International Consortium on Government Financial Management

“Working globally with governments, organizations, and individuals, the International Consortium on Governmental Financial Management is dedicated to improving financial management so that governments may better serve their citizens”

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The editor invites submission of articles, research papers, letters and reviews of books, and other relevant documents. Please submit material to the editor: Andy Wynne – andywynne@lineone.net.

Requests for information on the Consortium should be addressed to:

International Consortium on Governmental Financial Management
PO Box 1077
St. Michaels, MD, 21663
Telephone: 410-745-8570
Fax: 410-745-8569
Email: icgfm@icgfm.org
www.icgfm.org

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International Consortium on Governmental Financial Management

General Information

“Working globally with governments, organizations, and individuals, the International Consortium on Governmental Financial Management is dedicated to improving financial management so that governments may better serve their citizens.”

Our mission includes three key elements. First, it highlights that, within the international community, the Consortium is unique - it serves as an “umbrella” bringing together diverse governmental entities, organizations (including universities, firms, and other professional associations), and individuals. At the same time, it welcomes a broad array of financial management practitioners (accountant, auditors, comptrollers, information technology specialists, treasurers, and others) working in all levels of government (local/municipal, and national). Additionally the mission statement emphasizes the organization’s commitment to improving government infrastructure so that needs of the people are better met. Our programs provide activities and products to advance governmental financial management principles and standards and promote their implementation and application.

Internationally, the Consortium (1) sponsors meetings, conferences, and training that bring together financial managers from around the world to share information about and experiences in governmental financial management, and (2) promotes best practices and professional standards in governmental financial management and disseminates information about them to our members and the public. The International Consortium on Governmental Financial Management provides three options for membership.

1. Sustaining Members: organizations promoting professional development, training, research or technical assistance in financial management; willing to assume responsibility for and to actively participate in the affairs of the Consortium. Each Sustaining Member has a seat on the ICGFM Board of Directors and receives 10 copies of all ICGFM publications to be distributed within their organization. (Dues: $1,000)

2. Organization Members: government entities with financial management responsibilities, educational institutions, firms, regional and governmental organizations, and other professional associations. Six organization members serve on the ICGFM Board of Directors and organization members receive 5 copies of publications to be distributed to their members. (Dues: $250/$125*)

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* A special discount is offered to developing countries, countries with economies in transition and regional groups/organizations in such countries to encourage their participation. This discount is available to all countries other than Australia, Canada, China, Egypt, European countries (except transition economies) India, Iran, Israel, Japan Kuwait, Libya, Mexico, New Zealand, Nigeria, Oman, Saudi Arabia, United Arab Emirates, USA, Russia, and Venezuela, China, Egypt, European countries (except transition economies), India, Iran, Israel, Japan, Kuwait, Libya, Mexico, New Zealand, Nigeria, Oman, Russia, Saudi Arabia, United Arab Emirates, USA, and Venezuela. Full time students also receive the 50% discount.
Foreword

The revolutions across North Africa and the Middle East could prove to be significant events on a world scale. A string of dictators who had ruled for decades have now gone or are clearly on their way out. The western industrial countries are now involved in Libya and the general feeling is that the problem was a lack of democracy. But many of these regimes had been supported by the west for decades. Mubarak of Egypt was the second highest recipient of US aid (after Israel) for the last three decades and Ben Ali in Tunisia was a major recipient of French aid. In addition, the people in these countries were clearly horrified with the wealth of their rulers whilst many citizens suffered abject poverty and unemployment. Remember, the spark for the Tunisian revolt was the despair of an unemployed college graduate who set fire to himself.

The revolutions of Eastern Europe in the late 1980s and early 1990s were also in favour of a move to democracy, but also to the free market capitalism of the west, a reduced role for the state and what has been seen as ‘modern’ public financial management, often labelled New Public Management. However, the countries where the current revolts are taking place have already implemented these types of reform. Last year, in a major review of public financial management reforms across the Middle East and North Africa, the World Bank praised Tunisia for its reform achievements and stated that, “it is encouraging that public financial management (PFM) reform and modernization has occupied a prominent place on Egypt’s policy agenda over the past decade” (World Bank 2010: 14).

So the revolutions across North Africa and the Middle East are as much against the currently dominant public financial management reforms as being for democracy. In the light of this, perhaps recent events will provide the incentive to look more critically at this reform agenda. Perhaps we need to consider alternatives that place greater emphasis on equity and fairness rather than the currently dominant themes of efficiency and sustainability. So, for example, value added tax could be re-evaluated, given its regressive nature, when what is needed to really achieve poverty reduction is redistribution of wealth and income. Similarly cost sharing and charging for public services need to be assessed against the objective of ensuring that the poor are not excluded from public services.

In the first paper of this issue, David Hall makes the case for public spending. He notes the long-term steady rise in public spending in all countries and demonstrates a powerful link between public spending and economic and social development. Public spending, he argues is essential for financing infrastructure, including roads, electricity, and water. It provides the health and education services necessary for modern economies more efficiently and effectively than the market ever can. By redistributing money to those on low incomes, public spending redresses the inequality of income created by the market. Three-quarters of the global effort to counter climate change will come from public finance. As a result, David Hall argues, globally, public spending is virtually certain to continue rising, as the role of the state continues to grow in developing countries.

In our second paper, Harika Masud reviews the findings from the Open Budget Survey, 2010. This is the third biennial international survey undertaken by the Open Budget Partnership. The survey confirms that the overall state of budget transparency around the world is poor. However,
it also finds that budget transparency is on a positive trajectory. To support this development, the Open Budget Partnership is developing global norms on budget transparency and participation to establish the following three guarantees:

- public access to information on budget processes, policies, and results;
- opportunities to participate meaningfully in the budget process; and
- domestic and international implementation mechanisms.

Our third paper is a major development for our Journal. It consists of a paper in French on decentralisation in Francophone developing countries written by Mohamed Moindze. Mohamed argues that decentralization is needed in developing countries, as in developed countries, as a new model for improving public governance. However, its implementation raises a number of difficulties. Mohamed offers some basic principles to be observed in the phases of development and implementation of a decentralization policy which should overcome these difficulties. He concludes that their application should not be identical in all countries since they must be adapted to the specific political and institutional context, which varies from one country to another.

The next two papers are relatively short contributions on the public audit practices in Iraq and Nepal. Talal A Al-Kassar discusses the audit of government revenues in Iraq by the Supreme Auditing Board. The relative importance of the various sources of government revenue are considered and outlined. Talal then provides a summary of the approach to the audit of these government revenues. Janak Raj Gautam considers the experience of joint audits between public sector audit offices or with private audit firms. Janak considers the different approaches and advantages of joint audits. Janak then reviews the experience of undertaking joint audits of development projects in Nepal by the Office of the Auditor General of Nepal and private audit firms.

In the next paper, Andy Wynne outlines the relative independence of two audit institutions found in almost all Francophone African countries, the Court of Accounts and the General State Inspectorate. Based on the experience of the eight largest Francophone African countries, Andy finds that the relative independence of these two types of audit entity are not significantly different. As a result, he concludes that greater co-operation is required to improve the total audit service received by the governments they serve.

In the seventh paper of this issue, Rasheed A. Tiamiyu argues that effective and efficient financial management of any organization, including educational institutions, requires the presence of a finance officer on the board or Governing Council. Rasheed A. Tiamiyu notes that the finance officer should provide the board with efficient financial information and help to prevent malicious obedience of decisions. Thus, Rasheed argues, the absence of a Finance Officer from the board of some educational institutions is a significant handicap in their quest to optimize the financial management of the institution.
In our final paper, Andy Wynne argues that the revolutions in North Africa and the Middle East are a revolt against New Public Management as well as being for greater democracy. Andy argues that these events could mark a turning point in the dominant view of public financial management reform. He argues that the revolts were triggered by increasing inequality as much as the lack of democracy. Inequality was accentuated by the Neoliberal reforms of privatisation, deregulation and other market based reforms in the affected countries. This included New Public Management and the standard reforms in public financial management. Andy concludes by considering an alternative programme of public financial management reforms which these revolutions could herald.

As usual, we end this issue with a section reviewing recent public financial management publications and other resources which we hope will be of interest to readers of the Journal. We would be pleased to receive reviews and suggestions of other resources which we should refer to in future issues.

If you would like to continue the debates raised in this issue please start thinking about contributions for the next issue of this Journal, the ICGFM blog or attend future ICGFM events. We look forward to hearing from you!

Andy Wynne  Charbet Duckett  Linda Fealing
Editor  Vice President: Publications and, Communications  President
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Why we need public spending (Part I)

David Hall, PSIRU, University of Greenwich
d.j.hall@gre.ac.uk

Executive summary

- The steady rise of public spending for the past 150 years, in all countries, demonstrates a powerful link between public spending and economic and social development. Spending is now at historically high levels of 40% of gross domestic product (GDP) in OECD countries, and rising in developing countries.

- Public spending is a key factor in economic growth and development. It is essential for financing infrastructure, including roads, electricity, and water. It provides the health and education services necessary for modern economies more efficiently and effectively than the market could provide.

- Public spending has been used worldwide to provide an economic stimulus to counter the recession, and to rescue the banks through public ownership. The crisis was not caused by government deficits, but it is being managed through public spending.

- About half of all the jobs in the world are supported by public spending; two-thirds of them in the private sector through contracts and multiplier effects. Through ‘fair wages’ clauses and employment guarantee schemes it can spread decent work to many people beyond the public sector itself. Most sectors of the economy are now connected to public spending through subsidies, contracts and investment finance.

- By redistributing money to those on low incomes, it redresses the inequality of income created by the market, and increases spending power. Public healthcare, housing and other services protect people from illness and develop cities without slums. Three-quarters of the global effort to counter climate change will come from public finance.

- Globally, public spending is virtually certain to continue rising sharply, as the role of the state continues to grow in developing countries.
Introduction\(^1\)

This report is written at a time of great conflicts over public finance.

Faced with the financial crisis and a global economic recession, governments have rediscovered the power of public finance. They used it to rescue the bankrupt banks, and to create more economic activity to hold back the worst forces of recession. Tens of millions of workers are in jobs today who would be unemployed without that economic boost from public spending.

But now there is a conservative backlash demanding that the deficits used to create the stimulus must be cut back by cutting public spending on a grand scale. The backlash comes not only from conservative governments, but from international institutions, led by the International Monetary Fund (IMF), which are insisting that public services are now ‘unaffordable’, and that healthcare and pensions in particular should be dependent on the market.

This report aims to demonstrate that these arguments and policies are wrong, not just in the short term but in the long term. For the past 150 years public spending has been driving economic growth and development, and rising steadily in all countries of the world. Far from being a burden on economies, it is an essential driving force, providing universal services for human development – healthcare, education, social security – and also the essential infrastructure making other economic activity possible, such as water, electricity, roads. If there is to be future growth and development, we should expect public spending to continue to grow, not to be cut back.

In particular, there are two major reasons why public spending needs to grow, not fall back. One is the need for essential infrastructure in the global south – for human and economic development – which will require large investments over many years and the creation of lasting universal public education and health services. The other is the massive effort to combat climate change, which is overwhelmingly dependent on public finance.

The demands of the IMF and conservative governments would be damaging for employment, development and the environment. This report is intended to help resist those policies.

The long-term link between growth in public finance and economic growth

Public spending is often discussed as though it was a burden on a market economy, which would grow much faster if only public spending were cut back. But the economic history of the last 150 years shows exactly the opposite: that economic growth has gone hand in hand with a rising proportion of public expenditure since the mid-19th century. Taxation and spending in high-income countries as a proportion of gross domestic product (GDP) peaked during the two world wars of the 20th century, but the level of state spending and taxation remained high and continued to rise again after World War II until the 1990s.

\(^1\) This article is the first part of a two part article based on research commissioned by Public Services International (PSI). It draws on research carried out for PSI, the European Public Services Union (EPSU) and others over the last 12 years; on work with many trade unionists, civil society groups and researchers around the world; and on teaching and research at the University of Greenwich. The full report on which it is based can be found at: http://www.psiru.org/reports/2010-10-QPS-pubspend.pdf
This is not just true of European ‘social democrat’ countries; the same inexorable growth can be seen in the USA and Japan. And the same pattern can be observed in each individual country, not just overall. The pattern does not just show public spending rising in line with GDP; it shows public spending rises as a proportion of GDP.

Chart A.  
**Government spending as % of GDP 1870–1996**  
Average of 14 high-income countries  

![Chart A](Chart_A.png)  
Source: Tanzi and Schuknecht 2000

Chart B.  
**Government spending as % of GDP, USA, 1903–2010**  

![Chart B](Chart_B.png)  
This is not just a coincidence. There is a statistically significant link between rising levels of public spending and economic growth, in developing countries as well as high-income countries. This ‘long-run’ link is known as ‘Wagner’s Law’ after the economist who first identified it in the 1880s, and has been repeatedly confirmed by the great majority of studies since then. Recent reports include:

- An analysis of 23 high-income countries from 1970–2006 by two central bank economists confirmed “a positive correlation between public spending and per-capita GDP … [and] a common development among the 23 countries and the widespread validity of the Wagner’s law”.

- A study of 51 developing economies by staff at the International Monetary Fund (IMF) found that there was a consistent link across all countries, confirming “a long-term relationship between government spending and output consistent with Wagner’s law”. An analysis of India from 1950 to 2008 also confirmed “the validity of Wagner’s law in India … there exists a long-run relationship between economic growth and growth in public expenditure” (Lamartina and Zaghini 2008).

So growth in public spending is not a handicap to economic growth, but seems to be an essential part of economic growth and development, in all countries. Explanations for this link identify a range of ways in which a rising proportion of public spending helps economies:

- Public spending has a crucial role in investment in infrastructure. There are benefits to the whole economy from having good roads, railways, electricity and water supplies, but it is not profitable for private investors to build them. In all countries, infrastructure investment has been driven by the public sector: most of the productivity gains in the ‘golden age’ of the USA’s economy were due to public investment in infrastructure including roads and electricity.

- Public spending is a more efficient way of producing many services. A recent study on health and education spending in OECD countries found that “public expenditures affect GDP growth more than private expenditures.” This is consistent with the strong evidence that public spending on healthcare is much more efficient, in economic terms, and more effective, in terms of health.

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objectives, than private spending on healthcare (see below). Very simply, public healthcare is more efficient for the economy as a whole (Aschauer 1989).

- A healthy, well-educated workforce is more productive: “… human capital theory suggests that when oriented towards health and education, such redistributive programs contribute as well to the quality of the labor force, and hence the growth potential of the economy” (Beraldo et al 2009).

- Re-distribution of income increases consumer demand. This is because poorer people spend a much higher proportion of their income, and so redistributing income from rich to poor, through a benefits system stimulates economic growth: “State-sponsored redistribution policies thus may accelerate the pace of economic activity to the extent that they place additional income in the hands of families with relatively high marginal propensities to consume” (Gintis and Bowles 1982).

- Public services are an efficient collective long-term insurance mechanism. In industrialised economies, a public system of collective support in sickness, unemployment, old age etc., replaces the role of the extended family in agricultural societies. Provision of public services and social security allows people to spend more instead of using savings to protect themselves.

- There is a general benefit to social and economic stability: “The possible patterns of economic evolution consistent with the no-welfare-state option include chaos, stagnation, and the development of new and perhaps unprecedented economic systems” (Cameron 1982).

The rise in public spending appears to have levelled off in many countries during the 1980s and 1990s. Some analysts argue that this is because the economic advantage of public spending has come to an end in rich countries, because the burden of tax acts as an economic brake and offsets the benefits of public spending.

But in most high-income countries the overall trend is once again moving upwards. This revived upward movement has accelerated even further since the crisis of 2008, so that the growth is back to its long-term trend. The economic crisis and the policy responses have had a large effect on public spending, especially in OECD countries. In all countries, public spending leapt by 3% to 4% of GDP in one year. The average level across all 27 EU countries in 2009 was over 50%, for the first time, and in the USA and Japan it was above 40%, also for the first time.

Moreover, the same pattern of ‘levelling off’ can be seen in developing and transition countries. In India, for example, the introduction of neoliberal policies in the 1990s halted the growth in public spending, until the election of a social democrat government in 2004 resulted in renewed growth in public spending.

A better explanation for the levelling off is that trends in public spending depend on political decisions. There are real economic and social benefits of public spending, but the decisions on the levels are always the outcome of political processes: there is no market mechanism that automatically generates larger public sectors. So the creation of welfare states and the development of public services was strongly associated with the rise of social democrat governments in Europe, and in newly independent developing countries. However, the spread of neo-liberal politics in the 1980s, led by the Thatcher, Reagan and Pinochet governments in the UK, USA and Chile respectively, achieved a temporary suppression of the trend in the north, and
a more violent disruption of historical trends in transition and developing countries throughout the global south.

The long-term economic advantages of higher public spending remain unchanged. It is possible that one factor behind the economic crisis was the attempt to replace the economic engine of public spending with a financial bubble, which has now failed.

There is also a clear link between democracy and public spending. Active democracies are more likely to produce higher levels of public spending than authoritarian regimes. Spain illustrates this point: while it was still under the dictatorship of Franco in 1974, government revenues amounted to 22.9% of GDP; ten years later, in 1984, the economy had not grown in real terms, but government revenues had risen to 32.7% of GDP. Participation also makes a difference: democracies with high electoral turnouts reach higher levels of public spending than democracies where turnout is 50% or less. Higher life expectancy also increases public spending: the elderly need more public services and a greater incentive to vote for them. The set of curves in the following chart lay down a general framework for the relations between economic growth, public spending and democratic activity (Gintis and Bowles 1982).

Chart C. Public spending, economic growth and democracy

Responding to the economic crisis

The financial crisis and the recession were not in any way caused by public spending, deficits or debts. But public finance has been crucial in government responses to the crisis. It has been used for two purposes:

- first, to bail out the banks and other financial institutions which would otherwise have collapsed;
- secondly, to provide an economic stimulus to counter the recession

These measures have been very effective in controlling the effects of recession. But they have
necessarily had a big impact on the level of spending and the size of government deficits, especially in some European countries. Developing countries have not had to deal with bank failure, but have had to apply stimulus measures to counter recessions. The net effect has been an upward surge in public spending and deficits of about 4% of GDP, globally.

Most of this has been invested in infrastructure projects that provide long-term benefits.

**Saving the banks**

**Box A. ‘Nationalize to save the free market’**

*Financial Times* 13th October 2008 FT leader ‘Nationalize to save the free market’

“Does this rescue mean the end of private financial capitalism? Of course not. Nationally owned banks seem likely to be a reality in many countries for a decade. But stakes in banks will, eventually, be sold back to private investors. Governments – rightly – will regulate to avoid further crises. They will fail, and then be forced to act to pick up the pieces. There is no alternative. These leaders are not putting capitalism to the sword in favour of the gentler rule of the state. They are using the state to defeat the marketplace’s most dangerous historic enemy: widespread depression. And they are right to do so.”

[http://www.ft.com/cms/s/0/2ec1ce0e-9951-11dd-9d48-000077b07658.html](http://www.ft.com/cms/s/0/2ec1ce0e-9951-11dd-9d48-000077b07658.html)

The financial and economic crisis was caused by unsustainable lending and the creation of complex forms of debt by banks. After one USA bank, Lehman Brothers, collapsed in September 2008, the USA and other governments decided to rescue banks by nationalizing them, or injecting large amounts of capital to make them solvent again. This involved injecting capital by buying shares and providing government loans to banks, as well as general government guarantees on bank loans and deposits, and provision of greater liquidity. The IMF described this as “an unparalleled transfer of risk from the private to the public sector” (IMF 2009).

The guarantees and liquidity measures, equal to 30% of the annual GDP of advanced economies, did not involve immediate government spending, but ‘upfront’ spending was made through injecting capital into banks, buying shares and extending government or central bank loans. This amounted to 5.5% of GDP of high-income countries – over USD $1,800 billion dollars. As a proportion of GDP, it was greatest in the UK, which spent a sum equivalent to 20% of GDP on supporting the financial sector – equivalent to half the UK’s annual spending on public services.

Some of the money spent may be recovered, e.g. by selling bank shares at some time in the future; and most of the guarantees will probably not be called upon. But the IMF expects that some elements of all this support will be permanently lost to governments – subsequent sale of the shares may not raise the full amount for which they were bought; some guarantees will be called on. It estimates that the total permanent loss will be 6.8% of GDP of advanced G20 countries – around USD $2,700 billion.

The cost of supporting the banks may rise further. In September 2010 the government of Ireland announced it was prepared to inject more money into a major bank: “the total cost to save its banks could rise as high as €50bn, more than a third of 2009 national income” (Oakley 2010).
Table 1. Costs to governments of supporting financial sector

<table>
<thead>
<tr>
<th></th>
<th>Total public sector support for banks etc.</th>
<th>... of which ‘upfront’ govt spending/borrowing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of GDP</td>
<td>(USD $bn)</td>
</tr>
<tr>
<td>Advanced G20 economies</td>
<td>29.6</td>
<td>10,246</td>
</tr>
<tr>
<td>Emerging G20 economies</td>
<td>14.2</td>
<td>1,672</td>
</tr>
<tr>
<td>Total G20</td>
<td>23.8</td>
<td>11,918</td>
</tr>
<tr>
<td>Of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td>81.8</td>
<td>1,180</td>
</tr>
<tr>
<td>United States</td>
<td>25.8</td>
<td>3,700</td>
</tr>
</tbody>
</table>

Source: IMF 2009 and PSIRU calculations (IMF 2009B)

Box B. Bank bailout bigger than all the privatizations in the world

The upfront support to bail out the banks already totals about USD $1,900 billion, without taking account of longer-term costs. This is equivalent to the total value of all the privatizations carried out worldwide in the last 30 years, which raised about USD $1,800 billion (Nellis, 2006). In less than one year, the bailout of the financial sector has completely reversed this process. The public sector has injected more capital into the private sector in one year than the private sector has paid for state enterprises in the last 30 years.

Chart D. Reversing 30 years of privatization

Sources: see note3.

3 (A) upfront support: IMF, see table 3, above; (B) privatization revenues: based on Megginson (2005), Nellis (2006), Bortolotti and Pinotti (2008) and Privatization Barometer 2008. This estimate is at the upper end of estimates of global privatization revenue. (A) $1 trillion ($1,000 billion) for OECD countries, as estimated by Bortolotti and Pinotti 2008 ‘Delayed Privatization’ http://www.bancaditalia.it/pubblicazioni/econo/temidi/td08/td663_08/en_td663/en_tema_663.pdf
Saving capitalism: the economic stimulus

To counter the recession, governments all over the world increased their deficits.

The biggest effect has not come from special additional government spending, but from the normal operation of taxation and public spending systems as ‘automatic stabilisers’. Government deficits automatically increase in recessions, because taxes fall and spending on benefits rises. Combined, this partially protects people from the fall in their incomes, and acts as an economic stimulus which partly offsets the effects of recession.

The IMF and others assume that unemployment benefits are the key part of government spending which increase automatically in a recession. But other public spending, especially on healthcare and the elderly, also rises in response to recession, and so “automatic stabilization through all elements of social expenditure is about 3.5 times larger than the part coming from unemployment compensation alone.” Social spending as a whole absorbs about 16% of an economic shock, on average, and the protection is strongest where social spending is highest: in Sweden, about 43% of a shock is absorbed by social spending (Darby and Melitz 2008).

This has two important implications. Firstly, the current attempts to cut public spending on the elderly and on healthcare risk undermining an important element in economic stability. Secondly, governments (and the EU and the IMF), which only take account of unemployment benefit, are not taking proper account of the automatic effect of recessions on this spending, and so the limits on government deficits are being applied too strictly. European Commission reports: “… downplay the automatic forces influencing the budget … the neglect of the cyclical implications of pensions, health expenditure and disability pay, especially in evaluating alternative reform packages, could be storing up problems for the control of budgets in the future” (Darby and Melitz 2008).

The stimulus packages contained a mixture of tax cuts and spending increases. The tax cuts reflect political preferences of the right, but, as data from the USA later demonstrated, tax cuts are a very poor way of stimulating demand in a recession, because people save rather than spend a large proportion. Only about 30% of the tax rebates given by the Bush government in May 2008 was actually spent: all types of households used two-thirds or more of the money to save or to repay debts.

Using the same amount of money to increase public spending has a much larger effect on demand and employment. For this reason, a large proportion of the stimulus packages consisted of increases in infrastructure spending. According to the World Bank in March 2009: “announced infrastructure spending for 2009 represents on average 64 percent of the total stimulus in emerging market economies and 22 percent of the total stimulus in high income economies” (Saghir 2009).

The crisis has done less damage to southern economies than it has to northern countries. Asian economies rebounded rapidly, led by China and India, which are now growing at around 10% per annum: Brazil is growing at a similar rate. Other countries in the south have also experienced less of a downturn, and are now (in 2010) expected to grow strongly.
Thus Africa did not even experience a contraction in 2009, when GDP growth overall was 2%. The IMF forecasts that in Africa there will be economic growth of 4.7% in 2010, and growth of 6% in 2011. This is partly due to the use of large fiscal stimulus packages: public spending plans in African countries were increased by 5% of GDP above the average level of the 2003–2007 period, including higher levels of spending on infrastructure, health and education. The IMF commented: “stimulus packages have been managed successfully without major impact on debt, and have increased the scale of public investment in infrastructure and the credibility of public spending on infrastructure”. The World Bank agrees: “The need to unwind stimulus measures among developing countries is generally less pressing [than in Europe]; because both fiscal deficits and debt-to-GDP ratios are much lower” (IMF 2010).

Some African governments are also confidently planning to finance their deficits by borrowing, including issuing bonds. Both Kenya and Tanzania plan to issue €500million bonds in Euros, Uganda plans a similar issue aimed at national rather than international investors. This policy is supported by a longer-term trend since 2000 for developing country governments being able to borrow money more cheaply, compared with rich countries. According to an IMF study, the spreads and effective interest rates paid by these governments have fallen in the last decade, so the cost of borrowing is lower (IMF 2010).

