



Best Practice in Capacity Building in Public Finance Management in Africa

Experiences of NORAD and Sida

**Göran Andersson (SIPU)
Jan Isaksen (CMI)**

R 2002: 16

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Table of Contents

EXECUTIVE SUMMARY	1
1. THE ASSIGNMENT.....	7
2. CONCEPTUAL FRAMEWORK.....	8
2.1 PUBLIC FINANCIAL MANAGEMENT.....	8
2.2 CAPACITY BUILDING.....	9
2.3 RESULTS OF CAPACITY BUILDING.....	9
3. OVERVIEW OF SWEDISH AND NORWEGIAN SUPPORT TO PFM.....	11
3.1 DEVELOPMENT OF SIDA SUPPORT.....	11
3.2 GENERAL CHARACTERISTICS OF SIDA SUPPORT.....	12
3.3 DEVELOPMENT OF NORAD SUPPORT.....	13
3.4 GENERAL CHARACTERISTICS OF NORAD SUPPORT.....	16
4. EXPERIENCES AND LESSONS LEARNED.....	17
4.1 THE DIAGNOSTIC PHASE.....	17
4.1.1 <i>Analysis of the system as well as components before the design phase</i>	17
4.1.2 <i>Awareness of needs – managerial and technical</i>	17
4.1.3 <i>Participation of “insiders” at the diagnostic stage</i>	18
4.1.4 <i>Effects of new trends in IFI lending and diagnostic work</i>	18
4.2 DESIGN AND FORMULATION.....	19
4.2.1 <i>The fragility of joint understanding and shared visions in LFA documents</i>	19
4.3 IMPLEMENTATION.....	19
4.3.1 <i>Scope of intervention</i>	19
4.3.2 <i>Sequencing of intervention</i>	20
4.4 IMPLEMENTATION CONDITIONS.....	21
4.4.1 <i>Environmental factors</i>	21
4.4.2 <i>Political will”</i>	22
4.4.3 <i>Demand and incentives</i>	23
4.4.4 <i>Capacity for capacity building</i>	24
4.4.5 <i>Donor behaviour</i>	25
4.4.6 <i>Things take time</i>	25
5. CONCLUSIONS.....	26
ANNEX 1: SIDA EXPERIENCES.....	31
1. INTRODUCTION.....	31
2. PLANNING, BUDGETING AND ACCOUNTING.....	31
2.1. <i>Mozambique</i>	31
2.2. <i>Tanzania</i>	33
3. AUDITING.....	37
4. REVENUE.....	39
4.1. <i>Zimbabwe</i>	40
5. REGIONAL CO-OPERATION.....	42
ANNEX 2: NORAD EXPERIENCES.....	43
1. INTRODUCTION.....	43
2. GOOD GOVERNANCE.....	43
2.1. <i>CSRP in Tanzania</i>	44
3. PLANNING AND BUDGETING.....	46
3.1. <i>Gabinete de Estudos, Mozambique</i>	46
3.2. <i>MACMOD in Tanzania</i>	48
4. ACCOUNTING.....	49
5. PAYMENTS.....	50
6. AUDIT.....	50
6.1. <i>Office of the Auditor General in Zambia</i>	50
7. REVENUE.....	52
8. CORRUPTION.....	52
9. LOCAL ADMINISTRATION, DECENTRALISATION.....	52
10. GENERAL PFM PROJECTS.....	53
11. SECTOR/BUDGET SUPPORT.....	53

Executive Summary

This study was contracted by Sida and NORAD for the purpose of summarising experiences in capacity building for Public Finance Management (PFM) in Africa. In particular, the two organisations' attempts to take a more *comprehensive approach* to PFM were to be highlighted. It is hoped that the study will be useful for other donors as they increase their support to capacity building within PFM.

The study is a desk study, based on a review of policy documents, reports and project documentation of cases selected for study. The material does not provide a basis for drawing firm conclusions as to what are "best practices" in the field. The term "best practices" itself is unclear and depends much on the environment within which PFM projects and programmes work. The first half of the report summarises experience whereas the second half, in two country annexes, analyses selected case projects and programmes.

Along with Brobäck and Sjölander (2001)¹, we include the following *components in the concept of PFM*: planning and budgeting, accounting, payments, audit and revenues. For the purpose of this study, *governance*, i.e. parliamentary and cabinet roles in relation to the other components, was included as an additional component. *Capacity building* includes the education and training of individuals as well as organisational development. Also, capacity building will include the "rules" aspect – formal laws and policies as well as other informal norms that stipulate limits for individuals and organisations.

An overview of the Swedish and Norwegian approach for support to PFM reveals a number of similarities between the two donors. In particular, since the seventies and eighties, their approach has moved away from the concept of "*filling holes*" based on stand-alone technical assistance to PFM institutions. Presently, the donor agencies, at least in theory, approach PFM as a *system*, comprising the above-mentioned components. In the diagnostic phase they attempt to take a *systemic view*, although most interventions focus components or sub-components.

Institutional co-operation and *twinning* have replaced the earlier use of individual experts working as TA personnel in the recipient organisation. Both countries have to an increasing extent seen the importance of long-term relationships between individuals and institutions as necessary in PFM intervention. A *participatory approach* is emphasised and the use of proper analysis of institutional development built on LFA-type methods is considered important.

¹ Brobäck, U. and Sjölander, S., 'Programme Support and Public Finance Management, A New Role for Bilateral Donors in Poverty Strategy Work', Sida studies no.6, 2001

In general, Sida has been in the lead in this development. Policy studies were undertaken in the early nineties leading to the definition of PFM as a *distinct sector* with comprehensive guidelines. NORAD has largely seen PFM as a *sub-component* of institutional development. In the eighties, Swedish national PFM institutions developed international divisions, which undertook consultancies and twinning operations. A recent development in Norwegian assistance has been the emphasis on *governance* issues and a focus on *local* government as well as *corruption*. For both the countries the trends of *basket support* such as sectoral programmes and budget/macro support have brought PFM issues to the fore.

The report's section on experiences and lessons learned is organised along the lines of the phases of a *project cycle*, starting with the *diagnostic* phase, continuing with *design* and formulation and ending with *implementation*. Importantly, the study also considers the wider environment in which PFM projects are implemented.

Diagnostic Phase

The study stresses the *importance of analysis* of the system, focusing the targeted component but also including other components (a systemic view). The trade-off between continued analysis and start of implementation is stressed.

Preparatory analysis can contribute significantly to awareness raising. *Needs awareness* must be raised on *both* sides, but is often considered to be relevant only on the recipient side. It is often assumed that the *donor* is equipped with all the experienced and skilled personnel needed for a project. Needs analyses often focus technical issues whereas managerial training and development are given less priority. Also the "*soft*" side of organisational development is considered sensitive, threatening and difficult and therefore often avoided. Twinning, supposed to include all relevant aspects of organisational development, should in theory alleviate problems but in practice does not always do so.

Local consultants and others who have worked "inside" or studied PFM organisations in detail tend to have better information about the real-life situation and contextual factors. There has been an increasing trend in using local personnel. Personnel from the policy research institutes which grew up during the nineties have also been used.

The emphasis on diagnostic work has been reinforced by the HIPC and PRSP initiatives. IFIs require diagnostic reviews of policies as well as management and procedures. Conditions for aid increasingly deal with processes and procedures within PFM and a large number of diagnostic tools are being used. This has increased donors' insight but put a heavy burden on able public sector managers, who are a scarce resource in most African countries. NORAD and Sida have argued for co-ordination with the recipient country in the lead.

Design and formulation

The regular use of LFA-type analysis in Sida's and NORAD's formulation of projects has made it easier for stakeholders *to analyse problems jointly*, discuss objectives and achieve a shared understanding of expectations. The improvement in planning and project formulation has not, however, had an equally favourable effect on implementation. There is often a tendency to over-plan, which can easily lead to disagreement during implementation. Capacity problems on the recipient side and the belief, on both sides, that a good plan can start "tomorrow", still hamper implementation. Realisation of the fact that "the long term starts today" is needed.

Implementation

The need for *considering PFM as a system* and for intervening in all or several components appears difficult at the implementation stage. Main reasons why concrete interventions have been concentrating on the individual components rather than whole systems are that the systemic view is of recent origin and that the different components are managed by different principals and deal with cross-cutting issues which are difficult to handle bureaucratically. It is noted with interest that Tanzania has formulated a comprehensive programme covering most or all components. Addressing the whole system will require strong leadership over a long time period.

The study argues that a *focus on improvement of routine processes* may be advantageous because it needs less managerial capacity and is easy to monitor. *Analytical* processes and tools will tend to need more commitment from managers and leaders.

On the *sequencing of intervention*, the study finds that some successful projects have started at the level of routine core processes. For example, IT development can usually be done easily. There tends to be little resistance against the introduction of IT. However, the development of routine processes usually ends up at a stage where management and analytical processes enter the picture. Strengthening of management appears important to sustainability but is the most difficult challenge. A building up of trust and success in technical matters may be required before managerial problems can be effectively addressed.

There is a chance that a system will go "back to normal" even if an intervention on one component is successful. For example an intervention to build up the audit system will not work in the long run if the political level does not demand and act on audit reports. "A chain is never stronger than its weakest link".

The *environment* in which a capacity building effort takes place is of considerable importance for outcomes and impact. In LDCs, the environment within which PFM capacity building takes place is often disabling rather than enabling. The analysis of problems, the design of projects and indeed expectations for outcomes and impact must therefore be built on an awareness of developments and constraints in the entire economy and society beyond the public sector. For example, LDC economies are often unstable, which causes

swings in revenue, in turn creating pressures on the expenditure side. This has repercussions on the entire budget/planning system, often leading to perpetual crisis management, which is not a favourable environment for capacity building.

In their work with PFM support the two donor agencies have observed the importance of clear *political backing* for addressing PFM issues. Whereas it seems clear that “political will” is a necessary precondition for PFM reform it is, however, not sufficient. Management and the bureaucracy will play a key role in capacity building. A combination of unwillingness and inability from that side may obstruct attempts to change and improve systems.

Demand for change, as well as appropriate *incentives* for those involved in change processes, are also factors affecting the chance of success. Interest and involvement from top management must go together with a concern for the incentives given to people “at the coal face”. Certain matters of importance to capacity building in the targeted organisations may be decided by *other* government bodies or higher levels of government which may then block change. Whereas legal frameworks may need to change as seen from the PFM capacity building point of view, the institution responsible for implementing such change may not have the same interest. Also, whereas it may seem necessary to give greater incentives for a certain category of scarce PFM skills, change is held back or blocked by a “Department of Personnel” that, from an overall point of view, believes that enhancement of conditions for one particular group may be unjust.

Incentives are also important at higher policy levels. The HIPC initiative and the introduction of PRSP and budget support has led to a *stronger* focus on PFM as an area where conditionalities may be stipulated and has thus taken PFM matters into the *political* realm.

The study points out the somewhat paradoxical but important fact that few activities require capacity to the same extent as capacity building. To solve this problem, the two donors have, to a certain extent, used TA to carry out regular duties so that staff may be released to participate in capacity building activities.

Whereas donors have put pressure on many of the recipient countries to improve PFM, there has been a rapid development of a large “toolbox” of new concepts and approaches which to some extent has delayed progress in implementation. There is now a need for rationalising the toolbox. There is an undeniable need for joint and co-ordinated approaches. The strong role of the World Bank in PFM raises the question of the role of bilateral agencies and the influence of recipient countries.

Finally, the study states the obvious fact that “things take time”. The experience in PFM projects has mostly been that expectations have been set too high at the start. PFM projects tend to be thought of as three-year projects whereas a 25-year perspective would be more appropriate.

Conclusions

The report concludes with the following ideas and tentative recommendations that the authors see emerging from their examination of Sida and NORAD projects as well as other sources of experience.

Take a long view

For PFM systems in most low income countries in sub-Saharan Africa to reach a level where the country is capable of self-reliantly maintaining and developing them, we reckon that *15-25 years, rather than 5-10 years is necessary*. This does *not* mean that all interventions will have to have an equally long-term focus.

Balance the support between different components of PFM

Experience indicates that the degree of improvement and success of interventions in one component are limited by the state of play in other components. It is therefore important to analyse the entire PFM system at the diagnostic stages and to undertake interventions that are *balanced* between components. Such analysis also increases the importance of conducting joint recipient-donor diagnoses and building a common understanding of project goals. Whereas analysis is stressed as important, it is also underlined that a balance has to be struck between getting a project off the ground and continuing preparatory analysis.

Support the education and training of economists and accountants

Considering the poor supply of these personnel categories in many countries today, 15 – 25 years for building up a strong professional cadre of accountants and economists is not an overestimate.

Improve human resource management systems

Human resource management systems in the public sector are often deficient and rigid. If government attaches great importance to attracting competent personnel for the various components of PFM, incentives (like salaries and career opportunities) have to be set to attract the right calibre of personnel.

