expenditure system was institutionalized, the FCGO began the rollout of a revenue system Revenue Management Information System (RMIS) in 2015. At the central level, the FCGO also established an FMIS into which it compiles expenditure and some revenue

136. See: <http://gifmis.gov.ng/gifmis/index.php/implementation-update>. The system is based on Oracle.

137. Dankwambo had been Accountant General since 2005. He resigned to run for a governorship which he won in 2011 (in Gombe State), and was reelected in 2015, both times on a PDP ticket.

138. Interviews with key stakeholders.

information and which it uses to generate reports, including functional, administrative, and economic breakdowns (see 2015 PEFA assessment). Monthly expenditure outturns for ministries and districts are now posted on the ministry's website. However, data still needs to be transferred from other systems into the central FMIS to do so, opening potential space for errors; and the coverage still remains incomplete (for example, it does not comprise debt service). The strengthened capturing of budget execution data has also enabled the establishment of a mid-year budget review process led by the MoF.

In Georgia, the introduction of an FMIS was initiated jointly with the treasury reforms started in 2004. With support from a World Bank project approved in 2006, the original idea was to implement a “Customized off the shelf solution (COTS),” to be in place by 2010. The MoF team invited several international companies providing relevant programs to present the solutions and customization they would offer. After being disappointed by the level of customization being offered, a decision was then taken to develop a system nationally instead.¹³⁹ This was subsequently done ‘in-house’, specifically through hiring a significant number of IT specialists into the ministry, rather than outsourcing to a private local provider.

The creation of the system was done in several stages, starting with a web-based e-Treasury system, then moving to an e-Budget system for budget planning and appropriations. At later stages, an e-procurement system was developed and eventually integrated; and modules for tax and for debt were added. As of 2015, the system still remained cash-based (that is, recording cash transactions rather than accruals), with a plan to transition to accruals over time (see the following section). The rollout to subnational levels and to LEPLs took place gradually, alongside the rollout of the TSA described above.

For Georgia, the path taken proved viable and avoided costly detours as experienced in the Philippines, or the creation of an initially fragmented approach as in Nepal, facilitated by several factors. A fundamental one was the general strong commitment to pursuing reforms as discussed in Chapter 3. This also created an impetus toward seeking fast progress on core problems, which seems to also have fostered a preference for starting the development of an in-house IT-solution, as opposed to beginning the establishment of a comprehensive FMIS with a lengthy procurement phase. In terms of capacity, there were two enabling factors: on the one hand, an availability of qualified IT experts that could be recruited,

and on the other hand, the structure of an LEPL which facilitated paying IT experts at rates competitive with the private sector.¹⁴⁰

Overall, introducing some degree of automation of treasury transactions and of moving to electronic databases for recording revenue and expenditure flows seems to be feasible in a range of different country contexts. Early adoption proved possible in Tanzania, that is, a low-income environment, and eventually progress was made, even if involving substantial delays, in Nigeria and the Philippines. Availability of support from DPs has played a role in facilitating financing and technical approaches.

However, introducing more ‘integrated’ systems has proven more challenging than introducing more limited and partial systems—for technical as well as nontechnical reasons. As experienced in Nigeria and the Philippines purchasing large-scale IT solutions can involve procurement problems, including risks of corruption. The larger-scale and the more complex the system, the lengthier the process of preparing specifications, actual tendering, and concluding a contract can become. This in turn risks extending such processes beyond available windows of opportunity for reforms.¹⁴¹

Moreover, as the Tanzania experience demonstrates, successful introduction of an FMIS is not a guarantee for effective and efficient use of public resources or even more effective control of commitments and prevention of payment arrears. Prevention of payment arrears and of delays in cash releases is largely dependent on a wider context in which central institutions of the government are able to keep spending commitments in line with revenue or are able to increase revenue in line with increases in spending commitments. Having an automated system that has embedded commitment controls can be useful, especially to flag aberrant spending requests to central agencies. However, decisions about overspending on certain categories and by certain ministries are typically more political than technical, and so cannot be effectively prevented by IT mechanisms.

An implication from a nontechnical perspective for the planning and implementation of FMIS is to consider ‘scalable incrementalism’ in particular in more complex environments. A deliberately sequenced approach may be more feasible in many situations than a ‘big

140. As Hashim and Piatti (2017, 53) note, maintaining the functionality of FMIS depends on technically capable staff, including IT specialists, and this can be challenging if regular civil service pay scales are low.

141. A further key risk is dependency on the vendor: once the procurement decision is made in favor of a particular vendor, the government locks itself into working with a particular system (unless it is willing to re-invest substantially in a different system). Competition among different subsidiaries for widely used systems such as Oracle or SAP partially mitigate this risk; while it may be particularly high for a system sourced from a local commercial vendor (as in the case of the e-Remita system introduced in Nigeria; or also for the FMIS introduced in Burundi—not covered here). If vendors are not providing sufficient support to troubleshoot the system, users will become less inclined to report regularly and adequately.

139. The three invited companies were SAP, Oracle, and Freebalance. In-house development has also been done by a number of countries in Latin America. See <http://blog-pfm.imf.org/pfmblog/2013/05/fmis-choice-the-dangers-of-in-house-development-in-low-capacity-countries.html>.

bang' approach on the one hand; while it would also be preferable to a more fragmented approach, as it emerged in Nepal, on the other hand. For a highly committed government, a scalable incremental approach offers the potential benefit of being able to have a core system in place relatively quickly; while in an environment with more limited commitment, taking such an approach may still be possible to pursue by key public sector managers within CFAs.

Moreover, it is critical to pay greater attention to how these systems once in place actually function and to identify key weaknesses.

It is very important not to create a false sense that having rolled out an IFMIS means that better fiscal controls and more accurate reporting are in place, when this is in fact not the case. Budget execution can remain politicized, with or without automation, in situations where certain ministries are allowed to overspend and others are not. The power of an MoF to limit and monitor the expenditures of the presidency or of the security apparatus, as well as of otherwise politically influential ministries and agencies is frequently constrained, even after an IFMIS has been established. Constraining overspending from these ministries is ultimately a political compromise. DPs can make important contributions to ensuring that there is clarity on how well systems are actually used, and to avoid reinforcing a sense that 'reforms are done' once an IFMIS is in place.

Creating a realistic sense of what has been achieved and why limitations persist is also necessary to assess what further improvements can happen and how. The study by Hashim and Piatti (2017) underlines that 'benefits from an FMIS will accrue only if the control protocols that come with it are diligently applied' and that a 'credible budget is critical'. Both of these conditions do not hold in several of the cases discussed here. It is important to be realistic about what benefits an FMIS delivers in such situations, and when and how such weaknesses can be addressed, for example, during 'windows of opportunity' that may arise. Ignoring these challenges or a lack of analyzing limitations would be risky and reinforce the tendency of rushing from one reform area to the next, while neglecting to ensure that what is being changed actually makes a difference.

5.6.3 Reforming Accounting and Fiscal Reporting Standards

Accounting standards have received considerable attention as an area of reform 'inside' governments. The ultimate aim of reforming accounting standards is to improve the quality of financial information and to enable better decisions on resource allocations and risk management. At the same time, accounting standards are a highly technical area; so, many potential stakeholders of the reform are not fully aware of the details, options and choices to make and their respective implications. Wider stakeholders, such as citizens in general or organized civil society, may not even be

aware of reforms in this area, even more so than is the case for other aspects of PFM reforms.

An international standard has emerged in recent years and has triggered widespread efforts at adoption across non-OECD countries, including the five cases reviewed here. The International Public Sector Accounting Standards (IPSAS) have been endorsed by the IPSAS Board, which is organized under the International Federation of Accountants (IFAC), with funding from the World Bank Group, the Asian Development Bank, and others. The standards are based on the International Financial Reporting Standards, developed for private sector accounting, and issued by the International Accounting Standards Board (IASB).¹⁴² The IPSAS Board started functioning in 1997 and issued the first standards in 2000. It has since added additional standards on various areas (38 standards in total for accrual-based statements and 1 standard for cash-based statements), designed to meet the needs of public sector accounting.

The IPSAS Board has issued both accrual-based standards and standards for cash-based public sector accounting. The cash-based IPSAS encourage additional voluntary inclusion of accrual-based information in the principally cash-based financial statements. Given that the IPSAS Board is an international professional body, not a government or an international organization, its standards do not have a legally-binding status as such; each country ultimately has to adopt its legally binding standards. The board encourages that financial statements prepared include a disclosure of the extent to which IPSAS standards are being complied with; for example, as typically there is an extended transition period until financial statements would comply fully with all accrual-based IPSAS standards.

The key principle is the idea that expenditures should be recorded as an obligation when they are committed, rather than at the point when payments are actually made. A further requirement of accrual-based accounts is the recording of assets and liabilities, and recording the depreciation on assets with finite lives (see also Moretti, Cavanagh, and Flynn 2016 and Khan and Mayes 2009). Particularly important is the coverage of liabilities, including pension obligations and similar liabilities, which are typically not fully captured in cash accounting systems, and potentially also asset transfers. The main challenge is that accrual accounts require greater capacity and a more specialized and trained accounting cadre and that accrual accounts can also be more difficult to interpret.

In particular, the IMF has played a crucial role with regard to assessing the reliability in applying accounting standards, as part of its monitoring of fiscal risks. The fund's overall concern is to reduce risks of unexpected/unknown government liabilities—originally

142. See www.ipsasb.org and www.ifac.org.

DEFINITIONS: ACCOUNTING, FISCAL REPORTING, TRANSPARENCY, AND RISK

Apart from accounting standards, other international standards have been issued for fiscal reporting mainly as a way to enable comparability. These are the Government Finance Statistics (GFS) standards, issued by the IMF. There have been three versions of GFS standards, each set out in a manual (GFS Manual [GFSM]): 1986, 2001, and 2014.¹⁴³ The main purpose of the GFS is to enable macro-fiscal analysis. Adherence to GFS enables international comparisons across countries by standardizing, for example, the functional breakdown of public expenditures, and the overall scope of the ‘general government sector’ and the ‘public sector’. GFSM 2014 considers the standards established through the issuing of the IPSAS since 2000, as well as other updated standards, such as those on reporting on public debt and for national accounts.

- **Government accounting** refers to the concepts, standards, rules, and systems used to generate the financial information used in fiscal reporting.
- **Fiscal reporting** refers to the production of summary information about the past, present, and future state of the public finances for both internal (management) and external (accountability) uses.
- **Public fiscal reporting** refers to the publication and dissemination of this summary information about the

Source: IMF (2012).

state of the public finances to citizens in the form of fiscal forecasts (in fiscal strategy or budget documents), **government finance statistics** (fiscal reports produced in accordance with statistical standards), or government financial statements or accounts (fiscal reports produced in accordance with accounting standards).

- **Fiscal transparency** refers to the clarity, reliability, frequency, timeliness, and relevance of public fiscal reporting and the openness to the public of the government’s fiscal policy-making process. Within this, clarity refers to the ease with which these reports can be understood by users, reliability refers to the extent to which these reports reflect the government’s true financial position, frequency (or periodicity) refers to the regularity with which reports are published, timeliness refers to the time lag involved in the dissemination of these reports, relevance refers to the extent to which these reports provide users with the information they need to make effective decisions, and openness refers to the ease with which the public can understand, influence, and hold governments to account for their fiscal policy decision.
- **Fiscal risks** are factors that lead to differences between a government’s forecast and actual fiscal position.

triggered by the Asian financial crisis of the 1990s. The main initial tool for this purpose have been Reports on Observance of Standards and Codes (ROSCs) (covering a total of 12 specific areas); typically as specific reports on fiscal transparency.¹⁴⁴ The IMF also issued a Code of Good Practices on Fiscal Transparency

in 2007, followed by a new Fiscal Transparency Code issued in 2014.¹⁴⁵ Fiscal Transparency Evaluation (FTE) Reports were established since then as a new tool to assess the accuracy of fiscal information.

As reflected in Table 5.4, fiscal ROSCs have been relatively few, as have been Fiscal Transparency Reports thus far. As noted by the IMF in 2012, efforts in this area had waned since the early 2000s.¹⁴⁶ The fiscal crises experienced by several European countries—which especially in Greece had been obscured by inadequate fiscal accounting and reporting—triggered renewed attention. The FTE reports cover accounting standards and responsibilities for their application and oversight, as well as issues of comprehensiveness. Again, however, only a few such reports have been produced to date—among the five case studies, only for the Philippines.

143. For GFSM 1986 see: <https://www.imf.org/external/pubs/ft/gfs/manual/1986/eng/>. For GFSM 2001 see: <https://www.imf.org/external/pubs/ft/gfs/manual/pdf/all.pdf>. For the most recent manual see: <https://www.imf.org/external/Pubs/FT/GFS/Manual/2014/gfsfinal.pdf>. The general government sector consists of resident institutional units that fulfill the function of government as their primary activity. This sector includes all government units and all nonmarket, nonprofit institutional units (NPIs) that are controlled by government units. The public sector consists of all resident institutional units controlled directly, or indirectly, by resident government units—that is, all units of the general government sector and resident public corporations. That is, the public sector is defined as the ‘general government’ plus public sector enterprises. GFSM 2014 takes into account the standards established through the issuing of the IPSAS since 2000, as well as other updated standards, such as those on reporting on public debt.

144. There are also other types of ROSCs.

145. <http://www.imf.org/external/np/fad/trans/>

146. See: <http://www.imf.org/external/np/pp/eng/2012/080712.pdf>—Fiscal Transparency, Accountability, and Risk.

While there are other assessments covering fiscal transparency and accountability—notably PEFA assessments and the International Budget Partnership’s Open Budget Survey—neither of these goes as deeply into the technical detail of assessing the application of accounting and fiscal reporting standards. The 2016 guidance for PEFA assessments has one sub-indicator on data integrity of financial data (PI-27.4), focusing on access to information (read-only versus changes to records by creation and modification); and existence of a body, unit, or team in charge of verifying data integrity. PEFA indicator 29.3 focuses on accounting standards, but only assesses whether international or consistent national accounting standards are being used (with a higher rating for adopting international standards).

From an overall concern about government accountability, seeking to adopt internationally accepted standards for government accounting and reporting are positive steps. The rationale for adopting standards is that they are based on careful consideration and inputs—that is, they distill accumulated knowledge and experience. They can also provide legitimacy. In principle, adherence to such standards should reduce the scope for intentional or unintentional hidden risks; and better fiscal reporting is a public good for stakeholders from local to national and to global levels. Using a unified set of standards, if applied correctly, should enable better cross-country comparison of fiscal allocations to different types of activities and expenditures.

At the same time, the highly specialized nature of these reforms may obscure some of the nontechnical and incentive issues involved. First, there are costs and potentially capacity constraints involved in arriving at a full statement of government financial and non-financial assets and liabilities (both ‘start up’ costs to arrive at initial valuations, and subsequent costs of continuous application, including substantial needs for training or hiring qualified staff), and second, governments and specific stakeholders may still have incentives to not fully report liabilities for various reasons (such as avoiding a formal breach of debt ceilings),¹⁴⁷ or to continue but

seek to hide some form of misappropriation of funds (for example, as a source for funding election campaigns or additional security expenditures). In principle, external audit offices would take on the role to assure that accounting standards are accurately applied; however, both their capacity in terms of auditing skills or operating budgets to carry out audits, as well as their independence may also be constrained.

Because there are potential nontechnical and incentive issues, there are some risks that efforts to adopt (accrual or cash-based) IPSAS have an element of ‘isomorphic mimicry’. Stakeholders within the government may have some incentives in this regard; as well as those involved in the setting and dissemination of international standards. For technical-level stakeholders within the government, initiating reform efforts toward adopting IPSAS can involve a mix of needing to or wanting to comply with IMF requirements (for example, for a new program), get involved in various international conferences, and so on. Given that accrual accounts are more demanding to interpret, there may be an expectation that stakeholders outside of the government would not notice any ‘creative practices’ used, even if in principle accrual accounts should be more comprehensive and hence improve transparency of the government actions.¹⁴⁹ Thus, the actual quality of implementation should receive considerable attention to ensure that the expected benefits in terms of more comprehensive accounts and greater transparency, comparability, and accountability are indeed realized.

Across the five countries reviewed for this study, reform intentions and the status are as follows. All five countries are seeking to introduce IPSAS. For Nepal, it has been most clearly stated that the intention is to initially move to compliance with cash-based IPSAS, rather than the accrual-based version. At the same time, all five countries are still at a preliminary stage of this reform effort.

Looking at recent PEFA assessments, for two out of the five countries, the Philippines and Tanzania, the accounting standards used have been improved to a greater extent than the quality of

TABLE 5.4. Dates of Fiscal ROSCs and Fiscal Transparency Reports

	Georgia	Nepal	Nigeria	Philippines	Tanzania
Published fiscal ROSC	2003	2007	—	2002, 2004	2002
Fiscal transparency reports	—	—	—	2015	—

Source: IMF.¹⁴⁸

147. Adopting IPSAS may also allow some countries to claim a lower debt burden, as it includes provisions for discounting, while ‘traditional’ public sector accounting calculates debt to GDP ratios by looking at the face value of the debt relative to current GDP. This may both be a benefit and a curse (as risks of accelerating debt are always a significant risk). For example, an investor in Greek debt has claimed that it is far lower than headline figures if calculated consistent with IPSAS standards rather than the currently applied ‘Maastricht’ definition of debt.

148. <https://www.imf.org/external/NP/rosc/rosc.aspx?sortBy=CountryName&sortVal=N>; and <http://www.imf.org/external/np/fad/trans/>

149. A recent analysis conducted interviews with financial managers at local levels in England where IPSAS had been introduced. While they found impacts on accountability to be strong in general, they did not agree that IPSAS could prevent ‘creative accounting’ practices. <http://etheses.bham.ac.uk/4692/1/Mangualde13MRes.pdf>.

TABLE 5.5. PEFA Ratings for Accounting Standards Used and the Quality of In-year Budget Reports

	Georgia		Nepal		Nigeria ^a	Philippines		Tanzania	
	2008	2013	2008	2015	2012	2010	2016	2009	2013
P 24, dimension (iii) [P 28.3] <i>Quality of information of in-year budget reports^b</i>	A	A	C	B	C	D	C	C ^c	C
P 25, dimension (iii) [P29.3] <i>Accounting standards used</i>	B	C ^d	C	C	C	B	A	C	B

Source: PEFA reports; pre-2016 framework.

Note: a. Data for Nigeria are based on an unofficial assessment carried out in 2012. b. 2016 PEFA format: accuracy of in-year budget reports; c. both indicators had not been rated in the 2006 PEFA assessment for Tanzania; d. the 2013 PEFA assessment for Georgia states that 'C' is the correct score and judged the score given in 2008 as too high, based on a misunderstanding of cash-based IPSAS already being in use.

information reflected in in-year budget reports (Table 5.5). In Georgia and Nepal, in contrast, the quality of information of in-year budget reports is judged as good or very good, while accounting standards remain national rather than conforming to international standards (as required for a B rating).¹⁵⁰

For Georgia, reforms to accounting standards and practices received rather little attention during the initial post-independence period (that is, until 2003), and also during the initial period following the Rose Revolution and the commencement of other public sector reforms. Accounting standards were cash-based, focused on revenue and expenditure flows, and continued to follow legacies from the previous system in which public sector accounting staff had been trained. This approach was initially sufficient while reforms focused on 'big picture' fiscal risks and opportunities, such as strengthening the functioning of the treasury and tax policy and administration. However, the reforms as undertaken enabled in-year budget reporting that was judged as reliable already by the first PEFA assessment undertaken in 2008, within the parameters of the standards used.