The OECD expects public spending as a percentage of GDP to increase across Africa as a whole until 2011, before falling back, but still to a level above that of 2008 (see table below). Because all international agencies forecast continuing GDP growth of over 4% per annum for Africa, the forecast still implies that actual public spending levels will be significantly higher – about 10% higher in 2011 than in 2008, in real terms.

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>30</td>
<td>32.8</td>
<td>33</td>
<td>31.6</td>
</tr>
</tbody>
</table>

(Source: OECD 2010)

**Box C. India: public spending for growth**

The government of India’s budget for 2009–10, announced on 6th July 2009, included a strengthened stimulus to counter the recession, as well as longer-term growth of public spending as a platform for development. The budget increased the government deficit to 6.8% of GDP, to boost the economy; planned to raise more money from direct taxes; increased infrastructure investment and other public spending, including direct employment programmes; and committed to continued public ownership of banks and financial institutions. The government expected the budget to contribute to growth of 9% in 2010.

In 2008–09 the deficit had already risen from 2.7% to 6.2% of GDP, after the government introduced a package of spending increases and tax cuts to stimulate the economy. The government has promised to reduce this in the medium term but while “… uncertainties relating to the revival of the global economy remain … we have to continue our efforts to provide further stimulus to the economy” (India Budget speech. 2009). The government is confident it can borrow enough to finance this deficit: half of India’s savings in the banking system “is channelled to the government through mandatory lending or through treasury bill sales” (India Budget speech. 2009).
Central government revenue is now 11% of GDP, with over 50% coming from direct taxes, which is more progressive. The government plans to continue increasing the proportion of direct taxes, and refused to reduce corporate taxes. It is also continuing to improve tax administration, the importance of which was recognized by the finance minister: “Our tax collectors are like honey bees collecting nectar from the flowers without disturbing them, but spreading their pollen so that all flowers can thrive and bear fruit” (India Budget speech. 2009).

The finance for urban infrastructure was increased by 87% over the previous budget, and a new fund was created, intended to make the country slum-free in five years. This not a short-term policy: the aim is to continually increase investment in infrastructure to reach more than 9% of GDP per year by 2014 (India Budget speech. 2009). India is also using public finance to bail out existing public–private partnerships (PPPs) which are now unable to find private finance. A new public sector institution, the India Infrastructure Finance Company Limited (IIFCL), will refinance 60% of commercial bank loans to infrastructure PPPs over the next year and a half (India Budget speech. 2009).

India introduced a National Rural Employment Guarantee Scheme (NREGS) in 2006, which has provided employment opportunities for over 40 million households in 2008–09 and provided a significant boost to the rural economy. The minimum wage guaranteed under this scheme is being increased to 100 Rupees per day, and the overall budget is 8% higher than actual spending in 2008–09 (The Hindu 2009).

The budget also included a strong long-term commitment to continued full public ownership of the banking sector: “Never before has Indira Gandhi’s bold decision to nationalize our banking system exactly 40 years ago – on 14th of July, 1969 – appeared as wise and visionary as it has over the past few months … public sector enterprises such as banks and insurance companies will remain in the public sector and will be given all support, including capital infusion, to grow and remain competitive.” The government left open the possibility of future partial privatizations of other state-owned companies, however (India Budget speech. 2009).

Rescuing the IMF

The IMF itself has used the crisis to re-establish itself as an important international institution. By 2008 the international role of the IMF was much diminished. Many countries in Latin America and Asia had deliberately accelerated repayment of IMF loans in order to reduce their vulnerability to policy conditions that were seen as socially and economically damaging (Hall 2007). Asian countries have set up separate arrangements, known as the Chiang Mai initiative, to help avoid being forced to use the IMF. Indonesia, for example, can borrow $28 billion from Japan to support its currency, and $17 billion from China for trade finance. A number of Latin American countries – Argentina, Venezuela, Bolivia, Brazil, Ecuador and possibly Paraguay – had previously agreed to create a ‘Bank of the South’, which is explicitly seen as an alternative to the World Bank and IMF in the context of South America (Global Insight 2007).
One effect of this was to cut the IMF’s income from interest on its loans. In 2008 it was agreed that the IMF could sell part of its gold reserves, and invest the proceeds to provide it with a secure income, which would support the institution regardless of whether it made any loans or not (IMF 2008).

The economic crisis was then used to justify a massive increase in the IMF’s finances. The richest countries, meeting at the G20 in April, agreed to triple the resources of the IMF by extending ‘New Arrangements to Borrow’ (NAB) worth over USD $500 billion – almost 1% of global GDP (IMF 2009c). These are large amounts of public money: USD $500 billion is ten times as much as the USA government spent to buy General Motors.

The IMF is also borrowing money by issuing bonds, because China, India, Brazil, Russia and other ‘emerging economies’ would not give the IMF permanent extra resources until it is reformed and made more democratic. The IMF is not subject to stringent limits on these new borrowings. The justification for borrowing is extremely general: “Borrowing has been considered appropriate at times when the IMF’s current or prospective liquidity was regarded as inadequate”. The IMF board was explicitly asked, in July 2009, to agree that: “it would not be appropriate to establish a new limit on borrowing by the Fund in current circumstances”. There is no limit on the amount it can borrow through issuing bonds. And the future ‘exit route’ for repaying all this debt is indefinitely postponed: “Consideration will need to be given in future to the policies governing repayment of borrowed resources. … However, it is premature to consider the precise modalities of early repayments” (IMF 2009).

Table 3. The cost of supporting the IMF

<table>
<thead>
<tr>
<th>Type</th>
<th>(USD $bn)</th>
<th>% of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced economies</td>
<td>400</td>
<td>1.0</td>
</tr>
<tr>
<td>Emerging economies</td>
<td>100</td>
<td>0.9</td>
</tr>
</tbody>
</table>

Source: IMF 2009 and PSIRU calculations

Infrastructure

Investment in electricity, water and sanitation, roads, rail, and telecoms has played a major role in the growth of high-income countries, and is equally crucial in developing countries. Much of the economic growth and productivity of the USA in its ‘golden period’ in the mid-20th century was due to the growth in infrastructure, the great majority of which was publicly financed. The same effect can also be seen on every continent, including North America, Latin America, Europe, Africa and Asia (Aschauer 1989).
The importance of public investment in infrastructure was demonstrated by the damaging effects of the structural adjustment programmes of the IMF – which insisted on cutbacks in public spending – caused damaging falls in infrastructure investment in Latin America. At the same time the World Bank and IMF were requiring privatization of key infrastructure services such as water and electricity, but the private sector failed to invest. As a result:

… in many countries the pressures of fiscal consolidation have led to a compression of public infrastructure spending, which has not been offset by the increase in private sector participation, thus resulting in an insufficient provision of infrastructure services with potentially major adverse effects on growth and inequality (Calderon and Luis 2004).

In Latin America, government spending on human and physical infrastructure in the 1980s and 1990s, “dropped precipitously” during the period when the IMF imposed its structural adjustment policies, and led to a fall in economic growth: “… a major portion of the per-capita output gap that opened between Latin America and East Asia over the 1980s and 1990s can be traced to the slowdown in Latin America’s infrastructure accumulation in those years” (Calderon and Luis 2004).

Most South American countries have now deliberately paid off their loans from the IMF, to enable them to pursue more rational economic policies, in which public spending on infrastructure has played a key role. In 2007 Brazil launched a four-year programme for economic growth, (the Programa de Aceleração do Crescimento), based on the investment of USD $236 billion in roads, electricity, water, sanitation and housing. The programme is an explicit attempt to correct the previous under-investment: “In recent years, public investment has declined markedly … capital investment has totalled less than 3% of GDP, well below the
commitments being made by more rapidly growing countries in Asia.” This investment in infrastructure is seen as a crucial instrument for reducing regional and social inequalities (Wheatley and Lapper 2007).

Public finance is central to these investments. In Brazil, this includes using tax revenues from central and regional governments, the operating surplus of state-owned utilities, and national development funds, pension funds and savings funds. The sanitation investment programme, which aims for a great increase in the proportions of households connected to sewage systems, is half financed by federal and regional state finance, and half by loan finance from the savings funds and pension funds. The “Luz para Todos” (Light for All) policy for connecting more people to electricity supply is overwhelmingly financed from federal and regional state funds, and is expected to have connected an extra 10 million people by 2010.

Table 4. Financing electricity connections and water and sanitation, Brazil 2007–2011

<table>
<thead>
<tr>
<th>Source of Financing</th>
<th>USD $billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal government</td>
<td>8.6</td>
</tr>
<tr>
<td>Regional state and municipal budgets and operating surpluses</td>
<td>4.8</td>
</tr>
<tr>
<td>Workers’ savings fund (FGTS) and federal workers’ protection fund (FAT)</td>
<td>9.4</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>22.8</strong></td>
</tr>
</tbody>
</table>


In Africa, by contrast, the level of infrastructure spending remains inadequate, for exactly the same reasons as in Latin America in previous decades: “Spending has actually been on a declining trend in many countries, partly as a result of the disproportionate toll that the fiscal adjustment of the 1990s took on public infrastructure spending, and also reflecting the fact that private sector participation has failed to live up to expectations”. A 2010 report on infrastructure investment in Africa found that the contribution of the private sector has been close to zero in water, electricity and transport: there has only been some private investment in telecoms. Despite this, African governments have been investing more than previously thought, and: “the public sector remains the dominant source of finance for water, energy, and transport in all but the fragile states”. If Africa caught up with the infrastructure investment levels of other world regions, growth rates would increase by 1–2% (Calderón and Servén 2008).

The principal mechanism for financing infrastructure development, worldwide, is still through government and the public sector.

According to a global survey by Siemens in 2007, public–private partnerships (PPPs) only account for about 4% of all public sector investment: and public sector loan financing is expected to remain the main financing instrument throughout Europe. Private investors cannot be sure of getting a return high enough, despite the great benefits for the economy and society as a whole, as was noted in the 19th century: “A country, e.g. the United States, may feel the need for railways in connection with production; nevertheless the direct advantage arising from them for production may be too small for the investment to appear as anything but sunk capital. Then capital shifts the burden on to the shoulders of the state”. The same factor remains visible in telecoms in Europe, where private network operators are also reluctant to make sufficient
investment in the fibre-optic networks which are crucial to greater use of the internet. So governments are having to provide public finance: in Portugal, for example, the state has provided 85% of the financing for a €1 billion investment programme. The 2020 strategy paper of the EU also demands more public finance, calling on governments: “To draw up operational high speed internet strategies, and target public funding, including structural funds, on areas not fully served by private investments” (Siemens 2007).

Even in the USA, where the role of the state is relatively small, the great majority of investments in transport, education, and environment are public – and even 35% of utility investment is public sector, reflecting the dominant municipal role in the sector despite the high levels of private operation in electricity and gas; only in healthcare is the public proportion low.

One victim of the crisis has been the credibility of the orthodox neo-liberal economic wisdom, especially in the global south. The failure of this model contrasts with the positive social and economic developments in Latin America and India, based on social democratic policies with a strong role for the state, as well as the important role of public infrastructure investment in China’s economic growth. So there is a marked shift in the terms of debate. Neoliberal assumptions are no longer regarded as sacrosanct.

One remarkable example of this is a speech in 2009 by the chief economist at the African Development Bank, which argued for a stronger developmental role for the state, with public infrastructure investment at its core:

The crisis should be grasped as a turning point in the development path of developing countries, particularly here in Africa. In order to overcome the continent’s structural constraints and reduce its external dependence, it is necessary to reconsider the role of the state. The market only works through incremental changes and small steps. However, developing countries need to stimulate investments by socializing risk, in order to achieve long-term structural transformation. The market has not been and will not be able to carry out these changes alone.

The critical question now is not simply how developing countries can cope with the short-term immediate impact of the crisis. More important, the question is how can they emerge from the crisis in a stronger position? What policies should they be crafting now for the post-crisis era? … Macroeconomic policies across the developing world during the last several decades have been strongly influenced by the recommendations of the international finance institutions and bilateral aid donors who, in turn, were heavily influenced by the neoclassical school … As argued by several scholars, the reforms based on this approach have largely failed to develop the private sector as the driving force for development…

Public investment – especially but not exclusively in traditional infrastructure such as transport, irrigation and energy networks – has a key role to play in driving the development process. I believe that here in Africa, when the state just stands aside waiting for individual action and non-state forces such as entrepreneurship, comparative advantage, and cross-border capital inflows to bring development or transition, the result
can be very negative, and in turn produce the sort of stagnation that can lock countries into their unfavorable positions in the world economy (Kasekende 2009).

**Public spending and employment**

Public spending supports employment in three main ways:

- direct employment of public service workers;
- indirect employment of workers, by contractors supplying outsourced goods and services; and
- employment of workers on infrastructure projects.

The table below shows estimates of the proportion of jobs supported by public spending, including the additional jobs supported by the ‘multiplier effect’ of consumer spending. These are rough estimates of a global average, showing that:

- Public spending supports 40% of all jobs: 15% as public employees, but 25% in the private sector.
- Including public service utilities, public spending and public services support 50% of the jobs in the economy – twice as many in the private sector as in the public sector.

**Table 5. Jobs supported by public spending and public services (as % of all employees)**

*PSIRU estimates of global average*

<table>
<thead>
<tr>
<th>Public spending category</th>
<th>Jobs supported</th>
<th>Multiplier</th>
<th>Additional multiplier effect</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>As % of total employees</td>
<td>As % of total employees</td>
<td>As % of total employees</td>
<td>As % of total employees</td>
</tr>
<tr>
<td>Direct public employees</td>
<td>15</td>
<td>1.6</td>
<td>9</td>
<td>24</td>
</tr>
<tr>
<td>Indirect jobs: procurement</td>
<td>6</td>
<td>2.0</td>
<td>6</td>
<td>12</td>
</tr>
<tr>
<td>Indirect jobs: construction</td>
<td>2</td>
<td>1.9</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Total public spending</td>
<td>23</td>
<td>1.9</td>
<td>4</td>
<td>37</td>
</tr>
<tr>
<td>Public utilities (mixed)</td>
<td>4</td>
<td>2.5</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td>Total public services</td>
<td>27</td>
<td>2.5</td>
<td>10</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: OECD, CEEP, BERR, Scotstat, PSIRU calculations.

There are other employment effects from public spending, which create, protect or improve jobs outside the public sector. Governments use various subsidies to provide or support employment, either by subsidising private companies or by providing employment guarantees to workers. Government procurement has been widely used to require ‘fair wages’ from private contractors, and also as an instrument to eliminate gender and ethnic discrimination and disadvantage. Both of these are considered further below.
In addition, spending on social security benefits creates extra demand, because it gives greater spending power to people who would otherwise have very low incomes: this extra spending means extra demand and extra jobs.

**Direct and indirect employment**

Governments employ workers directly to provide public services and administer social security programs, known as public employees. Counting the number of public employees is not straightforward. The numbers vary according to the definitions used of ‘government’ and the ‘public sector’, and there are variations between countries, depending on the overall level of public spending, the structure of the public sector, the extent of outsourcing, and the size of the formal economy.

In 1998 the International Labour Organization (ILO) estimated that the public sector accounted for about 21% of employees in high-income countries, and about 23%, in developing countries, including employees in state-owned enterprises. Restricted to just employees of central and local government and health authorities, these figures would be about 17% and 21%. These figures suggest that public employment is proportionately almost as significant in developing countries as in high-income countries, because formal employment is a smaller part of the economy as a whole.

In the EU, a recent analysis found that the providers of ‘services of general interest’ (public services and utilities such as water, electricity, post, telecom and public transport) employed more than 64 million persons in 2009, representing 30% of the total number of employees in the EU. The great majority of these were in services and sectors which are overwhelmingly carried out by public authorities: healthcare (with nearly 10% of all employees); and education and public administration (each about 7% of all employees). So in the EU, government employees represent about 24% of all employees – nearly 1 in 4 jobs – with another 6% in private or public jobs in other services of general interest.

<table>
<thead>
<tr>
<th>Table 6. Employment in services of general interest in EU, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>As % of total employment</strong></td>
</tr>
<tr>
<td>Health</td>
</tr>
<tr>
<td>Public administration</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Total (numbers)</td>
</tr>
</tbody>
</table>

Source: CEEP 2010

A recent OECD survey found a wide range across countries. Expressed as a percentage of employees, the median is about 15%. It is lower than the average for EU countries, because it includes countries such as Korea and Japan, where levels of public spending and employment are relatively low, and does not include all EU countries. It also uses narrow definitions of ‘government’ (OECD 2008).
Other public spending is used to buy goods and services from contractors. On average, in OECD countries, governments spend slightly less on this than on direct employment, amounting to about one-sixth of GDP – almost as much as on paying government employees. This spending supports jobs in the private sector. Estimates from the UK suggest that the number of jobs supported by this spending is under half the number supported by the same level of spending on direct jobs, because some of it goes on contractors’ materials, and their profit. This implies that such spending supports a further 8% of all employment (Mato 2008).

Public investment on average normally represents a further 3% of GDP in OECD countries, supporting about 2% of all jobs, but can be much higher in developing countries. This kind of spending happens continuously, as a way of creating public assets and creating jobs. In Nigeria, for example, the state of Borno has undertaken a large housing programme, using government funds: it provides not only homes but also employment in building and maintaining the houses (Mato 2008).

For both direct and indirect jobs, there is a further ‘multiplier’ effect, because workers in these jobs then spend their pay on other goods and services, which creates extra demand for goods and so creates further jobs. So every job created by public spending is ‘multiplied’ by this effect. Multipliers can vary between sectors and countries, and a set of official multipliers from the UK is used in the calculations for table 9 above.

‘Fair wages’ clauses and social procurement: international history and context

‘Fair wages’ policies have been applied to public sector contractors for over a century, in order to use the economic activity of public authorities to “create avenues of just and secure employment”. In France, the USA, the UK and other countries, ‘fair wages’ legislation and clauses were introduced, specifying minimum conditions of work and/or the need to recognize rates agreed with trade unions. In 1892, the newly elected London County Council, for example, used clauses insisting on an eight-hour working day, and trade union rates (Pennybacker 1995).
In the 20th century procurement developed as a key policy instrument for supporting the employment of disabled workers, and for eliminating racial, gender or religious discrimination. Many countries introduced clauses requiring contractors to apply equal opportunity policies. In the USA, for example, the civil rights movement led to the use of procurement preferences as part of ‘affirmative action’ policies to advance the economic status of groups who had suffered discrimination. Similar legislation has since been implemented in South Africa since the ending of apartheid. Procurement has also been used as an instrument of international solidarity, for example by excluding companies who were trading with the apartheid regime in South Africa. The EU itself included the principle of equal pay in the original Treaty of Rome, and procurement clauses were a key mechanism for enforcing this principle, through: “the adoption of linkage between procurement and non-discrimination requirements by several Länder (states) in Germany, several local authorities in the United Kingdom, and many local authorities in the Netherlands” (McCrudden 2004).

The ILO adopted the principle of fair wages clauses in 1949, in Convention 94, which requires states to include clauses in their public contracts ensuring that wages (including allowances), hours of work, and other conditions of labour were not less favourable than those established for work of the same character in the trade or industry in the district where the work is carried out (ILO 1949). The ILO also adopted the use of procurement clauses for pursuing equality in Recommendation 111, which advocates that commitment to equality principles should be a condition of eligibility for public contracts. The ILO has also encouraged the use of social clauses as a mechanism for enforcing its core labour standards, especially to protect construction workers, and to improve conditions of employment in developing countries. An ILO report published in 2008 notes that the increased use of outsourcing – including through PPPs – and the use of labour-only subcontracting, make the problems even more acute now than when ILO 94 was first agreed (McCrudden 2004).

The development of these policies has often been resisted by commercial interests and right-wing political parties. The Thatcher government in the UK, for example, denounced the ILO convention, repealed the UK’s fair wages law, and finally restricted the right of municipalities to apply social criteria. This reflected constant and successful lobbying by private companies, who wanted to undercut the pay and conditions agreed in the public sector. Employers’ organizations still attempt to resist fair wages clauses: the Confederation of Norwegian Enterprises argued against Norway’s ratification of the ILO convention in 2008, and employers in Latvia argued against a procurement law which favours companies with good social insurance contributions on behalf of their employees (Evans and Lewis 1988).

Despite these changes in international climate, fair wages clauses are still being used and introduced by countries as an instrument of social policy.

- In countries of central and eastern Europe the growth of illegal employment without social insurance or recognized pay and conditions is seen as a major problem by governments: Hungary, Slovakia and Latvia have all introduced for the first time new procurement laws which place conditions on the employment practices of companies tendering for public contracts.
- Public authorities in the USA continue to operate strong equality programs favouring minority- or women-owned suppliers (Brammer and Walker 2007).

- In Belgium new social clauses were introduced in the Brussels region in 1999.

- An international survey of procurement policies in 2007 found that public authorities are much more oriented towards social aspects of sustainable procurement – purchasing from small/local companies, and worker safety – rather than environmental issues (whereas private companies tend to focus only on environmental issues when presenting their corporate social responsibility statements) (Walker 2007).

**Box D. Greater London Authority responsible procurement policy**

The Greater London Authority (GLA) spends over GBP £3billion (USD $4.8billion) each year on procuring supplies, works and services. It has adopted a comprehensive social procurement policy which includes standard contract conditions on employment issues. The policy is applied not only through contract conditions but through a series of meetings with suppliers and community organizations to ensure the policies are understood and supported.

The GLA’s responsible procurement policy consists of seven themes:

- encouraging a diverse base of suppliers;
- promoting fair employment practices;
- promoting workforce welfare;
- addressing strategic labour needs and enabling training;
- community benefits;
- ethical sourcing practices; and
- promoting greater environmental sustainability.

The GLA sets a ‘London Living Wage’ (LLW), significantly above the national minimum wage. In re-tendering its cleaning and catering contracts in 2006, bidders were required to indicate whether they would accept a LLW clause as part of the contract, including ensuring that other employment conditions were not reduced as a result of paying a living wage. It estimates that over 400 workers gained from implementation of the LLW in 2007.

The GLA applies ‘supplier diversity requirements’ on major contracts, such as the East London rail redevelopment, to ensure that smaller suppliers led by minority ethnic groups, by women and disabled people have received a significant proportion of subcontracts. It also monitors the supply chains of companies, for example suppliers of uniforms, and is piloting the use of a Suppliers Ethical Data Exchange (Sedex) – a system for companies to report labour conditions in all their suppliers factories.

Employment subsidies and employment guarantee schemes

Public spending is often used to subsidize companies as a way of protecting employment levels. One general method which has been used during the crisis has been through short-time working schemes, which compensate employees who agree to maintain employment levels by reducing
working time: “usually relying on state-subsidised schemes that compensate employees for part of their loss of earnings resulting from reduced working hours.” More specific subsidies are also used by governments, justified by employment protection, for example through the ‘scrappage’ schemes to encourage purchases of new cars and so protect jobs in the motor industry (EIRO 2009).

‘Employment guarantee’ schemes work by providing direct payments to workers themselves who would otherwise be unemployed. This has been used in a number of countries, usually involving employment on public works or infrastructure. After the economic crisis of 2000, Argentina introduced a scheme guaranteeing 20 hours work a week to a member of households with children under 18. They not only provide employment and income to eradicate poverty, they also have a multiplier effect on local economies by enabling greater consumer spending, and by improving local infrastructure.

**Box E. India: the National Rural Employment Guarantee**

The biggest scheme is in India, known as the National Rural Employment Guarantee (NREG). An employment guarantee scheme had existed in the state of Maharashtra for many years, and in 2005, against the background of widespread rural poverty, the government of India introduced a national scheme. This guarantees 100 days of work to one member of a rural household, on works decided locally as being of value to the community. It thus creates rights which strengthen the bargaining position of rural workers, and is demand driven. The scheme includes requirements for basic employment conditions, including a basic hourly minimum rate, a 7-hour day, a weekly day off, equal wages for equal work, medical and créche facilities.

In 2009–2010, the scheme provided work to over 52 million people, 48% of whom were women. It cost about 389 billion rupees in 2009/10 (about USD $8.5 billion). Because of the level of the minimum wage set by the scheme, and the scheme itself, there was a general affect on rural household incomes, which increased by 50% in 2 years (Khanna 2010).

**General support for industry**

Significant parts of public services support other economic activity by the private sector. These include the provision of a legal system, courts and police, which both protect property rights and provide ways of enforcing contracts. The modern company itself is a legal entity dependent on privileges given by the state, including ‘limited liability’ which allows companies to fail and go bankrupt without the individuals running them being liable to any of the firm’s creditors.

Virtually every sector in modern economies relies on significant economic support from the state. In some sectors, in many countries, this takes the form of public ownership – for example of public transport, electricity and water – and, in many more countries now, of banks and financial institutions. Many sectors depend on public spending for contracts for goods and services, which represents about 16% of GDP in high-income countries. This includes many firms in the production sector, such as arms manufacturers or pharmaceutical companies, both of which rely principally on government orders. Some firms in the services sector also benefit, as a result of outsourcing policies, for example in auditing, IT, or cleaning services.
There is also a set of sectors where governments provide guarantees, or subsidies, or finance on favourable terms, without which companies would be less likely to function. One example is the public works businesses of the construction industry which are linked to PPPs that, in effect depend on long-term guarantees of government payments if they are to be financeable. Governments and development banks lend money to companies at rates which they could not obtain commercially. Implicit and explicit guarantees were given to customers of European banks during the crisis, which make every bank a ‘safe’ place to hold an account. Subsidies are provided for rail and bus fares, housing rents, and green investments for energy efficiency. Systems of regulation, for example in electricity, favour companies by providing them with much greater certainty about prices and revenues, which reduce risks.