Institutionalise the dialogue between recipient agencies and donor agencies

Joint (recipient/donor) *analysis* has been stressed as an important ingredient of successful PFM capacity building projects during the *diagnostic* stage. There is a good case for keeping the same close relationship also during the *implementation* stage.

Stick to the “development” perspective

Currently, the Ministry of Finance perspective, however, often steers interventions to improve PFM. With better macroeconomic management, the sector perspective (the PFM needs at sector level) has to guide the development of PFM to gain a strong focus on poverty alleviation and development issues such as health and education. Perfect macroeconomic management is of limited value for development if it does not efficiently direct resources to the priority areas for development.

Put the recipient government in the lead for joint analysis and intervention

Sida and NORAD have supported development programmes under joint donor “umbrellas” where the World Bank has often taken the lead. Ideally, the *recipient government* should provide leadership.

Support and encourage regional organisations and networks in the PFM field

There are a number of regional and even continental organisations that are active in PFM capacity building. Both Sweden and Norway have lent support to one or more of these organisations, thus boosting the competence and extent of capacity building in Africa.

Consider implementation conditions – they matter

External conditions are important in determining the outputs, outcomes and impact of PFM interventions. An analysis of the external factors is necessary to be able to assess the potential success of the project. The study mentions important factors as e.g.: The level of political will to improve PFM; Degree of organisational and institutional blockages; Terms and conditions for key staff; Capacity for capacity building

Link PRSP poverty reduction approaches, budgetary support and PFM improvement

The twin focus on poverty reduction and “basket” financing has put particular emphasis on Public Finance Management. The quality of PFM will be one of the decisive factors in ensuring that policy decisions and agreements with donors *actually* lead to a greater flow of public sector resources to poverty reduction measures.

1. The Assignment

In the wake of the HIPC initiative, introduction of poverty reduction strategies and budget support, the international donor community has initiated broad-based work to develop standards and principles for PFM, tools to assess the standard of PFM in LDCs and methods for monitoring and following up on poverty alleviation.

As part of this work, the Strategic Partnership with Africa (SPA)² has for some time focused on improving the effectiveness of support to poverty reduction in Africa, including budget support. SPA's Task Team on Financial Management and Accountability is considering various tools (Public Expenditure Reviews, Country Financial Accountability Assessments, etc.) for assessing the strength of public financial management. The Task Team is also considering how these tools might be used to formulate a common programme for improving public financial management, and how donors might more effectively contribute to building capacity in public financial management.

The purpose of the present study³, contracted by Sida and NORAD, is briefly to describe "...best practice in capacity building in public finance management in Africa for presentation to SPA's Technical Group meeting" in early June 2002. More specifically the paper should:

- " ...summarise the highlights of NORAD's and Sida's experience, including what we believe we have learned, what major issues remain unresolved, and what challenges we expect in the future".
- " ...consider NORAD's and Sida's experience of trying to take a more comprehensive approach to public finance management, and any lessons we might draw from this experience".
- " ...draw conclusions for how SPA donors might increase their support to capacity building in public finance management and make the support more effective."

The study is based on a review of policy documents and reports prepared by Sida and NORAD and project documentation of cases selected for the study. The material studied does not provide the information necessary to draw firm conclusions as to what constitutes best practice in providing support for the development of PFM in Africa. Hopefully the observations made and the conclusions drawn will provide the SPA's Technical Group with useful experiences and recommendations for further constructive discussions on future directions and modalities of support to capacity building in PFM.

² The participating organisations are the African Development Bank, the UN Economic Commission for Africa, the European Commission, OECD/DAC, the IMF, the World Bank, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Portugal, Sweden and Switzerland.

³ See TOR Annex 5

2. Conceptual framework

2.1 Public financial management

Public finance management is a broad subject area that can be defined in different ways depending on the purpose of the definition. As this study will focus on practical experiences from on-going and completed support in the field, the definition chosen in this context should be based on the way core public finance functions are typically organised in governments. Such a definition has been provided by Brobäck and Sjölander (2001)⁴. They define public finance management as a system of five key functions. Each function comprises several components as shown in the table below. The definition used in this report differs slight from that of Brobäck and Sjölander. We have added the function “Governance” and slightly extended the “Planning and Budgeting” category by adding the elements “Statistics” and “Policy analysis”. Also, we feel that “Procurement” belongs under the broad definition of PFM and have added this component under “Payments”.

Functions	Components
Governance	Parliamentary and Cabinet role in planning, budgeting, accounting, audit
Planning & Budgeting	Work plans, multi-year plans (national medium-term plans as well as PRSPs), one-year plans, annual budgets, multiyear budgets, poverty strategy, MTFF/MTEF, sector programme, project planning, recurrent budget, capital/investment budget, statistics, policy analysis
Accounting	Bookkeeping, statistics, operational accounting, quarterly reports, mid-annual reports, annual final accounts, result reports, chart of accounts, classification, tracking studies
Payments	Tranches, periodicity, payment system, treasury account, bank statement, liquidity, reconciliation, disbursement audit, disbursement, payment authorisation, bank account, procurement
Audit	Internal audit, independent audit, own/external audit, financial/management audit, performance/value-for-money audit
Revenues	Customs/taxes, fees, donations, loans, direct/indirect taxes, revenue ratio, collection of taxes/fees

By describing public finance management as a system of related components it follows that reform or development of one component is both conditioned on the state of other components and will impact on the other components.

⁴ Brobäck, U. and Sjölander, S., ‘Programme Support and Public Finance Management, A New Role for Bilateral Donors in Poverty Strategy Work’, Sida studies no.6, 2001

2.2 Capacity building

We apply a concept of capacity development akin to the one used by Sida⁵:

- “ to develop the knowledge and competence of individuals and organisations,
- to develop organisations and/or systems of organisations, and
- to change and strengthen institutional frameworks in the form of formal policies and laws and/or other informal norms which stipulate the limits within which individuals and organisations develop.”

Capacity building in PFM may address the individual level, the organisational level and the institutional level, i.e. the rules of the game of PFM. PFM, as defined above, can be described as a set of procedural rules or procedures for planning, budgeting, accounting etc. Capacity building interventions thus aim at developing these rules and procedures, organise the work and provide resources (physical, human, funds) in a way that facilitates their efficient implementation, and equips people in the organisations with competence to operate efficiently in accordance with them. The overall aim is to make PFM an efficient tool for implementing policies and producing services for the benefit of the people, as well as providing an accountability mechanism through which the government and the public service can be controlled.

2.3 Results of capacity building

How do the results of capacity building in PFM manifest themselves? For the purpose of this assignment it may be relevant not to identify results that can be directly attributed to a particular project or subproject but rather to obtain, if possible, a picture of the overall efficacy of the PFM system observed.

Brobäck & Sjölander (ibid.) argue for the necessity to set a minimum standard for a PFM system in the African context. The minimum standard they advocate requires that:

- “The budget must comprise all relevant resources, or at least these must be known. The annual budget must be the result of multiyear projections and reflect the government’s poverty reduction strategy.
- The accounts must encompass all resources and be capable of describing the information in different structures (functional, economic, geographic and institutional).
- Accounting and payment transfers must be part of an automatic and computerised reconciliation system (cross-checking of book-keeping and payment registration).
- The central payments system must be audited regularly.

⁵ See: “Sida’s Policy for Capacity Development as a Strategic Question in Development Co-operation” Sida, Methods Development Unit, November 2000

- Payment systems must be computerised to enable daily liquidity assessments.
- Utilisation of the domestic resources base must increase and be tied to the financing of donors and lenders of sector programme support and other programme support associated with institutional development.”

In our view, these requirements should rather be used as goals towards which support to PFM should strive. Detailed results criteria could and should be developed for each area.

In this brief study it has not been possible to go into detail about the actual results of Sida and NORAD projects. However, some general assessments have been made of the results achieved in the case studies.

3. Overview of Swedish and Norwegian Support to PFM

3.1 Development of Sida support

Before the 1980s, Sida assistance to public administration was limited and consisted of scattered TA efforts, mainly in sector ministries but also in ministries of planning and finance. Contextual analysis and studies of existing systems and practices were rarely made as a basis for choice of intervention strategy.

Not until the early 1980s did Sida start more systematic work on developing its support for reform and capacity building in public administration. New modalities of delivering support were introduced. The previous practice of providing stand-alone Technical Assistance, hired directly by Sida, was gradually abolished. Instead, public institutions in Sweden were encouraged to take on projects within their areas of responsibility on commercial terms. Consulting companies were also invited to engage in the public administration field. Some of the major state-owned utilities (forestry, energy, telecoms) had formed subsidiary companies that were contracted for development co-operation projects. Similarly, some academic institutions had been engaged in co-operation with sister institutions.

During the 1980s a core group of state agencies developed their capacity to deliver support, including i.a. the National Audit Bureau, the National Tax Board, the National Statistics Office and the National Institute for Civil Service Training and Development. These agencies established consulting offices and operated their development co-operation projects on commercial terms. The concept of institutional twinning as a means of institution building was established by Sida as the main modality in the field of public administration assistance.

The economic crises that hit Africa in the 1980s and the structural adjustment policies introduced as a means of overcoming the crisis put institutional issues in focus and in particular the weak capacity of governments and their public administrations. This development created a need to formulate more comprehensive guidelines and policies for support in the area and induced Sida to review its experiences. The book "Making Governments Work", published in 1991, was the first attempt by Sida to review its experiences and to formulate guidelines for support in the field of public administration. The guidelines identified a number of central functional areas for which support should be provided:

- “- financial management, including auditing and taxation systems, state bank organisation and modernisation, and public procurement;
- base services supporting planning work, in particular statistics and physical planning services;
- public organisation and management development;

- development of relevant administrative training capacity;
- local government organisation.”

The main justification for support to these areas was to improve government efficiency and effectiveness in order for the state to be able to promote economic and social development in line with the overall objectives for Swedish development co-operation. The guidelines emphasised the need for thorough analysis of the context within which support to any particular area was considered. Participatory approaches in programme/project identification and formulation were advocated. Emphasis was put on the need to secure recipient ownership (the concept was not yet widely used). No by-pass project management arrangement should be allowed and the aim of TA was to contribute to capacity building and not to do gap-filling in the regular operation of a recipient organisation. The approach should be one of institution building, implying long-term support to improving the capacity of recipients in term of better systems, rules and procedures, organisation and competence. Capacity building was thus the main aim of support and was assumed to result in improved efficiency and effectiveness.

The guidelines provided in 1991 have guided Swedish support for public administration in practice. Emphasis has been on the priority areas identified and the advocated support modalities have been implemented. There are no signs that the main guidelines are to be changed. On the contrary, it seems as if the experiences of the last decade have reinforced the policies laid down. However, from the mid 1990s the development agenda has broadened. Other governance issues such as human rights, the rule of law and democracy have been put in focus alongside efficiency concerns regarding public administration. The focus on poverty reduction has revived the importance of redistribution policies. During the last few years Sida has launched policies on poverty alleviation; peace, democracy and human rights; gender equality; and the environment. These policy areas are supposed to be mainstreamed in all development co-operation. This development has added new areas of co-operation and has undoubtedly raised the general awareness among aid officials about the complex relationships that exist and impact on any project or programme in any of the areas chosen for support.

3.2 General characteristics of Sida support

Contextual analysis

The 1990s has seen a strong development of analytical work preceding project identification and project formulation.

Types of intervention

Sida has been and still is very clear on the purpose of support to PFM: capacity building of various kinds, long- and short-term technical assistance, and provision of resources to enhance technical capacity, especially for investment in IT and financing of staff development through in-house and institutional training. There is an awareness of the need to improve managerial capacity.

Modes of co-operation

In most cases Sida has preferred to arrange institutional co-operation through twinning between a Swedish organisation and its counterpart in the recipient country. Since the 1980s, Sida has deliberately encouraged public agencies to engage in development co-operation. The Swedish Government has accepted this on condition that the co-operation activities are fully funded. The agencies within the PFM field have all developed international departments for this purpose.

Long-term relationships

The typical project is planned for a 2-3 year period but extended to 10 or even 15 years. The institutional co-operation concept includes an assumption that long-term relationships between institutions and individuals are beneficial to the effectiveness of the support. There are no examples of Sida terminating support due to inefficiency on the part of the Swedish institution.

A participatory approach

Sida advocates a participatory approach both in the preparatory phase and in the way projects are executed. This also implies a considerable readiness on the part of Sida to be flexible in relation to time frames, project activities and also funding.

LFA

The introduction of LFA in the mid 1990s has contributed to increased awareness of the complexities of institutional development. The rather rigid format of LFA has not stopped Sida from being flexible.

Mix of resources and generous funding of training

All projects use a mix of resource inputs such as long and short-term technical assistance, funding of investments in training, equipment and physical facilities. Development of training capacity, direct in-house and institutional training and other staff development activities are typical interventions in all long-term projects.