The focus on accounting standards increased from the late 2000s, when the international influence on the PFM reform agenda became stronger (following the conflict with Russia and subsequent increased external support). As set out initially in the 2009 PFM Strategic Vision, the intention is to go through a process of moving from cash-based, to modified cash-based, to accrual-based IPSAS compliant accounting standards. The same strategy also sets out the aim of developing a GFS (2001) compliant budget classification and chart of accounts and to develop a consolidated annual

financial statement, comprising assets and liabilities related to LEPLs and SOEs. The general commitment was revisited in the PFM Action Plan for 2015. The aim is to achieve full compliance with accrual-based IPSAS by 2020 (PFM Management Reform Strategy 2014–2017, p. 10). The 2014–2017 Reform Strategy provides a more detailed outline of which IPSAS standards are to be adopted in what year (for example, treatment of changes in currency exchange rates, of conditional liabilities and assets, and so on), with an overall goal of full introduction by 2020. The reform will also involve the addition of a full-fledged accrual-based General Ledger module to the suite of IT-systems for the treasury.

Initial progress was made by the end of 2015, including the translation of all the standards into Georgian, as well as initiating training on the first set of standards to be adopted. At the same time, a lot of ground remains to be covered in terms of rolling out training on IPSAS standards, undertaking actual valuation of assets and liabilities, as well as of creating the accrual-based General Ledger module, and making it operational. The country's limited size generally should facilitate progress, while full completion may still be delayed by some years. The real 'proof'—as for other countries—will then be subsequently, with regard to assessing whether the accrual-based financial statements are adequate and whether any significant public sector flows, assets, or liabilities remain uncovered or not accurately reflected.

For Nepal, the initial intention to reform public sector accounting and reporting was set out in the 2009–2012 PFM Reform Program (PFMRP Phase I), which was developed following the initial 2008 PEFA assessment.¹⁵¹ The intention set out in the plan was to improve the rating for the indicator related to accounting standards to a 'B' on the PEFA scale; and specifically to develop, adopt, and introduce Nepali Public Sector Accounting Standards (NPSAS). The next PFM Reform Strategy/Program (PFMRP Phase II) covers 2016 to 2025. The NPSAS were formally adopted in 2009, and implementation started for FY2009/2010. However, one key difficulty noted was that there was a lack of full compliance with new

150. A 'C' rating requires that there is a national standard that is codified, disclosed, and consistently followed. Moving to a 'B' rating requires that "the majority of international standards have been incorporated into the national standards. Variations between international and national standards are disclosed and any gaps are explained. The standards used in preparing annual financial reports are disclosed." (2016 PEFA guidance; the sub-indicator related to accounting standards is now PI-29.3, as additional indicators have been added to the frameworks). It needs to be noted that the assessment for PI-24 (iii) relies on whether responsible agencies (internal audit, external audit) have concerns regarding the quality of reporting, and therefore as noted above is not a direct assessment.

151. See: http://www.capa.com.my/images/capa/ICAN-CAPA_PSAAconf_RameshwarKhanal.pdf.

standards, including due to capacity constraints of accountants across ministries, agencies, local governments, and SOEs. Only two pilot ministries, and 14 other central level bodies were compliant by 2012 (Ministry of Physical Infrastructure and Transport and Ministry of Women and Social Welfare) (PFMRP Phase II, p. 5). For a further 14 line ministries, training was organized, and use of NPSAS started in FY2015/16.¹⁵²

As for other budget execution reforms discussed above, the main ‘owner’ of the NPSAS reform efforts has been the Financial Comptroller General’s Office (FCGO) which also houses the overall PFM reform secretariat. The Accounting Standards Board (that is, professional association) has supported the development of the NPSAS. Achievements were still limited by the time the next PEFA assessment was carried out in 2014 (published in 2015), with the overall rating for PI-24 (Quality and Timeliness of in-year-budget reports) as well as for PI-25 (Quality and Timeliness of Annual Financial Statements) remaining at C+, with no change yet in the rating of the particular sub-indicator (PI-25, iii) on ‘Accounting Standards Used’—the rating remained at ‘C’, given the still very limited use of the NPSAS by 2014.

In Nigeria, plans to move to IPSAS standards were initiated in 2009; with the Accountant General being the main champion of the reform. In this case, the move toward IPSAS for the public sector was closely related to efforts at establishing better private sector accounting practices in Nigeria, as a way to attract greater foreign direct investment. IFRS—that is, the international standards for the private sector—were adopted in parallel. The move toward adopting IPSAS was politically sanctioned in July 2010 by a decision of the Federal Executive Council (shortly after Jonathan became the President following the passing away of his predecessor in May 2010). Subsequently, a bill creating a new Financial Reporting Council (FRC) was passed in May 2011 (that is, immediately after the general elections of April 2011).¹⁵³ The FRC is established as a federal government parastatal under the supervision of the Federal Ministry of Industry, Trade, and Investment; and has a mandate to issue rules and to regulate accounting, actuarial, valuation, and auditing standards, used in the preparation of financial statements in Nigeria.¹⁵⁴ Membership includes representatives of

government and other interest groups.¹⁵⁵ Its seven directorates include one for public sector accounting standards.

The intention of IPSAS implementation in Nigeria is very ambitious insofar as it is intended to be implemented across all three levels of government—federal, state, and local—in a federal system in which subnational levels have guarded their relatively fiscal autonomy quite closely. A subcommittee of the Federation Account Allocation Committee (FAAC) was charged in mid-2011 with developing a roadmap and supporting the rollout of IPSAS. Members of the FAAC Subcommittee include the Office of the Accountant General of the Federation (OAGF) as well as state-level Accountants General (one from each of Nigeria’s six ‘geopolitical regions’). Also established was a federal-level IPSAS Implementation Committee and an Implementation Committee for state and local levels. An initial implementation date was set for 2012, later pushed to 2014 for cash-based IPSAS and 2016 for adopting accrual-based IPSAS (Adamu and Ahmed 2014).

Moreover, the Accountant General¹⁵⁶ and the FAAC Subcommittee chair¹⁵⁷ set expectations for the impact of IPSAS high, arguing at a workshop in 2010 that introducing these would minimize corruption in Nigeria, as well as contribute to attracting foreign investment.¹⁵⁸ In line with the discussions in Section 5.4 above, both of these claims are clearly exaggerations, as no single reform on its own can bring about such significant changes; improvements in the judiciary are just one of several complimentary reforms needed.

Implementation of cash-based IPSAS has started, but there are still challenges with regard to actual application; while the transition to accrual-based standards remains uncertain despite repeated announcements. The main legitimizing document is the 2010 decision by the Federal Executive Council. Financial regulations (federal), instructions (state level), and memoranda (local level) were harmonized. Subsequently, the OAGF issued a National Treasury Circular in October 2014, requesting all public sector entities across the three levels of government to set up their own specific IPSAS implementation committees.¹⁵⁹

Part of the challenge is that the degree of automatization of accounting systems varies across levels of government (and different software is used, and there has not been agreement on how to harmonize). The commitment to starting implementation of accrual-based IPSAS was again confirmed in summer 2015 for early 2016 by the Accountant General (Ahmed Idris), but has not actually happened, given a lack of prerequisites. It is unlikely to

152. Regarding some of the initial challenges experienced with this transition, see: <https://synergyaccounting.wordpress.com/2016/11/29/nepal-public-sector-accounting-standard-npsas-cash-basis-implementation-challenges/>.

153. The FRC supersedes an earlier institution, the Nigerian Accounting Standards Board that had existed since 2003, and in earlier configurations since 1982. The FRC is loosely modeled on the United Kingdom’s Financial Reporting Council, which, however, exclusively deals with corporate governance (including accounting standards). See www.frc.org.uk.

154. <http://www.financialreportingcouncil.gov.ng/index.php/about-us/fact-about-frc>

155. <http://www.financialreportingcouncil.gov.ng/index.php/about-us/member-bodies>

156. At the time: Jonah Otunla.

157. At the time: Udo Hilary Isobara.

158. See: <https://www.facebook.com/ManufacturingTodayNG/posts/408739622522669> [accessed April 30, 2016].

159. <http://oagf.gov.ng/wp-content/uploads/2015/10/STEPS-TO-SUCCESSFUL-IMPLEMENTATION-OF-IPSAS-ACCRUAL-BASIS-IN-NIGERIA-BY-2016.pdf>

be feasible before 2020.¹⁶⁰ The costs of transitioning to accrual-based IPSAS has been described as very significant; while no aggregate information or assessment on this is available. Based on the Nigerian experience, Okolieaboh (2014) underlines that costs can be very significant and efforts should be made to assess likely costs when the transition to IPSAS is planned.

Overall, there is an impression that Nigeria has sought to do ‘too much too fast’ with regard to adopting IPSAS; and in some ways ‘putting the cart before the horse’ in terms of pursuing tangible improvements in a cost-effective way. While the formation of commissions and the formulation of time tables signals commitment, seeking to roll out IPSAS across levels of government and with other PFM reforms (notably completion of the GIFMIS) struggling, true progress has been difficult. At the same time, costs have already been considerable.¹⁶¹ Rather than emphasizing the need to shift accounting standards, from a functional and accountability perspective, getting a simpler set of standards to be used reliably and consistently would seem to have been a better route.

The Philippines PFM Reform Roadmap for the period 2011 to 2015 does not discuss IPSAS explicitly, but their introduction has nonetheless been pursued. There was a relatively well-defined process of developing the Philippines Public Sector Accounting Standards (PPSAS).¹⁶² The standards had been developed by a Public Sector Accounting Standards Board (PSASB) that was established in 2008. The intention is that they will apply to all levels of government. By COA Resolution No. 2014-003 dated January 24, 2014,¹⁶³ the PPSAS were adopted replacing the previous New Government Accounting Standards (NGAS).

PPSAS are broadly consistent with IPSAS guidance and establish a modified accrual standard. Out of the 32 IPSAS, 28 are adopted, of which 25 were already implemented in 2014, with a further 3 implemented since 2015. A revised Chart of Accounts was also adopted in accordance with COA Circular No. 2013-002 dated January 30, 2013. Subsequently, COA Circular 2014-003 dated April 15, 2014 was issued to provide policies and guidelines on Chart of Account's implementation (PEFA 2015 draft). Training on both new standards was provided, and the Government Accounting Manual (GAM) was under revision in 2015.

Despite the move to the accounting standards consistent with IPSAS, the 2015 PEFA rates the ‘transparency, completeness and consistency of accounting standards applied’ as ‘D’, because qualified

and adverse audit opinions were issued for several ministries, compliance with the previous standards (NGAS) had been uneven, and not sufficient further evidence of implementation of the new PPSAS was available. The assessment therefore argues that accounting standards are not (yet) consistently applied. Due to the institutional setup in Philippines, there is also some problem with the role of the external audit function with regard to assessing the quality and consistency of accounting standards applied; given that the COA issues the standards and is at the same time responsible for external audit.

As for several of the other reforms discussed in this chapter, Tanzania was a relatively ‘early adopter’. Preparation for introducing IPSAS aligned accounting standards was initiated in the early 2000s (PEFA report 2006: 66). Cash-based IPSAS were introduced starting in FY2007/08 for the national level, while alternative standards remained in use for local levels. By the time of the 2013 PEFA assessment, local governments had moved ahead by using accrual-based IPSAS, as did public corporations, while for the central government, cash-based IPSAS still remained in use, with a target to switch to accrual-based standards by 2016/17.¹⁶⁴ Subsequently, it was decided to start implementation of accrual-based standards for national MDAs from July 2012, with a transition period until 2017. National efforts to move toward IPSAS were further reinforced by the East African Community's joint commitment. The East African Monetary Protocol (EAMP) signed in late 2013 stipulated a joint transition to accrual-based IPSAS standards for all members.¹⁶⁵ Member states also agreed to target ‘B’ ratings in relevant indicators of PEFA assessments.

Thus far, while implementation has progressed further than in the other countries, it still remains early to gauge the impact of IPSAS introduction in Tanzania. The National Audit Office (NAO) reports for the fiscal year 2014/15 point out that asset management of many MDAs is still not in compliance with IPSAS standards; it also notes a number of other implementation gaps.¹⁶⁶ The number of unqualified audits across MDAs was slightly lower than in the previous fiscal year. No PEFA report or Fiscal Transparency Evaluation has taken place yet since the introduction of accrual-based accounting standards. The audit office report also underlines the importance of the capability of the Supreme Audit Institution (SAI) to assess compliance with the new standards.

Overall, the introduction of IPSAS still remains a relatively less known or discussed part of the wider PFM reform agenda for many stakeholders, while the transition is advancing in many countries.

160. Based on consultations with World Bank staff working on PFM reforms in Nigeria.

161. As noted by Okolieaboh, the considerable cost may even create perverse incentives: “Lastly, if the IPSAS implementation turns out to be a huge budget undertaking, it risks becoming an avenue for corruption thereby defeating the accountability goal; one of its most advertised and persuasive benefits.” (Okolieaboh 2014: 7).

162. See: http://agap.org.ph/convention/ppt_13/IPSAS.pdf.

163. The 1987 Constitution (Article IX D, 2(2)) provides the COA with a mandate to promulgate accounting rules and regulations.

164. A key reason why the rating for the quality of in-year financial reporting was kept at C for the 2013 assessment was the fact that expenditure arrears continued to accrue outside the IFMIS.

165. http://www.pwc.be/en/pwc-academy/assets/pdf/ipsasevent/10_bernard_ndungu_the_ipsas_journey_in_east_africa.pdf. Members are Burundi, Kenya, Rwanda, Tanzania, and Uganda.

166. See: http://www.nao.go.tz/wpfb_dl=167.

Especially at preparation stages, the introduction of IPSAS has been managed by Accountant Generals or equivalent entities, and has involved professional associations. In contrast, involvement of spending units appears to have been rather limited. There is consequently some risk with regard to actual compliance given the costs and capacity constraints involved.

Furthermore, in sectors and jurisdictions where corruption has been prevalent, it appears not unlikely that various constraints—in capacity, as well as in controls and oversight—may be used to misrepresent expenditures and asset valuations. To ensure that actual improvements in transparency and accountability result, in particular in environments with high levels of corruption, some verification that the standards are in fact accurately applied appears as crucial. As is discussed in Section 5.7 below, internal and external audit functions have a particular role to play in this regard; and strengthening their capacity to audit IPSAS based accounts is an important complement. Beyond this, additional attention by non-government stakeholders as well as through external independent assessments may also be needed, at least until such time that new accounting standards and reporting are fully established and well understood.

5.7 Strengthening Public Procurement

Reforming public procurement is a central element of PFM reforms, and in particular with regard to the fact that procurement can account for a significant share of the total leakage of funds (Sanchez 2013).

Given its importance, some studies have been produced on non-technical aspects of procurement reforms. This includes Frøystad et al. 2010, as well as two notes on procurement reform efforts in MENA countries (2014).

Procurement reforms pursued across a number of countries have mainly targeted the following aspects: (a) legal reforms, significantly influenced by the UNCITRAL model law as discussed in Chapter 4 and the issuing of related regulations and Standard Bidding Documents; (b) introduction of e-procurement covering various stages of the procurement process; and (c) institutional reforms such as setting up procurement oversight agencies, typically linked to the adoption of new laws. These efforts have also involved training as well as developing a more specialized procurement cadre.

The progress on strengthening procurement as diagnosed by PEFA assessments is rather remarkable given that procurement is one of the aspects of PFM (potentially) most significantly affected by rent-seeking interests. Four of the five countries had achieved at least a 'B' rating (and Georgia an 'A' rating) by the mid-2010s; only for Nigeria, greater progress is yet to happen. Both the Philippines and Tanzania had already introduced procurement reforms before the core periods reviewed for each country in this report. In Georgia and Nepal, progress was made between the late-2000s and the mid-2010s, with a particularly strong improvement in Georgia. In addition to PEFA assessments, reports on 'Benchmarking Public Procurement' (World Bank) provide an assessment of the quality of rules and regulations from a private sector perspective.¹⁶⁸

TABLE 5.6. PEFA Ratings for Procurement

	Georgia		Nepal		Nigeria ^a	Philippines		Tanzania		
	2008	2013	2008	2015	2012	2010	2016 ^b	2006	2009	2013
PI-19 [PI-24]	D+	A	C	B	D+	B	B [C+]	C+	B [NR^c]	NR
i. Transparency comprehensiveness and competition in the legal and regulatory framework.	D	A	C	B	D	B	B	NU	B	B
ii. Use of competitive procurement methods.	C	A	C	D	D	B	B [B]	NU	B [NR]	NR
iii. Public access to complete, reliable and timely procurement information	C	A	C	C	D	B	B [B]	NU	B [NR]	NR
iv. Existence of an independent administrative procurement complaints system	NU	A	NU	A	D	NU	B [D]	NU	NU [D]	D

Note: Changes were introduced to the sub-dimensions of this indicator over time, in ways that affect comparability across time and across countries. The sub-dimensions of the 2011 framework are presented and were applied except for the Philippines 2016 assessment.

a. Data for Nigeria are based on the unofficial assessment carried out in 2012. b. For the 2016 Philippines assessment, ratings according to the old methodology are quoted, followed by ratings according to the updated methodology in square brackets. The first dimension was changed between methodologies from focusing on the legal framework to focusing on procurement monitoring. c. Reassessment of the 2010 performance made in 2013 based on the new methodology.

NU: Not used¹⁶⁷; NR: not rated.

167. According to the guidance on the PEFA framework: "In some cases, it may be decided for certain reasons that a particular indicator will not be used. For example, it may be the case that the PEFA assessment is going to be combined with another detailed assessment of the relevant indicator, using a different assessment tool. In all such cases "NU" is entered instead of a score."

168. Reports have been published since 2015, see: <http://bpp.worldbank.org/reports>.

In Georgia, procurement reform was undertaken as part of the second wave of PFM reform efforts. Following several reports that raised procurement as still weak, reform efforts began in earnest in 2010 but then moved at a fast pace. The new legislation was based on the UNCITRAL framework and in-house work began on designing and implementing a centralized system for procurement management. Still in the same year, a Georgian Electronic-Government Procurement (Ge-GP) system was launched. With the e-procurement system in place, the number of tenders advertised increased from around 2,000 to around 30,000 per year. Through the introduction of an electronic procurement platform the Georgian procurement system has become considerably more transparent and nondiscriminatory, encouraging competition and minimizing the risk of corruption.

A key limitation remained that the Law on State Procurement 2010 still allowed a number of exceptions which were rather loosely specified. In reaction to this issue, the rules for simplified procurement were tightened in late 2015. In addition, there were concerns that having to decide exclusively in favor of the lowest technically acceptable bid could hurt longer-term value for money, given that cheaper options often have a shorter life-span or higher running costs. To enable greater considerations about quality, a two-stage public procurement process for purchases of goods by way of a two-stage electronic tender or a two-stage simplified electronic tender was being prepared. Overall, the reforms achieved and being pursued further are quite remarkable against the starting point; with key changes made within a relatively short period of five years (2010–2015).

