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ACKNOWLEDGMENTS

This report was prepared by a team comprising Verena Fritz and Ana Paula Fialho Lopes, with Edward Hedger and Heidi Tavakoli (Overseas Development Institute), and Philipp Krause (World Bank). The case studies on which this synthesis report is based were prepared by Geraldine Baudienville (Afghanistan and the DR Congo), Ed Hedger (Liberia), Philipp Krause (West Bank and Gaza), Samuel Moon (Cambodia and Tajikistan), and Heidi Tavakoli (Kosovo and Sierra Leone). Summaries of the case studies are included in this synthesis report as Annex II.

The work was supported by the Multi-Donor Trust Fund on Partnership and Knowledge (Australia, UK, Netherlands, Canada, Norway).

Overall guidance was provided by Linda Van Gelder, James A. Brumby, PRMPS, and Joel Hellman, Stephen N. Ndegwa, OPCFN. The team is also very grateful for the support and comments received from country and sector teams of the eight countries covered, especially to Paul Sisk (Afghanistan), Peter Murphy, Rob Taliercio, Leah April and Sodeth Ly (Cambodia), Jean Mabi Mulumba (the DR Congo), Clelia Rontoyanni (Kosovo), Ismaila Ceesay (Liberia and Sierra Leone), Vivek Srivastava (Sierra Leone), Svetlana Proskurovska (Tajikistan), and Mark Ahern (West Bank and Gaza), and to the World Bank and IMF staff who agreed to be interviewed for this work.

The report benefitted at various stages from the valuable guidance of Matt Andrews, Richard Allen, Chiara Bronchi, Bill Byrd, Ismaila Ceesay, Stephane Guimbert, Bernard Harborne, Markus Kostner, Duncan Last, Allister J. Moon, Kathrin A. Plangemann, Douglas J. Porter, Svetlana I. Proskurovska, Francesca Recanatini, Renaud Seligmann, Vivek Srivastava, Graham Teskey, Sanjay N. Vani and Debbie Wetzel. Further comments and helpful suggestions were received during a peer-learning workshop held in Nairobi in June 2011.
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<td>AFMIS</td>
<td>Afghanistan Financial Management Information System</td>
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<td>AFROSAI</td>
<td>African Organization of English-Speaking Supreme Audit Institutions</td>
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<td>ARTF</td>
<td>Afghanistan Reconstruction Trust Fund</td>
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<tr>
<td>BTI</td>
<td>Bertelsmann Transformation Index</td>
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<tr>
<td>CFAA</td>
<td>Country Financial Accountability Assessment</td>
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<td>CPAR</td>
<td>Country Procurement Assessment Report</td>
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<td>CSR</td>
<td>Civil Service Reform</td>
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<td>DR Congo</td>
<td>Democratic Republic of Congo</td>
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<td>EU</td>
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<td>FMIS</td>
<td>Financial Management Information System</td>
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<td>GAC</td>
<td>General Auditing Commission (Liberia)</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNI</td>
<td>Gross National Index</td>
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<td>GEMAP</td>
<td>Governance and Economic Management Assistance Program</td>
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<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Country</td>
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<tr>
<td>IFAPER</td>
<td>Integrated Fiduciary Assessment and Public Expenditure Review</td>
</tr>
<tr>
<td>IFI</td>
<td>International Financial Institution</td>
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<tr>
<td>IFMIS</td>
<td>Integrated Financial Management Information System</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
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<td>KFMIS</td>
<td>Kosovo Financial Management Information System</td>
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<td>LICUS</td>
<td>Low Income Country Under Stress</td>
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<tr>
<td>MDA</td>
<td>Ministries, departments, agencies</td>
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<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
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<tr>
<td>MOFED</td>
<td>Ministry of Finance and Economic Development</td>
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<td>MBPI</td>
<td>Merit-Based Pay Initiative (Cambodia)</td>
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<td>MTBF</td>
<td>Medium-term budgetary framework</td>
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<td>MTEF</td>
<td>Medium-term expenditure framework</td>
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<td>MTFF</td>
<td>Medium-term fiscal framework</td>
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<td>NATO</td>
<td>North Atlantic Treaty Organization</td>
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<td>NGO</td>
<td>Nongovernmental organization</td>
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<td>ODA</td>
<td>Overseas development assistance</td>
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<td>ODI</td>
<td>Overseas development institute</td>
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<td>OPCFC</td>
<td>Fragile and Conflict-Affected States Unit (World Bank)</td>
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<td>PEFA</td>
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<td>Public Expenditure and Institutional Review</td>
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<td>PER</td>
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<td>PISG</td>
<td>Provisional Institutions of Self-Government</td>
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<td>PRMPS</td>
<td>Public Sector Governance Unit (World Bank)</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
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<td>SAI</td>
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<td>Special Representative of the Secretary General</td>
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<td>TSA</td>
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<td>UN</td>
<td>United Nations</td>
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<td>UNAMSIL</td>
<td>United Nations Mission in Sierra Leone</td>
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<td>UNDP</td>
<td>United Nations Development Program</td>
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<td>UNMIK</td>
<td>United Nations Interim Administration Mission in Kosovo</td>
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<td>UNTAC</td>
<td>United Nations Transitional Administration in Cambodia</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>WGI</td>
<td>World Governance Indicators</td>
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<td>WDR</td>
<td>World Development Report</td>
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EXECUTIVE SUMMARY

Public financial management (PFM) is frequently a key pillar in reforms to build more capable and accountable states in post-conflict environments. It is the focus of attention of international financial institutions as well as other bilateral aid agencies, and in many cases drives the financial support provided by key donors. PFM reforms are expected to contribute to the wider state-building goals that are tantamount to the post-conflict phase, including a more transparent management of public finances, regular payment of salaries of civil servants, better service delivery, and better allocation of resources in support of reconstruction priorities.

The expectations linked to PFM reforms in post-conflict contexts raise a number of questions: What PFM reforms are feasible in post-conflict environments? Are there specific country conditions, or specific approaches to PFM reform that make success more likely? How fast can progress be achieved, and what does progress look like in light of a country’s starting points? Moreover, do PFM reforms to the degree that they succeed actually contribute to state-building efforts as expected? These questions are particularly relevant for the World Bank, which is frequently being asked to play a role in implementing PFM reforms in post-conflict environments.

This synthesis report addresses those questions regarding the feasibility and constraints to PFM reforms in post-conflict contexts. It discusses the findings from a cross-country analysis of the design, implementation, and impact of PFM reforms in eight post-conflict environments. The report—reviewing these eight post-conflict experiences during a 7–10 year period in the early 2000s1—focuses on what has worked and why, and what effects can be discerned with regards to wider state-building goals. No single study on this topic can hope to address all relevant issues. However, this effort aims to contribute to building relevant evidence and to drawing lessons learned that can inform policy decisions as well as operational practice.

KEY FINDINGS: ARE PFM REFORMS POSSIBLE? DO THEY PAY OFF?

Overall, significant progress with improving public financial management is possible in post-conflict countries despite post-conflict legacies, including very low human capacity, levels of continuing insecurity, absence of any prehistory of independent statehood, and acute levels of underdevelopment. Six of the eight cases reviewed showed “intermediate” (Cambodia and Liberia) to “substantial” (Afghanistan, Kosovo, Sierra Leone, and West Bank and Gaza) progress on PFM reforms, while progress remained “limited” in two (Democratic Republic of Congo and Tajikistan). At the same time, progress has been uneven across the dimensions of the budget cycle, and the sustainability of PFM reforms frequently remains uncertain due to capacity challenges as well as political and security reasons.

A key determinant of PFM reform success is the degree of political commitment, which in turn is driven by donor incentives and governments’ goals. Governments that seek international recognition or access to major provision of aid or debt relief (such as HIPC) are more likely to let or make PFM reform happen. Relative to governments’ motivation, constraints related to capacity and continuing fragility exist but are secondary at least in the short term. These constraints can be circumvented. Progress on PFM reforms is still possible even where these constraints are significant. However, the incentives that motivate political commitment can be temporary and could decrease once goals such as international recognition or HIPC completion have been achieved.

The patterns emerging from the analysis of how reforms have been pursued do not suggest one single best practice or sequence. However, four practices are worth highlighting: (a) shared analysis and coordination among development partners supporting PFM reforms typically emerges late and should be considered earlier; (b) reforms of organic budget laws tend to happen over a period of time rather than early in the process, so rushing adoption of new laws too early is not necessary in many cases; (c) budget execution reforms tend to be more successful, while some rethinking of reform approaches targeting budget planning on the one hand, and control and

1. With the exception of Cambodia where the post-conflict period started close to 20 years ago.
accountability on the other hand may be needed; and (d) while capacity can be short-circuited through substitution (such as donor-funded staff in line positions), developing sustainable capacity remains a challenge and needs greater and more sustained attention.

Importantly, success of PFM reforms is less clearly associated with progress on broader state-building goals and service delivery improvements than expected. In some of the countries, PFM progress has gone hand-in-hand with wider state strengthening and better control of corruption; in others, however, PFM progress has been made, but overall governance and state capacity did not improve. Furthermore, there is no clear relationship between strengthening PFM and achieving improved service delivery. Improvements in service delivery tend to happen across the board and do not correlate with PFM reform progress. This report draws attention to these discrepancies, yet exploring the underlying reasons for these discrepancies needs to be relegated to future analysis.

CONTEXT: OPPORTUNITIES AND CONSTRAINTS TO REFORM SUCCESS

PFM reforms in post-conflict environments are motivated by (a) the development of a close relationship between the national authorities and the international community and (b) domestic commitment to state building. Greatest progress has been achieved when these two factors are aligned. The nature of these key drivers for PFM reforms poses problems as well as opportunities. On one hand, progress is possible despite challenging post-conflict contexts when there is domestic commitment; on the other hand, reforms are to an extent donor driven and pursued to reach specific goals such as international recognition or HIPC completion.

Countries dependent on external actors for development aid, security provision, and civil administration made faster progress on PFM reforms. In the cases of Tajikistan and Cambodia where these dependencies are present but are not as strong, PFM reforms have progressed at a slower pace. By contrast, rapid reform was observed in Afghanistan, Kosovo, Sierra Leone, and more recently in Liberia. HIPC debt relief triggers are important drivers of PFM reforms in Liberia, Afghanistan, and Sierra Leone jointly with the prospect of budget support. Government reliance on international security provision through UN peacekeepers or NATO appears as a factor influencing reform commitment in Liberia, Afghanistan, Sierra Leone, and Kosovo. An exception, in part, has been the DR Congo, where overall limited progress on PFM reforms was made despite an initial strong reliance on aid.

Political commitment to higher order objectives such as independence or statehood provided space for PFM reforms. In West Bank and Gaza, for example, a clearly stated objective of the Palestinian National Authority was to demonstrate to the international community its viability as an independent state, including through its capability in managing public finances. A similar driver was present in Kosovo, which was also pursuing independence and was focused on developing capability in public administration through the Provisional Institutions of Self Government. A variant of this pursuit of greater autonomy requiring improved PFM was the Government’s objective in Liberia to increase its discretion in fiscal policy and to secure debt relief.

Contrary to expectations, levels of domestic revenue do not show a correlation with stronger progress on PFM—at least over the short- to medium-term coverage of this report. Among the eight case studies, some show strong PFM progress with low domestic revenue levels and vice versa. Afghanistan shows good progress despite revenue to GDP levels below 10 percent, while the DR Congo and Tajikistan, which both lag in PFM reform, have relatively strong revenue to GDP ratios.

REFORM DESIGN AND IMPLEMENTATION

While approaches to PFM reforms in post-conflict environment have not differed fundamentally from those pursued in non-fragile contexts, differences are notable with how assistance is delivered as well as regarding areas of greater and lesser success. Most countries’ initiation of various PFM reform elements has covered the entire budget cycle. Typical reform elements, which are also frequently part of reform packages pursued in non-fragile contexts, have included the introduction of treasury single accounts and financial management information systems (FMIS) at the execution

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2. In Cambodia, the ratio of overseas development assistance to GDP was highest in the mid-1990s, peaking at 16 percent in 1995, and in Tajikistan, the peak level was at 15 percent in 2001; these levels in both cases have since fallen to single digits, compared to over 30 percent and higher ratios in the highly aid dependent countries (World Bank Central Databases).

3. Kosovo and West Bank and Gaza have relatively strong domestic revenue levels around 25 percent of GDP combined with substantial/intermediate progress on PFM reforms. However, especially in West Bank and Gaza these depend on customs receipts received via Israel—involving high risks of stoppage, for example. Kosovo is highly dependent on remittances and related taxation of consumption.
stages, and medium-term expenditure frameworks (MTEFs) for budget planning. Such systems’ reform efforts were generally started soon after the initial phase of emergency budgets and of re-establishing basic functionality in budget preparation and execution. A key difference compared to approaches in non-fragile environments is the fact that capacity substitution and supplementation (donor-paid staff in line positions and use of top-ups) have been used to a significant extent in a majority of post-conflict environments.

Effective coordination of donor PFM reform efforts emerges rather late. There was typically a loose division of labor under which various donors assume responsibility for strengthening different parts of the budget cycle but without a coherent or integrated approach to re-building the entire PFM system. This fragmentation of donor efforts in the early period resulted, for example, in weak integration of the Budget Development and Management System and the Kosovo Financial Management System (KFMIS) in Kosovo, and in ad hoc measures in Afghanistan driven by the fiduciary requirements of individual donors.

Comprehensive PFM reform strategies and action plans only emerge after broad-based PFM assessments, notably using the PEFA framework from 2005 onwards. Despite substantial use of other analytical tools (Public Expenditure Reviews and Country Financial and Accountability Assessments, for example), PEFA assessments formed the first coordinated multi-donor effort and became an important driver of donor harmonization in designing external assistance to PFM reform. However, while valuable, PEFA assessments also have limitations such as giving no specific attention to capacity issues and offering little guidance on the prioritization of reforms, which are both particularly relevant in post-conflict environments.

New budget legislation was not needed to initiate PFM reforms but did help consolidate the reform effort. The cross-country evidence reveals a focus on building core systems before introducing a comprehensive new PFM law. In some cases, specific piecemeal amendments were made to existing laws and directives to permit changes in PFM practices. Wholesale revisions to organic budget legislation took several years to emerge in some cases and required extensive engagement among government, donors, and legislatures. This focus on strengthening systems and procedures prior to passing comprehensive PFM laws modifies earlier proposals that legal reforms be the first step in re-building fiscal systems in post-conflict countries (IMF 2004).

Overall, most countries made greater progress in strengthening budget execution than in budget formulation and accountability, but important areas of weakness also remain. Cash management, fiscal/financial reporting, accounting systems, and treasury automation frequently improved. Somewhat surprisingly, advanced reform components such as introducing treasury single accounts and financial management information systems proved feasible in a number of cases. However, weak areas in budget execution also remain, in particular procurement practices, internal controls, and internal audit.

While a basic re-establishment of budget planning processes took place, more advanced budget planning reforms were initiated but did not gain much traction. Progress was made in most countries in basic multi-year fiscal forecasting, the orderliness/timeliness of annual budget preparation, and revision of chart of accounts. Efforts at establishing MTEF were initiated in most of the eight countries, and about half the cases took some steps toward developing program budgets. However, only in Afghanistan and to some extent in Kosovo are MTEF reforms seen as having gained real traction. Program budgeting remained at an embryonic stage or, when pushed further as in Afghanistan, became too challenging and was quickly rolled back.

Efforts at improving budget accountability have been patchy in post-conflict environments. Average PEFA scores are the lowest for this aspect of the budget cycle (see Figure 6.3 in Chapter 6); however, there are also instances of progress. In Liberia, the General Auditing Commission was strengthened after the 2006 elections. In Sierra Leone, the Audit Service and the Public Accounts Committee of the Parliament have become more capable and active in recent years. In Afghanistan and in Kosovo, in particular, the auditing function has been partially outsourced to international agents, which has both benefits and risks. Challenges with strengthening budget accountability appear to be rooted in limited political incentives (both within the executive and the legislative branches) as well as donor attention, which tend to prioritize fiduciary controls for aid flows.

Overall, sequencing of PFM reform measures varied across the countries. Some general patterns emerged in terms of the relative attention to budget formulation, execution, and accountability, and the relative complexity of reform measures attempted. Across the budget cycle, ‘basic’ reform measures such as the introduction of a new budget classification and
chart of accounts were started first but most often remained incomplete before ‘advanced’ measures were introduced. The widespread (albeit not universal) use of capacity substitution and supplementation is a notable difference of PFM reform approaches in post-conflict environments. In post-conflict environments, capacity is frequently depleted, especially at early stages. In several countries making significant PFM reform progress, particularly in Afghanistan, Kosovo, Liberia, and Sierra Leone, capacity substitution has been used extensively as a way to short-circuit capacity constraints. While this has provided an opportunity to move forward with reforms, it poses challenges to longer-term sustainability, particularly in the lower-income cases.

**SUSTAINABILITY AND WIDER IMPACTS**

The sustainability of PFM reforms is challenged by the heavy reliance on externally financed support, which combines policy conditions, extensive use of international consultants, and salary incentives for staff working in key areas. The places showing greater progress in their PFM performance (Kosovo, Afghanistan, Sierra Leone, and West Bank and Gaza) benefited from powerful external drivers and engagement. With the exception of Tajikistan and West Bank and Gaza, capacity substitution and supplementation were used extensively in the other six countries. West Bank and Gaza made significant reform progress in the absence of significant external capacity supplementation. However, like Kosovo, its middle-income situation offered a greater pool of general skills than was available in other countries.

**Developing and funding sufficient capacity within the regular civil service remains a challenge, especially in lower-income, post-conflict countries.** Slow progress with overall civil service reforms reinforces this challenge, while solutions appear to have been more feasible in the two middle-income cases, Kosovo and West Bank and Gaza. The evidence across the cases also indicates that limiting the use of capacity substitution on its own does not translate into greater domestic capacity. Rather, longer-term capacity investments combined with improvements at least in the management of the core civil service appear necessary.

In most of the eight cases, civil service and other public sector reforms—such as defining clear intergovernmental relations—are still ongoing and have made less progress than PFM reforms. In several countries the civil service remains affected by high turnover levels and a limited number of skilled people. The flux in intergovernmental relations poses challenges for establishing clear PFM systems across levels of government, especially in those countries that have sought decentralization but with limited progress (especially the DR Congo and Liberia) or where significant decentralization has been undertaken despite weak local-level capacity (as in Sierra Leone).

**PFM reforms can contribute to state building but cannot ensure progress, especially where strong countervailing factors are present.** Three of the four cases in which significant PFM improvements took place also show some gains in the overall capacity of state institutions and control of corruption, as measured by available cross-country data and other evidence. At the opposite end, countries such as the DR Congo continue to experience very poor government effectiveness and continuing high corruption. However, Afghanistan significantly departs from this pattern: there, substantial progress on PFM reforms on the one hand has been associated with virtually no progress on government effectiveness or control of corruption on the other hand. The most likely explanation is that countervailing factors—insecurity and a drug-based economy—have been dominant (while PFM reforms and improvements such as being able to pay civil servants and soldiers on time may still have contributed to preventing a slide back into full-fledged conflict).

**Improvements in service delivery and PFM reforms have evolved on parallel tracks, with little apparent gain from initial PFM strengthening.** Improvements in service delivery can be observed across all eight post-conflict cases, including those undertaking the least PFM reforms. There is no indication that more reforms resulted in any greater improvements in service delivery. In fact, PFM reforms tend to target central agencies and functions, while efforts to target improvements throughout the expenditure chain within sectors and across levels of government—which is essential for effective service delivery—are still relatively scarce. Somewhat greater efforts to roll out central PFM reforms to lower tiers of government were made in Afghanistan, Kosovo, and Sierra Leone (in these cases including a roll-out of automated treasury systems). The general tendency of the observed reforms was to increase the centralized control of the budget and to reduce the discretion over financial management given to line ministries and government agencies, which on its own appears insufficient to deliver tangible improvements. Examples of direct
strengthening of PFM capability in line ministries (such as the Ministry of Health and Social Welfare in Liberia) are relatively few. While a central focus is a sensible initial priority, the connection to service delivery should be consciously strengthened as PFM reforms progress.

Engaging with international financial institutions and donors in a program of PFM reforms can help post-conflict states to access and maintain significant aid funds, and to become eligible for more aligned aid modalities. For example, the front-runners in PFM reform—Afghanistan, Kosovo, Sierra Leone, and West Bank and Gaza—received among the highest levels of aid (as a percentage of GDP and/or in per capita terms). Moreover, Liberia, which achieved overall intermediate progress on PFM reforms, registered the largest increase of aid inflows after the change in government in 2006. This development occurred during the Governance and Economic Management Assistance Program (GEMAP) period, at a time when the Government of Liberia invigorated its PFM reform efforts and was striving for HIPC completion in 2010. The 2011 Paris Declaration monitoring survey shows that close to 40 percent of aid received in Liberia, Sierra Leone, and West Bank and Gaza is spent using country systems (up from 20–30 percent in 2008), while the DR Congo received only 13 percent of aid in such form. However, countries with poorer performance on PFM reforms also saw some upward trend in this regard, albeit mostly at lower levels.

4. The upper range of aid using country systems in non-fragile states is around 60–70 percent (OECD 2011).
Public finances are a central component of state-building and peace-building efforts. Governments need control over public resources for funding national priorities. States need resources for providing public services—ranging from security, to water and sanitation, to education and health—and fulfilling their fiscal commitments such as paying staff salaries. These are essential for building legitimacy and resilience, which have typically been eroded in fragile and conflict-affected situations.

Public financial management (PFM) has become a primary area of donor engagement in post-conflict environments. Progress in PFM reform is seen as a confidence-building measure and an important signal of governments’ willingness to re-orient often scarce resources toward fighting poverty and achieving greater resilience. Because of its signaling role, progress in PFM reforms is also considered as a country’s quid pro quo for receiving sustained and significant aid flows. The World Bank is one of the leading international institutions supporting PFM reforms in post-conflict situations.5

Post-conflict environments present challenging contexts for reform. New and unstable political settlements,6 persistent insecurity and weak institutional capacity in some cases, a limited pool of skilled people in most cases, and a lack of citizen confidence in state institutions are all frequent markers of such environments. An equally important characteristic of fragile and conflict-affected countries, particularly post-conflict transitions—and one that distinguishes these environments from other developing countries—is the level of international engagement, including significant technical assistance, external aid, and security support.

The special characteristics of post-conflict countries prompt questions about what and how reforms work in these contexts. In the realm of public financial management, the paucity of reviews of experience or compilation of lessons learned leaves practitioners with little guidance on how to sequence, prioritize, and promote implementation of reforms in post-conflict environments. How does a country take advantage of windows of opportunity to reform? How do PFM reforms relate to other reforms of the state? How can PFM reforms support peace- and state-building objectives? These are important but still unanswered questions.

This report addresses the existing knowledge gap through a systematic review of PFM reform experiences in post-conflict environments. The report presents a synthesis of cross-regional findings based on a set of eight case studies in Afghanistan, Cambodia, Democratic Republic of (DR) Congo, Kosovo, Liberia, Sierra Leone, Tajikistan, and West Bank and Gaza. Two overarching questions guided this review:

- How were PFM reforms affected by the challenges associated with state fragility?
- Did the design and implementation of PFM reforms contribute to achieving sustainable progress in the development of PFM systems, as well as to supporting wider state- and peace-building objectives?

The review focuses primarily on the design and implementation of PFM reforms. Chapter 2 provides a summary of the case study findings (with extended summaries in Annex II), including a tentative classification of the eight cases with regard to their relative progress in reforming PFM, as well as a brief summary of key elements of their PFM reforms. Chapter 3 discusses the influence of post-conflict legacies and evolving contexts on PFM reforms and analyzes the factors that appear to influence reform progress. Chapter 4 reviews PFM legacies in the case studies and the strategies and approaches that were adopted for reform. Chapter 5 focuses on implementation of PFM reforms across the eight cases with the intent to understand “what works,” which reforms have the greatest traction, and which are the most challenging ones. Chapter 6 reviews the reach of results achieved and the contributions of PFM reform to broader governance goals, state-building efforts, and service delivery. Chapter 7 discusses the implications of the key findings and the main elements of an enhanced approach to PFM in post-conflict contexts. Annex I provides a table of the net official development assistance and official aid received in the eight post-conflict cases from 2000–08.

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5. The focus of this report is on countries that have undergone post-conflict transitions, focusing on a period of around 10 years. As the WDR 2011 (World Bank 2011b) points out, most state-building efforts should be expected to extend over several decades. Some of the issues explored here are also relevant for other types of fragile states or for low-income countries, but the differences and similarities with these other groups of countries are not covered systematically.

6. “The concept of political settlement exhibits two different dimensions: the fixed outcome of a certain historical event and a particular characteristic or property of a society, reflected in the conduct of political actors” (OECD 2011: 9).
1.1 APPROACH AND COUNTRY SELECTION FOR THE REPORT

THE ANALYTICAL FRAMEWORK SETS OUT the key issues that were explored in the eight case studies and in this synthesis report. The framework (Figure 1.1) guides systematic collection of information (both qualitative and quantitative) and enables a comparative analysis of findings. It focuses on understanding the contextual factors that influence PFM reforms in post-conflict environments, the content, sequence and implementation of reforms, and the outputs and outcomes achieved. The analysis addresses how post-conflict legacies and PFM starting points and the evolving local context affect the commitment and approaches to PFM reforms and the ability to achieve results. An important point of the review was to explore how post-conflict legacies and PFM starting points possibly enable or undermine PFM reforms, and whether such legacies and starting points are associated with specific reform approaches (arrows 1 and 2). The interaction between PFM reform commitment and approaches and actual reform results are at the center of the analytic effort (arrow 3).

Accordingly, in Figure 1.1, the two top-level boxes map out the starting points of the eight post-conflict areas and the trends of key contextual factors over the post-conflict time period reviewed (ranging from 7 to 10 years for most countries, and up to 17 years in the case of Cambodia). Legacies refer to the key characteristics of the local context when the state-(re)building effort commenced, including the degree of state functionality, prevalence of security concerns as well as the nature of the political settlement. The PFM starting points refer to the specific institutional legacies, main characteristics, and degree of functionality of PFM systems at the outset of reform.

![Figure 1.1. Analytical Framework](image-url)
efforts. The evolving context refers to how key contextual factors evolve over time, in particular the security situation, the political regime, income levels, and the relationship with the international community.

Within the PFM domain, the focus is on issues and processes related to public expenditure management. This covers the legal and institutional framework for budgeting and public finance; the various stage of the budget cycle, including the formulation of the budget and its execution; the transparency and accountability of the budget process; and the available skills and capacity of budget institutions (e.g., the finance ministry). The review does not examine revenue generation and management, or the agencies responsible for the collection of revenues. However, the report includes a brief discussion of revenue levels as a potential driving factor for the development of PFM systems in Chapter 3.

The review also touches on the interaction of PFM reforms with other (evolving) features of the public administration system in a country (arrow 4 in Figure 1.1), in particular civil service reforms and intergovernmental relations. Both of these aspects also tend to be in need of or undergoing major reforms in post-conflict situations. The review explores in particular how the slow pace of civil service reforms in post-conflict environments affects the ability to achieve and sustain PFM reform progress. Section 5.3 explores the specific reach of PFM reforms to central and decentralized agencies (e.g., finance ministries, line ministries, and subnational entities).

Addressing the wider impact of PFM reforms on overall state- and peace-building efforts and on service delivery is crucial since progress on these wider dimensions is a key motivating factor in the pursuit of PFM reforms in post-conflict environments. This point is illustrated with arrow 5 in Figure 1.1 and more fully explored in Chapter 6. However, the treatment of these important issues can only be tentative within the scope of the work presented here, with the main purpose to highlight whether the patterns observed are consistent with expectations that successful PFM reforms will support improvements in service delivery.

Among the larger group of fragile states, the focus of the review and this report is on post-conflict transitions. The selection of the eight cases was informed by the following criteria:

- All countries or territories are currently or were formerly classified as fragile states according to the World Bank’s key criteria—a low score on the Bank-administered Country Policy and Institutional Assessment (CPIA) and their inclusion in the World Bank LICUS and fragile states lists during the period 2006–10.
- All cases were categorized as post-conflict states or territories with an elapsed period of at least seven years since the formal end of the conflict.
- All countries or territories have been recipients of significant external financial and/or technical support to PFM reform, including from the World Bank.
- The countries or territories exhibited a range of aid-dependency levels, with inclusion among the sample of those both above and below an ODA-to-GDP ratio of 15 percent.
- There was a broad geographical spread among the cases selected from across different Regions (Africa, East Asia and Pacific, Europe and Central Asia, Middle East and North Africa, and South Asia).
- The cases reflected a range of heritage and cultural systems (Anglophone, Francophone, Soviet, and Arabic).