3.3 Development of NORAD support

PFM has not been considered a separate sector of Norwegian development assistance until recently. This does not mean that PFM capacity building has, in practice, been left out of Norwegian support to African countries. PFM has been seen as part of “administrative development”. The importance attached to administrative development by Norwegian aid authorities has varied over time for a number of reasons. The needs expressed by co-operating countries have played a considerable role. Changing paradigms in international development assistance have also had an effect. The approach to support for PFM and the amount of resources used for this purpose have also been influenced by the aid administration’s view of what was expedient in relation to the overall profile of Norwegian aid. Finally, the emphasis on PFM has been related to the authorities’ perception of what expertise Norway could best supply.

Up through the sixties and into the seventies, development assistance strategies were characterised by “big-push” development plans and concentration on project aid in a framework of government-to-government support. Recipient countries called for assistance in running as well as restructuring their administrations. The overriding paradigm for technical assistance was, however, based on the idea that the public sector in the newly independent African countries played much the same role as in industrialised countries. Also, management systems as well the character of the civil service in African countries were seen to be largely similar to those of industrial countries. The developing countries, it was felt, just suffered from a lack of funding for public service as well as investment. There were also gaps in know-how and lack of local educated and competent staff. Such gaps could be filled by TA.

This view has been the basis for Norwegian support to administrative development for many years. Technical assistance personnel in the area of financial administration came to be deployed as “stand-alone” staff members or advisers, particularly in the “planning” and “statistics” sectors. It was considered desirable for Norwegian TA to be clustered around those sectors in a recipient country where Norway was particularly active as a donor. Hence, there was an emphasis on advisers in sectors like health, education, fisheries and energy rather than PFM. Assistance in organisation and management was also concentrated in the “important” sectors. Rather than taking a broader capacity building approach, the focus was predominantly on individual “training”. Norwegian support to financial management very seldom took a systemic viewpoint.

The “recipient orientation” that became important in Norwegian aid policies into the 1970s was based on the realisation that the recipient ought to be at the centre of decision-making and management of development assistance. Logically, this should have led to an increasing emphasis on capacity building in financial management but in reality the sixties paradigm held up very well. One important change that did not occur before well into the eighties was an increased emphasis on *institutional co-operation*, or *twinning* as it was later called. In the area of PFM, the key institutions in Norway did not respond strongly to these needs except perhaps the Norwegian Central Bureau of Statistics.

While Norway had for a time been clearly negative towards donor policies involving structural adjustment and policy-based conditionality, policies from the mid-eighties reflected a higher degree of acceptance. Prior to this time, aid policy had been clearly adverse to close involvement in PFM because of its sensitivity and the danger of exercising undue policy influence. This barrier now gradually eroded, however, without changing the policy principle that the primary responsibility for development management should rest with the recipient countries themselves. Policy-wise, macroeconomic planning and policy analysis as well as policies and programmes for sectors became more important focus areas whereas reliance on the use of experts and consultants as TA declined.

In the early nineties NORAD developed a *strategy for support to institutional development*. The strategy appeared, first and foremost, to focus on institutional development because it would make development assistance more efficient, but it was also recognised that improving institutions in developing countries was important in itself, independent of aid. The strategy paper argued that in the past, Norway had often considered it more important to keep to project deadlines than to assist recipient country institutions to handle key development issues on a sustainable basis. Greater emphasis on institutional development was seen as a logical consequence of the increasing trend within the development assistance community towards programme support rather than project support.

The key objective for the strategy was for “Norwegian development assistance to contribute to strengthen the recipient country institutions so that their functions may be discharged efficiently, independently of foreign support. Therefore, the aspect of institution building should be integrated in all significant parts of NORAD’s activities”.

The policy included public sector, research and education, as well as organisations in the private sector. The strategy also pointed out that a variety of organisations played a role in democratic development. Therefore, action to create organisations over a wide range of areas should receive support.

The strategy was not aimed at any specific range of institutions like those involved in PFM tasks. The selection of priority organisations to be given support would be based on expressed needs and assessment of development potential. Also, attention would be given to the quality of the institutional environment within which the organisation was placed. The strategy thus reveals a greater understanding than before of the importance of the contextual factors. Institutional co-operation was mentioned as one important modality.

The trend towards forms of financial aid where a substantial part of management falls on the recipient (budget support, balance of payment support or sector support) has been increasing in the nineties, Norway being one of the countries in the forefront of this development. This, together with the general emphasis on ownership, participation, good governance and recipient responsibility has led to a strong growth in support of various aspects of financial management. In the late nineties the IMF initiatives on HIPC and PRFG /PRSP strengthened this trend.

The latest policy statement on PFM support is contained in a NORAD Position Paper on Direct Budget support⁶. The statement clearly connects PFM to budget support but also looks at the general PFM issues as being distinctly linked to the governance issues: “Public financial management is unlikely to be completely satisfactory [in recipient countries]. General direct budget support will not only allow for a follow-up of the planning and budgetary procedures but also for discussions about developing democratic institutions, private sector

⁶ Position Paper on Direct Budget support, NORAD April 2002

development, improving tax revenue, reforming public administration, and about the procedures surrounding the government budget etc. In part, these could also imply contributing to combating corruption in a goal oriented and effective manner.”

The statement stresses the participation of Norway in assessments of PFM such as PERs, CFAAs etc. for two reasons. It is argued that assessments tend to overlap and thus unnecessarily increase the burden of work on partner countries. The more important reason emphasised is that participation is a way of gaining insight into PFM systems, which is necessary for formulating appropriate reform programmes and capacity building.

3.4 General characteristics of NORAD support

Contextual analysis

Increasingly, weaknesses in PFM is seen in a systemic context. Whereas the scant analysis done earlier often drew its conclusion on the basis of a “filling holes” paradigm, NORAD has increasingly adopted a systemic view that also connects core PFM areas to governance issues. The capacity of NORAD for carrying out analysis will probably have to be strengthened.

Types of intervention

Whereas the emphasis of Norwegian support for PFM has long been on “stand-alone” TA, interventions now take a clear general capacity building form with emphasis on systems and environmental factors as well as training. Normally a support package will consist of support for institutional reform and capacity building as well as technical assistance and equipment.

Mode of co-operation

The preferred mode of co-operation in the area of institutional reform is “twinning”.

A long-term relationship

Whereas support agreements hardly cover more than 2-3 years, it is often envisaged that the successful conclusion of a project may take a much longer time and NORAD’s position on the extension of institutional development programmes is generally positive.

4. Experiences and lessons learned

4.1 The diagnostic phase

4.1.1 Analysis of the system as well as components before the design phase

The cases reviewed reveal very different levels of preparatory work. Sida as well as NORAD seems to have accepted the problem definition of the original requests for support without major alterations or deeper investigations in the 1980s. This was the case with support to budget management in Tanzania and to some extent regarding the support to auditing in Botswana. The Sida project in Mozambique also started with its objectives set for a three year period that are far from reached after 14 years of support.

The preparation of the Sida project to build up the external auditing function in Mozambique has on the other hand been a very lengthy process. Still the appraisal team found the project proposal overly ambitious and unrealistic.

Whereas comprehensive analysis of project preconditions is undeniably the right way of approaching institutional and organisational development, such analysis cannot include all relevant aspects or identify all possible obstacles. This is due to the nature of organisational development. Typically a project creates awareness of new problems and knowledge among stakeholders as it proceeds. There is therefore a balance to be struck between getting a project off the ground and continuing preparatory analysis. In LDCs, where very often the capacity to see the implications of a future desirable state of affairs is limited among many of the stakeholders, it might be better to take off and address new problems as they emerge.

4.1.2 Awareness of needs – managerial and technical

A thorough preparatory analysis can contribute significantly to awareness raising not only on the recipient side but also on the side of the donor agency. Awareness of a problem is a prerequisite for action but does not necessarily lead to action. The development of management and leadership skills is still not given much priority. Management training and development of corporate planning constituted significant interventions in Sida's tax administration project but also, in this case, only after technical issues had been in focus for a few years. NORAD has focused management in only a few cases, such as the support for CSRP in Tanzania.

The concentration of effort on technical issues – systems development and professional training – is typical for all projects. Aspects of the NORAD support to the Auditor General in Zambia were indicative of this bias. The “soft” aspects of organisational development have not featured prominently. Awareness of the need to address those issues emerges as a project is being implemented. But they are difficult to bring into the dialogue between the

project parties and obviously difficult to address. The reason is that these issues are sensitive and threatening and difficult to handle, especially before substantial trust has been built between the parties.

This is a general experience of institutional twinning projects that has been confirmed by the reviewed projects, although the twinning model is assumed to have the advantage of facilitating an organisational development approach in which all relevant aspects should be addressed.

4.1.3 Participation of "insiders" at the diagnostic stage

At the diagnostic stage, as at the design and formulation stage, much of the analysis and planning for interventions in PFM capacity building have come from international experts. Lately, however, donors like Sida and NORAD have started to engage more local personnel for such tasks. Local consultants tend to have much better information both about the real life situation and the contextual factors.

Experience with using local consultants is good and could be extended. In several countries there are now professionals who have worked inside "the system" that may be called on. Also, there is increasing scope for engaging researchers with appropriate background from the policy research institutions that have grown up in the nineties.

4.1.4 Effects of new trends in IFI lending and diagnostic work

For countries that benefit from the Heavily Indebted Poor Countries (HIPC) initiative and the Poverty Reduction Strategy Paper (PRSP) / Poverty Reduction and Growth Facility (PRGF), the IFIs require diagnostic reviews that involve both policies and management/procedures. For HIPC, the two tracking exercises conducted so far have included considerations of the soundness of the PFM systems in those countries. PRSP/PRGF contain procedural conditionalities for a participatory process involving civil society and development partners, as well as proper reporting on use of funds for poverty alleviation.

The World Bank has, over the last decade, introduced several new diagnostic tools, which include exercises such as the Public Expenditure Review (PER), Country Procurement Assessment Review (CPAR), Country Financial Accountability Assessment (CFAA), and the Institutional and Governance Review (IGR). The Public Expenditure and Financial Accountability project (PEFA) has support from DFID, EU, and World Bank. The project will review all diagnostic instruments.

The PFM "conditions" attached to the HIPC and PRSP/PRGF and the diagnostic tools have clearly increased donors' insight into and focus on financial management. But for the recipient administration the burden of work has increased. Public sector managers, who are a scarce resource in most African countries, face an increasing burden in satisfying requirements for more

and more information and analyses by different donors and involving different (and often overlapping) diagnostic tools. It has now become imperative for donors to be involved in *joint* and co-ordinated analyses and aid operation. Sida and NORAD have long been encouraging co-ordination with the recipient country in the lead. If progress in this area is too slow, it may endanger the trend towards placing management responsibility with aid recipients.

4.2 Design and formulation

4.2.1 *The fragility of joint understanding and shared visions in LFA documents*

LFA has brought more thorough analysis into project formulation and it has created an opportunity for stakeholders to jointly analyse problems and discuss objectives and means to achieve those objectives. It is a tool for the project parties to calibrate expectations and to reach a shared understanding. An agreed project document may still not serve as a guide in the day-to-day implementation. The difficulty is to translate long-term objectives into short-term action plans. There is always a tendency to believe that you can start tomorrow instead of today when a long-term objective is to be addressed. The low appreciation of the fact that “the long term starts today” has impeded implementation. This is naturally also linked to the absorptive capacity of the recipient party.

4.3 Implementation

4.3.1 *Scope of intervention*

PFM components addressed

None of the projects reviewed seem to have been considered within the wide framework of PFM as defined in chapter 2. Instead, individual components have been addressed. This can be explained by the fact that it is only during recent years that PFM has been seen as a system in itself with interdependent components. All concerned parties are probably ready to agree that a systems approach to PFM development is required. But the components are managed by different principals and cross-cutting issues are very difficult to address in any bureaucracy. For practical purposes, this approach is difficult to maintain as people at the implementing level seldom have the necessary overview, power or legitimacy to act across organisational borders. Different organisational interests are likely to limit the feasibility of a systems approach in practice. It is therefore interesting to note that the Government of Tanzania has now formulated a comprehensive PFM development programme which includes components on continued development of the integrated financial management system, auditing and revenue. The ambition to address the whole system of organisations involved in PFM will require strong leadership over a long period of time.

High specificity routine processes versus analytical processes

Efficiency of routine processes can be more easily monitored and predetermined rules and procedures require less of managerial capacity. Development of analytical processes and tools require active and persistent demand from decision-makers at all levels and committed and skilled leadership.

This may explain the rather successful Sida tax administration project in Zimbabwe. The project addressed routine administrative processes and used IT to rationalise work. This may also contribute towards explaining the rather unsuccessful initial budget projects in Tanzania and Mozambique, where analytical processes were addressed to start with.

A chain is never stronger than its weakest link

It is possible that a persistent and successful focus on one part of the system will retract when interventions have ended because of the influence of lower development in other parts. This means that one should frequently consider the whole system, even if interventions only concern parts of it.

