The rewards of reform: Public Financial Management reform in Africa
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“EY brings a solution, but along the way there has to be capacity building otherwise the reforms will collapse when we exit.

Joe Cosma, EY Africa Government & Infrastructure Leader
Introduction

Africa is a continent known for its turbulent history, yet in the last decade a much more peaceful transformation has been taking place that can bring significant improvements for its people. As many countries across the continent have embraced democracy and are enjoying rapid economic growth, the pressures on governments to deliver basic services and improve living conditions for their people are mounting. Public financial management (PFM) reform is helping African governments to meet these demands.

In the past, PFM reform in Africa has mostly been driven by the need to comply with the requirements of international donors and development partners. Increasingly, though, African governments are seeing the broader value in improving the management of their finances.

PFM reform is a process that different countries will conduct in different ways, depending on their varying levels of maturity. PFM reform may start with ensuring the production of a regular and accurate set of national accounts, and range to the implementation of a comprehensive Integrated Financial Management Information System covering all tiers of government.

Many countries in Africa are part way through the process, but few have yet achieved full integration. Some countries, such as South Africa, have public accounting systems that are fully automated but not yet fully integrated across all tiers and departments of government. Others, including Uganda and Ghana, have achieved a greater degree of integration, but do not yet have fully automated public financial accounting systems.

Common to all stages of the process is an emphasis on introducing or optimising IT systems and capacity building within key institutions.

With improved PFM governments are in a better position to borrow from international lenders on the open market, and at cheaper rates, to fund large infrastructure projects. They can also better account for what their departments are spending and can drive efficiency through better planning and proper accounting. Overall, African citizens stand to gain from such reforms, through greater public financial transparency and accountability, and the more effective use of public funds for service delivery.
Meeting minimum requirements of development partners

PFM reform can go beyond simply meeting the minimum requirements of international donors to achieve more sustainable benefits for a country and its citizens. Donors themselves are also in support of governments driving their own reforms.

Public financial management reform in Africa has historically been motivated by the requirements of international donor organisations and foreign governments providing aid to countries on the continent. Such development partners have required minimum standards of financial reporting in order to account for financial aid being provided to governments.

However, there have been significant downsides to this approach. Firstly, it is inherently reactionary, by only meeting minimum requirements of donors rather than making proactive and sustainable improvements to public financial management, which in turn improve service delivery, governance and accountability. Secondly, and related, is that PFM reform that is driven by donor requirements is in danger of being superficial, lacking local legitimacy and not being focused around improving efficiency and accountability for the benefit of citizens.

Finally, donors have often focused particularly on reforming the way budgets are drawn up, yet managing the execution of those budgets has often fallen short. In other words, PFM reform of this nature may result in comprehensive planning for how donor money will be spent, but little by way of monitoring and ensuring that such funds are used effectively for the benefit of a country’s people and economy.

Apart from anything, PFM reform that has been driven primarily by the need to meet donor requirements has often fallen short in Africa. For instance, while Uganda has been recognised as one of the African countries at the forefront of public sector reform, financial aid to that country from the UK, Ireland, Norway and Denmark was frozen in December 2012 following evidence of significant misuse of funds in the Prime Minister’s office.

In November 2013, the UK, EU, Norway and other international donor organisations also withheld aid from Malawi following allegations that government officials had looted millions of dollars, despite the adoption of an Integrated Financial Management Information System (IFMIS) in the country in 2005.

The situation in Malawi demonstrates the need to fine-tune PFM reform in order to genuinely combat inefficiencies and the potential for abuse - despite making significant strides in adopting IFMIS, the system in Malawi had loopholes that made it vulnerable to fraud. The country has now introduced an action plan involving over 60 improvements to IFMIS in order to tackle weaknesses and vulnerabilities. International development partners are keen to support such initiatives, to ensure that their funding in Africa is put to the most efficient and effective use.
What does PFM reform include?

- Reviewing of PFM Act
- Developing an institutional framework for PFM
- Developing/reforming regulations to govern PFM
- Processes to achieve clean audits
- Designing a new Chart of Accounts for government
- Reviewing/reforming the government’s budgeting process
- Reviewing/reforming financial reporting processes
- Implementing Integrated Financial Management Information Systems (IFMIS)

Ensuring success

- Government commitment
- Capacity building
- Change management
Improved accountability

PFM reform can significantly improve government accountability to a variety of stakeholders, including lenders in the open market, governing institutions and citizens.

While PFM reform in Africa has often been focused on complying with the requirements of donors, there is significant scope for reform to improve accountability to lenders in the open market, investors, domestic institutions such as parliament, and broader civil society and citizens.

Countries with improved public financial management practices are more likely to be able to borrow from international lenders in the open market to fund large infrastructure or service delivery projects. The better a country’s financial reporting and budgeting process, the lower the risk of lending to that government, thereby making borrowing cheaper for those countries that successfully institute PFM reform. In Africa this is particularly relevant, as countries are aiming to reduce their reliance on international donors and aid and instead raise capital through the open market to meet large infrastructure gaps and service delivery needs.

Speaking at the Combined Forum of the Macroeconomic and Financial Management Institute of Eastern and Southern Africa, supported by EY, Uganda’s finance minister called on African governments to establish a better climate for the private sector to create jobs. PFM reform can contribute to greater economic and policy certainty for the private sector, as it encourages longer term public budgeting and the more accountable use of public funds.