9. Different aid agencies as well as think tanks have proposed various ways of classifying “fragile states.” The World Bank uses its CPIA, which is carried out annually. Countries with a combined score of 3.2 or below on a scale of 1 (low) to 6 (high) are included in the institution’s list of fragile states.
10. All eight countries are considered post-conflict fragile states, which have benefited from sustained World Bank support to reforms over time. Countries experiencing protracted crises or deteriorating situations were not included among the sample. Challenges and opportunities in that group of countries are fundamentally different and should be the focus of a separate analytic effort.
11. This implies some potential bias in the sample away from countries that received little such assistance. However, it was decided that a concentration on countries with considerable support focusing on PFM reforms was warranted in view of the goal of learning lessons for operational practice.
12. See Table 3.3 for detailed figures on ODA-to-GDP ratios.
1.2

RELEVANCE OF THE EXISTING PFM LITERATURE FOR POST-CONFLICT CONTEXTS

Despite a proliferation of frameworks and approaches to PFM reforms, the PFM literature does not focus on fragile states specifically (Hedger and Krause 2009; Pretorius and Pretorius 2008). Possibly the key proposition in the literature, which is of relevance to post-conflict countries, is the idea that every budget system needs a basic foundation, namely a minimal set of budget institutions, to operate. The authors cited in this section broadly agree that at the heart of this basic level lies a budget that is credible (i.e., is a reliable predictor of actual expenditure) and controllable (i.e., the finance ministry can keep overall spending levels under control and can oversee budget execution in spending ministries). There is also general agreement that, in most developing countries with weak capacity in the finance area, many budget processes should be centralized within the finance ministry before they can be devolved to line ministries and local governments, as capacity grows in these entities.

An emphasis on first getting the basics right seems, in principal, appealing in the post-conflict contexts, which are characterized by weak institutions, weak capacity, and rudimentary levels of fiscal governance. The development of basic budgeting systems offers an approach in which strong controls, formal rules, and enforcement mechanisms all serve to increase the stability and reliability of the system. Schick's (1998) prioritization of control-oriented measures would result in future efforts building progressively upon strong foundational elements. However, the main challenges are that these “strong basics” are in fact challenging to develop de facto in many countries because they curtail rent-seeking and discretion, and that they therefore often remain incomplete to various degrees.

The more flexible position—which views budgetary basics as the start of a reform sequence that should lead quite rapidly to a more advanced PFM system—is also of potential relevance to post-conflict countries. The “platform approach” developed first in Cambodia sees the objectives of budgeting from this more inclusive perspective, where reformers should quickly develop mechanisms to address efficiency and accountability concerns (Brooke 2003; DFID 2005). It suggests a methodology for the sequencing of reforms through staggered phases based on joint problem identification by government and donors and political feasibility of reform. A variant of the platform approach might accept that reforms across different PFM dimensions could proceed in parallel and advance at different speeds between platforms (Tommasi 2009; Schiaovo-Campo 2007).

There are two broad camps on the matter of how rapidly reform progress can be made. Schick (1998) and others emphasize the difficulty of short-term reforms and the need for internally consistent basic budget structures that reflect their equally basic public sector context. Similarly, Allen (2009) sees many advanced reforms that try to import international best practice as actively harmful because they overlook the extended time horizon necessary for implementation. The other camp looks at PFM reforms as having a relatively clear end point that is achievable within the scope and timeframe of contemporary budget reforms (DFID, 2005). The platform approach is a departure from Schick because it implies that substantial progress toward a more advanced PFM system is possible over the medium term—within 5–8 years according to Brooke (2003). The IMF (2004) affirms that fragile states must follow a three-step sequence, starting with a reformed legal framework, then establishing a strong central fiscal authority, and finally designing appropriate fiscal policies.

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14. In practice, attempts to establish a binary distinction between basic and advanced measures may be misleading. In their efforts to deliver simultaneously their policy objectives and to reform their public administration/management systems, it is likely that all governments (whether of fragile states or otherwise) will engage to some degree with a range of more and less sophisticated PFM practices (McKenzie 2009).
The main point of contention in this literature is over the feasibility and sequencing of reforms that might eventually lead up to a “modern” budget system. More fundamental alternatives, for instance how countries might lead reforms in a certain direction without necessarily following an OECD model of budgetary development, are not discussed. Allen’s argument is based on the extended time it took Western budget systems to evolve; but there is no simple way to deduct the implications of 18th and 19th century Europe for today’s post-conflict countries. Schick’s warning against advanced reforms relies on the argument that PFM institutions depend on profound societal and institutional characteristics, making it highly unlikely for such progress to come about over the short and even medium term. Against this, the proponents of much more optimistic timelines and specific reform sequences are founded on a selection of suitable cases and anecdotal evidence (Brooke 2003; IMF 2004).

Recent research suggests a possible bridge between those two camps that is of pertinence to reforms in post-conflict countries. Andrews (2007) argues against the notion that all budget reforms should have a direction that leads ultimately from the basics to what is essentially a Western ideal-type system. With regards to post-conflict contexts specifically, Porter and others (2010) underscore the importance of enabling such states to develop autonomous capacity to negotiate with various stakeholders and to reach a political settlement over how to fund public finances and on what to spend resources. They note that superficial reforms that only change the legal-formal PFM framework without affecting the underlying institutional setting are fated to be ineffective or counterproductive. Collier (2007) suggests that a selective focus on results orientation and contracting out of services may also have some relevance to service delivery and peace-building objectives. Such perspectives dispense with a long-term vision for the ideal budget and focus on a feasible set of PFM processes consistent with the existing country context and the immediate government policy objectives. However, the guidance that they offer for concrete operational interventions remains limited.

The literature offers little guidance to the question of which approaches should be preferred based on evidence of greater PFM reform progress, stronger PFM systems, or better PFM outcomes. However, three propositions are of particular interest for this review: (a) that “basic” elements of PFM should be prioritized ahead of more technically complex PFM measures; (b) that PFM reforms take a long time and that expectations of short-term results are not realistic; and (c) that good practice models based on OECD experiences and reform challenges may not translate successfully in non-OECD contexts.

The wider state-building literature tends to treat the re-establishment of functioning PFM systems as an integral part of building the credibility and effectiveness of states (World Bank 2011b; Ghani and Lockhart 2005). In the wake of violent conflict, Boyce and O’Donnell (2007) argue that a key element of building a durable peace is building a state with the ability to collect and manage public resources. To implement peace accords and to provide public services, the government must be able to collect revenue, allocate resources, and manage expenditure in a manner that is regarded by its citizens as effective and equitable. However, these broader discussions about state building and international support offer little granular exploration to the why, what, and how of PFM reform efforts.

While cognizant of the existing body of work on PFM reforms briefly summarized here, this review takes an inductive rather than a deductive approach. It is based on the analytic framework and a set of guiding questions that reflect both conceptual as well as operational concerns and issues of interest. The review seeks to tease out commonalities and differences across countries and across PFM reform sub-streams, and to understand what accounts for emerging patterns. Where appropriate, the synthesis report discusses how these empirically grounded findings from the case studies “speak to” the earlier findings as documented in the literature.
2. SUMMARY OF CASE STUDY FINDINGS

Across the eight case studies reviewed, progress in PFM reform as of mid-2010 ranges from “limited” to “substantial.” Table 2.1 shows the cross-country variation in PFM reform progress. Afghanistan, Kosovo, Sierra Leone, and West Bank and Gaza have shown substantial progress between the start of post-conflict reconstruction and the 2010 cut-off date. Cambodia and Liberia have achieved intermediate progress with signs of further progress toward substantial reforms. In Tajikistan, progress has been clearly limited thus far. In the DR Congo, the prospects for future progress remain limited. The contrasts between Sierra Leone and the DR Congo and between Kosovo and Tajikistan are especially notable given similarities in starting points but very different reform progress. Across all eight post-conflict areas, reform efforts remain ongoing, while to various degrees risks with regards to sustainability and irreversibility of improvements also continue to be present (as discussed in Chapter 6).

The summary assessments for each case are based on case study findings and also draw on most recently available PEFA scores. Substantial progress implies that a country has shown at least initial progress across the board and performs well on several sub-dimensions. Intermediate progress can entail either just initial progress across PFM sub-dimensions or progress that is good in some areas but much less so in others. Limited progress implies that reform efforts have not yet resulted in at least minimal progress across PFM sub-dimensions and/or that progress in some areas is matched by very little or no progress in a number of other dimensions. These summary ratings should be interpreted as approximations rather than absolutes. Their purpose is to facilitate the investigation of which types of countries are more likely to see overall progress on PFM reforms and why. Assessments were made in mid-2010 when most case study research was carried out.

A brief storyline for each of the cases covered is provided in Box 2.1. These give a synopsis of how the PFM systems evolved from an initial post-conflict “starting point” to their status as of 2010. Further aspects of each of the cases are discussed in Chapters 3 through 5, including in summary boxes covering specific aspects of PFM reforms. Executive summaries of the eight case study reports are provided in Annex II.

### TABLE 2.1. STARTING POINTS AND RELATIVE PROGRESS ON PFM REBUILDING AND REFORMS

<table>
<thead>
<tr>
<th></th>
<th>Approximate starting point(s) of current state- and peace-building</th>
<th>Relative progress on PFM rebuilding and reforms by 2010*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>2001–02</td>
<td>Substantial progress</td>
</tr>
<tr>
<td>Cambodia</td>
<td>1991–93</td>
<td>Intermediate progress</td>
</tr>
<tr>
<td>DR Congo</td>
<td>2001</td>
<td>Limited progress</td>
</tr>
<tr>
<td>Kosovo</td>
<td>1999</td>
<td>Substantial progress</td>
</tr>
<tr>
<td>Liberia</td>
<td>2003</td>
<td>Intermediate progress</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>2002</td>
<td>Substantial progress</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>1997</td>
<td>Limited progress</td>
</tr>
<tr>
<td>West Bank and Gaza**</td>
<td>1993/2002</td>
<td>Substantial progress</td>
</tr>
</tbody>
</table>

* Assessment is based on most recent PEFA scores plus authors’ assessments based on case study information.
** For West Bank and Gaza, an initial starting point was the Oslo agreements of 1993, while reforms to the Palestinian National Authority and associated PFM reforms commenced in 2002.
AFGHANISTAN achieved substantial progress in PFM reforms between 2002 and 2010. While the initial focus was on emergency measures to establish central fiscal functions, reforms were successively extended to cover the entire budget cycle. However, amidst continuing violence and political instability as well as continuing high levels of corruption, the impact of PFM reforms on state resilience has been limited. Overall, international engagement in Afghanistan has been very strong on PFM reforms.

Since conflict ended in Cambodia in the early 1990s, economic growth has been strong and sustained, while political power was consolidated in the hands of the prime minister. After initial PFM reforms during the initial post-conflict decade, a renewed effort emerged in the 2000s. In 2004, the Royal Government of Cambodia and development partners jointly developed a platform approach, setting out a multi-step PFM reform process. Significant improvements in cash management were made, and a medium-term fiscal framework (MTFF) was established.* These reforms were accompanied by a major reduction in the use of cash for treasury, tax, and customs transactions and by significant consolidation of myriad government accounts into a treasury single account. These measures, together with better budget and cash planning, implemented over a three-year period went a long way in eliminating the budget backlog problems experienced in 2003. Progress on several other planned reform measures such as the introduction of a financial management information system (FMIS) remains to be made.

In the DR Congo, PFM reforms have proceeded intermittently since 2003, with only limited traction achieved by the incentive of HIPC completion (in 2010). PFM capabilities remain weak and concentrated in the central finance and budget ministries only. The political settlement in the country remains fragile. There have been some improvements in recording and reporting expenditures, but formal PFM systems are frequently undermined by informal practices driven by short-term political needs.

In Kosovo, a middle-income country, the most salient political issue has been progress toward internationally recognized statehood (achieved in 2008) and the “shared sovereignty” arrangements that were in place for several years. On balance, this has facilitated PFM strengthening, while at times state- and peace-building issues were also challenging and distracting. Initial self-governing institutions were established after 2002. The once strong role of international actors in PFM reforms has been gradually declining since independence. Reforms were most successful in budget execution, especially treasury functions, but reform efforts covered all aspects of budgeting.

PFM reforms in Liberia initially proceeded rather slowly but became a priority under the government elected in 2006. Reforms, built on prior efforts to strengthen cash management, included heavy donor involvement and capacity substitution, including “shared sovereignty” arrangements, which established co-signatory authority of international experts over expenditures (GEMAP)—as well as the incentive of HIPC completion (achieved in 2010). Horizontal accountability has grown stronger since 2007 under the leadership of the Auditor General, but from a very weak level. The Government’s ability to develop beyond capacity substitution remains a persistent challenge.

The PFM system in Sierra Leone has seen strong donor involvement and external capacity substitution. Sierra Leone has benefited from direct budget support and achieved HIPC completion in early 2007. Several elections, including at local level, have been held since the end of the civil war. Reform measures have covered all areas of the budget process, including fiscal decentralization, although many challenges in central-local relations remain. PFM reform and re-building efforts have strongly relied on externally funded local consultants in the Ministry of Finance and in ministries, departments, and agencies.

In Tajikistan, PFM reforms have been slow and limited in scope to the treasury function and relatively simple, uncontroversial areas, while efforts at establishing an MTEF did not gain much traction by 2010. The political environment is generally not favorable to more comprehensive efforts. The state apparatus suffers from human capacity shortage, weak management systems, and widespread corruption.

In West Bank and Gaza, PFM reforms were pursued as a central element of a broader state-building agenda. The Palestinian National Authority relies on large donor contributions. Progress has been substantial in budget execution, and donors view the Palestinian National Authority as capable of channeling budget support through its own systems. However, the precarious political situation in West Bank and Gaza casts doubt on the reforms’ sustainability, and external accountability remained truncated in the absence of a sitting legislature.

* Box 5.2 gives definitions of different types of medium-term frameworks of which an MTEF represents the most basic level.

Sources: Country case study reports, Annex II.
3. WHAT DRIVES AND INHIBITS PFM REFORMS IN POST-CONFLICT CONTEXTS?

This chapter explores the main drivers and inhibitors of PFM reforms and how those factors influenced the progress achieved in the eight case studies. It starts by laying out the impact of post-conflict legacies on reform efforts, followed by an analysis of how starting points and contextual factors—institutional legacies, levels of development, international aid dependency versus domestic revenues, political leaders and emerging political regimes, as well as donor influences and the relationship between external influences and domestic leadership—have enabled or inhibited the implementation and progress of reforms.

3.1 THE IMPLICATIONS OF FRAGILITY AND POST-CONFLICT LEGACIES

With varying intensity, the eight case studies were burdened by legacies of longstanding political instability, weak institutions, a narrow fiscal base, and threats of violence. In each of the eight cases, conflict had exacerbated already weak institutions and eroded state revenues, putting a heavy burden on governments’ ability to manage reconstruction. In Afghanistan and the DR Congo, persistent violence and a disputed political settlement continue to challenge the governments’ capability to expand reforms across the territory.

In the early post-conflict period, severely depleted human capacity and physical infrastructure left very weak institutions. Migration out of Liberia during the conflict years depleted the skilled cadres of government staff who sought better, safer jobs abroad. In a new country such as Kosovo, the pre-conflict pool of PFM-knowledgeable staff was almost non-existent at the end of the conflict. Serbian policies in the decade up to 1999 led to many bright Kosovars leaving jobs in the administration, exiting the formal education system, and migrating abroad.

### TABLE 3.1. POPULATION, INCOME LEVELS, AND HUMAN DEVELOPMENT INDEX (HDI)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Afghanistan</td>
<td>26.8</td>
<td>246a</td>
<td>.352</td>
<td>181/182</td>
</tr>
<tr>
<td>Cambodia</td>
<td>13.9</td>
<td>456</td>
<td>.593</td>
<td>137/182</td>
</tr>
<tr>
<td>DR Congo</td>
<td>59.1</td>
<td>125</td>
<td>.389</td>
<td>176/182</td>
</tr>
<tr>
<td>Kosovo</td>
<td>1.8</td>
<td>2119</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Liberia</td>
<td>3.3</td>
<td>182</td>
<td>.442</td>
<td>169/182</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>5.1</td>
<td>248</td>
<td>.365</td>
<td>180/182</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>6.5</td>
<td>387</td>
<td>.688</td>
<td>127/182</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>3.6</td>
<td>1072b</td>
<td>.737</td>
<td>110/182</td>
</tr>
</tbody>
</table>

a. Average for 2001–08.
b. Average for 2000–05 only.
c. HDI values range from 0 to 1 (lowest rated country: Niger at .340).
Sources: World Bank, Development Data Platform, and UNDP.
In addition to the loss of talent and knowledge from government offices, levels of corruption were (very) high in all eight cases in the early stages of the post-conflict period. Reform efforts had to face the challenge of a demoralized civil service, a widespread culture of impunity, and the use of public office for private gain. On the one hand, the perception of endemic corruption was an early stated motivation for seeking PFM reform in many cases (although less so in Cambodia and the DR Congo), pushed by internal reform champions, international donors, and domestic pressure groups; while on the other hand, a culture of acceptance toward corrupted practices posed challenges that put the reform efforts on an uphill battle to proceed.

Given the scale of challenges confronting PFM reform, parts of the discourse on fragile states suggest that countries are “trapped” in a negative equilibrium driven by conflict, poverty, and other mutually reinforcing factors (e.g., Collier 2007). Countries can become trapped in a cycle of violence, where conflicts feed into weak institutions, low trust, and repeated outbreaks of violence (World Bank 2011b). Porter and others (2010) analyzed PEFA data across 64 countries (19 fragile and 45 non-fragile) and suggest that fragile countries on average tend to perform worse across all PEFA dimensions. However, this review of the eight post-conflict environments shows a more nuanced picture.

Success has been possible even in countries with highly adverse starting conditions. As indicated in chapter 2, six out of the eight cases were able to make some or significant progress on strengthening PFM. This includes significant progress made in Afghanistan and Sierra Leone, which both experienced long and destructive conflicts that resulted in very low levels of human development at early post-conflict stages (Table 3.1). The following sub-sections explore factors that contributed to these somewhat unexpected results.

15. While this is not a representative “ratio” for all post-conflict countries, a number of other post-conflict countries that are not included in this review also fall into this range of “some” to “substantial” progress on PFM reforms over a longer period of time since end of conflict (including Mozambique, Rwanda, and Uganda).

3.2 THE ROLE OF INCOME LEVELS, DOMESTIC POLITICAL COMMITMENT, AND EXTERNAL INCENTIVES

One potential factor influencing opportunities for PFM reform progress is per capita income levels, which vary substantially across post-conflict countries. The two middle-income economies covered in the review, Kosovo and West Bank and Gaza, have both performed well on PFM reforms. As indicated in Table 3.1, the two cases have significantly higher income levels than the other cases (and fragile states in general). A potential explanation for the role played by income levels for reform progress may be related to the higher levels of human capacity and domestic resources in these environments—even though the starting public sector institutions were very weak in both cases.

While a higher income level seems to facilitate reforms and, in particular, capacity development, the comparison across cases indicates that the relationship between income levels and PFM reform progress is not linear. Afghanistan and Sierra Leone, with very low per capita incomes and at the very bottom in terms of human development indicators, have progressed further and faster than Cambodia or Tajikistan with relatively higher per capita incomes as well as human development indices. Consequently, higher income levels are neither a necessary nor a sufficient condition for PFM strengthening to succeed—but they can facilitate capacity development if other factors are in place to enable progress more broadly.

Across the case studies, political commitment was of critical importance to move PFM reforms forward. Overall political commitment was typically focused on some “higher goal”; PFM reforms were part of the means to achieving these
goals. The real (mix of) preferences of political leaders cannot be observed directly. What can be observed are concrete actions and patterns of actions across countries.

It is important to note that PFM reform is typically supported by the political leadership in order to achieve broader policy goals rather than as an objective in its own right. In Kosovo, the top performer among the eight cases, PFM reforms were at first directly implemented by international agencies but continue to be pursued by domestic stakeholders as they successively assumed the reins of government—with a view toward achieving independence. The reforms have been continued since post-independence in 2008 with the intent of helping Kosovo bring its institutions closer in line with the EU.

In contexts where political leadership has been less focused on the relationship with the international community, there tends to be more limited reform progress as well as less space for development partners to become involved in PFM reforms. Especially in the DR Congo and Tajikistan, reforms of PFM were overshadowed by other political priorities, which limited the space for donor engagement. For instance, Tajikistan received the lowest levels of PFM-directed aid across the cases studied. In Cambodia, engagement between the government and donors has been substantial on PFM reforms, while political and management concerns favored gradual rather than more rapid change. Overall, the evolution of PFM systems was less rapid in the DR Congo and Tajikistan, and even relatively simple reform steps, such as introducing an administrative budget classification or adopting a new chart of accounts, took considerable time.

With regard to political leadership and PFM reform, one mechanism that can transform high-level political commitment into concrete action is the choice of the country’s finance minister. Box 3.1 shows who in the eight case studies were appointed to ministries of finance or related institutions and their starting dates in office. Two observations emerge: (a) the position of minister of finance has a relatively high turnover in a majority of cases; and (b) in five of the eight cases (Afghanistan, DR Congo, Liberia, Sierra Leone, and West Bank and Gaza), the appointees formerly worked for international financial institutions for a period of time. From a government’s perspective, such appointments serve a dual purpose. A minister with an international background may be expected to serve as a champion of PFM reforms while at the same time being expected to liaise effectively with the international community and to ensure external assistance flows. In Afghanistan and the DR Congo, in particular, such appointments were made during early post-conflict years when relations with the international (aid) community needed to be established.

In line with the importance of external dimensions, higher levels of overseas development assistance are associated with greater progress on PFM reforms across the eight cases. This is illustrated in Table 3.2. Levels of ODA per capita are particularly high in five of the six countries with “intermediate” or “substantial” PFM progress. This is a two-way relationship: governments engage in PFM reforms as an incentive for attracting more aid while donors appear to be more willing to continue or increase aid flows to countries that show progress in PFM reforms. Thus, the DR Congo—where progress on PFM reforms has shown least advance—is the only country for which aid flows have declined rather than increased or held steady over the review period (see Annex I).

In contrast, domestic revenue performance does not appear as a driver for better PFM systems. While increased levels of domestic revenues could eventually become an incentive for stronger management of public resources, data in Table 3.3 implies that the share of domestic revenue as a percentage of GDP is not associated with overall PFM performance over the time periods analyzed. For instance, some of the fastest reforms took place in Afghanistan and in Sierra Leone where levels of domestic revenue have been the lowest in the group. Conversely, higher revenue collection in Tajikistan did not spur greater PFM reform. The only country in the group that has achieved substantial progress on both revenue performance and PFM improvement is Kosovo. Furthermore, it is arguable that in countries where a large proportion of domestic revenue is derived from extractive industries, the incentives to pursue

---

17. The real (mix of) preferences of political leaders cannot be observed directly. What can be observed are concrete actions and patterns of actions across countries.

18. The DR Congo also has relatively high revenue performance but primarily as the result of low GDP and substantial natural resource revenue.

19. West Bank and Gaza also shows relatively strong domestic revenues, but a large proportion of these are customs and tax revenues collected by the Israeli Government on behalf of the Palestinian National Authority and transferred on a regular basis. These revenues are vulnerable to political disruptions and have not been sufficient to ease West Bank and Gaza's dependence on substantial donor support.
### Selection and Roles of Ministers of Finance

The relatively high turnover of finance ministers in a majority of the post-conflict cases suggests that donor efforts have to contend with a high likelihood that any minister perceived as a reform champion will leave his or her position within a few years. While there is great variation across countries and time periods, many ministers have only stayed in office for one to three years—particularly in countries with greater overall reform progress. Among the eight cases, Cambodia and Tajikistan have had the longest serving ministers of finance, within the context of more authoritarian political regimes. West Bank and Gaza is an interesting exception; a reformist technocrat with a background in international financial institutions became not only the finance minister but also over time a central political figure (and prime minister) who has been in office for nearly a decade. This unusual combination of professional expertise, political skill, and longevity is seen as a crucial ingredient of West Bank and Gaza’s relative success in achieving substantial progress on PFM reforms in a challenging context.

<table>
<thead>
<tr>
<th>Country</th>
<th>Finance Minister and period in office</th>
<th>Formerly with IF?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>(i.e., World Bank, IMF)</td>
</tr>
<tr>
<td>Afghanistan</td>
<td>Hedayat Arsala—2001 to June 2002</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Ashraf Ghani—June 2002 to December 2004</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Anwar Ul-Haq Ahady—December 2004 to late 2008</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Omar Zakhilwal—since February 2009</td>
<td>N</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Keat Chhon—since 1994</td>
<td>N (formerly with UN)</td>
</tr>
<tr>
<td>DR Congo</td>
<td>Minister of Budget and Finance</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Mbuyamu I. Matungulu—April 2001 to February 2003</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Ministers of Budget:</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>M.F. Muamba Tshishimbi—2003 to 2006</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Jean-Claude Mulipe—2006 to 2007</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Adolphe Muzito—2007 to 2008</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Michel Lokola—2008 to 2010</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Jean-Baptiste Ntahwa Kuderwa Batumike—as of 2010</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Ministers of Finance:</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>André-Philippe Futah—2005</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Marco Banguli—2005 to 2007</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Athanase Matenda Kyelo—2007 to 2010</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Matata Pongo Mapon—as of 2010</td>
<td>N</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Ali Sadru—2002 to 2004</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Hakim Shatri—2004 to 2008</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Ahmet Shala—2008 to 2011</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Bedri Hamza—2011 -</td>
<td>N</td>
</tr>
<tr>
<td>Liberia</td>
<td>Lusine Kamara—2003 to 2005</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Antoinette Sayeh—January 2006 to mid-2008</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Augustine Ngafoa—since 2008</td>
<td>N</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Joseph Dauda—2002 to 2005</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Joseph Oponjo Benjamin—2005 to 2007</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>David Carew—2007 to 2009</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Former managing partner, KPMG</td>
<td>Y (briefly)</td>
</tr>
<tr>
<td></td>
<td>Former managing partner, KPMG</td>
<td>N</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>Safarali Najmuddinov—since 2000</td>
<td>N</td>
</tr>
<tr>
<td>West Bank and</td>
<td>Mohammad Zuhdi Nashashibi (Fatah)—1994 to 2002</td>
<td>N</td>
</tr>
<tr>
<td>Gaza</td>
<td>Salam Fayyad—2002 to 2005 and again since March 2007</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Interim (November 2005 to March 2007):</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Ahmad Gurei (Fatah), Omar Abd al-Razaq (Hamas), Yousef Rizaq (Hamas),</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Samir Abu Eisheh (Hamas)</td>
<td></td>
</tr>
</tbody>
</table>
PFM reforms may be reduced, as appears to be the case in the DR Congo.\(^20\)

The influence of donors in promoting reforms has been significant, exercised through policy dialogue as well as grants and other support operations. Strong external influence on reform drivers, measures, and approaches has been achieved through various combinations of financing mechanisms (such as multi-donor trust funds) and policy conditions (linked to IMF staff monitored programs and poverty reduction growth facilities, donor budget support, HIPC conditions, and others) as well as by providing technical assistance. The design of the different operations and the analytical work underlying them, as well as the policy dialogue associated with the preparation of those programs, provided the basis for establishing PFM reform priorities.\(^21\)

**Shared sovereignty** arrangements in Kosovo and Liberia offered unique approaches by the donor community to strengthen country PFM systems with relatively good results. Shared sovereignty arrangements made use of internationally appointed experts who share authority over key PFM positions with government officials. Kosovo and Liberia exemplify in different ways the experience (and challenges) of temporary shared sovereignty arrangements—the Governance and Economic Management Assistance Program (GEMAP) in Liberia, and the United Nations Interim Administration Mission in Kosovo (UNMIK) and Special Representative of the Secretary General (SRSG) reserved powers in Kosovo. Kosovo has achieved substantial reform progress over a longer period of time; Liberia, with a more recent starting point, has shown intermediate progress. The Kosovo experience has been the most far-reaching mechanism of shared sovereignty in a way that is only possible in a newly emerging state, while the Liberian example is potentially relevant for a wider range of post-conflict countries.

HIPC debt relief was also a significant driver of PFM reforms, especially in Afghanistan, Liberia, and Sierra Leone. The accession to debt relief through HIPC was a powerful incentive for governments to implement PFM reforms that were often included as HIPC conditions (discussed further in Chapter 4). HIPC was instrumental by helping governments and (most) donors focus and act on a jointly agreed platform. In the DR Congo, the impact of the HIPC process was also relevant, but its impact was shorter lived and more limited. As Easterly (2001) argues, the granting of debt relief is a one-off event

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**TABLE 3.2. LEVELS OF AID AND DOMESTIC REVENUE PERFORMANCE, AND RELATIVE PROGRESS ON PFM REBUILDING AND REFORM**

<table>
<thead>
<tr>
<th></th>
<th>Afghanistan</th>
<th>Cambodia</th>
<th>DR Congo</th>
<th>Kosovo(^b)</th>
<th>Liberia</th>
<th>Sierra Leone</th>
<th>Tajikistan</th>
<th>West Bank and Gaza(^c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA/GNI % (average 2002–08(^d))</td>
<td>38.3</td>
<td>9.3</td>
<td>33.3</td>
<td>10.9(^e)</td>
<td>74.7</td>
<td>31.6</td>
<td>9.9</td>
<td>31.3</td>
</tr>
<tr>
<td>ODA per capita in current US$ (average 2002–08)</td>
<td>103</td>
<td>41</td>
<td>37</td>
<td>95(^f)</td>
<td>112</td>
<td>76</td>
<td>34</td>
<td>423</td>
</tr>
<tr>
<td>Domestic revenue in % of GDP, excl. grants (2008(^g))</td>
<td>6.9</td>
<td>12</td>
<td>18.5</td>
<td>24.5</td>
<td>24.4</td>
<td>11.5</td>
<td>20.5</td>
<td>25.7</td>
</tr>
<tr>
<td>Overall PFM reform performance</td>
<td>Substantial</td>
<td>Intermediate</td>
<td>Limited</td>
<td>Substantial</td>
<td>Intermediate</td>
<td>Substantial</td>
<td>Limited</td>
<td>Substantial</td>
</tr>
</tbody>
</table>

*Note: All data for fragile states is subject to high levels of uncertainty and should hence only be seen as approximate.*

- a Data is particularly uncertain for Kosovo and West Bank and Gaza.
- b Aid to GDP levels for 2001 to 2006 (excluding costs for international administration).
- c Average for 2005 and 2006 only.
- d Averages give impression of overall level of aid dependency; year-to-year, most fragile states experience considerable volatility in commitments and disbursements.
- e Domestic revenue includes taxes on international trade and revenue from resource sectors.