Research and development, too, is government funded to a greater or lesser extent in many sectors, either through universities, or funds to companies, or directly through state-owned operators. Even within liberalized electricity markets, for example, it is only the state-owned companies which invest in R&D:

The last two decades have witnessed a staggering decline of R&D investment in the fields of energy and electricity … The drop of research expenditures was particularly strong among the private or newly privatised companies, while those that remained under public control did not reduce R&D efforts (Sterlacchini 2010).

Box F. General Motors and public finance

| The case of General Motors (GM) shows that the benefits of public ownership, and the problems of weak public services, affect large manufacturing companies as well as the general public. GM was the largest manufacturing company in the world, and still employs nearly 240,000 workers, but it had to be rescued from bankruptcy in 2009 and is now owned by the American and Canadian governments, and a fund owned and run by a trade union. In late 2010 GM sold about a fifth of its shares on the stock exchange. |
| GM was rescued by large amounts of public finance. The American and Canadian governments gave $61 billion in public finance to GM to help it avoid bankruptcy. Most of this was converted into shares, so that in July 2009 GM became 61% owned by the USA government, and 11% owned by the Canadian government. |
| GM also asked European governments to give the company up to €3.3 billion in loan guarantees to help finance the restructuring of its Opel division. In June 2010 the company withdrew the requests and acknowledged that it did not need this state aid. |
| Nearly 20% of shares in GM are controlled by the main union, the United Auto Workers (UAW). The ultimate reason for this is that the USA does not have a good comprehensive public health service, so that healthcare benefits are an important part of employment contracts, and a significant extra cost to employers. The union shares are owned by a healthcare trust fund, VEBA, which was created by the union to take over responsibility for financing the healthcare for retired employees of GM (and other car makers including Chrysler and Ford). GM gave VEBA 17.5% of its shares and over $18 billion to take over these liabilities; Chrysler and Ford have paid another $17.6 billion (General Motors 2010). |
The social function of public spending can be considered as allowing greater development of social and individual capabilities. Healthy and educated people have a much greater potential for developing their own capacities, which is central to social development, as argued by Amartya Sen, the Indian philosopher and economist, and winner of the Nobel Prize for Economic Science (Sen 1999). This section of the report looks at how public spending does that in three ways:

- through increasing equality, so that the benefits of economic resources are far more equally shared;
- through greater effectiveness at providing a service of value to society, such as healthcare; and
- through protection of the environment and development of renewable energy.

Public spending and equality

Public services and equality

Greater equality is better for everyone. A recent book, *The Spirit Level*, uses international data to show that more equal distributions of income lead to a better life for everyone. The chart below shows that the countries with the most equal distribution of income also have better social outcomes for everybody - life expectancy is higher, infant mortality is lower, there are fewer murders, less mental illness, less obesity, and less people in prison (Wilkinson and Pickett 2009).

But markets create very unequal distributions of income, so that the top 10% have very high incomes, while the poorest have very little. In order to get the benefits of greater equality, there have to be mechanisms based on solidarity, to enforce a fairer distribution of resources. Together with trade union organisation, which can raise incomes based on wages as opposed to income based on profits, public spending is the great mechanism for achieving greater equality.

Chart G. Health and social problems are worse in more unequal countries
Public spending plays an obvious role in the redistribution of income. Taxes are paid by people according to their income or spending, and benefits are paid to people who are unemployed or retired or caring for children. But public spending on services also has a very powerful redistributive effect. In particular, public health services and public education have a similar impact to the social security system. This is clear in high-income countries, where public services are largest. A study of 7 EU countries found that the value of public services is about one-third of total disposable income, and far more equally distributed. The same effect is also important in developing countries, where the direct provision of public services is the greatest form of equalization, and social security benefits have a relatively smaller role (Osberg, Smeeding and Schwabish 2003).

The table below presents figures showing how this works in the UK. The distribution of ‘original’ income – before any state intervention – is highly unequal, with the average income of the top 20% about 15 times greater than that of the poorest 20% of households. This is what the market delivers. The table then adds incomes from benefits, which go mainly to poorer households – this improves equality significantly, more than doubling the income of the poorest 20%, so that the top-to-bottom ratio falls to 7 times. This is what is commonly expected.

The next stages are more surprising. The effect of taxation is partly progressive, because direct taxes on income take most from the top groups. But that is offset by the effect of the indirect taxes, such as VAT, which are actually regressive – they take a much bigger proportion of the income of the poorest. And it is these regressive indirect taxes that have grown most in recent years, especially in developing countries, encouraged by the IMF, World Bank and others. The net result is that after all taxes have been paid, the distribution of income is almost unchanged – the top group still has about seven times as much as the poorest group. So overall, the tax system in the UK is not progressive.

The final step quantifies the benefit of public services, most importantly, education and health. The value is calculated according to how much each group uses the service, and poorer households get greater benefit because they include more children and more people vulnerable to ill-health, such as pensioners (although the top groups gain most from transport subsidies). The value of these services to the poorest group is almost as great as all their after-tax cash income from pay and benefits put together. The effect on inequality is as dramatic as the effect of benefits – the top-to-bottom ratio falls from 7 to 4.

This analysis shows clearly that the great equalising force of the system comes from public spending, not from the taxation system and that public services are just as important a mechanism of equality as social security benefits.

Table 7. Redistribution of income through taxes, benefits and public services: UK, 2008/09

<table>
<thead>
<tr>
<th>(£ per year)</th>
<th>Bottom</th>
<th>2nd</th>
<th>3rd</th>
<th>4th</th>
<th>Top</th>
<th>All households</th>
<th>Ratio Top/Bottom quintile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original income</td>
<td>4,970</td>
<td>12,020</td>
<td>23,305</td>
<td>38,321</td>
<td>73,810</td>
<td>30,485</td>
<td>15</td>
</tr>
<tr>
<td>plus cash benefits</td>
<td>6,431</td>
<td>7,602</td>
<td>5,787</td>
<td>3,609</td>
<td>1,805</td>
<td>5,047</td>
<td>7</td>
</tr>
<tr>
<td>Gross income</td>
<td>11,401</td>
<td>19,622</td>
<td>29,092</td>
<td>41,930</td>
<td>75,615</td>
<td>35,532</td>
<td>7</td>
</tr>
<tr>
<td>less direct taxes</td>
<td>1,270</td>
<td>2,523</td>
<td>5,046</td>
<td>8,798</td>
<td>18,255</td>
<td>7,178</td>
<td></td>
</tr>
<tr>
<td>less indirect taxes</td>
<td>2,862</td>
<td>3,592</td>
<td>4,316</td>
<td>5,579</td>
<td>7,354</td>
<td>4,741</td>
<td></td>
</tr>
</tbody>
</table>
This redistributive effect of public spending and public services is especially important because of the growing inequality between the shares of profits and wages in the economy as a whole. There has been a long-term decline in the share of wages in Europe, the USA and Japan over the last 35 years. This decline means that workers have gained little even though productivity has risen massively. In the USA, for example, in the quarter century between 1980 and 2005, productivity increased by 71% while earnings rose only 14%. At the same time inequalities between the top and bottom incomes increased. The share of all income taken by the top 1% of people doubled from 8.4% in 1980 to 17.4% in 2005 (Levy and Temin 2007). Part of this process is linked to privatization, which moves economic activity from the public sector, where the share of wages is high, to the private sector, and so: “As a consequence of privatization and deregulation, capital has gained at the expense of labour, almost everywhere, for profit shares have risen while wage shares have fallen” (Nayyar 2006).

**Infrastructure and equality**

Infrastructure investment is not only necessary for economic development, it has a direct impact on inequality of income. As people gain access to roads and electricity and telecoms, they have better opportunities for earning more, and so people on lower incomes gain more than those on higher incomes.

Recognition of these gains has been an important factor in the democratic processes of India, where the slogan of ‘bijli, sadak, pani’ – electricity, roads, and water – is widely used in election campaigns, because voters recognize the importance of these factors: household surveys in a number of different states provide systematic evidence that these infrastructures rank at the top of voter demands, alongside education (Khemani 2010).

**Chart H. Improvements in equality due to infrastructure development, 1990s–2000s, by region**


<table>
<thead>
<tr>
<th>Region</th>
<th>Change in Gini coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td></td>
</tr>
<tr>
<td>Western Europe</td>
<td></td>
</tr>
<tr>
<td>East Asia</td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td></td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td></td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td></td>
</tr>
</tbody>
</table>
Benefits and equality

Social security systems provide support to the vulnerable and the poor by providing benefits to raise incomes. These systems are well-established in high-income countries, which spend on average 13% of GDP on providing pensions to the old, child benefits to the young, and unemployment benefit to those without jobs. Benefit systems are basically redistributive, and so in principle are affordable for all groups of countries: “The cost is within reach of even the poorest countries, while making it affordable requires political will” (ILO (2008b and 2009).

The potential effects are considerable, as shown by the example of Brazil. The country has been one of the most unequal societies in the world, but it is becoming significantly more equal as a result of new government policies on public spending. Inequality, as measured by the Gini coefficient, fell from 0.59 in 2001 to 0.53 in 2007. Public spending has been crucial to this process: one-third of this greater equality is due to improved access to education, one-third is due to improved state benefits and minimum wage levels.

This greater equality has helped reduce the impact of the recession: “One reason why the financial and economic crisis did not hit Brazil as hard as other countries may be the growing domestic market and changes in the structure of demand created in the last decade. These, in turn, were spurred by this virtuous pattern of improved income distribution” (Hailu 2009).

Chart I. Brazil: poor household incomes grow fastest 2001–2007

![Chart](image)
Pensions are also becoming increasingly important in developing countries. Private schemes work only for those with enough money to save, so state provision is necessary to reduce poverty. Contributory schemes do not help many women or those who have worked in the informal economy, and means-tested benefits in practice exclude too many people. The most effective way of providing pensions to eliminate poverty among the elderly is through universal flat-rate pensions financed from general taxation. Universal pensions also provide women with an equal pension, where they have not had the same opportunities as men for paid employment. Among developed countries, New Zealand has done this, and been exceptionally successful at eliminating old age poverty.

Similar schemes in developing countries also work – e.g. in Mauritius, where the poverty rate in elderly households has been reduced from 30% to 6%, and in Namibia, where a universal pension is the main source of income for many elderly people. Such pensions are affordable, even in developing countries. The scheme in Botswana costs 0.5% of GDP; in Mauritius 1.7% of GDP; in Nepal, just over 1% of GDP (Kidd, S., 2009).

In high-income countries, there is a range of complex public and private provision for pensions. Both the IMF and the European Commission claim that public finance for pensions has to be reduced, because of the aging of the population in northern countries. But even in OECD countries, the state pension is still more important as a way of providing a decent level of pensions.

The effectiveness of public services

The general advantages of public spending are partly due to the relative efficiency of public services as a way of delivering services of benefit to society as a whole. This can be seen by examining specific services.

This section of the report sets out the relative advantages of public healthcare, showing how much more efficient and effective it is than a system based on private healthcare, followed by a note on how public housing offers a more efficient way of providing homes than forcing everyone to try and buy in the market, a system which led to unsustainable sub-prime mortgages.

The efficiency and effectiveness of public healthcare

Spending on healthcare is higher in countries where GDP is higher, as shown in the graph below, which includes both public and private spending.
However, public spending represents the great majority of health spending in all OECD countries, except the USA (and Mexico). There is good reason for this. The comparative data shows that a healthcare system based on private spending is *less efficient* and *less effective* than systems based on public finance. As a result, public spending on healthcare has a positive effect on economic growth, but private spending on healthcare does not (OECD 2009).

The USA’s healthcare system shows the inefficiency of private healthcare. Its total expenditure on healthcare is abnormally high - in 2007 the USA spent 16.0% of GDP on healthcare, far ahead of any other OECD country and nearly twice the OECD average of 8.9%. But this is not due to greater needs: for example, only 12.5% of the population is over 65, compared with 16.7% in Europe and 21.5% in Japan; and people are no more likely to be sick than in other OECD countries.

What is different about the USA is that the majority of its healthcare spending is based on private insurance and private provision – the only OECD country for which this is true, apart from Mexico. The excess expenditure in the USA is due to much higher prices charged for branded drugs and hospital procedures; much greater use of diagnostic tests such as scans and some surgical operations; and higher spending on administration.

This higher spending does not produce better results: there is no evidence of any medical gains from the additional operations and tests; USA pharmaceutical companies are less innovative than European companies; and there is much lower use of computer technology such as electronic patient records. It is thus, in economic terms, far less efficient than the public healthcare systems of other countries.

The system is also far less effective: in 2006 the overall life expectancy in the USA was 78.1 years, lower than all OECD countries of similar wealth, and below some developing countries including Cuba and Costa Rica. The USA infant mortality rate was 6.7 deaths per 1000 live births.
births – worse than all other OECD countries except Mexico and Turkey, and more than double the rate in the Czech republic, Finland, Iceland, Japan, Norway, Portugal and Sweden. Of all OECD countries, only the USA, Mexico and Turkey have not achieved universal healthcare coverage.

In the absence of a publicly financed health service, collective financing for healthcare may fall on employers either through legislation or through collective action by workers. In the USA, healthcare benefits are important elements in collective bargaining, and a key benefit of union organisation, because unions negotiate employer-funded schemes to provide security against ill-health. The cost of this insurance then appears as a higher level of indirect labour costs, on average 12% of total wages. This is a similar effect to employer contributions to social insurance schemes, except that it is not uniform across employers and not compulsory. Companies are thus at a disadvantage compared to companies in countries where healthcare is publicly financed.

Table 8. Infant mortality, Deaths per 1000 live births, 2006, selected OECD countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Deaths per 1000 live births</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iceland</td>
<td>1.4</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>2.5</td>
</tr>
<tr>
<td>Japan</td>
<td>2.6</td>
</tr>
<tr>
<td>Finland</td>
<td>2.8</td>
</tr>
<tr>
<td>Sweden</td>
<td>2.8</td>
</tr>
<tr>
<td>Norway</td>
<td>3.2</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>3.3</td>
</tr>
<tr>
<td>Portugal</td>
<td>3.3</td>
</tr>
<tr>
<td>France</td>
<td>3.8</td>
</tr>
<tr>
<td>Germany</td>
<td>3.8</td>
</tr>
<tr>
<td>Spain</td>
<td>3.8</td>
</tr>
<tr>
<td>Australia</td>
<td>4.7</td>
</tr>
<tr>
<td>Canada</td>
<td>5.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.0</td>
</tr>
<tr>
<td>United States</td>
<td>6.7</td>
</tr>
</tbody>
</table>

Source: OECD Health Data 2009

Housing and the crisis
The financial crisis originated partly from the problem of ‘sub-prime’ mortgages. In the USA, in particular, poorer families had to try to buy homes by taking out mortgages from banks which were trying to expand their business. The banks loosened credit requirements, as they rushed to sign more people to mortgages. Many people could then not afford the payments, and so these ‘sub-prime’ mortgages became bad debts for the banks, a major factor in the banking crisis. And many others were encouraged to refinance their houses, allowing them to borrow more against the equity of the ‘unrealized’ increase in the value of their houses. This additional borrowing fuelled the consumption spree in the USA, keeping the economy healthy, yet preparing the crisis in the housing sector. When home values fell, many people who had refinanced found they owed more than their houses were worth. They too became unable to pay the mortgages. The banks responded with repossessions which made hundreds of thousands homeless.
These problems arose in part because countries had abandoned, or never developed, public housing policies aimed at providing affordable, decent housing to everyone. The provision of public sector housing at affordable rents was one of the major public services in the 20th century. In parallel, non-profit mutual savings banks and building societies enabled the middle classes to buy houses, with encouragement and support from governments. From the 1980s, public sector housing was cut back as part of the general reduction in the role of the state. At the same time, mutual building societies were converted into for-profit banks, with fewer restrictions on their lending policies. The policies were followed in some of the richest countries (such as the USA); in countries in transition from communism where large public housing stocks were privatized; and in some of the least developed (such as Malawi), where a 2007 survey found that “Formal housing finance in Malawi is rudimentary … and less than 16% [are] able to afford a conventional house … no subsidies are available to the individual” (Nyasulu and Cloete 2007).

The role of public housing services is being rediscovered, especially by UN agencies. The UN Economic Commission for Europe (UNECE) organized a conference in 2004 on housing problems in transition countries in central and eastern Europe, which concluded that:

… the increasing reliance on market forces has not been sufficient to compensate for the decline of the role of the state in the housing sector. For this reason, the housing needs of the poor and vulnerable are often not adequately addressed. The availability of affordable housing, however, is crucial for an individual’s well-being as well as for ensuring a social cohesive society. It is also an important factor for economic productivity: affordable housing is a prerequisite for labour mobility and an essential part of the creation of a policy environment conducive to enterprise formation and job creation. Realizing this, countries are increasingly searching for ways to effectively and efficiently address the housing concerns of those most in need, and the provision of social housing is an important tool to achieve this (UNECE 2004).

Housing is also a key issue in the slums of the rapidly growing cities of developing countries. This problem has been successfully addressed by public housing policies over the last 50 years in Singapore and Hong Kong, two of the most densely populated cities in Asia. In both cities, the programmes were started to deal with the problem of rapidly growing slum settlements, building hundreds of thousands of homes for rent. Public housing was later used to provide middle class housing as well, without rent subsidies. In Singapore, 85% of the population live in public housing, either rented or on a 99-year lease. Policies ensure that estates and new developments include a mix of different racial and social groups. Half the population of Hong Kong – over three million people – live in public housing; two million of them renting.

The global financial crisis has thus sharpened the need to rediscover the value of social housing. At the height of the crisis, in October 2008, the UN released a statement by its housing expert, Raquel Rolnik, arguing that the crisis shows markets alone cannot ensure housing for all, and demanded a re-appraisal of social housing policies:

The belief that markets will provide adequate housing for all has failed. The current crisis is a stark reminder of this reality, … A home is not a commodity – four walls and a roof. It is a place to live in security, peace and dignity, and a right for every human being …
Excessive focus on homeownership as the one and single solution to ensure access to housing is part of the problem … adequate housing for all is a public goal whose achievement requires a wide variety of arrangements, from tax advantages to buy a home to better legal protection for tenants and rent control areas; from direct subsidies to the poor to publicly owned housing and a range of tenure arrangements. Markets, even with appropriate regulation, cannot provide adequate housing for all” (Rolnik 2008)

This was followed by a statement from the Executive Director of the United Nations Human Settlements Programme (UN-Habitat), Anna Tibaijuka, who told a UN-Habitat Committee meeting that:

Rapid, chaotic urbanization and the dearth of affordable housing were the underlying causes of the current financial crisis, and they could only be resolved through public financing and political will … housing was the repository of national wealth, as well as a market product and a social good” (Tibaijuka 2008).

Environment: public funding to address climate change

The greatest single challenge facing the countries of the world is dealing with climate change. The measures required include switching to renewable energy sources for generating electricity, investing in more energy-efficient industrial processes and more energy-efficient homes, and developing public transport systems to reduce the use of cars.

The global costs of all the measures required to cut carbon emissions by the necessary amount are estimated at between 1% and 3% of global GDP. The UN estimates that about three-quarters of this will have to come from public finance. These figures mean that globally, public spending will have to be higher by about 1.5% of total GDP, just on account of actions to deal with climate change.

The process has already started. The stimulus packages introduced by governments to counter the recession include many ‘green’ investment projects, estimated to be worth over $436 billion in total – all from public finance. This part of the stimulus packages will not be phased out when the crisis is over: spending will have to continue at this level, and higher, for decades, in order to counter climate change.

The process of moving to sustainable energy patterns will itself create jobs. It is estimated that in the USA $1billion of government spending on green energy projects will create 33,000 jobs. Groups of trade unionists in a number of countries have developed proposals for public investment programmes of energy efficiency, public transport, and development of renewable energy sources, which could create a million jobs per year.

Developing countries require investment of $100billion per year by 2020, according to the UN Climate Summit (COP15) in Copenhagen, December 2009. The IMF estimates that 60% of this must be provided from public finance, through a combination of: (a) governments giving public finance as ‘initial capital’ for a green fund; (b) increased borrowing by issuing new government bond; (c) public finance to subsidize grants and cheap loans; and (d) new tax revenues e.g. through carbon taxes (IMF 2010).
At the same time, in developing countries, the process of electrification itself needs to be extended—requiring a further USD $35 billion per year, and needing both public finance and aid finance to support it. It will create extra demand for electricity, but at the same time it will replace the inefficient and polluting diesel generators which are widely used in many countries in both urban and rural areas where electricity connections do not exist. Further efficiencies can be gained through use of public procurement. For example, in both Uganda and Vietnam “the bulk procurement of 1 million compact fluorescent lamps substantially reduced the cost of the lamps and cut peak demand by 30 megawatts (World Bank 2010).

These policies require coherent planning and financing in a way which the market cannot deliver. One consequence is that public authorities are beginning to suggest that the liberalization of electricity markets in the north may have to be reversed (see box). Even within liberalized markets, it is only the state-owned companies which invest in research and development (R&D); the private sector does not invest in R&D:

The last two decades have witnessed a staggering decline of R&D investment in the fields of energy and electricity. This paper contends that this widespread phenomenon is mainly ascribable to the processes of liberalization and privatization of electricity markets which have induced electric utilities to dramatically reduce R&D expenditures. However, a closer inspection to recent data concerned with ten major electric companies of the world shows that not all of them behaved in the same way. The drop of research expenditures was particularly strong among the private or newly privatized companies, while those that remained under public control did not reduce R&D efforts (Sterlacchini 2010).

Box G. Renewable energy

Official bodies in EU countries are beginning to question whether the necessary investment can be delivered under a liberalized electricity system, because historically low-carbon energy has only ever been delivered by state investment. A UK report in 2009 pointed out that countries with a high proportion of non-carbon generation have built their capacity through large-scale government investment, not through markets, and concluded that: “Several countries already source over 70% of their power generation from low-carbon sources. For these, investment has typically only occurred with substantial government intervention, even where markets have subsequently been liberalized … We should not accept the significant risks and costs associated with the current market arrangements [in the UK and EU]: changes to the current arrangements are both required and inevitable” (UK Committee on Climate Change 2009).

Interim conclusion

This article has reviewed the economic and social role of public spending. In the wake of the financial and economic crisis, there are strong pressures being exerted to reduce public spending and the public sector, even at the expense of higher unemployment and economic recession.

The arguments advanced for these cuts focus on the ‘affordability’ of public services, the desirability of keeping taxation low, and the effects of government borrowing. These arguments are part of a political process, and are being resisted through political action.
The next article looks at these issues, and at the actors in this process include the IMF and other international bodies such as the G20 and the European Union. It will also discuss the future of public spending.

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Is there Hope for Budget Transparency? Findings from the Open Budget Survey 2010

Harika Masud
Open Budget Initiative
International Budget Partnership

Abstract
In October 2010, the International Budget Partnership (IBP) released the Open Budget Survey 2010 (OBS), the only independent, comparative and regular measure of budget transparency around the world. As in the OBS 2008, the results of the 2010 Survey confirm that the overall state of budget transparency around the world is poor. However, it also finds that budget transparency seems to be on a positive trajectory over time, and that several countries have taken basic steps to improve their budget transparency scores. This article examines this positive trend in budget transparency, and argues that a global norm on budget transparency is needed to ensure that the progress continues.

Introduction: Why Is Budget Transparency a Concern?
A few years ago, the Uganda Debt Network (UDN) and its partner organizations documented the misuse of the School Facilities Grant, which the government had introduced to fund improvements in education infrastructure in poor communities. Their report caught the attention of the Office of the Prime Minister, which ordered an official investigation. This investigation confirmed many of UDN’s findings and resulted in the dismissal of the district tender board and the rebuilding of poorly constructed school classrooms. Furthermore, the government revised the School Facilities Grant guidelines to help improve the quality of future projects funded by the grants. Contractors are now required to submit performance guarantees declaring that they will do quality work and deliver all projects on time. They are also required to submit bank guarantees that cover any advances released to them for project uses. This ensures that if a contractor fails to meet the terms of the contract, the government can recover the amount directly from the contractor’s bank.

Such examples give lie to the assertion of skeptics who continue to believe that budgets are the exclusive preserve of the government, and that the public cannot use budget information to participate in policy making and work with the government to improve social outcomes. Therefore, budget transparency has emerged as a key component in governance reform, particularly since citizens around the world frequently lack at least some of the most basic information about government decisions and actions at every stage of the budget process.

The International Budget Partnership’s Open Budget Survey 2010 assesses whether governments provide their citizens with timely, comprehensive, and useful budget information; whether oversight institutions, including the legislature and external auditors, are effectively performing their role; and whether the public has opportunities to participate in the budget process. Calculated using a subset of Survey questions, the Open Budget Index (OBI) focuses more
specifically on the public availability, comprehensiveness, and timeliness of budget information in eight key budget documents. 4 (Table 1)

<table>
<thead>
<tr>
<th>Table 1: Eight Key Budget Documents Issued During the Fiscal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A Pre-Budget Statement</strong> presents the assumptions used in developing the budget; expected revenue, expenditure, and debt levels; and the broad allocations among sectors.</td>
</tr>
<tr>
<td>An <strong>Executive’s Budget Proposal</strong> presents the government’s detailed declaration of the policies and priorities it intends to pursue in the upcoming budget year.</td>
</tr>
<tr>
<td>A <strong>Citizens Budget</strong> is a simplified summary of the budget designed to reach and be understood by as large a segment of the population as possible.</td>
</tr>
<tr>
<td>An <strong>Enacted Budget</strong> is the legal document that authorizes the executive to implement the policy measures the budget contains.</td>
</tr>
<tr>
<td>Monthly or quarterly <strong>In-Year Reports</strong> report on revenues collected, expenditures made, and debt incurred.</td>
</tr>
<tr>
<td>A <strong>Mid-Year Review</strong> provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the current fiscal year.</td>
</tr>
<tr>
<td>A <strong>Year-End Report</strong> summarizes the financial situation at the end of the fiscal year and includes an update on progress made in achieving the policy goals of the Enacted Budget.</td>
</tr>
<tr>
<td>An annual <strong>Audit Report</strong> covers all activities undertaken by the executive and it is issued by an external audit institution that is independent from the executive.</td>
</tr>
</tbody>
</table>

An earlier article for this journal discussed the findings of the Open Budget Survey 2008 and provided an overview of budget transparency issues worldwide and background on the research. 5 This article focuses on the 2010 Survey findings, in particular those indicating an emerging upward trend in budget transparency scores, and suggests an outline for a global budget transparency norm that could help sustain the positive trajectory in budget transparency.