With improved public financial management, the private sector can have more accurate information about government spending and greater confidence that it will happen as planned, allowing them greater certainty in African markets that are otherwise often beset by risk and uncertainty.

This greater certainty will in turn allow for higher levels of private sector investment and job creation. For example, PFM reform can help ensure that large scale infrastructure projects will be completed on budget and on time, or can encourage the more reliable payment of private service providers to the government, both things that will make a country more attractive to local and foreign private sector investors. As African governments increasingly compete to make their countries attractive to foreign investors, PFM reform can play a crucial role in the race for capital inflows.

“We are doing our best to raise sustainable levels of borrowing so that what we borrow can only be used strategically towards priority sectors”

the late Hon. William Mgimwa, Finance Minister (2012-2013), Tanzania
While PFM reform will not guarantee that governments stick to their budgets and spend as planned, at the very least improved public financial management can enhance accountability and transparency. This not only attracts investment to a country, but strengthens the hand of institutions, civil society and citizens to hold their governments to account. It can also help the executive to clamp down on corruption and reduce wastage and the misuse of public funds.

Not only can PFM reform improve public financial accountability and transparency, but included in the process can be capacity building within oversight institutions such as parliamentary public accounts committees or Accountants General. Historically, many public accounts committees of parliaments in African countries have had limited capacity to play their intended oversight role.

This is usually either because of limited accurate information about public spending and budgets, or because of limited skills within such committees to scrutinise and analyse public accounts sufficiently. Similarly, critical skills shortages across Africa have often meant that the offices of Accountants General or Auditors General have lacked the capacity to hold the executive to account. PFM reform processes can address such issues.

“Government treasury departments in Africa cannot go it alone. National plans can succeed but they must have widespread support and be maintained over the long term.”

Keith Engel, EY Africa Tax Policy Leader
Efficiency improvements

Perhaps most importantly, PFM reform can help governments achieve greater efficiency in the use of public funds, essential in a climate in which demands on government to provide services and infrastructure are mounting, particularly in Africa with its historical backlogs. Efficiency gains can be achieved through improved budgeting and planning processes, reduced corruption and wastage, and an expanded tax base, all of which can be achieved by way of PFM reform.

Improved public financial management may often involve reviewing a government’s budgeting processes and accounting systems. In many governments across Africa, accounting systems are fragmented between different ministries or tiers of government. This reduces coherency and alignment across government in the spending of public funds, increasing the likelihood of wastage or duplicated spending. PFM reform can help governments move to single accounting systems across ministries, enabling centralised planning and budgeting, as well as the ability to monitor the spending of funds centrally.

To this end many governments in Africa are now implementing or planning to implement Integrated Financial Management Information Systems (IFMIS).

This is a system which allows for integrated budgeting, financial management, procurement and supply chain management, and human resources functions. IFMIS thus allows governments to drive efficiency by giving them an integrated system for monitoring and evaluating spending on goods and services.

Integrating financial management in this way can also assist governments on clamping down on corruption and wasteful or irregular expenditure in their departments or at local level. Far too often, bad governance and its symptoms such as corruption and wastage, arise from a lack of accurate information. Good public financial management can address this by providing governments with accurate and timely financial information with which they can make decisions and hold people to account.

Finally, PFM reform is allowing African governments to expand the tax base in their countries. Better financial management and reporting allows governments to track who is and is not paying tax as they should. In addition, being able to report back to citizens on how government money is being spent helps to give governments legitimacy and accountability in the tax collection process.

PFM reform can enable governments to budget and account for expenditure better, thereby improving the efficient use of public funds, as well as helping to cut corruption and wastage.
“Attracting investment to Africa is premised on good governance and accountability. You can’t get that right until you get public financial management right.”

Joe Cosma, EY Africa Government & Infrastructure Leader
Conclusion
PFM reform is a key building block in achieving better governance in Africa by enabling greater accountability and efficiency in the use of scarce public funds for the benefit of citizens.

PFM reform has, in the past, been viewed as somewhat of a tick box exercise for African governments in order to meet the requirements of international donor agencies. However, as African governments embark on the PFM reform journey, they are increasingly finding value in the process beyond meeting these narrow requirements. Governments are instead driving the process internally with the support of international donors. PFM reform is helping African governments to borrow more easily and cheaply; it is assisting them in attracting investment; it is enabling them to be more accountable to their parliaments and citizens; and it is driving efficiency gains which can help them to deliver more with limited funds for their citizens. As governments in developed markets have learnt in the wake of the financial crisis, maintaining fiscal discipline and squeezing more value out of government expenditure is going to be vital to maintaining popular support and creating an environment attractive to investors. Public financial management reform can play a crucial role in helping African governments achieve these goals.
An overview of PFM maturity in Africa

1. Accounting, budgeting and expenditure
2. Revenue and revenue authorities
3. Civil service payroll
4. Procurement and supply chain
5. Management decision support, eg integrated government systems showing KPIs

EY viewpoint

- A significant number of countries in Africa have already reformed their accounting, budgeting and revenue mechanisms
- Many countries in Africa are still finding significant challenges around their civil service payroll - a challenge, eg ghost workers and payrolls not reconciling
- Reforming procurement and supply chains, and introducing integrated reporting systems to support executive decision making is still in the early phases in many African countries
At different stages EY has been helping African governments achieve reform

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**International development partners: a winning partnership**

International development partners increasingly recognise the need to support public financial management reform in Africa as a way of sustainably supporting accountability, transparency and democratic institutions on the continent.
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