The commitment to international integration—noted as an important reason behind the movement to reform procurement in many countries—also played a clear role in Georgia. There was a sense that the external criticism of procurement needed to be addressed. At the same time, as in several areas reviewed above, such as the introduction of a TSA, the government still left some initial wiggle room for favouring preferred companies or for moving procurement processes quickly for example, during pre-election years to show progress in construction, through allowing exceptions. On the issue of procurement reforms, civil society also played some role in terms of criticizing the uses of simplified procurement (TI Georgia 2015).

In Nepal, some gains in reforming public procurement were made, but substantial concerns still remain. Legal provisions were reformed in 2007 with the introduction of the Public Procurement Act (PPA). This stipulated the establishment of a Public Procurement Monitoring Office (PPMO, under the Office of the Prime Minister and the Council of Ministers), and decentralized procurement to MDAs. It was followed by the adoption of new procurement regulations. An independent Procurement Review Committee was also established to review complaints. In 2010, the government further reformed the procurement processes by introducing e-bidding and

multiyear contracting for priority projects. In 2015, the government amended the procurement act based on the implementation experience of the law. This is, however, not fully compliant to international standards. A key planned next step is for the PPMO to merge the individual MDA procurement portals into an integrated procurement portal, which would create a complete e-procurement cycle (from bid publication to awards and contracting), and further increase transparency.

The initially created electronic tender process has opened up the submissions of bids, which was previously reported to involve physical violence to prevent competitors from submitting their bids.¹⁶⁹ However, at the execution stage, especially small projects implemented at the local level still suffer from rent-seeking, collusion, and intimidation. The fragmentation of e-bidding systems by MDAs has made it harder to monitor compliance, and central data and statistics remained unavailable. Furthermore, as the 2015 PEFA report notes, systematic data on the use of competitive/noncompetitive methods and whether these have been adequately justified or not, are still not available. The report indicates that not only competitive processes are used for over 80 percent of tenders; but also some tenders are deliberately split to remain below thresholds that require the use of more competitive methods.

Furthermore, local stakeholders indicate three key concerns: (a) continuing problems of collusion and intimidation, (b) problems for many local suppliers to meet the requirements set out in the 2007 procurement law, and (c) lengthy processes which—in addition to budget approval delays and secondary approvals for capital projects by the Planning Commission—make it very difficult to execute capital budgets. Between 50 percent and 70 percent of the expenses are bunched in the last trimester of the fiscal year (Krause et al, 2013; PEFA 2015), and under-execution of capital budgets has been around 30 per cent.¹⁷⁰

Nigeria likewise adopted new procurement legislation in 2007. The Public Procurement Act stipulates the creation of a National Council on Public Procurement (NCPP). However, the NCPP was never formally constituted and inaugurated. De facto, the Federal Executive Committee has fulfilled some of the responsibilities given in the legislation to the NCPP.

For public procurement, a new institution that has been created is the Bureau of Public Procurement (BPP), in accordance with UNCITRAL standards. The BPP supersedes an earlier body, a Budget Monitoring and Price Intelligence Unit (BMPIU, also known as the ‘Due Process’ Unit) that had been established in 2001 and located within the presidency. The BPP functions as a regulatory body for procurement through issuing guidelines (Procurement

169. Interviews in Nepal, April 2013.

170. The PEFA 2015 report notes that 46 percent of expenses are bunched in the last trimester, but data from the FCGO as well as a report by Krause et al. 2013 show bunching of more than 70 percent in the last trimester.

Guidelines, Standard Bidding Documents). It also provides ‘no objection’ for tenders above NGN 1 billion for works and NGN 100 million for goods and services, with approval powers given to the Federal Executive Council (FEC). The BPP reported that it had brought about cumulative savings of NGN 420 billion between 2007 and June 2013 as a result of its review processes. However, it is widely considered that public procurement remains a source of considerable leakage as a result of corrupt practices in contract awards and management.

The post-2015 government remained committed to procurement reforms; and has sought to create the NCPP (rather than dropping this institutional provision as an alternative option to bring the law and reality in line). Similar to other countries, there are concerns about the ability of local companies to be competitive and about the time taken by procurement processes; and revisions to the 2007 law are under discussion.

The Philippines started efforts toward procurement reforms in the late 1990s. Initial support of President Estrada in late 2000 and a decisive final push under President Arroyo’s first term enabled the eventual passing of a Procurement Reform Bill in 2003 (see Campos and Syquia 2005). The role of civil society was critical to pass the procurement bill through Congress. An NGO specializing in procurement issues (Procurement Watch Inc, PWI) was created in 2001, which played a key role in generating wide public support for the Reform Bill, as well as in monitoring and directing public attention to subsequent implementation.¹⁷¹

The 2003 Procurement Act created the Government Procurement Policy Board (GPPB), a policy and monitoring body with the mandate to manage all procurement related matters together with internal rules and regulations and a Procurement Manual.¹⁷² The GPPB, among others, publishes an annual collection of procurement monitoring reports on a selection of MDAs and subnational governments. The Philippines Government Electronic Procurement System (Phil-GEPS) was piloted in 2001 while the law was being drafted and promulgated in parliament with help from the Canadian International Development Agency (CIDA) and then was eventually rolled out in 2003 and 2004. Phil-GEPS provides a platform on which bid notices and awards are published.¹⁷³ Bid submission itself (that is, e-bidding) was piloted only later, in 2015, and has not been fully introduced to date.

Recent actual progress in further improving the quality of public procurement has been limited. While the Aquino administration remained formally committed to continuing public procurement

reforms, its de facto level of engagement was more limited. One reason cited for this is that it was less of a priority as it was the legacy of the previous Estrada and Arroyo administrations, so the transparency agenda and the GIFMIS stood more at the forefront.

Problems with executing capital expenditures remain substantial in the Philippines, and frequent bid failures and weak capacity to procure among MDAs are cited as the main reasons for this. Following initial efforts, the contract for the upgrading of Phil-GEPS was terminated, and a rebidding was conducted in 2017. The GPPB collects a significant amount of data and analyzes performance on contracts awarded. However, the data are published on an ad hoc basis and not linked to Unified Account Code Structure (UACS) and the budget. The total value of contracts awarded through competitive methods in the most recent fiscal year data was available (2014) was 74 percent for 15 agencies, but is likely lower if the entire government was considered. While the Government Procurement Reform Act provides a protest mechanism, there is no provision for an independent administrative procurement complaints body. Moreover, the protest mechanism requires payment of fees and this discourages potential complaints.

Tanzania has pursued procurement reforms since the early 2000s, but also with mixed progress and multiple legal changes made over time. A first UNCITRAL-inspired procurement law was adopted in 2004. This act was then replaced by the Public Procurement Act 2011. The latter only became effective in December 2014, following extensive delays in publishing the regulations. The 2004 Act created a Public Procurement Regulatory Authority (PPRA), while in addition the 2011 Act provided for a Procurement Policy Division in the Ministry of Finance, with the responsibility to draft and amend procurement rules and regulations. A third body is the Public Procurement Appeals Authority (PPAA), established following the 2004 Act.

In June 2016, a further Public Procurement Amendment Bill was passed. This amendment contains provisions that allow an open framework without the need to refer to agreed prices set forth by government procurement services agency. In this way, the government hopes to provide better value for money in procurement as opposed to previous procurement legislations.

According to the Controller and Auditor General (CAG), the enforcement of procurement legislation remains uneven, and lack of feedback from the regulator to procuring entities may encourage them to consider the reporting requirement to be a formality. The budget for goods and services procurement in Tanzania thus remains vulnerable to misallocation and rent-seeking. In addition, the decentralization of procurement to MDAs has provided opportunities for leakage. There have been many examples of the rigging of tenders for large projects and of smaller contracts being awarded to companies belonging to government officials or their associates. At the same time, formal compliance with requirements in terms of procurement methods used and recorded has been gradually

171. PWI and other accountability-focused NGOs, such as those participating in the Transparency and Accountability Network (TAN), also benefited from external support, including a media campaign funded by USAID and initial seed funding for PWI provided by the World Bank.

172. <http://www.gppb.gov.ph>.

173. The number of posted notices grew from 43,000 in 2004 to over 600,000 in 2016. The number of bid awards published is less than half of the number of bid notices.

increasing. Also, the implementation of public procurement rules has led to the removal of some members of tender boards (including MPs, councilors, and MDA/LGA chief executive officers), resulting in a substantial loss of rent-seeking opportunities and allowances for those individuals.

Procurement stands out as an area in which all five countries have pursued significant legal, institutional, and process reforms which have brought some improvements. International influences in terms of trade integration and copying of ‘international best practices’ has clearly played an important role in the procurement reform efforts that have been made across the five countries. At the same time, there has also been a sense that the initial set of rules adopted was not quite adequate, resulting in subsequent further changes.

Still, important concerns remain, in three respects. One is whether the set of formal rules and procedures is actually fit for purpose (for example, in terms of time periods needed, openness to smaller suppliers, effects on the national economy and so on), second whether the rules on the books can be implemented across the country and compliance can be reliably monitored (see also Williams-Elegbe 2015); and a third set of concerns is whether even though rules and procedures have been strengthened, collusion can still occur, and illicit gains still be made to the detriment of an efficient use of scarce funds in the public interest.

The real impact of the procurement reforms in terms of strengthening value for money and of reducing the scope of corruption remains as yet little measured, while efforts in this direction are ongoing. These intended impacts of the reforms undertaken are challenging to measure—as a World Bank procurement manager noted: “for many years, procurement indicators have been limited in number and superficial in substance.”¹⁷⁴ Most recently, a number of initiatives have been made in this direction, notably a ‘Methodology for Assessing Procurement Systems’ (MAPS) led by the OECD.¹⁷⁵ Following three pilots, initial assessments using the MAPS are expected to be undertaken from late 2017 onwards. At the World Bank, efforts are also ongoing to develop and deploy procurement performance assessments. Efforts in this direction will be critical to see whether the ‘formal’ changes in this area which have been widespread, somewhat counter-intuitively so, are matched by real ‘functional’ changes in terms of delivering better procurement results; and how much variation there is in this regard among countries.

174. <https://wbnpf.procurementinet.org/post/indicators-are-crucial-procurement-performance-management> [accessed February 14, 2017].

175. <http://www.oecd.org/gov/ethics/benchmarking-assessment-methodology-public-procurement-systems.htm>. Especially indicators 9 and 10 are intended to capture the degree of actual functional progress and use of improved systems.

5.8 Strengthening Internal Audit

As reviewed in Table 5.2 at the start of this chapter, internal audit is another dimension which all case study countries have sought to strengthen. The logic of this is quite clear: internal audit can help to prevent misuse of funds during the expenditure process. It can also provide ongoing flags for issues that need to be considered by the management.

From a nontechnical perspective on PFM reforms, it is also easy to hypothesize that developing effective internal audit mechanisms is likely to be challenging. Internal audit can be assumed to require that managers have an interest in guarding against non-regular use of funds. Such an interest may not be present in countries with significant or pervasive corruption, which typically includes significant rent-seeking among political and administrative elites. Furthermore, in societies and organizations that have an established culture of strong hierarchies or oligarchic control, internal audit staff would likely face dilemmas and restrictions on the type of issues that can be raised.

As Vani (2010) identifies, modern internal audit is an additional bureaucratic layer to advise management on whether funds are effectively deployed and internal control mechanisms appear to be effective. Even in many high-income countries, internal audit functions were only created over the past 20 years. Furthermore, as Diamond (2013, 377) has pointed out, in contexts where cash releases are irregular and insufficient, and especially where this is combined with detailed line-item allocations, even well-intentioned managers may need to circumvent at least some financial regulations in seeking to deliver public goods and services. In addition, he raises the issue that the ‘best practices’ for internal audits being shaped in industrialized countries and modeled on private sector audits, may not be the best fit for the needs of developing countries. He sees a centralized and control-focused approach being more appropriate, compared to one that is decentralized to MDAs and takes on a more ‘internal consulting’ perspective on how to improve processes.

A third point is that—given its ‘in the middle’ role—it can be difficult to establish clearly whether internal audit functions are effective or are just an additional institutional layer created without adding much value. Simply having a modern audit structure—standards and manuals, and trained staff—is not equivalent to an increase in expenditure effectiveness and integrity. Most outcome indicators of PFM are the result of several systems working in tandem. When external audit is stronger than internal audit, the former may raise concerns about the latter and identify weaknesses. When both are weak, it becomes more challenging to gauge the actual quality of internal audit.

Across all countries and according to all PEFA reports available as of 2016, internal audit as measured by PI-21 (in the old system and PI-26 in the revised 2016 version), is the second lowest

TABLE 5.7. PEFA Ratings for Effectiveness of Internal Audit and Sub-dimensions

	Georgia		Nepal		Nigeria ^a	Philippines ^b		Tanzania		
	2008	2013	2008	2015	2012	2010	2016	2006	2010	2013
PI-21 [P-26]	D+	C+	D+	D+	D+	D+	C	C	C	B
(i) Coverage and quality	D	C	D	D	C	D	C	NU	C	B
(ii) Frequency and distribution of reports	C	A	C	C	C	D	C	NU	C	B
(iii) Extent of management response	C	C	D	D	D	C	C	NU	C	B

Note: a. Data for Nigeria are based on the unofficial assessment carried out in 2012; b. while P21 is broadly equivalent to P26 in the 2016 framework, there are some important differences.

performing indicator after that measuring the legislative scrutiny of audit reports.¹⁷⁶ Consistent with the assumption that building effective internal audit is difficult in lower income and higher corruption environments, the countries for which internal audit is rated as being better performing tend to be either those that have higher income levels and overall less corruption, such as Botswana, Mauritius, and South Africa, as well as some of the developmental states, such as Ethiopia.¹⁷⁷

Interestingly, across the five case studies reviewed in greater detail, internal audit functions have been strengthened in three out of five; with particular progress noted for Tanzania. Some strengthening was also achieved in Georgia and in the Philippines, but to levels that are still below their overall average levels achieved; while in Tanzania internal audit progressed more than PFM performance overall. In Nepal, progress has stagnated. For Nigeria only one (informal) PEFA assessment is available. However, additional case study information also does not suggest a significant strengthening of this dimension.

In Georgia, focusing on internal audit started in 2007, while agreeing on an approach for strengthening internal control and audit took some time. The initial draft legislation on inspection developed by the MoF was withdrawn. As for a number of other countries, there was a perceived need to move beyond a traditional control and inspection function; in this case as had been developed across all parts of the former Soviet Union. New legislation eventually took shape through the adoption of a Law on State Internal Audit and Inspection in 2010. The reforms have been driven by an EU-Georgia Agreement on developing a Public Internal Financial Control System, in 2007. In 2011, the MoF assessed the legislative framework and initiated amendments to the law and in 2011, a new Law on Public Internal Financial Control was adopted. Significant training was received from the EU and also through the OECD.

Overall, it is quite likely that further progress will be achieved over the coming years.

In Nepal, internal audit remained weak, despite being included in PFM reform plans, in 2009/10 as well as again in the second reform plan adopted in 2016. This happened despite the fact that internal audit is under the leadership of the FCGO, which managed several other reform aspects during this period relatively successfully (relative to overall country governance constraints) as reviewed above. However, internal audit does not check the effectiveness of internal controls; and (as documented in reports of the Auditor General) follow-up on recommendations made by Internal Audit Units has been weak and is not systematically tracked.

One apparent reason is that PFM reforms to the extent that they could be pursued under difficult circumstances, such as Nepal's, focused on 'more basics' first, in particular improving basic treasury functions and reliability as reviewed above. Moving to a more 'modern' form of internal audit has ultimately not yet been a high priority. As discussed, for the introduction of an FMIS, the political environment of fragmentation and control of political parties at the local level has also made it difficult to push an internal audit function very far.

Weak internal audit functions in Nigeria is largely in line with expectations, given a context of very high levels of corruption and also of having yet to achieve progress on a number of other PFM reform areas. As identified in the 2013 draft PEFA assessment for Nigeria, follow-up on internal audit findings has been very weak; starting with the fact that internal audit reports may not include actionable recommendations, and that those which are provided are typically ignored. Given the weaknesses in the external audit function discussed below, there has not yet been a clear lever to draw greater attention to this issue.

In the Philippines, internal audit was just beginning to be pursued from 2008 onwards. A DBM Circular Letter No. 2008-05 provided guidelines on the organization of the Internal Audit Service and clarified functions and the service's structure. The Head of the Internal Audit Service or Internal Audit Unit reports directly to the head of the agency or the secretary. Initially, Internal Audit Units were still rare across the public administration. Given a relatively

176. See also the IMF blog by S. Vani making a similar point: <http://blog-pfm.imf.org/pfmblog/2010/08/posted-by-sanjay-vani---of-107-countries-in-which-public-expenditure-and-financial-accountability-pefa-assessments-have-bee.html>.

177. No PEFA report is available for China; and the rating for Rwanda is 'only' a C+ (B+ for Ethiopia).

strong external audit function (discussed below), the COA issued many qualified or adverse opinions in its external audit reports, criticizing a lack of compliance with internal controls and adherence to financial management rules and regulations.

Following the 2010 elections, attention to strengthening internal audit increased. The Department of Budget and Management issued a new Internal Audit Manual in 2011. By 2016, most MDAs had audit units in place. Internal audit reports are developed annually, although in many agencies still with some delays due to capacity shortages. There was some shift in COA findings with regard to somewhat fewer adverse audit findings, but still a large share of qualified audit opinions. It remains therefore early to judge whether the internal audit function becomes truly effective in increasing the integrity and efficiency in the use of public funds.

In Tanzania, as for most other PFM reform areas, efforts to establish a modern internal audit function dates back to the late 1990s and early 2001.¹⁷⁸ The 2001 Public Finance Act already required the establishment of Internal Audit Committees in all MDAs; and the Public Finance Regulations established a framework for the overall internal audit function to provide an independent appraisal of the adequacy and effectiveness of internal controls. The intended role of Audit Committees is to issue recommendations resulting from internal audit reports, and to ensure and monitor follow-up of these. An Internal Audit Manual was issued in 2004, and training modules were also developed in the early 2000s, under the leadership of the Accountant General. However, capacity still remained low, and by the mid-2000s these systems were not considered as effective.

By the late 2000s, internal audit still remained weak, but further efforts were undertaken. As reported by the NAO, while most MDAs had Internal Audit Units and Audit Committees, audit units remained understaffed and ineffective. The revised Public Finance Act (2010) established the position of an Internal Auditor General (IAG); thus creating a dedicated leadership role to this ‘bureaucratic layer’. The first IAG was appointed in 2011. The capacity of the Central Internal Audit Unit was significantly strengthened in the following years, with an increase from 5 to 40 staff. The IAG also established an Audit Report Implementation Unit to be able to track audit recommendations and follow-up by MDAs.

By the mid-2010s, the internal audit function was seen as having been strengthened but the actual effectiveness of controls and compliance with rules still remained limited. The quality of reports of Internal Audit Units was seen as improving, and follow up on recommendations by MDAs was emerging. Internal audit structures continued to benefit from support by DPs, and the Institute of Internal Auditors. However, Tanzania also continued to be affected by the challenges pointed out by Diamond (2013), namely that

even well intentioned managers struggle to follow rules in a context of constant cash constraints. Furthermore, as heads of Internal Audit Committees are heads of departments and therefore not impartial, this leads to questions about the quality of the reports. While IAG staff are functionally responsible to the IAG, they are administratively responsible to LGAs and MDAs, as these employ the auditors. This makes supervision and discipline of staff by the IAG difficult.¹⁷⁹ Following the 2015 elections of a President strongly committed to reducing corruption and poor use of funds, the role of the IAG has been strengthened, and a number of verification exercises have been instructed by the President.