**The Open Budget Survey & Recent Findings**

The Open Budget Survey has a number of advantages over other tools that have been developed to assess budget transparency, such as the International Monetary Fund’s (IMF) Reports on the Observance of Standards and Codes (ROSCs) or assessments carried out using the Public Expenditure and Financial Accountability (PEFA) methodology. First, the OBS is independent. While governments are invited by the IBP to comment on the Survey results, the OBS

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4 For further details about the Open Budget Survey methodology, please visit [http://internationalbudget.org/what-we-do/open-budget-survey/research-resources/?fa=methodology](http://internationalbudget.org/what-we-do/open-budget-survey/research-resources/?fa=methodology).

assessments are carried out by independent researchers and reviewed by two independent and anonymous peer reviewers. They do not require government consent, and cannot be censored. Second, it is the only assessment which focuses primarily on public access to budget data, in addition to broader public finance management practices and procedures. Third, the Open Budget Survey collects data across countries simultaneously, so that the resulting dataset provides a comparative snapshot of fiscal transparency at one point in time, regularly and on a biennial basis.

In October 2010 the IBP released the results of the third round of the Open Budget Survey, covering 94 countries. The main findings can be summarized as follows:

**The overall state of budget transparency is poor.** The average Open Budget Index (OBI) score for the countries surveyed in 2010 is 42 out of 100. Only a modest minority of countries can be considered to have open budgets, while a large number of countries provide grossly insufficient budget information to their citizens. In 41 countries, the amount of information provided is acutely inadequate. This includes 19 countries in which only minimal information is provided (those with OBI 2010 scores between 21 and 40), as well as 22 countries in which little to no budget information is provided.

The 2010 Survey found that many of the eight key budget documents are not publicly available. When all of the documents for the 94 countries assessed are considered, nearly half of the key reports were not accessible to the public. Two of every three countries do not issue a Pre-Budget Statement or release a Mid-Year Review. Five in six countries do not publish a Citizens Budget. Most of the budget documents that are not published by governments are not produced at all (e.g., in 40 countries no Mid-Year Reviews are produced). However, governments produce a surprisingly large share of documents but use them for internal purposes only. Of the budget documents that surveyed governments fail to publish, 42 percent are in fact produced. For instance, all of the 22 countries that fail to release the Executive’s Budget Proposal to the public do produce this document for internal purposes.

Countries performing poorly on the OBI tend to share certain characteristics — such as low levels of income, geographical location in Africa and the Middle East, low levels of democracy, and dependence on revenues from foreign aid or from the sale of hydrocarbons. These characteristics, however, are not necessarily deterministic of budget transparency. For instance, countries with relatively low GDP per capita, such as India ($2,941), perform much better compared with wealthier countries with higher GDP per capita, such as Saudi Arabia ($23,221). There are also countries that are heavily dependent on revenues from the sale of hydrocarbons (e.g., Colombia), or on donor aid (e.g., Mongolia) that also perform relatively better on the Open Budget Index. Jordan and Egypt in the Middle East, and South Africa and Botswana in sub-Saharan Africa outperform their regional counterparts.

Preliminary research findings reveal that higher national income and stronger democratic institutions are significantly correlated with more transparent budgets, while geographical location is not. Oil dependency seems to constitute more of a problem in countries with autocratic regimes, while the impact of foreign aid needs to be investigated further, looking at

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6 Please refer to [www.openbudgetindex.org](http://www.openbudgetindex.org) for the full rankings and results.
various aid modalities and donors’ direct efforts at improving budget systems in recipient countries. Some of these patterns are being further investigated to better understand the key determinants of budget transparency in follow-up research that the IBP intends to finalize by the end of 2011.

OBI 2010 scores also show that, in general, Francophone African countries tend to score quite low on measures of budget transparency (e.g., both Senegal and Niger have an OBI score of 3), especially when compared to Anglophone countries in the same region. This may be due to certain features and traditions of public expenditure systems in former French colonies in contrast to former British colonies. Mali’s OBI score of 35 and France’s score of 87 seem to defy such generalizations, but this could be an interesting area where further research is needed.

Poor budget transparency is compounded by weak oversight institutions, including legislatures and supreme audit institutions (SAIs). For the 94 countries surveyed the average 2010 score for “strength of the legislature” is 44 out of 100. Only 16 countries, such as South Africa, South Korea, Sri Lanka, are considered to have strong legislatures, scoring 67 out of 100 or more. A larger number of countries, 35, were found to have weak legislatures, scoring 33 or less out of 100. The average score for the strength of the budget oversight of SAIs is 49. Only 24 of the 94 countries surveyed have strong SAIs, while those in 32 countries are weak. Table 2 shows that on average SAIs and legislatures in Western Europe perform the most effective oversight of the budget process, but oversight institutions in the Middle East and North Africa have not demonstrated the ability to do the same. Notably the average OBI 2010 scores for both these regions are strongly correlated with the scores for budget oversight institutions, both low.

<table>
<thead>
<tr>
<th>Region</th>
<th>Legislative Strength</th>
<th>SAI Strength</th>
<th>Average OBI Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia &amp; the Pacific</td>
<td>38</td>
<td>48</td>
<td>42</td>
</tr>
<tr>
<td>Eastern Europe &amp; Central Asia</td>
<td>50</td>
<td>60</td>
<td>52</td>
</tr>
<tr>
<td>Latin America &amp; the Caribbean</td>
<td>41</td>
<td>51</td>
<td>43</td>
</tr>
<tr>
<td>Middle East &amp; North Africa</td>
<td>28</td>
<td>24</td>
<td>23</td>
</tr>
<tr>
<td>South Asia</td>
<td>44</td>
<td>47</td>
<td>48</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>40</td>
<td>36</td>
<td>28</td>
</tr>
<tr>
<td>Western Europe &amp; the U.S.</td>
<td>72</td>
<td>79</td>
<td>74</td>
</tr>
<tr>
<td>Overall Average</td>
<td><strong>44</strong></td>
<td><strong>49</strong></td>
<td><strong>42</strong></td>
</tr>
</tbody>
</table>

Source: Open Budget Survey 2010

In order to perform its budget oversight function effectively, the legislature must have access to timely and comprehensive information regarding the executive’s budget. In 47 of the surveyed countries, members of the legislative branch are shut out of the executive’s deliberations to determine budget priorities for the fiscal year. While international best practice calls for the budget to be presented to the legislature for consideration at least three months prior to the start
of the budget year, only 39 countries meet this criterion. In 8 countries the legislature gets an opportunity to review the budget only after the fiscal year has already started.

Public hearings organized by the legislature constitute one avenue for the public to be informed about the upcoming budget and to participate in the budget process to ensure that their priorities are reflected in the budget. However, the 2010 Survey finds that, in general, legislatures are not opening their budget discussions to the public, including the media. In 68 of the 94 countries surveyed, legislatures do not organize any public hearings at which the public is given an opportunity to testify on the budgets of individual ministries. Further in 35 countries included in the Survey, all legislative budget discussions involving the executive are closed meetings; the public is excluded altogether from observing these meetings, even if they are committee hearings, and no public record of the meetings is provided.

In order to perform effective oversight, the SAI needs an annual budget that is sufficient to meaningfully exercise its mandate and release Audit Reports in a timely manner. Unfortunately in 45 of the 94 countries surveyed, the annual budgets of the SAIs are less than the amounts they reportedly require to perform their oversight roles effectively; further, in 19 of these countries, the SAI’s budget is actually determined by the executive (which can limit the SAI’s ability to implement its audit agenda by providing inadequate funding for it to function effectively). In 49 countries, Audit Reports are either not published at all or are published more than a year after the end of the budget year for which they were produced — thereby greatly reducing the opportunity for these reports to be used to compel corrective actions.

In spite of these worrying findings, the latest Open Budget Survey has also revealed that over time the general trend toward greater budget transparency is positive. The next section presents how several countries have been able to improve.

A Positive Outlook for Budget Transparency

Even though the 2010 Survey reports major constraints in public access to basic budget data, the Survey series records improvement in budget transparency practices over the past four years. The average score received by the 40 countries in the 2006 Survey for which comparable data is available for all three rounds rose from 47 out of 100 to 56 in the 2010 Survey. Similarly, the average score for the 78 countries that were included in the 2008 Survey for which comparable data is available has increased from 40 to 43 in the 2010 Survey.

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>2006</th>
<th>2008</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afghanistan</td>
<td>NA</td>
<td>8</td>
<td>21</td>
</tr>
<tr>
<td>Angola</td>
<td>5</td>
<td>4</td>
<td>26</td>
</tr>
<tr>
<td>Argentina</td>
<td>40</td>
<td>56</td>
<td>56</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>30</td>
<td>37</td>
<td>43</td>
</tr>
<tr>
<td>Croatia</td>
<td>42</td>
<td>59</td>
<td>57</td>
</tr>
<tr>
<td>Egypt</td>
<td>19</td>
<td>43</td>
<td>49</td>
</tr>
<tr>
<td>Georgia</td>
<td>34</td>
<td>53</td>
<td>55</td>
</tr>
<tr>
<td>Ghana</td>
<td>42</td>
<td>50</td>
<td>54</td>
</tr>
<tr>
<td>India</td>
<td>53</td>
<td>60</td>
<td>67</td>
</tr>
</tbody>
</table>
Some governments — especially those that scored very low in earlier rounds of the OBS — achieved these improvements largely by taking one basic and inexpensive step: they began to make available on their websites the budget documents that they had been producing for internal government audiences or donors. In many cases, these governments began to publish their Executive’s Budget Proposal, arguably the most important domestic policy document produced by any government. For example, the Liberian and Yemeni governments published their budget proposals for the first time in 2009. Other governments that scored higher in earlier rounds of the Survey improved by increasing the comprehensiveness of their published budget documents, especially the Executive’s Budget Proposal and Audit Reports. This is the case in India, Colombia, and Sri Lanka, who increased their OBI scores by publishing more comprehensive budget proposals. Notable improvers in the OBI series include Egypt, Mongolia, and Uganda.

A particularly interesting case is Liberia, whose OBI score increased from 3 in the 2008 Survey to 40 in 2010, as the government began to publish a number of documents that it had previously withheld from the public, including the Executive’s Budget Proposal, In-Year Reports, the Mid-Year Review, and the Audit Report. The improvements resulted from a number of positive developments. First, the government started implementing reforms in its public finance management systems in 2007. The reforms were prompted in part by the government’s desire to join the Heavily Indebted Poor Countries Initiative to benefit from debt cancellation. Second, in 2008 the Liberian legislature enacted a Public Finance Management (PFM) law that clarifies the budget system to be followed by the government. The legislature also approved a law that limits the amount of funds the executive can transfer from one administrative unit to another at its own discretion; large transfers now require prior authorization from the legislature. Third, the Liberian SAI also began to publish its Audit Reports, as well as press releases on the Audit Reports, on the same day it submits these reports to the legislature. The SAI has also begun to distribute copies of its Audit Reports to civil society organizations (CSO) and make them available in schools and public libraries. The SAI holds open forums in various provinces and invites communities to ask questions and provide suggestions. The SAI has established a hotline that people can call, and many of the SAI’s audits are undertaken in response to recommendations from the public.
Rwanda’s OBI score increased from 1 in the 2008 Survey to 11 in the 2010 Survey. Since 2006 the Rwandan government has implemented a number of reforms in its PFM systems. In 2006 the country passed a law on state finances, in 2007 a ministerial order on financial regulations was introduced and a manual on government financial management and reporting policies and procedures was developed, and in 2008 a new chart of accounts for the budgets was adopted. Therefore, when received an OBI 2008 score of 1 the Rwandan government and donors were understandably surprised and confused. However, the reason behind the low OBI score in the wake of the reforms is the Rwandan government did not publish any of the eight key budget documents assessed by the OBS 2008 prior to the cut-off date for the Survey assessments, which was September 2007. Since then, donors to Rwanda, as well as representatives from the Rwandan government have approached the local OBI researcher and the IBP to discuss budget transparency issues in the country and to identify ways by which Rwanda’s OBI score can be improved. Ongoing PFM reforms have increased the government’s technical capacity to produce budget reports and made the government more comfortable about publishing these reports. During the OBI 2010 assessment the government was found to have released a Citizens Budget, a Pre-Budget Statement, a Year-End Report, and an Audit Report. This is reflected in Rwanda’s increased OBI 2010 score, which could be improved much further if the executive were to release the draft budget before the budget law is passed.

In the Middle East, Yemen’s score on the OBI more than doubled from 10 in the 2008 Survey to 25 in the 2010 Survey, a gain of 15 points. This improvement results from the fact that in 2009 the government published a number of budget documents that it had not previously published, including the Executive’s Budget Proposal and Year-End Report. When the OBI 2008 results were released, Yemen’s Ministry of Finance expressed concerns over the country’s low score. The ministry was also concerned about Yemen’s low score vis-à-vis some of its neighbors, particularly Egypt, which scored 43 on the OBI 2008. The local OBI researcher for Yemen suggests that the Ministry of Finance begin to publish the Executive’s Budget Proposal and other budget reports when it realized that it could improve its score simply by publishing on its website documents it was already producing for internal use.

A preliminary assessment of the conditions that can lead to an improvement in budget transparency indentify the following factors:

- **Changes in government.** Improvement can occur after elections that result in a new government or the appointment of a new official committed to greater transparency. For example, in Ukraine a new finance minister changed a policy to require more documents to be published in order to improve discipline in the ministry, and in Azerbaijan a new head of the SAI made the national Audit Report public.

- **Internal pressure.** Budget transparency can increase due to pressure from the legislature and CSOs within a country. For example, in Liberia legislators have been supporting demands for greater transparency, and in the Democratic Republic of Congo civil society groups have been successful in advocating for greater transparency.

- **External pressure.** Improvements in budget transparency can result from external pressure exerted by donors and from initiatives like the Heavily Indebted Poor Countries
Initiative and the OBI. For example, in Mongolia pressure from donors appears to have resulted in greater budget transparency.

- **Technical assistance.** Budget transparency improvements can be facilitated by technical assistance provided to countries. For example, experts from international development agencies or donor funding to support greater transparency helped advance public finance management reforms in Afghanistan and Nicaragua.

At the same time, such hard won gains in budget transparency cannot be taken for granted since the OBI 2010 scores for a few countries declined between 2008 and 2010. For instance, Niger’s OBI score decreased from 26 in 2008 to 3 in 2010. This is because during the research period for the 2010 Survey Niger’s government did not publish its Executive’s Budget Proposal and Year-End Report, which were publicly accessible during the assessment period for the 2008 Survey. Since Niger has not had a parliament since 2009 (when it was dissolved), the Executive’s Budget Proposal and the Year-End Report could not be approved by the legislature, and the documents could not be published without this approval.

The next section addresses how governments can take some simple steps to improve their budget transparency, and how a global norm on budget transparency would ensure that an increasing number of governments enact the necessary reforms and stick to their commitment to budget transparency over time.

**Promoting Improvements in Budget Transparency**

The findings of the 2010 OBI confirm that countries committed to fiscal transparency reform can expand budget transparency in a relatively short period of time with little effort. If countries were to publish all of the budget documents they already produce, this would require very little in the way of additional effort or cost by the governments involved, but would dramatically improve the openness of budgets in large parts of the world.

To increase the public availability of budget information, governments could provide free and timely access to all budget documents by simply posting them on their websites. Further, those governments that have already begun to publish information on their websites should use easily downloadable formats and develop an archive system for prior years’ budget reports. Countries should also make hard copies of budget documents available in national and local libraries and in information desks maintained in government offices.

Governments willing to promote budget transparency can take these basic steps to launch their transparency agenda, but what about governments that are unwilling to do the same?

The IBP believes that unless there are global norms about the value of and standards for transparency and public participation in budget processes, many governments will find it easier to keep their budgets closed. Despite the fact that there are existing guidelines that define transparency in terms of access to information, these do not acknowledge that there is no way that the budget can be used to hold governments accountable in the absence of mechanisms that allow legislatures, media, civil society and individual citizens to discuss, debate, influence and monitor the budget process.
Global norms around budget transparency and participation should establish the following three guarantees:

- **Public access to information on budget processes, policies, and results.** This information should be timely to allow input into the policy process, useful in that it enables appropriate independent analysis, and accessible to enable the public to understand and interpret the data. Budget information should be contained in the set of eight key budget documents released throughout the year, as prescribed by international good practices, and further detail should be guaranteed upon request.

- **Opportunities to participate meaningfully in the budget process.** The norm should promote effective public participation in the budget process through a number of practical mechanisms congruent with the constitutional roles of the legislature, executive, and Supreme Audit Institution. The legislature should provide the first opportunity for public participation by convening open public hearings at each stage of the budget process, including the opportunity for civil society to provide testimony. In addition, direct public engagement with the executive branch is also necessary, particularly to allow constructive input into the development of the budget. To bolster public oversight of budget execution, the Supreme Audit Institution should offer opportunities for the public to suggest topics to audit and participate in the external audit process. One example of this is South Korea’s SAI that has established an audit request system through which the public requests audits of projects or agencies they are concerned about.

- **Domestic and international implementation mechanisms.** Effective implementation will likely involve a combination of some subset of the following: access to legally protected opportunities for participation in the budget process that are guaranteed by an independent commission or ombudsman; effective monitoring through multiple mechanisms; resources, support, and incentives for capacity building, compliance, and good practices; and access to international arbitration in cases in which these national mechanisms fail.

While these norms should promote and be congruent with the constitutionally prescribed roles of the legislature, SAI, and the judiciary, they should also establish the right of the public to information on the use of public resources, and the government’s responsibility to provide such information proactively.

**Conclusion**

The Open Budget Survey 2010 finds that 41 out of the 94 surveyed countries provide acutely inadequate budget information to their citizens and that the average Open Budget Index score for all 94 countries is a mere 42 out of 100. At the same time the Survey draws upon its time series data to attest to quick and significant leaps in budget transparency that occurred as a consequence of changes in government, advocacy by civil society, or donor pressure in a variety of countries, regardless of income level, geographic location, or dependence on aid or hydrocarbon revenues.
Even though political will on the part of governments to endorse and implement budget transparency reforms is paramount, the link between poor budget transparency and inadequate budget oversight by legislatures and audit institutions also emphasizes and the critical need for these institutions to have the capacity and resources to engage effectively in the budget process. A number of diverse examples demonstrate that given political space civil society initiatives can succeed in holding governments accountable for their management of public funds. However, the IBP recognizes that political will can neither be taken for granted nor always be sufficient to prevent deterioration of budget transparency in some countries. Therefore, the establishment and implementation of global norms for budget transparency that guarantee access to budget information and opportunities for public participation are important, particularly to convince governments that currently have no incentive or interest taking steps to increase their budget transparency.

For more information on the Open Budget Initiative please contact Harika Masud at masud@cbpp.org or visit www.openbudgetindex.org.

References


La Décentralisation Dans Les Pays En Développement

Mohamed MOINDZE,
moindzemoh@yahoo.fr
Consultant en gestion des finances publiques,
Ecole Nationale d’Administration de Madagascar (ENAM)

Résumé
La décentralisation s’impose dans les pays développés comme dans les pays en développement comme un nouveau modèle en matière d’amélioration de la gouvernance publique. Cependant, sa mise en œuvre pose un certain nombre de difficultés (dilution de responsabilités, clientélisme local, difficultés de gestion macroéconomiques, disparités entre les entités décentralisées, difficultés de coordination des politiques de développement,…) auxquelles l’auteur tente de remédier en proposant quelques principes fondamentaux à observer dans les phases d’élaboration et de mise en œuvre d’une politique de décentralisation. Ces principes sont tirés de l’expérience vécue et de l’analyse de l’auteur. Il convient donc de retenir que leur application ne peut être identique dans tous les pays étant donné qu’ils doivent être adaptés au contexte politique et institutionnel qui varie d’un pays à l’autre.

Introduction
Bien que la décentralisation existe depuis bien longtemps dans les pays développés, ce n’est que depuis les années 1990, suite à l’effritement des systèmes politiques monopartites et à la tendance générale à alléger le fonctionnement des états « modernes » poussée souvent par les partenaires internationaux de la coopération, que la grande majorité des pays en développement et en transition s’est engagée dans de tels programmes, à des degrés variables et avec des objectifs différents. Même si une convergence n’est totalement établie ni sur la définition de la décentralisation, ni sur les liens relationnels qu’elle suscite, ni sur les limitations budgétaires des diverses administrations créées, il est nécessaire que les relations entre les différents échelons de l’organisation étatique fonctionnent bien pour favoriser une interconnexion judicieuse capable de relever les nombreux défis de nature politique, économique ou social, notamment la reconstruction de l’État, la lutte contre la corruption, la confiance dans l’État et ses diverses institutions, la promotion de la participation citoyenne dans la gestion des affaires publiques, la lutte contre la pauvreté et la réalisation des objectifs du millénaire pour le développement (OMD). Néanmoins, cette tâche n’est pas simple dans la pratique. Elle soulève une série de questions qui, sans réponses adéquates, peuvent conduire à des situations pires que celles d’avant la décentralisation.

L’expérience a montré des résultats variés et parfois décevants qui peuvent avoir plusieurs causes, dont entre autres, une volonté politique insuffisante pour « décentraliser », un manque de clarté dans la répartition des compétences, une adéquation insuffisante entre les pouvoirs délégués et les capacités, une faible coordination des politiques,… En principe, la décentralisation consiste en un transfert des compétences décisionnelles, administratives et financières de l’État central à des instances territoriales de juridiction inférieure. Elle doit
modifier la structure des pouvoirs publics et les relations qui existent entre l’Etat et collectivités territoriales; ce qui n’est pas sans provoquer des résistances ouvertes ou cachées susceptibles de ralentir le processus.

Ce document s’inspire des expériences passées ou en cours pour servir de repère méthodologique dans l’élaboration et la mise en œuvre des programmes de décentralisation. Pour autant, il ne doit pas être considéré comme un manuel de procédures proposant des solutions « passe-partout »; la décentralisation étant un domaine complexe qui est loin d’être de l’uniformisation. Chaque pays la conçoit et la met en œuvre selon son organisation institutionnelle, ses capacités et ses objectifs. Toute tentative d’importation de techniques de pointe est vouée à l’échec si la mise en œuvre est faite de manière « big-bang ». Les bonnes pratiques internationales recommandent que les processus de décentralisation accordent une attention particulière au contexte économique, social et politique de chaque pays.

Le présent document entend présenter quelques « bons principes » dont les réformateurs peuvent s’inspirer pour assurer le succès de la décentralisation dans les pays en développement. Il procède à une analyse du concept sous l’angle à la fois légal et budgétaire. Il soulève de nombreuses questions que les diverses parties prenantes (gouvernement central, partis politiques, société civile et partenaires au développement) doivent examiner et y trouver de réponse avant de lancer le processus. Ce document est ainsi organisé:

- la section 1 donne un aperçu général de la définition de la décentralisation et ses principales dimensions ;
- les sections 2, 3 et 4 traitent successivement des principales motivations de la décentralisation, des avantages qui en découlent et des difficultés de mise en œuvre que les pays peuvent éprouver ;
- la section 5 examine en détail les questions d’ordre pratique concernant l’élaboration et la mise en œuvre de la décentralisation, notamment la répartition des compétences en matière de dépense, d’affectation des ressources, de gestion macroéconomique, de cadre juridique,…
- La section 6 évoque les leçons tirées de diverses expériences en présentant des principes directeurs à appliquer pour réussir la décentralisation ;

Il est à préciser que ce document traite de la décentralisation. Néanmoins, la plupart des commentaires et principes évoqués sont aussi valables en grande partie pour les systèmes fédéraux, que ce soit au niveau des relations entre l’administration fédérale et les entités fédérées, qu’au niveau des relations entre les entités fédérées et leurs collectivités locales.

0. Qu’est que la décentralisation?

La décentralisation consiste en un transfert de prérogatives d’une personne publique de niveau supérieur de gouvernance vers des personnes morales de droit public de niveau inférieur8. Il peut s’agir de prérogatives administratives (transfert de fonctionnaires et de missions publiques au niveau local), budgétaires (délégation de ressources et incapacités à exercer des activités rémunératrices), politiques (délégation de pouvoir de prise de décisions), ou encore d’une

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8 Dans ce document, la personne publique de niveau supérieur est l’Etat et celle de niveau inférieur, une collectivité publique territoriale.
combinaison entre ces différents pouvoirs. Plus généralement, le concept « décentralisation » recouvre trois types d’arrangements institutionnels qu’il convient de distinguer :

- **La déconcentration** consiste à transférer des responsabilités de l’administration centrale à ses représentations situées dans les régions (généralement en dehors de la capitale). Elle s’oppose à la *concentration* qui est un système administratif dans lequel le pouvoir de décision est concentré au niveau central de l’appareil de l’État et qui peut avoir pour conséquence le ralentissement des prises de décisions aux niveaux excentrés. La déconcentration est une technique d’organisation administrative qui vise l’accélération des prises de décisions au niveau local par l’attribution des responsabilités du gouvernement à ses services excentrés plutôt qu’à ses services centraux généralement situés dans la capitale. Odilon Barrot⁹ l’a caricaturé comme suit: « C’est le même marteau qui frappe mais on en a raccourci le manche ».