This observation has been amply illustrated in the cases reviewed. For example: the off-budget resources in both Tanzania and Mozambique undermine the effectiveness of the budget and the possibilities of tracking actual expenditure. The poor accounting at district level contributes to the same weakness. If the political system does not demand and act on audit reports, the whole audit system is weakened. The evaluation of the Norwegian support for Audit in Zambia spells this out clearly.

A systems approach is called for. But even if such approach is applied, the time horizons for achieving results in various components differ substantially. To roll out the integrated financial management system to all districts in Tanzania will take more time than it has taken to develop and implement the system at central level (6 years). The case is the same in Mozambique. In Mozambique the external audit function has no, or very little, capacity to undertake the regular audits it is supposed to carry out. Even if it had the capacity, the government agencies that are supposed to be audited would be unable to deliver final accounts in time for meaningful audits to be done.

4.3.2 Sequencing of intervention

Get core routine processes in order

A general observation is that it is necessary and even easier to get core routine processes in order before analytical processes can be successfully addressed. So it seems wise to start with accounting and progress towards budgeting and planning and not the other way around as was done in Tanzania and Mozambique. Start with financial audit and progress to performance audit. Unless a proper accounting system is in operation, financial as well as performance auditing become less relevant.

Computerisation offers a powerful tool to address core routine processes. There is little resistance to introducing IT. However, IT development eventually

reaches a stage where management of maintenance and renewal enters the scene and analytical processes and management capability become important for sustainability.

Technical capacity is not enough

The quality of corporate management is a key factor for sustainability. Unless leadership and managerial capabilities are sufficiently strong, sustainability is threatened. This has been shown in the cases of Namibia and Zimbabwe, in particular in the tax project. The strong Accountant General entering the scene in 1996 in Tanzania was crucial for the positive development that took place. However, development of managerial capacity is the most difficult challenge and not always recognised as a key issue by those who are directly concerned. A building up of trust and success in technical matters may therefore be required before managerial capacity problems are addressed.

4.4 Implementation conditions

4.4.1 Environmental factors

Disabling environment

In LDCs the environment within which PFM is to be improved is disabling rather than enabling. We have pointed to a number of systemic factors posing obstacles to speedy development. In this perspective, it is probably wise not to raise expectation too high. No sector or system can sustainably operate at a much higher level of efficiency and rationality than the environment in which it is located. This calls for “comprehensive comprehensiveness”. It is not enough just to include all aspects of PFM in the analysis but to widen the analysis to include public sector reform and the mechanisms in the society that discipline the public sector and provide the incentives for its performance. Everything has to be taken into account. But this insight must not be mixed up with a central planning approach. We have said above that it is impossible to attempt to capture all prerequisites for development of PFM before action is taken.

Poverty

Apart from systemic problems, it is important to realise that a typical LDC has an unstable economy, often dependent on only one or a few raw materials with fluctuating prices. The swings in revenue lead to strong pressures, spreading from the budget/planning level and thus upsetting other parts of the system, leading to crisis management.

The chronic state of crisis management is also a result of the low level of available resources in LDCs. Lack of resources in terms of money, information, equipment, infrastructure and personnel of the right quality reduces the number of alternative ways available to accomplish a task or solve a problem. Abundance of resources reduces uncertainty by making alternative courses of action available. Lack of resources also reduces the margin within which mistakes can be corrected before damage is caused.

4.4.2 *Political will*

Something happened in the mid-1990s in Tanzania and Mozambique that seems to have had a profound impact on their political willingness to address PMF issues. Both in Tanzania and in Mozambique the pace of reform increased, most markedly in Tanzania. The cases on Tanzania described in Annexes 1 and 2 amply show this. The main reason behind the change in Tanzania was a change in political leadership coupled with the economic and moral crises into which the previous regime had brought the country. If political will is a necessary precondition for public sector and PFM reform, it is, however, not sufficient. The political leadership also has to be able to create a readiness for change in the bureaucracy. How well the political leadership is able to fuel and maintain readiness for reform is a key factor for successful reform in areas that require sustained effort over long periods.

Willingness to change and develop is usually taken for granted when the political leadership or top management has approved or supports changes in a certain direction. This is, however, not true in most bureaucracies. A combination of unwillingness and inability can obstruct any attempt to change. The simple model below illustrates four situations a project might face.

		Job readiness	
		Able	Unable
Psychological readiness	Willing	I	II
	Unwilling	III	IX

The four-field table above enables us to examine the readiness for change in more depth. If we look at field I, we find that both willingness and ability exist. This is an ideal situation, in which the organisation is likely to implement change by itself.

In field II the willingness exists but the organisation is unable to carry out change. However, as the willingness is there the organisation will start to learn to do so itself and it may call in external expertise to help solve the problems.

An organisation that is able but unwilling, as in field III, needs to be subject to external pressure or impulses to change its psychological readiness. An organisation that is neither willing nor capable can only change through external influence. External pressure might create a situation where the organisation starts to search for ways to reduce the pressure. The powerful actors in the organisation may start a learning process that brings it into field II. If this does not happen, the organisation will most like deteriorate further and eventually disappear.

Several observations made during our examination of cases (Annex 1 and 2) could be analysed by applying the above model. Examples are the fact that no restructuring has yet taken place as regards the accounting cadre in Tanzania and the observation that the agreed and learnt procedures for financial audit were not implemented in Botswana. In these cases the organisations are in the third field. Tanzania moved from field four to field two in 1996 in PFM, which facilitated progress with the accounting project.

4.4.3 Demand and incentives

The necessity of top management involvement

The cases also illustrate the necessity of top management involvement in the development process. The case of auditing in Zambia finds more top level contact between the co-operating partners to be desirable. The case of accounting in Tanzania is striking. But the successful audit projects in Namibia and Zimbabwe, as well as the tax administration project in Zimbabwe, also show the importance of committed and active leadership of the recipient organisations.

Organisational and institutional blockages

All cases illustrate the existence of blockages to development of different kinds. A typical problem is that certain matters of importance for the targeted organisation are decided by other government bodies or by government itself or by Parliament. The salary issue, which has featured in the documentation of most projects is a case in point. But staff establishment and schemes of service are also prominent issues, as shown in the case of auditing in Zambia. In LFA terminology, these types of issues may be called killing factors. However, in both Mozambique and Tanzania salary enhancement schemes are funded by Sida and have obviously, in the Tanzania case, disarmed salary as a potential killing factor for the time being.

Reform of the legal framework has obviously had a great impact on development in Tanzania and in Mozambique. It was also a prerequisite for introducing performance auditing in Zimbabwe.

The difficulty in changing organisational structures is often mentioned as an issue that impedes progress because other government bodies have a decisive power to block or delay proposed changes. In Tanzania, the Accountant General succeeded in restructuring his own office but failed with the accounting departments of the ministries. In Zimbabwe the Auditor General tried to gain more autonomy but failed. In the Tax Department in Zimbabwe the need to reorganise as a consequence of computerisation succeeded.

The salary issue

The introduction of “local cost compensation”, the term used for salary enhancement paid by donors, obviously had a very strong effect on the ability of the Tanzanian Accountant General’s department to recruit, retain and demand performance of the staff. This was probably, together with the renewal of staff, reorganisation of the department and a strong Accountant General, a

decisive factor explaining the fast progress that was made once the political will was re-established. Low salaries are frequently mentioned in projects reviewed as a potential killing factor for all development. Weak incentives to perform regular duties and no incentives to engage in risky development activities characterise the condition counterpart staff are working under in the poorest countries. The situation is different in Botswana and Namibia. In the poorest countries there is an enormous difference in efficiency, commitment and interest between staff of the Central Banks and those of the Treasury/Finance, because central banks have their own salary schemes and the possibility to finance them.

Salary enhancement schemes, which are financed by the donors, are unsustainable in the long run. But so are many other investments by donors, e.g. budget and sector programme support, unless economic growth enables the country eventually to become self-financing. The main problem with salary enhancement is political. How can the politicians defend systems where certain categories of staff are singled out and given privileges that others cannot get?

HIPC and PRSP conditionality, sector programmes and bilateral budget support

It is likely that both the HIPC initiative and the introduction of PRSPs and budget support function as both stick and carrot to step up reforms in PFM in Tanzania and Mozambique. Reforms of PFM have become an issue involving the top political leadership whereas before it was an issue that at most attracted some interest at permanent secretary level. The current move towards budget support and sector programme funding also acts as an incentive to reform the PFM system.

4.4.4 Capacity for capacity building

The problem of capacity to build capacity is most striking in Mozambique where the absence of qualified staff is absolute. With the old gap-filling modality long since put on the shelf, this problem is a real obstacle to fast progress. Tribunal Administrativo in Mozambique does not have the capacity to fulfil its statutory obligations and even less capacity to involve itself in development activities parallel to the regular work. An independent appraisal team suggested that the Tribunal should be assisted to carry out its regular duties by auditors provided by the project. Although this contravenes the philosophy of the twinning model and the advisory role of technical assistance personnel that is the only accepted role nowadays, Sida has agreed to support the regular operations of the Tribunal.

The budget and accounting projects in Mozambique have had a strong presence of international advisors and the same is true for the audit projects. In addition, a substantial amount of short-term consultancy has been provided. These big inputs reflect the limited local capacity both within the institutions but also on the local labour market.

4.4.5 Donor behaviour

In the reviewed projects there is little evidence of overlapping or competing projects funded by different donors. But donor pressure on the countries to improve PFM has grown in recent years. Donors typically have manifold demands as to how recipient countries should run to the jump. The fast development of new concepts and approaches may be an excuse for not jumping at all but to continue training for the run.

The work in the donor community to develop standards and tools in PFM is very positive provided the present toolbox is rationalised and used jointly by the recipient country and the donors represented in the country in question. A parallel could be drawn to the strong conditionality that the European Union is imposing on candidate countries in eastern and central Europe.

The strong position of the World Bank in the PFM area raises the question of the role of the bilateral agencies in project implementation. There is an undeniable need for joint and co-ordinated approaches among the whole donor community and with the partner government in analysing pre-conditions and diagnosing development needs as well as co-ordinating interventions.

4.4.6 Things take time

After 15 years of support neither Tanzania nor Mozambique meet the minimum standards referred to in chapter 2 or the standards set by the World Bank's 15 indicators. Performance audit is weak in the countries where it has been introduced. The fate of tax administration in Zimbabwe is unknown.

Donor and recipient expectations are mostly too high from the start. We tend to think in terms of three-year projects whereas a 25-year perspective would be more appropriate.

5. Conclusions

At the present stage it is hardly prudent to draw strong general conclusions about capacity building in the area of PFM. The sections below briefly set out ideas and tentative recommendations that the authors see emerging from their examination of Sida and NORAD project as well as other sources of experience.

Take a long view

Despite considerable efforts to improve PFM systems by African countries and donors alike, this study finds that none of the countries analysed have reached a minimum standard such as the one suggested by e.g. Brobäck and Sjölander⁷. This is not necessarily because the capacity building efforts have been in vain. Considering all components and the immense need for change and improvement as well as the external factors (like the minimal supply of trained local professionals) that keep progress back, it is easily realised that reaching the appropriate standard will take a long time. For PFM systems in most low income countries in sub-Saharan Africa to reach a level where the country is capable of self-reliantly maintaining and developing them, we reckon *15-25 years, rather than 5-10 years is necessary*. This does *not* mean that all interventions will have to have an equally long-term focus. Worthwhile improvements may of course be attained in the short and medium term. However, short- and medium-term interventions will often not cover the whole system, with the attendant danger that improvement achieved in one component will be lost if not followed up in the rest of the system.

Balance the support between different components of PFM

The donors' approach to PFM capacity shortages in the seventies and eighties was stand-alone Technical Assistance (TA). Sida and NORAD have increasingly taken a capacity building approach, comprising individual training and organisational improvement as well as attention to institutional frameworks. In line with this, the focus has changed from a concentration on individual components of PFM (budgeting, accounting, auditing etc) to a *systemic* view that takes into account the interfaces between components and considers their interdependence. Experience indicates that the degree of improvement and success of interventions in one component are limited by the state of play in other components. It is therefore important to undertake interventions that are *balanced* between components. There is some evidence that an early focus on basic routine processes, such as accounting, will yield results and also over time can spill over into analytical processes where it is inherently much more difficult to intervene.

The attention to systemic issues may, however, be taken too far. It is stressed that a comprehensive approach is important in the *diagnostic* phase. In the implementation phase, however, it clearly may prevent action. A balance has to be struck between getting a project off the ground and continuing preparatory analysis.

⁷ See section 2.3 above

A more comprehensive approach increases the importance of conducting joint recipient-donor diagnoses and building a common understanding of project goals. Without a strong interest in changing systems and improving components from the recipient, projects tend to be handicapped from the start.