*Sources: World Bank, Development Data Platform; IMF; OECD (2008).*

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\(^{20}\) The DR Congo combines a relatively high share of ODA relative to gross national income with significant donor efforts but thus far little progress on PFM reforms. At the same time, the DR Congo has a relatively high ratio of own revenue to GDP—and the potential for this to become much higher over time given its vast natural resource wealth—while its government is caught in a constant struggle for survival.

\(^{21}\) The relatively greatest degree of ‘autonomous’ agenda setting for PFM reforms occurred in West Bank and Gaza under the leadership of a technically and politically strong Minister of Finance, Salam Fayyad.
that can lead to a significant reform effort followed by a sharp decline once the goal is achieved.

The provision of budget support also seems to be an incentive for governments to pursue PFM reform, and it can provide a more continuous incentive. A concerted policy dialogue and jointly agreed policy matrices related to budget support facilitated reforms by identifying key priorities and attaching a direct benefit to implementation. In Sierra Leone, donors maintained a sustained focus on PFM reforms as prior actions for the disbursement of budget support. However, the case studies show that across the board the use of country PFM systems in the form of budget support has been quite limited; while 2008 data and the 2011 Paris Declaration Monitoring Survey show a significant increase in the percentage of aid using country systems in all case studies, except for Afghanistan, for the most recent years. One challenge is that increases in budget support can be a reflection of geopolitical interests or other considerations, rather than a response to improvements in PFM systems. Budget support was provided in the DR Congo, for instance, despite it being considered high risk.

Half or more of the aid to the post-conflict countries and territories reviewed continues to be provided using parallel systems and avoiding government systems in an attempt to reduce fiduciary risks. External funding flows especially for public investments still mostly remain off-budget, although a recent trend to increase the use of country systems is discernable among the group of eight (see Table 4.4 in Chapter 4). For the time being, these continue to receive 50–80 percent of aid off budget, which in turn remains a major driver of de-linking capital and recurrent budgets, especially in more aid-dependent environments. Thus, while higher levels of ODA work as an incentive for strengthening PFM systems, maintaining a predominant share of aid off-budget works against the full effect of such efforts, especially with regards to budget planning but also regarding execution and accountability. Shifting more aid on budget—while possibly still using special accounts, as is done for on-budget aid for public investments in Afghanistan—is therefore an important part of a longer-term support strategy for post-conflict countries.

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22. Typically the use of parallel systems involves separate funding flows, the application of donor-specific fiduciary procedures, and the use of project management units.

23. There is also some debate whether fiduciary controls in donor-executed assistance are consistently more effective de facto. However, this issue cannot be assessed empirically in this review.

3.3

THE IMPACT OF INSTITUTIONAL LEGACIES AND POLITICAL REGIMES

SOMewhat Contrary to expectations, the degree of reform progress achieved across the case studies does not seem to be associated with any specific sort of institutional legacy. Even in countries where the state had been barely functional for some time, as in Afghanistan, Liberia, the DR Congo, and Sierra Leone, the remaining institutions still preserved some degree of functionality; and at the early stages of re-engagement, reforms were built on those legacies. This was the case with the Soviet administrative heritage in Afghanistan and Tajikistan, the Yugoslav heritage in Kosovo, and the combination of Israeli, Egyptian and Jordanian influences in West Bank and Gaza. Progress has been possible in countries that departed from their prior institutional legacies, as well as in several in which change involves a gradual evolution of existing legacies (Liberia and Sierra Leone). Institutional legacies are most likely to pose an obstacle when there is a lack of agreement on institutional models to follow, as was the case in Cambodia, or when there is a generally low commitment to reform as in the DR Congo.

Progress of PFM reforms was achieved in some countries involving a fundamental departure away from prior institutional legacies, as well as in other cases involving greater continuity or a more step-wise change. In Kosovo the reform process departed most significantly and deliberately from its prior legacy, as local stakeholders were keen to depart from Yugoslav models. In West Bank and Gaza, the strengthened revenue, cash, and payroll controls were in no small part an attempt to distinguish the administration of the Palestinian National Authority from its reputation as a neo-patrimonial state that could not be trusted with large budget support from donors. In the DR Congo, in contrast, a greater degree of institutional continuity of a Francophone system has not been associated with greater PFM reform success; while in Sierra Leone, a degree of continuity with previous legacies was associated with relatively rapid progress. The new PFM laws adopted
across the cases all entail departures from prior legacies—and infusion of variations of “international practice.”

However, problems can emerge in cases where competing institutional traditions come into play. Cambodia in particular is an example where different institutional traditions have coincided. The 1990s saw the re-establishment of many Francophone institutional PFM elements, while later on the influence of an Anglophone approach has grown, leading to contradictory institutional elements and prolonged debates over specific reform steps. Over time, these issues can be resolved, but reforms pulling in different directions carry costs, including the need for subsequent legal and institutional revisions and clarifications (Table 3.3).

At the political level, the initial political settlement of the early transition period evolved toward different political regimes over time. As Table 3.4 illustrates, initial power-sharing settlements or the establishment of new political entities (Kosovo, West Bank and Gaza) developed either into hybrid regimes that combine authoritarian and more democratic elements, or into more fully authoritarian systems. Five of the countries are currently classified as authoritarian political regimes and the remaining three have hybrid regimes. None of the cases has achieved an institutionalized multi-party government during the post-conflict period.25

Those case studies with hybrid political regimes have tended to see a greater degree of PFM reforms than those with authoritarian regimes. Afghanistan, Kosovo, Liberia, Sierra Leone, and West Bank and Gaza hold competitive elections and have had hybrid regimes for part or most of the post-conflict period. In the DR Congo and Tajikistan, the authoritarian regimes emerging in the post-conflict period have concentrated more energy on regime survival and less on institution re-building. As an intermediate case, the Cambodia’s People Party, the country’s dominant party, has focused on consolidating power while pursuing gradual public sector reforms. Looking beyond the case studies, there are several authoritarian regimes that have progressed significantly in reforming PFM systems, as in Rwanda (Lewis 2011) and post-conflict Uganda (Kuteesa 2010), usually during periods when the leadership enjoyed widespread support and was less pre-occupied with regime survival (Leftwich 2000).

The need to accommodate the interests of elite groups and former warring factions can limit the discretion of reformers, especially in cases with insecure political settlements. Budget reforms that affect spending profiles are inherently political and can unsettle groups with vested interests in the existing distribution of public resources. While this is the case in all countries, post-conflict countries are even more constrained by the risk of violence from certain elite groups. Where the resumption of violence was a substantive threat, political

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### Table 3.3. Legal-Administrative Legacies and Post-Conflict Evolution

<table>
<thead>
<tr>
<th>Country</th>
<th>Legal-administrative legacies</th>
<th>Post-conflict institutional-legal trajectory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>Soviet-Communist, Taliban</td>
<td>Current law inspired by international/Anglophone practice</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Francophone, Communist</td>
<td>Soviet and Vietnamese influence in the 1980s; reversion to Francophone PFM in the 1990s; gradual move toward international (Anglophone inspired) practice in the 2000s</td>
</tr>
<tr>
<td>DR Congo</td>
<td>Francophone</td>
<td>Updated Francophone system</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Yugoslav-communist</td>
<td>International practice</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>UK-Anglophone</td>
<td>Updated UK-Anglophone on with international practice</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>Soviet-Communist</td>
<td>Mix of post-Soviet and international practice</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>Jordan/Egypt</td>
<td>International practice in selected areas, while the composition of reforms was domestically inspired</td>
</tr>
</tbody>
</table>

Source: Authors.

---

25. A few of the Balkan countries less affected by conflict (e.g., Croatia, Slovenia) have moved toward democratic regimes.
negotiations with powerful actors undermined the impetus for reform or made reforms in politically sensitive areas unfeasible, as was the case at times in the DR Congo and Tajikistan. In Liberia, reforms were undertaken on a much larger scale after the transitional government handed over power following the first democratic elections in 2006, signaling the weakening of potential peace spoilers.26

Establishing effective transparency and accountability mechanisms appears to be particularly challenging in authoritarian and potentially also in hybrid regimes that result in (overly) dominant executives. These regimes tend to limit the opportunities for non-executive actors to oversee or scrutinize the executive. Typically, parliaments in post-conflict countries have lacked technical and administrative capacity as well as political incentives to hold the executive accountable. Strong executives in hybrid and authoritarian regimes perpetuate that situation through co-optation of parliamentarians and by starving parliaments of the necessary resources and information. As is discussed in section 5.2.3, budget accountability has been a challenging reform area across the eight case studies, with some greater progress in the more open ones.

26. Liberia also benefited from a high level of international security provision relative to the size of the country, involving up to 15,000 UN military personnel and over 1,000 police officers from 2003 onwards, assuring domestic stakeholders that threats of renewed violence could be contained.
4.
APPROACHES TO PFM REFORM IN POST-CONFLICT CONTEXTS

With varying starting points for PFM reforms in post-conflict contexts, local stakeholders as well as development partners require suitable approaches. The eight case studies show some variation of starting points while the approaches to strengthen PFM systems present a high degree of similarity. Along with the PFM starting points, the following topics are discussed in this chapter: the tools that were used to assess PFM performance at the outset of reforms, reform and donor coordination efforts, the PFM institutional arrangements, the timing of the reform of legal frameworks, and the challenges and approaches to build local capacity.

4.1 STARTING POINTS, DONOR ASSESSMENTS, AND REFORM COORDINATION

The case studies show significant variation in terms of PFM starting points and the degree of functionality of PFM system at the outset of reforms. In Sierra Leone, the central PFM system had recovered some core functionality within three months after the official declaration to the civil war’s end. Donor support to the Ministry of Finance had continued during the conflict period in the context of a stop-start nature of the conflict and relative security around the capital city (and the Freetown peninsula). At the other end of the spectrum in Kosovo, the challenge was to build PFM systems virtually from scratch in a newly emerging entity and without recent public administration experience since ethnic Albanians had

<table>
<thead>
<tr>
<th>Country</th>
<th>Standard PFM diagnostics (World Bank, IMF, and PEFA)</th>
<th>PFM reform programs and action plans (Comprehensive strategies/plans shown in bold)</th>
</tr>
</thead>
</table>

Source: Compiled by the authors based on the case studies; World Bank reports database.
been excluded from public office during Milosevic’s rule in the 1990s.

Existing PFM activities across the countries involved many informal practices. The conflict period allowed such practices to flourish despite the fact that in most cases some legal and regulatory frameworks had been formally in place. In West Bank and Gaza, the Palestinian National Authority allowed a high degree of discretionary space for the Office of the President, and frequently responded to short-term requests for expenditures or staff hiring. During the long conflict in Afghanistan, many key stakeholders developed a patronage approach to foreign assistance in which cash payments were frequently made by the authorities to individuals, resulting in a lack of transparency and predictability. By contrast in Sierra Leone, the use of informal PFM practices appears to have been more constrained as the highly centralized management system maintained a degree of expenditure control, and the legal and regulatory framework for PFM was upheld to a greater extent at least at central levels.

Many key aspects of the budget cycle did not function effectively or at all. In many of the cases, budgets were not adopted, fiscal reports were not produced, and ex post oversight of spending was not carried out. Hence, at the reform starting point in most cases, there was no credible and reliable budget to provide resources for service delivery. In response to these early conditions, getting the annual budget process up and running was an immediate priority. In most cases, the approach was to re-establish a basic functioning budget process so that government expenditure could be authorized, executed, and recorded. In other cases, such as Liberia and the DR Congo, parliamentary budget approval was reintroduced early to establish legitimacy for planned spending; while in other cases, such as Afghanistan, the initial budget was approved by presidential decree because the legislature was not yet constituted. In Liberia, the first post-conflict budget introduced in 2003 covered only a four-month period.

Initial (externally led) PFM assessments tended to be rather light, followed by varied assessments undertaken by different agencies. Over time, a range of PFM diagnostic assessments were implemented during the post-war period, including IMF Fiscal Affairs Department mission assessments, PEFA assessments, Public Expenditure Reviews (PER), Country Financial Accountability Assessments (CFAA), Country Procurement Assessment Reports (CPAR), and Reports on the Observation of Standards and Codes (ROSC) for fiscal issues.

The density of diagnostic work generally increased several years into the post-conflict period (as shown in Table 4.1 summarizing World Bank diagnostic assessments and PEFA reports for each of the eight post-conflict cases). The first major PFM reports in Afghanistan were completed three years after the end of conflict, while for Kosovo a comprehensive PER was completed in 2006, seven years into the post-conflict period. While a pragmatic response to post-conflict environments, the initially uncoordinated approach to diagnostics contributed to weak coordination of PFM reform efforts in the first 2–3 years. In addition, it delayed the formation of a consensus on reform priorities.

The array of diagnostic work fed into successive PFM reform plans covering the post-conflict period. These plans covered a wide range of reform objectives. In Cambodia, for example, immediate reform efforts focused on strengthening revenue collection systems and later on cash management. In the DR Congo the focus was on strengthening basic budget procedures within the Ministry of Finance.

The development of systematic procedures for coordinating PFM reforms in most cases emerged rather late—5 to 7 years into the post-conflict period. The many donors involved in the reconstruction process are an explanation for this. Fragmentation of donor support to PFM through multiple projects has led to the duplication of reform efforts and weak coordination in PFM design and outputs. In Kosovo, for example, the poor alignment of objectives between the Kosovo Financial Management Information System (KFMIS) and the Budget Development and Management System, which were funded by different donors, resulted in their weak integration. Poor donor coordination has also led to a multiplicity of program frameworks that resulted in additional transaction costs for the partner country.27

In a majority of cases, PEFA assessments (which have been rolled-out since 2005) eventually became an important impetus for more comprehensive reform plans and improved coordination of reform support. PFM assessments using PEFA indicators were completed in all eight post-conflict cases with some reassessments having already taken place.28 A number of reform plans emerged one to two years after the conclusion of initial PEFA assessments (Table 4.1), facilitated by the fact that PEFA assessments are more broadly owned across

27. Better donor coordination in itself does not lead to stronger reform, but lack of donor coordination contributes to undermining a coherent reform effort (i.e., it may best be viewed as a necessary but not sufficient condition).
28. An informal assessment was carried out in West Bank and Gaza. Re-assessments have already taken place in Kosovo and Sierra Leone.
development partners. At the same time, the assessments provide an overview of PFM functionalities, while other analytic work tends to be more partial (focused on particular areas only) and/or not widely shared (reports by the IMF Fiscal Affairs Department, for example). PEFA led to the formulation of reform programs that tended to attract multi-donor support and in some cases were closely linked to donor budget support operations.

**Cambodia provided an early case of greater coordination when a comprehensive platform-approach reform plan was developed in 2004.** The Cambodian platform approach deliberately staggered PFM reforms over four stages (Figure 4.1). These four stages of PFM reforms were initially envisaged for implementation over a period of about 10 years (December 2004 to 2015). The development of the platform approach was motivated by the government’s and donors’ desire to

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29. This effort was developed prior to the launch of PEFA assessments since 2005.
move beyond a more ad hoc and fragmented approach of reform recommendations and actions. The first platform—to
deliver resources to budget managers more reliably—aimed
to mitigate the significant problems with cash management
and payment arrears that were present at the time (2003/04).

The platform approach is broadly modeled on moving from
basics first to more advanced areas of reform, but within a
relatively short period of time, as discussed in section 1.2. 30
For example, Platform 1 focused on budget credibility and
was implemented from late 2004 to late 2008. Platform 2,
laid in late 2008, focused on improved internal controls
and (upward) managerial accountability. Platform 3 will focus
on linking policies, budgets, and service delivery targets, and
Platform 4 on greater external transparency, performance, and
decentralization by the targeted overall end-date of 2015.
The actual implementation of the reform platforms has been
slower than anticipated, with the likely start of Platform 3
only by 2013 or later. However, government ownership of the
strategy has been maintained over time—facilitated by a high
degree of continuity of key participants, and the absence of a
change in government.

The platform approach seems to enhance donor coordination
and coordinated support to government reforms, albeit areas of
friction always remain. Several other countries have adopted
the platform-approach concept for recent reform plans,
including Sierra Leone in 2008 and Kosovo in 2009. In
Kosovo, the platform approach, although adopted ten years
into the post-conflict period when budget credibility and other
basics was already relatively well established, facilitated
greater coordination among donors to the sector.

While the introduction of PEFA assessments and the design
of more comprehensive and coordinated reform plans that
include various platform approaches have brought improvements,
challenges still remain. Among these challenges is a greater
focus on typical post-conflict constraints. While PEFA
assessments provide value for post-conflict countries, their
universal aim means that they do not focus on issues of
particular relevance to post-conflict transitions, such as PFM
capacity. Coverage of intergovernmental relations is rather
thin in PEFA assessments (addressed by one indicator, PI–8).
However, building viable intergovernmental fiscal systems and
developing subnational and sector PFM capacities pose crucial
challenges in many post-conflict environments. Regarding the
platform approach, Allen (2009) cautions that it places too
many demands on still-limited local capacity. While platform
approaches stagger reforms and are effective in providing a
basis for coordination, it is inevitably challenging to define
realistic time-horizons for multiple key reform strands ex ante.

Furthermore, the case studies indicate that coherent
approaches to public sector reforms also pose a challenge.
The overarching aim of improving the public sector and
governance is included in some poverty reduction strategy
papers (PRSPs) as in Liberia for 2006 to 2008, for
example, or similar broad strategic government plans (as the
Governance Compact adopted in the DR Congo in 2007).
However, for implementation, responsibilities for PFM reforms
and for public sector reforms are usually separate—with the
PFM reforms typically led by the Ministry of Finance while
other public sector reforms have been led by commissions
or units closely linked to the top executive (as in Liberia and
Sierra Leone) or left to a variety of agencies without a central
unit. The review of the case studies did not systematically
explore if and what efforts were made to coordinate support
by development partners across various areas of public sector
reforms. Generally, there are no analytic instruments routinely
used to assess public sector reform progress that could serve
as a platform for possible public “sector-wide” coordination
(with the partial exception of Kosovo benefiting from the
OECD’s SIGMA assessments).

30. Ideas related to the platform approach have also fed into the “strength-
ened approach to supporting PFM reforms” espoused in the PEFA initiative.
The three principles of the strengthened approach are (a) country-led agenda;
(b) coordinated program of support from donors and international finance; and
(c) shared information pool on PFM.
4.2

DEVELOPMENT OF LEGAL RULES AND INSTITUTIONAL ARRANGEMENTS

THE LEGAL FRAMEWORK AND INSTITUTIONAL arrangements have been important considerations in overall PFM reform efforts.

4.2.1

Legal framework reform

COMPREHENSIVE REFORM OF THE LEGAL PFM framework has typically happened several years into the post-conflict period, rather than at the outset. The adoption of comprehensive legal reforms took between 3 and 10 years to complete after the end of conflict in the eight post-conflict situations (Table 4.2). Even in Afghanistan, Kosovo, and Sierra Leone with the overall fastest pace of PFM reforms, comprehensive legal reform happened after a period of 3 to 4 years. This finding contrasts with the recommendation of an earlier IMF study, which concluded that the legal framework should be the starting point for PFM reform in post-conflict countries (IMF 2004) and the fact that in several cases, development partners were advising for earlier adoption of new legal frameworks.

Some countries initially used amendments to the existing PFM legal framework. Such an approach proved beneficial in Afghanistan, Liberia, and Sierra Leone because it permitted officials and advisers to concentrate first on tackling urgent functional improvements and to adopt a more gradual approach to formalizing these practices in law. A less conventional approach was followed in West Bank and Gaza where the annual budget law was used to pass specific amendments to

31. Cambodia is a partial exception where new PFM legislation was adopted almost immediately after the end of conflict in the early 1990s. In West Bank and Gaza, which also made substantial progress on PFM reforms, the organic PFM legislation adopted in 1998 remained in place and was not revised.

### TABLE 4.2. TIMELINE FOR REFORMING PFM LAWS

<table>
<thead>
<tr>
<th>Country / Territory</th>
<th>End of conflict</th>
<th>Prior PFM laws</th>
<th>Date of Constitution</th>
<th>New organic budget law</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kosovo</td>
<td>1999</td>
<td>Kosovo did not previously exist as a separate entity</td>
<td>2001 (Constitutional Framework) and 2008 (Independence)</td>
<td>Law on Public Financial Management and Accountability 2003; amendments made in 2008</td>
</tr>
</tbody>
</table>

Source: Compiled by the authors, based on the case study reports.
the legal framework. In Liberia, the new organic budget law provided for lagged implementation of more ambitious reform measures.

### 4.2.2 Institutional arrangements and reforms

**AT THE POST-CONFLICT STARTING POINT,** responsibility for public financial management was shared among two or more ministries. There has been some tendency to merge these responsibilities in a single ministry of finance especially in countries progressing further with PFM reforms overall. However, in several cases, including West Bank and Gaza as a case with significant reform success, institutional divisions remain (Table 4.3). Furthermore, a particular situation prevailed in Kosovo from 2001 to 2008 when government responsibilities, including those for PFM, were divided between the United Nations Interim Administration Mission in Kosovo (UNMIK) and the Provisional Institutions of Self-Government (PISG). In the DR Congo, the split of the Ministry of Economy, Finance, and Budget into three separate ministries in 2002 was particularly detrimental to the reform progress.

32. During that time, the incentives on the provisional governing authorities to improve budgeting and PFM were weakened by the substantial constraints on their autonomy. For example, the arrangements for “reserved power” institutions and “fair share” financing reduced PISG budgetary discretion.

33. Comparison may be drawn to the amalgamation of portfolios in Uganda to create the Ministry of Finance, Planning and Economic Development, which became a very strong “super ministry” capable of leading the PFM reform agenda.

### TABLE 4.3. INSTITUTIONAL CONFIGURATION OF CENTRAL FINANCE FUNCTIONS

<table>
<thead>
<tr>
<th>Country</th>
<th>Institutional configuration of central finance functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>Ministry of Finance with unified responsibility for recurrent budgets and on-budget investment expenditures.</td>
</tr>
<tr>
<td>Cambodia</td>
<td>The main responsibility for recurrent and capital budgeting rests with separate departments within the Ministry of Economy and Finance. The Ministry of Planning compiles a three-year rolling Public Investment Program based on line-ministries’ proposals that are passed on to the Ministry of Economy and Planning after approval by the Council of Ministers.</td>
</tr>
<tr>
<td>DR Congo</td>
<td>Single unified ‘mega ministry’ (Economy, Finance and Budget) at 2001 starting point. Split into three ministries (Plan, Budget and Finance) under terms of 2002 peace agreement.</td>
</tr>
<tr>
<td>Kosovo</td>
<td>A Central Finance Authority was established in 1999 and a separate Department for Reconstruction in 2000. The latter focused on the use of donor funds for public investment expenditures. With the development of a Ministry of Economy and Finance since 2002 (and the gradual transfer of functions from UNMIK to Kosovar institutions), responsibilities for recurrent and capital expenditures were integrated into one ministry.</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Single unified Ministry of Planning and Economic Development at starting point and throughout post-conflict period. Ministry of Development and Economic Planning and Ministry of Finance were previously separate.</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>Separate Ministry of Finance and Ministry of Trade (formerly Central Planning Authority), but with relative dominance of Ministry of Finance in planning and budgeting.</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>Separate Ministry of Finance and Ministry of Planning, with latter responsible for investment planning and budget and with former responsible for recurrent expenditure. Separation of public administration between West Bank and Gaza territories in 2007, with parallel finance ministries.</td>
</tr>
</tbody>
</table>

a. Afghanistan Aid Coordination Authority (AACA) was established to coordinate external assistance from 2001. AACA has been transformed over time into an Aid Management Directorate within the Ministry of Finance with which it merged in 2003.
b. The post-conflict administration of Kosovo by the UN created a specific set of arrangements especially during the early post-conflict period. In 1999, UNMIK created a Central Fiscal Authority under its authority responsibility for PFM functions. Responsibilities began to be transferred to the Ministry of Economy and Finance under the Provisional Institutions of Self Government in 2001 and the Central Fiscal Authority was abolished in 2002.

Source: Compiled by the authors, based on the case study reports.
Over time, several countries have taken steps to create a more unified budget process. In Liberia, for example, the merger of the Bureau of Budget with the Ministry of Finance streamlined the budgeting process and addressed the bifurcation of reporting lines to the president on budget policy. The integration of Liberia’s Ministry of Finance and the Ministry of Planning has also been proposed. The assumption of full PFM responsibilities by the Ministry of Economy and Finance in Kosovo in 2008 started to reduce distortions in the budget allocation process.

Efforts to consolidate PFM functions and responsibilities met with various degrees of resistance. Vested interests favoring separate institutions were prone to emerge within government as well as on the side of donors. The merger of the Bureau of Budget and Ministry of Finance in Liberia was opposed by senior Bureau officials as well as by some donor agencies. Strong pressure by the finance minister and through policy measures under HIPC and IMF were needed to secure the merger in 2009. In the DR Congo, the separation into three ministries served the logic of a tenuous multi-party compromise, requiring a distribution of positions and rendering it the case with the strongest institutional fragmentation at the end-point of the study period of 2010 (after starting with a unified ministry at the outset).

A considerable challenge in terms of PFM integration has been the fact that significant shares of investment expenditures are directly donor funded and remain off-budget. In Afghanistan, for example, external financing accounted for 90 percent of total public expenditures on average over the period 2003 to 2008, and the share of external funds spent using country systems has fluctuated. Across all case studies for which data is available (Table 4.4), less than 50 percent of aid funds to central government are managed through national budget procedures.

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### TABLE 4.4. SHARE OF ODA USING COUNTRY PFM SYSTEMS

<table>
<thead>
<tr>
<th></th>
<th>Afghanistan</th>
<th>Cambodia</th>
<th>DR Congo</th>
<th>Kosovo</th>
<th>Liberia</th>
<th>Sierra Leone</th>
<th>Tajikistan</th>
<th>West Bank and Gaza</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of aid using country PFM systems according to 2008 Paris Declaration Monitoring Survey</td>
<td>48</td>
<td>14</td>
<td>0</td>
<td>3</td>
<td>32</td>
<td>20</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>% of aid using country PFM systems according to 2011 Paris Declaration Monitoring Survey</td>
<td>25</td>
<td>21</td>
<td>13</td>
<td>20</td>
<td>42</td>
<td>37</td>
<td>31</td>
<td>37</td>
</tr>
</tbody>
</table>


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34. This merger was eventually undertaken in 2012, after a general election in 2011 in which the incumbent president was re-elected.

35. No score was provided for the 2006 informal assessment in West Bank and Gaza.
4.3 APPROACHES TO CAPACITY DEVELOPMENT

Reform efforts were directed primarily at improving the performance of PFM systems while building local capacity was a secondary concern. Capacity substitution and supplementation approaches supported by donors were important in the implementation of PFM reforms in all the case studies, with the exception of Tajikistan and West Bank and Gaza. Capacity substitution constitutes the use of externally funded technical assistants or advisers in line positions. Capacity supplementation schemes refer to partially or fully donor-funded, salary top-up arrangements for civil servants or use of external consultants to perform substantive PFM advisory functions.

In four of six cases showing significant or intermediate PFM progress, technical advisors paid by donors introduced key reforms and performed the functions that allowed reforms to be effectively implemented. However, technical advisors were not equally effective at training local staff. The 2005–10 GEMAP in Liberia is an example of a comprehensive approach using technical assistants that failed to achieve its capacity development objective. Despite the stated emphasis on capacity building, the primary objective of GEMAP was to strengthen (external) fiduciary control, and the goal for building local capacity was not effectively operationalized.

The challenge of establishing greater domestic PFM capacity, especially in fragile states relates to systemic weaknesses within the civil service. Capacity development is constrained by the limited pool of skilled people in-country and in the civil service and by the low wages paid to civil servants, particularly middle- and senior-level officials. Low salaries for key PFM positions result in high staff turnover (as experienced in Afghanistan and Tajikistan), or in an inability to move away from technical assistance arrangements and to bring donor-funded staff onto the public pay roll (Sierra Leone and Liberia). At the same time, donors offer substantial salaries to their locally hired staff, further undermining the ability of the public sector to attract the most skilled people. Most governments have limited room for maneuver given that wages and salaries consume a significant share of total expenditures.