- **La délégation** désigne le transfert de pouvoir et de responsabilité de l’État central à des entités souvent semi-autonomes (c’est-à-dire qui ne sont pas contrôlées directement par le gouvernement central, puisqu’elles ont une personnalité morale et un budget autonome, mais qui sont légalement tenues de lui rendre des comptes, comme les *entreprises publiques ou agences*). Les collectivités locales peuvent être amenées à offrir certains services bien précis qui leur sont délégués par l’État central ou l’échelon de gouvernement supérieur (elles sont alors les réciendaires des compétences et des ressources déléguées). C’est le cas, par exemple, des communes lorsqu’elles s’occupent de l’enregistrement des actes de l’état civil.

- Enfin, **la dévolution** (qui est la traduction littérale du terme anglais **« devolution »**) est la forme la plus poussée de la décentralisation dans le sens où elle opère un transfert de compétences et de responsabilités à des personnes morales de droit public élues par les administrés et désigne un arrangement au sein de l’administration publique, en vertu duquel des instances distinctes de l’autorité centrale sont juridiquement instituées. Les représentants locaux de ces instances sont (progressivement) dotés de pouvoirs décisionnels concernant un ensemble variable de thèmes politiques et ont (progressivement) accès à des ressources qu’ils peuvent utiliser à leur discrétion. Elle ne peut exister que si les instances locales disposent d’une autorité suffisante pour embaucher ou licencier du personnel, prélever des impôts, conclure des contrats, faire des dépenses et des investissements, élaborer des plans, définir des priorités et fournir des services. Elle se confond simultanément avec la décentralisation politique¹⁰ et la décentralisation budgétaire¹¹ (Daflon & Mattiès, 2008, p.16). La dévolution est définie comme la « véritable » décentralisation puisqu’elle comprend la délégation des responsabilités et des ressources à des autorités infranationales autonomes qui sont responsables, non pas devant le pouvoir central, mais devant les citoyens des territoires concernés à travers des conseils élus (Rosenbaum, 1998, p. 509).

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⁹ Homme politique français 1791 - 1873
¹⁰ Puisque les pouvoirs locaux ont à répondre de leurs choix devant des assemblées locales élues (*ce qui a pour effet de favoriser une démocratie de proximité*)
¹¹ Puisqu’elle s’accompagne d’une répartition claire des relations financières et des compétences entre échelons de gouvernements qui ont le pouvoir de mobiliser leurs ressources financières (autonomie financière) tout en bénéficiant d’une autonomie budgétaire (sur les dépenses) substantielle.
Le tableau 1 présente chacun de ces types de décentralisation sous trois aspects (les responsables politiques, les responsables de l’exécution et l’origine du financement) ainsi que leurs différences et similitudes. Cette note présente les trois types de décentralisation mais l’accent est mis davantage sur la dévolution qui représente (dans ce document) les mêmes caractéristiques que la décentralisation territoriale « à la française » (cf. encadré 1). Avec cette option, les collectivités territoriales décentralisées jouissent du principe de libre administration (une certaine autonomie de décision et de leur propre budget) sous la surveillance d’un représentant de l’État (l’autorité de tutelle qui est généralement sous l’autorité du ministre en charge de la décentralisation). Celui-ci n’est pas un supérieur hiérarchique mais il contrôle seulement la légalité des actes émis par les collectivités territoriales: ce contrôle est la contrepartie nécessaire du principe de libre administration des collectivités et consacre le caractère unitaire de l’État.

Encadré 1. Décentralisation territoriale et décentralisation fonctionnelle

La décentralisation territoriale permet à des représentants élus (Conseil régional, Conseil général ou Conseil municipal) de régler des affaires administratives. Le préfet dans certains pays de tradition administrative napoléonienne (ou son équivalent dans les autres) est chargé de vérifier la légalité des décisions prises par ces autorités locales.

La décentralisation fonctionnelle ou technique permet à des établissements publics à vocation spéciale comme les universités et les hôpitaux, de disposer d’une certaine autonomie administrative, avec leurs propres organes de décision (ex: conseil d'administration) et un budget autonome. Il s’agit d’une forme d’externalisation de service public. La collectivité de rattachement assure néanmoins un pouvoir de contrôle.

Tableau 1. Trois aspects des trois types de décentralisation

<table>
<thead>
<tr>
<th>Types</th>
<th>Responsables politiques</th>
<th>Responsables de l’exécution</th>
<th>Origine du financement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Déconcentration</td>
<td>Élus nationaux</td>
<td>Agents du gouvernement central</td>
<td>Budget national</td>
</tr>
<tr>
<td>Délégation</td>
<td>Élus nationaux et Élus locaux</td>
<td>Agents du gouvernement local supervisés par des employés du gouvernement central</td>
<td>Budget local, avec ou sans paiements contractuels de l’État central, venant du budget national ou local</td>
</tr>
<tr>
<td>Dévolution</td>
<td>Élus locaux</td>
<td>Agents du gouvernement local (incluant des corps d’employés nationaux)</td>
<td>Budget local : impôts et taxes et /ou transferts de l’État central venant du budget national</td>
</tr>
</tbody>
</table>

1. Pourquoi « décentraliser » ?

Dans les pays en développement et en transition, particulièrement à partir des années 90, la décentralisation fait progressivement son chemin avec l’impératif mondial de démocratisation et de bonne gouvernance. Cet engouement s’explique par l’érosion du concept de l’Etat centralisé responsable du développement et le consensus international pour relever les défis de la lutte contre la pauvreté et atteindre les OMD (objectifs du millénaire pour le développement). Il constitue également une condition nécessaire à l’enracinement de la démocratie, permettant ainsi à une vaste palette de nouveaux acteurs de se faire entendre et de participer aux processus politiques, aux côtés des autorités locales, notamment en exerçant des pressions pour être reconnus comme des partenaires de dialogue (à tous les niveaux pertinents). L’exigence des organisations internationales pour rendre l’aide plus efficace et lutter contre la corruption en est également un autre facteur important. Cette aide est conditionnée à plus de démocratie (avec la naissance du multipartisme) et à des réformes en profondeur de l’Etat, dont la décentralisation.

La décentralisation constitue une des réponses aux diverses crises politiques et institutionnelles éclatées dans de nombreux pays (Comores, Mali, République Démocratique du Congo,…) en redonnant confiance à l’Etat et en réconciliant les diverses parties en conflit. En outre, La décentralisation vise à relever les nouveaux défis (en matière de financement) induits par les réformes opérées par les pays pour répondre aux pressions des sociétés modernes qui ont des attentes nouvelles et différentes, d’une part et à l’impulsion du changement issue des développements technologiques, économiques et sociaux accumulés au cours de la deuxième moitié du 20ème siècle, d’autre part. Elle est susceptible d’atténuer la résistance des sociétés modernes « au paiement d’un impôt financant les administrations lointaines » (Tommasi, 2010, 166) par le rapprochement des citoyens-contribuables à leur administrations. D’autres facteurs tels que le programme Agenda 21 concernant le développement durable et la dynamique créée par les organisations de la société civile jouent un rôle de plus en plus important en faveur de la décentralisation. Il convient de souligner que ces principaux facteurs incitatifs varient d’une région ou d’un pays à l’autre (cf. encadré 2).

Encadré 2. Diversité des facteurs encourageant la décentralisation

- En Amérique latine (où les autorités locales, établies de longue date mais souvent dirigées par des maires nommés au niveau central, étaient généralement dépourvues de moyens financiers et de réels pouvoirs), la décentralisation a été un élément-clé de transition vers la démocratie.
- En Europe orientale et dans l’ancienne Union soviétique, la décentralisation a contribué au processus de transformation politique et économique, autrement dit au passage d’un système socialiste à une économie de marché.

12 Dans certains pays, des régions exprimaient la revendication et la volonté de la décentralisation de manière violente jusqu’à la sécession d’une partie du pays.
13 L’Agenda 21 (ou Action 21) est un plan d’action pour le XXIe siècle adopté par 173 chefs d’État lors du sommet de la Terre, à Rio, en 1992. Avec ses 40 chapitres, ce plan d’action décrit les secteurs où le développement durable doit s’appliquer dans le cadre des collectivités territoriales.
• En Afrique, la décentralisation a été souvent encouragée en vue de consolider l’unité nationale (comme au Mali, par exemple) ou d’améliorer le niveau d’efficacité des services dans le cadre des stratégies de réduction de la pauvreté.
• En Inde, la diversité ethnolinguistique et l’étendue géographique des pays ne sauraient s’accommoder en général à une gestion « centralisée » des affaires publiques.
• Dans certains pays en développement, l’initiative de la décentralisation s’est faite à la demande des populations locales à la recherche d’une grande autonomie dans la gestion des affaires locales et dans d’autres, elle est impulsée et soutenue par les donateurs extérieurs qui voient en cela une grande opportunité pour relever les défis de la lutte contre la pauvreté et atteindre les OMD (objectifs du millénaire pour le développement).
• Les institutions internationales de développement, notamment la Banque Mondiale et le FMI, voient en la décentralisation une opportunité pour affaiblir l’influence de l’administration centralisée de l’État qui est jugée souvent comme corrompue ou source de corruption.

2. Les avantages de la décentralisation
En théorie, la décentralisation devrait avoir un impact positif dans les politiques de renforcement de la gouvernance et de développement, notamment: (i) permettre une adaptation des politiques publiques aux préoccupations des citoyens concernés, (ii) favoriser l’émergence d’une démocratie de proximité ; (iii) réduire les coûts administratifs liés à l’éloignement de la part des administrations publiques mais également des citoyens ; (iv) améliorer la gouvernance (locale) par le renforcement de la capacité de contrôle des citoyens sur les élus locaux, (v) contribuer à la consolidation du processus démocratique à l’échelon national et de la cohésion de l’État ainsi que de l’unité nationale, (vi) contribuer à tirer parti des avantages comparatifs des entreprises locales et du secteur associatif par les partenariats entre le secteur public et le secteur privé, les initiatives locales d’entraide...

Elle pourrait également contribuer à la mobilisation des ressources, en atténuant la résistance des contribuables au financement des activités « lointaines ». En outre, elle jouerait un rôle catalyseur dans la lutte contre la pauvreté dans la mesure où elle devrait i) permettre aux pauvres de mieux se faire entendre ; ii) améliorer leur accès à des services publics de meilleure qualité; et iii) réduire leur fragilité.

3. Les risques liés à la décentralisation
Les bénéfices attendus de la décentralisation ne sont pas automatiques. La décentralisation peut apporter des effets « pervers » surtout lorsque les nouvelles lignes de démarcation des rôles et des responsabilités des différents échelons administratifs ne sont pas clairement définies. L’un de ses principaux risques est celui de dilution de responsabilités pour des raisons d’un manque de clarification des compétences à chaque niveau de l’administration. Un autre facteur de risque est d’accroître ou de créer des déséquilibres au niveau national à cause de choix politiques différents et des ressources inégalement réparties, ce qui a pour conséquence de creuser les disparités entre les différentes collectivités. Dans la réalité, la plupart des pays sont caractérisés par des disparités régionales d’activités et de revenus. Certaines régions en sont plus riches que d’autres et les bases d’imposition par habitant ne sont pas identiques d’une collectivité à l’autre. Une telle situation n’a pas d’incidence importante dans les régimes centralisés puisque les

14 OCDE (2005), Répères n°5, Revue du Centre de développement de l’OCDE
collectivités plus riches contribueront davantage (par habitant) au budget de l’administration centrale. Cela n’est pas le cas dans les systèmes décentralisés où les collectivités décentralisées « mal dotées » auront d’énormes difficultés à boucler leur budget à défaut d’un mécanisme de péréquation (cf. encadré 7 infra).

Un autre risque se rapporte au renforcement du rôle des élites locales qui, à l’instar des autorités du pouvoir central, peuvent être tentées d’abuser de leur propre influence pour satisfaire des intérêts particuliers. Dans une telle situation, la décentralisation ne fait que transformer la corruption au niveau de l’état en clientélisme local. Certains sceptiques caractérisent la décentralisation également comme « une étape marquée vers une privatisation et une déréglementation accrues ainsi que l’abandon par l’État d’un grand nombre de ses fonctions économiques et sociales… »15.

La décentralisation peut, selon certains, compromettre la stabilité macroéconomique surtout lorsque les impôts et taxes, les dépenses et les emprunts infranationaux sont excessifs et que les administrations centrales en perdent la maîtrise. Dans tels cas, il sera impossible à ces dernières de faire face à leur mission de gestion macroéconomique, ce qui poserait d’énormes difficultés à la réalisation des objectifs de politique publique, notamment les objectifs de réduction de la pauvreté. Ainsi une étude du centre de développement de l’OCDE effectuée en 2004 a-t-elle montré que la décentralisation n’avait effectivement provoqué des améliorations en termes de réduction de la pauvreté que dans un tiers de pays. Les chercheurs sont parvenus à un constat encore plus inquiétant : dans les pays où l’État est incapable de remplir ses missions de base et où, au départ, les inégalités sont très marquées, il existe un risque réel de voir la décentralisation aggraver la pauvreté au lieu de la réduire (Jütting, et autres, 2005, p.2-3).

Une autre crainte est qu’il arrive souvent que la décentralisation des compétences ne soit pas suivie d’un transfert correspondant de ressources humaines et financières. Dans de telles situations, les entités décentralisées n’auront pas les moyens de leurs compétences. Il est fort possible que les services des entités décentralisés souffrent d’un déficit de personnels mieux formés et plus compétents. Ceux-ci refusent d’être affectés dans les entités décentralisées, particulièrement celles des zones rurales pour des raisons purement historiques ou liées à des avantages personnels. Il y a un fort risque de voir la pression fiscale augmenter sans qu’il y ait une amélioration du service rendu aux citoyens-contribuables puisque les entités décentralisées pourraient mettre en place de nouveaux et taxes ou augmenter les taux des impôts et taxes existants pour assumer leurs compétences.

Aussi la décentralisation pourrait-elle constituer une menace à l’unité nationale au lieu de la consolider, si elle était mal conçue. Ceci peut être le cas dans les pays à grandes disparités « régionales » quand la gestion des programmes de développement économique et social reste opaque. Dans les pays riches en ressources naturelles, il existe des mouvements sécessionnistes très puissants qui vont jusqu’à réclamer une indépendance de leurs régions.

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15 Slatter, D. 1989. Territorial Power and the Peripheral State : The issue of Décentralisation, Traduction de Markus Steinich dans « Suivi et évaluation de l’appui à la décentralisation : défis et options »
4. Comment « décentraliser » ?

4.1. Généralités

Il n’existe pas de modèle unique de décentralisation qui puisse réussir dans tous les pays (cf. encadré 3) ; Chaque pays conçoit le modèle qui correspond le mieux à son contexte institutionnel, administratif, culturel, géographique et historique et emprunte son propre itinéraire pour la mise en œuvre de sa politique de décentralisation en tenant compte de ses capacités techniques et financières. L’essentiel est de parvenir à la satisfaction des besoins vitaux des populations mais aussi de préserver l’unité de l’État. Il convient de comprendre que l’État est avant tout un ensemble unique et que la décentralisation n’est qu’un moyen pour ce dernier de réaliser ses politiques et atteindre ses objectifs (Bird & Vaillancourt, 1997, p.2). La décentralisation a des coûts en termes financiers qu’il ne faut jamais sous-estimer. Sinon, elle n’aboutira pas aux résultats escomptés.


Les collectivités territoriales peuvent exercer quatre types de compétences: (i) des compétences propres relatives aux intérêts locaux; (ii) des compétences pour le compte de l’État (par exemple, la tenue de l’état civil) ; (iii) des compétences déléguées par l’État ou d’autres collectivités de niveau supérieur et (iv) des compétences partagées entre l’État ou d’autres collectivités de niveau supérieur et la collectivité concernée. Néanmoins, cette quatrième compétence n’est pas à conseiller du fait qu’elle prête souvent à des conflits politiques inutiles entre les diverses collectivités. Les collectivités territoriales sont structurées en général, en un ou plusieurs niveaux, selon les pays.

4.2. La répartition des compétences

La définition claire des compétences au sein des divers niveaux de l’administration publique est nécessaire pour la réussite d’une politique de décentralisation (cependant elle n’est pas suffisante). Elle doit être le point de départ de la conception d’une telle politique en déterminant qui, de l’autorité centrale ou des autorités infranationales, est la mieux placée pour exercer la fonction en question. Sinon, les résultats seront négatifs pour de nombreuses raisons dont : (i) une mauvaise définition des responsabilités qui provoque une mauvaise définition des ressources correspondantes ; (ii) des responsabilités non précises qui amèneront les autorités infranationales à s’investir dans des projets populistes à des résultats à court terme plutôt que dans de « bons » projets ayant un impact positif sur l’économie à long terme et (iii) une dilution des responsabilités (Ebel & Yilmaz, 2001, p.30-31).

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16 Ces types de conflits sont qualifiés souvent de « conflits de compétences ». 
De nombreuses études fournissent des repères pour la répartition des compétences entre les collectivités. L’ONU a établi un principe presque fondamental en la matière: (i) doivent être décentralisées toutes les activités de proximité, celles qui visent à satisfaire des besoins locaux ou/et qui font appel à des sources d’information ou des acteurs locaux pour leur mise en œuvre ; (ii) doivent rester au niveau central celles qui mettent en cause l’indépendance du pays, l’environnement général des personnes ou des principes fondamentaux comme l’égalité devant la justice (Greffe, 2005, p.44). De même, Oates (cité par (Tommasi, 2010, p. 167-168)) a établi un théorème selon lequel « Chaque service public devrait être fourni par la juridiction exerçant un contrôle sur le territoire géographique minimum permettant d’internaliser les avantages et les coûts d’une telle prestation. » En outre, Greffe recommande un transfert des compétences en bloc pour une clarification des responsabilités et une minimisation des coûts au lieu d’un partage entre les différents niveaux (Greffe, 2005, p. 44) tout en précisant que « la mise en œuvre de la décentralisation ne conduit pas à l’exclusion de l’Etat. Mais sa présence ne doit pas non plus le conduire à se comporter comme l’organisation des pouvoirs publics est centralisée. » (Greffe, 2005, p. 60) et que l’Etat cède aux entités décentralisées les tâches territoriales généralistes telles que la mise en œuvre au niveau opérationnel pour se concentrer sur les fonctions telles que les décisions et les fixations des objectifs au niveau stratégique, le respect du droit et la régulation ainsi que la protection de catégories défavorisées et des espaces fragiles.

Tous ces principes sont un corollaire du principe de subsidiarité qui consiste à réserver uniquement à l’échelon supérieur ce que l’échelon inférieur ne peut effectuer que de manière moins efficace17. Ils répondent à un souci de démocratie puisque les décisions doivent « être prises le plus près possible des citoyens ». Ces principes doivent s’inscrire d’une manière claire dans le cadre juridique (cf. infra). Lequel cadre ne permet, d’une manière générale, l’intervention du gouvernement central que lorsque les objectifs d’une action envisagée ne peuvent pas être réalisés de manière efficace par les entités infrinationales.

4.3. **Le cadre budgétaire**

Le cadre budgétaire régissant la décentralisation est un facteur important qui conditionne la réussite de la décentralisation. Il repose en général sur quatre piliers fondamentaux : la répartition des compétences et des responsabilités (i) en matière de dépenses et (ii) en matière de recettes; (iii) les transferts de recettes entre les divers niveaux de l’administration et (iv) l’emprunt. Il est montré ci-dessus que la répartition des dépenses est dérivée de la répartition des compétences (cf. section 6.1). Les entités décentralisées ne peuvent réaliser les missions qui leur reviennent (légalement) que si elles disposent des pouvoirs pour décider de leurs propres dépenses et d’un niveau de ressources suffisantes leur permettant de fournir un niveau « acceptable » de services publics aux populations concernées. Il s’agit d’un corollaire du principe de libre administration des collectivités décentralisées. Cependant, pour des raisons d’efficacité économique, il est nécessaire que l’agencement des différents niveaux de dépenses et de ressources soit adapté à la répartition des compétences et des responsabilités.

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17 Ce principe fort ancien, dont on retrouve l’esprit chez Aristote ou Saint Thomas d’Aquin, est introduit dans le droit communautaire par le traité de Maastricht (art. 5 du traité instituant la Communauté européenne-TCE). Dans le mot « subsidiarité », on trouve le mot latin « subsidium » qui signifie la force tenue en réserve que l’on lançait dans la bataille dès que les bataillons de première ligne faiblissaient.
l’administration soit simple pour éviter le chevauchement des compétences coûteux en matière des finances publiques et en termes macroéconomiques.

Même si le processus de décentralisation et l’organisation des administrations varient grandement d’un pays à l’autre, depuis les pays à système fédéral où les États ou provinces sont autonomes et où l’administration centrale n’a pas de pouvoir budgétaire considérable (par exemple, le droit de fixer les limites légales d’endettement) jusqu’aux États unitaires, « il est nécessaire de définir les compétences respectives des différents échelons de l’administration en matière d’imposition, d’emprunt, d’endettement et des dépenses » (FMI, 2007, p.15). Les analyses des cadres juridiques de la décentralisation distinguent trois « grandes » catégories de systèmes budgétaires infranationaux (encadré 3). Une « bonne » décentralisation implique un établissement de relations efficaces entre les différents niveaux de l’administration mais également un partage clair des ressources humaines et financières basé sur « des critères ou des formules stables plutôt que sur des critères discrétionnaires ou sur des négociations » (FMI, 2007, p.16).

**Encadré 3. Les trois catégories de systèmes budgétaires infranationaux.**


- **Les pays unitaires où les assemblées régionales ne sont pas compétentes en matière de législation budgétaire.** Dans les circonscriptions infranationales de ces pays s’applique une
Législation nationale fixant l’autorité et les compétences des échelons centraux et locaux des pouvoirs publics en matière d’impôts, de dépenses et d’emprunts ; il en va de même pour tous les types de transferts opérés au sein de l’État pour atténuer les disparités horizontales et verticales. En France, le code des collectivités territoriales, adopté par l’Assemblée nationale, regroupe tous les textes de lois concernés, notamment ceux qui règlent les procédures budgétaires, en fonction du niveau de l’administration infractionnelle impliqué (région, département ou commune). Il est complété par la loi organique de 2004 relative à l’autonomie financière des collectivités locales. La Corée, le Japon, les pays nordiques et les Pays-Bas sont d’autres exemples de systèmes unitaires ; eux aussi ont des lois sur les collectivités locales qui précisent l’organisation budgétaire des régions et des communes. Certains pays (Danemark, Finlande et France, par exemple) possèdent quelques territoires – dont des îles – qui jouissent d’une autonomie particulière, y compris dans le domaine budgétaire.

Adapté de (OCDE, 2004, p. 94-95).

4.4. Les ressources locales

Le financement des collectivités locales est un élément déterminant pour le succès de la décentralisation. Il provient en général de plusieurs sources : (i) les ressources propres ; (ii) les transferts ou subventions provenant d’autres collectivités de niveau supérieur ; (iii) les dons fournis par les bailleurs de fonds et (iv) l’emprunt. Cette section se focalise particulièrement sur les ressources propres et les transferts. Les dons ne seront pas spécifiquement examinés dans le cadre de ce document; dans la plupart des cas, ils font partie intégrante d’un mécanisme intégré des transferts. Le contrôle de l’emprunt sera étudié dans la sous-section suivante.

Les ressources propres « sont définies comme l’ensemble des ressources fiscales, les taxes et redevances des collectivités locales dont la mobilisation ne dépend pas d’une décision discrétionnaire des autorités publiques centrales. Elles comprennent l’ensemble des recettes fiscales recouvrées au profit des collectivités locales, y compris les ressources fiscales rétrocédées par l’État central, paragraphe ou non, et l’ensemble des recettes non fiscales (redevances, droits et place de marché, amendes, droits afférents aux actes de chancellerie et d’État Civil) » (Chambas et autres, 2007, p.5). A titre d’exemple, pour la France, le Code général des collectivités territoriales, (Art. LO1114-3) stipule que « les ressources propres des collectivités territoriales sont constituées du produit des impositions de toutes natures dont la loi les autorise à fixer l'assiette, le taux ou le tarif, ou dont elle détermine, par collectivité, le taux ou une part locale d'assiette, des redevances pour services rendus, des produits du domaine, des participations d'urbanisme, des produits financiers et des dons et legs. » Ne sont pas considérées comme ressources locales ni les emprunts et recettes de trésorerie ni les subventions et dotations versées par l’État ou d’autres collectivités. Le pouvoir fiscal des collectivités territoriales n’est pas identique dans tous les pays. Dans certains pays, le pouvoir fiscal est large et s’étend de la capacité de décider de la création, de la modification, de la suppression ou du vote du montant des impôts, voire même des taux des impositions. Dans d’autres pays, il est réduit au vote du montant et des taux des impositions. Dans de nombreux pays d’Afrique francophone, l’impôt local relève du domaine parlementaire en vertu des constitutions des pays (qui donnent au parlement le pouvoir exclusif de fixer les règles relatives à l’assiette, au taux, et aux modalités de recouvrement des impositions de toutes natures)
A l’état actuel, ces ressources sont très faibles dans plusieurs pays en développement et sont concentrées dans les grandes agglomérations urbaines qui contiennent à leur tour l’essentiel des activités économiques imposables. Elles représentent généralement moins de 1% du PIB et varient entre 2% et 7% des recettes globales dans les pays d’Afrique francophone subsaharienne (Vergne, 2009, p.1). Ainsi les collectivités locales ne sont-elles pas en mesure de financer la totalité de leurs dépenses avec leurs recettes propres. Comme indiqué ci-dessus, elles reçoivent d’autres ressources sous forme de transferts ou d’emprunt pour équilibrer leurs budgets. L’encadré 4 présente certaines méthodes (ou principes généraux) à utiliser pour définir les recettes locales propres ainsi que leurs avantages et inconvénients.