Overall, the experience in Tanzania suggests that over 15 to 20 years, a substantial and more professional internal audit function can emerge, while political commitment as well as the relative strength of external audit have been important factors. A contributing factor to strengthening internal audit appears to have been relatively well developed external audit (discussed in the next section)—which has been able to consistently point to weaknesses in internal controls and compliance, and thus provides a check on whether internal controls and audits are functioning. In countries such as Nigeria, where external audit still remains very under developed, there is no comparable check and stimulus to seek improvements. Furthermore, since 2015, presidential interest and backing of the IAG has strengthened the internal audit function.

5.9 Reforming and Strengthening the Role of External Audit

Strengthening external audit is a reform that many DPs are keen to support. The idea is that this is a key mechanism for strengthening accountability (OECD 2011; GIZ 2013). The number of SAIs has increased significantly over time, with many new SAIs being established following the fall of communist regimes, in Africa, as well as in other regions since the 1990s. The wave of setting up new SAIs has been followed by many efforts at institutional strengthening.

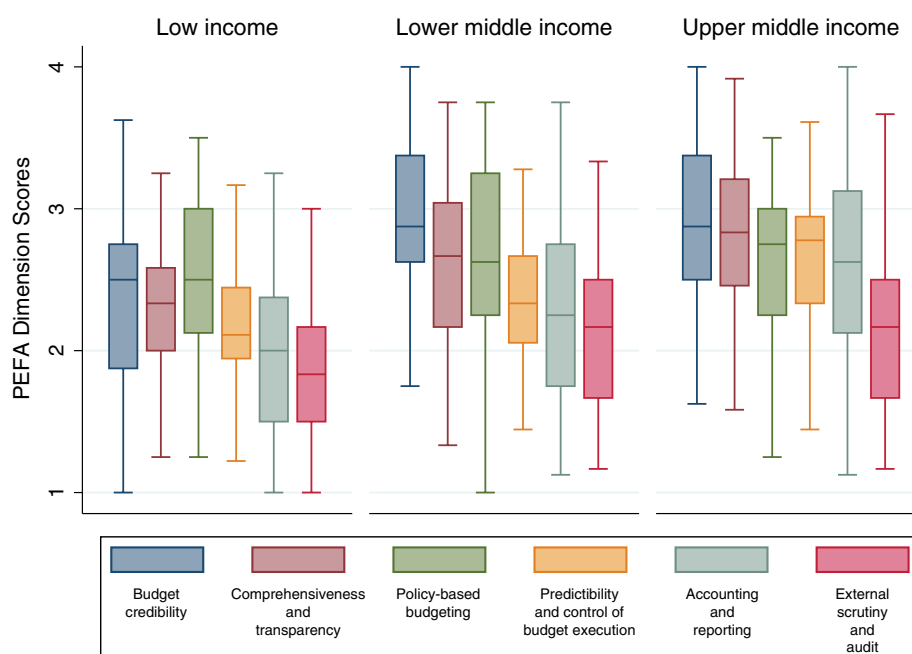
External audit potentially plays an important dual role—with regard to ensuring accountability, as well as to stimulating efforts for strengthening PFM systems, since at the heart of SAIs mandates is to flag risks and systems’ weaknesses (see also DFID 2005). However, external audit institutions do not play these two roles alone, but rather in an accountability system that also involved legislatures and executives. Most SAIs do not have direct enforcement powers.¹⁸⁰ Follow-up on SAI findings—or at least the authorizing environment and reinforcement of demands to make changes—mostly rests with national legislatures and with the executive.

179. Case study interviews in June 2013.

180. According to the International Organisation of Supreme Audit Institution (INTOSAI) database, out of a total of 90 SAI’s responding on the question, 33 had the authority to impose sanctions, while 57 did not.

178. A basic internal audit function had existed since 1961.

FIGURE 5.2. Aggregate PEFA Scores by Dimension by Income Group



Source: Fritz, Sweet, and Verhoeven (2014).

As identified in the comparative analysis carried out in 2014, external audit and oversight is the weakest of the six dimensions that are measured by the PEFA framework; this is true in the aggregate as well as for each of the more specific income groups (low income, lower middle income, and upper middle income). The average performance in middle income countries is slightly better than in low income countries, but external scrutiny and audit remains the weakest category. As part of this analysis we also explored whether external audit is rated more highly in democratic countries than in those that are not. This is based on the assumption that in a democratic regime, there are more checks and balances, and so an institution providing horizontal accountability should be stronger, and parliaments can be expected to play a more effective accountability role as well. However, contrary to this intuition, there is no statistically significant relationship between the presence of a more democratic system and the strength of external scrutiny and audit as measured by PEFA ratings.

Therefore, it is of particular interest to look across the case studies to gain a closer understanding about why accountability functions tend to remain weak. The three relevant PEFA ratings included in the 'external scrutiny and audit' basket measure the following: PI-26—Scope, nature and follow-up of external audit; PI-27—Legislative scrutiny of the annual budget law (that is, not related to external audit as such); and PI-28—Legislative scrutiny of external audit reports. The 2016 PEFA framework has introduced some important changes to this basket, including PI-30—External audit and PI-31—Legislative scrutiny of audit reports, hence removing PI-27 from this basket is more appropriate.

What stands out from Table 5.8 is that it is the last indicator—the legislative scrutiny of external audit reports—which is particularly weak. For four of the five countries reviewed in greater depth, ex post follow-up is significantly weaker than the ex ante review of the budget as measured by PI-27, while for the fifth (Nepal), both PI-27 and 28 are equally weak. The table also reflects that, by contrast, across the countries, some strengthening of external audit offices has happened over time. Thus, while the external audit function started in all countries from a low level (D+) it has tended to improve over time, as reflected for the four countries for which repeat assessments are available. However, legislative scrutiny has remained a very weak link, with no recent assessment for any of the five countries exceeding a D+.

In Georgia, external audit itself became a source of corruption and political intrigue following independence in the 1990s. The initially established Chamber of Control of Georgia was focused on inspections and was able to impose fines. In a highly corrupt environment, these powers became instruments for extorting payments from audited entities. Early efforts made by DPs to strengthen the institution therefore gained little traction. Eventually, after the onset of wider anticorruption reforms, the Chairman of the Chamber of Control was arrested, tried, and convicted in 2005.¹⁸¹

181. For abuse of powers and misuse of funds. The chairman later sued in the European Court of Human Rights over mis-treatment and periods of unlawful detention and was awarded some damages (US\$25,000). See: hudoc.echr.coe.int/.

Following the start of the reforms pursued after the Rose Revolution of 2003/04, a fundamental reform of the institution still took some time. A new legal basis for a State Audit Office (SAO) was adopted in late 2008. The SAO's statutes are based on the Westminster Model, governed by one person elected by the parliament and accountable solely to it. The office was formally reconstituted again in mid-2012, shortly before the October 2012 parliamentary elections.

From 2009 onwards, the SAO, benefited from substantial support from international organizations as well as from bringing in new, qualified staff. Assistance was provided by the EU, German Agency for International Cooperation (GIZ), the EU-OECD Support for Improvement in Governance and Management (SIGMA), UNDP, USAID, and the World Bank. Bilateral cooperation has been established with the SAIs of Sweden, Latvia, Lithuania, the Czech Republic, and Poland. Combined with the recruitment of young, academically well qualified staff, often with experience from large international audit firms, the capacity of the audit office strengthened rapidly. However, a change in perceptions of the institution has lagged. According to its own management, the SAO struggled to change its image as a punitive institution, rather than what it aspires to be: an institution focused on “fostering continuous improvement in the management of public resources.”¹⁸²

One reason for this is that the original issue that external audit is seen as being politicized remained unresolved. The outgoing parliamentary majority decided to appoint a new Auditor General just ahead of the 2012 elections for a 5-year term. When parliamentary majorities then changed following the 2012 elections, incoming MPs saw the SAO as being led by an appointee from the previous government. Therefore, even though the SAO is accountable to parliament, the relationship has been an uneasy one following the shift in majorities in 2012. This has negatively affected the review of and follow-up on audit reports and the overall relationship between the SAO and the legislature. In principle, this should improve following the 2016 elections and the appointment of a new Auditor General which is due in 2017.

Overall, Georgia is a clear example of the disconnect between a (recently) strengthened SAI and a ‘missing link’ between the SAI and the legislature. This is also clearly reflected in the PEFA ratings: PI-26 which rates the quality of the SAI as such improved from a D+ to a B+ between 2008 and 2013. However, indicator PI-28—Legislative scrutiny of external audit reports—worsened over the same period from a C+ to a D+. Having a much stronger SAI should in principle help to eventually move this dimension forward, but only if there is a success with making the appointment of the Auditor General less politicized.

In Nepal, there has similarly been some strengthening of the SAI as an institution, but in parallel a regression of parliamentary follow-up. In Nepal, an SAI was first established in the 1950s (World Bank and ODI 2013). The existence and role of an SAI was confirmed by the 2007 interim constitution and by the new constitution adopted in 2015. Audit powers are quite far-reaching, and include subnational levels down to districts (but not municipalities) and public corporations with over 50 percent of public ownership.

However, the appointment of a new Auditor General remained blocked for six years (2007–2013) due to the failure to reach a political consensus—in a politically fraught and unstable postconflict period. Eventually, a new appointment was made in May 2013; but again when this Auditor General retired, a new appointment gap emerged in 2016–2017. The audit cadre is seen as technically still rather weak; and there are also important limitations due to barely sufficient operating funds. Furthermore, legal provisions require the Office of the Auditor General to focus extensively on compliance audits, rather than more on risk-based or performance-focused audits.

A key limitation with regard to legislative follow-up was the repeated absence of a functioning legislature, and a preoccupation of the legislature with agreeing on a new constitution. As reviewed in Chapter 3, consensus on a new constitution remained deadlocked for five years beyond the original deadline of 2010. Parliament

TABLE 5.8. PEFA Ratings for Indicators PI-26–28 (‘External Scrutiny and Audit’)

	Georgia		Nepal		Nigeria ^a	Philippines		Tanzania		
	2008	2013	2008	2015	2012	2010	2016	2006	2010	2013
PI-26 [PI-30] External audit	D+	B+	D+	C+	D+	B+	B [C+] ^b	D+	B	C+
PI-27 [PI-18] ^c Legislative scrutiny of budgets	B+	A	D+	D	C+	C+	B+	C+	C+	B+
PI-28 [PI-31] Legislative scrutiny of audit reports	C+	D+	D+	D	D	D	D	C	D+	D+

Note: a. Data for Nigeria are based on the unofficial assessment carried out in 2012. b. According to the 2016 methodology, the rating was C+ in 2016, while applying the 2011 methodology, the rating was B. c. PI-27 was moved from the cluster ‘external scrutiny and audit’ to the cluster ‘policy based budgeting’ as PI-18 in the 2016 framework update.

182. Interviews in Tbilisi, April 2015.

was dissolved twice, first between 2002 and 2007, that is, the later phase of the civil conflict that started in 1996, and then again from May 2012 until January 2014. In May 2012, the term of the Constituent Assembly elected in 2008 ended without a new constitution being agreed upon. Eventually in November 2013, new elections were held. However, the new assembly in place since early 2014 has still not heard any of the audit reports that have been submitted by the Auditor General; even though it has established a Public Account Committee.¹⁸³ A new constitution was finally agreed upon by September 2015; but its adoption immediately led to renewed protests. Thus, for nearly 15 years, there has not been a normally functioning legislature. If there is an overall trajectory toward greater political stability, there could be some improvement over time.

In Nigeria, the external audit function has stayed limited, despite dating back to independence. Based on available PEFA ratings it is the only one in the group still rated at the 'D' level (D+ in the informal 2012 assessment). The original Audit Act was issued in 1956, while the current main legal basis are the provisions in the 1999 Constitution.¹⁸⁴ Efforts have been made to adopt an External Audit Act between 2005 and 2008, but these stalled in the National Assembly. Moreover, Auditor Generals have been rotated frequently since 1999, with most staying in office for one or two years only.

The timeliness of forwarding external audit reports from the Office of the Auditor General of the Federation (OAuGF) to the Public Accounts Committees (PACs) in the House of Assembly and the Senate improved in the late 2000s, that is, there is no longer a backlog of reports that are more than a year behind schedule. However, given delays in budget execution and in the Accountant General's closure of annual accounts, there are still delays in audit reports actually reaching the National Assembly. Moreover, while the two PACs hold sessions and discuss the findings of audit reports, their recommendations need to be approved by the plenary of the respective houses of the legislature to complete parliament's role in budgetary oversight. This has not happened for any external audit reports since the 1999 transition. This leaves the audit reports ultimately in limbo, and reduces the credible threat of criticism or sanctions to those overseeing spending in the executive for mismanagement of funds. Furthermore, as OBI reports have raised, audit reports are not made publicly available in Nigeria. Therefore, this avenue of potential public attention to audit findings and resulting pressures on the executive to seek improvements or pursue misuse of funds so far also remains closed.

The Philippines has a Commission on Audit (COA), a constitutional body that has an unusual dual role—being responsible for the accounting as well as external audit of all government accounts.¹⁸⁵

The COA submits the annual financial reports to the President and Congress, but it also submits the external audit report. The 1987 Constitution endows the COA the “power, authority and duty to examine, audit, and settle all accounts pertaining to the revenue and receipts of, and expenditures or uses of funds and property, owned or held in trust by, or pertaining to, the government, or any of its subdivisions, agencies, or instrumentalities” (Article IX D Section 2). The COA comprises a Chairman, appointed by the President for a term of seven years without reappointment, and two commissioners, also appointed by the President for the same term. The appointments of the Chair and Commission are subject to the consent of the Congressional Commission on Appointments.

Apart from a dual role, there is a missing legal link between the external audit function and parliamentary oversight. Apart from a brief set of constitutional provisions, external audit is governed by a presidential directive rather than a dedicated law. The legislature receives copies of audit reports, but is not required to and does not formally review these, or have any responsibility related to following up on the findings of such reports.

The absence of a parliamentary oversight role is partially compensated by direct follow-up between the COA and the executive. Submission of audit reports to the legislature is not legally required. Therefore, the Philippines Houses of Congress also do not have a committee dedicated to reviewing audit reports, and regular hearings on audit reports are not held. Rather than relying on leverage from the legislature, the COA engages in direct follow-up with audited entities. This process is relatively strong and systematic, providing some overall effectiveness to the external audit function, despite an odd institutional setup and a lack of effective parliamentary oversight. In addition, audit reports are being made public.

Among PFM reforms, strengthening external audit has been relatively successful in Tanzania.¹⁸⁶ An audit office has existed since the colonial and post-colonial period. In 2008, a new Public Audit Act (PAA) was adopted which strengthened the Auditor General's independence and powers to make recommendations for legislative revisions and to manage staff; albeit the power to appoint the CAG remains (solely) with the President. Further amendments were adopted in 2013. Staff numbers and qualifications have

185. See also IMF (2015, 11).

186. While there was a slight worsening for PI-26 from a 'B' to a 'C+' rating between the 2010 and 2013 PEFA assessments, the latter assessment argues that performance is really unchanged, but on an upward trajectory: “Performance unchanged, but MDA follow-up on CAG recommendations is strengthening. The 2010 score of 'B' for dimension (iii) on MDA follow-up appears too high.” (PEFA 2013, 110). There is a clear improvement from the situation in the mid-2000s.

183. See <http://www.can.gov.np/>. In addition, there is a committee for good government and monitoring.

184. In contrast to the 1958 Public Finance Bill that is still in force, the 1956 Audit Act is considered as lapsed with the integration of key provisions into the constitution, articles 85–87.

increased over time.¹⁸⁷ CAG reports cover financial accountability and compliance with the PPA and analyze the equity implications of public expenditures. Performance audits are carried out for selected sectors each year, although capacity is limited and report quality remains poor. Reports are published online.¹⁸⁸

Development and passing of the Public Audit Act was facilitated by the appointment of a professional accountant to the position of CAG in 2006 and by Tanzania's membership in African Organization of Supreme Audit Institutions (AFROSAI) and of INTOSAI. Presidential support under the fourth phase administration, as well as pressure and dialogue led by development partners that focused on the SAI—played important roles in strengthening the NAO (NOAT 2014, 88ff). Controllers and Auditors General have been in office for relatively long periods; the most recent CAG was appointed in 2014. The current law foresees a fixed five-year term that is renewable once.¹⁸⁹ Within an overall authorizing environment, the National Audit Office of Tanzania has also benefited from a long-term bilateral partnership with the Swedish Audit Office that extended over a 10-year period (2004–2014).¹⁹⁰

Parliamentary review and follow-up has remained hampered, albeit in different ways than in the other countries reviewed. The legislature has several Oversight Committees that review audit reports. These include the general Public Accounts Committee, a Public Organizations Accounts Committee, and a Local Authorities Account Committee (the former two were merged in 2013). Extensive hearings on audit findings are being held. The PAC then drafts its own report and recommendations regarding the audit findings to be tabled before the plenary. One limitation is that this process has been lengthy, typically taking a full year. Moreover, the power of MPs to begin debating National Audit Office reports and the PAC report was reduced through the 2013 amendment to the PAA, according to which parliamentary debate and the approval of the PAC report must only happen once the executive has presented their responses to audit reports, which has in turn been delayed. This indicates that having a truly independent external audit and oversight function remains a struggle.

Overall, this review of experiences suggests that strengthening audit offices as such has progressed; but that effective parliamentary review remains a key bottleneck. The reasons for the weakness of

parliamentary review have varied—being linked to wider problems with the functioning of legislatures as in Nepal, to the absence of such a mandate as in the Philippines, efforts by the executive to exercise control in Tanzania, or due to excessive distrust between successive governments and related appointees as in the case of Georgia.

The progress made with strengthening external audit offices also reflects one of the potential positive influences of 'adaptive isomorphism'. One of the factors that seem to promote greater capacity and independence of audit offices is the influence of INTOSAI and the principles for SAIs it has established and promoted internationally. This has been combined with substantial engagement of development partners, including twinning arrangements between audit offices, peer reviews, and other forms of support.

Strengthening the legislative oversight role is likely to remain hard, because this concerns the wider relationship of legislatures and executives, but at least some of the countries reviewed could see improvements. Notably, some review of audit reports by the legislature is likely to resume in Nepal, and the relationship between the audit office and the legislature should improve in Georgia going forward. Still, as discussed in Chapter 4, the wider relationship between executives and legislatures can be complex and difficult. There is also a risk that in some countries, executives have de facto control of legislatures and the review of audit reports assumes more of a pro forma role; in particular, in countries leaning toward more authoritarian forms of government. Two potential avenues to pursue are (a) emphasizing the need for audit reports to be published and (b) strengthening the follow-up between external audit and the executive directly, as has been the case in the Philippines—while doing so alongside efforts to expand the involvement of legislatures.

5.10 Chapter Summary

This Chapter has reviewed the actual progression of PFM reforms across the five countries. The initial sections covered the issues of whether PFM reforms are embedded and how reform intentions are set out. When PFM reforms are embedded, it is particularly important for external advisers to grasp relevant connections, rather than looking at PFM in isolation. Section 5.2 emphasized the extent to which PFM reform intentions have been similar across countries.