Support the education and training of economists and accountants

The long view is particularly important when the supply of local professionals (particularly economists and accountants) has to be increased. In parallel with the educational measures, support to short-term job-oriented training will also be necessary. It is necessary not only to equip staff with the necessary academic background. Considerable job experience and good track records are essential for individuals who take on the very serious responsibilities in PFM. It will also be necessary to build up capacity for capacity building. Considering the tenuous situation in many countries today, 15 – 25 years for building up a strong professional cadre of accountants and economists is not an overestimate.

Improve human resource management systems

Human resource management systems in the public sector are often deficient and rigid. There is little flexibility in giving particular incentives to categories of staff that are either in short supply or seen as particularly important. In many cases, capacity building efforts in the public sector do not improve the bureaucracy, simply because those civil servants who have been taking part in training leave for higher paid jobs in the parastatals, central banks and the private sector as soon as they have completed their training. If government attaches great importance to attracting competent personnel for the various components of PFM, incentives (like salaries and career opportunities) have to be set to attract the right calibre of personnel. A number of donors have tried to run supplementary salary schemes for particularly important groups in PFM, with varying success. The argument against such schemes is that they are not sustainable, but nor are a good many measures and projects implemented for “development”.

Institutionalise the dialogue between recipient agencies and donor agencies

Joint (recipient/donor) *analysis* has been stressed as an important ingredient of successful PFM capacity building projects during the *diagnostic* stage. There is a good case for keeping the same close relationship also during the *implementation* stage. In particular an emphasis on joint learning about best practices in designing and managing organisational development processes is likely to yield results. Studies and research may often play an important role in spurring the dialogue.

Stick to the “development” perspective

HIPC and budget support have put PFM in focus. In a poverty reduction perspective, the results on the ground are all important. Currently, the Ministry of Finance perspective, however, often steers interventions to improve PFM. This may have been correct during a period when macroeconomic imbalances were acute. With better macroeconomic management, the sector perspective (the PFM needs at sector level) has to guide the development of PFM to gain a

strong focus on poverty alleviation and development issues such as health and education. Perfect macroeconomic management is of limited value for development if it does not efficiently direct resources to the priority areas for development. Strong PFM systems are indispensable in making sure that resources are used efficiently where they are most needed and in line with overall political priorities.

Put the recipient government in the lead for joint analysis and intervention

Sida and NORAD have supported development programmes under joint donor “umbrellas” where the World Bank has often taken the lead. It is felt that this joint programmatic approach is an important departure. Working jointly, donors will have to co-ordinate their efforts and are less often left to implement individual and possibly counterproductive and overlapping approaches. It is, however, not necessarily the case that the leadership of such groups will have to be provided by the IFIs. Ideally, the *recipient government* should provide leadership. Bilateral partners may be as efficient under such an umbrella as any other arrangement in providing the required support. There is, however, a limit to the emphasis on joint approaches. It is important not to see co-ordination as an end in itself so that it prevents valuable bilateral projects and institutional co-operation.

Support and encourage regional organisations and networks in the PFM field

There are a number of regional and even continental organisations that are active in PFM capacity building. Examples of such organisations are the Eastern and Southern African Association of Accountants General (ESAAG), the Southern African Development Community Organisation of Supreme Audit Institutions (SADCOSAI), the African Capacity Building Foundation (ACBF) and the Macroeconomic and Financial Management Institute for Southern and Eastern Africa (MEFMI). Both Sweden and Norway have lent support to one or more of these organisations, thus boosting the competence and extent of capacity building in Africa.

Consider implementation conditions – they matter

A capacity building project focusing any of the PFM components will be influenced by conditions that are external to the project. External conditions are important in determining the outputs, outcomes and impact of the intervention. An analysis of the external factors is necessary to be able to assess the potential success of the project. No sector or system can sustainably operate at a much higher level of efficiency and rationality than the environment within which it is located. The chance for a successful PFM capacity building project will be influenced by:

- the level of political will to improve PFM

- The existence of a chronic state of crisis management created by a desperate lack of resources

- The degree of top-level management involvement

- Degree of organisational and institutional blockage

- Terms and conditions for key staff

- Incentives at the political level

- Capacity for capacity building

Donor behaviour and co-ordination, pressure and incentives from donors

Link PRSP poverty reduction approaches, budgetary support and PFM improvement

Poverty reduction is a focus for development that has long been strongly emphasised by the international community, with a particularly strong resonance in the Nordic countries. PRSP approaches to poverty reduction stress national ownership of poverty policies and use of national systems for implementation. Increasingly, ODA has therefore taken the form of budgetary, macro or sector-wide support where donors are much less involved in implementation than under traditional project approaches. The twin focus on poverty reduction and “basket” financing has put particular emphasis on Public Finance Management. The quality of PFM will be one of the decisive factors in ensuring that policy decisions and agreements with donors *actually* lead to a greater flow of public sector resources to poverty reduction measures. Sida and NORAD are more and more seizing on the potential of PFM for poverty alleviation by linking PFM improvement to budgetary support. This is done both through PFM being part of conditionality and through support to capacity building and reform of PFM systems.

Annexes

Annex 1: Sida Experiences

1. Introduction

The inventory made of Sida-supported projects in PFM shows that such projects are ongoing or have recently been finished in 10 Eastern and Southern African countries (see Annex 3 below).

In terms of PFM components, long-term projects (5 years and more) have been carried out or are currently being carried out in each of the components. There have been major long-term projects in the field of planning and budgeting and accounting in Tanzania and Mozambique and in South Africa at provincial level. Long-term projects in external audit have been conducted in Botswana, Namibia and Zimbabwe and are currently being conducted in Mozambique and Rwanda. In Mozambique the internal audit function is also supported. Revenue agencies are currently supported in South Africa and Tanzania and were during the 1990s supported in Zimbabwe.

2. Planning, budgeting and accounting

This description of support to planning, budgeting and accounting will focus on Mozambique and Tanzania as Sida's support to these countries has a long history and will, most likely, continue for many years to come.

2.1. Mozambique

Swedish support to the Ministry of Finance in Mozambique started in 1988 with the long-term aim of developing a budget system, competence in financial policy- and decision-making and control of public services financed by the state budget. The aim for the immediate three-year period was to “develop and implement a central budget and accounting system that would include all state revenue and expenditure and integrate recurrent and capital expenditure in a consolidated state budget”.

At the start of the project the situation had the following characteristics:

- The budget was divided into a recurrent budget and an investment/capital budget with divided responsibility between Ministry of Finance (MoF) and the Planning Commission.
- The accounting system (from 1902) only captured about 20% of the total state expenditures.
- Annual accounts for the state had not been presented since 1975.
- The budget that the Government and the Parliament approved only showed some salaries, recurrent expenses and subventions. The investment programme was decided separately and was assumed to be financed by external sources.

After initial fact-finding and analysis lasting 1.5 years, a proposal to introduce a new modern accounting system was presented by the consultant. The proposal met resistance from the MoF leadership. The MoF wanted to make the existing system functional and improve on that system. The introduction of a new system was regarded as too risky given the low level of accounting competence throughout the whole state administration. Independent consultants were hired by Sida to assess the situation. The conflicting views on the future strategy eventually led to the consultant being replaced by the Swedish National Audit Bureau (NAB), as partner to the MoF. At that time the NAB was responsible for financial management in the Swedish government. Added components on internal audit, training and IT complemented the previous focus on budget and accounting systems issues.

During the following years much effort was devoted to improving the existing budget process, initial computerisation and build up of the MoF training department. Efforts were also made to document accounting routines and clean up the chart of accounts as well as to close the annual state accounts for previous years.

A modern Budget Frame Law was adopted by the Parliament in 1997, the same year as the project entered into its third phase. During this phase the first priority of the project was to get the existing accounting system functioning to allow for the general state accounts to be prepared according to the Law. The first annual general accounts (1999) were presented to Parliament in the year 2000. In 2002 a Public Finance Administrative Law was enacted and regulations are now being drafted.

A second priority was to have the state budget submitted to parliament in accordance with the Law. This was done for the year 1998 although not all the requirements of the Law were met, e.g. foreign aid was largely outside the budget. This is still the case in 2002.

A third priority was to have a consolidated computerised accounting system developed and implemented. So far the compilation and production of the consolidated state accounts have been computerised.

A fourth priority was to develop the organisational structure of the budgeting area, introduce results-based management, develop the organisational structure of public accounting and introduce performance auditing. The Ministry of Finance and the Planning Commission were merged by 1994 and in 1996 internal reorganisation took place. The counterpart of the project moved to the Directorate for Public Accounting.

During the third phase, little emphasis was put on the budgeting component. The World Bank addressed this area by introducing a mid-term financial framework and DFID is currently assisting in modernising the planning and budgeting system.

Due to reorganisation of NAB in 1998, and the creation of the Swedish Finance Management Authority, the latter institution took over the co-operation in the field of budgeting and accounting whereas NAB remained executor of the internal auditing component.

In 2000 the Swedish Finance Management Authority decided to finish its institutional co-operation with MoF due to internal policy reasons. Through tender a new consultant (SIPU International) took over the management of the project in mid 2001.

In 2001 a decision was taken to introduce a new accounting system to be modelled on the lines of the UN system for classifying government functions (COFOG). The new accounting model will allow for double entry bookkeeping and accrual accounting. The project is now consolidating the achievements of the current system and undertaking preparatory work for development and implementation of the new model. A number of parallel development processes are now on-going. As mentioned above, the planning and budgeting system is being modernised. EU is funding a project to improve the treasury system.

Mozambique benefits from debt relief under the HIPC initiative, a poverty reduction programme is implemented and substantial budget support is provided. The developments in these areas, which started in the mid 1990s, have had a strong influence on the development of PFM in recent years both in terms of demand for improvement and in terms of setting standards for type of improvement required.

The project's capacity building interventions have been directed towards systems development (principles, rules, procedures documented through normative documents and manuals), strengthening the organisation and resources of concerned entities (structures and staffing and IT) of MoF, and substantial amounts of training, including development of training capacity in the Ministry. It is estimated that about 3000 finance management staff have received training.

Technical assistance in the form of long-term advisors (currently 5 international advisors) and substantial inputs of short-term consultants have been provided, together with equipment and funds for local expenses. More than SEK 100 million has been invested so far.

Despite the substantial support provided over the last 14 years, which was intensified from 1997 when other donors also entered the scene, Mozambique does not meet any of the minimum standard requirements of a PFM system listed above. In its memo assessing the project dated December 2000, Sida estimated that another 5-7 years of support was required to implement the new accounting system.

2.2. Tanzania

Sida has been funding three fairly large projects in the Ministry of Finance in Tanzania. In 1985 support to build up training in tax administration started

and in 1986 a project to strengthen budget management commenced. In 1994 a project to improve the government's accounts started.

Both the tax administration and budget management projects commenced at a time when Tanzania was in deep economic crises and when a process of structural adjustment and transition to a market economy had just started. There was great uncertainty about the direction of reform and the decisiveness of the Government in pursuing the reform agenda pushed by the World Bank, IMF and the donors. The tax administration project succeeded in building up the physical facilities of the tax administration institute as well as in creating and conducting a number of in-service training courses. However, the Government was not able or willing to provide the funds required to run the institute and the project was phased out in 1993.

The budget management projects succeeded in preparing a handbook that, for the first time, provided a comprehensive description of the existing system. The project provided training for a large number of budget officers in ministries and regional administrations. Computerisation of the compilation of both recurrent and development budgets was done as well as substantial work to assist in the development of the so-called Rolling Plan and Forward Budget (a forerunner to the MTEF now prepared). However, the achievements were meagre and the reform climate was characterised by a low level of commitment on the part of Government and high level officials of MoF and the then Planning Commission. The project was phased out during 1996.

Already in the early 1990s, Sida was approached by the Accountant General of the MoF requesting support to strengthen the accounting function. Compared to the preparatory work preceding the initiation of the tax administration and the budget management project, the GADP (Government Accounts Development Project) was more thoroughly prepared. In a pre-project phase in 1993/94, thorough studies were made of the accounting system and the expenditure management framework and the human resource situation. The minimum standard requirements of a PFM system, described above, were far from being met. In addition, political and managerial accountability was limited, legislation outdated, the level of understanding and compliance at all levels with legislation, regulations and systems was low and not enforced, the professional skills of demotivated and demoralised staff were poor, and there was insufficient demand for the production of accurate, complete and timely financial information. The Government was not in a position to provide an accurate, complete and transparent account of its financial position to Parliament, taxpayers, donors and other stakeholders.

The first phase of the project spanned a two-year period from mid 1994 to mid 1996, reflecting cautiousness on the part of Sida. It was later extended to December 1996. A second phase was implemented over 1997-1999 and extended twice to the end of 2001.

In the first phase the project concentrated on a number of preparatory activities. Capacity building activities included the establishment of a Systems

Development Unit and development of an initial IT strategy, including installation of a LAN at the Accountant General's Office. Eventually the LTA succeeded in persuading the Accountant General and the permanent secretary of MoF to recruit three permanent staff and 10 young graduates from the School of Accountancy to staff the SDU. The staff worked part-time on systems development. A salary enhancement scheme was introduced. Together with other staff the SDU staff were sent for 15 months part-time training in IT and a series of other training activities took place, including workshops. A review was made of the organisation and job descriptions.