In some of the case studies, top-up schemes were adopted by governments to attract and retain skilled civil servants, but such schemes encountered political and governance challenges. Top-up schemes are designed for the payment of more competitive wages to a limited number of civil servants while avoiding fiscally unsustainable wage raises across the civil service. However, they have caused tensions with regards to eligibility and triggered pressures for wider improvements in public sector pay. In Kosovo, an attempt was made to shortcut wider civil service pay reform by increasing the wages of a limited number of middle- and senior-level government officials through the payment of merit-based top-ups that were partially or fully funded by donors. However, there have been doubts about whether candidates for the scheme are indeed selected on an appropriate merit basis.

Strengthening the capacity for improved PFM was easier in the middle-income than in low-income cases. Kosovo and West Bank and Gaza, both middle income, took different routes but both have been able to develop some degree of local capacity to run PFM systems within a 10-year period. In Kosovo, capacity substitution was the norm in the early post-conflict period with a gradual transfer of roles to a civil service that had to be largely developed from scratch. In contrast, West Bank and Gaza avoided capacity substitution and relied on its own civil servants but had to reform a pervasive patronage- and corruption-encumbered system. In both cases, their middle-income status has mattered, combined with a strong political motivation to gain international recognition. One key middle-income advantage is that a larger pool of general skills is typically available. This availability facilitates the development of technical capacity in the civil service and reduces the pressure of competing recruitment by donors. Furthermore, limited private sector opportunities contributed to low turnover in the civil service in Kosovo as well as West Bank and Gaza.

In some cases, technical assistance did succeed in transferring skills to civil servants, but only under a concerted effort to build the capacity of local staff. In Liberia, while the envisaged skills transfer under GEMAP largely failed, the secondment of expertise from neighboring countries achieved relatively better results. Knowledge of the local context and

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36. Cambodia only used supplementation (i.e., top-up schemes).
language enhanced the ability of such technical assistance to involve local staff in the reform process. In Kosovo, the gradual transfer of skills and capacities between 2003 and 2008 (with a number of technical assistants remaining as advisors beyond independence) also worked reasonably well.

In Liberia and Sierra Leone, the donors provided financial support to the supreme audit institution (SAI) to allow pairing of externally recruited public audit specialists with local staff in the execution of joint audits.

**Phased approaches that gradually transfer responsibilities to local staff while reducing dependence on technical advisors proved effective in building local capacity.** In Afghanistan, the Treasury Department started an internship program to attract university graduates and train them on the job. This allowed the Department to fill some donor-funded positions with new recruits and trained civil servants while reducing the number of external advisers in the Department. The “Kosovarization” of the Kosovo public administration also adopted a progressive approach by replacing international advisors with Kosovars, many having worked alongside the international advisors. To secure the continuity of functions and reforms, the same technical advisors continued to assist the local staff in their new positions, but the number of international advisors significantly decreased over the years.

The limited focus on capacity development and the challenges associated with pay reform continue to undermine the transition from extensive use of technical advisors toward increased reliance on local staff in most of the cases studied. Civil service reform measures such as decompression of salaries, revision of pay and grading levels, redesign of organizational structures, and introduction of training opportunities for professional staff have received limited attention from government and donors in most of the eight cases. Where civil service and especially pay-related reforms were attempted, they have often lacked the political buy-in or raised concerns about fiscal sustainability because of the likely increase in the overall wage bill. In Afghanistan, the Priority Reform and Restructuring Program introduced a new pay-grade structure and merit-based recruitment, but effective implementation was countered by lack of government interest in civil service reform. That was further undermined by ongoing donor-funded technical assistance on the one hand and by allegations of continued patronage in the recruitment process of civil servants on the other.

In Sierra Leone, accommodating the hundreds of local technical advisors into a common pay structure uniform with the rest of the civil service has been particularly problematic and remains an unresolved issue. In Cambodia, after the cancellation of the Merit-Based Pay Initiative (MBPI), donors agreed on a Priority Operating Costs policy as an interim scheme in 2010, while a wider pay-and-grading reform policy was to be formulated by the government. However, limited progress achieved by government in formulating a salary reform subsequently prompted some donors to announce their intent to stop supporting the Priority Operating Costs policy by mid-2012.

**Attempts at longer-term and more coordinated capacity development require more sustained and comprehensive attention.** An overall greater effort is needed to develop capacity over time, including expanding the available skills pool and upgrading the capacity of those already in the civil service, while at the same time improving pay, recruiting effective middle managers, and improving human resource management. Resorting to capacity substitution has proved necessary to enhance the performance of existing and new systems, but it has not sufficiently translated into sustainable capacity development in most cases. The ability to phase out capacity substitution depends on a concerted and dedicated effort by national stakeholders and donors to address these underlying components of capacity development within a medium- to long-term horizon.
5. PROGRESS AND CHALLENGES IN REFORMING PFM

The findings from the eight case studies suggest what has worked in the various efforts to reform PFM as well as the reform areas that have experienced greater challenges. The degree of progress achieved in some reform areas—basic re-establishment of budgeting cycles and especially improved cash management, reporting, and computerization on the budget execution side—are explained by greater attention and support shown from national stakeholders as well as from donors. The more advanced reforms in budget formulation on the one hand and efforts to strengthen budget accountability on the other hand, as well as firming up internal control and audit, have proven to be more challenging.

The chapter begins with discussion of the more successful reform areas across the budget cycle. The chapter continues by addressing the reform areas that have been more challenging and exploring reasons for the variation in traction. It concludes with a look at the reach of PFM reforms into sectors and subnational levels, which is typically a challenging and under-assisted dimension.

A KEY PRIORITY IN THE EARLY post-conflict period was to re-create formal budget processes often in the context of limited public resources.

5.1 AREAS OF PROGRESS ACROSS THE BUDGET CYCLE

5.1.1 Budget formulation

INITIAL BUDGETS IN THE IMMEDIATE post-conflict periods were typically sketchy. They sought to match limited domestic resources and some amounts of donor funds with priority spending needs and to re-establish a formal system of budget preparation and approval as the basis for budget execution and reporting. An early focus was to ensure there was a reliable flow of funds in support of essential items such as civil service salaries and peace- and state-building objectives.

Progress on basic aspects of orderliness in the annual budget process has been achieved in most of the reviewed cases—with notable exceptions—while progress on more advanced measures has been limited. As Table 5.1 reflects, a majority of the cases achieved a B or C+ PEFA score reflecting the existence and

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</thead>
<tbody>
<tr>
<td>PI–12 Multi-year perspective in fiscal planning, expenditure policy and budgeting</td>
<td>B [D+]³</td>
<td>B</td>
<td>D</td>
<td>C [D+]³</td>
<td>D+</td>
<td>C [D+]³</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>PI–2 composition of expenditure out-turn compared to original budget</td>
<td>D [C]³</td>
<td>D</td>
<td>D</td>
<td>A [N/A]³</td>
<td>D</td>
<td>C [C]³</td>
<td>C</td>
<td>C</td>
</tr>
</tbody>
</table>

Note:
*For West Bank and Gaza, PEFA scores were informally prepared for a World Bank-conducted PER.
a. Scores in brackets are from the previous 2005 PEFA assessment for Afghanistan.
b. Scores in brackets are from the previous 2007 PEFA assessment for Kosovo.
c. Scores in brackets are from the previous 2007 PEFA assessment for Sierra Leone.
adherence to a budget calendar, clarity of the guidance to ministries, departments, and agencies (via a budget circular) and timely approval by the legislature. An exception to the expected performance pattern is the D+ score on this aspect for Sierra Leone in the 2010 PEFA assessment, assigned in part due to significantly delayed budget approvals by Parliament. Cambodia scores best on the two budget planning indicators. In particular, it established an orderly budget process based on its 2008 organic budget law and an MTFF. It also introduced budget strategy plans, and some ministries prepared costed sector strategies; but budget credibility still remains a concern.

Initial progress on multi-year budgeting was made in a majority of cases, but cross-country performance is weaker compared to improvements with basic orderliness of budget processes. In general, progress was good where a specialized unit in the finance ministry supported this function. The Macroeconomic and Fiscal Policy Unit of the Ministry of Economy and Finance in Kosovo, for example, achieved strong capacity with its development of a competent core staff, through many years of substantive dialogue with the IMF on forecasts, and through incentives such as salary top-ups. Similarly, in Sierra Leone, the Macroeconomic and Fiscal Framework was produced from 2007 onwards by a macro-fiscal section in the Economic Policy and Research Unit of the Ministry of Finance and Economic Development (MOFED) with IMF support. Conversely, one of the more advanced cases in which no real effort at developing a medium-term framework was made is West Bank and Gaza. Tract of existing MTFF/ MTEF efforts remained limited in Tajikistan.

Although orderliness in the budget process improved, progress in the credibility of budget plans as evidenced by comparing plans to actual out-turns was limited. While Cambodia scores well on the process indicators, for example, these have yet to translate effectively into a credible budget in terms of a composition of actual expenditures in line with the original budget, for which it scored a D (on PI–2). Kosovo stands out as the only country that achieved improved scores for budget processes as well as for credibility in terms of actual expenditure composition, while all other countries scored D or C in this regard. Weakness in this dimension reveals the still limited credibility of inter-sectoral and inter-ministerial allocations in the approved budget. Available evidence suggests that credibility decreases further as one moves down the expenditure chain, especially toward front-line spending units at subnational levels.

5.1.2 Budget execution

BUDGET EXECUTION REFORMS saw relatively strong progress, which also included more advanced reform measures. Starting with more elementary steps toward re-regularizing budget execution, a number of cases moved relatively quickly to reform elements such as treasury single accounts and computerized accounting systems, which can be considered as advanced reform measures. At the same time, challenges still continue in several areas, in particular with regards to internal control and audit and improvements in public procurement practices.

As with budget formulation, establishing basic systems of budget execution was an early and consistent priority across the cases that showed positive results. Five areas where progress was made were (a) the chart of accounts, (b) introducing a centralized cash management system, (c) automating the treasury systems, (d) strengthening commitment controls, and (e) improving financial reporting. Progress achieved in these areas stands in contrast with lessons from non-fragile, low-income countries where budget execution reforms have tended to achieve less traction, apparently due to resistance from domestic stakeholders compared to post-conflict contexts (Andrews 2010).

The revision of the chart of accounts and the centralization of cash management were among the strongest dimensions of PFM reform in most cases. The revision of the chart of accounts has often been linked to revising budget classifications as well as the introduction of a FMIS as experienced in Afghanistan, Kosovo, Liberia, and Sierra Leone (See Box 5.1 for definition of FMIS.) In some cases there have been several rounds of revision, such as in Afghanistan, where the chart of accounts eventually became compliant with the Government Finance Statistics Manual (GFSM) 2001. Sierra Leone’s chart of

37. For West Bank and Gaza, the IMF produces a MTFF. See case study summary for West Bank and Gaza in Annex II.
38. However, more advanced efforts at developing MTEFs and a programmatic approach to budgeting were generally not successful. These challenging aspects are discussed in section 5.5.
39. Given that there is little systematic application of Public Expenditure Tracking Survey in the group of countries analyzed, it is hard to quantify the prevalence and extent of this problem. See e.g., Afghanistan PER 2010, Public Expenditure Tracking Survey, carried out for Sierra Leone.
Public Financial Management Reforms in Post-Conflict Countries

DEFINITION OF FINANCIAL MANAGEMENT INFORMATION SYSTEMS

“Financial management information systems (FMIS) can be broadly defined as a set of automation solutions that enable governments to plan, execute, and monitor the budget by assisting in the prioritization, execution, and reporting of expenditures, as well as the custodianship and reporting of revenues.”

“A core FMIS generally refers to automating the financial operations of both the budget and treasury units. The system tracks financial events and records all transactions; summarizes information; supports reporting and policy decisions; and incorporates the elements of ICT, personnel, procedures, controls, and data. An FMIS is usually built around a core treasury system that supports key budget execution functions, such as accounts payable and receivables, commitment and cash management, and the general ledger and financial reporting, combined with budget formulation (multi-year), debt management, and public investment management modules. The non-core systems sometimes linked with FMIS solutions are personnel management/payroll, revenue administrations (tax and customs), public procurement, inventory and property management, and performance management information. Financial control is not the only reason for developing FMIS. More importantly, FMIS solutions are used to support informed decisions on policies and programs, and publish reliable information on budget performance.”

Typical components of a core FMIS

- Budget systems (budget planning and preparation) including:
  - budget planning/formulation
  - medium-term frameworks (e.g. MTFF, MTBF, MTEF)
  - public investment management
  - program-based budgeting and/or performance-informed budgeting

- Treasury systems (budget execution) supporting:
  - management of budget authorizations/releases
  - commitment of funds
  - payment/revenue management (mostly based on treasury single accounts)
  - cash forecasting and management
  - accounting and reporting.

Computerization of treasury systems was a widely sought reform measure and was successfully implemented in four of the cases: Afghanistan, Kosovo, Sierra Leone, and West Bank and Gaza. The systems focused on core payment and financial reporting operations, which contributed to making their introduction feasible. In Kosovo, for example, the KFMIS (implemented since 2001) was considered a major reform achievement and was assessed as “well developed and operational” for all aspects of budget execution and reporting. The AFMIS in Afghanistan was introduced in 2002 as a basic centralized control system that could be developed over time.

Initially it covered only execution of the operating budget for central government but it was gradually extended to other functions and to cover the provincial operations of the central government. The FMIS in Sierra Leone was unusual in that it superseded a previous, automated financial management and accounting system. It helped to strengthen budget control by restricting spending in excess of quarterly budget allocations. Somewhat similarly in Liberia, successive partial systems were developed (LECAP and SunSystems) before the development of a fully-fledged FMIS was started. See Table 5.2 for progress in implementing FMIS and treasury single accounts. 41

Control was achieved by not only focusing on concentrated agencies, but also by reducing the discretion of deconcentrated agencies. In West Bank and Gaza’s first year of reform, for example, the Government established a treasury single account

41. The implementation of an effective treasury single account is considered a precondition for an FMIS. Dener and others (2010) identify five such functional pre-requisites: (a) improvement of budget classification; (b) development of a unified chart of accounts integrated with the budget classification; (c) improvement of treasury single account operations; (d) development of commitment control and monitoring mechanisms; and (e) establishment of cash management functions. The progress with treasury single account implementation is highlighted in Table 5.2 solely for purposes of comparison across the cases.

accounts is still only compliant with GFSM 1986. The centralization of cash management—and the implementation of treasury single accounts more precisely—were established in the immediate post-war period in Kosovo, the DR Congo, and Tajikistan. 40 From a political-economy point of view, treasury single accounts may be simpler to implement early on in a post-conflict environment when ministerial structures are still weak.

40. No treasury single account was established in Liberia, apparently due to a lack focus on this issue rather than a failed reform effort.
<table>
<thead>
<tr>
<th>Country</th>
<th>Computerized FMIS (Budget, treasury, and other systems)</th>
<th>Treasury single account (TSA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>Cash-based AFMIS implemented in 2002 for execution of operating budget, covering central government. Modified to record approved budget and MDA allotments 2003/04. Sole source of allotment information 2005/06 and established automated controls over allotments, commitments, and payments. Roll out to all 46 MDAs and 34 subnational-level governments from 2004 to 2010. Highly centralized control in MOF. Automated controls to ensure consistency among allotments, commitments, cash availability, and disbursements. Uses Freebalance software.</td>
<td>TSA used since 2002/03. TSA covers all core budget operations. However, on-budget donor investment funds use special accounts, not TSA.</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Introduction of FMIS built into platform-approach action plan. Efforts since 2006; but to date no system in place. Donor procurement procedures contributed to delays. Still in preparatory phase.</td>
<td>TSA implementation started in 2005 and has since been completed. Separate donor accounts remain.</td>
</tr>
<tr>
<td>Liberia</td>
<td>Implementation of customized budget management package and interim commitment control system (LECAP) in 2007. Separate financial management software package (Sun Accounting system) in 2008. Plans to extend Sun Accounting package to cover commitment control and budget module were dropped in 2009 in favor of move to comprehensive new FMIS. Go live date for FMIS postponed repeatedly because MOF not ready for implementation.</td>
<td>TSA implementation incomplete.</td>
</tr>
</tbody>
</table>

Source: Compiled by the authors, based on the case study reports.
and closed down all the commercial bank accounts used by ministries. This policy was also implemented in Kosovo, albeit at a somewhat later stage in the reforms. In addition, in West Bank and Gaza spending discretion was moved from the line ministries to the Ministry of Finance, including control of salary payments. This led to strong improvements in cash management as well as in the predictability of expenditures.

Budget recording and reporting improved, even in those countries that made least PFM reform progress overall. Improvements to in-year and end-of-year financial reporting were most apparent in Kosovo and Sierra Leone, with some rapid gains in Liberia following pressure from the Auditor General. In-year reporting was prioritized in Sierra Leone from 2003 onwards, and the introduction of a new automated treasury system further improved the regularity, quality, and timeliness of those reports. The implementation of the KFMIS in Kosovo—underpinned by the treasury single account—supported similarly substantial gains in financial reporting there. Tajikistan introduced quarterly budget performance reports from 2008 onwards as means to provide better information on government expenditure to budget-support donors. Production of budget execution reports in the DR Congo was irregular; data quality was weak, but capacity to produce monthly reports was established through a new accounting system implemented between 2004 and 2007.

Overall, the progress made on budget execution across a number of countries indicates the feasibility of reforms against these dimensions, including some relatively advanced measures. Improvements in budget execution were a priority for donors, in particular when providing or contemplating program aid (including budget support and major debt relief through HIPC). Governments interested in maintaining a good relationship with the international community were likely to “go along” with these reforms, even though the reinforcement of a centralized control over finance can entail losers among government stakeholders—such as sector ministers whose discretion over the use of funds is reduced. Given substantial capacity substitution and/or new recruitment into the civil service, bureaucratic practices at the implementation level appear to be less entrenched than in non-fragile countries.

At the same time, progress in budget execution reforms was not uniform and shows variation across countries as well as across sub-components. In the DR Congo and Tajikistan, central governments have been either unwilling or unable to reform budget execution to a more significant extent. While some reform steps, such as improved chart of accounts and budget reporting regulations, were eventually adopted even in these countries, the nature of reforms remained limited. In the DR Congo in particular, frequent use of exceptional procedures (deviating from the formal expenditure chain, the *chaîne des dépenses* in Francophone budgeting systems) remains a significant problem. Furthermore, some elements within budget execution proved harder to reform across most countries. This is in particular the case for internal audit and public procurement (see also Porter and others 2010). In the more advanced reforming countries—notably Kosovo, Sierra Leone, and West Bank and Gaza—internal audit received increasing attention in later years. Traction of a reform focus on internal audit has been greatest thus far in Kosovo (Table 5.3).

**TABLE 5.3. PEFA SCORES FOR THE EFFECTIVENESS OF INTERNAL AUDIT**

|----------------------------|--------------------|-----------------|-----------------|-----------------|-----------------|----------------------|-------------------|-------------------------|

Note: *For West Bank and Gaza, PEFA scores were informally prepared for a World Bank-conducted PER.*

a. Scores in brackets are from the previous 2005 PEFA assessment for Afghanistan.
b. Scores in brackets are from the previous 2007 PEFA assessment for Kosovo.
c. Scores in brackets are from the previous 2007 PEFA assessment for Sierra Leone.
5.1.3 Budget transparency

The degree of budget transparency varied across the eight cases, but there was some evidence of increased civil society engagement and public scrutiny in some cases (Table 5.4). Hearings by legislative committees on PFM issues, notably draft budgets and external audit reports, were opened up to public participation and media reporting in Liberia and Sierra Leone, but not in Afghanistan. Publication of external audit reports was made a standard practice in Kosovo, Liberia, and Sierra Leone—which are the stronger performers on budget accountability among the case studies—whereas Tajikistan only started publishing budget performance reports in 2009 despite provisions in the 2002 PFM law requiring wide-ranging budget transparency. Liberia made the greatest progress in building links to the media and to civil society organizations after the Auditor General began to engage directly with the media to create pressure on the Government to release financial information and to encourage public interest in financial scrutiny of the executive. However, the sustainability of this approach remains to be seen.42

42. The non-renewal of the Auditor General’s appointment in 2011 has since called into question the sustainability of his approach in the context of strong vested interests unsupportive of greater accountability.

5.2 CHALLENGING REFORMS

This section discusses PFM reforms aspects that remained challenging, including more advanced budget planning processes, integrating public expenditures, and improving budget accountability.

5.2.1 Advanced budget planning reforms

In some of the case studies, more advanced budget planning reforms were attempted—sometimes under pressure from the donors—yet these remained relatively unsuccessful for the most part. Variations of medium-term fiscal and expenditure frameworks were initiated across seven countries, but mostly with limited traction (see Box 5.2 for definitions of the different stages of medium-term expenditure frameworks, and Tables 5.5 and 5.6 on country-by-country status).43 Greatest formal progress was made in Kosovo where elements of an MTEF featured in the budget process from 2003 and where several full MTEFs have been developed since 2006–08. Some progress has also been made in Afghanistan, although donor demands for excessively detailed multi-year spending plans and remaining problems with government control over budget execution have still negatively affected the credibility of these rolling MTEFs. Cambodia established an MTFF (i.e., three-year rolling projection of the overall resource envelope) with continuing efforts to strengthen macro-fiscal forecasting and revenue projections. Attempts but little or limited traction were made in the DR Congo, Liberia, and Sierra Leone. World Bank-led technical assistance support in Tajikistan included the objective of medium-term budgeting from 1999, but coverage was limited to the social sectors and basic pre-conditions for an MTEF were not achieved after 12 years and successive donor projects.

43. The administrative burden generated by an MTEF can vary considerably. For example, a MTFF is mainly produced and updated by a macro-forecasting unit, while the production of costed multi-year strategies by all line ministries can imply a considerable administrative cost.
DEFINITION OF MEDIUM-TERM EXPENDITURE FRAMEWORKS

An MTEF is a whole-of-government strategic policy and expenditure framework within which ministers and line ministries are provided with greater responsibility for resource allocation decisions and resource use. The key to a successful MTEF is that institutional mechanisms assist and require relevant decision makers to balance what is affordable in aggregate against the policy priorities of the country. The MTEF consists of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources. The matching of costs should normally occur in the context of the annual budget process, which should focus on the need for policy change to reflect changing macroeconomic conditions as well as changes in strategic priorities of the government (World Bank 1998).

An MTEF is a multi-year public expenditure-planning framework, which allows expenditures to be both driven by policy priorities and disciplined by budget realities. The MTEF can be unbundled into three distinct forms:

- **Medium-term fiscal framework (MTFF)**. An internally generated MTFF provides a macro-fiscal basis for budget formulation; an externally imposed MTFF may or may not provide a basis for budget formulation. MTFF indicators include budget or other reports that contain the government’s medium-term, macro-fiscal strategy, macroeconomic and fiscal forecasts, debt sustainability analysis, and/or details of an IMF program, PRSP, or other.

- **Medium-term budgetary framework (MTBF)**. An MTBF specifies spending agency expenditure ceilings based on a compromise between top-down resource availability as indicated by the MTFF, and bottom-up resource needs to finance sector spending plans. MTBF indicators include budget, spending agency or other reports explaining aggregate and sector expenditure objectives and strategies, budget circulars detailing medium-term expenditure ceilings, and budget documents containing expenditure medium-term estimates.

- **Medium-term program (or performance) framework (MTPF)**. An MTPF shifts the focus of attention from spending agency to spending program inputs and/or program/agency outputs, outcomes and performance. MTPF indicators include budget, spending agency or other reports explaining program objectives and strategies, listing specific agency and/or program output or outcome targets, and explaining results (World Bank 2011).

### TABLE 5.5. MTEF COUNTRY SCORES, 2002–2010, AGAINST SCORING FRAMEWORK

<table>
<thead>
<tr>
<th>Country</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Cambodia</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>DR Congo</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Kosovo</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Liberia</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1*</td>
<td>1*</td>
<td>1*</td>
</tr>
</tbody>
</table>

Note: A country’s MTEF status is defined by the highest MTEF stage achieved. 0 = no MTEF, 1 = MTFF, 1* = IMF produced MTFF, 2 = MTBF, n/a = not available. Source: World Bank (2011a).
Program-based budgeting was a problematic reform measure in the cases where it was tried. The introduction of program-based budgeting was attempted in Afghanistan, Cambodia, Liberia, and Sierra Leone (Table 5.6). However, there is as yet little evidence of real benefits emerging from those incipient efforts. The earliest efforts relative to a country’s post-conflict starting point were made in Liberia (four years into the post-conflict period for the 2007/08 budget), with slightly later initiatives in Afghanistan (six years after post-conflict in 2007/08) and Sierra Leone (six years after post-conflict in 2008/09). Since 2006 Cambodia has introduced program-based budgeting pilots in 8 line ministries, which had earlier been defined as areas of priority expenditures. However, these are limited to a share of recurrent expenditures, and there has not yet been a switch to actually allocating funds based on a programmatic breakdown. Program-based budgeting in Liberia was discontinued after the first efforts failed to move beyond administrative structures and organizational mission statements. The experience in Afghanistan suggested that a serious but muddled attempt at introducing program-based budgeting can be quite costly—to the extent that it negatively affected the ability to execute the budget in 2008/09.

Discussion with practitioners suggested that there is considerable interest in moving beyond traditional line-item budgets but that approaches to program-based budgeting tend to be too complex. The case study experiences suggest that attempting to introduce program-based budgeting can impose a considerable compliance burden on spending ministries and agencies and can risk disrupting both budget formulation and execution. At the same time, traditional line-item budgets
are also seen as suboptimal because they can be difficult to interpret and can focus attention on inputs rather than achievements. This hampers accountability relationships between political decision-makers and bureaucrats as well as between government and citizens. Given that the case studies show that the approach to program-based budgeting reforms was too complex even in the best-performing, post-conflict situations, there may be a need to further re-think options for budget formats that are sufficiently simple while at the same time able to effectively capture and convey more valuable information.

5.2.2 Integrating public expenditures

Integrating the management of recurrent and capital budgets has been a challenge in most of the eight cases. A standard premise of good PFM is the development of a unified and comprehensive budget that captures all forms of revenue and expenditure (Webber 2007). Evidence from the cases suggests this principle is complicated by the tendency for fragmented budget management arrangements centrally (between ministries of finance and planning) as well as within line ministries and sectors. Ministries of Finance and Planning exist as separate entities responsible for recurrent and capital expenditures respectively in the DR Congo, Liberia, Tajikistan, and West Bank and Gaza (refer to Table 4.3 in Chapter 4). In Cambodia, the Ministry of Planning still has some limited role in developing public investment plans. Furthermore, even where these functions are jointly located in a single ministry, development and recurrent budgeting frequently continue to operate as semi-distinct processes. The cases reveal significant interdepartmental coordination challenges.

Sub-dimensions of PEFA indicator PI–12 reveal the weakness with development of forward expenditure estimates and linkages to sector strategies. This pattern is confirmed by qualitative evidence from case studies. Reform efforts that have targeted strengthening this link do not show thus far significant traction (Table 5.7).

An added powerful driver for non-integration of public expenditures is the fact that significant donor funds dedicated to reconstruction are mainly planned and executed outside government systems. The high volumes of foreign aid for reconstruction and development projects make this an especially critical issue for fragile states. The separate specification and provision of external support to different government ministries compounded the coordination challenge for government. As shown in Table 4.4, on average, only one-quarter of external aid has been spent using country systems in recent years. PEFA indicator DI–3 (shown in Table 5.7), addressing the proportion of aid that is managed by use of national procedures, is the worst performing of the entire set. On a positive note (as reflected in Table 4.4), use of country systems increased somewhat between the assessments in 2008 and in 2011. Donors may be willing to pursue this trend further, particularly in those post-conflict countries that show significant progress on PFM reforms.

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>PI–12, dimension (iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure</td>
<td>B</td>
<td>B</td>
<td>D</td>
<td>C</td>
<td>C</td>
<td>D</td>
<td>C</td>
<td>D</td>
</tr>
<tr>
<td>PI–12, dimension (iv) Linkages between investment budgets and forward expenditure estimates</td>
<td>C</td>
<td>C</td>
<td>D</td>
<td>D</td>
<td>D</td>
<td>D</td>
<td>D</td>
<td>D</td>
</tr>
<tr>
<td>DI–3, dimension Proportion of aid that is managed by use of national procedures</td>
<td>D</td>
<td>D</td>
<td>D</td>
<td>D</td>
<td>D</td>
<td>D</td>
<td>D</td>
<td>No score</td>
</tr>
</tbody>
</table>

* For West Bank and Gaza, PEFA scores were informally prepared for a World Bank-conducted PER.
5.2.3
Budget accountability

REFORM OF FORMAL OVERSIGHT mechanisms and strengthening of horizontal accountability lagged behind the progress made in other PFM dimensions. This is in part because budget accountability received relatively less attention in reform programs, but also because it is a challenging area politically. Across the cases, parliamentary scrutiny remains the weakest of functions.

External audit and ex post legislative scrutiny showed limited improvements. Table 5.8 summarizes the PEFA scores on “quality and timeliness of annual financial statements” (PI–25); “scope, nature, and follow-up on external audit” (PI–26); and “legislative scrutiny of external audit reports” (PI–28). PEFA scores demonstrate that in cases such as Liberia, Tajikistan, and West Bank and Gaza, the weakness in external audit and legislative scrutiny were also attributable to weakness in the quality and timeliness of financial statements. However, the scoring differentials in Afghanistan, the DR Congo, Kosovo, and Sierra Leone show the dependency on financial reporting to be only a partial explanation for low scores in the accountability domain. As Table 5.9 reflects, building independent and effective SAI has been challenging and/or has come relatively late even in countries progressing well on overall PFM reforms (especially in Afghanistan and West Bank and Gaza).