Sections 5.3 and 5.4 focus on the issues that (a) reforms often remain partially implemented for extended periods of time, and (b) that there is a tendency toward expectations that exceed what is typically achieved through PFM reforms in low- and middle-income countries. Both of these aspects have important implications in terms of more realistic and more deliberately sequenced approaches to reforms.

Sections 5.5 reviewed reforms to budget preparation and adoption processes, and Section 5.6 to budget implementation,

187. As of 2014, the office has about 800 staff in total including in regional offices; of these, about 600 were professional auditors. See: http://www.policyforum-tz.org/sites/default/files/naovisitpresentation_0.pdf. See also PEFA (2013, 107). Recruitment and salary levels are managed centrally and not under the control of the Auditor General.

188. As of mid-2016, the most recent available report is for FY2014/15 which was published in April 2016, that is, 10 months after the end of the fiscal year. Reports for previous fiscal years up to 2010/11 are available and have been posted within similar time frames. www.nao.go.tz.

189. 2008 Public Audit Act, paragraph 6.

190. The collaboration and overall 'transformation' of the NAO is documented in: <http://nao.go.tz/wp-content/uploads/2014/11/2014-TRANSFORMATION-OF-NAOT-BOOK1.pdf>.

including the introduction of TSAs, of FMISs, and of accounting and fiscal reporting standards. Section 5.7 covered procurement and Sections 5.8 and 5.9 internal and external audit respectively.

As the ‘process tracing’ within and across countries indicates, implementing specific PFM reforms can be much more surprising and messy than textbook examples. Whether it is Nigeria’s TSA experience, the Philippines struggle with establishing an IFMIS, or Georgia’s problem with strengthening external accountability and oversight, problems can take unexpected shapes, twists, and turns.

From a political economy perspective, some patterns are apparent and consistent with what one might expect in terms of ‘incentive compatible’ reforms. One is that trying to roll out new systems comprehensively can trigger resistance. This was the experience in the Philippines, while both Georgia and Nepal took more gradual approaches to establishing TSAs and IFMISs, and these proved more feasible and successful. In Nepal, the resulting systems increase opportunities for managerial oversight somewhat, while deliberately stopping short of detailed controls. Making credible promises to honor payment requests promptly has facilitated buy-in. The choices for gradual approaches were made by domestic stakeholders, in the case of Nepal after an earlier failed attempt.

Other reforms seemingly contradict ‘incentive compatibility’. The most notable reforms in this regard is the widespread adoption of procurement reforms—although public sector contracting is widely considered a highly corruption-prone area, including being widely used by politicians as a source of election campaign financing. The introduction of Internal Audit Units even in governance contexts which seem to emphasize leadership discretion also appears as somewhat ‘incompatible’ but has likewise been widespread. One possible reason is that such reforms are seen as expedient at least up to a point: procurement reforms are part of efforts at trade integration, and internal audit can serve as a signal of being serious about PFM reforms—and can be used to keep lower level pilfering in check.

On the positive side, it is remarkable that PFM strengthening has seen at least some progress even in rather challenging contexts. After two decades of PFM reforms, all the countries covered have achieved progress in at least some areas. Most notably, even Nigeria made progress toward implementing a GIFMIS and a TSA toward the end of the period covered.

It is also notable that detailed accounts of how PFM reforms are actually being implemented are still rather rare. PEFA reports provide snapshots of many aspects at certain intervals and help to track progress; but mostly do not cover how or why reforms happened. Many other reports address particular technical assistance aspects. Especially for any aspects not directly covered by a PEFA

indicator (for example, the use of program budgets) it can be difficult to assess how and how far reforms have progressed.

The sections covering specific reforms also document well the degree to which partial reforms have been common. Among upstream reforms, both program budgeting and MTEFs tend to remain ‘efforts in progress’ rather than completed reforms for extended periods of time. Similarly, TSAs and FMISs have remained partially implemented in most of the countries—notably in Nepal and the Philippines (where the latter still remains pending to actually start).

Having many different reform strands that are partially implemented makes sequencing more challenging. Because most reforms start but do not end, many reforms end up being pursued (further) in parallel. A more clear-cut sequencing is most discernible for Georgia, where strong political commitment and institutional feasibility enabled relatively fast progression of specific reform aspects, such as a rapid transformation of procurement practices during a second wave of reforms starting in 2010.

Furthermore, while the implementation of reforms can be ‘pieced together’, the actual use of reformed systems and their impact remains difficult to assess and judge. Certain reforms and their impacts are easier to document than others. In principle, whether there is a TSA covering all MDAs at a specified level of government, or whether commercial bank accounts are still in use, is relatively clear cut; and in principle also the effects on short-term liquidity management. In contrast, judging whether having a program budget is having a beneficial impact, or whether internal audit effectively addresses potential misuses of funds is more difficult. Overall, most implementation reporting on PFM reforms reflects inputs, and possibly outputs, but remains silent on outcomes and impacts (see Figure 1.3 in Chapter 1).

Tanzania is a particular case in point, highlighting questions about impact as well as about sustainability. It had started earlier than the other four cases covered here with implementing many standard reforms since the late 1990s. Actual reform steps were undertaken. However, the fact that for a number of these, actual functionalities remain unclear is concerning because results should typically be more visible after a 20-year period.

This is a particular gap in light of the growing emphasis on considering ‘functional improvements’ rather than forms, as set out in the WDR 2017. To understand the degree of functional improvements and potential remaining bottlenecks, it is critical to know to what extent expected outcomes and impacts are actually achieved. As outlined in several of the sections above, this would require additional efforts by governments as well as by the international community.

Key Findings and Implications for What to Do Differently

6

As noted at the outset of this report, public financial management reforms are being pursued by many countries; and are being supported by a range of development partners. While progress has been encouraging in a number of places, it has also been uneven and has remained behind expectations in a number of countries.

This chapter summarizes the key findings from the synthesis report. Based on these, some proposals are set out on what could be done differently. The intention is to provide insights from a nontechnical perspective for debates about PFM reforms, while also setting out operationally and practically relevant suggestions of what to do, and what to pay attention to when designing and implementing PFM reforms.

It is important to keep the strengths and limitations of the methodology used in mind when interpreting and using the findings from this report. As noted in Chapter 1, the key findings of the report are based on a combination of quantitative analytic work and of five in-depth case studies. This combination is considered ‘as good as possible’, by combining both a review of broad patterns, and a closer understanding of how efforts to strengthen PFM have evolved in specific countries over a period of about a decade (while also reflecting on preceding reforms where relevant).¹⁹¹ Additional case studies would be highly desirable to further test the framework used as well as the implications presented. It should also be kept in mind that this report covers a particular time period, that is, roughly the 2000s and 2010s. Fiscal dynamics have been different in earlier decades and may again be different in the future for many low-and middle-income countries. Furthermore, as PFM reforms progress globally, key reform challenges evolve from initial adoption and rollout of systems, to actual utilization.

In conclusion, as raised at the outset, there is no presumption that this report can deliver a complete set of answers on how to better approach PFM reforms, or how to bring about success even in difficult environments. The intention of the report is to provide a stronger empirical basis for some key questions, in a way that stimulates

further discussion and also delivers some useful ideas for current and emerging operational practice.

Key findings are the following:

1. **Incremental versus transformational reforms: While some ongoing PFM reforms are widespread, deep and transformational reforms are rare and require an alignment of technical capabilities, strong political mandates for reforms, and institutional opportunities.** The range of countries that have opted to undertake a PEFA assessment over the past decade—149 in total as of early 2017—can be used as a rough gauge of the countries with some interest in PFM reforms. At the same time, there is only a small number of countries that have seen clear improvements in indicators measuring overall ‘government effectiveness’ (WGI) or which show significant gains in service delivery relative to spending. Among the five countries analyzed here, transformational change is only observed for Georgia thus far. Some gains were also made in the Philippines and in Nepal. Nigeria and Tanzania both regressed on overall government effectiveness over the time period analyzed, but are beginning to see progress under their governments elected in 2015.

As is discussed in Chapter 3, Georgia benefited from a very strong political mandate to pursue reforms. This was combined with relatively good technical capabilities, and the government was committed to using these capabilities and to bringing new, better people into the civil service in several key areas. In the Philippines, the pro-reform political mandate and electoral commitment to reforms also existed, but they were weaker and faced both political and institutional blockages. While transformational change did not happen, there was some incremental positive change.

2. **Reforms are possible even in difficult environments, but are then (far from) linear, and ‘windows of opportunity’ are crucial to enable breakthroughs.** The Nigeria experience indicates that even in most difficult environments PFM reforms can—eventually and incrementally—progress. In this case, a lengthy period of very slow progress from 2006 onwards was followed by a breakthrough for some reforms following

191. An ‘optimal’ design would include a larger number of case studies—for example, 15 to 20. However, such a large-scale effort remains beyond reach for most analytic and evaluation work.

the opening of a window of opportunity in 2015. Georgia in 2003 would have also been counted as an extremely difficult case with little progress made since becoming independent, but experienced a burst of reforms following the 2004 ‘window’. Both in Nigeria and in Georgia, as well as in Nepal—another difficult environment—technical experts at various levels played important roles in preparing the ground for eventual greater progress.

3. **Fiscal dynamics, and PFM and revenue reforms: Cross-country analysis shows no clear association between fiscal dynamics and PFM reforms, but the case studies indicate a number of ways in which fiscal dynamics matter.** Fiscal stability and the ability to deliver services depend as much, and possibly more, on the ability to generate revenues as on good PFM practices. A decline in revenue—due to political crises or loss of natural resource revenue as in Nigeria—can negatively affect fiscal stability and the ability to deliver public goods and services. In Georgia, one of the main problems before 2004 was the dramatic drop in revenue that had occurred in the 1990s, and a key early reform gain was to increase revenue collection from very low levels. This facilitated further reforms internally, because civil servants could be reliably paid, better ones could be hired, and other expenditures could be made on time, enabling improvements in service delivery. In Tanzania, a fiscal crunch and growing problems with cash management had prompted the PFM reform efforts made in the late 1990s.

At the same time, extreme fiscal pressures can be difficult to manage for governments, including those with a reform mandate, in particular, if such a government is seen by many citizens as responsible for an economic crisis. In Nigeria, revenue collection had been shrinking for over a decade relative to GDP, as became more apparent after GDP was re-based in 2014. As oil prices decreased, and compounded by other problems affecting the oil sector, the outgoing and the new incoming government following the 2015 elections were hard hit by the drop in available revenue. The resource crunch has prompted acceleration of certain reforms such as completing a TSA, but the crisis’ depth and the difficulty of turning revenue collection around in a complex environment pose risks to the federal government’s ability to follow through with its overall reform plans.

4. **Basic and advanced PFM reforms: Due to political economy incentives and constraints, some basic PFM reforms appear as more challenging than advanced reforms.** So-called ‘basic’ reforms focus on control of public expenditures—good commitment control, prevention of leakages in procurement, in payroll and in non-payroll recurrent expenditures, good accounting that reflects reality, and so on. More advanced reforms have been introduced or initiated, in part in the

expectation that they will deliver ‘basic’ improvements, and to some extent, ‘basic’ reforms and ‘functional improvements’ overlap. However, truly establishing such control is very challenging in contexts where leakages benefit important interests. At the same time, reforms that tend to be categorized as ‘more advanced’ can be pursued, at least up to a point.

5. **Institutional ‘starting points’ influence how difficult particular PFM reforms are.** The case studies have documented that reforms become significantly more difficult in institutionally more complex settings such as the Philippines and Nigeria, relative to situations in which Ministries of Finance directly exercise or oversee a larger number of CFA functions, such as in Georgia or Tanzania. In addition, the distribution of responsibilities between the executive and the legislative plays an important role, including the clarity of roles, and the probability of a stalemate and delayed budget approvals.

Legal and institutional provisions have gradually achieved greater attention in PFM assessments, in particular in PEFA assessments, but given the systemic importance of institutional ‘starting points’ both coverage and implications still merit further exploration and policy dialogue. Shifting institutional structures can be very challenging, and making progress is likely to require several years of engagement with various stakeholders.

6. **Further key institutional issues are intergovernmental policy and fiscal relations and how they have an impact on expenditure chains and accountability and oversight arrangements.** Across the five case study countries, intergovernmental relations have posed challenges; and most strongly so in Nepal, Nigeria, and the Philippines. In Nigeria, the federal government controls only a limited part of the expenditure chain, and has little or no direct oversight over how funds transferred to states are ultimately spent. While the Philippines—in contrast to Nigeria—is a unitary state, subnational levels nonetheless have considerable power to influence on what and how funds are spent. In Nepal, intergovernmental relations have been the crucial issue that has made it difficult to agree on and embed a new constitution. Districts have been controlled by political parties, and the central government only exercises limited oversight over how the dominant local parties decide to allocate and use funds. Central governments have to consider carefully if and how they can extend control mechanisms to subnational levels—from FMIS, TSAs, accounting standards, up to the roles and responsibilities of central/federal level audit offices. Attention to these issues matters in particular with regard to ensuring allocative and technical efficiency of spending, that is, how reliably allocated funds actually reach frontline service delivery units and are effectively used.

7. Identifying stakeholder interests related to PFM strengthening can be challenging and attention is still limited. ‘Functionalist’ expectations that stakeholders must want reforms because reforms are good for the country and are the right thing to do still persist, and limit attention to the issue of what stakeholders are really interested in and why. There is often some notion of the background and loyalties of the Minister of Finance and possibly some other key staff, but typically much less about how and why key staff and political leaders would be interested in reforms, or rather in maintaining a status quo.

Moreover, even when there is an interest, it can be challenging to identify stakeholder intentions on an ongoing basis, because such interests are often not clearly stated, and can be difficult to discern. Given that PFM reforms are rarely discussed in the public domain, there is typically little public debate that would reveal stakeholder positions or interests. Most governments and individual officials publicly commit to a relatively uniform list of reforms as reviewed in Chapter 5. Ex post, divergence between reform commitment and concrete actions can be detected, including through data analysis, facilitating analysis of real underlying interests; and stakeholders may also become more willing to reflect on the motivation of officials and decision makers involved in PFM reforms once they have left office. For ongoing reforms, understanding interests involves asking questions that can be somewhat uncomfortable in a technical dialogue.

8. Most PFM reforms—not just the introduction of FMIS—take many years from conception to implementation and complete roll-out, while stakeholders often pursue unrealistic time frames. The continuous postponement of reforms—the GIFMIS in the Philippines, or IPSAS rollout in Nigeria—can undermine the credibility of reforms as well as of the stakeholders involved. While it may be difficult to determine a drawn-out time table at the outset, ensuring that there are clear interim provisions, and other ways of building in an anticipation of ‘partial reforms’ that endure for some time, is crucial. Unrealistic reform plans can be costly; and increase risks if attention and support move on too early.

9. ‘Isomorphism’, that is, copying of standards and systems is more the result of inducements than being the result of external leverage than is being assumed, and there are probably more instances of ‘isomorphic reform’ than of intentional ‘isomorphic mimicry’. In the countries studied in detail here, and similarly in many other low- and middle-income countries, advanced PFM reforms are being pursued, even though there is limited or no relevant external leverage in the sense of external conditionality or high-aid dependency.

However, there are important external influences. Technical and managerial staff in low- and middle-income countries often look around for new models to follow; and for various reasons find ‘international norms’ attractive. In turn, the adoption of such standards is promoted by a host of professionals, international agencies, and consultancy firms.

The growing number of international norms and links, and the inducements to adopt them provide both benefits and risks. On the one hand, an international standard such as the independence of Supreme Audit Institutions, provides a benchmark that national reformers can use to argue that reforms, and reforms in a particular direction, are needed, for example, towards their parliaments and presidents. On the other hand, there are risks that ‘best practice’ international norms distract from simpler options, or options that for various reasons may be more ‘fit for purpose’.

Furthermore, the notion of ‘isomorphic mimicry’ assumes that certain reforms are being imitated without seeking to use them in line with the original intention of the given instrument. Such mimicry may of course occur, and in particular in situations where reforms are mainly driven by external leverage, for example, in countries that are significantly aid dependent. However, when managerial and technical staff initiate reforms, those are rather cases of ‘isomorphic reform’, that is, an effort to ‘copy’ a standard or practice, rather than mimicry. Such copying efforts may at times be reasonably good fits and deliver improvements, while in other situations, copying ultimately fails to achieve the intended impact.

10. Demand from citizens and civil society has not played a significant role for PFM reforms across the five countries reviewed, given their technical and internal features; while citizens can play a crucial role with regard to the overall reform mandate. The specific reforms pursued across the five countries mostly only had only limited or no involvement from civil society; albeit with some greater attention in particular on procurement reforms.

Citizens still matter, at least in countries where some form of competitive elections are regularly organized, as in the case of the five cases reviewed. Citizens voted for significant change and reforms in Georgia in very large numbers, and to a more limited extent also in the Philippines in 2010, and in Nigeria and Tanzania in 2015. In particular in Georgia, and to some extent also in Nigeria, electoral change led to a significant acceleration of PFM reforms. However, the experiences of Tanzania and Nigeria also indicate that the ‘long route’ is an imprecise mechanism; sufficiently specific and effective reform agendas, as well as a willingness and ability to take on vested interests, are crucial for politicians to achieve their election promises to improve governance.

11. Political economy factors constrain the outcomes and impacts of PFM reforms: For PFM reforms, the ultimate issue is not that reforms cannot progress, but that they do not deliver the full level of results or benefits promised. Even in countries where reform commitment was low for extended periods of time, the introduction of new systems eventually progressed. This has been notably the case in Nigeria where years of very limited progress pursued by a set of technocrats eventually gave way to acceleration at least in some areas. However, in one way or another, all case studies also highlight risks that PFM reforms do not deliver the promised or expected impacts in full. In Tanzania, several reforms were implemented already since the 1990s—that is, have had time to mature—but they proved not to be sufficiently robust in the face of declining political commitment to good PFM practices.

Notably, the FMIS in Tanzania, although well-established and utilized, did not deliver the range of benefits that were hoped for; while in Nepal, the partial automatization also only provides a limited set of controls. Similar concerns are raised for a range of countries in a forthcoming evaluation of FMIS experiences (World Bank, forthcoming). Along the same lines, expectations that corruption in Nigeria can be rolled back (primarily) through the reform of accounting standards—as proposed by the Accountant General at the time of launching the initiative—clearly appear greater than is likely to hold true in eventual implementation.

Given the key findings as summarized above as well as the detailed findings reflected in the chapters of this report, there are a number of potential implications for ‘doing things differently’. Any such efforts are not a hard science, but they do seek to follow a logic of what is likely to be a good fit in different situations.

- **A perspective on nontechnical drivers for PFM reforms suggests a need to reconsider and nuance arguments about the sequencing of PFM reforms.**¹⁹² Improving ‘the basics’ is critical in terms of key expected impacts of PFM reforms. However, it is also the relatively harder goal to achieve. Including ‘non-technical drivers’ into sequencing considerations implies that it is important to continuously keep some focus on the basics, without assuming that these are likely to be completed before advanced reforms are initiated. In parallel, it is worth keeping an eye on whether some stakeholders support ‘advanced’ reforms mostly as a ‘distraction’ in ways that are very unlikely to deliver even incremental tangible improvements.

Furthermore, since de facto, real sequencing between basic and advanced reforms has rarely happened consistently, many countries today present a mixed challenge of various partially implemented bits of both types of PFM reforms. Reformers and development partners should ensure to keep track of where ‘basic’ functional improvements stand, and how they can be continuously supported, also with a view to avoiding backsliding from improvements that have already been achieved. This includes paying attention to whether ‘advanced reforms’ that have been (partially) implemented are contributing to basic functionalities (such as whether a FMIS is actually used for controlling commitments).