Financial systems development activities included legislative review, a review of the chart of accounts, development and installation of a central payments system and installation of an Access based exchequer management system. The need for a central payment system was established and accepted during 1995 and was installed in four ministries in July 1996 and for another 10 ministries in January 1997.

Following the general elections in 1995 and the installation of the new Government, a new Accountant General, with a background in the Bank of Tanzania, was appointed. The new Accountant General immediately started to reorganise the Office along more functional lines. Competitive recruitment was used to fill posts in the new organisation. The aim was to retrench about 50% of existing staff. The Accountant General was able to pursue his restructuring plan despite limited or no support from the MoF.

The financial management systems development also gained momentum during 1996, partly as a result of the new Accountant General and partly as a result of the new Government's resolve to address the severe problems of public finance. A number of key appointments were made in the MoF and a decision was made to set up a new Tanzania Revenue Authority. These changes were part of the Government's aim to restore confidence in the finance management system and to pave the way for renewed support from the IFIs and the bilateral donors, who had withheld their non-project aid grants. The introduction of the central payment system had immediate effects on cash control. The efficiency of the payment system improved as well as financial reporting. The LTA of the project has summarised the experiences:

- "Pursue a number of early change methodologies in the area of capacity building and systems development at a fairly low level of investment and risk.
- Use general low risk (limited impact on organisational realities/interests) systems (spreadsheets, word processing) to act as a bridge/introduction for the introduction of more challenging data processing systems.
- Build the capacity of financial management and IT among staff and managers to operate and manage computerised financial systems.
- Learn how to implement the necessary organisational reforms required to successfully implement IT based solutions in the area of financial management at a low level of sophistication."

A second phase started in early 1997 with the specific aim of introducing an Integrated Financial Management System (IFMS) in Dar-es-Salaam and the development of the Public Debt Management Unit.

The preparatory activities included a financial systems needs assessment, the establishment of a user group, and a review of the current IT framework. A local consultant did an analysis of the implications of procuring an IFMS, a functional specification of the system was done and a thorough procurement process was carried out as well as an analysis of staff requirements and recruitment. Through competitive recruitment, 20 young staff were recruited on a contractual basis. Remuneration of the staff was to be paid from the local cost compensation budget of the project. Based on the software solution chosen, training of staff was organised and technical specifications for hardware investments were made and hardware procured.

Business process analysis was conducted to determine how the various financial management systems were going to operate in the context of the Platinum software – the chosen system. Extensive training was undertaken for the different groups (Accountant General's Department and ministries) that would operate the system.

By July 1998 the first pilot runs were made and by end 1998 essential aspects of the system functioned well. But the capture of revenue data was partial, reconciliation of central bank accounts difficult and the coverage of the system far from complete (e.g. development revenue).

During the first half of 1999 the system was rolled out to remaining ministries and independent departments except for some votes where security concerns were raised (State House, Defence). These were integrated during 2000.

With the core financial system in place it was possible to start integration of the budget in the so-called "Platinum" system. Different donors assisted this exercise. Reclassification of the budget on a GFS basis was undertaken with the assistance of IMF. Performance budgeting was introduced and Sida supported mainstreaming of gender in the budget process. The World Bank, UNDP and bilateral donors supported the introduction of a Medium Term Expenditure Framework process. Budget books for 2000/2001 were produced using the new classification system and the budget manager module of the Platinum system.

An independent evaluation carried out in 2000 concluded that "by June 2000, an IFMS had been installed, with common chart of accounts for budgeting and accounting purposes, and incorporating a central payments system and control over expenditure commitments. The system of accounting for public debt has been improved, and bank accounts have been rationalised". But "whilst the overall results points to a progressive improvement in financial management in GOT, the potential benefits of the IFMS have yet to be fully realised, and a further consolidation phase will be required before the project is complete".

The LTA left his position in December 2000 but short-term TA and funding was provided throughout 2001. In July 2001 a new Public Finance Act came into force creating the legal basis for the development that had already taken place. In May 2001, the Government presented a proposal for continued support to the IFMS as one component of a larger programme for the development of the public finance system.

In the proposal the Government identifies the main remaining problems to be:

- Inadequate managerial capacity.
- Inadequate accountability and poor fiscal discipline.
- Inadequate budget planning, formulation, management and execution.
- Ineffective dissemination of information to the public.

In its appraisal Sida notes that some problems are more of a political than a technical nature e.g. unfunded commitments made by top leadership.

In its risk analysis Sida points to a number of assumptions that need to be met:

- Continued Government commitment.
- Continued donor support.
- Appointment of appropriate counterparts.
- Commitment of budget officers to the new process.
- Software able to support performance budget process.
- Sufficient operating budget.
- Continuation of local cost compensation.

Sida also raise its concern over the lengthy delay in starting up the continued project and the risk of not having a LTA in place and the negative effect this might have on the reform momentum.

It should be observed that despite the very positive development that has taken place, Tanzania still does not meet the minimum standard requirements of PFM defined above. The request for continued technical assistance also indicates that the MoF and its Budget Office and Accountant General's Offices are not yet capable of undertaking the development work themselves. The capacity to operate the system seems to have been secured at the technical and routine level but the demand for information from the system for managerial and policy-making purposes is still low.

3. Auditing

Sweden has been supporting the development of supreme audit institutions since the 1980s. During the 1990s three long-term projects (5-10 years) were carried out in Botswana, Zimbabwe and Namibia (still on-going). Since 1998, support has also been provided to Tribunal Administrativo in Mozambique. Sida has also been supporting the building up of regional co-operation between Offices of Auditors General (OAG) in the SADC region.

All projects have been organised as institutional co-operation projects by twinning the Swedish National Audit Bureau (NAB) with its counterparts in the respective countries. The aim has been to build external audit capacity. The support to Botswana was ended in 1998 after 6 years and to Zimbabwe in 1999 after 10 years. The support to Namibia started in 1994 and financial support continued from 1999 to 2002 with an option for OAG to request technical assistance from RRV when needed. The projects in Botswana and Zimbabwe were terminated as the projects were assessed to have reached their objectives and the institutions capable of continuing their development without technical and financial support. The support to the OAG of Namibia is likely to be terminated for the same reason.

The interventions have focused on enhancing professional/technical competence in the areas of financial and performance audit. Pioneering work has been done in introducing and establishing performance auditing in Botswana, Zimbabwe and Namibia. Introduction of international audit standards and modernisation of financial audit techniques through IT have been important areas of the projects. During the 1990s all three institutions were computerised. Typical outputs from these projects have been handbooks/manuals on financial and performance auditing.

One to two long-term advisors and short-term experts have provided technical assistance. Funds have been used for IT investments and staff development through training and study visits to NAB.

All three organisations had the capacity to receive the technical assistance provided and to utilise the support to enhance their technical competence. The management of the organisations seems to have been capable of undertaking organisational changes and getting acceptance of the need for additional staff to consolidate their professional achievements.

The support to Tribunal Administrativo in Mozambique (TAM) started in 1998 with an initial study on the feasibility of long-term institutional co-operation with NAB to build up an external audit capacity. The preparatory process has gone through a number of steps since this initial study was made. Based on the study, an LFA workshop was held in early 1999. This workshop resulted in an agreement to carry on the preparatory work, to carry out a number of studies and to assist in auditing the annual state accounts for 1998. The studies covered several important areas. A strategic plan was produced for TAM. Plans were also produced for human resource management, training, infrastructure development and IT. A project document was to be prepared on the basis of the studies and a planning workshop was held in June 2000. A first comprehensive project document for the period 2000 – 2003 was presented to Sida in the autumn 2000.

In spite of the considerable efforts put into the preparations, an independent appraisal of the project document concluded that the ambitions were too high and the plans unrealistic given the actual state of TAM. Sida had initiated this appraisal. The weak professional capacity of TA was especially singled out as a

major obstacle to capacity building. Another related issue brought up was the role of the advisors. The first annual state accounts had been audited in 2000 with substantial external support. TAM's few available qualified staff would be compelled to attend to its statutory obligations, with little time left for capacity building activities. The appraisal team suggested therefore that support should also be provided to actually carry out the audits and that this support should form part of the project. This proposal contradicted the general philosophy of institutional co-operation, according to which the role of technical assistance personnel is supposed to be purely advisory. The appraisal team also noted that the risk analysis mainly dealt with internal structures and to some extent neglected external, "in some cases killing factors".

The ambitions of the project have to some extent been reduced. It seems as though the project parties have accepted that the effort will require a very long time perspective and that a more step-by-step approach should be applied. The reasons given were the limited opportunity for capacity building, the fact that TAM was starting from scratch and that the environment in which TA as to develop also posed many obstacles.

4. Revenue

In the revenue area Swedish support has mainly aimed at improved tax administration. Tax policy issues have only rarely been addressed. Currently Sweden is funding projects in South Africa and Tanzania. A ten-year project in Zimbabwe was concluded in 1999.

The support to South Africa started in 1996 with the aim of developing institutional co-operation between the South African Revenue Authority (SARS) and the Swedish National Tax Board. Due to reorganisations and a change of leadership in SARS, only short term consultancy support was provided, mainly in the IT area, during the following two years. In 1998 a new agreement was made through which support was to be provided in the areas of analysis of the tax base, strategy for tax control and audit, strategy for service and information, development of procedures and IT systems for audit, income tax, PAYE, VAT and service to taxpayers, and strategy for decentralisation to provincial offices. The project is ongoing but the documentation available does not yet provide information about experiences relevant to the purpose of this report.

The support to Tanzania's tax administration was resumed in 1999 on request from the Tanzania Revenue Authority. An agreement has been concluded with the Swedish National Tax Board to assist in training of staff and management, and to develop systems for expenditure accounting and for motor vehicle and driver's licence registration. This project has also been in operation for a fairly short time and documentation of experiences is not yet available.

4.1. Zimbabwe

In the following a brief account will be made of the support to the Department of Tax (DoT) in Zimbabwe.

Sida involvement in the revenue sector of Zimbabwe started in the mid-1980s when technical assistance was provided to undertake a complete review of the whole tax system. The review resulted in far-reaching demands to improve the efficiency of the DoT and a Sida-sponsored co-operation between DoT and the Swedish National Tax Board commenced at the end of the 1980s and continued for more than ten years.

The primary objective of the co-operation was to improve the effectiveness and efficiency of DoT. This was to be achieved largely through the introduction of modern technology and modern methods of management and planning as well as the building up of in-house competence.

A major focus of the project has been to assist in the computerisation of various administrative systems and as a general tool in all work. Computers were not used by DoT at the start of the project. When the project finished the DoT had built a functioning computer department capable of developing new applications and maintaining installed systems. A LAN had been installed at the headquarters and a WAN connected the headquarters with the provincial offices. Several administrative procedures had been computerised. The DoT had reached a high level of computer literacy, with computer support not only in tax administration but also in general administration.

The computerisation strategy that was followed was pragmatic in the sense that obvious and pressing problems were addressed. Initially a receipting system was developed to produce receipts to taxpayers automatically at collection offices. The payments were automatically accounted for. To this system a posting system was added, which required registration of all taxpayers. The posting system facilitated the follow up of tax payments. Taxpayer identification numbers (TINs) were introduced for all individual taxpayers and at the end of the project work was under way to introduce TINs for companies. Parallel to this development, computers were introduced in the general administration and a number of special applications were developed and put into use.

The computerisation resulted in higher efficiency, as evidenced by improved customer services and especially after the mid-1990s in sharply increased tax collection. The computerisation also led to redundancies but these were possible to handle as the Government also implemented public administration reform where reduction of employment in the public sector was an objective. The IT systems unit that was developed has all along been vulnerable to resignations. The schemes of service available to DoT did not include posts for computer specialists. DoT could not therefore match the remuneration levels on the labour market for these categories of staff. A significant number of trained staff has resigned for better-paid jobs but in spite of that, the unit functioned satisfactorily.

Training of computer users and specialists has been a major activity of the project throughout its duration.

The institutional co-operation was obviously made use of by the DoT top management. The National Tax Board was invited to participate in DoT annual planning conferences and through study visits to Sweden the DoT managers got to know about the organisation, planning and management procedures of the National Tax Board. The computerisation made the need to reorganise the department apparent and in 1995 a new functional organisation structure was implemented. By mid 1990s, DoT also embarked on an exercise to introduce annual corporate planning which since 1996/97 has been institutionalised and regarded as a very powerful management tool to direct the operations of the whole DoT. At first, corporate planning was introduced at the headquarters and in a second step, provincial offices were incorporated. DoT was the first Zimbabwe government agency to implement corporate planning. An ambitious management training programme accompanied the introduction of corporate planning. More than 200 middle managers were trained in management and leadership skills.

The positive development recorded by the end of the 1990s led to Sida considering the time ripe to phase out the support. Some extra funds were provided in 2000 to enable assistance in developing the follow up methods for the corporate plan.