**Encadré 4. Comment choisir les recettes propres locales?**

Il n’existe pas de modèle standard qui s’impose à tous les pays dans la définition des recettes propres locales. Néanmoins, il est nécessaire de retenir certains principes clés dont l’application dépendra largement du contexte local et des choix politiques de chaque pays:

- Le principal critère de partage des recettes est la mobilité de son assiette, c'est-à-dire sa capacité de se déplacer d’une collectivité à une autre (ou d’un niveau de l’administration à un autre) pour se soustraire en tout ou en partie de ses obligations. Plus l’assiette est mobile, plus elle devrait être taxée à un niveau supérieur de l’administration. Par exemple, l’assiette fiscale de l’impôt sur la propriété est, par définition, immobile. Elle est alors une bonne source de financement pour les services locaux. Cependant, elle n’est pas facile à estimer puisqu’elle contient des difficultés de tenir à jour l’évaluation des biens, par exemple. Ces types de recettes ont d’autres inconvénients, dont, par exemple, le fait que, pour augmenter leur rentabilité, il faudra en relever le taux; ce qui est quasiment impossible en période de crise.

- Les impôts sur les revenus des personnes physiques et des sociétés ainsi que ceux assis sur la consommation (TVA par exemple) et sur les importations et exportations portent sur des activités des agents économiques qui sont plus mobiles sur l’étendue du pays où ils résident. La littérature économique suggère d’une manière générale d’attribuer ces types de recettes à l’administration centrale. Cependant, les collectivités locales sont souvent autorisées à « venir se greffer » sur ces impôts et à lever une surtaxe. De telles pratiques ne sont pas étrangères à l’augmentation de la pression fiscale, dans de nombreux pays développés; ce qui a souvent l’inconvénient de décourager l’investissement. Ces pratiques peuvent également engendrer des difficultés de coordination de la politique fiscale. Par exemple, les tentatives des autorités nationales suédoises visant à réduire la charge fiscale pesant sur le travail ont été en grande partie contrecarrées par les surtaxes municipales se greffant sur l’impôt sur le revenu des personnes physiques (Sutherland et autres, 2005, p.173).

- Les recettes dégagées des ressources naturelles sont très instables. Elles peuvent créer des risques importants de mauvaise gestion financière même si, à première vue, elles peuvent être faciles à être rattachées à une collectivité. Dans les périodes de bonne conjoncture, les entités locales auront tendance à dépenser à des niveaux très élevés; ce qui créera des difficultés insoutenables lorsque la situation se retourne. Elles peuvent également créer des
disparités importantes (entre les diverses entités de l’Etat) qui peuvent à leur tour engendrer et nourrir des idées sécessionnistes (qui peuvent menacer l’existence de l’Etat-nation).

- Il convient de spécifier clairement la nature et la quantité des recettes locales en s’appuyant de préférence sur des critères ou des formules stables plutôt que sur des critères discrétionnaires ou sur des négociations périodiques. Comme l’ensemble de toutes les ressources publiques, les recettes propres locales des entités décentralisées doivent être stables et prévisibles.

Les transferts des ressources entre les divers niveaux de l’administration et en leur sein sont en effet utilisés pour corriger les déséquilibres verticaux (entre l’administration centrale et les collectivités territoriales) et les déséquilibres horizontaux (entre les collectivités de même niveau). Ils peuvent être globaux (lorsque les recettes collectées par les autorités centrales sont partagées avec les collectivités territoriales selon une clé de répartition préétablie ou suivant un autre mode de calcul pour combler l’écart entre leurs dépenses et leur capacité de mobiliser des recettes) ou spécifiques (lorsque le mécanisme de répartition des recettes entre les collectivités territoriales comporte certaines conditions, par exemple, par exemple la pré-affectation des fonds transférés au financement de programmes bien précis, et l’obligation faite à la collectivité bénéficiaire de compléter au moins partiellement les fonds qui lui sont transférés en augmentant les dépenses qu’elle consacre elle-même aux programmes visés). Les transferts globaux « laissent le soin aux collectivités territoriales d’organiser la prestation locale des services publics de la façon qu’elles jugent la plus efficace » (Joumard &Kongsrud, 2003, p.214) tandis que les transferts spécifiques (ou conditionnels) se traduisent dans de nombreux pays « par des dépenses excessives ou un faible rapport efficacité-coût » (Joumard &Kongsrud, 2003, p. 215) et permettent aux autorités centrales d’imposer leurs propres objectifs aux autorités territoriales tout en contribuant à atténuer les incitations à restreindre l’offre de services publics tenant aux externalités et aux économies d’échelle.

Deux questions importantes se posent lors de la conception du système de transfert. La première concerne la détermination du montant de transfert vers les collectivités locales et la seconde la répartition de ce montant entre ces dernières. Deux principales approches sont utilisées pour déterminer le montant global des transferts : (i) le gouvernement central collecte la recette et en verse une partie aux collectivités locales selon un pourcentage bien fixé à l’avance par la loi ou (ii) il décide, chaque année, du montant de la subvention à accorder aux collectivités locales de façon discrétionnaire. Chacune de ces approches a ses avantages et inconvénients. La première apparaît plus transparente et permet aux collectivités locales d’établir leurs prévisions à temps. Toutefois, elle ne garantit pas une rentabilité « optimale » de la mobilisation des recettes aussi bien au niveau local que central. En dépit de cette transparence, l’expérience montre que le cadre juridique clair ne suffit pas. A titre d’exemple, les provinces ne reçoivent pas les 40% des recettes prévues par la nouvelle constitution de la République Démocratique du Congo. Il

18 Certains pays combinent ces deux approches.
19 La Constitution de la RDC est claire en matière de partage des recettes entre les diverses entités. En son article 175, elle stipule que 40% des recettes fiscales à caractère national seront attribués aux provinces et 50% à l’État central. Les 10% restants alimenteront une caisse de péréquation destinée à compenser les inégalités économiques entre les provinces.
faudrait alors prévoir des mécanismes d’incitations à la rétrocéssion des recettes aux collectivités territoriales selon les prescriptions de la loi. La deuxième option est peu transparente et ne favorise pas une bonne prévisibilité des ressources et partant, une grande efficacité de la dépense publique. Elle passe souvent par des négociations répétitives entre les représentants de l’administration centrale et ceux des collectivités territoriales qui aboutissent en général à des tensions politiques défavorables à la coordination des politiques publiques. L’encadré 5 présente les principaux obstacles à la mise en œuvre effective des transferts.

**Encadré 5. Principaux obstacles à la mise en œuvre effective de transferts aux collectivités territoriales**

- Faiblesse du niveau général des ressources publiques. Particulièrement, en Afrique, les recettes publiques sont inférieures à 20% du PIB. Il sera difficile à l’État de décentraliser des recettes dont il dispose moins.
- Manque ou insuffisance d’engagement de l’État à la décentralisation. L’État conserve l’essentiel des ressources publiques pour garder un contrôle strict sur les politiques publiques.
- Prolifération des textes juridiques sur la décentralisation qui ralentissent leur application dans des délais convenables.
- Absence de répartition claire des responsabilités entre l’État et les collectivités locales.
- Multiplication des niveaux de l’administration qui complique la répartition des compétences et la mise en œuvre de la décentralisation et qui exige plus de technicité dont les pays en développement ne disposent pas.
- Une préparation insuffisante de la réforme. Il arrive souvent que la politique de décentralisation soit décidée à l’issue d’un mouvement populaire qui exige une large participation citoyenne à la gestion des affaires publiques et des résultats concrets immédiatement. Ainsi les pouvoirs publics sont-ils pris au dépourvu et acceptent-ils toutes les propositions de la rue pour sauver le régime tout en sachant que celles-ci sont irréalistes et irréalisables dans le temps imparti. Souvent, les constitutions issues des négociations entre les représentants de l’État et ceux issus du mouvement populaire ne proposent ni des dispositions transitoires, ni de dispositif de pilotage.
- Le conservatisme de l’exercice du pouvoir traditionnel au niveau local. La légitimité des autorités locales (nouvellement créées à l’issue de la politique de décentralisation) issues des élections est souvent confrontée à la légitimité des chefs traditionnels (issus de la coutume) implantés depuis très longtemps. L’autorité de ces derniers est déjà ancrée dans les mentalités des citoyens, particulièrement dans les pays où la culture démocratique reste fragile ou en est à ses balbutiements. Il n’est pas rare de voir les actes des autorités élues être rejetés s’ils ne sont pas agréés par les chefs coutumiers ; ce qui n’encourage pas les autorités centrales à « rétrocéder » les transferts aux autorités locales conformément à la loi.

Concernant la répartition des transferts entre les collectivités territoriales de même niveau, Vergne\(^\text{20}\) distingue trois approches notamment dans les pays d’Afrique francophone:

- La première consiste en une allocation des transferts en fonction du lieu de perception. Elle n’est pas sans poser d’énormes risques liés à l’élargissement des disparités entre les diverses

\(^{20}\text{Cf. (Vergne, 2009, p. 4-5)}\)
collectivités mais également peut susciter des velléités sécessionnistes comme indiqué ci-dessus. Pour contourner ces difficultés, il est nécessaire de mettre en place des mécanismes de péréquation (cf. encadré 6). Il convient, en sus, d’écarter de ces mécanismes les recettes volatiles susceptibles d’engendrer des difficultés macroéconomiques dans l’avenir, par exemple les recettes liées aux ressources naturelles. Par ailleurs, une autre difficulté relative à la domiciliation des agents économiques peut apparaître.

- La deuxième approche alloue les transferts selon des formules de distribution basées sur de nombreux critères (conditionnalités) dont notamment la démographie, le taux de pauvreté, le gap d’infrastructures, l’effort de mobilisation des recettes propres, l’effort des reformes administratives21,… Cette méthode n’est pas toujours facile à mettre en œuvre du fait des difficultés liées à la disponibilité et à la mise à jour des données statistiques « fiables ». Il convient de rappeler que les pays en développement éprouvent d’énormes difficultés pour le suivi de leurs stratégies de réduction de la pauvreté à cause de l’inexistence d’un système statistique national fiable et cohérent. Cependant, cette option a l’avantage d’être un mécanisme de péréquation.

- La troisième approche est relative à une répartition des transferts qui se fait de manière ad hoc. Elle peut encourager les collectivités territoriales bénéficiaires à dépenser au-delà de leurs besoins pour qu’elles continuent à bénéficier du même montant de transferts ou plus. De nombreux pays en développement l’utilisent pour, semble-t-il, contrôler le processus de décentralisation qui est à l’état actuel à un stade embryonnaire.

**Encadré 6. La péréquation des ressources**

La péréquation corrige des effets pervers de l’autonomie financière des territoires inégalemment dotés.

- En Allemagne, la loi fondamentale fait de la « production de conditions de vie équivalentes sur le territoire fédéral » l’une des justifications de l’intervention du législateur fédéral dans les matières de compétences concurrentes (art. 72.2). Les besoins financiers de la fédération et des Länder doivent être accordés de telle sorte qu’une juste péréquation (ein billiger Ausgleich) soit obtenue, qu’une surimposition des contribuables soit évitée et que l’homogénéité des conditions de vie sur le territoire fédéral soit sauvegardée. Enfin, le législateur fédéral doit assurer une « compensation appropriée des inégalités de capacité financière entre les Länder ».

- En Italie, et depuis 2001, il existe un fonds de péréquation qui soutient les territoires à faible capacité fiscale par habitant. Il accorde des dotations non affectées et met en œuvre des « interventions spéciales » en faveur de régions, de communes, de provinces ou de villes métropolitaines déterminées.

Adapté de (Greffe, 2005, p. 80)

Il convient d’indiquer que la méthode de transferts, bien qu’elle permette aux budgets des

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21 Ces critères devraient être maniés avec beaucoup de prudence pour éviter de tomber dans des pièges, comme celui de la pauvreté.
collectivités territoriales de s’équilibrer, est fortement critiquée. D’aucuns avancent qu’elle porte atteinte au principe de libre administration des collectivités territoriales consacré par la décentralisation du fait que dans de nombreux pays, les transferts sont pré-affectés à des catégories de dépenses bien précises (cf. encadré 7). Ainsi les marges de manœuvre des collectivités territoriales à programmer leurs activités sont-elles réduites. Une bonne solution consisterait à accorder des dotations non affectées; ce qui n’est pas toujours facile dans l’immédiat compte tenu des capacités des administrations nationales très limitées en matière de planification et de gestion budgétaires. D’autres évoquent le fait que le système des transferts a des effets démobilisateurs en matière de mobilisation des recettes et de gestion de la dépense. En réponse à ces réserves, les modalités des transferts seraient conçues de manière à inciter une amélioration de la gestion budgétaire et fiscale des collectivités territoriales.

**Encadré 7. France: les ressources de transferts de l’Etat aux collectivités territoriales.**

1. **Dotations et subventions générales de fonctionnement :**
   - dotation globale de fonctionnement;
   - dotation spéciale instituteurs ;
   - autres subventions de fonctionnement.
2. **Dotations et subventions d’investissement :**
   - dotation globale d’équipement ;
   - fonds de compensation pour la TVA ;
   - subventions spécifiques.
3. **Dotations liées aux transferts de compétences :**
   - dotation générale de décentralisation;
   - dotation de formation professionnelle;
   - dotation d’équipement scolaire.
4. **Compensation d’exonérations et de dégrèvements**

**4.5.** La gestion macroéconomique

La décentralisation peut compromettre la gestion macroéconomique du budget surtout lorsque les autorités locales ne sont pas soumises à de fortes incitations à l’orthodoxie budgétaire et que les autorités centrales sont susceptibles de leur apporter un appui financier au cas où elles sont en difficulté financière. De telles circonstances sont préjudiciables à la stabilité macroéconomique nécessaire à la mise en œuvre des politiques publiques, notamment les stratégies de croissance et de réduction de la pauvreté étant donné qu’elles n’incitent pas les collectivités territoriales à la prudence budgétaire et par conséquent, sont à l’origine des « dérapages budgétaires, souvent à caractère pro-cyclique » (Joumard & Kongsrud, 2003, 219). Le pays peut être plongé dans « les affres d’une inflation galopante » si les politiques budgétaire et monétaire ne sont pas bien coordonnées.

C’est également le cas lorsque les autorités centrales ne sont pas incitées à rétrocéder systématiquement les ressources humaines et financières correspondantes. Comme indiqué supra, des compétences en matière de dépenses peuvent être transférées aux collectivités territoriales sans qu’il y ait transfert de ressources correspondantes. Dans de telles situations, les collectivités territoriales seront contraintes à alourdir la fiscalité locale ou emprunter pour assumer ses compétences en matière de dépenses définies « légalement ».
Il est alors nécessaire de renforcer le contrôle macroéconomique qui serait difficile à exercer et à coordonner s’il s’effectuait au niveau de chaque collectivité locale (Tommasi, 2010, p.170). C’est l’administration publique centrale qui a la charge d’assurer la discipline budgétaire globale à travers des instruments des règles budgétaires et du contrôle de l’endettement\textsuperscript{22}. Il existe plusieurs modes de contrôle de l’emprunt infranational tant dans les pays en développement que dans les pays développés. Dans les systèmes fédéraux, les parlements fédéraux peuvent être autorisés (par des dispositions constitutionnelles et/ou législatives) à réduire le montant annuel des emprunts approuvé par les législatures infranationales pour maintenir la stabilité macroéconomique. C’est le cas en Allemagne où la loi autorise le gouvernement fédéral, en accord avec le Bundesrat, à limiter ce montant à un chiffre inférieur à celui agréé par la législature infranationale compétente, si c’est nécessaire pour éviter de compromettre les équilibres macroéconomiques\textsuperscript{23}. Certains pays unitaires (France, Suède, par exemple) soumettent les emprunts des autorités infranationales à une « règle d’or » qui les plafonne aux dépenses d’investissement tandis que d’autres (comme la Finlande) ne les soumettent à aucune contrainte, autre que celle du marché. De nombreux pays africains n’accordent pas aux collectivités territoriales le droit de financer leurs budgets par des emprunts\textsuperscript{24}.

Des sanctions doivent être appliquées en cas de non-conformité aux règles prévues en matière de gestion budgétaire et de contrôle de l’endettement tant pour les administrations centrales que pour les administrations locales. D’une part, il convient de prévoir des mesures qui contraindront les autorités centrales à opérer les transferts prévus par la loi et dans les délais autorisés et d’interdire (par la loi) tout transfert de compétences sans ressources correspondantes. On peut, par exemple, imaginer à instaurer un mécanisme de sanctions à l’endroit des représentants des autorités centrales en cas de non respect de ces prescriptions, comme des amendes ou une radiation de l’administration. D’autre part, il est nécessaire d’instaurer des mécanismes d’incitations et de contrôle (en plus des règles budgétaires) à l’endroit des autorités locales pour coordonner la politique budgétaire global et s’assurer que celles-ci et les institutions prêteuses n’abusent pas des prêts et des emprunts (Ebel & Yılmaz, 2001, p.43). De tels mécanismes peuvent être de plusieurs sortes, notamment:

- les plafonds d’endettement sont fixés par le parlement national, mais peuvent être révisés dans le contexte du budget annuel et corrigés en fonction des conditions macroéconomiques.
- en cas de non-respect des prescriptions, la loi impose à la collectivité défaillante de présenter un plan financier de compensation du dépassement budgétaire. Ce plan doit recevoir l’approbation d’un Conseil de politique budgétaire et financière.
- Chaque année, comme en France, le représentant local des autorités centrales contrôle les budgets locaux. Si le budget enfreint les prescriptions légales, il est transmis à la

\textsuperscript{22} En général, c’est le ministère des finances qui est chargé du contrôle de l’endettement, y compris celui des entités locales, et des autres contrôles budgétaires. Cependant, dans certains pays, ces contrôles en ce qui concerne les collectivités territoriales sont effectués par le ministère chargé de la décentralisation. Cela pose de coordination de la politique budgétaire lorsque le ministère des finances n’est pas hautement impliqué.

\textsuperscript{23} Cf. Revue de l’OCDE sur la gestion budgétaire, Volume 4, n°4, 2004

\textsuperscript{24} D. Tommasi, dans son ouvrage « Gestion des dépenses publiques dans les pays en développement » est allé plus loin en recommandant un contrôle très strict ou une interdiction de l’emprunt des administrations infranationales dans les pays ayant des faibles capacités financières et de gestion.
Chambre Régionale des Comptes (CRC). La procédure d’audit implique une vérification a priori et a posteriori. En cas de déficit constaté (au-dessus d’un certain plafond), la CRC doit proposer les mesures budgétaires adaptées à la collectivité locale.

- Les autorités locales défaillantes peuvent être relevées de fonctions et remplacées par un commissaire nommé par les autorités centrales, comme prévu en Irlande.
- Les transferts des autorités centrales peuvent être réduits ou suspendus si les autorités infranationales dépassent les seuils d’endettement ou que les informations financières ne sont pas fournies dans les délais prescrits.
- Les échelons infranationaux qui ne respectent pas les plafonds d’endettement, les plafonds d’effectifs ou les exigences de transparence encourrent des sanctions financières.
- Les contrats ou décisions administratives qui violent les termes de la loi sont invalidés et les individus responsables de ces violations sont passibles d’amendes, de destitution ou d’emprisonnement.

Outre ces questions générales d’ordre macroéconomique, le localisation des activités économiques soulève d’autres problèmes essentiels relatifs à une répartition très inégale des ressources nécessaires à la mise en œuvre des politiques publiques. Si le processus de la décentralisation n’est pas bien géré en intégrant des mécanismes qui prennent en compte ces écarts, des disparités entre les diverses entités s’accentuent et peuvent aller jusqu’à menacer l’unité nationale. Il est donc essentiel que tous les parties prenantes de la politique de décentralisation comprennent l’importance de la répartition des ressources publiques dans le contexte de la décentralisation « afin de prévoir les problèmes et d’élaborer des plans et des mesures correctives ». Il faut souligner qu’en Afrique, l’essentiel des activités « imposables » se concentrent dans les grands centres urbains, particulièrement à la capitale. C’est le cas, par exemple, de la Tanzanie où 70% des impôts et taxes sont collectés à Dar es Salaam. En République Démocratique de Congo également, les trois provinces les plus riches (Kinshasa, Katanga et Bas-Congo) concentrent l’essentiel des ressources budgétaires: « la ville-province de Kinshasa alimente le budget national à hauteur de 38%, le Bas Congo à 33,42% et le Katanga à 19,53%. Sans correction, la mise en œuvre de la règle des 40% aurait donc pour conséquence de concentrer plus de 80% des ressources attribuées aux provinces dans ces trois seules entités, toutes les autres devant se partager les 20% restants, certaines recevant moins de 1% » (Liégeois, 2008, p.11). Une question essentielle peut se poser: comment le gouvernement central et les autres provinces vont-ils pouvoir fonctionner ou appliquer leurs politiques dans de telles situations?

4.6. **Le cadre juridique**

Les bonnes pratiques internationales en matière de gestion publique, notamment le manuel de transparence des finances publiques du FMI, recommandent une répartition claire des attributions, des ressources et des responsabilités entre les différents échelons de l’administration publique et des relations (entre ces différents niveaux de l’administration)
clairement définies. Notamment, ces aspects sont en général réglés par un cadre juridique articulé en général à deux niveaux: la Constitution et, à un autre niveau, la loi. Cette recommandation a pour conséquence de limiter, autant que c’est possible, les chevauchements de compétences et le nombre de niveaux des administrations infranationales, coûteux en termes de finances publiques, et qui brouillent la lisibilité de l’action publique. Ce cadre juridique ne doit favoriser non seulement «l’autonomie locale des collectivités territoriales, c’est-à-dire le pouvoir d’agir indépendamment, dans leur propre sphère de compétence, en vue de l’élaboration de politiques relatives aux revenus et aux dépenses, mais également promouvoir l’imputabilité politique, l’efficacité économique et la transparence » (Ebel & Yilmaz, 2001, p.27). Il doit être suffisamment clair pour éviter des divergences dans l’interprétation et des conflits susceptibles de conduire à des situations défavorables (renégociations des attributions entre les divers niveaux de l’administration, par exemple). Il convient de préciser que le cadre juridique de la décentralisation varie d’un pays à l’autre. Néanmoins, il est en général recommandé que par Ford J.

- la Constitution, instance suprême sur le plan juridique, pose les grands principes fondamentaux sans entrer dans les détails;
- les lois précisent les relations entre les divers niveaux de l’administration et les détails d’ordre institutionnel qui régissent la décentralisation.

L’encadré 8 présente une liste minimum d’éléments à incorporer dans la législation régissant la décentralisation. Il serait également nécessaire d’y inclure les mécanismes (de sanctions) incitant davantage le gouvernement central et les collectivités territoriales à se conformer aux règles de gestion budgétaires prévues pour la décentralisation. On peut envisager, par exemple, des sanctions ou des procédures administratives à l’encontre des représentants de l’administration centrale pour non respect des engagements de la rétrocession aux collectivités territoriales des transferts prévus par la réglementation et à l’endroit des collectivités territoriales, en cas d’inobservation des règles budgétaires comme indiqué dans la section 5.5 ci-dessus.

**Encadré 8. Principaux éléments du cadre juridique de la décentralisation**

- Classement des collectivités territoriales selon les dispositions prévues par la Constitution;
- Grandes structures administratives, ainsi que leur rôle et leurs responsabilités;
- Durée du mandat, marge de manœuvre, procédures et limites en ce qui concerne les dirigeants politiques par opposition aux fonctionnaires;

Il est démontré par de nombreux auteurs que la clarté de la répartition des responsabilités en matière budgétaire (dépenses et recettes) constitue l’enjeu majeur de la politique de la décentralisation pour trois raisons fondamentales. D’abord, si les responsabilités sont mal définies, les revenus correspondants le seront également. Ensuite, si les responsabilités ne sont pas précises, il sera difficile de tenir responsables les autorités infranationales qui auront tendance à mener des politiques qui vont dans tous les sens. Enfin, les politiques infranationales ne peuvent être évaluées puisqu’on ne saura pas qui entre les autorités centrales et infranationales sont responsables.


Ceci est pour éviter des difficultés liées à la révision constitutionnelle lorsqu’on s’aperçoit de la nécessité d’améliorer le cadre juridique de la décentralisation. En général, la révision constitutionnelle est soumise à une consultation de la population par référendum ou à la réunion d’un congrès réunissant toutes les chambres parlementaires. Ces deux démarches sont susceptibles de confronter à des difficultés d’ordre politique, et quelques fois, dans les pays en développement, à des difficultés d’ordre financier.
5. Des « bons » principes pour assurer le succès de la décentralisation

A partir de l’expérience vécue et de l’analyse de l’auteur, certains principes de base se dégagent quant à la façon de concevoir et mettre en œuvre une politique de décentralisation et de garantir l’atteinte de ses objectifs:

- **Comme toute réforme de grande envergure, la décentralisation doit bénéficier d’un engagement politique fort mais aussi d’un processus transparent et participatif.** La décentralisation exige une détermination de la part des autorités centrales à transférer les compétences de prise de décisions mais également les ressources humaines et budgétaires correspondantes. Il est fortement indispensable de modifier la législation afin de donner un cadre solide à la décentralisation mais aussi pour fléchir les oppositions dures des franchises qui peuvent constituer un risque politique important susceptible de décourager le processus. Il est fortement conseillé que l’initiative bénéficie de l’appui de la majorité au pouvoir mais également de l’opposition et des organisations de la société civile. La décentralisation doit survivre une durée couvrant plusieurs mandatures.