Outsourcing of the external audit function was used to varying degrees in several cases. One rationale was to compensate for the lack of residual capacity and the absence of exposure to more advanced audit practices. Another was to provide an additional safeguard to donors that substantial external aid flows and growing domestic revenues were spent in accordance with procedures. The appointment of an international firm as “audit agent” in Afghanistan from 2002 led to the introduction of joint audits by teams comprising international audit managers and Afghan audit staff. That model was also developed in Sierra Leone under an international technical assistance contract. In Kosovo, the external audit function was outsourced entirely during the initial pre-state-building period 1999–2003. Since the establishment of an Office of Auditor General in 2003, its head has been an international appointment, an arrangement that continued even beyond independence in 2008. A hybrid approach was pursued in Liberia where the auditor general was a Liberian repatriate working under a direct EU-funded contract, which accorded the officeholder a degree of independence.45 In West Bank and Gaza, the first external audit of government financial statements for 2008 was outsourced to a private sector firm.

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45. The contract of the Auditor General who was appointed in 2006 was not renewed at the end of his 4-year term amid considerable controversy and after having been highly critical of the government’s use of funds. Overall, however, the auditor office is still seen as having made considerable progress in recent years.

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<table>
<thead>
<tr>
<th>TABLE 5.8. PEFA SCORES FOR ACCOUNTABILITY INDICATORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI–26 Scope, nature and follow up of external audit</td>
</tr>
<tr>
<td>PI–28 Legislative scrutiny of external audit reports</td>
</tr>
</tbody>
</table>

* Note that the score for Liberia does not yet reflect the post-2006 improvements.
** For West Bank and Gaza, PEFA scores were informally prepared for a World Bank-conducted PER.
a. Scores in brackets are from the previous 2005 PEFA assessment for Afghanistan.
b. Scores in brackets are from the previous 2007 PEFA assessment for Kosovo.
c. Scores in brackets are from the previous 2007 PEFA assessment for Sierra Leone.
<table>
<thead>
<tr>
<th>Country</th>
<th>Development of supreme audit institution (SAI) and external audit function</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>Control and Audit Office established in pre-conflict period. No constitutional provision for an independent SAI and limited independence from the executive; Auditor General may be removed by the President without reference to legislature/judiciary. Support provided to CAO through international-local ‘joint audits’ with international specialists leading CAO teams. Drafting of new legislation has started, but has not been adopted.</td>
</tr>
<tr>
<td>Cambodia</td>
<td>National Audit Authority (NAA), reporting to the National Assembly established in 2000 by the Audit Law. Independence from the executive still limited. The number of annual audits performed has risen from single digits to over 90 in 2010. A first summary report (covering 2006) was published in 2009; another, for 2007, was published in October 2011. The law stipulates that publication of reports is at the discretion of the auditor general and that public or commercial interests should not be negatively affected by any published details. Still in early stages of development.</td>
</tr>
<tr>
<td>DR Congo</td>
<td>Permanent judicial control of public finance by SAI. Lack of financial autonomy and lack of political independence. Government accounts audited and presented to Parliament, but not voted. Recommendations by SAI usually not published and with little follow-up.</td>
</tr>
<tr>
<td>Liberia</td>
<td>General Auditing Commission replaced the General Auditing Office in 2007. Commission legally independent of executive, with reporting line to the legislature. Auditor General appointed in 2007 under EU contract for salary costs. Use of staff from other African SAIs on secondment basis through INTOSAI contacts, and international specialists to lead General Auditing Office teams.</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>State Financial Control Committee formed 2001 but operating under president and not independent. Lack of clear differentiation between internal and external audit. Dissolution of Committee in 2006 and establishment of State Committee on Financial Control and Fighting Corruption (SCFCFC) to supervise revenue/expenditure. No public access to SCFCFC reports.</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>External audit law passed 2004. SAI established in 2005 but only operational from 2008 and slowly building capacity. First audit of final accounts for FY08 but initially outsourced to private sector. Key mechanisms of formal democratic accountability are suspended—no quorum in legislative council.</td>
</tr>
</tbody>
</table>

Source: Compiled by the authors, based on the case study reports.
5.3
PFM REFORMS’ REACH TO LINE MINISTRIES AND SUBNATIONAL LEVELS

PFM REFORMS HAVE FOCUSED PRIMARILY on central PFM ministries and agencies with a view to establish centralized control and fiscal discipline.46 By focusing on central finance agencies, central systems and processes were strengthened before they were rolled-out to lower levels. This approach was consistent with the focus on strengthening budget execution and supported the objective of releasing funds in a controlled way.

In countries where emphasis was given to strengthening PFM systems in line ministries, the focus was on ministries responsible for priority service delivery functions or the implementation of critical policy agendas. In Kosovo, for example, the World Bank’s 2005 Public Expenditure Management Technical Assistance Program (PEMTAG) focused on the Ministries of Health, Transport and Communications, and Labor and Social Welfare. In Tajikistan, the ministries responsible for health, education, and social protection were selected for additional PFM support, while in the DR Congo this was the case for the HIPC sectors, such as education, health, agriculture, and rural development. These ministries received support to develop sector strategies and medium-term budget plans. Targeted efforts to strengthen the Ministry of Health and Social Welfare in Liberia were implemented through the establishment of an Office of Financial Management within the Ministry. An external financial management agent was appointed to build systems and capacity for the management of a pooled fund for the health sector through this office.

The ministries of finance in some countries took steps to strengthen financial management practices in line ministries. The Ministry of Budget in the DR Congo, for example, deployed some of its staff to ministries to support budget formation and to train the line-ministry budget officers responsible for this function. A similar program was established in West Bank and Gaza, whereby financial controllers from the Ministry of Finance were deployed to Financial Control Units in line ministries.

Achieving traction on improvements throughout the PFM expenditure chain in sectors remains a challenge. Cross-country performance of PEFA indicators PI–2 on the credibility of budget composition and PI–23 on the availability of information on resources received by service delivery units is still low, reflecting these challenges (Table 5.10). As discussed in Chapter 6, for the time period investigated in this review, no correlation between better or worse PFM systems and improvements in service delivery in health and education can be observed. Fluidity around intergovernmental relations and the allocation of responsibilities for front-line service delivery between sector ministries and subnational governments contribute to these challenges.

Measures to strengthen PFM in subnational entities were not an early post-conflict priority in most of the case studies. Most PFM reform programs drew heavily on the results of preliminary diagnostic assessments by the IMF and World Bank, which focused primarily on central PFM systems. In many cases, an important reason for the limited focus on PFM at the subnational level was that choices about intergovernmental relations remained in flux following the

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46. The plural for ministry and agency is given because in some countries central finance agency functions are split across several ministries/agencies, e.g. the DR Congo, Tajikistan, and Liberia.

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**TABLE 5.10. PEFA SCORES RELATED TO SECTORAL PFM**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>PI–2 Composition of expenditure out-turn compared to original budget</td>
<td>D (C)b</td>
<td>D</td>
<td>D</td>
<td>A [N/A]b</td>
<td>D</td>
<td>C [C]b</td>
<td>C</td>
<td>C</td>
</tr>
<tr>
<td>PI–23 Availability of information on resources received by service delivery units</td>
<td>D [D]b</td>
<td>C</td>
<td>D</td>
<td>D [D]b</td>
<td>D</td>
<td>A [A]c</td>
<td>C</td>
<td>D</td>
</tr>
</tbody>
</table>

* Note that the score for Liberia does not yet reflect the post-2006 improvements.
** For West Bank and Gaza, PEFA scores were informally prepared for a World Bank-conducted PER.
  a. Scores in brackets are from the previous 2005 PEFA assessment for Afghanistan.
  b. Scores in brackets are from the previous 2007 PEFA assessment for Kosovo.
  c. Scores in brackets are from the previous 2007 PEFA assessment for Sierra Leone.
conflict. Sierra Leone and Kosovo were two exceptions (Table 5.11). In Kosovo, the gradual decentralization of budget execution processes started in 2000, while more extensive support to the municipalities took place from 2007 following the revision of the intergovernmental fiscal transfer scheme. In Sierra Leone, where a decentralization policy was adopted and actively implemented, a separate program was established in 2004 to provide financial and technical assistance to decentralization reform. A large component of the project focused on PFM strengthening; one of the most significant achievements was to establish budgeting, procurement, and accounting procedures in local governments. Sierra Leone also completed subnational audits in 2007.

Lack of clear political direction and decision-making over decentralization processes has further hampered efforts at improving local-level capacities. In the DR Congo, decentralization was identified as a priority in the 2006 Constitution; some attempts were made to deconcentrate the PFM reform process. However, the system remained highly centralized and the legal framework and institutional rules for PFM were not aligned with the principles of decentralization in the Constitution. In Liberia, strengthening subnational PFM was not a priority for the Government, and a centralized and concentrated system has persisted despite the adoption of a decentralization strategy in 2009.

Deconcentration of payment functions and establishment of local-level capacity were second-round priorities even where decentralization was not a major theme. AFMIS is an example in Afghanistan of rolling out reforms to subnational levels of government in a formally centralized state. The AFMIS rollout to regions was completed by 2010 despite ongoing security challenges.

Remaining challenges in building PFM capacity in line ministries and local governments underlines the interdependence of different elements of budgeting systems. In Sierra Leone, for example, local-level budget execution has continued to suffer from cash rationing undertaken by central government, as well as cumbersome procedures for releases. Thus, while aggregate budget out-turns were kept in line with budget plans (promoting aggregate fiscal discipline), local governments have had to cope with uncertain resource flows. In Afghanistan, insecurity did not prevent a rollout of the AFMIS to all provinces. However, insecurity hindered the implementation of spending decisions taken in the budget, especially capital expenditures, contributing to a significant under-execution of the core development budget.

47. The Institutional Reform and Capacity Building Project was supported by DFID, EU, and the World Bank.

### Table 5.11. Decentralization and Efforts to Strengthen PFM at Subnational Levels

<table>
<thead>
<tr>
<th>Country</th>
<th>Progress with decentralization</th>
<th>PEFA score PI–8* (year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>Decision in favor of a unitary state in, limited decentralization. De facto considerable role of provincial governors (including signing off on budget spending)</td>
<td>D (2007) [D (2005)]</td>
</tr>
<tr>
<td>DR Congo</td>
<td>Decentralization envisaged but has been complex and highly political with little progress thus far.</td>
<td>D (2008)</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Decentralized with two-tier system. One of the most strongly decentralized among small countries.</td>
<td>B (2009) [A (2007)]</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>Limited decentralization combined with political control by the president.</td>
<td>B (2007)</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>Only local governments exist apart from the central Palestinian National Authority, and their role remains limited.</td>
<td>D+ (2006)**</td>
</tr>
</tbody>
</table>

Note:  
* PEFA Performance Indicator PI–8 measures the transparency of intergovernmental fiscal relations.  
** For West Bank and Gaza, PEFA scores were informally prepared for a World Bank-conducted PER.  
Source: Compiled by the authors, based on the case study reports; PEFA reports.
6.
RESULTS AND IMPACTS OF PFM REFORM

This chapter summarizes the results and impacts of PFM reforms as observed in the eight case studies. The discussion focuses initially on the reach of results within the PFM domain along a chain of outputs and intermediate and final outcomes. Then, it turns to the expected contributions of PFM reforms to the overarching goals of state-building efforts and improved governance as well as to improved service delivery.

The discussion of the broader impact of PFM reforms is exploratory since it was not investigated at length in the eight case studies. However, it is important to address the question of these wider impacts as they are part of the fundamental motivation for engaging on PFM reforms. Sections 6.2 and 6.3 draw on available comparative data, provide a simple check on how overall progress on these wider impacts relates to relative progress with PFM reforms, and briefly discuss implications of the findings.48

48. It is hoped that further work will be undertaken in future, as development policy decision-making on how to aid post-conflict countries as well as operational practice could significantly benefit from such further investigation.

6.1
TIME HORIZONS AND THE PFM RESULTS CHAIN

TURNING TO A BROADER VIEW OF achievements requires a reflection on the expectations for PFM reforms in post-conflict environments. Accordingly, this subsection briefly captures two useful and complementary approaches: the time horizons needed for institutional transformations set out in the 2011 WDR (World Bank 2011b) and a PFM results chain proposed by Lawson and de Renzio (2010) building on wider discussions about the fundamental goals of PFM reforms.

Fragile states are considered very challenging reform environments. For PFM specifically, fragile states consistently perform worse across PEFA dimensions than non-fragile countries (Porter and others 2010; Figure 6.1). Post-conflict countries, as a sub-set of fragile states, can be expected to have particularly challenging starting points—but also potentially a more dynamic evolution over time than other fragile states. Post-conflict countries often receive significant attention and aid, and may have political leadership intent on making a fresh start and on establishing a beneficial relationship with the international community (as noted in Chapter 3). As discussed in the previous chapters, such relative reform dynamism has been observable at least in

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**FIGURE 6.1. PEFA SCORE GAPS BETWEEN FRAGILE AND NON-FRAGILE COUNTRIES**

![Graph showing PEFA score gaps between Fragile and Not Fragile countries.](source: Porter and others (2010: 4).)
some of the case study environments, underlining the fact that some post-conflict countries can offer rather propitious reform environments compared to fragile states overall. The 2011 WDR proposes that institutional transformations toward greater state resilience tend to evolve over time horizons of two to four decades. It emphasizes that the processes of institutional transformation and of strengthening confidence can be mutually reinforcing while also being cumulative over time. The risk is that countries either do not enter such virtuous circles in the first place or get stuck at low-level stages. The 2011 WDR stresses that even in countries progressing continuously, transformative improvements of bureaucratic quality and government effectiveness—of which PFM systems are key pillars—are expected to take 20 to 36 years (World Bank 2011b: 11). The 2011 WDR thus provides a useful way of defining the expected degrees of progress. Within the time period of around 10 years considered here,49 progress should be well underway in countries headed toward improved institutions but would still be expected to be only half-way completed even in the best cases.

Generally for progress on PFM reforms, a proposed results chain takes the reform inputs and final outcomes and breaks them down into several steps as shown in Figure 6.2 (Lawson and de Renzio 2009). According to this results chain, changes in formal norms and rules are the direct targets (outputs) of PFM reforms. These are expected to generate changes in actual behavior and practices (intermediate outcomes) and, ultimately, changes and improvements in the allocation and management of public funds (final outcomes). For the purposes of this review, the results chain is extended to the impact of PFM reforms on service delivery and improvements in state capacity, accountability, and legitimacy, as well as good management of budget support.50 Ultimately, investments in PFM reforms are undertaken with an aim of contributing to these impacts; although, as discussed below, final outcomes and impacts and the causal attribution to changes in PFM systems can be challenging to capture empirically.

Furthermore, different schools of thought on PFM reforms take somewhat different views on which “results aspects” to prioritize in early to medium-term stages of re-building PFM systems (as discussed in section 1.2). A “basics first” approach, for instance, and its variations emphasize sequencing that focuses on control of input and effective oversight. An approach emphasizing the need for improving state legitimacy implies prioritizing transparency; and approaches prioritizing service delivery imply a strong emphasis on linking policy, planning, and delivery.

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49. With a range from 7 years (Liberia) to 17 years (Cambodia).

50. Improvements at the impact stage of the results chain are also influenced by a number of other factors, not least the ability to mobilize resources (domestic revenue, borrowing, aid) to spend on service delivery.
6.2

ASSESSING THE CROSS-CASE EVIDENCE AGAINST THE PFM RESULTS CHAIN

THE FOLLOWING SECTION ASSESSES the cross-country evidence on achievements and challenges against the framework of the PFM results chain. Such a perspective helps to clarify the reach of the achievements in terms of outputs, intermediate and final outcomes and expected wider impacts.

6.2.1 Outputs and intermediate outcomes

ACROSS THE CASES REVIEWED, there has been a relatively substantial set of changes in laws, rules, and procedures (notably PFM laws). This includes at least minimal progress achieved even in those countries where PFM reforms overall have been challenging and slow (Tajikistan and the DR Congo). Furthermore, especially in the countries where PFM reforms have progressed furthest overall (Afghanistan, Kosovo, Sierra Leone, and West Bank and Gaza), information systems and business processes (such as FMIS) have shown considerable progress at a procedural level.

In contrast, changes related to people and skills and with regards to improving incentive systems have shown less progress. Such changes have received less systematic attention and have proven challenging. Progress on these aspects has been limited even in several better performing countries (refer to section 4.3). Kosovo and West Bank and Gaza have shown greatest progress relatively with regards to people and skills, indicating that a country’s income levels play a particular role for this aspect.

Regarding the intermediate outcomes link of the results chain, evidence indicates progress on aspects of budget execution (as discussed in chapter 5). Figure 6.3 illustrates this trend by comparing progress across the main sub-dimensions of PEFA assessments. Within budget execution, improvements in cash management and treasury functions have tended to be greater than on payroll controls, procurement, and internal audit. In contrast (as noted in chapter 4), progress in budget accountability has been relatively rare and limited but has been possible in some cases (notably Kosovo and Liberia).51 Budget comprehensiveness and budget credibility also show some progress while generating policy-based budgeting is another area of notably limited progress. However, an area of further limited progress is payroll, procurement, and internal control. This indicates that while several basics have been successfully pursued in the case studies, particularly within execution elements of the budget cycle, none of the cases had fully established a system of input controls (i.e., of “budget basics”) over the review period (with Kosovo coming closest).52 This underlines the fact that while there is a rationale for prioritizing PFM “basics” in early post-conflict phases, effective input controls are challenging to complete de facto.

6.2.2 Final PFM outcomes

REGARDING FINAL OUTCOMES (step 3 in Figure 6.2), progress on macro-fiscal stability is apparent across the eight case studies, but this stability itself remains uncertain (Table 6.1). While fiscal deficits have been controlled across the eight case studies, a clear caveat is that grants from development partners still play a significant role in funding public expenditures and, hence, current stability does not necessarily imply long-run fiscal sustainability.

Furthermore and somewhat unexpectedly, there is no clear relationship between overall progress made on strengthening PFM systems and processes and achievements on budget credibility across cases. As expected, the DR Congo has the worst credibility measures of the group. However, Tajikistan, also lagging in PFM reform, has a similar or better performance on

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51. Given that Liberia’s progress on accountability was mainly made since 2006, these gains are not yet reflected in the 2007 PEFA report.
52. Interestingly, despite the platform approach adopted in Cambodia since 2004, which is a variation of emphasizing basics first, the 2010 PEFA data for that country actually indicate greatest progress on policy-based budgeting rather than on budget execution—the key arena for controlling inputs.
aggregate and cross-sectoral budget credibility compared to Afghanistan, Liberia, or Sierra Leone. Afghanistan and Sierra Leone, which have had repeated PEFA assessments, show no improvements of credibility measures over time. Kosovo—the reform front-runner on overall PFM reforms among the eight cases—shows a contradictory pattern of relatively poor aggregate but good sector-by-sector credibility. Declining aggregate budget credibility in Kosovo has primarily been due to the fact that since post-independence (i.e., 2008) the Government has rapidly expanded spending, by more than planned at the beginning of fiscal years.

The observed pattern suggests that outcomes such as budget credibility are substantially influenced by political incentives and considerations and that these can fluctuate and change in negative directions even where PFM systems as such are improved. Even where PFM systems have seen intermediate or substantial improvements, discretion in decision-making throughout the budget cycle frequently remains significant, at least in part due to executive dominance in most post-conflict environments (as noted in Chapter 3). An implication is that donors supporting PFM reforms in post-conflict environments should engage in a more continuous effort of monitoring key fiscal indicators and of dialogue, to support fiscal credibility and judicious use of discretionary decision-making powers.

The second final outcome area, the strategic allocation of resources, is rarely a direct object of donor-supported efforts at strengthening PFM systems, while it may be targeted by lending triggers. The main efforts included in PFM operations are establishment of MTFFs and MTEFs (as discussed in section 5.2), but these have developed real effectiveness only in one or two countries thus far. As Boyce and O’Donnell (2007) note,
post-conflict countries face difficult choices about spending for security, for public investments, and for improving service delivery. To the extent that donors engage on these issues, they do so primarily as part of their general policy dialogue with governments and about their lending conditionality (e.g., for budget support and policy lending) rather than as part of PFM advice and operations, which tend to be intentionally technical.

The continuing, rather-poor integration of donor funds into overall public finance management in post-conflict countries also negatively affects the potential for a strategic allocation of funds (as discussed in section 5.2). Given that a majority of post-conflict countries are significantly or highly aid dependent implies that many allocation decisions are not consolidated in the budget. Governments influence donor allocation decisions to various degrees (across countries and funding sources), but this does not happen in a consolidated and comprehensive way.

There are indications that progress on PFM reforms help to improve operational efficiency (the final outcome reflected in Figure 6.2), but the available evidence is patchy and the effects appear incomplete. Better payment systems and better cash management make it more likely that payments can be made on time, including for wages, transfers, operations and management, and investments. However, much depends on the fiscal situation of the country, which can be volatile and highly constrained or relatively stable and well funded, for example, due to ample revenue from natural resource wealth.

Most cases showing overall progress on PFM reforms also report regular wage payments. According to data gathered by Global Integrity and other sources, timely payments have become routine in Kosovo and in West Bank and Gaza.\(^54\) In Afghanistan there has been an emphasis on increasing electronic transfers of salary payments to individual bank accounts, which increased from 10 percent of public sector employees in FY06/07 to 56 percent receiving their wages this way in FY09/10.\(^55\) In Sierra Leone, reports suggest that public sector salary payments are regular at central government but not at local government levels; and the situation is similar in Liberia.\(^56\) In Tajikistan, reports indicate regular wage payments at least at the central level.\(^57\) For Cambodia, problems with the timeliness and with kickbacks were still reported by 2008,\(^58\) but there has since been a shift to paying wages into bank accounts and payments by check rather than in cash, which is reducing discretion and the need for kickbacks.

Problems with actual budget execution rates within specific spending categories still persist. Capital spending execution rates in Afghanistan have been low due to the combination

<table>
<thead>
<tr>
<th>TABLE 6.1. FISCAL BALANCES 2004–2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>PI–1 aggregate expenditure outturn compared to original budget</td>
</tr>
<tr>
<td>PI–2 composition of expenditure out-turn compared to original budget</td>
</tr>
<tr>
<td>Fiscal balance, including grants (average 2004–08)</td>
</tr>
</tbody>
</table>

b. Scores in bracket from 2007 PEFA assessment for Sierra Leone.
Sources: PEFA assessment reports and IMF data (for fiscal balance).
of tight controls and high insecurity in many regions. A
detailed examination finds that deviation in spending from
original budget allocations in Sierra Leone by more than 5
percent are frequent in most ministries and agencies and for
most expenditure categories—with the most significant and
frequent deviations in capital expenditures. These weaknesses
appear to have been less significant in some of the other
better performers, like Kosovo and Liberia.

6.2.3
Sustainability and likely
continuation of strengthening
PFM

VITAL TO THE REFORM DISCUSSION is the sustainability of results
and the likeliness that PFM strengthening will continue. In
countries with the least amount of progress achieved to date
(the DR Congo and Tajikistan), the ability to move forward
remains in question. Especially in Afghanistan and West Bank
and Gaza, substantial progress has been achieved but remains
vulnerable to a collapse of the security situation or diminished
commitment by political leaders. Across the case studies,
the PFM systems are still operating with ongoing support
to PFM performance and to further reforms. There is also a
general risk that after a period of initial improvements the
PFM quality will be found stagnating rather than improving
further; the degree of potential improvements will reach its feasible limits within given political-economy contexts and
within unresolved capacity constraints particularly in the
lower-income countries.

Over the 7- to 10-year time horizons observed in this review,
there is no evidence of backsliding. Potential indicators of
backsliding are declining usage of new systems (such as FMIS)
or a clear worsening of budget credibility, as well as stagnating
or declining PEFA assessments. In West Bank and Gaza, the
treasury single account established in the early 2000s fell
out of use during the Hamas Government in 2005/06, but
was rapidly resurrected (for West Bank) from 2007 onwards.
Afghanistan appears at some risk of backsliding due to the
upcoming transition in the level of international support, and
some key PEFA indicators show a decline between the two
assessments in 2005 and 2007 (refer to Table 6.1).

The dynamic of improvements is likely to wax and wane
judged in light of the experience of states that have emerged
from conflict a longer time ago, such as Cambodia, Mozambique,
Rwanda, or Uganda. In Cambodia, PFM reforms were invigorated
with the platform approach several years after the end of
conflict and violence. In Mozambique, progress has been
achieved despite continuing significant capacity challenges
particularly on budget execution reforms (de Renzio 2010).
Rwanda made significant additional progress between its two
recent PEFA assessments in 2007 and 2010 (i.e., 13 and 16
years, respectively, after the end of conflict). In Uganda, PFM
reforms progressed considerably over the first 20 years after
the end of the conflict in 1986 but have stagnated in recent
years.

The key motivating drivers (identified in chapter 3) remain
relevant in determining whether successive governments will
continue to support PFM strengthening. In Liberia the president
elected in 2006 provided an important impulse for PFM
strengthening, coinciding with incentives provided by the HIPC
process and GEMAP. The durability of these gains will only be
proven if they persist even after these incentives, constraints,
and individuals change. Similarly, in West Bank and Gaza,
it remains to be seen whether achievements made will stick
even beyond an eventual turnover of the minister of finance
who has played a crucial role. In Afghanistan the approaching
withdrawal of United States and international security support
will be a decisive change in context and incentives implying
a test of the durability of reforms achieved and the ability to
achieve the type of institutional transformation envisaged by
the 2011 WDR.
6.3 EXPLORING GAINS IN GOVERNMENT EFFECTIVENESS AND ACCOUNTABILITY

A CRUCIAL RATIONALE FOR UNDERTAKING PFM reforms is the expectation that they will contribute to wider state-building efforts. As set out in the analytic framework in Chapter 1, there is an expected reciprocal relationship: overall state-building progress enables PFM reforms, and PFM progress supports building more capable and more legitimate states. This section touches on the interactions with and contributions to government effectiveness and accountability.

To explore this wider relationship, this section draws on available data mapping progression regarding government effectiveness and control of corruption over the past decade. The causal linkages between PFM reforms and wider state-building efforts are difficult to track empirically, as highlighted in Box 6.1. However, matching the outcome data on state-building efforts with the detailed information on PFM reforms generated by this review allows some valuable observations. If the expected positive relationship between PFM reforms and state-building progress indeed exists, the two dimensions should correlate, either directly or with some time lags. To measure overall government and levels of corruption, two main sources of data— the World Governance Indicators (WGI) and the Bertelsmann Transformation Index (BTI)—are available and both are used here to explore whether there is a correlation between PFM reform progress and these wider improvements (Figures 6.4 a–c).

59. While data on government effectiveness and on corruption is still facing methodological challenges, it has ‘matured’ over more than a decade and given the absence of alternatives is worth exploring for the purposes of this review. However, results should be treated as approximations rather than absolutes.

CHALLENGES IN ASSESSING ACHIEVEMENTS ACROSS THE PFM RESULTS CHAIN

Assessing linkages between PFM reform progress and final outcomes and impacts is challenging due to limitations in current monitoring efforts. PEFA assessments have become a valuable source of monitoring progress in countries over time, as well as creating a more systematic base for comparison across countries, including post-conflict situations. However, PEFA assessments only provide some information across outputs and intermediate and final outcome areas as defined by Lawson and de Renzio (2009). Regarding PFM output areas, PEFA assessments do not focus explicitly on people, skills, and incentives. Moreover, PEFA assessments are limited in their explicit coverage of final outcomes, and do not capture expected impacts of PFM reforms. Some supplementary tools exist and have been used in some of the case study countries—notably Public Expenditure Tracking Surveys in Sierra Leone.* However, there are no standard tools for monitoring indicators such as the regularity of public sector wage payments, budget execution rates at disaggregated levels, or tracking of changes made in response to findings by internal and external audits. Furthermore, data and information limitations make it challenging to assess the contribution that PFM reforms are making to the overall ability of governments to operate and to deliver services.

In some areas, the way that outcomes are monitored via PEFA is not well aligned with key priorities from a state- and peace-building perspective. With regards to the payroll, for example, the relevant PEFA indicator (P 18) covers issues of data consistency, allocation of authority and timeliness in making changes, and existence of effective audits. However, it does not capture whether payments are actually being made or what share of public servants receive their pay on time (and without having to pay portions of income to those distributing payments). Also, the fact that PEFA assessments do not address changes in people, skills, and incentives may reinforce the tendency for relatively low attention to these areas in PFM reform plans based on PEFAs, even though these areas are crucial for developing sustainable progress in post-conflict situations.