Throughout the whole project period, the National Tax Board has provided long-term advisors with IT and management backgrounds. Short-term specialists from the National Tax Board were involved in specific activities. Systems development and staff development have constituted the main types of intervention. Systems development activities were generally carried out by putting together small task teams of DoT staff supported by the LTA and short-term specialists. However, substantial investment resources were also provided to build up the IT infrastructure.

The DoT top management has played an active role during the whole project and grasped the purpose of capacity building at an early stage. At the end of the project the DoT had reached a reasonable level of efficiency in carrying out its regular operations. IT was the main technical tool and competence fairly well developed to sustain maintenance and development of new applications. Taxpayer relationships had improved and a service orientation had developed in the whole organisation. The risk to sustainability and further development seemed to emanate from the unfavourable economic development of Zimbabwe and the financial position of the Government that threatened its ability to retain staff, especially skilled IT experts and its capacity to maintain and renew equipment.

5. Regional co-operation

During the 1990s Sida has assisted in building up the East and Southern African Association of Accountants General (ESAAG) and the Southern African Development Community Organisation of Supreme Audit Institutions (SADCOSAI).

The support to SADCOSAI started in 1989, when it focused on establishing the organisation and on financing of training. The Swedish National Audit Bureau has acted as institutional partner and consultant to SADCOSAI. SADCOSAI conducts training, including of trainers in auditing, and manages a scholarship and exchange programme. It has also developed and adopted a quality control system and a code of conduct for auditors. The South African SAI provides a secretariat for the executive committee of SADCOSAI. The organisation is now well established but still requires financial support.

Sida started to fund meetings between Accountants General in the east and southern African region in 1993 and in 1994 the association was formally created. ESAAG is also well established, with a secretariat operating from Pretoria, but needs continued financial support. A Swedish consulting firm has assisted ESAAG during the build up period. ESAAG supports its member countries in implementing the International Government Accounting Standards and Internal Audit Standards, by providing management training, strategic planning methodology, gender training, a code of conduct and a public accounts committee handbook.

Annex 2: NORAD Experiences

1. Introduction

The key data source for this examination of selected Norwegian experience with support for capacity building in PFM in Africa has been NORAD's project database and archives. The number of interventions (programmes and projects) that deal with PFM is clearly dependent on the definition of PFM and capacity building. Budget support programmes and sectors support projects were included since these types of intervention will often include components of capacity building in PFM. A listing of 56 projects that span all Norwegian main co-operating countries in Africa is the basis for the brief analysis below.

Only nine of the projects where archival material could be found had a start date earlier than 1999. More than half of the projects were started in 2000 or later. In all these cases there was little or no information that could form a basis for analysing experience. The relatively recent origin of most projects made it difficult to consider more than a few projects in any depth. In addition to the archival material, the authors used their own knowledge of projects/programmes/interventions and utilised some experience from available World Bank / IMF material.

The composition of Norwegian-funded projects and agreements and the change in their composition over time revealed some interesting features.

The support for PFM (excluding budget support or the like) has been rising strongly over the last 5-10 years. The total expenditure on such interventions has increased perhaps 20-fold during the period and the expansion seems set to continue. Expenditure on PFM support has been increasing over time relative to expenditure on budget support and sectoral programmes, meaning that the concern for PFM has not only been led by the concern for not squandering donor money.

The greatest share of the aid for PFM has gone to planning and statistics. District planning and decentralisation as well as general good governance projects have also received considerable funding. The other components of PFM have received far less attention. This goes for accounting, auditing and measures directed towards the fight against corruption. Only minuscule amounts seem to have gone toward support for revenue collection. Equally, support for the improvement of procurement systems has received very little attention. The various components have developed quite differently over time, as illustrated below.

2. Good governance

There has been an emphasis on good governance interventions through the latter half of the nineties, with an increasing tendency. Early projects concentrated on support to electoral processes, particularly in Uganda. In

Angola, Norway works with the UNDP to strengthen the competence of government generally. Also, a Norwegian research institute, the Chr Michelsen Institute (CMI), is soon to start research co-operation on good government and institutional development with a local counterpart. In Tanzania, projects have largely dealt with issues of public sector reform. In Zambia, most of the effort under good governance has been research and analysis rather than capacity building. In Ethiopia a small project started in 1998, aimed at the training of members of parliament. In Uganda a project for the promotion of good governance was started in 1999 for support to the Inspectorate General of Government in co-operation with UNDP. In Zambia, recently started programmes comprise capacity building for good governance in local administration and political/economic research through co-operation between INESOR of Zambia and CMI of Norway.

2.1. CSRP in Tanzania

Reforms in any of the core areas of PFM take place within the broader framework of government administrative structures. The broad-based Norwegian support for the Civil Service Reform Programme (CSRP) in Tanzania includes a number of components that will indirectly support and strengthen PFM. Started in 1991 by the Tanzanian government in close co-operation with the UNDP, the CSRP was given the broad aim of improving the efficiency of the public sector.

A Nordic evaluation of the programme completed in early 1995 concluded that although the programme was of key importance for Tanzania's development, it was donor-driven to a great extent and essentially a programme to cut the size of the civil service. It was not enough geared to improving efficiency in the remaining parts of the administration. In line with the study's recommendations, Norway's approach as a donor was to start a dialogue with the Tanzanian Government in order to influence the direction of the programme in a positive way and, over time, monitor and consider the ownership issue.

After the autumn 1995 elections, President Mkapa put good governance and administrative reform at the top of the political agenda, thereby increasing the degree of government ownership of the ongoing process. Inertia and lack of capacity within the bureaucracy became the more important blockages to reform. The emphasis of reform was put less singularly on staff reduction.

The new political environment led to increased Norwegian co-operation within the CSRP. Components of the Norwegian support with a relevance for PFM comprised (a) organisational efficiency reviews which among other things looked at departmental establishments, terms of reference and budgeting (b) local government reform including a study of decentralised budgeting for districts and (c) management structures and management skills.

A "think piece" from the Dar Es Salaam embassy from early 1998 looks at the future orientation of the support for CSRP. The document sets out some

interesting experiences and considerations from the viewpoint of a donor.⁸ The points are applicable not only to Tanzania but also in general for the development of public administration, including PFM.

The paper points out a central paradox of institutional reform: While its aim is to increase the capacity of the institutions, there are few activities that are as demanding on capacity as reform itself. Weak capacity, which characterised the situation in Tanzania, was therefore both a *reason* for reform and a *hindrance*. The natural tendency for groups that benefit from the existing system to counteract reform is also referred to.

Donor field offices, which are key institutions for the implementation of assistance, are subject to pressure from higher (home) authorities to spend donor money. Home authorities often use spending as an indicator for the relative success of field offices. In this context, assistance for public sector reform is not attractive since key reforms may often be done without any use of funding at all. Other characteristics of such reforms are that the development of good reform programmes requires a high input of special professional capacity, that projects often have very long gestation times and that project outcomes are often both difficult to describe and uncertain. None of these characteristics make projects “efficient” in terms of spending.

Donors are also often reluctant to engage in institutional reform programmes because they tend to be “sensitive” in the sense that they can seldom be isolated from political reform. Local government reforms, for example, are frequently dependent on local politicians for the realisation of potential effects. Donors are reluctant to be seen to be unduly involved in the internal affairs of the recipient country. Such exposure is particularly easy to attract in the course of institutional change processes, which are invariably at odds with set ways and established power positions.

The demand for theoretical background, practical experience in advocacy as well as planning and implementation of institutional change can often be difficult to fill for donor representatives running small offices or embassies in the recipient countries.

These and other obstacles are to blame for the apparent tendency to move only very slowly, if at all, from the stage of study to implementation in the field of institutional change projects. The document argues that it is important to go into support projects at a realistic level of ambition. An overly active role in advocacy and action may raise difficult and delicate technical and political issues. An overly high profile may reduce the room for manoeuvre and pragmatic assessment. The “think piece” suggests that a relatively small donor like Norway should generally leave such roles to the major multilateral organisations.

⁸ Strategi for Norsk Bistand til Civil Service Reform Programme i Tanzania. VP 1998, Hovedutfordring 2.

Support for institutional (civil service) reform programmes should be considered as long-term processes where dialogue at the higher levels is kept alive and plans are pragmatically adjusted along the way.

It is felt that a high degree of flexibility may be attained within a basket financing arrangement between several donors or a bilateral frame agreement that simplifies procedures to accept and disburse funding to projects within the frame.

3. Planning and Budgeting

The PFM component probably receiving most support from Norway over time has been the planning and budgeting component, including statistics. This component was emphasised throughout the nineties and seems set to expand considerably during 2000 – 2002.

Key projects under this heading include support to policy research in Mozambique (Gabinete de Estudos). Statistical capacity building projects and support for general administration were run in Mozambique and Eritrea. Tanzania and Zambia received support for the PRSP process and a macro modelling project has been running for a long time in Tanzania. In Ethiopia, Norway has been giving support to the PRSP consultation process as well as to a local institute for policy research. In Malawi, recent projects have supported PRSP planning as well as policy analysis processes in the Office of the Vice-President.

3.1. Gabinete de Estudos, Mozambique

From 1996 an important part of Norway's support to Mozambique has been budget support, which is provided in co-operation with nine other donors. A main objective of the support is implementation of the country's poverty reduction strategy. Improvements in PFM and tax systems are also considered important objectives.

It appears that the start of budget support triggered improvements in PFM in Mozambique, which initially was in a very poor state. Joint donor reviews suggested that a sustainable process may have been set off. The latest (2001) Joint Donor Review points out significant achievements, including the drafting of a new public finance act, initiatives to undertake a Public Expenditure Review and a Country Financial Accountability Assessment. Also, quarterly budget assessment reports are now prepared and work on a more detailed system of budget classification is under way.

The PFM system in Mozambique, however, still does not comply with the minimum requirements for an appropriate system. The report points out that a significant amount of resources available to the public sector is not included in the budget and state accounts, and the lack of priority and resources for audit institutions jeopardise their ability to perform their role effectively in the future. The report stresses the need for a comprehensive time-bound action plan for all elements of the reform process in the financial management area. The

importance of attention to these areas was dramatically exposed in 2002 when it became clear that budget support funds had been used in unintended ways.

While budget support, apart from other advantages, has functioned as an incentive for improvements in the PFM system and indirectly had a positive effect on the country's desire for improvements, the Norwegian support (jointly with Sweden and Switzerland) to Gabinete de Estudos (GE) has had a more direct focus on capacity building in certain components of the PFM system.

The GE is established under the Ministry of Planning and Finance as a policy and research unit. A review of GE⁹ in 1999 found that its origin was soundly based on clearly identified needs expressed by the Government and not "donor driven". Important such needs were Government's wish to be better prepared in negotiations with IFIs and donors as well as better analysis of resource allocation in the public sector, foreign debt, and the timing and design of structural reforms in the economy. The review stated that the institution was based on strong Government ownership and that the GE's contributions to policy analysis were of high quality, timely and responsive to needs.

A team from the Harvard Institute of International Development (HIID) was responsible for a programme of technical assistance to the GE. The responsibility of the team would be to "fill gaps" in technical competence and performance as well as to train in order to build up an effective national capacity.

The review demonstrates nearly all the classic conflicts that are likely to arise with similar units:

First, there is the question of the degree of autonomy given to the organisation. Since the GE was fairly autonomous within the ministry and reported to the minister, the link to decision-making was excellent and the group could focus on policy analysis and not be bogged down in routine work. At the same time, the peripheral relation to other departments of the ministry might be a hindrance for the capacity building effect to realise its potential in the longer term.

Second, the tendency for the TA team was to focus more on challenging and interesting macro policy issues than on the relatively mundane need to train young professionals. The lack of young Mozambican professionals and the need for attention to the urgent needs of the political leadership were factors that reinforced this tendency.

Third, the involvement of the GE and the HIID group with the University was limited because there was a lack of qualified researchers at the University and because qualified staff were very busy doing consultancies to enhance their

⁹ Evaluation of Support to Gabinete de Estudos in Ministry of Planning and Finance, Mozambique. Commissioned by Sida, NORAD and the Swiss Development Co-operation. Svein Jørgensen and Dag Aarnes, Nordic Consulting Group, 27 November 1999. Most of our analysis of the GE is based on this report.

incomes. The University also suffered from a severe lack of facilities and was mired in internal battles. It also did not help that the HIID personnel did not speak Portuguese. An attempt by the HIID group to help set up an “Applied Studies Centre” was stopped by internal wrangling.

Fourth, the links of GE to statistical institutions were not well developed. It is not unusual for units like GE to be focused on policy issues to the extent that they ignore giving attention to painstaking statistical analysis and feedback to statistical offices. In the long run this has a negative effect on the quality of statistics and research.