- **Il faut comprendre que la décentralisation n’est pas un état définitif et statique.** Au contraire, il s'agit d'un processus évolutif qui s'accompagne presque toujours de conflits entre les forces centrales et celles excentrées qu’il convient de résoudre en tenant compte des changements qui s’opèrent dans l’espace et dans le temps. Le processus de décentralisation étant extrêmement complexe et de longue haleine, les avantages escomptés s’obtiennent dans le long terme à travers une politique coordonnée et bien suivie en tirant les leçons de l’expérience.

- **Il faut assurer une répartition claire des responsabilités entre les différents niveaux de l’administration.** Cela nécessite un transfert des responsabilités en bloc plutôt que partagées entre plusieurs niveaux. L’ONU consacre un principe fondamental en la matière (Greffe, 2005, p. 44): (i) doivent être décentralisées toutes les activités de proximité, celles qui visent à satisfaire des besoins locaux et/ou qui font appel à des sources d’information ou des acteurs locaux pour leur mise en œuvre ; (ii) doivent rester au niveau central celles qui mettent en cause l’indépendance du pays, l’environnement général des personnes ou des principes fondamentaux comme l’égalité devant la justice. Ce principe est un corollaire du principe de subsidiarité qui consiste à réserver uniquement à l’échelon supérieur ce que l’échelon inférieur ne peut effectuer que de
manière moins efficace. Il répond à un souci de démocratie puisque les décisions doivent « être prises le plus près possible des citoyens ». A cet effet, les constitutions de nombreux pays ne permettent l’intervention du gouvernement central que lorsque les objectifs d’une action envisagée ne peuvent pas être réalisés de manière efficace par les entités infranationales.

- Il est aussi nécessaire d’assurer une équité dans la répartition horizontale des ressources à chaque échelon en instituant des mécanismes de péréquation (cf. encadré 7). Dans la plupart des cas, l’accent est mis sur la répartition verticale sans tenir compte des déséquilibres horizontaux, notamment en ce qui concerne les minorités ethniques, les populations défavorisées et le partage des richesses. Et cela constitue un obstacle à la décentralisation horizontale et par conséquent à la politique de décentralisation, dans son ensemble.

- Il convient également d’adopter un cadre juridique clair. Ce cadre juridique doit contenir les éléments suivants : le classement des collectivités territoriales décentralisées et leur degré d’autonomie ; les grandes structures administratives, ainsi que leurs attributions ; la durée des mandats ; les pouvoirs d’imposition et d’administration fiscales des collectivités territoriales décentralisées ; les pouvoirs et les capacités d’emprunts des collectivités territoriales décentralisées ; la répartition des exigences en matière d’élaboration des budgets, de gestion des dépenses, de comptabilité et d’audit et évaluation ; les pouvoirs en matière de prestation de services et les mécanismes permettant aux citoyens de participer et de s’exprimer. Le cadre juridique est à deux niveaux :

  o Le premier niveau est la constitution qui doit poser les principes de base dont les droits et les responsabilités des différents niveaux d’autorités, la description et le rôle des principales institutions tant au niveau central qu’aux niveaux locaux, les grandes lignes concernant la gestion de la décentralisation et les règles régissant leur modification.

  o Le deuxième niveau est une loi votée par le parlement. Il doit spécifier les détails d’ordre institutionnel concernant les différentes structures à chaque niveau d’administration ainsi que le régime fiscal.

- Eviter la superposition de plusieurs niveaux de collectivités décentralisées, autant qu’il se peut. Ce principe a pour objectif de limiter les chevauchements de compétences, coûteux en termes de finances publiques, et qui brouillent la lisibilité de l’action publique. Il arrive que la coexistence de diverses entités décentralisées (par exemple, provinces, régions, départements et communes) complique la tâche de la répartition des

28 Ce principe a été introduit dans le droit communautaire par le traité de Maastricht (art. 5 du traité instituant la Communauté européenne-TCE). Cependant, son existence est plus ancienne : on en retrouve déjà l’esprit chez Aristote ou Saint Thomas d’Aquin. Il régite également les rapports entre l’État et les Länder en République Fédérale d’Allemagne.

rôles et des responsabilités et ne permet pas d’assurer l’efficacité et la cohérence souhaitées puisqu’elle n’accompagne pas la simplification administrative tant attendue étant donné que des niveaux différents de l’administration se superposent sur le même territoire. Dans de tels contextes, plusieurs pays développés sont entrain de lancer des processus pour une simplification organisationnelle qui vise à réaliser des économies d’échelle dans l’administration locale et à faire atteindre une taille critique aux collectivités locales. La France, qui dispose actuellement de trois niveaux de collectivités territoriales décentralisées, voudrait supprimer les départements pour ne disposer que de deux niveaux (régions et communes).

- **Il est vital de faire suivre les ressources humaines et financières.** La décentralisation conduit à déplacer les compétences du niveau central à d’autres niveaux. Cela suppose également un transfert correspondant des ressources humaines et financières. À défaut, les résultats ne seront pas à la hauteur des efforts consentis. En ce qui concerne les ressources humaines, il convient de mener des politiques d’incitations de redéploiement telles que la garantie d’emploi, des bonnes perspectives de carrière, la lutte contre les inégalités de traitement entre le niveau central et les collectivités décentralisées. L’importance des ressources financières est également un déterminant du degré de l’autonomie des collectivités territoriales. Il existe plusieurs cas de figure: recettes propres des collectivités territoriales, recettes partagées entre l’État et les collectivités territoriales, subventions de l’État aux collectivités territoriales, péréquation des ressources qui corrigé les effets pervers de l’autonomie financière des territoires inégalement dotés, subventions des bailleurs de fonds qui peuvent être directes ou indirectes, emprunts des collectivités locales dans le respect de la législation en vigueur.

- **Il convient de prévenir les risques de recentralisation.** Une déconcentration des administrations de l’État insuffisante n’est pas favorable à la décentralisation puisque les responsables locaux, même s’ils détiennent bien des pouvoirs, seront obligés de remonter au niveau central (généralement à la capitale) pour les exercer. D’autres remises en cause sont implicites. Il s’agit, par exemple, de la multiplication des portefeuilles ministériels par laquelle les responsabilités en rapport avec les collectivités sont réparties entre plusieurs départements et partant, les niveaux de contrôle par l’État sont multipliés. Également, la création d’organismes autonomes ou d’établissements publics qui interviennent sur le champ des collectivités locales n’est pas en faveur de la décentralisation. Le recours à l’approche sectorielle encouragé par les partenaires techniques et financiers dans les pays en développement pour acheminer l’aide ne doit pas renforcer par inadéquation des tendances centralisatrices des pouvoirs. Il est souvent montré que, s’ils ne sont pas bien coordonnées, les programmes sectoriels et les processus de décentralisation peuvent aller dans des sens différents. D’aucuns craignent le risque que les approche sectorielle puissent aboutir à une recentralisation des pouvoirs et des responsabilités au détriment de la gouvernance locale.

- **Il convient de mettre en place des mécanismes de contrôle et de suivi et d’évaluation du processus.** Les autorités centrales doivent nécessairement exercer un contrôle afin de vérifier le respect des objectifs centraux fixés et éviter les abus de pouvoirs locaux tout en respectant les marges de manœuvre accordées aux autorités locales par la loi. De même,

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ces dernières doivent disposer des capacités suffisantes leur permettant de contraindre les autorités centrales à procéder d’une manière effective au transfert des compétences et des ressources conformément aux prescriptions de la loi. Il convient en sus de mettre à la disposition de toutes les parties prenantes une information claire et exhaustive leur permettant de suivre et d’évaluer les objectifs et les instruments du processus de décentralisation.

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Government Revenues - Accountability and Audit in Iraq

Talal A Al-Kassar, Zarqa University, Jordan.
talal_kassar@yahoo.com

Abstract

This study covers both the theoretical and empirical aspects of the audit of government revenue. The theory includes defining accountability, audit of revenues, performance audit, taxation policy and types of government income. While the empirical aspects include a review of government revenues in Iraq and the auditing procedures used by the Supreme Auditing Board.

The study shows that the Iraqi Government depends almost totally on oil revenues (about 99% in 2008). The situation has deteriorated since 2003, when Iraq was first occupied, in spite of increased revenue receipts from taxation.

Keywords: Government, Revenues, Accountability, Audit.

Introduction

Revenue audit, as an important domain of public auditing, has been engaging the attention of the Supreme Audit Board of Iraq (the Supreme Audit Institution in Iraq) for some time.

Government income is derived from two main sources: tax receipts and non-tax receipts. The major source of national revenues is usually tax receipts. However, in Iraq the main source is non-tax revenue from oil exports.

Government taxation policy should seek to apply the following desirable fiscal principles (ASOSAI report, 2010, p.2):

(a) Citizens should contribute to the Government in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the State.

(b) The tax which each individual has to pay should be certain. The time of payment, the manner of payment, and the quantity to be paid should all to be clear to the tax payer.

(c) Each tax should be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay.

(d) Each tax should be arranged so that the administrative overheads of the collection authorities are kept to as a small a proportion of the tax collected as possible.

Most developing countries are interested in government revenues, because they have an important role to play in constructing the economic base of the country. They are looking to expand and diversify their revenue base in order to fund the development of their countries.
Accountability

Accountability is the current mantra both for non-profit organizations and for governments (Beechy, 2007). There is a wide range of different definitions of accountability, some include the following: (more are mentioned by Beechy, 2007, page 3):

1. Accountability has several meanings and is the subject of a broad debate in American governance. Some of the simpler definitions include: responsibility or capable of being held responsible for something; capable of being explained: being held to count, scrutinized, and being required to give an account or explanation - en.wikipedia.org/wiki/Accountability

2. Accountability is the capacity to account for one's action; or as a representative of one's organization, to account for either your actions or the actions of your organization. The term is usually used in the voluntary sector to refer to the responsibility a non-profit organization has to inform donors of the manner in which their gifts were used - envision.ca/templates/profile.asp?ID=56

3. The responsibility of program managers and staff to provide evidence to stakeholders and funding agencies that a program is effective and in conformance with this coverage, service, legal, and fiscal requirements - www.crc.gov/tobacco/evaluation_manual/glossary.html

4. The obligation to demonstrate and take responsibility for performance in light of agreed expectations. There is a difference between responsibility and accountability: responsibility is the obligation to act; accountability is the obligation to answer for action - www.hrsdc.gc.ca/en/cs/fas/as/sds/appd_sds03.shtml

Although the context and wording of these definitions vary, their overall sense is that managers are responsible for explaining their actions to outsiders, whether to funders, donors, clients, or the community at large.

A traditional definition of accountability is the obligation to answer for a responsibility conferred. This definition is often interpreted as implying two distinct and often unequal partners: one who confers and the other who is obliged to answer. In so doing, it does not adequately address several realities of today's public management. These include (OAG Canada, 2005, page 16):

1. The emergence of alternative delivery approaches, such as arrangements between the federal and provincial governments, where responsibilities may not be conferred from a senior party to a junior one, but agreements nonetheless assume accounting for results;
2. The call for an increased focus on performance-based management; and
3. The importance of transparency as an essential feature of public sector accountability.

As a result, a restatement of the underlying principles, practices and tools of accountability, which incorporate the traditional definition, could be:
a relationship based on obligation to demonstrate and take responsibility for performance in light of agreed expectations.

Earl (2005) has highlighted that “accountability and data are the heart of contemporary reform efforts worldwide. Accountability has become the watchword of education, with data holding a central place in the current wave of large-scale reform”. The statutory role of the auditors is to provide management with independent and objective assurance on the reliability of financial statements and of certain other information provided by the organization. However, the audit of government revenues also plays an important role in decision making. Thus accountability is the conversation about what the financial information means, how it fits with other information about the organization, and how it can be used to bring about further positive change (Earl & LeMahieu, 1997).

Types of government revenues

Iraqi government revenues can be classified as follows:

i) Oil related revenues

ii) Taxes:
   a- Direct taxes (income tax, corporation tax, wealth tax, agriculture income and estates taxes)
   b- Indirect taxes (like commodity taxes, customs and other dues).

iii) Revenues of state enterprises.

The table below indicates tax revenues as a percentage of GDP including broad revenue sources:

Table (1) Tax revenue as a percentage of total revenue

<table>
<thead>
<tr>
<th></th>
<th>Tax revenue as percentage of G.D.P.</th>
<th>Revenue sources as percentage of total revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Direct taxes</td>
<td>Indirect taxes</td>
</tr>
<tr>
<td>Developing countries (average) *</td>
<td>19</td>
<td>30</td>
</tr>
<tr>
<td>Iraq (1993)*</td>
<td>2</td>
<td>40</td>
</tr>
<tr>
<td>Iraq (2008)**</td>
<td>7</td>
<td>1</td>
</tr>
</tbody>
</table>


The above table indicates that taxes are not a significant source of income for the Iraqi Government. Taxes are mainly used to tackle disparities in income levels between citizens which is the objective of the tax laws in Iraq.
The importance of taxation as a source of government revenue reduced, especially in the decade after the imposition of economic sanction in 1990. In addition, exemptions increased, for example, all Iraqi state employees were exempt from income tax until 2005.

Table (2) Tax revenue 1966 to 2011

<table>
<thead>
<tr>
<th>Years</th>
<th>Tax revenue (I.D. million)</th>
<th>Expenditure budget of state (I.D. million)</th>
<th>Tax as a percentage of expenditure</th>
<th>G.D.P. (I.D. million)</th>
<th>Tax revenue as a percentage of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966</td>
<td>70</td>
<td>160</td>
<td>40</td>
<td>860</td>
<td>10</td>
</tr>
<tr>
<td>1976</td>
<td>180</td>
<td>1,390</td>
<td>15</td>
<td>4,700</td>
<td>5</td>
</tr>
<tr>
<td>1986</td>
<td>990</td>
<td>3,850</td>
<td>25</td>
<td>13,100</td>
<td>8</td>
</tr>
<tr>
<td>1993</td>
<td>2,590</td>
<td>6,880</td>
<td>40</td>
<td>128,300</td>
<td>2</td>
</tr>
<tr>
<td>2008</td>
<td>728,800</td>
<td>56,256,000</td>
<td>1.5</td>
<td>10,411,400</td>
<td>7</td>
</tr>
<tr>
<td>2011</td>
<td>5,963,800</td>
<td>64,022,600</td>
<td>10</td>
<td>84,136,000</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Prepared by the author.
2011 Draft Budget, Baghdad, Iraq.
US$1 = 1,180 Iraqi Dinar (2008) (before 1993, US$1 = 0.3 Iraqi Dinar)

Since 1982, state economic enterprises have increased their share in government revenues due to regulations like the Law of Distributing the Profits of Public Economic Enterprises No. 56 of 1982.

Audit Mandate
Auditing of government revenue aims to review and evaluate the results of the implementation of revenue policies and plans.

Government revenues are generally audited with reference to the revenue laws. However, auditors have to keep abreast of the following developments:

- emergence of new sources of revenue and the decline of old ones
- associated changes to different revenue sources as a result of economic and political changes.

In Iraq, government revenues are controlled by the following laws:
- The State General Budget Law
- The General Accounting Law
- Taxation Laws
- Customs Law
- Companies Law
- The Distribution of Profits of Public Economic Enterprises Law.
- Other Laws.

In addition, revenue auditing in Iraq is subject to the Supreme Audit Board, law no. 6 of 1990.
Audit is undertaken in accordance with auditing standards and principles. Bodies in charge of auditing are authorized to have access to all files concerned with revenues including taxes.

**Audit Planning**

The Supreme Audit Board of Iraq prepares an annual general plan of its work and also particular plans for different sectors, for example, revenue. Finally, the Board has specific plans for offices such as Income Tax, Customs, etc.

These plans are prepared according to scientific norms depending on the available audit resources.

**Audit Procedures and Methodologies in Revenue Audit**

The financial control of public revenue is a great concern of the Supreme Audit Board. Accordingly, procedures for checking, auditing and reviewing revenue are developed. These aim to examine the procedures followed by the various administrative units to achieve their aims. As a result, auditors suggest appropriate measures to overcome deficiencies that prevent the achievement of these aims. They also point out weaknesses in the systems and individual errors or irregularities.

The methodologies and techniques of revenue audit have evolved over time in Iraq. The object of revenue audit is to seek evidence that revenue is assessed and collected according to law and errors of omission and commission are avoided. It also seeks assurance that pre and post control systems (which are mentioned later) operate efficiently and in accordance with the agreed objectives.

The government revenue collection and accounting systems are also checked to assess whether internal procedures and controls adequately provide for regular accounting of collection, allocation and credit to government bank accounts.

The Supreme Audit Board of Iraq follows a comprehensive revenue auditing approach. This includes both compliance audit and operational audit.

**A) Compliance Audit:**

This audit approach examines compliance with laws and instructions covering the estimation, realization, collection and deposit of revenues (regularity auditing). Compliance with the relevant accountancy standards and principles is also checked (financial auditing).

**B) Operational or Performance Auditing:**

This is the most important type of auditing practiced by the Supreme Audit Board. This includes reviewing all financial and non-financial aspects to assess the extent to which the objectives of each revenue raising institution are being achieved.

Article 3 of the law of the Supreme Audit Board provides for an annual plan for performance audit. Studies were undertaken to evaluate the performance of tax systems in Iraq during the last three years (2009-2011).
Performance auditing consists of many audit procedures to examine:

(i) the efficiency of internal control systems  
(ii) the effectiveness of other systems and financial procedures, the extent to which employees understand them and their capabilities to achieve the objectives  
(iii) the efficiency, adequacy and comprehensiveness of the accounting system in the administrative unit.

The Supreme Audit Board follows several methods of audit check according to the nature of the audit work such as:

i) **Pre-control:**  
   This is undertaken in line with the law and prior agreement with the higher authority in Iraq. Audit controls are undertaken before the associated revenue is collected.

ii) **Periodic (immediate) control:**  
   The control institutions check the accounts in the same year.

iii) **Post-control:**  
   Checking after the end of the financial year is termed the post-control process. This focuses on two operational stages:

   A- The estimation stage; this task is done by the technical tax departments to check and determine tax assessments.
   B- The implementation, levying and collection stage; this is done by the department responsible for levying and collection of tax.

**Stages of auditing process of the Specialized Departments in the Tax Offices:**

A. The following procedures are undertaken by audit to check the technical tax departments:
   - To realize the efficiency of internal control systems.
   - To ascertain how far the tax estimates are accurate.
   - To ensure that tax estimates are fair and based on sound assumptions and on adequate data.
   - To ensure the soundness of tax procedures.
   - To ensure that procedures are being followed properly.

B. For departments engaged in the collection of revenues, the following checks are applied:
   - To ensure that revenues collected during the financial period represent all the revenues which are due for collection during the period.
   - To compare the actual collections with the budget estimate.
   - To analyze the reasons for arrears in collection.
   - To ensure that all revenues are deposited in the banks accounts.
   - To ensure that all records (journal, ledgers) have been properly completed.
To ensure that the system for collection of revenues is working efficiently.
To ensure that demand notices have been issued to tax payers.
To ensure that proceedings have been initiated against tax defaulters.

C. Questionnaire on Internal Control:
This method is used or obtaining accurate information related to the soundness of financial procedures to check the following points:

- The extent of soundness of the accounting and financial systems and the adequacy of the records used by tax offices.
- The soundness of the internal control systems which help estimate the size of the sample of audit.
- The procedures related to collection of revenues and other procedures are accurate.

**Human Resource Management:**

The staff of the Supreme Auditing Board exceeds 1,500 auditors.

Revenue audit is a specialized area requiring adequate skills and training. The Supreme Auditing Board has developed strong task forces to undertake effective missions in this branch of audit.

The Supreme Auditing Board organizes various internal and external training courses and workshops. These include courses provided by the University of Baghdad including its higher auditing diploma which is a three-year course.

**Audit Reporting:**

The main duty of the Supreme Audit Board is to prepare a report to explain its opinion about the financial management of the state’s affairs.

The auditors are divided into groups to audit each government office. Members of each group provide notes to the head of the group. The head of the group then writes a management report from these notes.

The initial audit findings, arising during the audit fieldwork, are typically communicated to the revenue administration in the form of a management report. The views of the department are obtained before finalizing each audit observation.

Significant audit observations or findings involving large transactions, leakages and fraud are reported to Parliament in formal audit reports. These ensure legislative accountability of the revenue administration.

Audit reports fall into one of three categories:

i) Normal financial control reports covering the classification or accounting treatment of revenues and the extent to which revenue entities have followed the laws, instructions and standards.
ii) Comprehensive performance evaluation reports which are submitted to the specialized ministry.

iii) The general annual report which is submitted to the president of the Parliament. This report consists of specialized notes and an evaluation on the implementation of the policies and plans of each ministry.

The audit reports are reviewed to ensure appropriate action is taken on audit findings. If the administration of an entity does not respond to the audit report the matter is reported to the relevant minister. If the minister fails to respond, the matter is reported to the Prime Minister.

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Other Sites of interest, Baghdad, Iraq:
1- www.iraqcustoms.org
2- www.iraqtax.gov
3- www.mof.gov.iq
4- www.oil.gov.iq
Introduction

Joint auditing generally refers to the case where two or more audit teams undertake the audit of a large entity for the same fiscal year. In France and Denmark all listed companies are required to have an annual joint audit by two audit firms (Francis, Richard, and Vanstraelen 2006) and these arrangements may be introduced in other European countries (Accountancy Age 2010). Similarly in India public sector companies and banks are required to have joint audits.

However, there are a variety of other approaches to joint, shared or co-operative audit.

If a public sector entity that extends over a large geographical area, has a lot of branches or has a myriad of financial transactions it may also require the work of joint auditors to undertake its annual audit on time.

Taxation is another area where joint audits may be beneficial (OECD 2010). Several countries may have an interest in taxpayers that operate in or travel between different countries. Supreme Audit Institutions have also used joint audits as part of their capacity building programmes (PASAI 2011).

Although, a joint audit may initially require higher costs, it may have the benefit of cooperation, collaboration, mutual discussion and professional harmony between the joint audit teams.

Joint audits should not be seen in a competitive sense. Statutory audit, internal audit and other types of special audit can be performed through the simultaneous joint efforts of two or more audit teams. The joint audit of a large entity can similarly be undertaken if the work is shared between the respective audit teams on a specified basis.

Types of joint audit

The terms joint audit, concurrent audit, coordinated audit, cooperative audit and parallel audit are emerging concepts in government auditing. They may collectively be termed cooperative audits (PASAI 2011):

Cooperative audits involve multiple institutions working together on a single audit with the guidance of international experts to not only raise the capacity of [Supreme Audit Institutions] SAIs but also produce high quality joint audit reports and individual national reports. SAI Heads will authorize individual reports.
Cooperative audits can be divided into three types: joint, concurrent (or parallel), and coordinated audits. They are defined by the INTOSAI Working Group on Environmental Audit (2007: 1) as follows:

- **Joint audit**: An audit conducted by one audit team composed of auditors from two or more SAIs, who prepare a single, joint audit report for publication in all participating countries. In practice, joint audits are rare.

- **Concurrent (or parallel) audit**: An audit conducted more or less simultaneously by two or more SAIs, but with a separate audit team from each SAI reporting only to its own legislature or government, and only on the observations and/or conclusions pertaining to its own country. This implies that the participating SAIs may each adopt a different audit approach (scope, questions, methods) suited to national needs and preferences. Information exchange is the most important aspect of this form of cooperation.

- **Coordinated audit**: Any form of cooperation between joint and concurrent audits. In a coordinated audit, participating SAIs at least coordinate or harmonize their audit approaches in some way, but differences between countries are possible. It can be a joint audit with separate reports; more commonly it is a concurrent audit with a joint audit report in addition to separate national reports.

The same publication (WGEA 2007: 2) went on to provide the following details:

**Characteristics of the types of cooperative audits**

<table>
<thead>
<tr>
<th></th>
<th>Joint audit</th>
<th>Coordinated audit</th>
<th>Concurrent (or parallel) audit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Team</strong></td>
<td>Joint audit team</td>
<td>National audit team per SAI with some coordination structure</td>
<td>National audit team per SAI</td>
</tr>
<tr>
<td><strong>Audit approach</strong></td>
<td>Identical for all participating SAIs</td>
<td>Coordinated/ harmonized to some degree, but differences between SAIs are possible</td>
<td>Chosen independently by each SAI</td>
</tr>
<tr>
<td><strong>Report</strong></td>
<td>Joint audit report only</td>
<td>National reports and/or joint audit report</td>
<td>National reports only</td>
</tr>
</tbody>
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The Asian Organisation of Supreme Audit Institutions (ASOSAI) Strategic Plan (2011-2015) states that cooperative audits will facilitate knowledge sharing and joint research activities. Such audits make a good relationship among the auditors coming together to the key points like planning, implementation, use of common techniques and reporting professionally.
The OECD has also supported the use of joint audits between the Supreme Audit Institutions of different countries. Joint tax audits can be an effective means of increasing taxation income of each government by reducing the level of tax avoidance. This is especially useful when taxpayers operate in or travel between several taxation jurisdictions (OECD 2010). According to the OECD, a joint tax audit should be considered:

- when there is an added value compared to the procedures of exchange of information;
- when the countries have a common or complementary interest in the fiscal affairs of one or more related taxpayers, and
- in order to obtain a complete picture of a taxpayer's tax liability in reference to some portion of its operations or to a specific transaction, where a domestic audit is not sufficient.

**Joint audits in Nepal**

The reports of the Auditor General of Nepal for 2004 – 2006 indicated the following principles about joint auditing:

1. All foreign financial support whether loans, grant in cash or kind or technical assistance, should be audited jointly by the Supreme Audit Institution of the relevant donor countries and the Office of the Auditor General of Nepal (OAG/N).

2. If the above not possible, the auditors appointed by the donors and staff of the OAG/N may conduct the assignment jointly.