* Sierra Leone has undertaken Public Expenditure Tracking Surveys of multiple service delivery sectors annually or bi-annually. However, the quality and ultimate usefulness of these surveys has been limited (see section 6.4).
Figure 6.4 A–C. Government Effectiveness and Control of Corruption: Worldwide Governance Indicators and Bertelsmann Transformation Index

Worldwide Governance Indicators: Government Effectiveness
Comparison between 2010, 2008, 2006, 2002 (top-bottom order)

Worldwide Governance Indicators: Control of Corruption
Comparison between 2010, 2008, 2006, 2002 (top-bottom order)

Bertelsmann Transformation Index
Government Management Performance

Source: Kaufmann, D., A. Kraay, and M. Mastruzzi, Worldwide Governance Indicators (2010); and Bertelsmann Transformation Index, Bertelsmann Foundation.
Notes: WGI country scorings range from 0 (worst) to 100 (best). The statistically likely range of the governance indicator is shown as a think black line. For details on the methodology refer to Kaufmann et al. (2010). BTI ratings range from 0 (worst) to 10 (best). For details on the methodology refer to: http://www.bti-project.org/uploads/ti_ipdownloads/Methodology.pdf.
Progress on overall government effectiveness and control of corruption broadly correlates with the degree of PFM progress achieved in most of the cases (as shown in Figures 6.4 a-c and summarized in Table 6.2). Both Kosovo and West Bank and Gaza are assessed as having acquired substantial capacity. There is indication of overall gains in Liberia and Sierra Leone. For Liberia the data diverges between sources and dimensions with the WGI data showing much greater gains on control of corruption and less gains on effectiveness while the BTI data suggests also substantial capacity gains. Conversely, the countries with the most limited progress on PFM reforms, the DR Congo and Tajikistan, also show the expected relationship, with low ratings for overall government effectiveness and control of corruption.

In contrast to these expected relationships, the data for Afghanistan shows strong divergence; some divergence is also observable for other countries. Across the data on government effectiveness and control of corruption, Afghanistan performs near the bottom despite having made substantial gains on PFM reforms during its post-conflict period. An interpretation is that in Afghanistan, contextual dynamics such as continuing insecurity and a brittle political settlement did not prevent progress on PFM reforms (as noted in chapter 3) but did prevent such reforms from contributing effectively to state-building progress. Regarding the lack of bringing corruption under control, one possible explanation is that significant corruption occurs primarily outside the public expenditure system, linked to the drug economy, land titling, insider lending by banks, and aid flowing outside the country’s PFM system. For Cambodia, which has been assessed as having achieved intermediate progress on PFM reforms since 2004, the aggregate governance indicators show the country to be at a lower-to-medium level of government effectiveness—still higher than for several other case studies—in line with its longer post-conflict experience. However, the indicators suggest a slippage on corruption over the past decade. For Kosovo, which overall has developed the strongest PFM system of the group, also shows substantial government effectiveness, but especially the WGI on overall government effectiveness suggest some weakening during the post-independence period.

The case studies suggest that PFM reforms are not uniformly effective at increasing accountability but indicate that targeted attention to probity as part of PFM reforms can have an impact. Liberia is the strongest case in point where recognition of out-of-control corruption, including in the fiscal sphere, was

<table>
<thead>
<tr>
<th>Country</th>
<th>PFM reform progress</th>
<th>Overall government effectiveness (by 2010)</th>
<th>Control of corruption (by 2010)</th>
<th>Consistency between PFM progress and trajectory of government effectiveness and control of corruption?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>Substantial</td>
<td>Weak</td>
<td>Poor</td>
<td>No</td>
</tr>
<tr>
<td>Cambodia</td>
<td>Intermediate</td>
<td>Weak to intermediate</td>
<td>Poor</td>
<td>Yes (although limited)</td>
</tr>
<tr>
<td>DR Congo</td>
<td>Limited</td>
<td>Extremely weak</td>
<td>Poor</td>
<td>Yes</td>
</tr>
<tr>
<td>Kosovo</td>
<td>Substantial</td>
<td>Intermediate</td>
<td>Intermediate</td>
<td>Yes</td>
</tr>
<tr>
<td>Liberia</td>
<td>Intermediate</td>
<td>Weak to intermediate</td>
<td>Intermediate</td>
<td>Yes</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Substantial</td>
<td>Weak to intermediate</td>
<td>Intermediate</td>
<td>Yes</td>
</tr>
<tr>
<td>Tajikistan</td>
<td>Limited</td>
<td>Weak</td>
<td>Poor</td>
<td>Yes</td>
</tr>
<tr>
<td>West Bank and Gaza</td>
<td>Substantial</td>
<td>Intermediate</td>
<td>Intermediate</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Sources: PFM reform progress was assessed as part of the review; the assessments for overall government effectiveness and control of corruption summarize the WGI and BTI data reflected in Figures 6.4 a–c.
followed with external actors and the new government after the 2006 elections pursuing strong and dedicated efforts. While it is too early to pass judgment on sustainability, available data suggest that perceived corruption has declined. Similarly, robust efforts in Kosovo focused on strengthening internal controls and external audit have shown effects in terms of improving perceived overall control of corruption. West Bank and Gaza and to a lesser extent Sierra Leone have also seen gains. In contrast, in Afghanistan and in Cambodia, corruption levels have stayed high or are perceived to have worsened despite progress with PFM reforms according to cross-country indicators. In both countries, steps to better address corruption have been taken in recent years, which may show results in the short to medium term.  

The generally positive relationship is encouraging. While the causal mechanisms are hard to trace in detail, a majority of cases seem to reap some wider benefit from making progress with PFM reforms, and/or the factors that enable such reforms also contribute to progress with increasing government effectiveness. However, as this data also indicate, progress in government effectiveness is still very tentative. The relatively greatest overall progress made in Kosovo and West Bank and Gaza supports the earlier discussion that gains in capacity may be more easily achievable in middle-income, post-conflict environments—even if these territories had never been independent entities before and accordingly started with weak or absent institutions and capacities.

60. In Cambodia, efforts to reduce corruption were strengthened in 2010, with the adoption of an anti-corruption law (under discussion since 1995) and the establishment of an Anti-Corruption Unit as a separate agency.

6.4 EXPLORING THE RELATIONSHIP OF PFM REFORMS WITH SERVICE DELIVERY GAINS

Making and consolidating gains in service delivery is a second wider aim to which PFM reforms are ultimately expected to make a contribution. Strengthened PFM systems are expected to allow more reliable service delivery, and to make spending on service delivery more transparent and monitorable. Similar to gains on overall state capacity and accountability, the detailed causal chains between PFM reforms and service delivery are challenging to trace systematically. However, some comparative data on service delivery gains is available across countries. As for wider state capacity and accountability, an initial question can be explored: Can a correlation between gains on PFM reforms and gains on service delivery be observed? If the expected relationship holds, countries making greater progress on PFM reforms should also show greater gains on service delivery.

Available data suggests that improvements in service delivery took place across the case studies, with no apparent relationship to relative progress on PFM reforms. Improvements in some basic services for which comparative data is available occurred across all case studies regardless of their level of progress on PFM reforms. The cases for which data is available on immunization rates all show improvements compared to the year of the post-conflict “starting point” (highlighted in grey in Tables 6.3 and 6.4). Data on primary school enrolment suggests that significant progress has been made early on and within a short period of time in several cases. For example,

61. There was a limited extent to which case studies were tasked and able to investigate this issue while cross-country data was reviewed for this synthesis report specifically.

62. No comparative data is available for Kosovo. Available evidence from the case study suggests that service delivery in Kosovo rebounded during the post-conflict period and is at high levels in line with its middle-income status. For other aspects of service delivery, including more capital-intensive services such as water and sanitation, available data is too patchy to allow a cross-country comparison. There are likely to be many weaknesses still in the quality of services both in health care and in education which are likewise more challenging to capture, and for which comparative data is not available.
### TABLE 6.3. PRIMARY SCHOOL GROSS ENROLMENT RATES (%)

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*Note: Post-conflict starting years are marked in grey.*

- a. Figure closest to post-conflict starting date (1991).
- b. Development Data Platform figure as of 06/2011.
- c. Start of reforms to Palestinian National Authority.

### TABLE 6.4. MEASLES IMMUNIZATION, % OF CHILDREN AGED 12–23 MONTHS

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*Note: Post-conflict starting years are marked in grey.*

- a. Figure closest to post-conflict starting date (1991).
- c. Start of reforms to Palestinian National Authority.
primary school enrolment jumped by 90 percent within three years in Afghanistan between 2001 and 2004 before most of the PFM progress took hold. Furthermore, the data on service delivery shows substantial improvements even in the DR Congo despite the minimal progress on PFM reforms as well as other challenging factors, such as continuing insecurity. The data also reflects the fact that some post-conflict countries such as Tajikistan had historically higher coverage rates for basic services than others.

In light of this evidence, it is not clear if and when progress with PFM reforms will make a contribution to state’s participation in service delivery. The observed early gains in the delivery of basic services suggests that they were primarily driven by factors other than improved PFM, such as improving security (compared to the conflict period) and population mobility, reintegration of refugees and displaced populations, increased aid flows, and NGO activities in the territory. Furthermore, on immunization rates, the DR Congo shows a greater degree of progress than Liberia or Sierra Leone by 2009—underlining the impression that greater progress on PFM reforms does not feed into additional service delivery gains within the time periods covered.

A possible contributing factor to this finding is that PFM reforms have focused primarily on central systems and functions (as discussed in section 5.3), although the case studies also indicate some initiatives to enhance links to service delivery. In Tajikistan, reforms that introduced per capita financing in the education sector have achieved a degree of streamlining the funding flows between the center and local government for the sector while allowing a more flexible allocation between wage and non-wage expenditures. However, weak financial controls, inconsistent financial reporting, and tracking and controlling the finances for service delivery sectors at local government have hampered the reform effort. In Sierra Leone, the Government has undertaken annual Public Expenditure Tracking Surveys (PETS), covering multiple sectors, since 2000 to track the link between the central allocation of funds and front-line service delivery. This is a laudable effort aimed at monitoring and strengthening front-line service delivery, and an important complement to the external audits undertaken by the Audit Service (Sierra Leone’s SAI). However, there are still many limitations of this effort in terms of the methodology of these Public Expenditure Tracking Surveys, and the relevance and actual use of the findings they generate. Overall, efforts to improve PFM in sectors have been relatively scarce; those few have mostly focused on selected service delivery areas (such as health in Liberia). This disconnect between sector and PFM efforts was also raised as a concern during expert discussions.

Given that the expectation of improved service delivery is a key motivation for donor support to PFM and other components of public sector reforms, further investigation of this link is highly desirable. Such further work could explore how and when different factors matter with regards to improving service delivery. It may also be possible to include a more in-depth analysis of detailed causal linkages (e.g., how money flows from central levels to front-line service delivery units) and of the results not only in terms of quantitative but possibly also qualitative improvements, or perceptions of fairness in how the coverage of service delivery is improved across regions and for different groups. Such work would also be needed to generate more specific contributions to inform choices about how to structure PFM interventions in ways that are indeed effective in supporting (further) improvements in service delivery.

63. Public Expenditure Tracking Surveys fall under the oversight of the Economic Policy and Research Unit in the Ministry of Finance and Economic Development.
64. Dissemination workshop, June 19, 2011, Nairobi. Sector colleagues pointed out that they often feel left out of discussions about PFM reforms, while PFM experts pointed out that sector experts often care little about funding streams from national budgets.
7. CONCLUSIONS: LESSONS AND IMPLICATIONS FOR FUTURE ENGAGEMENT

This review has sought to capture experiences with strengthening PFM reforms in post-conflict environments, motivated by the widespread support and the considerable expectations linked to such reforms. The review set out to answer two overall questions: How were PFM reforms affected by the challenges associated with state fragility? and Did the design and implementation of PFM reforms contribute to achieving sustainable progress in the development of PFM systems, as well as to supporting wider state- and peace-building objectives? To answer these broad questions, the review has sought to develop a more granular understanding of how PFM reforms have been approached and what has worked—and where, why, and how—in post-conflict environments.

This concluding chapter draws together key lessons from the cases reviewed and sets out implications for future engagement in post-conflict environments. Section 7.1 summarizes the main findings and lessons learned from conducting this review, followed by section 7.2 that develops the key implications of this analysis for an enhanced approach to strengthening PFM in post-conflict environments as well as some wider implications that emerge for approaching overall state building and strengthening service delivery. More detailed operational implications are forthcoming in a separate guidance note to staff.

SIGNIFICANT PFM REFORM PROGRESS can be made in post-conflict situations, despite post-conflict legacies and fragility factors. While reform progress varies greatly, six of the eight cases achieved intermediate to significant progress. This PFM reform progress has been possible despite post-conflict legacies and fragility factors such as very low human capacity and weak administrative capability, especially in the lower-income countries (Afghanistan, Cambodia, the DR Congo, Liberia, Sierra Leone, and Tajikistan); high levels of continuing insecurity, particularly in Afghanistan and in parts of the DR Congo and West Bank and Gaza; the absence of any prehistory of independent statehood in Kosovo (similar to Timor-Leste); and acute levels of underdevelopment (the DR Congo, Liberia, and Sierra Leone) as measured by the UN Human Development Index. Thus the notion that post-conflict countries may be caught in a low-level fragility trap that renders PFM improvements highly unlikely is rejected by this report.

Countries dependent on external actors for development aid (and wider international support) made generally faster progress on PFM reforms. Particularly rapid reform progress was observed in Afghanistan, Kosovo, Sierra Leone, and to some extent Liberia. The HIPC debt relief triggers were important drivers of specific reforms in Afghanistan, Liberia, Sierra Leone, and also the DR Congo despite its relatively limited progress overall. Budget support was also a significant driver in Afghanistan, Liberia, and Sierra Leone. Policy measures by the IMF and donor agencies were influential in pushing PFM engagement and results. In the cases of Tajikistan and the DR Congo, external dependencies have been less important, and PFM reforms were pursued more gradually, with limited achievements.

Political commitment to higher-order objectives such as independence or statehood provided a particularly strong driver for PFM reforms. In West Bank and Gaza a clearly stated objective of the Palestinian National Authority was to demonstrate to the international community its viability as an
independent state, including through its PFM capability. The same driver was present to a lesser extent in Kosovo, which was also pursuing independence and was focused on developing capability across the range of public administration through the Provisional Institutions of Self Government (including the Ministry of Economy and Finance).65

The PFM reform recommendations provided to fragile states are overall similar to those provided to non-fragile countries. While especially early efforts are informed by exceptional post-conflict circumstances, over time many of the PFM reform recommendations provided by development partners are similar to those on the agenda in other low- and middle-income countries, including the development of new legislation and institutional reforms as well as reforms reaching across the budget cycle.

Across the reform areas, one observes successes as well as challenges and continuing change. Seven of the eight cases adopted new organic budget laws during the post-conflict period, albeit mostly several years into the process of strengthening PFM systems. Reform suggestions to integrate ministries of finance and ministries of planning found less resonance initially, with four of the eight cases maintaining separate ministries and responsibilities for budgeting by mid-2010.66 However, as part of its continued effort to implement PFM reforms, Liberia became the fifth country of the group to create an integrated Ministry of Finance, Planning, and Economic Affairs in early 2012 (after general election in late 2011 in which the previous president was re-elected).

Reform implementation shows a pattern of relatively greater success with budget execution reforms than with either budget planning or accountability. Reforms of budget execution included centralization of cash management by the Ministry of Finance, and strengthening of budget reporting (in-year fiscal reports and end-of-year financial statements). Several cases succeeded at more advanced computerization of the government’s payments and accounting systems.

Development partners’ interest as well as domestic incentives and opportunities appear to enable success in reforming elements of budget execution. Budget execution reforms are seen as a crucial ingredient to strengthening the fiduciary environment. At the same time, a Ministry of Finance can implement several such reform elements centrally (for example, a revised chart of accounts or strengthened reporting requirements). The more advanced reforming cases (Afghanistan, Kosovo, Sierra Leone, and West Bank and Gaza) established treasury single accounts, overriding potential resistance from line ministries, agencies, and subnational levels of government.

Despite relative success in the area of budget execution, effective strengthening of controls still remains a challenge. Within the area of budget execution, internal controls and improved procurement practices are persistent challenges—with greater but still incomplete progress in the four best performing cases.

Attempts to pursue advanced budget formulation measures such as multi-year budget planning and program-based budgeting were less successful. Even among the four more advanced cases, only Afghanistan and Kosovo show more tangible traction of an MTEF while program-based budgeting reforms have not been successful in the cases where various types of attempts were made. Various stakeholders would like to move toward budgets that contain more information on policy goals and actual performance than traditional line-item budgets; but simpler approaches may yet need to be devised to fit the needs and capacity constraints of post-conflict states.

Strengthening budget accountability showed some progress only in Kosovo and Liberia that combined greater attention and a degree of government commitment.67 Formal accountability mechanisms such as external audit offices and legislative scrutiny received less attention compared to budget execution reforms. At the same time, success in this area depends most strongly on a political commitment to improvements and faces risks of reversals.

A shortcoming of PFM reform efforts has been the limited reach into sectors and subnational levels of government. Some efforts were made in this regard, notably in Sierra Leone where the country’s decentralization process is more advanced, but less so in other cases. Extending PFM reforms into sectors and subnational levels implies capacity building of a wider range of staff and strengthening a wider range of institutions, which poses challenges of scale and complexity. Furthermore, a lack of clarity over intergovernmental arrangements and contradictions between formal provisions and de facto practices poses difficulties for the effective provision of

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65 A particular feature of Kosovo was the fact that the international community was strongly focused on the entity’s treatment of minorities, making the development of PFM systems and other state institutions a still important, but somewhat secondary concern.

66 A further case, Cambodia, has a separate Ministry of Planning, with some but very limited involvement in capital budgeting (see Table 4.3).

67 As discussed in chapter 5, this pattern of success differs from that found by Andrews (2010) for non-fragile low-income countries where progress with budget planning reforms has been relatively more frequent. However, Andrews does not distinguish between budget execution and budget accountability dimensions.
external support at strengthening PFM systems in ways that support improving service delivery.68

The post-conflict experiences reviewed indicate the need to continuously monitor what is working and whether reforms are achieving their intended impact. Importantly, even when reform outputs show success—such as changed procedures and systems—this does not automatically result in better overall PFM as defined by three key principles (aggregate fiscal discipline, strategic allocation of resources, and operational efficiency) or deliver improved accountability and governance. Thus, there are challenges to consider in terms of getting from making PFM reforms happen to achieving the ultimate results in terms of contributing to state- and peace-building objectives (and good management of aid), which are the underlying motivation for donor engagement with PFM in post-conflict states.

In a majority of countries, progress on PFM reforms has been associated with progress on government effectiveness and accountability—although Afghanistan is a case of divergence. An exploration of relevant indicators on government effectiveness and accountability show that the six countries making some or substantial gains on PFM reforms also gained in terms of overall progress; while countries with little PFM gains also saw no progress on government effectiveness and accountability. However, Afghanistan is a significant outlier with substantial gains on PFM reforms matched by one of the worst performances on government effectiveness and accountability dimensions. A lesser divergence was also noticeable for Cambodia, in particular, on accountability.

The PFM reforms proceed on a parallel track to service delivery improvements. Basic service delivery improved across all eight post-conflict cases with no obvious relationship to relative progress on PFM reforms. The most likely cause is a re-starting and scaling-up of aid flows to service sectors, which largely bypass government systems. However, this leaves a significant challenge to create a connection between the two over time to ensure that service delivery improvements can be maintained as the main source of funding shifts from international donor aid to domestic funds.

68. At the same time, external support that is uncoordinated between support to central PFM reforms, to decentralization and to sectors can also contribute to confusion and a lack of clarity in intergovernmental arrangements and responsibilities.

7.2 EMERGING OPERATIONAL IMPLICATIONS

Given these findings and lessons learned across the eight post-conflict states reviewed, the question arises, What can national counterparts and development partners—including the World Bank—do to further strengthen the progress of PFM reforms and their positive impacts in post-conflict countries? Across the aspects covered in this review, a range of implications and recommendations emerge.

The recommendations are not prescriptive but are suggestions emanating from this review. Each specific situation requires consideration of which changes are likely to be feasible and to have the greatest impact. A number of the implications set out here are directly relevant and “actionable” for PFM experts who design and supervise PFM operations, while others are pertinent for overall programming of assistance to post-conflict countries. Continued monitoring of support to PFM strengthening will add to the lessons learned about what works best as countries move past their post-conflict stages.

1. Consider country context (and existing incentives for local stakeholders) systematically in deciding if and how to intervene on strengthening PFM systems. Some post-conflict environments offer substantial opportunities for reform; while in other environments with very little commitment, a focus on selected small steps may be the most sensible approach. Such considerations, if possible, should be made jointly by all development partners seeking to support PFM reforms.

Implications of country context for PFM reform opportunities (four stylized situations)

- Where incentives and commitment for reform are substantial, stakeholders can seek the fastest gains. Locking in gains in budget execution systems (e.g., establishing a treasury single account, putting a comprehensive and compatible budget classification and chart of accounts in place, starting to build a FMIS) are options combined with steps on budget planning. Pursuing gains on budget accountability, including a sound legal framework for an SAI, can help sustain the demand and momentum for
Public Financial Management Reforms in Post-conflict Countries

Even in environments with substantial opportunity for seeking improvements, there should be caution not to outpace local capacity and willingness to pursue reforms.

- In many post-conflict countries motivated by the need to access significant aid flows, there is partial and fluctuating commitment to improving PFM. Appropriate strategies include a mix of re-building institutions and re-establishing basic processes such as written and approved budget and budget-execution reporting, while simultaneously investing in the demand for reforms by building understanding and buy-in among technical experts, political decision-makers, and civil society. It may be possible to develop more advanced reforms, especially in budget execution, including FMIS, while importantly keeping an eye on their actual use and sustainability.

- Where signals of government commitment are weak or absent, an approach that focuses on gradual progress, including fostering an understanding of international practice in PFM, may still generate limited and incremental gains over time. However, the short-run impact on overall improvements in governance and government effectiveness is likely to be limited in such an environment. Furthermore, with little government commitment, reforms of budget accountability are likely to be a particularly challenging area.

- In exceptional circumstances in post-conflict contexts where fiduciary concerns are a brake to greater international engagement and where national stakeholders and development partners agree to an enhanced reform approach, shared sovereignty arrangements can be considered for a limited period of time. Under such arrangements, national government officials share authority over PFM functions with internationally appointed experts. These exceptional arrangements require domestic buy-in as well as a strong commitment by the international community to share responsibility over PFM and to invest substantively in building the systems that allow transitioning beyond these exceptional arrangements in due course.

2. Development partners have an opportunity to use aid allocations and aid modalities in ways that incentivize sustained PFM improvements and can also make a fundamental contribution to reducing fragmentation of public finances. Budget fragmentation due to limited aid harmonization is a problem in post-conflict countries, including some that have made significant progress on PFM reforms. Development partners can go a long way in terms of aligning their ex ante and ex post reporting as well as their project planning and execution cycles with country systems while maintaining fiduciary controls. Furthermore, development partners could selectively engage more seriously in improvements of domestic accountability systems and match that with relevant incentives, such as the provision of budget support. Overall, a more strategic use of aid support could provide added value for ensuring that PFM reforms progress and are sustained over time by governments in post-conflict environments.

Implications with regards to aid mechanisms
- Focus on harmonized policy dialogue and the use of joint policy reform matrices can help leverage the adoption and implementation of PFM reforms.
- Sustained and predictable budget support against the adoption of a common policy reform matrix can provide an incentive for governments to maintain the pace of reforms.
- The use of MDTFs to channel aid to the national budget increases chances of alignment of aid to policy priorities.

3. Developing clear reform plans based on emerging analysis and the periodic updating of such plans will help ensure that approaches to PFM reforms and the provision of support are strategic and focused. A problem that has been observed in the case studies is the relatively late emergence of clear reform plans that are shared among stakeholders (the national government, development partners, and possibly others such as different stakeholders within government or civil society). The result has been weak coordination of PFM support especially at early post-conflict stages, leading to some duplicative efforts as well as some reform initiatives that were overly ambitious.

Implications with regards to developing reform plans, sequencing, and coordination
- Shared but relatively simple reform plans could be developed earlier than previous practice in most countries. External support by multiple donors that is un-coordinated over a critical post-conflict period of 5 to 7 years is likely to be wasteful. However, overly complex coordination efforts may also entail substantial and possibly excessive costs.
- Reform plans have to be grounded in an understanding of the evolving status quo. The initial status quo may be a near absence of PFM systems, or a system created by an international agency (as UN administered in Kosovo), or a
mix of some existing functionalities combined with a variety of gaps (as in post-conflict Sierra Leone). PFM support should start with a rapid stocktaking of what basic systems are operational and what initial short-term incremental improvements are possible to put the basic building blocks of a PFM system in place. At later stages, the status quo may be a mix of some reform achievements combined with persistent gaps (e.g., in controls or procurement or in more strategic budget planning), requiring a reform plan that not only targets the next level of reforms but also focuses on existing gaps and weaknesses.

- Reform steps outlined in each phase should be digestible on the one hand and should be assessed against their wider impacts on state building and service delivery on the other.
- Reform plans need to include capacity development as a distinctive objective, while also being realistic about how and to what degree reforms can be implemented within currently available capacity.
- A longer-term vision can be combined with more detailed medium-term planning to maintain realism for each stage. Especially in more democratic environments, it may be sensible to align reform plans to political cycles with an emphasis on actual implementation and gains made prior to potential changes in government, as well as potentially using the renewed reform momentum of incoming governments.

4. There are distinct reform challenges and opportunities across the three key phases of the budget cycle (budget planning, execution, and accountability). In order to achieve the expected overall outcomes and impacts of PFM reforms, progress across the budget cycle (as well as in capacity-building and institutional aspects) is needed. In high potential environments it is desirable to pursue reforms across the budget cycle while keeping a digestible pace in terms of sophistication. In environments with more limited commitment, it is sensible to target reform support to selected elements of budget execution and budget planning (with realistic expectations about the wider impact of partial reforms).

Key implications for balancing budget execution, planning, and accountability focused reforms

- Strengthening budget execution aspects is generally an area that can be pursued in many post-conflict environments. It is worth pursuing these reforms, particularly cash management and strengthening reporting. Some aspects of budget execution are likely to remain challenging and require more continuous attention. This includes the execution of capital spending and public investment management (including procurement), the establishment and proper use of effective controls, and the development of budget execution capacities at subnational levels.
- Re-establishing basic processes across the budget cycle is generally an early priority, followed by improvements in budget execution system and practices.
- Early windows of opportunity for budget execution reforms should be used where available. Efforts to improve budget execution have worked reasonably well, particularly in cash management and with regards to re-establishing regular recording and reporting. There is frequently an interest by governments to regain control over basic macro-fiscal management and cash flows. There may be opportunities to centralize funds in a treasury single account before the interests of ministries, departments, and agencies to control their own accounts become more deeply entrenched.
- In the medium term, FMIS implementation has been pursued successfully in a number of post-conflict environments, and other countries can benefit from the accumulating practical experience (e.g., in Afghanistan, Kosovo, or Sierra Leone). Keeping systems relatively simple but also expandable and adjustable for a range of sector needs is appropriate. Pursuing a roll-out to subnational levels is important to bring budget execution capabilities sufficiently close to front-line service provision and to enable good reporting.
- Efforts at strengthening budget planning practices may need a fresh approach. There seems to be a desire among governments as well as development partners and civil society to have budgets that are more strategic, informative, and flexible than traditional line-item budgets. However, existing reform attempts—notably at introducing program budgets—have led to limited progress and frustration. Greater experimentation may be needed in this area, possibly by focusing on (a) simpler, more feasible approaches; (b) complementary efforts at supporting stronger overall government decision-making (as has been provided for Kosovo); and (c) more systematic strengthening of relevant capacities in at least a few important line ministries and at subnational levels.
- Budget planning reforms should be kept simple in early post-conflict phases. This includes re-establishing a
regular budget process and a clear budget classification system. See IMF (2009 and 2011) for useful notes on budget classification systems.

- Establishing a medium-term perspective can be initiated some time into the post-conflict period. In most cases a realistic approach is a focus on establishing a core MTFF before possibly starting to develop medium-term plans and spending frameworks for sectors.

- Paramount to efforts at developing MTEFs and program-based budgeting initiatives is to involve both budget users and policymakers, including parliament, rather than treating budget-planning reforms as purely technical reforms that can be driven by a Ministry of Finance.

- Where basic PFM reforms have progressed, some experimentation with how best to go beyond traditional, single-year line-item budgeting may be explored with a view to strengthening fiscal management as well as transparency and accountability. Experience clearly implies to avoid excessive complexity and isomorphic (“cookie-cutter”) program-based budgeting reforms but to engage rather in carefully calibrated experimentation, focused on what might work to deliver better results.

- Efforts at strengthening budget accountability should be expanded but cognizant of the political context. The fact that accountability did show progress when greater effort was made suggests that there can be opportunities for greater attention and engagement, and such opportunities are worth exploiting, given that greater accountability in turn can make important contributions to state legitimacy in post-conflict environments. However, an important consideration to keep in mind is that reforms aimed at strengthening accountability are particularly dependent on the political economy context and that they run counter to the interests of rent-seeking elites.

- Budget accountability reforms should be pursued to the degree feasible (i.e., within the given degree of political commitment) as they are crucial for developing state legitimacy.

- A degree of external anchoring of budget accountability (e.g., through an inclusion of internationally recruited staff) may be useful as an arrangement for some time when such an arrangement is acceptable.

- Parliamentary follow-up on audit reports is typically the weakest link within the budget accountability dimension, and improvements may be hardest to achieve in this area. Allowing the publication of audit reports while promoting good auditing practice can be important intermediate steps.