For various forms of external support, it is crucial to continuously seek to develop and sustain the basics alongside supporting selected advanced reforms, to make sure that basic control mechanisms become fully institutionalized. This can further contribute to lowering the risk of backsliding, for example, during periods of fiscal stress or periods of political leadership less committed to good financial governance. One challenge that may arise for DPs from this is that results frameworks or log frames tend to be focused on introducing something new, more than on sustaining PFM processes and practices such as commitment controls or accounting practices that are already in place.

- **While slow and incremental improvements are common, and transformational progress happens in some cases, risks of backsliding also exist, and need to be considered more explicitly.** As the quantitative analysis indicates, countries with initially lower PEFA scores saw greater improvements over time than those with already better systems, however, the gains are relatively small over a 10-year period. At the same time, global indicators also suggest limited aggregate improvement due to cases of backsliding; illustrated among the case studies by Tanzania’s experience. Efforts at strengthening PFM systems need to be calibrated to these different ‘opportunity environments’. This should include having some in-built flexibility to change between a more incremental and a more fundamental reform agenda, for example, following changes in government. During nontransformational periods, a deliberate focus on (a) developing a reform agenda and (b) on monitoring and seeking to counteract backsliding risks should be pursued.
- **A further crucial implication from the analysis is that windows of opportunity are very important—but it can be difficult for development partners to effectively provide support to incoming, highly reform-oriented governments.** The opportunities for PFM reforms can vary considerably between one government and the next. A government that is strongly interested and motivated to pursue reforms can achieve more in two to

192. Note also the implication drawn by Allen et al. (2013, 6): “As a result of the development of political economy analysis, technically based models of PFM development and sequencing—such as the platform approach—appear to have limited applicability in practice.”

three years than is likely to be achieved with a government not interested in improving governance and the management of public finance over a period of 8 or 10 years. The turnaround in Georgia, and the post-2015 government in Nigeria, and possibly also in Tanzania, illustrate this issue.

One important question is how best to use windows of opportunity. The experience of the 2010 government in the Philippines suggests that seeking to pursue a ‘big sweep’ reform with a long lead time (procuring a GIFMIS) is risky; comparatively, the push to complete an existing TSA reform in Nigeria was closer to a ‘quick win’ approach in a limited but tangible area.

Windows of opportunity are also challenging because (a) project cycles are rarely aligned to election cycles and (b) developing new support within the few months from new leadership being in place to the closing of the peak ‘honeymoon period’ is difficult. Leadership changes and resulting changes in policy orientation and ‘reform drive’ are difficult to predict ex ante, and key appointments and more detailed policy orientation often only become clearer several months into a new administration. It can be challenging to then rapidly prepare an operation that effectively supports what the government seeks to do in time to still use the ‘honeymoon period’ of such a new government, which extends from ‘the first 100 days’ to a period of two years, hence leaving little space to prepare and launch a new project.

One option can be to have an existing project in place that straddles an election period with sufficient built-in flexibility to be adjusted to a new government’s needs and intentions, either through a rapid restructuring and reauthorization process, or through within-project flexibility. More ‘advanced’ options such as a pooled mechanism with flexible funding can also be envisaged, but none of the five case studies offers an example in this regard.

For the majority of time outside of windows of opportunities, it remains worth pursuing improvements, but progress is likely to be incremental and frustrating to those seeking a faster pace and tangible results. A key potential benefit is to ‘have something ready to move’ when windows of opportunity arise and—also importantly—to sustain some of the gains that may have been made during previous ‘windows’. For example, in Nigeria, PFM reforms saw an initial burst up to HIPC completion in 2006, followed by an extended slowdown and reversals, and then by a renewed reform push following the 2015 elections.

- **Fiscal space is an important motivation of governments, and the links between fiscal trends and PFM reforms should receive greater attention.** PFM reforms in particular in Tanzania, Nigeria, and Georgia have been driven to a significant extent

by fiscal trends and ‘opportunities’ such as that offered by HIPC in the case of the former two countries. In Nepal, successive governments—including those led by Maoists and Communists—have been very interested in ensuring fiscal balance and shoring up revenue collection. One mechanism is that fiscal crises can give rise to a strong reform mandate. Another is that facing growing fiscal constraints relative to public sector tasks, governments seek to mobilize new sources of revenue and to use existing sources more effectively. Thus, when pursuing or supporting PFM reforms, considering what the fiscal goals and concerns of the political leadership are is crucial.

- **When governments are motivated to pursue PFM reforms due to fiscal challenges, they are likely to seek reforms both on the revenue and on the expenditure side, with implications for the design of support.** To overcome a fiscal crisis typically requires measures on both sides; and attention to revenue trends should be reflected routinely in PFM operations (for example, this seems to have been a neglected issue in Nigeria for some time before the fiscal situation becoming severe). Governments are likely to seek support on multiple aspects, including debt management, fiscal policy, revenue administration, as well as expenditure management. This poses some challenges for how (at least broadly) coherent support can be provided, given that such a ‘broad front’ is likely to involve multiple development agencies and divisions within agencies. Given a growing emphasis on domestic revenue mobilization in the World Bank Group, there is generally greater attention to the revenue side than in the past. At the same time, seeking to mobilize additional revenue once a macrofiscal crisis is ongoing may be challenging and involve its own set of nontechnical drivers, for example, with regard to the question of who should pay more.
- **Addressing stakeholder interests more explicitly.** An understanding of the motivation and aims of stakeholders, just as of technical questions, is cumulative. Some relatively simple steps such as increased attention and integrating a sense of ‘nontechnical drivers’ into widely used diagnostics, such as PEFA assessments, could lead at least part of the way to better understanding the motivation and incentives of key stakeholders. In a number of situations it may also be possible to organize a small seminar of key staff and to do a rapid joint mapping of key stakeholders to encourage thinking through of what reforms are most likely to progress and to bring about real improvements.

In this respect, it is important to avoid an overly simple categorization of stakeholders into ‘reform proponents’ and ‘reform opponents’. Most stakeholders have somewhat complex motivations, for example, they may endorse some

reforms, but may be cautious about pushing too far in a difficult environment, for example, with regard to procurement reforms. Or they may seek reforms, but also a good business deal for a local IT company. Conversely, stakeholders who may not be particularly inclined toward pursuing PFM reforms may change their stance once they experience growing fiscal and cash management problems, or rising discontent over insufficient service delivery in various regions, which make progress more urgent.

In addition, it is relevant to differentiate what interests and motivations are of different categories of stakeholders.

Decision makers such as Prime Ministers or Presidents may be particularly interested in PFM reforms if they have made electoral pledges to improve service delivery and governance and seek to show progress. Senior civil servants and professionals will often be keen to show that they are aligned with the ‘vision at the top’.¹⁹³ They may also appreciate the greater visibility and exposure which being involved in a reform process offers. At the same time, they play a critical role in shaping the specifics of PFM reforms; and it can be important to discuss and mull over the specific reform approaches they seek to pursue.¹⁹⁴ Stakeholders in line ministries and at subnational levels are a further important group to consider and engage with. Encouraging a more explicit and franker discussion at various international gatherings of PFM specialists about nontechnical factors and how these played out in different countries may also be particularly useful to senior civil servants and professionals who are seeking to ‘make change happen’.

One important aspect for reform stakeholders is that—also in line with insights from ‘doing development differently’ and earlier discussions about rapid results—initial progress can help to build the credibility of reforms. Especially at early stages, reform stakeholders may want to be careful about reform approaches that entail very long planning phases, or that are very complex or likely to face strong resistance. Easy as well as effective reform options may not always be available, but stakeholders should consider carefully if any options can be identified—even if this implies initially pursuing a partial reform (see also point 10 below).

- **Being clear about institutional arrangements and roles is essential for assessing bottlenecks and likely difficulties and limitations in strengthening PFM systems, as well as for identifying priorities for engagement on institutional changes.** Institutional arrangements including the set-up of Central Finance Agencies, the executive-legislative relationship and powers over fiscal and budget matters, and intergovernmental arrangements including those for oversight and accountability, are critical and can enable or pose significant obstacles to reform progress. On the one hand, coordination challenges, challenges of parliamentary approval, or subnational resistance should truly be taken into account when considering reform strategies. On the other hand, it can also be important to consider if seeking to change existing institutional arrangements is essential to be able to achieve tangible progress.

This gives rise to the issue if one should try to address institutional arrangements when these are significantly sub-optimal.

Sub-optimal institutional arrangements are ‘sticky’ because they are difficult to change; requiring at a minimum an agreement between multiple institutions and the political leadership, often requiring parliamentary approval. For example, for new organic budget legislation or amendments, sometimes from two legislative bodies (lower and upper houses), and sometimes requiring two-thirds majorities in parliament if a constitutional change is involved, or also agreement from subnational governments and parliaments. Such hurdles can be (near) insurmountable.

Given that the issues and the level of difficulty of seeking approval varies, there can be no hard-and-fast rule—whether to tackle institutional arrangements needs to be based on case-by-case analysis. When key PFM-related laws are truly outdated, poorly designed, or missing key elements, it is worth seeking to update them—even if success may take some time. Preparing a new law can be done very rapidly if all stakeholders agree and feel a sense of urgency, but more commonly takes at least 2–3 years;¹⁹⁵ and in many countries a further number of years to achieve adoption by the legislature.

Updating institutional mandates or structures, such as creating more comprehensive ministries of finance, can in principle be done more quickly through executive decision, but may still require also some legal amendments; and finding political agreement may run against the logic of spreading influential positions among multiple parties, factions, or ethnic groups. Developing clear ideas and a map of

193. Conversely, these stakeholders typically would be reluctant or have at best limited ability to ‘swim against the tide’ of top-level leadership preferences.

194. This report has not explicitly explored whether particular organizational arrangements, such as creating dedicated reform units, have been associated with better results. From a political economy perspective, a particular issue of interest is whether more committed governments achieve more when adopting certain mechanisms such as reform units and/or interministerial steering committees. These are issues for further exploration in future analytic work.

195. A somewhat drawn-out process of development can be beneficial to ensure that the provisions of new legislation are consistent with other existing laws, and to avoid a copy and paste from legislation in other countries.

what it would take to make a change and what it is expected to deliver is an important first step. It may also be useful to engage in a discussion about the costs and missed opportunities that are associated with having a fragmented institutional set-up.

For development partners, an important implication is that again, there is a need to engage more broadly with parliaments on public financial management, not just with regard to budgetary oversight, but also with regard to key aspects of PFM reforms. Parliamentarians are key stakeholders when it comes to agreeing to legislative reforms—whether organic budget laws, procurement or debt-related legislation, or reforming laws related to internal and external audit.

- **Being clear what the priority functional gaps are and having a realistic approach to how these can best be addressed.** As the PSMRP 2012 and the WDR 2017 emphasize, it is important to consider reforms that target ‘functions rather than forms’. The important issue is not to introduce an MTEF, but rather to move toward an approach to budgeting that considers medium- and longer-term implications of spending commitments. In many countries, the number of functional gaps or limitations remains substantial, so focusing on functional gaps as such needs to be combined with prioritizing among different functional aspects.

As we have seen in the discussion of the experiences, both a clear identification of gaps and prioritization are at times missing—reform plans include a long list of areas to be addressed, and there is still a strong focus on introducing a range of tools. One aspect of this is also to guide the discussion with stakeholders about what support might be needed in a more problem-driven way (that is, identifying what are the most urgent or most widely felt functional gaps), and to jointly consider for which of these solutions or at least partial progress may be feasible.

Moreover, it is important to be more realistic about what functional improvements a given instrument is likely to deliver given continuous challenges. An MTEF may deliver some sense of fiscal intentions beyond the next fiscal year in some years, but may have little binding power in many contexts and years, particularly when fiscal volatility or political change intervenes. An FMIS is likely to increase timeliness of reporting and ‘monitorability’, but may not deliver effective commitment control, or reduce reallocation between expenditures and the use of exceptional procedures. The (most) likely functional gains that can be made through the introduction of a particular instrument need to be assessed realistically. This requires also some honest stock-taking of why bottlenecks to certain functional improvements exist.

Related to this, achieving the potential functional improvement requires attention to what is to be improved—which can be neglected when the main focus is on getting a particular instrument in place. For example, while the contracting and rollout of an FMIS can absorb a lot of attention, it is critical to also stay focused on whether the system is actually used for purposes such as controlling commitments.

PFM strengthening and specific elements of it should be considered, and are more likely to be successful—in terms of reducing misuse of funds, as well as in terms of increasing efficiency in service delivery—when they are undertaken jointly with other measures. This holds particularly true in contexts marked by pervasive corruption. Moreover, in nontransformative environments, expectations should be more constrained, because stakeholders will often find opportunities to circumvent the (full) effect of reforms and of specific instruments used.

As part of prioritizing which functional gaps to pursue and which instruments to use, it would also be desirable to develop a more systematic understanding of the costs of various PFM reform packages. As noted in Chapter 5, reform costs are rarely explicitly discussed. We have some information on the cost ranges of the initial procurement of FMIS. For reforms that do not entail one or a few large-scale procurements, costs tend to be less clear—for example, the costs of adopting IPSAS, or of establishing and routinizing MTEFs. Especially where costs mainly involve consultants, workshops, and similar inputs funded from multiple sources over a period of time, getting a clear estimate may be tricky. However, some dedicated analytical effort in this regard would be an important complement to existing discussions about reform selection and prioritization.

- **Regarding risks of ‘isomorphic reforms’ and ‘isomorphic mimicry’, development partners may need to become more reflective of the international norms they promote.** Recent years have seen both a debate on ‘isomorphic mimicry’ on the one hand, and a further proliferation of international norms such as the formulation of IPSAS on the other hand. A political economy perspective suggests that it is most important to have international norms for those issues that go ‘against the grain’ of key national stakeholders. In those areas, an international norm can help local reform stakeholders to push for the necessity and appropriateness of a particular reform, such as an independent external audit function, effective internal audit, or transparency and competitiveness in procurement.

As international norms and standards are promoted, it is also critical that national stakeholders—accountants, auditors, but also NGOs, or staff of parliamentary budget offices—have training opportunities to understand these in

depth. This is critical for enabling such stakeholders to have an informed discussion both about how principles and standards should be adopted and adapted into national systems, as well as to judge whether applications once introduced are done appropriately. Conversely, if standards are widely promoted, but with little check on how they are applied in practice, this can incentivize mimicry, that is, an imitation of standards without a real intention or capacity to use these toward intended effects.

- **Given that citizen demand for PFM reforms tends to be weak, should reform stakeholders try stimulating citizen engagement?** The key finding that citizens and civil society have not been strongly involved in, demanding, or encouraging PFM reforms raises the question whether stakeholders seeking to pursue and support such reforms should encourage and stimulate citizen engagement. None of the case studies offers a strong precedent in this regard, with engagement being relatively strongest in the Philippines.

Overall citizen expectations are crucial for electing better governments as has happened in Nigeria and Tanzania in 2015, and in Georgia since 2004, creating a ‘long route’ of demand for improving PFM. In principle, because governments care at least to some extent about citizen expectations, strengthening ‘short route’ demand side engagement has the potential to contribute to motivating and sustaining PFM improvements.

Such engagement is most likely to be channeled by specialized NGOs such as Transparency in Georgia or BudgIT in Nigeria, as it requires building some technical knowledge of reform issues and options. Engagement by such NGOs also provides a basis for increased media coverage, which draws on analysis and commentary. From the side of ‘within government’ reform proponents, citizen engagement can be facilitated by sharing information, as well as by ensuring that the content and expected effects of reforms are shared with CSOs and citizens in an understandable form.

Moreover, it would be important to describe clearly why reforms are being undertaken and what the expected benefits are. When this is clear, then citizens can contribute to holding government to account for actually delivering on these expected benefits. Conversely, promising to ‘end corruption’ through accounting reforms, as was done in Nigeria, may not be helpful for stimulating citizen demand, as it is likely to lead to disappointment with regard to the actual impacts, even if the reform as such is implemented.

Experience in Nepal indicates that if there is an effort to stimulate citizen demand, it has to distinguish (more) clearly between the demand to use funds well and to allocate funds to policy priorities benefiting a majority of citizens,

and demand to receive additional funds for example, for a particular municipality or region. In Georgia, overall citizen and civil society engagement was relatively weak, but interest in particular aspects such as public sector pay bonuses and procurement was stronger, as these were perceived as important remaining areas in which funds were not consistently well managed. Public interest also played an important role in initial procurement reforms in the late 1990s in the Philippines.

Specialized NGOs that focus at least on some aspects of PFM reforms are emerging in many countries, including the five cases reviewed in this report, offering an opportunity. There is scope to further grow the range of interest and the influence of such groups. Potentially, civil society engagement can also stimulate greater interest and support for PFM reforms among MPs, who—as outlined above—are an important set of stakeholders with a direct influence on whether or not PFM reforms can proceed. Thus, even though most PFM reforms to date have happened without being directly demand-driven, developing a better understanding of fiscal and PFM issues and informed public demand can have important benefits both in terms of creating incentives for political leaders and decision makers, and in terms of creating a demand to sustain and fully use certain reforms such as the introduction of program budgets and performance related information.

- **Should reform stakeholders deliberately target partial reforms and unorthodox approaches?** As discussed in Chapter 5, many PFM reforms remain partially completed for many years. There appears to be some benefit to introducing reforms deliberately in an incremental way rather than seeking all out comprehensive reforms which are at a higher risk of failure, as happened with the failed introduction of a comprehensive GIFMIS in the Philippines. Is it advisable to target incremental or partial reforms deliberately for a range of issues, as a potential ‘end state’ at least for some years rather than as a purely intermediate reform milestone? There is some balance to be struck between the feasibility of reforms on the one hand, and the impacts that can potentially be achieved on the other hand. Introducing partial reforms such as a TSA covering only some accounts/sections of government, partial automation, or some aspects of procurement reforms such as e-bidding, is more likely to be feasible than comprehensive reforms. A key disadvantage is that the likely impacts also remain more partial. Overall, it is likely that for countries and time periods that are not windows of opportunity, deliberately targeting partial reforms is a more ‘PE smart’ approach than seeking more comprehensive reforms that get stuck.

A related question is whether to consider ‘unorthodox approaches’, that is, approaches to PFM reforms that contradict conventional notions of ‘best practice’. Both Georgia and Nepal offer examples of rather successfully introducing ‘unorthodox’ approaches to treasury automatization. Some may consider ‘unorthodox’ approaches as inherently attractive, in line with criticizing ‘best practices’ as typically lacking a good enough fit and promoting isomorphic mimicry. However, there are also some important caveats. Certain ‘unorthodox solutions’ such as nationally programmed rather than ‘off the shelf’ IT systems can be costly and become failures if national IT capacity is weak, or if the firms or staff to develop these are not selected based on meritocratic criteria in a weak governance context.

Thus, while unorthodox solutions can be attractive in terms of offering a good fit with specific reform needs and opportunities, they require due consideration of potential risks and downsides and how these stack up relative to pursuing a more standard approach. A significant benefit of considering unorthodox solutions is the opening up of options relative to exclusively considering a binary choice between leaving things as they are, and pursuing all out best practice reforms for a given aspect of PFM.

