

# EFFECTIVE PUBLIC RESOURCES MANAGEMENT: PAVING THE WAY TO SUSTAINABLE ECONOMIC GROWTH AND DEVELOPMENT



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The management of the budget, from preparation through to financial and performance reporting, is an important objective of public financial management (PFM). PFM refers to the procedures, established by law or regulation, for the management of public monies through the budget process, which includes formulation, execution, reporting and analysis<sup>1,2</sup>.

Good public financial governance is achieved when these procedures result in responsive public services through public spending that is affordable, transparent and accountable, and which funds governments' priorities without wastage or corruption.

## **PROGRESS IN AFRICA**

At the level of ambition, many African countries would align with a vision whereby public financial resources are managed with integrity, transparency and accountability for efficient and effective service delivery, sustainable economic growth and development. Evidence of this ambition is seen in the investments that have gone into the building of the institutions and processes to advance good public financial management.

The public finance space in many African countries is occupied by institutions that have a long history of designing, supporting and implementing a series of policies, systems, rules and procedures for the improved management of public resources. While progress has been varied, there are dimensions of the public resource management environment that are performing better on average, such as taxpayer management, fiscal forecasting and budget credibility, and central budget planning. In some countries, improvements have also been observed in sector planning practices, internal financial reporting and the timely submission of audit reports to parliament. However, progress has been slow and in certain cases not commensurate with the level of investment, especially in the efforts to strengthen the linkages in planning, budgeting and the delivery of public services.

## **CHALLENGES POSED TO ACHIEVING GOOD FINANCIAL GOVERNANCE IN AFRICA**

A 2012 study of the status of good financial governance (GFG) in Africa, undertaken by AfrOSAI<sup>3</sup>, ATAF<sup>4</sup> and

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CABRI<sup>5</sup>, identified several critical challenges that impede the vision of public financial resources being managed with integrity, transparency and accountability for efficient and effective service delivery, sustainable economic growth and development. Some of these challenges are discussed here.

*Improved public resource management in Africa is blighted by a significant transparency deficit.*

In budgetary theory and reform practice, Campos and Pradhan's (1995) influential paper on fiscal institutions and budgetary outcomes sets out how institutional arrangements that improve transparency and accountability bind key players to particular fiscal outcomes and make it costly for them to misbehave. Since then, the potential of fiscal transparency to not only ensure better decision-making, but also to prevent rule-breaking and outright corruption in the management of public money, has become the common focus of many PFM reform programmes.

Based on data from the Open Budget Index<sup>6</sup>, it is found that although on average African countries lag behind other regions in the world with regard to the degree and practice of budget transparency, some of the higher performers are located on the continent.

However, most countries in Africa provide only very basic information, if any. In many cases, information is already available internally and significant progress can be made relatively quickly by focusing on transparency reforms that produce standard external documents, such as executive budget proposals and annual reports.

*Technical and managerial capacity shortfalls threaten good financial governance.* There is a growing mismatch between the direction of tax, budget and audit reforms in Africa and the availability of skills. The development and use of sophisticated fiscal forecasting models, the development of costed sector plans, the implementation of financial management information systems, the shift to a risk-based system of internal audits, and the development of professional audit capacity and full oversight of increasingly sophisticated public finance approaches, require highly professional technical and managerial skills. Unfortunately, reform choices are seldom informed by their implementation capacity needs.

*Impaired accountability relationship.* A major challenge to good governance is the constraining of the executive's power,

while not diluting its ability to fulfill its constitutional obligations and electorate mandate. Holding the executive to account is often weakened by the capacity of the legislature to perform its function efficiently and effectively. Legislatures often lack the independence to perform their constitutional functions, because they depend on the executive for their human and material resources and funding (UNECA, 2003; 2009).

*Financial governance reform choices are not always country-appropriate.* Indirect and often direct donor influence on financial management reforms affects the ability of African states to establish effective institutions. Donors and their consultants tend to propose what is familiar to themselves, leading to similar institutional approaches to financial management problems in very different country contexts. Scarce capacity in many ministries of finance has been tied up in implementing donor-designed reform programmes, which often do not take sufficient account of underlying institutional practices, resulting in ritualistic changes to process or form with little effective improvement in function. However, not all blame should be associated with donors. African governments carry some responsibility; too often, reform proposals and technical advice are accepted uncritically.