5. Legal and institutional reforms are an integral part of strengthening PFM systems in post-conflict environments, but there is less of a need to front-load these reforms than has been suggested by previous analysis. Legal reforms are likely to happen over a 3–5 year time horizon rather than at the start of re-building PFM systems. Legal reforms may need to await the re-constitution of legislatures. Also, government and other stakeholders should well understand the new legal framework being developed and have time to decide the extent of departure from existing administrative traditions. Provisional amendments may bridge gaps in formal rules for an interim period. In terms of institutional arrangements, a standard recommendation is to merge ministries of finance and of planning. In the eight cases reviewed, most but not all better-performing countries have moved in this direction, or had joint ministries from the start. However, a fuller integration of aid-funded public investments remains a crucial challenge.

Implications for approaching legal and institutional reforms

- When new regulations or organic budget law are developed, this should be balanced by a strong and continuous focus on improving systems and actual practice.

- When addressing institutional arrangements, teams should be attentive to how aid programming is linked to overall public expenditure planning in terms of institutional responsibilities and processes as well as to the issue of integrating finance and planning ministries since domestic capital spending is frequently small compared to international aid-funded investments. Where it exists, separation of ministries is often rooted in a political logic that can be hard to overcome.

6. Strengthening capacity development requires a phased and layered approach that includes addressing capacity constraints in the short term as well as pursuing longer-term improvements. Addressing capacity constraints (more) effectively requires a multi-pronged approach that will often involve capacity substitution and supplementation, creating transitional schemes to enhance existing capacity, as well as tackling systemic issues by investing in skill formation and retention over the medium and long term. Continuing capacity challenges are one of the key threats to the sustainability of PFM reforms in post-conflict countries. There are no easy solutions. However, there can be a more concerted
emphasis on transferring skills from technical assistants to civil servants, developing transitional and coordinated top-up schemes and more systematic approaches to training and building sets of necessary skills, and addressing the systemic challenges associated with civil service performance. The issue of wider civil service and pay reforms might benefit from a consideration of second-best approaches. For instance, the use of coordinated salary supplements to attract skilled people into the civil service is an approach that could be explored further in post-conflict environments.

**Key implications for capacity development**

- Start planning for capacity development early and remain engaged for the long term; seek coordinated approach and funding.
- Revisit progress and problems for capacity improvements periodically; understand what is working and why (including through a greater emphasis on capacity development issues in PFM assessments).
- Consider capacity substitution for general line positions separately from use for fiduciary reinforcement.
- Explore more comprehensive yet flexible plans to develop local capacity, including joint visions for institutional transformation, skills training, rapid results approaches, and institutional twinning.
- Explore innovative and second-best approaches to civil service and pay reforms and link these to capacity-development efforts with a view to reducing turnover where this is a key driver for (continuously) low capacity.

7. **Development partners and governments should consider monitoring tools that complement PEFA reports to provide a stronger focus on results chains and on the impact of strengthened PFM systems on service delivery and state building.** Repeat PEFA assessments allow monitoring of PFM systems development over time. However, PEFA assessments are more focused on the attributes and functioning of systems than on their outcomes and impacts (e.g., on service delivery). This leaves important gaps in terms of monitoring whether strengthened systems contribute to wider goals of state building and service delivery while monitoring these impacts is particularly important for post-conflict situations. Public Expenditure Tracking Surveys have not been used widely in post-conflict countries, given that they tend to be costly and complex to implement. However, some relatively simple indicators (e.g., disaggregated measures of budget credibility and budget execution rates by sector and subnational unit) could enable better monitoring of the full results chain from a relatively early stage.

**Key implication for strengthening and monitoring the impacts of PFM reforms on service delivery and wider state-building efforts**

- Monitoring indicators for PFM reforms in post-conflict countries should include indicators pertinent for measuring wider effects and impacts. Country management units and PFM reform teams should work together to determine how PFM reforms can best support wider state-building objectives by focusing, for example, on aspects such as budget accountability or a transparent and well-grounded allocation of resources across regions. Country management units and PFM reform teams should develop monitoring efforts that include these wider aspects.

8. **A more structured inclusion of sectors and subnational levels—going beyond a focus on ministries of finance—should be emphasized to ensure impact of efforts at strengthening PFM systems.** Development partners have supported efforts involving sectors and subnational levels—notably in Sierra Leone—but the bulk of PFM reform approaches focus on the core ministries. However, over the medium term (3 to 10 years) into the post-conflict period, a more deliberate and structured engagement with sectors and subnational levels is highly desirable. Inevitably, this poses challenges for the coordination of reform efforts and entails additional efforts at developing local capacities. Also, for real impact on sector performance, efforts at PFM strengthening need to be complemented by efforts targeting related drivers of sector performance, including a better reflection of aid in sector budgets, improvements to sector-specific monitoring and evaluation, as well as to staff management and clarity about the intergovernmental division of responsibilities in each sector.

**Key implications regarding sector and subnational engagement**

- PFM reform teams and sector teams should liaise closely to discuss important PFM bottlenecks in sectors as part of each reform stage and when designing new operations

69. With the partial exception of regular use of Public Expenditure Tracking Survey in Sierra Leone, as discussed in chapter 6.
(e.g., integration of aid, budget execution bottlenecks, sector issues related to chart of accounts, and public procurement reform implications for sectors).

- Once initial core PFM improvements have been addressed, design PFM operations in ways that deliberately reach into sectors and subnational levels as these are crucial for the intended impacts of PFM strengthening on service delivery and state building.
- Development partners and country stakeholders should initiate analysis of complementary changes that are needed in order to achieve impact and develop appropriate complementary support.

9. As emphasized in the 2011 WDR, institutional transformations require a time horizon of at least 20 years, underlining the long-term support needed for achieving and consolidating strengthened PFM systems. Post-conflict countries have to achieve institutional strengthening, progressive change, and consolidation frequently beginning at very low levels. A realistic time horizon for effective PFM strengthening is 10 to 20 years, and possibly more to complete interacting reforms such as establishing and consolidating intergovernmental systems. To achieve such institutional transformations, reform efforts must be sustained across potential changes in governments as well as across major macro-political changes such as gaining independence or phasing out external security support. Sustainability also requires that capacity bottlenecks be effectively addressed over time.

Implications for achieving sustained change and consolidation of institutional transformations

- Foster political commitment through dialogue, responsiveness to areas of concern in fiscal policy/PMF, and smart use of wider aid incentives to the extent possible. The goal should be to foster commitment to strengthened PFM across elite groups and voters to sustain commitment irrespective of potential changes in government.
- Recognize wider macro-political and security risks with potential significant repercussions for PFM reforms and reform impacts that cannot be mitigated/addressed directly.
- Anticipate a long time horizon in the design of PFM support. Current donor structures do not allow programming of assistance beyond a three to five year time horizon at most. However, the actions programmed within those time periods can be cognizant of the fact that further PFM support and reform efforts will continue over a decade or more. A more or less formal long-term vision (of which a platform approach is one possible version) can help to distinguish between short-term priorities and longer-term reform goals; as well as to clarify what foundation for longer-term goals (e.g., on capacity development centrally and at subnational levels) need to be addressed in the short to medium term.

10. The reasons for the lack of a clearer link between the level and pace of PFM improvements and service delivery improvements need to be better understood to enable more targeted engagement. This is an area that urgently needs further investments in generating relevant evidence that can guide operational practice. In the immediate future, those providing support to strengthening PFM should include a greater focus on sectors and subnational levels and on monitoring of the strategic targeting of funds, and actual flows between the center and front-line service delivery units.

Key implications for strengthening service delivery impacts of PFM reforms

- Implement relevant monitoring efforts into PFM and/or into service delivery sector operations where feasible within given parameters such as focusing on budget execution rates through the sector chain (payroll, non-wage recurrent and capital expenditures in the sector); and the quality of sector reporting against budget allocations.
- Analyze and monitor accountability challenges for public (and aid) funds in service delivery sectors and work on relevant and feasible accountability mechanisms (e.g., sector-focused audits, and/or social accountability mechanisms and/or improving public information on sector accountability issues through Public Expenditure Tracking Survey, etc.)
- For the overall aid effectiveness agenda, invest in efforts to better understand linkages between PFM and service delivery improvements in post-conflict environments across countries.
ANNEX I: NET OFFICIAL DEVELOPMENT ASSISTANCE AND OFFICIAL AID RECEIVED

NET OFFICIAL DEVELOPMENT ASSISTANCE AND OFFICIAL AID RECEIVED (CURRENT US$)

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ANNEX II:
CASE STUDY EXECUTIVE SUMMARIES

AFGHANISTAN

Geraldine Baudienville

A. Reform context and political economy

Afghanistan meets every criterion of the fragile state classification: deep structural poverty coupled with difficult access to many regions in the country; a dysfunctional state compounded by 30 years of war resulting in a deep disconnection between the state and its citizens; growing insurgency fuelled by external elements and insufficient economic and employment opportunities; and an illicit economy that thrives and fuels conflicts. In addition, despite strong economic growth over the past 7 years, Afghanistan remains highly dependent on the international community for aid and security: over 50 percent of the core budget is externally financed, notably through a multi-donor trust fund, the Afghanistan Reconstruction Trust Fund (ARTF).

As a result, both the Government and donors identified PFM reforms as an early priority to ensure sustained aid flows for reconstruction. Budget support provided through the ARTF created the incentives and benchmarks to improve PFM systems while successive ministers of finance provided strong leadership within the Government. Despite the decades of conflict that affected basic administrative functions, many elements of a sound underlying PFM system survived and provided a basis for reform efforts.

B. Design and implementation of PFM reforms

Initial PFM reforms focused on strengthening budget execution at the central level, in the Ministry of Finance, with the implementation of the Afghanistan Financial Management Information System (AFMIS). The creation of the treasury single account (TSA) helped centralize the payment and recording of government transactions through the Treasury. Early initiatives also focused on strengthening procurement and internal control processes to meet basic fiduciary requirements.

Further reforms were introduced after the basic PFM system was in place and the first PEFA assessment was conducted in 2005. These reforms covered a broad span—centering on the preparation of a new legal framework for PFM by 2005, strengthening of budget preparation and budget execution procedures, introducing sector strategies and a budget framework report, establishing external audit, and further strengthening of procurement and control systems. AFMIS was progressively rolled out to all primary budget units in Kabul and in all provincial mustofiat offices. Efforts to introduce MTEF and program budgets, though pushed by some donors, proved more challenging.

The reform effort has almost exclusively focused at the central level, especially the Ministry of Finance. While the highly centralized budget system has been successful in strengthening overall budgetary discipline, it also results in rigidities during budget execution. In addition, capacity in line ministries and subnational governments remains weak, and the Government has made limited progress in improving the quality of public services delivered at local level.

Donors have provided substantial quantities of technical assistance to support PFM operations and to meet agreed benchmarks. Although it has been intended that technical assistants would progressively support capacity and institution building, the number of external-financed advisors and assistants within the Ministry of Finance—many of whom are carrying out operational functions—has remained broadly stable since 2002. One reason for this continuing heavy reliance on external advisors to conduct PFM operations lies in the poor results achieved on wider public service reform. In particular, attempts at administrative and civil service reforms (2004 Priority Reform and Restructuring Program), focusing on ministry restructuring and merit-based recruitment, have so far failed to improve human resources management. As a result, only limited progress has been made in the effort to replace external capacity by sustainable domestic capacity.
C. Reform outcomes and sustainability

Progress made on building Afghan PFM systems and capacities, underpinned by fiscal discipline and respect of the no-overdraft rule, has contributed to progress made toward fiscal sustainability of the Government through increased revenue collection to cover recurrent costs and to the relatively stable macroeconomic environment from which Afghanistan has benefited since 2002. These achievements are notable when compared to the experience in other post-conflict countries as shown in the 2008 PEFA assessment in which Afghanistan’s ratings are better than the average for other low-income countries and in some areas better even than the average for middle-income countries.

However, according to available data collected for the 2011 OECD Paris Declaration Monitoring Survey, these improvements in PFM performance have not yet translated into an increased share of aid channeled through government systems or a shift from ARTF to direct budget support. This apparent contradiction reflects specific concerns about the weakness of PFM systems and service delivery at sector and subnational levels, the high levels of corruption, and more generally weaknesses in governance and the transparency of PFM systems.

D. Links to wider public sector and governance issues

Corruption remains a severe threat to increased direct support from donors to the Government budget on the one hand and improved state–society relationships on the other. Weak governance raises questions about capacity constraints at all levels of government and whether the implementation framework is robust enough to handle additional resources effectively. Indeed, donors are reluctant to change the way they deliver aid because of perceived weaknesses in expenditure prioritization. It would be helpful if future technical assistance could help address the heavy financial costs of corruption and leakage of public funds, and thus lowered effectiveness of public services. In particular, it is likely that improvements in strategic expenditure prioritization as well as in the control arrangements, including internal and external audit, will be required before a broader movement toward budget support can be undertaken.
A. Reform context and political economy

Over the past 20 years, Cambodia has seen the emergence of a relatively stable Government after decades of turbulent politics and violence. The civil war officially ended in 1993. Since then, the Cambodian People’s Party (CPP) has consolidated political power, albeit at the cost of marginalizing the other parties to the peace settlement. Following the examples of China and Vietnam, Cambodia experienced a remarkable transformation from an isolated, state-managed economy to an open economy with strong economic growth averaging 8 percent during the 2000s. Growth has included employment-intensive sectors such as garments and more recently has brought higher incomes for rural populations in a context of increasing rice prices and other opportunities, leading to a decline in poverty. The country had, and still has, one of the smallest public sectors in the world.

The conflict had significant implications for institutional development and the civil service. The Khmer Rouge followed a policy of destroying human and institutional capacity, leaving over two million dead during the regime and very limited human resource capacity in the country. With the peace settlement and coalition agreements during the 1990s, a complex and fragmented institutional structure developed and civil service recruitment was dominated by patronage, reflecting the power-sharing arrangements in the post-war period.

The Government has engaged in a gradual process of reforms with a continuing strong emphasis on the need for stability, although the de facto risk of a return to conflict is considered low. Areas of ongoing state reform include public financial management, public administration reform, decentralization and deconcentration, and the armed forces. Greater efforts to curtail corruption have emerged recently, including the adoption of an anti-corruption law in 2010 that had been under discussion since 1995, and measures to reduce petty corruption by making payments by check or through bank transfers and by publishing fees for government services.

B. Design and implementation of PFM reforms

In the late 1990s, PFM reform efforts focused on improving revenue performance and centralizing much of the tax administration. Subsequently, a focus on expanding and improving service delivery led to the 2000 Priority Action Plan, an explicit strategy of large service delivery provision that circumvented the national budget, fragmenting the budget process and establishing large parallel development funds.

An initial attempt at a multi-donor coordinated approach to PFM reform emerged as the Technical Cooperation Assistance Plan (TCAP), implemented from 2001 to 2004. While an improvement over preceding fragmented PFM assistance, the TCAP fell short of introducing an integrated strategy due to the fact that it was based on reform recommendations developed by different advisory teams that were not fully integrated into a coherent approach. Furthermore, limited involvement in the design and subsequent buy-in by Government ministries made implementation of TCAP difficult, and a longer-term vision was felt to be missing. A smaller group of donors persevered with establishing a collaborative approach through an Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER) process in 2003 and deepened collaboration with the Ministry of Economy and Finance.

National elections in 2003 led to further political consolidation under the CPP. Subsequent to the elections, the Government saw a window for political engagement and championing of the PFM reform program. The combination of politically opportune timing and a convincing technical consensus between stakeholders provided a momentum that drove the design and implementation of a collaborative reform effort. The PFM Reform Program emerged. It included the 10-year platform approach adopted in late 2004 as the technical approach for core PFM reform, as well as a deep and intensive management and oversight structure for the reform, and the Merit-Based Pay Initiative (MBPI) as an integrated mechanism to improve civil service incentives.

The platform approach enabled the Government and donor stakeholders to prioritize the reform focus over time. Platform 1 of the approach (launched in late 2004) focused on improving the effectiveness of existing structures; strengthening the revenue administration; streamlining the budget management processes; consolidating government accounts; and establishing a legal framework, an internal
audit function, and revised chart of accounts. The progression to Platform 2 was delayed with implementation progressing slower than expected. Platform 2 was eventually launched in late 2008 targeting the establishment of an FMIS as well as achieving more substantial capacity building and rolling out reform activities to line ministries and local governments.

C. Reform outcomes and sustainability
Some improvement was achieved in tackling poor revenue performance, a key objective in early PFM reform efforts in Cambodia. By 1998 revenue to GDP ratio was 8.9 percent and improved to 12.5 percent by 2008 according to IMF data, still below the average for low-income countries. Low and volatile revenue and cash management problems led to the adoption of a Priority Action Plan in 2000 to ensure payments for service delivery systems. While this helped to improve public funding flows to social sectors, it fragmented budgeting systems. A more re-integrated approach to budgeting has been pursued in more recent years as improvements to revenue collection and cash management were achieved.

The wealth of analytical studies emerging in the late 1990s and early 2000s, including the 2003 IFAPER, cultivated increasing interest in building a more collaborative approach to PFM reform among certain donors. At a political level, the Government drew on key PER recommendations and the proposed platform strategy as part of its prospectus for the 2003 elections. This political engagement, along with the growing coalition of support for a coherent PFM Reform Program, helped persuade the less-willing donors to engage in a single collective effort.

Views on the key successes of the PFM Reform Program differ. Reform efforts have undoubtedly contributed to a strengthened PFM system. During the first stage of the PFM Reform Program, the progress made was uneven, but there were key improvements in revenue collection and overall budget credibility and alignment between policy priorities and the budget as the key outcomes of Platform 1. Severe cash shortages typical of the early 2000s were addressed, and expenditure arrears were eliminated by 2007. While budget credibility has been established in the aggregate and in terms of cash management, the credibility of expenditure composition has remained limited, with significant in-year variations against the budgeted composition.

Another key outcome of the platform approach has been the cohesion between stakeholders that it has triggered. The strong brand was developed slowly and methodically, underpinned by the rigorous process to build consensus on problem definition and the policy instrument to address it. Securing a consensus between a core of stakeholders within the Government and among donors provided enough political capital to pull through stragglers in each of those communities. The long-term commitment to a PFM reform strategy was facilitated by the continuity in Government—in terms of both the ruling party and key public officials.

After significant progress on Platform 1 measures, the implementation of Platform 2 measures has been slow, while preparatory efforts for this broader and demanding phase of reforms continue. Key targeted reforms include a new chart of accounts and corresponding budget classification, strengthened and effective internal audit and audit follow-up, the introduction of an FMIS, and moving decision-making and accountability from the Ministry of Economy and Finance to line ministries and budget entities. Progress on Platform 2 reforms has been incremental. The FMIS is still in a planning stage, having experienced significant delays due to problems within Government as well as with the support provided by development partners. Further improvements in the chart of accounts and the budget classification are being discussed since the 2007 reforms only fully established an economic classification. However, reaching agreement on the extent of further changes has been protracted. On the positive side, gains made during Platform 1 have continued to be consolidated, including implementation of the 2008 organic budget law and improved cash management.

D. Links to wider public sector and governance issues
The merit-based pay initiative (piloted in 2006) was designed as a key factor in enabling PFM reform implementation through improving incentives and tackling the related issues of public administration reform. Initially agreed as a comprehensive top-up scheme approach within the Ministry of Economy and Finance to complement reform efforts, the mechanism was designed for Government to provide increasing funding (to reach 35 percent of the total by 2011). Despite some setbacks in implementation and Government co-financing falling short, the scheme was generally considered successful in improving incentives and critical in building support for the PFM Reform Program.
In 2008 the scheme started being rolled out to other ministries in a piloted attempt to introduce a comprehensive incentives scheme and in effect broach a broader civil service reform effort. The concept gained traction; by 2009 eight more MBPI-like schemes had emerged in other ministries. However, by the end of that year, and with no warning, the Government suspended the MBPI scheme.

A follow-up scheme to unify top-up practices was agreed between the Government and development partners in the second half of 2010. This priority operating costs scheme re-established incentives for civil servants to engage on reform measures, and puts emphasis on making these more uniform across different ministries and agencies. However, development partners have exclusively funded the priority operating costs scheme. Wider pay and civil service reforms continued to be delayed while the Government has undertaken across-the-board salary increases in recent years (from a low initial base). These challenges related to civil service and pay reforms have also had some negative effects for the roll-out of Platform 2 PFM reform measures.
A. Reform context and political economy

After independence from Belgium in 1960, Col. Joseph Mobutu seized power, declared himself president in a November 1965 coup, and retained his position for 32 years. In 1996, a rebel movement supported by Rwanda and Uganda began an offensive that led to the 1997 overthrow of Mobutu and the installment of Laurent Kabila as Head of State. It was soon followed by a resurgence of civil war in 1998, which ended through a cease-fire (the Lusaka Peace Agreement) signed on July 10, 1999. Yet, sporadic fighting continued; after the assassination of Laurent Kabila in January 2001, his son, Joseph Kabila, succeeded to the Presidency.

Early impetus for reform between 2001 and 2003 came from the alliance of President Joseph Kabila and his finance minister, seconded from the IMF, who showed strong political will to re-establish links with the international financial institutions after years of suspension of structural aid. The existence of one strong “mega” ministry in charge of economy, finance, and budget also facilitated the reform process, as did the hiring of two resident experts from the IMF and World Bank to support the minister.

Despite this promising start, subsequent developments indicate that the overall political environment was not conducive to reform. Both the transitional Government (2003–05) and the succeeding coalition Government (elected in 2006) were marked by political tensions among different interest groups and lack of progress in key areas of reform. In addition, fragmented central-level institutions and political considerations have complicated policy management and, in particular, the bifurcation of the ministries in charge of finance and budget in 2003, which impedes efficiency and coordination of fiscal policy.

B. Design and implementation of PFM reforms

Years of conflict, lack of transparency, and problems of governance led to the collapse of the expenditure control system and of fiscal revenue. Still, the legal and institutional framework, based on a French PFM system legacy, was used as a basis for reform even if it had been virtually non-operational for years.

Initial measures were aimed at restoring macroeconomic stability and breaking hyperinflation by first installing a strictly enforced system of cash management. Subsequent reforms focused on developing basic procedures and mechanisms of expenditure execution and oversight, followed by establishment of a simplified double-entry accounting system together with reforms that were of particular concern to donors (debt management, procurement, and civil service payroll). These measures were concentrated at the central government level, and especially on the Ministry of Finance, the Ministry of Budget, and the Central Bank). Measures to reform the legal framework were postponed until after a new Constitution was adopted (2005) and further delayed by the debate around the decentralization process, which touches upon the wider reform of the public service and notably PFM.

The legal and institutional framework also needs to be modernized, in particular taking into account the major changes introduced in the 2006 Constitution regarding government structure at the subnational level, transfer of revenues, and resulting new responsibilities to be handled at the provincial level. The adoption of the new organic finance law in July 2011 after a lengthy approval process is a major first step toward this modernization process.
Due to weak capacities, provision of technical assistance has been a major tool for reform implementation even if most of it has been provided through short-term posting of international consultants to address specific issues without coordination among donors.

C. Reform outcomes and sustainability
Despite some achievements in PFM reform efforts, the 2008 PEFA assessment and PER highlight the system’s still severe shortcomings. While technical improvements have been made in budget classification, cash management, budget execution, and computerization, strong political interference has undermined these achievements. Improvements in public service delivery and poverty-reduction goals have not been achieved, as noted by traditionally under-executed budgets.

In addition, the frequent use of exceptional procedures weakens the credibility of budget authorizations and commitment plans, and makes it very difficult to control and monitor public spending by category of expenditure. Duplication of responsibility for controls on spending, which are executed both by the Ministry of Finance and the Ministry of Budget, slows down the expenditure cycle and prompts line ministries to resort to informal procedures to maintain spending on vital services.

The main challenges regarding PFM are now to identify and leverage new internal and external incentives to implement reforms. Decentralization is central to the state-building process as a means to maintain the country’s unity and should receive increased attention considering presidential elections are looming. This goal could constitute the main entry point and domestic driver for future PFM reforms. Additionally, donors could further push for reforms by establishing more clearly the linkages between PFM reforms and increased budget support. Sector-level reforms aimed at improving service delivery could be used as an entry point to sector budget support.
Heidi Tavakoli

A. Reform context and political economy

Following the end of the conflict in 1999, the United Nations was tasked to govern Kosovo through its Interim Administration Mission (UNMIK). Initially UNMIK was given a mandate for full executive, legislative, and judicial responsibilities in Kosovo. Over time, these responsibilities were transferred to the Provisional Institutions of Self-Government (PISG), which became known as the Kosovar Government.

Kosovo is a young state that has successfully been able to maintain political stability and security while fostering international recognition, and reaching independence in 2008. This has in part been due to strong post-war economic growth, which is expected to continue, though some uncertainties exist. Despite such promising growth rates, Kosovo is one of the poorest countries in Europe, with persistently high rates of poverty and unemployment and relatively poor results on human development indicators—although better than for other select post-conflict countries in this review.

Over the post-war period, the framework and institutions of governance were developed alongside the gradual transfer of functions and responsibilities to the PISG. The nature of the peace resolution meant that constitutional, legal, and institutional structures essentially started from the beginning in 1999. Ministerial responsibilities, including economy and finance, were gradually transferred to the PISG starting a year after it was first created in 2002. At the same time UNMIK, under the authority of the Special Representative of the Secretary General (SRSG), retained control of certain “reserved powers” and a hybrid governance structure necessary to allow a power-sharing arrangement to exist was created.

Even within the domain of finance and economy, fiscal responsibilities existed in a power-sharing context. This hybrid governance structure created a lack of clarity in the policy-making process. This led to a weak policy-setting environment, a legacy that affects public management and PFM performance to this day. These issues arose not only because the SRSG retained the responsibility of crucial executive functions but because the power-sharing arrangement between UNMIK and PISG was intricate, fluid, and marked by overlapping functions and mandates. As such, this ambiguous governance and decision-making structure weakened the development of national accountability structures and is one of the reasons the international community still maintains considerable influence on Kosovo’s development.

B. Design and implementation of PFM reforms

The PFM systems in Kosovo developed from a modest base. Although Kosovo had the legal authority to some PFM functions within the Yugoslavian Federal System, constitutional amendments in 1989 resulted in this autonomy being disbanded and many PFM functions were transferred to Belgrade. As a consequence, there was limited physical and human capital necessary for managing PFM at the beginning of the reform period. Establishing core finance functions was a priority in the immediate aftermath of the war, illustrated by the first UNMIK regulation, which established the Central Finance Agency (later the Ministry of Economy and Finance) and shortly followed by the first PFM rules, in which little was carried over from the pre-1999 Yugoslavian PFM systems.

PFM reforms went through several phases that coincided with changes to the power-sharing arrangements. As with many of other cases in this review, a comprehensive and integrated PFM reform program emerged late in the reform effort. Between 1999 and 2002 PFM reforms focused mostly on controlling inputs and accounting for cash, together with strengthening of budget planning. Between 2003 and 2007 the implementation of the Constitutional Framework and the Law on Public Financial Management Accountability allowed the PISG greater autonomy over PFM functions. The reform effort continued to target budget execution and planning functions but was also extended to develop competencies related to external audit, capital budgeting, and procurement. Since 2008, the reform effort has shifted from the central level toward municipalities and line ministries. Weak donor coordination over the majority of the reform period led, in some cases, to the duplication of reform effort and the weak integration of reform outputs.

C. Reform outcomes and sustainability

Although Kosovo’s PFM system is relatively young and competencies will take time to develop, a range of basic and advanced reforms has been implemented, the performance of which is comparable to achievements elsewhere in the region (Tandberg and Pavesic-Skerlep, 2009).
The legislative framework for PFM is fairly advanced in Kosovo (FRIDOM, 2008b). Most interviewees felt that the legal framework was appropriate for its purpose. In addition, there is also general agreement that the procedures and processes underlying the legal framework have progressed well although the current Public Investment Program procedures are seen to be an exception. Despite the sound framework, the challenge of implementing these procedures was consistently raised and frequently attributed to the still relatively weak administrative capacity across government (FRIDOM, 2008a) and the lack of political will to implement the laws, procedures, and processes consistently.

PFM performance has been strengthened across the three dimensions of the budget cycle (planning, execution, and accountability). The PFM background paper to the 2011 World Development Report (Porter and others 2010) shows that across a range of fragile countries, countries perform better on average against a set of upstream functions than downstream functions. It also suggests that budget preparation is stronger than execution in fragile states. Kosovo's performance deviates from this finding. As acknowledged by various diagnostic assessments (PEFA, SIGMA, FRIDOM), the treasury system is sophisticated and functions well. The main assets of the Treasury Department include its strong KFMIS, a single treasury account, and a fully staffed and capable team (FRIDOM 2008a). Not only have treasury activities worked well since 1999, relative to other areas of PFM in Kosovo, but their effectiveness continues to grow, illustrated by a comparison of performance between the two recent PEFA assessments that show “improvements in the PFM system.”

Overall, the most significant improvements were made in the budget execution system where the 2009 PEFA scores improved in cash management and accounting recording and reporting. In addition to the treasury function, the small but well-resourced Macro-Economic and Fiscal Policy Unit is functioning well. The main challenges that exist in the down- and up-stream parts of the budget cycle relate to activities with the largest scope for political involvement: budget planning, particularly the MTEF and Public Investment Program, which is undermined by weak strategic policy direction at the beginning of the budget cycle; and poor parliamentary oversight and audit. Improvements in the audit functions are not yet being reflected in parliamentary oversight.