Addressing Obstacles to Sustainability and Impact

- **Tracking what functional improvements are being made and sustained over time is critical in terms of incentivizing real reforms, as well as for planning further steps.** Tracking of PFM systems and functions over time provides a chance to understand what has been achieved and to make corrections where necessary. Positive assessments can help to confirm areas in which progress has been achieved, providing recognition and confirmation to stakeholders involved. Assessments that target expected outputs and outcomes, moreover, are critical to assess to what extent the introduction of particular instruments or ‘forms’ are actually associated with functional improvements.

In this regard the case studies indicate the benefits as well as some current challenges related to repeated PEFA assessments. Among the cases, the number of currently completed national level PEFAs ranges from 0 for Nigeria to 3 for Tanzania. PEFA assessments can help to pinpoint areas of continued difficulty or backsliding as with regard to budget credibility in Tanzania, as well as to recognize areas of progress. At the same time, some of the repeat assessments reviewed also contain potentially over-optimistic ratings, and finalizing ratings can be a contested and negotiated process.

Furthermore, there are limitations of PEFA assessments, in particular with regard to the ‘causal chain’ of linking PFM improvements to improvements in fiscal

management and integrity and efficiency in the use of funds. As noted in Section 5.6, the veracity of accounting is assessed in less depth compared to fiscal ROSCs, and tracking of the losses of funds as they move between central government and frontline service delivery units is very limited. Assessments that target certain functional improvements in depth should be undertaken at least from time to time and for areas that have been identified as key bottlenecks.

- **A greater emphasis on sustainability is crucial, as risks of ad hoc interference and backsliding persist, in particular across leadership changes.** As noted in the section on key findings, there is a sense that the focus of PFM reform efforts tends to continuously shift to new areas, and a tendency to neglect efforts at fully embedding and sustaining improvements that have been achieved. A range of specific PFM improvements—from improvements in budgeting practices (policy orientation, greater realism of expected allocations) to better procurement practices to good accounting, reporting, and auditing—require efforts over a considerable period of time to become fully embedded. These include the adoption or updating of implementing regulations, training of staff or managing staff renewal, ensuring that new processes are fully understood and routinely followed and so on. Establishing and fully embedding strong routines and practices is essential for building stronger buffers against potential ad hoc political interference. Reform support that constantly seeks out new areas plays into the hands of political and administrative leadership that seeks to block or undermine reforms during implementation.

Based on these recommendations, there are several specific implications for operational design that emerge.

- 1. It is critical to explore what counterparts are really interested in, what they seek to improve or what problem they seek to solve, and how they believe this can be done.** In a number of situations, governments initially articulate a particular reform tool, for example, the need for an MTEF, but what they are really trying to address is to bind the hand of politicians to bring additional requests into the budget for example, at advanced stages of preparation. Clients that really care about improvements typically welcome a more in-depth discussion of what the key issues are and the options for addressing them.
- 2. In the same vein, to the extent possible it is important to have a discussion on what government counterparts see as potential blockages,** and to probe on those that have been observed in other countries—for example, subnational governments/ power holders, leaders in line ministries, and so on. Frank discussions on this—in whatever format possible—can be very useful to tease out risks and issues to consider.

3. **Understanding and discussing with the client what reform efforts have or have not worked as expected in the past and why.** For example, in Nepal, the initial failed attempt at establishing an FMIS informed how this reform was approached in the second attempt. Past problems can be very informative about potential blockages and challenges; while it is essential to also keep in mind that some dynamics can fundamentally shift.
4. **Probing buy-in from a range of stakeholders.** Probing broader buy-in for reforms is critical in at least two ways. If line ministries or other key decision makers are opposed or uninterested in reforms being proposed by Ministries of Finance, this may create problems for reforms effectively. Also, spending units can have important additional perspectives on what key bottlenecks and issues are. A second aspect concerns more other central agencies and decision makers, as well as senior civil servants within a CFA (and across these in more fragmented institutional settings): as Ministers of Finance come and go, broader central buy-in is important to be sure that at least some reform commitment and momentum is likely to continue beyond individual tenures.
5. **Encouraging and having frank discussions between teams, practice managers, and CMUs about whether the engagement is likely to be able to use a 'window of opportunity' or is more intervening during a period of relative stagnation.** This should help to set realistic expectations, as well as to calibrate the size and complexity of an operation. It can also offer an opportunity to discuss already at the outset potential points at which it may be opportune to restructure a project, for example, if a window of opportunity might emerge following an election during the implementation of a project.
6. **We should have honest discussions about what has worked elsewhere and to what extent, to clarify and jointly set realistic expectations.** In the past, such dialogue would often largely build on the number and types of cases that a team happened to be familiar with from past work. We are gradually reaching a stage where there is an increasingly useful body of knowledge available that teams draw on in addition to their own direct experience. This can be immensely helpful to be able to draw on a range of options from different countries, each of which may share certain characteristics with the respective client country, for example, in terms of size, level of development, and so on.
7. **Operational design choices**
 - (a) **Broad or narrow, upstream or following the spending chain:** any PFM reform operation, whether an IPF, PforR, non-lending technical assistance, or (part of a DPL) needs to consider key design choices—whether to have a narrow or broader focus, for example, targeting one or two versus multiple PFM reform aspects,

or being combined with other public sector or service delivery reforms, and whether to stay upstream, that is, typically at the national level, or whether to follow the expenditure chain from national levels down toward the front line. Including nontechnical factors such as stakeholder commitment in the consideration can help make these choices in a more robust way. Typically, if a government really knows what it wants, a narrow design is likely to work best, while starting somewhat more broadly may be appropriate when there is less certainty about what will work—but still avoiding overload, and staying focused on tangible improvements that can be monitored. Because many countries find themselves now in a halfway world of partially implemented PFM reforms that have not quite delivered the improvements originally expected, it will also often be most appropriate to focus on reform aspects along spending chains, for example, looking at how funds actually move toward frontline spending units, or how reliably spending units report on the actual use of funds. Along the expenditure chain, it may often turn out that other public sector aspects are present as key bottlenecks—for example, provisions on intergovernmental relations or weak management and motivation of civil servants, looping back to point 4.

In addition, PFM operations must pay greater attention to the intended results chain, and in many situations this involves some operational engagement on how funds move across levels of government to frontline units. Where core systems are a full-blown bottleneck, this may be premature, but in most situations, the flow of funds, as well as of performance information across the expenditure chain is important to consider to ensure that operations actually enable an improved functioning of governments.

- (b) **Investing in embedding already existing or recently established systems versus breaking new ground:** for the past 20 years, DP operations supporting PFM reforms have often focused on breaking new ground/ establishing new systems, such as introducing an MTEF, establishing (for the first time) an FMIS, introducing new accounting standards, or supporting the establishment of Internal Audit Units, promoting new procurement legislation and organizational structures, and so on. As diagnosed in this report, there has been a tendency to move from one reform area to the next; while there has not always been sufficient emphasis on ensuring that new systems are actually well utilized and that utilization is continuous over time, rather than slipping backwards once initial support ends. Going forward, it will be important to

invest far more in actual use of systems that have been established. While nearly all countries now have FMISs, PFM performance still varies widely, so in various areas, actual utilization is lacking. Similarly, legal provisions for procurement have been widely reformed as reflected among the five cases, but still much remains to be done to ensure that new systems are fully established and that they are used as intended. Certain expansions in functionality may be very difficult given political economy constraints, but it can be important to probe these boundaries, as often at least some further gradual improvements are feasible.

8. **Monitoring functional improvements.** Related to the previous points, it is critical to invest more in monitoring whether systems are actually used as intended. The appetite of governments may vary in this regard, but especially incoming ‘reform governments’ and governments that have made explicit anticorruption commitments to citizens or those that face fiscal challenges, should in principle be keen to get a grip on whether the systems that are in place actually function as intended. Such monitoring can also be invaluable in guiding where further efforts should be focused.
9. **Even if we don’t intend to engage more broadly on public sector reforms, it almost always matters to understand at least the basics of wider public sector issues, ongoing reforms, as well as dysfunctionalities, to really be able to target PFM reforms well, and to anticipate various links and challenges.** Public sector wages, problems with managing the payroll, intergovernmental arrangements and other factors have a direct bearing on PFM functionalities—from more mundane issues such as being able to employ or contract competent IT staff, to more higher order issues such as whether to have one comprehensive FMIS or separate systems for national and subnational levels, or how to design program or performance budgets in the context of ongoing wider performance management efforts, for example, led by an Office of the President or Prime Minister or a Ministry of Public Service.
10. **Raising seeming ‘blind spots’ or risks with clients and with other DPs engaged on PFM where relevant.** For example, in situations where organic budget legislation is very outdated, it can be important to bring up the issue of why this has not been addressed. In such a case, the point is not to quickly draft a new law, but rather to initiate a discussion, including with legislators as a crucial set of stakeholders.

Finally, there are several avenues for further analytic work to consider. This includes at least six areas, and potentially also others:

- First, additional case studies exploring similar sets of actors would be highly desirable to further corroborate, refine, or refute findings and recommendations set out here. Along the same lines, it will be valuable to repeat the quantitative analysis reflected in Chapter 2 as further observations become available.
- Second, extending the analysis to how the quality of PFM affects service delivery, and conversely how efforts to strengthen service delivery might drive PFM improvements would be a valuable extension.
- A third avenue for further work is to undertake a more in-depth look at the relative role of the demand side. In this regard, one strategy would be to scan for experiences where the demand side has had direct relevance and impact on PFM reforms and to analyze how greater attention and impact emerged.
- Fourth, there is scope to analyze the specific engagement of development partners relative to the nature of nontechnical context aspects in greater detail; for example, with a view to identifying what types of engagements have worked better or worse in high and lower opportunity environments respectively.
- Fifth, as indicated in Chapter 1, this analysis has not explicitly covered the specific change management tools used, but has focused primarily on the level of commitment, factors influencing such commitment, and how this has affected reform efforts and progress made. It would be interesting to integrate this with a more explicit focus on the potential difference made by the intensity and choices made regarding explicit change management.
- Finally, for each of the specific PFM reforms covered here, there is scope for further in-depth analysis of actual reform progress and impact (also linking to point 2 regarding whether benefits for downstream service delivery materialize from PFM improvements). It would also be helpful to further develop methods and measures for (comparatively) assessing impacts.

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Data Source and Methodology

Variable	Description	Data Source
GDP per capita	GDP per capita, PPP (constant 2011 international \$)	WDI database
Growth (per capita)	GDP per capita growth (annual %)	WDI database
Population	Population, total	WDI database
SIDS	United Nations Educational, Scientific, and Cultural Organization (UNESCO) SIDS Member States and UNESCO SIDS Associate Members	UNESCO website
Resource	Resource rents % exports; Resource rents % total revenue. Dummy variable for countries that rely heavily on oil/mineral revenue (>20% of total revenue)	Poplawski-Ribeiro, Marcos, et al. 2012
Tax	Tax revenue as a percentage of GDP	IMF FAD's database
Aid	Net ODA received (% of GNI)	WDI database
Growth shock	The total number of years in the past five years where per capita GDP growth has declined by 2 percentage points or more	WDI database
Fiscal shock	The total number of years in the past five years where government primary balance proportion of GDP has declined by 1 percentage points or more	IMF World Economic Indicators database See also Kochanova and Carceres 2012
Political stability/fragility	Political stability	World Bank's Worldwide Governance Indicators
Regime	Country ratings from 1995 to 2016	Freedom House
Programmatic parties	GOV1RLC; GOV2RLC; GOV3RLC; OPP1RLC	Cruz, Keefer, and Scartascini (2016) "Database of Political Institutions Codebook." 2015 Update (DPI2015)

OLS and FD Robustness Checks

	(1) PEFA	(2) PEFA	(3) PEFA	(4) PEFA	(5) CPIA-13
GDP per capita (log)	0.2378*** (0.0403)	0.2386*** (0.0399)	0.2388*** (0.0398)	0.2374*** (0.0402)	0.2586*** (0.0402)
Growth (per capita)	0.0276** (0.0115)	0.0277** (0.0115)	0.0300** (0.0119)	0.0263** (0.0119)	0.0434*** (0.0133)
Population (log)	0.0411* (0.0232)	0.0418* (0.0235)	0.0433* (0.0235)	0.0402* (0.0234)	0.0744*** (0.0257)
SIDS	-0.2223* (0.1225)	-0.2215* (0.1226)	-0.2213* (0.1220)	-0.2188* (0.1235)	-0.0509 (0.1146)
Resource	-0.3386*** (0.0911)	-0.3412*** (0.0886)	-0.3378*** (0.0895)	-0.3369*** (0.0898)	-0.3773*** (0.0973)
Fiscal shocks		0.0032 (0.0320)			
Growth shock (Lagged 4 years)			0.1488 (0.0975)		
Growth shock (Lagged 5 years)				-0.0921 (0.1459)	
Observations	262	262	262	262	229
R-squared	0.34	0.34	0.345	0.342	0.272

Note: Standard errors in parentheses, clustered at the country level. Observations weighted inversely to number of PEFA assessments. No influential observation was dropped.

*** p < 0.01, ** p < 0.05, * p < 0.1

VARIABLES	(1) AVG_D_CPIA-13	(2) AVG_D_CPIA-13	(3) AVG_D_CPIA-13	(4) AVG_D_CPIA-13	(5) AVG_D_CPIA-13	(6) AVG_D_CPIA-13	(7) AVG_D_CPIA-13	(8) AVG_D_CPIA-13
GDP per capita (% change)	0.1132 (0.2275)	0.3807* (0.2001)	0.3692*** (0.1220)	0.5166*** (0.1748)	0.5298** (0.2514)	0.4550*** (0.1221)	0.3624* (0.2066)	0.2603** (0.1187)
Population (% change)	-0.1903 (0.4217)	-1.4343*** (0.4032)	-0.8809* (0.4981)	-1.3223*** (0.3922)	-1.3131*** (0.4508)	-1.4219*** (0.4060)	-1.4068*** (0.4036)	-1.3775*** (0.4202)
Resource (dummy)	-0.0294** (0.0127)	-0.0276** (0.0116)	-0.0312*** (0.0114)	-0.0298*** (0.0109)	-0.0318*** (0.0115)	-0.0245** (0.0111)	-0.0231** (0.0113)	-0.0301** (0.0119)
SIDS (dummy)	-0.0244** (0.0111)	-0.0301*** (0.0114)	-0.0307*** (0.0115)	-0.0343*** (0.0107)	-0.0281** (0.0123)	-0.0256** (0.0112)	-0.0279** (0.0132)	-0.0312*** (0.0117)
Initial CPIA-13		-0.0573*** (0.0074)	-0.0572*** (0.0083)	-0.0589*** (0.0071)	-0.0585*** (0.0076)	-0.0604*** (0.0073)	-0.0575*** (0.0071)	-0.0513*** (0.0085)
Initial GDP per capita (level in log)			0.0084 (0.0060)					
Initial regime type			-0.0015 (0.0020)					
Tax (% point change)				0.0115 (0.0087)				
Aid (ODA) (% point change)					0.0088 (0.0067)			
Regime (Freedom House, % change)						-0.0656*** (0.0228)		
Programmatic parties (% change)							-0.1345 (0.1759)	
Political stability (% change)								0.0016
Observations	132	132	128	119	121	128	117	130
R-squared	0.073	0.369	0.394	0.443	0.411	0.408	0.382	0.354

Note: Robust standard errors in parentheses.
*** p < 0.01, ** p < 0.05, * p < 0.1

Framework Used for Developing the Country Analysis

I. Introduction: Overall Aim and Key Assumptions

This case study protocol was used to guide the country assessment of non-technical drivers and how they have influenced PFM reforms. The protocol helped to facilitate case studies for the global study on PE drivers in PFM. Where suitable, the framework could also be used to generate a background note for a Public Expenditure Review (PER) or other PFM assessments.

The PE of PFM case studies should address both why reform progress in certain areas has been possible, and in others not, as well as how robust implemented reforms have been in the light of (likely) continuous PE challenges. PFM reforms are inspired by the belief that budgets (how funds are allocated and managed) play a crucial role in driving wider change in public sector performance (and in turn wider development results), and that governments have a general incentive to get the most out of available funds (that is, to seek allocative and technical efficiency). However, especially the latter of these assumptions may not hold true as presumed. For example, seeking additional aid may be a politically more attractive strategy than pursuing cost savings through improved technical efficiency and strengthened controls against leakages which require significant mobilization of political capital to succeed. Nonetheless, numerous governments pursue at least some PFM reforms—even if this can be considered irrational. A cogent analysis therefore needs to be able to account for problems with PFM reforms as well as for successes.

Methodologically, it is not expected that one single political economy driver—such as the centralization of powers over spending, or the nature of the party system—is the dominant explanatory variable across countries, or that all countries broadly classifiable as clientelist or Limited Access Orders display a similar quality of their PFM systems. While many cases are likely to be broadly classifiable as limited access orders (in contrast to open access orders), and as displaying some degree of clientelism, they may still vary considerably in terms of the quality of their PFM systems. Rather, it is expected that countries display a variety of constellations among a number of factors, including constellations among political and

economic power holders and between these and citizens, institutional legacies and the nature of the bureaucracy, as well as interactions with the international community, and the macro-economic and fiscal situation (and its impacts on the political calculus).

II. Scope

In terms of focus, case studies should seek to do the following:

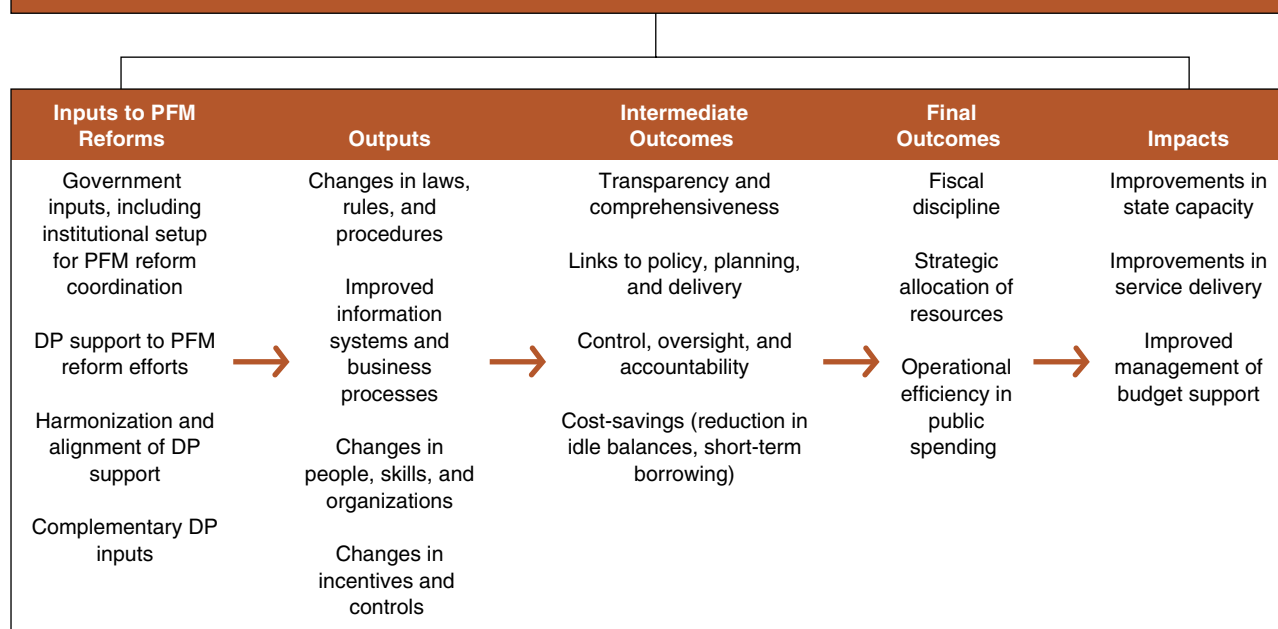
(a) embed the discussion of PE aspects of PFM reforms in key features of the wider context as outlined in Section III below, (b) develop an overview of the status of the PFM system in terms of key features as per Table 1; (c) hone in on two to three specific PFM features/reform areas, typically selecting at least one (more) successful and one unsuccessful area, and trace underlying drivers and reform processes in ways that capture incentives of key stakeholders. For some cases, a ‘wholesale reform’ such as the adoption of a new organic budget law may be an appropriate focus—but this should then be ‘dissected’ in terms of specific areas covered by the law. The selection of a focus should be made in consultation with the core study team and the country team/public sector experts working on a particular country.