African countries need to urgently take charge of their own reform requirements, sequencing and approaches.

## SETTING AFRICA ON THE PATH TO FINANCIAL GOVERNANCE REFORM

The GFG study undertaken by the three PFM networks identified, amongst others, several priorities for African countries to move towards good governance in budget preparation, execution and reporting, as an indispensable requirement for systematic improvements in public infrastructure and service delivery.

Firstly, African governments should

<sup>5</sup>The Internal Budget Partnership, based at the Centre on Budget Policy Priorities, publishes the results of its Open Budget Survey as part of the Open Budget Initiative

provide access for legislatures and the public to useful, comprehensive, timely and accessible information on fiscal and budget decisions and the state of public finances. An immediate commitment should be to improve the annual budget documentation and to publish the information that already exists. In addition, African countries should all prioritize transparency to the legislature and the public and establish what information is important to publish but not yet available. They should then prioritize reliable production of transparency and make systematic progress towards full fiscal and budget transparency.

Secondly, finance ministries should take ownership of reform choices and processes. Key to this is ensuring that the basic building blocks of good financial governance are in place, that their improvement is sequenced correctly and that the specific reforms undertaken are country-appropriate. In addition, the implementation gap should be closed by developing clear, time-bound strategies for the operationalization of legislative changes and new processes.

It is important for good public financial governance in Africa that countries are more circumspect about donor-driven PFM system reforms, rely more on local commitment, knowledge and capacity, and apply realistic timelines for reform processes.

Thirdly, political leadership of PFM reforms, and the political will to enforce formal rules and demand vertical accountability, is crucial for good financial governance. Unfortunately,

research has highlighted that the opposite is far too often the norm where political engagement with the PFM system is precisely about bypassing formal systems. A key priority, therefore, is the strengthening of transparent, systematic and accountable political engagement with budgets and the PFM system by political actors. This should be supported by the political will of finance ministers and their commitment to enforcing formal system rules and demanding accountability.

Fourthly, the implementation of robust budget and financial management systems is dependent on the professional capacity to operationalize systems being in place. Strategies to close the implementation gap should take account of capacity shortages and develop realistic timelines for implementing new systems. The professionalization of public finance practitioners must be prioritized.

Fifth, is the integration of development assistance in budget processes and ensuring that oversight institutions are engaged on aid options and choices. This is particularly relevant to high-aid-receiving countries. African countries must look at the strategic integration of their aid management and PFM practices to ensure overall effectiveness in the use of resources, irrespective of whether this is raised domestically or received from donors.

Good public financial governance is intrinsic to delivering more and better public infrastructure and improving the lives of Africa's citizens. Above all, it is essential for development effectiveness.

## ABOUT THE AUTHOR

Mr. Neil Cole is the Executive Secretary of the Collaborative Africa Budget Reform Initiative (CABRI). In this position he provides strategic leadership and management of a peer network of Senior Budget and Finance Officials from more than 30 African countries. Prior to his position at CABRI, Mr. Cole worked in the National Treasury of the South African Government in senior management positions in the Budget Office and in the International Economic Policy division. Responsibilities in the National Treasury included: policy advice and implementation of budget reforms; expenditure planning of national government; co-ordination of national budget process; policy advice on South Africa's engagement with the rest of Africa; and representation at bilateral and multilateral forums, including multilateral development banks.

Mr. Cole has done postgraduate studies in economics at the University of London and holds an undergraduate degree in public administration and communications from the University of South Africa.

Mr. Cole has participated in several global forums on aid effectiveness and contributed in the drafting of the Accra Action Agenda and the Busan Partnership for Effective Development Cooperation. He is a faculty member on the PFM Executive Training Course at the Harvard Kennedy School. In 2014, he was elected to co-Chair the Effective Institutions Platform and also serves as a member of the board of Publish What You Fund.

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3. African Organisation of Supreme Audit Institutions (network of African auditors).
4. African Tax Administrators Forum (network of African tax administrators).
5. Collaborative Africa Budget Reform Initiative (network of budget managers).