The PFM performance of deconcentrated entities is weaker than that of the Ministry of Economy and Finance, reflecting the concentration of reform effort. At the budget organizational level, the budget preparation process varies and there is limited technical appreciation of the MTEF.

D. Links to wider public sector and governance issues

In contrast to other countries emerging from the former Yugoslavia, Kosovo's current constitutional and legal framework surrounding public sector management is not closely related to its Yugoslavian predecessor. Although it was formed from practices that have worked well in other countries, the process of re-building the administration after the war has been criticized. According to the 2008 functional review, the Kosovo administration was re-built in an ad-hoc fashion after the war in Balkans and “some ministries have responsibilities which duplicate each other, others have a structure that is not relevant to their mandate, and human resources are not always located where they are the most needed” (FRIDOM 2008c). In addition, vis-a-vis its neighbors, public administration absorbs a considerable amount of resources. By the time the power-sharing arrangements were established in the beginning of the 2000s, there was a limited pool of qualified Kosovars with experience of public administration. However, Kosovo has transitioned comparatively well from being heavily managed by international bodies and experts to one run by local civil servants.

The state remains the sole provider of public services, except for the small parallel services that exist in some Serb-majority municipalities. Challenges to improve service delivery and the demand for funding for ambitious spending plans are driving forward the Government’s privatization agenda.

Decentralization is considered to be an important tool for achieving future state security and state building in Kosovo and as a result is a cornerstone of the peace- and state-building process in Kosovo, including the northern municipalities in which ethnic Serbs are a majority. According to the 2008 functional review, once the Government fully implements the decentralization along the lines suggested by the Ahtisaari plan, Kosovo will have an unusually high level of decentralization for a country of its size. Decentralized functions are increasingly becoming the main focus of international support to PFM.

70. The Ahtisaari plan was a proposal made by the UN Special Envoy in 2007, as a way to reconcile Serbian and Kosovar interests.
Edward Hedger

A. Reform context and political economy
The progression of PFM reforms in Liberia from the Comprehensive Peace Agreement in August 2003 up until the middle of 2010 may be characterized broadly in three phases:

- During the transitional Government, 2003–05, only limited reforms were achieved. Two important measures were the establishment of a cash-based balanced budget and formal control of budget execution through a Cash Management Committee. Despite these efforts, financial mismanagement and corruption was widely reported. The significance of this period is that it revealed clearly the underlying weaknesses in PFM and provided the premise and justification for development of the Governance and Economic Management Assistance Program (GEMAP).

- Starting in late 2005, the National Transitional Government signed GEMAP and the incoming elected Government confirmed its intention to implement that program. The focus of the reform effort, strongly pushed by external donors, was on re-imposing financial discipline, strengthening financial control, and centralizing responsibility for planning post-conflict reconstruction.

- The gradual shift from 2009 onwards brought a more concerted and coherent approach to capacity development and to strengthening the broader institutional arrangements for effective PFM. One indicator of that shift was the start of support for institutional reforms by the World Bank and the AfDB. From the Government’s side, the development of a comprehensive PFM reform strategy and action plan in 2009, linked to the new PFM law, marked a transition from short-term control measures to longer-term PFM capacity development. The HIPC debt relief process also provided a driver for reform.

B. Design and implementation of PFM reforms
Attention to the technical sequencing of PFM measures reveals an early focus on selected downstream aspects of financial management, including strengthening of the financial control environment. Much of the PFM reform effort in the period 2006 to 2009 was centered on the Ministry of Finance (MOF), with a strong additional focus on the Ministry of Health through support from DFID. Greater openness and participation were also targeted: the 2006/7 budget was the first to be submitted to the legislature for some decades; and the draft budget, final budget, and quarterly budget execution reports were all published on the MOF website. One element of the design logic for these reform measures was the expected role of domestic demand-side actors in asserting pressure on the executive to achieve and then sustain improvements in financial management. A more detailed and systematic sequencing plan for PFM reforms over the period 2009/10 to beyond 2011/12 was developed as part of the 2008 multi-donor PEMFAR, following IMF-conducted technical assistance missions on PFM in 2006, 2008, and 2009.

C. Reform outcomes and sustainability
Major achievements include the development and passage of a new PFM Law in 2009 and the formulation of detailed implementing regulations. The law provides a comprehensive framework for PFM and it addresses previously identified gaps in internal control, internal audit, and financial reporting. It also establishes a mandate for government borrowing following the HIPC Completion Point, and it sets a timetable for future introduction of more ambitious reforms. The law and regulations have provided a useful basis for the Government to develop a PFM reform action plan.

Annual budget preparation, which complies with a fixed calendar and is well ordered, was resumed quickly following the conflict and has been functional at a basic level. The establishment of a National Budget Committee has improved coordination of the process by the executive. Historical weaknesses in the macro-fiscal forecasting capacity of the Ministry of Finance are being tackled through the formation of a Macro-Fiscal Analysis Unit. However, the IMF still plays a key role in preparing multi-year projections and efforts at development of a medium-term expenditure framework are only incipient. The substantial proportion of off-budget, donor-funded, investment expenditure compromises budget planning for overall government spending, despite progress with integration of capital and recurrent budget preparation. The implementation of a cash-based balanced budget has provided a strong disciplining mechanism but has also served to comprise budget credibility as a result of the in-year spending adjustments needed in response to variance in revenue receipts.

The achievements in budget execution appear relatively strong, if also selective. Automation of the budget execution was started with the monitoring of allotments and commitments...
through the Liberia Expenditure Control and Accounting Program (LECAP). Control over payroll has improved through the shift to bank transfers for most civil servants in Monrovia. Despite recent progress with development of an internal audit strategy and establishment of internal audit units in some ministries, this function remains weak.

The accounting and reporting function has been strengthened by the unification of separate divisions as a single Accounting Department under a new Comptroller General position. A new chart of accounts has been developed that is compatible with budget classification of the Government Finance Statistics Manual 2001. Reporting has improved progressively and regular annual fiscal out-turn reports are now supplemented by quarterly reports, all of which are published on the MOF website. The Ministry of Finance has recently started to produce financial statements following the implementation of the Sun Accounting System in the PFM unit. International Public Sector Accounting Standards have been adopted on a cash basis and are being rolled out. Implementation of the IFMIS has been postponed repeatedly but is expected to proceed ahead now that work has been completed on the chart of accounts and the accounting standards.

Appointing an Auditor General on an externally funded contract has substantially strengthened the external audit and accountability function. The General Auditing Commission (GAC) has completed audits of several sector ministries in line with the HIPC trigger requirements and has also audited the central government accounts. Despite weak engagement by the legislature on audit scrutiny, the Auditor General has interpreted his mandate very broadly and has been a vocal public critic of weaknesses in government financial management. Pursuit of financial impropriety through the courts has been hampered by weaknesses in the justice sector. However, strong engagement between the GAC and media and civil society has ensured that the GAC audit findings have gained high public profile. One major challenge to sustainability is the decision not to renew the contract for the serving Auditor General.

Efforts need to be made to consolidate the reforms noted above. Moreover, some measures, which are not technically complex, have proven too advanced for capacity levels or too challenging to vested interests. These include the implementation of internal audit, strengthening of legislative audit scrutiny, and integration of external aid flows with the budget.

D. Links to wider public sector and governance issues

Against a backdrop of very weak governance following the conflict and National Transitional Government era, the first regular Government elected in 2006 pushed ahead with governance reform measures. Key results on paper include the establishment in law of an Anti-Corruption Commission and appointment of the Commissioners, the development of a Civil Service Reform Strategy, and the requirement for all ministers to declare their assets. It is not clear how substantive those results will prove. The most significant measure may be the establishment of the Liberia Extractive Industries Transparency Initiative (LEITI) Secretariat in 2008.

The Governance Commission has provided a strategic focus for the public sector reform agenda, with PFM reform as a core component. PFM reforms were prioritized in part for their catalytic potential with regard to the wider governance reform agenda. The budget process, for example, was presented as a mechanism for bringing together the various government ministries as part of a structured negotiation around resources, services, and results. The PFM reform measures were included as part of the core “150-day deliverables” following the President’s election in 2006; and, after the President assumed office, the Government quickly developed a six-month budget.

One key assumption underlying governance reform in Liberia is that the collapse of the system was as much attributable to flawed institutions as to the corrupt behavior of individuals. Formal institution building, such as through the PFM Act and the establishment of an independent Auditor General, has therefore been targeted as means to embed reforms and develop a culture of stronger accountability. PFM reforms are clearly positioned in the context of wider public sector reform, with recognition of the links to civil service reform, rationalization of ministries and agencies, development of an integrity system and codes of conduct for government officials, strengthening accountability systems, and building local governance systems through decentralization.

Implementation has been less coherent with decentralization neglected relative to other public administration issues. Rather than pursuing an integrated approach to decentralization and PFM reform, work on the latter has focused on central government entities in Monrovia through the GEMAP and other donor-supported interventions. Fiscal decentralization is recognized by the Governance Commission as a critical issue because of its potential contribution to securing a long-term state response to some of the causes of the war.
Heidi Tavakoli

A. Reform context and political economy
Since independence, Sierra Leone’s development has been repeatedly undermined by a series of military coups and a protracted civil war. The devastating consequences of the conflicts are still visible in Sierra Leone as it ranks near the bottom of the Human Development Index. However, these stark results do not capture the considerable progress Sierra Leone has made in other aspects of its development, which have facilitated peace and state building. Such efforts are illustrated by strong macroeconomic performance and considerable improvements in certain social development indicators.

International support, a fundamental component of Sierra Leone’s development, has financed and guided government policy both during and since the end of the civil war. Since the end of the civil war, the substantial budget support program has ensured a considerable level of international engagement in government activities and has become a key focal point for policy dialogue between the Government of Sierra Leone and budget support donors—AfDB, DFID, European Commission, and the World Bank.

B. Design and implementation of PFM reforms
During the civil war, state capacity was severely depleted with the extensive destruction of social and physical infrastructure. In terms of PFM, not only was there the loss of skilled personnel but in 1997 the building that housed the Ministry of Finance was destroyed. However, the Country Financial Accountability Assessment (CFAA), published less than three months after the civil war was declared officially over in January 2002, states that “given the acute period of civil collapse from which the Republic of Sierra Leone only recently emerged, financial management in the country functions surprisingly well.” According to the 2002 CFAA report, although internal and external controls were weak, budget preparation, execution, accounting, and reporting were performing moderately well.

There were two key reasons for this relatively positive PFM performance. First, during the civil war a legal and regulatory framework for PFM was upheld and a highly centralized system of management maintained a degree of expenditure control; and technical assistants carried out day-to-day functions. Second, between 1996 and 2002, incremental policy initiatives and the continued provision of some public services to restricted areas of the country served to strengthen governance structures (2002 CFAA).

The PFM reform action plans have been heavily directed by diagnostic assessments primarily funded by the international community. There have been three such plans since the end of the civil war: the 2002 CFAA; the 2004 Common Action Plan, which developed into the National Action Plan; and the 2009 Integrated Public Financial Management Reform Project (GoSL 2008; World Bank 2009). Each successive plan has attempted to improve both the comprehensiveness and conceptual coherence of PFM reforms; the most recent plan is based on a platform approach.

C. Reform outcomes and sustainability
Since 2002, the Government of Sierra Leone has made good progress in improving its PFM framework and systems. By 2007 the Government had achieved scores on a PEFA assessment equivalent to those attained by other countries in the Region despite progressing from a considerably lower starting point (GoSL 2008; World Bank, 2009).

There has been considerable concentration on establishing a suitable legal and regulatory framework and consequently good progress has been made in this area. However, various studies have commented on the challenge of full implementation of many of the new acts, procedures, processes, and systems (Lawson 2007; IMF 2008). According to the recent Public Expenditure Review, “Interviews with the authorities have identified politically sensitive decisions as the root causes of some of these deviations from the legal framework” (World Bank, 2010). In addition, weak knowledge and understanding of the acts and procedures—particularly the Government Budgeting and Accountability Act and Financial Management Regulations in ministries, departments, and agencies—have resulted in their poor implementation.

In addition to developing the legal and regulatory framework, initial reform efforts post-2002 were heavily weighted toward strengthening budget formation and parts of budget execution. Key achievements include strengthening internal capacity, establishing new entities and hiring qualified staff for key positions, rolling out an IFMIS, establishing internal audit units, strengthening the MTEF (despite remaining challenges), integrating regular financial reporting systems,
and improving the Accountant General’s function and output. Strengthening external audit and oversight was initiated at later stages of the reform effort.

The PFM performance of deconcentrated entities is weaker than that of the Ministry of Finance, reflecting the concentration of reform effort. Despite this, the establishment of budgeting, accountability, and procurement for both central and local government is considered to be among the main achievements of PFM reform since the end of the civil war.

**D. Links to wider public sector and governance issues**

Public sector development has been a longstanding priority in Sierra Leone for Government and donors alike. In the early stages of his tenure, President Kabbah and his government prioritized civil service reform, in tandem with reducing corruption, and it formed a key part of the 1999 Governance Reform Secretariat’s mandate. Over time, it has also been the recipient of considerable donor support. This has resulted in a particularly well-funded public administration in Sierra Leone. However, the effectiveness of the administration is less straightforward to assess. As with other countries among the case studies in this report (e.g., Afghanistan) in an attempt to improve service delivery in an environment of weak civil service capacity, a parallel public sector has developed in Sierra Leone (Ingram 2009; World Bank 2010). This has addressed reform bottlenecks in the short term, but has created significant sustainability concerns over the longer period, particularly related to sustainability and civil service pay reform. The establishment of a significant cadre of local technical advisors and off-civil service officials in the Ministry of Finance and Economic Development falls into this category. Local technical advisors have driven the implementation of PFM reforms led by strong political support and incentivized by budget support operations.
TAJIKISTAN

Samuel Moon

A. Reform context and political economy
Tajikistan is a small mountainous country in Central Asia with an economy dominated domestically by aluminum and cotton production. Another important driver of growth in the economy has been remittances from migrant workers in Russia. The country gained independence in 1991 during the breakup of the Soviet Union, but the political vacuum soon led to brutal civil war as rival pro-Russia and Islamic-based factions fought over political and economic resources and the geopolitical role of the new country. With Russian and Uzbek support, Emomali Rahmonov secured victory in 1997 and continues to lead the country to present day. Violence continued to flare up regularly until the early 2000s, and in recent years there have been some indications of new clashes. The consolidation of power around the president and effective elimination of visible discontent provides some stability in the short to medium term, especially without any viable opposition; but it is likely to provoke instability in the longer term.

The country suffered dramatic economic and capacity losses during the 1990s. The loss of the Soviet Union single market and the effects of the civil war caused a contraction of GDP averaging 11.75 percent annually during the mid 1990s. The annual inflation peaked at 2,200 percent in 1993, staying in triple digits for most of the decade and falling to single digits by the early 2000s. Additionally, the civil war prompted an exodus of skilled workers. Governance, corruption, and security issues remain considerable with the country scoring a low 3.2 out of 6 on the World Bank’s Country Policy and Institutional Assessment with little improvement over time. Terrorism and sporadic sparks of Islamic fundamentalism are relatively common, and weak control along the Afghanistan border has encouraged a large shadow economy exploiting the porous border with largely drug related trafficking. Tajikistan’s public sector management is highly centralized although it uses relatively weak subnational administrative units to undertake a significant amount of tax collection and the majority of service delivery. The Soviet legacy has left an institutional capacity for central planning and control, but the fiscal relationship between local governments and the Ministry of Finance means that central ministries have only a limited impact on the strategy, policy, and regulation of service delivery.

Donors have become increasingly involved in the country since the war ended, with the European Commission and World Bank providing significant investment in PFM reform and the Asian Development Bank joining them as a third major provider of budget support. China has become the largest single donor in recent years with approximately US$1 billion in investment commitments in public infrastructure since 2005.

B. Design and implementation of PFM reform
The PFM reform efforts have been largely donor driven and began to a limited extent in the late 1990s, with significant bilateral and multilateral donor engagement in the reform agenda since 2005. Early efforts at reform led by the World Bank in the Institution Building Technical Assistance (IBTA) project focused on gaining macro-economic stability. A more ambitious second phase, IBTA–2, covered a far broader range of PFM functions; but, spread too thin, the IBTA–2 project enjoyed little success of reaching its goals of reforming core PFM systems, including budget management and internal and external financial control. However, during this period the Government independently implemented a successful computerization of the Treasury. The experience exposed an indifference to the donor approach to PFM reform and demonstrated that the Government’s priorities for reform were limited to specific control and management functions rather than a broader agenda. Nevertheless, the donor projects were able to transfer some knowledge of public sector management and PFM reforms to government officials, and also establish the need for a clear strategic approach to PFM reform.

By 2007 a large amount of diagnostic work had been completed by the World Bank and other donors, including a programmatic Public Expenditure Review and the country’s first PEFA assessment. Work began in 2008 on the development of a PFM Strategy, which was approved later that year. The Strategy included an action plan to implement the reforms over a three-year period. From its early stages, the PFM Strategy did not enjoy universal support: concerns were expressed about the ambition and breadth of the planned activities and the focus on PEFA scores for monitoring. Implementation has been relatively slow, but some key reforms undertaken include the introduction of a revised budget classification and chart of accounts, a new treasury software system and budget planning systems, and the roll out of internal audit units in central and local government.
C. Reform outcomes and sustainability
Since the early 2000s when PFM reform efforts began, donors have been the main driver. Early efforts to establish macro-economic and macro-fiscal stability have achieved relatively positive results with inflation figures and deficit levels improved. However, capacity to monitor and manage economic shocks is still weak, and Sierra Leone is highly exposed to external remittances and commodities market fluctuations. The Government’s analytical capacity and project economic development also remain weak. The development of a comprehensive legislative framework for PFM functions was an important step: the Law on Treasury was adopted in 2001 and the Law on State Finances was adopted in 2002. However, implementation of planned reforms lags behind in most areas and, until recently, the reform efforts have been largely limited to the central agencies. While the PFM Strategy has introduced a common approach to reform, political leadership of the reform process remains weak.

D. Links to wider public sector and governance issues
The Government’s focus on political consolidation and tight control of the private sector leaves little space for serious commitment to public sector or PFM reform. The civil service lacks the skill base and motivation to provide strong technical leadership on reforms within PFM, although the engagement with reform projects and capacity development efforts has led to a growing understanding of PFM reform concepts. Incentives and management of the civil service have been poor and civil service reform efforts have stagnated. Financing and management of local governments is particularly opaque; and while there are several reform projects in specific areas of intergovernmental relations, there is little transparency and no clear formula for financing local governments. On the positive side, there has been some progress in management and financing of the education sector, with per capita financing introduced in the past years.

Strong concentration of economic power with political ties and very limited domestic or international challenge for greater accountability or expansion and diversification of economic agents has been a constant underlying issue that limits the potential for reform. External assessments of corruption are high and have not declined. Civil society and parliamentary agents are weak and neither affects any real influence on the reform agenda.
Philipp Krause

A. Reform context and political economy

The West Bank and Gaza have had a turbulent political history over the past two decades. At the outset of the 1990s, the territories were administered by Israel. The PFM reform trajectory can be divided into four phases, which also coincide with and were largely driven by the major high and low tides of political change in West Bank and Gaza.

In 2002 West Bank and Gaza found itself with a fragmented, personalized, and informally organized public sector in general and PFM system in particular. Its inability to deliver either an internationally credible proto-state or a stable operation of public finances (and consequent service delivery) had become apparent to most domestic and international stakeholders. There was a long-drawn build-up of domestic pressure over the Palestinian National Authority’s perceived corruption and inability to deliver as well as concurrent international pressure over its non-credible source of stable and reliable government and governance for West Bank and Gaza. These pressures were brought to a head by the crisis that resulted from the Second Intifada. These factors created the political space for a technical, reformist finance minister (with an IMF background) to take office.

Between 2002 and the end of 2005, there was a first wave of reforms. The finance minister was supported by the international community and at least tolerated by the most important domestic veto players. Up until late 2005 determined reforms to budget execution began to change the way the public sector operated. These reforms did not however prove sufficient to sway a disenchanted electorate, which voted Hamas into power in January 2006. Hamas won a strong majority in the Palestinian Legislative Council and gained the right to form the next Government.

From early 2006 until mid-2007, the Hamas-led Government and the subsequent separation of Gaza and the West Bank dominated the agenda. Many reforms that had been implemented during the preceding years quickly fell apart or, more often, became dormant. The single treasury account fell out of use because ordinary revenues from external donors and clearances had stopped and normal budgetary operations ceased as a result of the cash shortage. The knowledge about these systems did not disappear however, and many control functions remained intact, where applicable. For instance, the financial controllers in line ministries continued to check invoices. Since most officials remained in place during this period, the status quo ante was restored within about six months after the end of the Hamas period.

Since 2007, there has been a renewed effort to implement reforms and a gradual improvement of governance in many areas. From a reform perspective, the three years until 2010 had been a period of stability where the focus of attention has gradually moved from how best to respond to a multi-dimensional emergency to how best to ensure sustainable stability and more gradual improvements. Since 2008, reforms have been broadened and deepened to the point where all the basic elements of a soundly operating PFM system seem to be in place on the budget execution side, with substantial progress in other areas. Reviews have found substantial improvements to the credibility of the budget, comprehensiveness and transparency, predictability and control, as well as accounting, recording, and reporting. Improvements to policy-based budgeting and external scrutiny audit were rather more modest (Ahern 2010). Over the entire period between 2006 and 2010, no significant deteriorations could be found, although of course some areas saw quite significant but temporary setback for certain periods of time.

West Bank and Gaza is not a sovereign state and the operations of the Palestinian National Authority are very vulnerable to disruptions of its revenues, the two largest sources of which (clearance revenues and external aid) can be disrupted by means almost completely beyond the Authority’s control. The engagement of external actors is enormously important for the operation of politics and government in West Bank and Gaza. The donor community is heavily engaged in supporting the Palestinian National Authority. In 2006, the Authority received about 40 percent of its revenues from external sources. Due to West Bank and Gaza’s particular political status, aid modalities are fairly complex. Support from the World Bank is given in the form of grants, through a trust fund arrangement. Other donors use a variety of mechanisms, from project aid to budget support.
B. Design and implementation of PFM reforms

Progress was made in fits and starts. The broader political environment determined the degree to which reforms could advance and, notably in 2006/7, caused much progress to be reversed if only temporarily. The Government deliberately emphasized reforms that would strengthen credibility and control of budget execution. These reforms were for the most part constrained by political conditions, not by capacity or financial constraints. Where resources or capacity were lacking, the Government possessed enough central management capability to direct external assistance toward areas of priority. As a consequence of this strategy, not all PFM fields that were considered crucial by international experts were given a similar degree of attention, which occasionally caused friction between donors and the Government. On the whole, however, the international community supported the broad reform agenda of the Government in 2003–05 and since 2007.

The type of PFM reforms and their sequence is notably different from what has been observed in many low-income countries. There was a marked and deliberate emphasis on budget execution, to the exclusion at least at first, of efforts to strengthen budget preparation. At least during the second phase of reforms, efforts were not limited to the concentrated entities at the core executive but also extended to spending ministries. The reforms could draw on a fairly broad and deep cadre (by the standards of a small and fragile state) of competent officials, who enjoyed a modestly meritocratic career path within the Ministry of Finance and associated agencies after 2002. The reforms also benefitted from a central capacity within the core executive to set priorities and steer a complex reform process according to the domestic political priorities of the day, even if the capacity to implement all aspects of these reforms clearly depended on support from donors and external technical experts. This reform management capacity is very often lacking in low-income countries and is perhaps the clearest expression that West Bank and Gaza is not a typical fragile state.

C. Reform outcomes and sustainability

It seems clear that serious reforms began in 2002 from a relatively low starting point in most PFM areas. The fiscal crisis at the time, combined with the underdeveloped systems and procedures across all phases of the budget cycle, created a sense of urgent emergency among donors and the Government. By 2010, many substantial reforms were carried out successfully. These reforms profoundly changed the practice, as well as the formal setting, of public financial management. It is much more difficult, unfortunately, to properly assess the success of these reforms in a comparative and reliable way. Expert reviews carried out over the last two years emphasize strongly that reforms have proceeded in many fields, although obviously many challenges still remain.

Over the entire reform period, only one PEFA assessment has been carried out (in 2006), which only partially captures even the first wave of reforms. Since it took place at a time of acute political and fiscal crisis, it is difficult to extrapolate, or reconstruct, how scores might have looked like before or after this one snapshot view. At the time, the PFM system did not tally very well, with only 4 “B” and 12 “D” scores (out of a total of 28 performance indicators in the PEFA framework).

Since the 2006 PEFA assessment, qualitative reviews have found substantial improvements to the (a) credibility of the budget, (b) comprehensiveness and transparency, (c) predictability and control, as well as (d) accounting, recording and reporting. Improvements to (e) policy-based budgeting and (f) external scrutiny audit were rather more modest (Ahern 2010). Over the entire period between 2006 and 2010, no significant deteriorations could be found, although some areas saw quite significant but temporary setback for certain periods of time. Without being able to quantify it, the PFM reform record can be called broad and substantial.

The sustainability of the current state of PFM remains an open question. Many core elements of the current system, such as the treasury single account (TSA), have now been practiced throughout multiple budget cycles and are therefore probably accepted as standard practice among staff. Yet the Hamas period has shown that in West Bank and Gaza there is a real risk that a political reversal brings about a situation where, whether by intentional design of the Government or not, progress on PFM reforms is threatened and reversed. While in the past these periods have been massively disruptive to the operations of the Palestinian National Authority, they also turned out to be reversible. However, over the last decade, much of the achievements have been associated closely with the person of the current Prime Minister (who is also a former IMF staff member). The next time a change in the highest offices of the executive takes place, a lot will depend on the precise circumstances of the changing political balance to determine if the support for PFM reforms holds firm.
D. Links to wider public sector and governance issues

There is a direct connection between PFM reform and state building in West Bank and Gaza, and the key political actors are keenly aware of it. A functioning, modern budget process that provides a stable framework to the formulation of policy, its public deliberation, reliable execution and external control is clearly understood to be a defining feature of a sovereign state. Conversely, the inability of the Palestinian National Authority to function as a capable government in 2002 was seen as a main motivation to carry out reforms, not necessarily for their own sake but because not tackling these issues would be a permanent obstacle toward these much larger political goals. The focus on the downstream side of the budget process, reaching deep into the cash management of spending ministries, has had a substantial impact on the way the public sector operates. It has managed to remove a lot of scope for informal, discretionary action away from the center of government.

There is much anecdotal evidence that the PFM reforms of the past years have contributed to the Palestinian National Authority’s (and international) state-building agenda for West Bank and Gaza. That a stronger PFM system would contribute to the Palestinian National Authority's viability as a proto-state for the Palestinian people is an explicit motivation for virtually every official interviewed, starting with the Prime Minister himself. It sometimes seems that it is more important for senior officials to have a strong and credible PFM system as a core element of any modern state rather than to expect the PFM system to deliver better outcomes however defined. This emphasis on PFM reform as an exercise in state building might to some extent explain the relative emphasis chosen by the Government over the years.

This progress is limited however by the unresolved macro-political situation. The Government in the West Bank is not able to extend its reach into Gaza, which has effectively split off from West Bank and Gaza after the Hamas takeover in 2007. At the same time, the Palestinian Legislative Council is not operational because the majority of delegates (from Hamas) no longer attend. Gaza and the West Bank are governed under emergency rules. Both legislative (2006–10) and executive (2005–09) terms have technically come to an end. In 2010 the situation is one of sustained progress, but with an uncertain future.
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Reforms of public financial management (PFM) systems are a key area of support that development partners and the World Bank in particular provide in many post-conflict environments. This eight-country comparative study seeks to capture experiences, successes, and challenges with PFM reforms in post-conflict contexts in systematic ways and to use such a mapping as a basis for lesson learning and recommendations for this important area of support to state-building. Country cases include Afghanistan, Cambodia, the Democratic Republic of Congo, Kosovo, Liberia, Sierra Leone, Tajikistan, and West Bank and Gaza. Key findings from the analysis are the following: (1) PFM reforms are feasible even in challenging post-conflict environments with initially very low skills and even where insecurity continues; (2) seeking international recognition and/or major debt relief have been important motivating factors for governments to pursue PFM reforms; (3) in most countries, the relatively greatest progress has been achieved on budget execution, while progress on budget planning has been more limited, especially on advanced reforms such as medium-term budget frameworks and program budgeting; (4) progress on budget accountability has been uneven across countries and appears to depend most strongly on political buy-in.

There are important caveats about the sustainability of PFM reforms achieved due to (1) continuing strong donor support, including capacity substitution with technical assistants in several countries; (2) the need for continuous political support for reforms; and (3) challenges in related public sector reform areas, particularly civil service, pay, and decentralization. Looking at wider links and impacts, the study finds that most countries progressing well on PFM reforms also make gains on overall government effectiveness and accountability. In contrast, gains on service delivery are widespread but show no correlation with PFM reform progress over the time period reviewed. Finally, while donor engagement on PFM reforms on balance is a positive factor, many problems remain, with regard to fragmentation of support as well as the overall use of aid modalities in a way that effectively incentivizes and rewards reforms.

The study is a joint product of the World Bank’s PREM Public Sector Governance unit and the Global Center on Conflict, Security and Development.