Case studies should combine a retrospective and a prospective view: explaining recent PFM system performance and reform efforts (of the past three to five years),¹⁹⁶ and identifying implications for the upcoming period (circa 12 months to 24 months). Depending on the issues at hand, forward looking recommendations should focus on further discreet reforms, or the full implementation of existing reforms, or ensuring that existing reforms actually develop their intended intermediate and final outcomes and impacts (see Graph 1). Grounded in the analytic evidence, they may caution against certain actions (for example, because they are not feasible or not likely to achieve hoped for outcomes due to constraints), as well as propose adjustments, mitigating measures, or proactive engagement to stretch opportunities for reforms and their impacts.

196. A longer time-frame can be selected if appropriate and feasible, and while still maintaining also a forward looking focus.

GRAPH 1: PFM Results Framework

Case studies: Country choices and experiences of PFM reforms: reform outputs, intermediate and final outcomes achieved (with a focus on selected PFM results); and mapping of underlying stakeholders, incentives, and dynamics; with a view to develop (a) a systematic as well as practical way of mapping PE factors relevant for specific areas of reform and relevant 'monitoring indicators'; (b) guidance on whether and how typical obstacles, pitfalls as well as opportunities can be addressed proactively.



Source: Adapted from Lawson and de Renzio (2009).

Section III discusses the questions to be addressed in further detail and outlines the evidence to be collected. It also indicates what issues should be clarified in an initial pre-mission report. It is important to establish key institutional features and reform progress before the mission, so that data and information collection during a mission can concentrate on addressing questions about motivation and incentives (that is, the underlying drivers). Generally, all factual questions should be addressed, while analytic questions are suggestive and should be selected depending on the specific focus selected and the country situation.

Section IV provides an outline of the final report to be produced; and the reference section contains key materials that teams consult prior to embarking on the work (all references are available from the core team).

III. Issues to Be Covered

Questions to be addressed by case studies are grouped as follows: (1) key fiscal and political country features relevant for PFM reforms, (2) PFM system status and overall reform agenda, (3) specific PFM reform aspects and underlying PE drivers, and (4) guidance to help inform an overall story line and recommendations.

While a perspective on stakeholder incentives is particularly critical for (3), it should also form part of the storyline throughout.

1. Country Overview

1a. Overall Country Fiscal Dynamics and Trends

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 5–10 years?

What is the level of revenue (absolute and as a percentage of GDP), and what is the share of tax revenue? For resource-rich countries: what is the percentage of natural resource revenue (or other windfall revenue)¹⁹⁷ relative to total revenue (indicative if exact data cannot be found)?

Declining or expanding revenues are a decisive impulse for politicians. Across countries, we also want to understand better whether reforms are likely to happen during fiscal expansion or contraction periods.

To be covered in an initial desk-based report, with possible additional information to be collected subsequently in country.

197. For example, payments for over-flight rights, fishing rights, internet domains, and so on.

What are the ratings for PEFA indicators PI-1 and PI-2 for recent years (or calculate these using the PEFA methodology)—that is, aggregate fiscal discipline and variance in expenditure composition at the broad functional level? Are there fluctuations in PI-1 (or 2) with the electoral cycle (such as pre-election overspending?) Have recent actual fiscal deficits been close to ex ante planned/approved deficits?

Whatever the given resource envelope is, are governments managing within that or not; and are they keeping sector allocations in line with ex ante allocations or not?

Existing PEFA data to be covered in an initial desk-based report; most recent years to be covered in country.

What is the country's level of public debt (absolute and in percentage of GDP) and the dynamic of debt accumulation? Has the country received debt relief in recent years? (and if so, what has been the pace of renewed debt built-up?)

What is the level of aid dependence (in percentage of GDP and percentage of annual total public spending)? What percentage of aid is reported on budget versus off-budget?

Are PEFA scores and broader indicators of state capacity and integrity aligned (all rather good, rather mediocre, or rather poor) or are they pointing in different directions (for example, Afghanistan has good PEFA scores but nonetheless high state instability and high levels of perceived corruption)?

To be covered in the desk-based report, based on existing data and information sources (for aid: OECD aid statistics and monitoring reports + other sources if appropriate); for state capacity and integrity: WGI government effectiveness and Control of Corruption scores, supplemented with BTI and other sources as appropriate.

1b. Country-level Political Trends

Recent governments (going back 5–10 years) and expected upcoming changes in government if any (brief description and characterization of governing parties and key leaders)

Brief overview of the intergovernmental structure. Is the system of government centralized, undergoing a process of decentralization, or decentralized? What is the balance of power between the center and the regions, and is that stable or shifting?

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)? Are there ad hoc decisions made (in general or in addition to regular allocations)? If the case is a resource-rich country, how are revenues from royalties and other main resource-related taxes divided?

How committed is the government to related goals such as improving overall governance and/or improving service delivery?

How important is success against these goals for 'political survival'/re-elections/political legitimacy?

What is the nature of the political party system in the country? (are parties institutionalized and do they play a role? If not, how are interests aggregated?) How stable/unstable is the party system, and how fragmented or concentrated is it? Are there programmatic parties or are parties largely personality driven (Keefer and Vlaicu 2008)?

How important are illicit and oligarchic interests in the country (and are they separate from or part of mainstream political parties)? (such as drug cartels [illicit], but also insiders who may have benefited from privatization and similar deals and who dominate the economic sphere)

What types of demands with regard to service delivery (and possibly state reform) are being raised by civil society, organized labor or other 'demand side' actors, if any? Is there effective 'voice'?

Descriptive information should be included in the desk-based report based on publicly available information and existing analytic work; the assessment of the government's general level of commitment should result from discussions in country.

2. PFM System Features

2a. Central Finance Agency Responsibilities, Authority, Capabilities, and Relationships with Other Key Institutions¹⁹⁸

How are the Central Finance Agency (CFA) functions organized? Is there a unified ministry (comprising finance, planning, treasury functions)? Or are multiple ministries and departments responsible for CFA functions? What is the formal administrative weight of the ministry of finance relative to other ministries? (refer also to Brumby and Dressel 2009) What is the formal and informal relationship between institutions covering CFA functions (or among major departments within a unified MoF, especially if these enjoy a degree of autonomy)?

Are there laws/regulations covering all aspects of the PFM system? What are the key features and what is the quality of the legal framework governing PFM—in terms of being clear, covering all relevant aspects (budget preparation process, budget execution, reporting and accounting; covering public investment management as well as recurrent expenditures); what administrative model and time period is the legal framework related to (for example, traditional francophone versus post-LOLF Francophone; 1950s Westminster/anglophone, and so on)

Are there significant off-budget allocations, such as via special funds that are off budget, SOEs, and so on? Are these under some supervision/monitoring by CFAs or removed from comprehensive oversight?

198. This section draws on Brumby and Dressel (2009).

Basic information on the organization of CFA functions and of the legal framework and its institutional legacies should be covered in the desk-based report.

If recurrent and planning functions are both housed in an MoF: how small/large is the unit working on public investment planning (staffing number of public investment unit relative to overall staff of the MoF)?

What is known about the quality of staff in the MoF (and other CFAs if separate)? 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)?

This point should be evidenced with data from the MoF's HR department on turnover rates and if possible, data on the number of degree holders among core ministry staff (that is, excluding tax and customs departments) relative to total core staff.

How does the MoF (and other key CFA functions if separate) relate to key stakeholders: the top executive, parliament, citizens, regions/subnational levels of government, sector ministries/departments, and donors? (reporting and accountability relationships; see also Brumby and Dressel 2009; Dabla-Norris et al. 2010).

What is the nature of the relationship between the MoF and line ministries during budget planning, execution, and reporting? What areas are in greatest need of improvement (from the perspective of MoF vs the perspective of line ministries)?

Does parliament play a significant role: (i) with regard to shaping the budget ex ante and (ii) reviewing budget execution ex post? (see also Wehner 2006) Are there thresholds for changes during budget implementation that require parliamentary approval (virement limits, approval for supplementary budgets)? Are supplementary budgets frequently used?

What are institutional veto points and other veto opportunities to block or derail PFM reforms?

There are many assumptions in the literature that a more centralized MoF and a limited, more oversight oriented role of parliament are more propitious for effective reforms [for example, Diamond 2011]; case studies should establish the degree of centralization and relative 'autonomy'.

Formal rules should be reviewed and mapped for the initial desk-based report. Specific information and information on informal rules will need to be collected in country.

2b. PFM Status and Reform Areas

What is the status quo of the country's PFM system and reform efforts (using Table 1)? What are key strengths/areas of good performance, and areas of poorer performance (drawing on most recent PEFA assessments and other analytic reports)? How does the country compare to its regional and income group (based on most recent PEFA assessment)?

What are the major trends of the country's PFM system in last 3–5 years (up to 7 years if relevant)?¹⁹⁹ For countries with repeat PEFA assessments: what areas have improved versus deteriorated?

Is budget accountability relatively good or rather weak? If the latter, is strengthening accountability part of the reform agenda? Is it compatible with the way in which the overall system of government operates?

PEFA indicators related to external audit and parliamentary follow tend to be the lowest scored, so limitations in this area are common. At the same time, donors are devoting further resources to strengthening SAI capacity—but there is as yet some uncertainty over whether and where this can succeed.

To what extent are laws on the books (including recent reforms) actually being implemented? (for example, fiscal responsibility legislation, budget calendar prescriptions . . .)

Actual extent to which recent reform plans have been implemented

For the desk-based review, most recent PEFA assessments should be used to compare the country to regional and income group peers (data for country groupings is available from the core study team). It should be noted if the PEFA is more than three years old (and significant changes are likely to have taken place in the meantime). Existing reports and materials (PERs, IMF FAD reports, OBI assessments, etc.) should be used for a preliminary filling in of Table 1. More detailed information, in particular on recent/ongoing reform efforts is expected to be collected in country.

3. PE Aspects of PFM Reforms

3a. Overall Reform Agenda Setting, Stakeholders, and Commitments

Has the government made PFM reforms a central part of its reform agenda (for example, as set out in a national development strategy)—within the past 5–7 years, and currently?

Has it set out any specific PFM reform plan or just a general commitment (for example, as part of a general commitment to improving governance or strengthening the public sector)?

Does the President/Prime Minister ever talk publicly about the need to reform public financial management?

Do the main political parties or specific politicians hold views on PFM reforms? Are these publicly announced/known (for example, in speeches, party platforms), or mostly discussed only within government circles/between politicians and senior bureaucrats? Do opposition parties have any particular views?

Who have been the ministers of finance for the past 5–7 years (and duration of service)? What is their background (more technical, more political, domestic/international)? Are ministers seen as

199. This can include time-frame/perspective up to 10 years if relevant and feasible.

TABLE 1: Main PFM Features and Reform Areas

	Status					
	Agenda		Decision	Implementation		
	Recommended (y/n) (by whom?)	Part of Government Reform Commitment (y/n) (and when?)	Approved (by whom and when?)	Under Implementation (since when and led by which agency?)	Fully Implemented	Is the Reform Having Expected Effects?
<i>Cross-Cutting</i>						
Extension of the comprehensiveness of the budget (that is, covering ODA flows? SOEs? and so on)						
<i>Budget Planning</i>						
Basic: ensuring regularization of the annual budget process						
Clarity/completeness/relevance of the budget classification and correspondence with the Chart of Accounts in use						
MTFF/EF/BF						
Program budgeting (and performance management)						
<i>Budget Execution</i>						
Basic: restoring cash management and reducing/eliminating arrears						
Introduction of TSA						
Reform of Chart of Accounts						
Improving the regularity, timeliness and informational value of reporting (between spending agencies and CFAs)						
Introduction of FMIS components or of full-scale IFMIS						
Strengthening of internal controls and audit						
<i>Budget Accountability</i>						
Improving transparency—various criteria (timeliness, level of detail, accessibility, and so on)						
Strengthening external audit (SAI and parliamentary oversight)						
Enabling civil society oversight						

(a) reform advocates or more neutral? (b) possessing significant influence—or mainly as technical experts?

What have been the main reform proposals for PFM (domestically and made by key external advisers—the IMF, the Bank, and other 1–2 main donors) (focus on the past 2–3 years)? Map which ones that were put on the agenda have been implemented and which ones have not, and to what extent (using the table as a guide).

The desk-based report should list recent ministers of finance and to the extent available key points about their background; and PFM reform proposals, in particular those made by the IMF and the World Bank (by other key donors if available), and reflect whether PFM reforms are mentioned in major documents such as PRSPs or other types of national development strategies.

National consultants should in particular contribute to the question of whether and how political leaders have publicly addressed PFM reforms.

3b. Process Tracing and Leadership Motivation/Incentives

To address these questions, teams should hone in on 2–3 reform areas of particular interest; including 1–2 areas that failed or remain significantly incomplete, and 1–2 that were successful.

How did the specific PFM reform agendas emerge? Were they developed in reaction to a particular crisis/challenge (such as a fiscal crisis)? Or in reaction to donor demands (and if so: program triggers? Debt relief triggers?) and/or after an initial PEFA assessment?

Are there any discernible links to (a) elections and changes in government, (b) external incentives such as debt relief or major donor rounds, (c) changes in the person of the minister of finance (or other key ‘reform champions’ for PFM), (d) major public protests or similar events?

Were the specific features of the agenda set by domestic stakeholders, or were they strongly influenced by external ‘scripting’? (for example, were international consultants significantly involved in the drafting of reform plans? Or were these developed mostly within the public administration?)

Has there been enthusiasm for particular types of reforms (such as program budgeting)—and what explains that enthusiasm? Does the level of enthusiasm influence actual implementation?

Did the MoF seek good coordination with line ministries on PFM reforms (especially those related to budget planning, IFMIS implementation, and internal controls and audit)? Have there been specific demands for PFM reforms from line ministries, and have these been reflected in the reform agenda adopted?

How long were reforms on the agenda before being adopted and implemented? (or failed to be implemented despite commitments made)?

With regard to the selected reform areas that were more and less successful: what is seen as the likely explanation? What is the likelihood of current reform proposals to be adopted and implemented, and to have expected impacts?

Has there been an effort to establish with some clarity whether the reforms sought are likely to result in improved service delivery? (and to what extent current service delivery bottlenecks are grounded in PFM short-comings specifically?) For example, are there plans to undertake PETS type assessments or similar monitoring efforts to see whether service delivery is facilitated by PFM improvements? (see also Graph 1 for the expected causal chain: reform motivations and conditions, inputs, outputs, outcomes and impacts)

To the extent that some PFM reform elements have been implemented (please distinguish between reforms under implementation, and reforms that are fully implemented), is there any evidence that these have the expected effects (for example, does the introduction of a TSA result in better liquidity management/less need for short term borrowing)? If not (or not to the hoped for extent), are there any specific obstacles to effectiveness? (see also

Graph 1 for the expected causal chain: reform motivations and conditions, inputs, outputs, outcomes and impacts).

The desk-review should record any information on these issues that is available from existing reports; while most of the issues will need to be explored in-country.

Are there losers from the PFM reform components that the government has committed to/has sought to implement? Who are the losers and what are they losing? Are the losses licit or illicit (for example TSA reforms entail the closure of previously legal accounts held by ministries and department; while certain reforms aimed at strengthening control can threaten previously illicit rent-seeking from budget leakage); or primarily threatening discretion by higher level politicians (regional governors, national MPs, ministers, PM and President)?

Are there particular winners from PFM reform components: politicians gaining greater control over other politicians and/or the administration? Technocrats? MoF or conversely, line ministries? The central government or the regions?

Is there public/general expert knowledge about winners and losers of PFM reforms, or is that at best known by insiders if at all?

For most cases, this information will need to be collected in country. Initial discussions should record any views and insights by the national consultant as well as by Bank public sector, FM and CMU staff (national and international); to be cross-checked with views and insights from other stakeholders.

3c. Demand-side Factors

Do NGOs raise PFM reforms as an issue (and since when have they done so)? Are NGOs involved in any PFM related oversight function (for example, of public procurement/investment execution)?

Do private sector stakeholders hold any particular views on PFM reforms (in particular if public investment management or procurement are selected as an area of focus)? If relevant, are there relevant divisions in views between different parts of the private sector (for example, ‘insiders’ vs ‘everyman’; large versus small businesses)?

What is the assessed level of budget transparency (using OBI and PEFA data)? Do NGOs or others (for example, academics) use the available budget information?

What is the role of MPs and parliament—supportive, neutral, or negative? What are key incentives for MPs and parliament? (for example, support the president without question? Demand more funds for their region?)

The desk review should summarize existing information, in particular drawing on the Open Budget Index and PEFA information (PI-10 and PI-26–28); further information and validation should be collected in country.

3d. Bureaucratic Incentives and Inertia

To what extent are PFM officials seen as supportive of reforms; uninterested; or opposed? (in central agencies and in the line ministries)? Are there incentives for bureaucrats? Or do the reforms bring risks? If possible: are there differences between senior and managerial staff and general staff; or by staff in different functional roles (for example, treasury staff versus budget department staff)?

The desk review should cover existing information; the issues should be covered in further depth in country.

4. Questions to Guide the Development of an Overall Story Line and Implications

Overall, do key national level politicians and their core supporters have incentives to pursue (or facilitate the pursuit of) PFM reforms? What are the incentives? Are PFM reforms politically salient (and has this changed over time)?

To the extent that there are incentives to pursue PFM reforms: is this leaning towards seeking tangible impact? Or more towards ‘just enough’/window-dressing/de jure reforms?

What explains the status of selected PFM reform efforts to date?

Use Graph 1 to guide the story line regarding: reform motivators, reform inputs/efforts undertaken, outcomes and impacts achieved.

Given political economy dynamics, as well as institutional features and capabilities:

- What is the degree of opportunity in this case and period in time?
- Have recent PFM reform initiatives gone in the right direction?
- What are three to four points to note for approaching PFM reforms going forward (in terms of choice of reform area and/or strategy for implementation)? Are there any contextual changes that would make PFM reforms more likely, or those under way more robust?
- Looking forward, distinguish:
 - i. reforms that are on the agenda but unlikely to be feasible given identified PE blockages,
 - ii. improvements that are on the agenda that are likely to be feasible (and their expected robustness given PE challenges),
 - iii. changes that are important for a better functioning of the PFM system but that are currently not clearly on the agenda combined with an exposition of whether and how these could become politically attractive.