Fifth, the review points to the effect of major differences in salaries and working conditions between central banks and the ministries of finance, a situation which is typical for Africa. “The country can ill afford to have a fully staffed and relatively large research Department in its central bank when it is unable to staff the economic policy unit in the Ministry of Finance”.

There may be solutions to all these problems and the review points out a good many. However, a fundamental problem is that even though policy analysis, capacity building, academic work and statistical analysis are complementary, contradictions both with regard to approach and capacity will arise as soon as an enthusiastic donor attempts to combine them all.

3.2. *MACMOD in Tanzania*

A long-lasting project has been the Norwegian support for budget analysis and macro modelling in Tanzania. The project stems from an initiative taken by the World Bank in the late eighties. The Chr Michelsen Institute was requested to undertake a short consultancy on the possible construction of a model for budget analysis, working with a group composed of staff from the Planning Commission and the Ministry of Finance in Tanzania. It appears that the idea had not come from the Tanzanian Government, which, however, had accepted the project. The project that was drawn up was to take place over a 2-3 year period and included some intermittent TA and a few computers, which until then had been nearly unused technology in the macroeconomic unit of the Planning Commission. In the Ministry of Finance, computers had been introduced through the Sida project reported above.

Some insight was won in PC modelling and budget analysis by the small macroeconomic working group. Over time, however, attention turned more towards orthodox macroeconomic modelling. A macroeconomic model was first introduced in 1992/93 as an analysis tool for the development of the economic framework for the Rolling Plan and Forward Budget. The emphasis of the model was on analysis of the impact of fiscal and monetary policy on the economy. NORAD took over the financing of the project, which from the beginning of the nineties to 2002 went through three successor projects and produced three versions of the model. The TA was intermittent and low intensity and the link between the core groups of economists in Tanzania (Ministry of Finance, Planning Commission and later also including the Bank of Tanzania and revenue authorities) and at CMI in Norway was gradually built

up. Relative to its small size the project has been evaluated surprisingly frequently. Below are mentioned some interesting features brought out by the evaluations.

There has been a recurring concern with the ability of the Tanzanian staff to use the model. Whereas TA activities often took place at junctures where IMF teams visited and in connection with GC meetings, this did not mean that the Tanzanian members of the Macro group were unable to use the model. At a number of occasions seminars were arranged where the team did convincing presentations of technicalities and the policy use of the model.

One review finds it negative that the project has been run by a small group of enthusiastic individuals. The individualisation, however, could well be the reason why the model has not lost its foothold in an organisational environment characterised by rapid change.

Perhaps the most interesting feature mentioned in the review material is the support that the modelling work has attracted from the political level as well as from donors. The World Bank has been particularly interested and supportive. At a seminar in May 2002 a World Bank representative remarked that the model "had done a lot of good to the economy"!

It is clearly stated that the model in its final version is more sophisticated than the World Bank and IMF calculations that have formed the basis for fiscal and monetary policies. The fact that the model framework is so well regarded has brought about considerable self-confidence in the Tanzanian modelling group. The Tanzanian side of the technical discussion with IFIs about important macro policy aspects has become much stronger. With newly won self-confidence, the macro group is more likely to take on additional modelling attempts. Modelling for better revenue projections is already under way in an accessory model called TAXMOD.

Since the model is soundly theoretically based and has been made transparent through proper documentation, the policy staff has also attracted considerable interest from academic economists. Hopefully this will lead to both more knowledge about the model and its use and more scrutiny of its technical aspects.

The project overall has been considered successful. However, it has broken a number of the rules in the book for good project planning and management. Important factors holding it together for 12 years have been the convergence of interest from the main stakeholders, technical staff, donors and policy makers.

4. Accounting

In the field of accounting, support to African countries was relatively low during the nineties but has gained importance at the beginning of the new millennium.

Important interventions in this area are support to Zambian institutions and scholarships as well as support to the Ministry of Finance and the Accounts Committee.

5. Payments

There has been very little if any emphasis on this field. One project in Angola, started 2000, gives support to a project for updating and reviewing current rules and regulations for state procedures on the acquisition of goods and services.

6. Audit

Support for audit has taken place only since the mid-nineties. The support for Zambia's Auditor General is the main Norwegian project in this category. Norway is also supporting preparatory work for co-operation between the Swedish National Audit Office and the Malawi Auditor General.

The institutional support to INTOSAI, which aimed at establishing and manage a secretariat for INTOSAI Development, has also been a route of support to the audit component.

6.1. Office of the Auditor General in Zambia

Under an agreement signed in 1997 Norway gave technical and financial assistance to the Office of the Auditor General (OAG) in Zambia during 1997-2001. A successor programme is planned / under implementation.

The process that led to the start of implementation took 6 years from the initial idea of providing assistance that arose in 1992. Activities during these years included fact-finding missions, consultancy reports, a number of meetings between the OAG and its Norwegian counterpart and the preparation of a project document. The process was delayed by a two year Norwegian aid "freeze" over 1995-1997.

The overall purpose of the assistance was to improve the OAG's ability to conduct independent, timely and cost-effective audits in order to ensure optimal utilisation of government resources. The main components of the assistance were staffing of a small project team at the OAG, equipment and training as well as co-operation between the two OAGs. The project was undertaken in the context of the Zambian Public Service Reform Programme (PRSP), which was launched in 1993.

A mid-term review of the project¹⁰ made the point that few indicators for progress in terms of project efficiency and effectiveness had been constructed at the outset. Still, it was found that the project was generally on track, carrying out activities and achieving planned outputs with reasonable progress and quality. A number of findings on the various project components render valuable experience.

¹⁰ OAG Mid-term Review, Final Report, May 2000

The organisational restructuring of the OAG that went along with the project was only partly implemented. A decentralisation component, not to be supported by the project, did not show much achievement due to lack of funding. In terms of training, courses had been delivered on schedule although a question mark was put on the actual *transfer* of knowledge. Hardware items (IT and transport) had been delivered but familiar questions arose as to the use and purpose of hardware items. Of the most directly important components of the project “Audit quality”, there was considerable progress in the area of *performance audit*, which was initially very weak or non-existent and where the building of a new unit and staff training were relatively easier tasks.

The *financial audit side* was where most of the activities of the OAG took place and where most of the staff were engaged. The fact that the project would have to interfere in a “going concern” to introduce new work methodology made it a complex process requiring management decisions. Clear project objectives like the production of manuals may seem important benchmarks in the project context, but the end result really concerns the extent and speed at which staff accept and understand auditing standards.

Institutional co-operation or twinning between the two OAGs was one facet of the project. The evaluation report points to the importance of the understanding and implementation of such co-operation. It is indicated that the way institutional co-operation appeared in the project document, as a component with its own budget line, was taken to mean that it should be considered a purpose *per se*. The Norwegian OAG’s comments on the mode of institutional co-operation made the point, saying that “... defining institutional co-operation between the two OAGs was a wrong way of doing it. By doing it this way the co-operation appears to be an activity/work area like the others. The idea was to use the co-operation as a means to carry out activities.”

Institutional development had largely focused on human resources and equipment. A greater focus on organisation and systems development aspects would have to rely on the exchange of ideas about models and modalities and would require a framework of institutional co-operation. To capture the advantages of institutional co-operation it was seen important that it enabled individual contact between staff members of the co-operating organisations, perhaps particularly at the higher levels.

Almost too commonplace to mention: *the “people part” of any project counts*. The evaluation points out that there appeared to be a feeling of distance between the project staff and the OAG staff. This was tentatively attributed to the fact that project group members were appointed externally. Relations, however, varied considerably between individuals and work situations.

Assessments of the Norwegian contributions by involved staff are interesting in that they perhaps contradict the not uncommon attitude among northern institutions that they are necessarily ahead in all fields. Interviewees on the Zambian side expressed the view that Norwegian contributions were not

always significant and that in some areas the OAG of Norway was not much ahead of its Zambian counterpart.

The problems of *staff retention* were quite serious - for more than one reason. Some of the reasons, like the perception that they were a low-status group in the civil service, were specific for the audit staff. Others, like a lack of amenities and equipment at the workplace, would have been a commonplace constraint for the entire civil service. The main reason for retention problems is, however, likely to be that the market value for a well-qualified auditor is much higher than what is reflected in government conditions. "OAG finds it difficult to retain well educated staff (degree holders and professionals) and within the current general government conditions it is not possible to create special career paths for auditors willing to study."

The question of *sustainability* is central to all development projects. In the context of institutional development, which is essentially a never-ending process, sustainability will have to be defined as the institution's ability to carry on development unaided *ad infinitum*. The vexed question for donors and recipients alike is when the break-off point should be. A successor programme for support to the OAG for a three-year period will be part of the financial management component of the Public Sector Capacity Building project in Zambia.

Despite considerable progress in enabling the OAG to function better, the project's *impact* remains limited by factors which do not lie within its terms of reference but are part of Zambia's own institutional and legal structure. The report holds that "recommendations based on OAG audit reports are to a limited extent implemented. There are a number of measures proposed for enhancing the OAG's impact, including: making OAG fully autonomous and independent; letting OAG report directly to Parliament; giving the Public Accounts Committee the mandate and resources to effectively monitor and apply sanctions related to audit recommendations, etc."

7. Revenue

There has been very little specific emphasis in this area. The modelling project in Tanzania, touched on above, has included a component of tax modelling (TAXMOD), working with the Ministry of Finance and the Tanzania revenue bureau.

8. Corruption

Intervention in this area did not take place before the end of the nineties. An early project was the support for the anti-corruption commission in Zambia. Other important projects in this area have been in Tanzania (support for development of an anti-corruption strategy) and Malawi (support to the anti-corruption bureau).

9. Local administration, decentralisation

Projects under this heading started to emerge in the late nineties. Important interventions include support for strengthening local government in three

districts of the Northern Province in Zambia; good governance at the local level in Uganda (fiscal decentralisation, fact-finding studies, and a review of the LGDP and PAF modalities). In Malawi there is a NOK 45 million project for the decentralisation plan covering the legal framework, civic education, institutional development, fiscal reform, accounting and financial management, devolution of functions as well as local development planning. In Tanzania the focus under this component is the financing of local government reform with a budget of some 40 million NOK. In Mozambique the interventions have included local government economic management, capacity building and decentralised planning. Projects here may focus on decentralisation generally but also usually contain considerable elements of capacity building in PFM.

10. General PFM projects

This group of interventions contains programmes more vaguely connected to PFM. There are a number of projects in this category. Important through several projects has been work around planning and general PFM in Mozambique and general support for financial management in Zambia and Tanzania. Support to CFAAs in Malawi and Mozambique and training for public administration in Mozambique are projects under this category. Financial support to public expenditure reviews in Tanzania over a number of years and brief studies on macroeconomic issues in Uganda and Zambia might also be included.

11. Sector/budget support

A number of “basket” type projects do contain smaller or larger components of PFM. These include health and education sector support in Ethiopia and health sector support in Malawi, Mozambique and Uganda. Budget/macro support projects are active in Mozambique, Tanzania, Uganda. In agreements with recipient countries on macro and budget support, Norway has adopted as a standard performance criterion: “progress in public financial management reform”. This criterion is used actively as a guide to decisions on disbursement.

Summary

This study was contracted by Sida and NORAD for the purpose of summarising experiences in capacity building for Public Finance Management (PFM) in Africa. In particular, the two organisations' attempts to take a more *comprehensive approach* to PFM were to be highlighted. The study is a desk study, based on a review of policy documents.

An overview of the Swedish and Norwegian approach for support to PFM reveals a number of similarities between the two donors. In particular, since the seventies and eighties, their approach has moved away from the concept of "*filling holes*" based on stand-alone technical assistance to PFM institutions. Presently, the donor agencies, at least in theory, approach PFM as a *system*, comprising the above-mentioned components. In the diagnostic phase they attempt to take a *systemic view*, although most interventions focus components or sub-components.

Tentative recommendations that the authors see emerging from their examination of Sida and NORAD projects as well as other sources of experience are as follows:

- A *long view* is necessary.
- It is important to analyse the entire PFM system and to undertake interventions that are *balanced between the components of PFM* (Planning, budgeting, Auditing, Accounting etc.).
- *Support the education and training of economists and accountants* to build up a strong professional cadre of accountants and economists.
- *Improve human resource management systems* (like salaries and career opportunities) to attract competent personnel for PFM.
- *Institutionalise the dialogue between recipient agencies and donor agencies* during both diagnostic and implementation stages.
- The *development perspective* has to guide the development of PFM.
- Ideally, the *recipient government*, not the World Bank should provide leadership for support to PFM under joint donor "umbrellas".
- Support and encourage *regional organisations* and networks in the PFM field.
- *Consider implementation conditions* such as: The level of political will to improve PFM; Degree of organisational and institutional blockages; Terms and conditions for key staff; Capacity for capacity building
- *Link PRSP poverty reduction approaches, budgetary support and PFM improvement*. The quality of PFM will be a decisive factors in ensuring that recipients policy decisions and agreements with donors *actually* lead to a greater flow of public sector resource for poverty reduction.

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