3. If this is again not possible, the donors' auditors and the OAG/N may separately conduct and report the audit findings.

The OAG/N has had more than five years experience in undertaking joint audits with professional accounting firms. These audits have been undertaken on nationally implemented programs supported by the United Nations Development Program (UNDP) in Nepal.

The OAG/N and some accounting firms were appointed by UNDP as joint auditors. The audit assignments were undertaken professionally using a system and substantive based approach and were completed in a timely manner. Finalization of the audits and reporting were the responsibility of the professional accounting firms. One of the key areas for these audits is whether the operational guidelines were properly followed or not. In addition, donors' requirements and other compliance, legal, and other criteria were given substantial attention.

In 2008, five projects were audited by the OAG/N and five others by the professional accounting firm. It is anticipated that each year the OAG/N will audit a number of nationally implemented projects funded by the United Nations Children's Fund (UNICEF). The projects are chosen after considering the size of their budgets, their areas of activity and the level of fieldwork that would be necessary.
Similarly, in 2009, the OAG/N and private audit firms jointly conducted the statutory audit of several UNICEF funded projects. These included projects in the areas of health, local development, drinking water and sanitation where the audits were led by the OAG/N.

In 2010, fourteen UNICEF and United Nations Population Fund (UNFPA) projects were audited jointly by the OAG/N and professional accounting firms. These audits were led by the OAG/N.

The private audit firms were selected by UN agencies in accordance with the terms set out in the Country Program Action Plan, 2008-2010. An orientation program was held to provide a deeper understanding of the operating modalities before the start of each audit.

The terms of references were agreed to by the OAG/N and the professional audit firm. The terms of reference cover the audit scope, working procedures, verification systems, division of assignment into teams, supervision, preparation of a combined report and communication with the entity to be audited.

The Nepal Peace and Development Strategy 2010-2015, developed by the major donors makes mention of joint audits and suggests the OAG/N should especially focus its development on “tax collection and budget management, with public disclosure of financial information and audit reports” (page 61).

The road ahead

Joint audits imply the pooling of resources, knowledge, skills and expertise of more than one audit institution. They aim to render professional performance in a time bound manner. In Nepal, as in other countries, the accounting and auditing regulatory body is promoting the gradual extension of joint audits for all large public sector entities in the years ahead.

Sharing of expert knowledge, better quality performance, timely services to the client and sharing of risks are some of the benefits of joint audits. These arise because of mutual consultation rather than a single audit decision. However, such an approach usually results in increased costs, although several countries are now seeing the benefits of joint audits and the approach is expected to expand in future in both the public and private sectors.

References


Pacific Association of Supreme Audit Institutions (PASAI) website:


Cooperatives Audit in Egypt

By: Khalid Hammad Shouker Tantawy, Information Technology Director, Central Department of Research and Training, Central Auditing Organization, Arab Republic of Egypt
jjiddodi@yahoo.com

I- Basis of Establishing Cooperatives in Egypt:
A Cooperative system is an economic system that synergizes financial resources and personal efforts of groups of individuals where those groups are linked by a common desire to achieve their individual, financial and social interests and develop society in general depending on democracy and scientific management. Cooperative societies in Egypt are: economic units based on principles of cooperation, and managed on democratic basis which practice any branch of human, agricultural, industrial, commercial or service activities, so as to realize their members' material and social interests or serve community in general. Cooperative society acquires its legal personality by registering its articles of incorporation and summary of internal regulation. Thus, an Egyptian cooperative society is any entity established by persons whether they are producers or consumers on the following bases:

1. Cooperative society's capital is formed from an unlimited amount of shares, where every person is entitled to subscribe or waive to any other person according to legal stipulations and regulation of each cooperative society.
2. Each cooperative society member has only one voice, whatever amount of shares is possessed.
3. Cooperative society's capital shares should not yield interest of more than 6% of nominal value.
4. Profits apportioned to cooperative society's members shall be in proportion to each member's transactions with cooperative society.
5. Cooperative society's title should be indicative of its legal character, original purpose, domicile, and should not include name of any person whether as a member therein or not.

II- Articles of Incorporation & Internal Regulation:

Articles of Incorporation:
Cooperative society's articles of incorporation should include the following data:
   a. Time and place of drafting articles of incorporations.
   b. Cooperative society's title and working area.
   c. Cooperative society's character and purpose.
   d. Value of both the paid-in capital and the shares therein.
   e. Names of cooperative society's founders, residences and professions.

Internal Regulation:
Cooperative society's internal regulation should particularly include the following data:
   b. Cooperative society's working area and domicile where its premises should be within its working area.
c. Cooperative society's capital formation, value of shares, methods of their payment, recovery and waiver.
d. Maximum property of shares possessed by a member.
e. Members' terms of admission, duties and obligations, stipulations of dismissal and recession.
f. Board of directors' number, duration, terms of reference, consensus, selection, remuneration, committee members' recompense, and representation before third party.
g. Cooperative society's financial year.
h. General assembly's terms of references, consensus, convention deadlines, voting methods, and legal quorum for session validity.
i. Method for dealing with non-members.
j. Accounting and administrative books maintained by cooperative society, method for preparing and ratifying final accounts.
k. Formation of various financial reserves.
l. Apportionment of profits and reconciliation of losses.
m. Rules for amending cooperative society's order.
n. Rules for cooperative society's liquidation, consolidation and operations dissolution.

III- Cooperatives Accounting:

1- Cooperative Society's Capital:
Cooperative society's capital should be subject in Egypt to principle of "open-door membership" where every individual is entitled to join the cooperative society or willingly withdraw wherefrom at any time. This principle is equivalent to share-free circulation with regard to companies. In order to achieve "open-door membership" principle in cooperatives, the following points should be taken into consideration:

a. Membership should be without any limitation thereon.
b. Member's contribution should be without any limitation.
c. Price of shares issuing should be unified.

Consequently, cooperative society's capital should be, whether positively or negatively, changed as a result of new memberships or new withdrawals. However, withdrawal should not be left completely without any controls, as there are two significant considerations:

a. Protection of rights of third parties who have transactions with cooperative society.
b. Ensuring that cooperative society continues to appropriately practice its activity.

2- Cooperative Society's Reserves:
Cooperative society's reserves are realized profits (surplus) which the cooperative society withholds from being apportioned, whatever its entitlement. Reserves usually appear at the debit (sources of financing) side of balance sheet. However, these reserves may be hidden, i.e., not appearing on the face of balance sheet due to either devaluation of assets, or over-valuation of cooperative society's liabilities with third party, and this case is called "secret reserves". Reserves are considered a "source of auto-financing"; because they originate from the cooperative society itself. Reserves contribute in expanding cooperative society's operations, or replace external financing (loans) so as to avoid their costs.

3- Cooperative Society's Accounts Preparation:
Cooperative society's financial year starts as of January 1st and ends as of December 31st annually. At the end of each financial year, the cooperative society, like any other firm, prepares both final accounts to identify its results of operations and a balance sheet to identify its financial position. The cooperative society's board of directors should prepare the following: income statement and balance sheet. Both income statement (showing profits and losses) and balance sheet are presented, accompanied with their supporting documents, to the external auditor (the Central Auditing Organization) to be examined at least one month before convoking the general assembly. Those two documents, as well as reports of boards of directors and internal auditors are announced at cooperative society's premises eight days at least before the general assembly meeting, and remains announced until being ratified, as every member may have access to these documents.

IV- Cooperatives Auditing:
The cooperatives may be subject to auditing by any of the following three concerned entities:

1- The Certified Public Accountants (CPAs):
The cooperatives may resort to a professional certified accountant who is not member of the general assembly, and who is competent in auditing cooperatives, even if they work with other entities, the experience acquired from private firms may be beneficial to the cooperative society. The CPA performs financial accounting as a method to assist the cooperative society achieve its objectives. When the CPA attends the general assembly's annual meetings, committees and the board of directors, they provide guidance and discuss different issues, draft memoranda, follow-up operations and prepare reports, especially for the general assembly.

2- The Cooperative Central Federation:
Audits may be entrusted to a cooperative central agency which forms accounting federations, i.e., subsidiary societies which are solely designed to provide themselves with service of financial accounting and some methods of follow-up and consultation with regard to cooperatives' various aspects. The relationship between cooperative central federation and cooperative societies, in general, is like the relationship between a lawyer and his clients.

3- The Central Auditing Organization (The Egyptian SAI):
The penal law of Egypt in its article no. 119 states that entities whose funds are considered public finances include: the State, local administration units, public institutions and corporations, public sector units, syndicates and federations, private societies with public utility, cooperative societies, companies where any of the aforementioned entities has a share, and according to the Central Auditing Organization's law no. 144/1988 and amended by law no. 157/1998, the Central Auditing Organization aims basically at achieving control over funds of State and other public entities. The People's Assembly (Egyptian Parliament) may entrust the Central Auditing Organization with auditing one of public corporations and organizations, public sector companies, cooperative societies, or operations and activities performed by such entities. The Central Auditing Organization has to report to the People's Assembly of such special assignments. The report would include actual position of financial and economic conditions.

When controlling such entities, the Central Auditing Organization audits their final accounts, financial positions and balance sheet to ensure correctness and fair representation of activities.
according to the generally accepted accounting principles and systems, expressing observations, concluding about errors, violations and defects in applying laws, regulations and resolutions and ensuring sound application of standardized accounting system, correctness of their books and sound recording and treatment of different transactions in accordance with accounting principles.

The Central Auditing Organization staff members comply with public accounting profession principles, duties and ethics and Egyptian Standards of Audit and limited examination and other assurance tasks that particularly include: disclosure, when necessary, of audit-discovered events which do not appear on endorsed papers and accounts, whatever comes to auditor's knowledge of what is missing, falsified or distorted in these papers and accounts and any constraints that affect the auditee's financial position and results of operations, consideration of examination and reporting professional standards and obtaining all explanations that enable him to discover any error or fraud in cooperatives accounts.
The General State Inspectorate – independent or under the executive - how does it compare with the Court of Accounts in Sub-Saharan Africa?

Andy Wynne – andywynne@lineone.net

The Inspection générale d’Etat is an African innovation, essentially presidential, which over-turns generally accepted paradigms, especially of experts from countries under parliamentary, or at least non-presidential rule, which is significantly different from arrangements which exist elsewhere. (Gueye 2007: 199)

Quis custodiet ipsos custodes? – (Who audits the auditors?)
Juvenal, satirical Roman poet

Abstract

The INTOSAI Mexico Declaration provides a summary of good practice for the independence of government auditors. However, as in many parts of the world, this ideal is not achieved in many Sub-Saharan African countries. This includes both the English speaking and the French speaking countries. The picture is complex, especially in Francophone countries where there is usually more than one type of entity that provides some sort of audit function for central government. The roles and relative strengths of these different types of audit institution (usually Court of Accounts and General State Inspectorate) need to be clearly understood. This paper provides an introduction to their roles and considers their relative levels of independence against the INTOSAI guidance on independence from the Mexico Declaration. It concludes that, despite recent improvements, neither type of organisation achieves the levels of independence envisaged by INTOSAI nor are they adequately resourced. As a result co-operation between all public audit functions is more important than consideration of their relative levels of independence.

Key words:
General State Inspectorate, Court of Accounts, independence, government audit, Sub-Saharan Africa

Introduction

In almost all French speaking Sub-Saharan African countries there is a General State Inspectorate31 (usually called an Inspection générale d’Etat, but other titles are used). This type of institution evolved in post-colonial Africa and so has no parallels in France, Canada or other industrial French speaking countries. Some public financial management advisors consider the General State Inspectorate to be an internal audit institution and most PEFA reports make this assumption. However, in around a third of Francophone African countries the General State Inspectorate is the Supreme Audit Institution and the member of INTOSAI for their country.

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31 In this paper this term is used for this type of organisation whatever the specific terms used in individual countries.
It has been argued that General State Inspectorates should not be considered as external auditors or supreme audit institutions as they are part of the executive branch of government. In contrast the Courts of Accounts\textsuperscript{32} (Cours des comptes) are claimed to be outside and functionally independent of the executive.

General State Inspectorates are usually appointed by the president (or sometimes by the prime minister) and their annual reports are sent to these officials rather than to parliament. However, this may also be the case for Court of Accounts and, indeed for Auditors General in Anglophone countries. Independence is not easy to achieve or maintain for any Supreme Audit Institution. The current president of the Court of Accounts in France was, for example, appointed by Sarkozy, the French president, in early 2010. In addition, the judiciary and indeed parliaments in Sub-Saharan Africa do not have the independence achieved in many OECD countries, for example, the Africa Peer Review Mechanism (2008: 120) report on Burkina Faso concluded that:

\begin{quote}
the Executive is dominant and is hardly limited by the legislature and the judiciary, both of which are weak as regards checks and balances.
\end{quote}

This paper uses INTOSAI guidance to assess the relative levels of independence of the General State Inspectorate and the Court of Accounts in Francophone Sub-Saharan African countries.

In 2007 INTOSAI, the international body of Supreme Audit Institutions (including Courts of Accounts, General State Inspectorates and Auditors General as its members), then meeting in Mexico, issued a declaration on independence (INTOSAI, 2007). This \textit{Mexico Declaration} includes the following eight principles on independence:

\begin{itemize}
  \item The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework
  \item The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties
  \item A sufficiently broad mandate and full discretion, in the discharge of SAI functions
  \item Unrestricted access to information
  \item The right and obligation to report on their work
  \item The freedom to decide the content and timing of audit reports and to publish and disseminate them
  \item The existence of effective follow-up mechanisms on SAI recommendations
\end{itemize}

\textsuperscript{32} Similarly this term is used for this type of organisation whether an independent court (Cour des comptes) or part of the supreme court (Chambre des comptes).
- Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.

**Multiple Audit Institutions in Many Countries**

INTOSAI requires each country to nominate a Supreme Audit Institution, however, in many countries there are several entities which contribute to the function of a Supreme Audit Institution. The public sector in most countries consists of a complex amalgam of different types of entities. These include central government ministries, departments and agencies, sub-national governments (states, provinces, local governments etc) and state owned enterprises (or parastatal organizations as they are usually termed in Africa). In many countries, the Supreme Audit Institution is only responsible for central government. So, for example, in the UK and US the Supreme Audit Institution is not responsible for the audit of local (or state) governments (as is also the case in Nigeria and Ethiopia). In France and other countries regional Courts of Accounts are responsible for the audit of local governments. In addition, in some countries, state owned enterprises are not audited by the Supreme Audit Institution, they may be audited by private audit firms (for example, in UK and Nigeria) or a separate institution, for example, the Audit Service Commission in Ethiopia and Eritrea (and previously in Tanzania). As a result, there is a spectrum of different approaches. In Ghana there is a powerful Auditor General who is responsible for the audit of almost the totality of the public sector, in contrast in Nigeria there are 74 Auditors General and none of them are allowed to audit the accounts of state owned enterprises (Wynne 2010).

**Models of Supreme Audit Institution in Francophone Sub-Saharan Africa**

Francophone Sub-Saharan African countries have two types of institution which undertake external audit type functions, either of which may be designated as the Supreme Audit Institution for an individual country:

- the Court of Accounts is a division of the Supreme Court or separate court within the judicial system. The individual members of the court (judges or magistrates) are led by a president who is generally appointed by the president of the relevant country. The court, with the support of its staff, judges the legality and regularity of the transactions and accounts of individual public accountants and reports to Parliament on the overall State Account. There is limited follow up of the Court’s reports by Parliament. The professional staff traditionally have a legal rather than accounting or audit backgrounds, but this is expanding in several countries

- the General State Inspectorate reports either to the president or the country’s prime minister (rather than to parliament), but it is largely independent of the state bureaucracy and has access to all state institutions, public servants and their documents. It usually largely sets its own annual programme. The professional staff of the General State Inspectorate are usually educated in public financial management at specialist higher education institutions. If irregularities are found they are reported to the relevant ministry or other agency for appropriate action to be taken (Wynne, 2010).
The Court of Accounts, as part of the judiciary, may be considered to be independent of the executive, but their members may be appointed by the president or the council of ministers and their reports may not be submitted direct to parliament. The Court of Accounts produces two annual reports. The first is sent to all members of parliament and reviews the execution of the budget. The second annual public report is sent to the president rather than to parliament and may be made public (Bouvier, Esclassan & Lassale, 2004).

The main thrust of audit reforms in Francophone Sub-Saharan African countries in recent years has been the move from the Court of Accounts being a chamber of the supreme court (Chambre des Comptes) to being a court in its own right (Cour des Comptes). However, unless the appointment of the court’s president and magistrates is changed, the courts are provided with greater resources and the relationship with parliament is strengthened it is not clear that such reforms will greatly improve the independence of the Court of Accounts (Wynne, 2010).

As the General State Inspectorate is accountable to the president (or the prime minister) they may also have a high degree of independence from the entities (ministries, departments and agencies) which they audit. A distinction could perhaps be made between independence from the executive and independence from the entities which are subject to audit. If the General State Inspectorate has the support of a strong president they may in fact have considerably more independence from the ministries and other bodies which they audit than a Court of Accounts whose budget is usually submitted through the Ministry of Finance before being agreed by parliament (Wynne, 2010). In addition, there has been a trend in recent years for more General State Inspectorates to make their annual reports public.

The following General State Inspectorates are all members of INTOSAI and so are the Supreme Audit Institutions for their countries (each of these countries also has a Court of Accounts or equivalent):

- Burundi - *Inspection Générale de l’Etat*
- Cameroon - *Contrôle Supérieur de l’Etat*
- Centrafrique - *Inspection Générale d’État*
- Guinée Conakry - *Inspection Générale d’État*
- Mali - *Contrôle Générale des Services Publics*
- Togo - *Inspection Générale d’État*.

Until 2007 the General State Inspectorate of Burkina Faso was also the member of INTOSAI for that country.
Table 1: Names of the General State Inspectorate and Court of Accounts in larger Francophone African Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>General State Inspectorate</th>
<th>Court of Accounts</th>
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<tbody>
<tr>
<td>Democratic Republic of the Congo</td>
<td>Inspection générale de finance</td>
<td>Cour des Comptes et de Discipline Budgétaire</td>
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<td></td>
<td><a href="http://www.ministeredubudget.cd/audit_comptes.html">www.ministeredubudget.cd/audit_comptes.html</a></td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>Inspection générale d’Etat</td>
<td>Cour des Comptes</td>
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<td><a href="http://www.cotedivorepr.ci/index.php?action(show_page=27">www.cotedivorepr.ci/index.php?action(show_page=27</a></td>
<td>(not yet fully established)</td>
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<td><a href="http://www.courdescomptesci.com">www.courdescomptesci.com</a></td>
</tr>
<tr>
<td>Madagascar</td>
<td>Inspection générale d’Etat</td>
<td>Cour des Comptes de la Cour Suprême</td>
</tr>
<tr>
<td>Cameroon</td>
<td>Contrôle Supérieur de l’Etat</td>
<td>Chambre des comptes</td>
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<td><a href="http://www.chambredescomptes.net">www.chambredescomptes.net</a></td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Autorité Supérieure de Contrôle d’Etat</td>
<td>la Cours des Comptes</td>
</tr>
<tr>
<td>Mali</td>
<td>Contrôleur Général des Services Publics</td>
<td>Section des Comptes de la Cour Suprême</td>
</tr>
<tr>
<td>Niger</td>
<td>Inspection générale d’Etat</td>
<td>Cour des Comptes</td>
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<td><a href="http://www.niger-gouv.ne/coursupreme.htm">www.niger-gouv.ne/coursupreme.htm</a></td>
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<tr>
<td>Senegal</td>
<td>Inspection générale d’Etat</td>
<td>Cour des Comptes</td>
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<td><a href="http://www.courdescomptes.sn">www.courdescomptes.sn</a></td>
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For the above eight largest Francophone countries the Court of Accounts is the Supreme Audit Institution and member of INTOSAI for the country except for Cameroon and Mali where it is the Inspection générale d’Etat.

Wide Scope of Francophone Supreme Audit Institutions

Both the General State Inspectorate and the Court of Accounts have a wider scope than would be expected for Auditors General in Anglophone countries. They have the power to follow public money, something that was only recommended in the UK by the Sharman review in 2001 (Sharman). This report defined public money as:

All money that comes into the possession of, or is distributed by, a public body, and money raised by a private body where it is doing so under statutory authority (Sharman 2001: 15)

The Sharman report also recommended that public money should be subject to audit by public auditors. This principle is generally followed in Francophone countries and the General State Inspectorate and the Court of Accounts have a wide remit to audit the following:
- all public services, offices and organizations
- local authorities
- parastatal bodies, public companies, enterprises and establishments
- public projects and development agencies
- any bodies benefiting from public financial support (state aid).

The final bullet point may be extended to include all bodies making public appeals for funds and so may include insurance companies, pension funds and trade unions. In Cameroon this may be extended still further and the General State Inspectorate may audit any private bodies that are strategic for the nation or related to national defence. In Senegal the scope of the Court of Accounts includes all those organizations in the above bullet points, all organizations controlled directly or indirectly by these entities and national appeals for funds from the public and the organizations benefiting from such appeals (World Bank 2009).

*Specific Role of the Court of Accounts*

In contrast to this wide scope, the Court of Accounts, has a very limited role. The core and original role of the Court of Accounts is to confirm or otherwise the legality of the accounts of the public accountants. If their accounts are found to be legal and regular, the public accountant is given quietus, or full discharge, and so is freed of any further personal or financial responsibility for the sums of money that they have paid (Bouvier, Esclassan & Lassale 2004). If any errors or irregularities are found then the public accountant may be required to repay the money concerned and, in addition, they may be required to pay a fine.

The other core role of the Court of Accounts is to provide a report which is sent with the budget out-turn report (financial statements – loi de règlement) of the government to the National Assembly. This report may include some broad comments on the level of payments and receipts by the government compared to the budget for the relevant financial year and also a commentary of the general economic and financial environment of the country (Court of Accounts of Ivory Coast 2006a). This report also includes a formal opinion or certificate of conformity between the level of payment orders paid by the public accountants and the value of the payments orders raised by the officials with responsibility for raising orders (ordonnateurs) (Lienert 2003).

Thus, for example, in the Democratic Republic of the Congo, the first paragraph of article 52 of the Organic Law on State Finances requires that, “the draft budget out-turn report is accompanied by a report of the Court of Accounts and a general declaration of conformity between the administrative account [of the ordonnateurs] and the management account [of the public accountants] (Court of Accounts, Democratic Republic of the Congo, 2009).

In addition to this report to the National Assembly, the Court of Accounts provides a General Public Report on the activities of the Court. This is usually addressed to the President and may be made public. This provides general background details of the activities of the Court of Accounts for the year concerned, significant developments, major findings and may include details of training received. It will also usually include a summary of the main activities of the Court and any significant developments. This may also include a summary of the reports to the
National Assembly including the formal opinion on conformity between the administrative account and the management account (Court of Accounts, Burkina Faso, 2009).

The above core role of the Court of Accounts is largely limited to an audit of the activities of the public accountants. The audit of other public officials with financial responsibilities may be added to the role of the Court of Accounts through a separate court or chamber, the Court of Budgetary Discipline. This may be part of the Court of Accounts, as in the case of France (Institut Montaigne 2005), and, for example, the Democratic Republic of the Congo where the Court of Accounts is named the Court of Accounts and Budgetary Discipline (la Cour des Comptes et de Discipline Budgétaire) (Court of Accounts, Democratic Republic of the Congo, 2009). In other countries, the Court of Budgetary Discipline may be a separate institution from the Court of Accounts. For example, in Cameroon, the Commission of Budgetary and Financial Discipline has five members and is headed by the General State Inspector.

These quite specific roles of the Court of Accounts mean that the role of the General State Inspectorate may be complementary to the Court. In France, the role of the Court of Accounts has expanded. In Francophone Africa the General State Inspectorate has generally been used to fulfil these additional roles.

**Different ways of classifying public audit**

In Anglophone countries a distinction is usually made between the internal auditor and the external auditor (Auditor General). However, under the French tradition, the control of budgetary execution is divided into administrative, jurisdictional and parliamentary control. Administrative control is exercised by a number of entities. These generally include the Financial Controllers, General Financial Inspectors and the General State Inspectorate. In the French approach the General State Inspectorate is seen as the supreme body for administrative control (Abdourhamane, Crouzel and Claassens 2004, Bouvier, Esclassan and Lassale 2004). Many Anglophone experts consider that each of these three bodies to be internal audit functions. However, the last two at least can equally considered to be external audit functions as they report externally to the bodies they are reviewing. The General Financial Inspectors review financial operations and management across central government ministries, departments and agencies on behalf of the Minister of Finance. Similarly the General State Inspectorate review all ministries, departments and agencies on behalf of the President. Unlike internal auditors, these two bodies do not provide advice to the management of the organizations that they review, but are monitoring, reviewing or auditing the organizations on behalf of a third party.

Jurisdictional control is exercised by the Court of Accounts and related bodies, for example, regional courts of audit and Courts of Budgetary Discipline. These bodies are courts, rather than audit institutions, and their senior officials are magistrates or judges. Public financial management officials are tried by the Court of Accounts. If they are found guilty of responsibility for an irregularity may be required to pay a fine. The Court of Accounts assists the President of the Republic, the Government and the National Assembly in the control of the execution of the budget (Constitution of Senegal 2001).
Parliamentary control is exercised by the National Assembly. Before the beginning of the financial year the National Assembly passes the annual budget allowing the government to collect revenue and make payments (finance law or loi de finance). At the end of the year the National Assembly passes the budget out-turn report (loi de règlement) this reconciles actual receipts and payments to the annual budget. It is the act by which parliament accepts the receipts and payments made by the government on its behalf.

Thus under the French system there are three bodies which are supreme in terms of monitoring and controlling their aspect of the budget. These are the General State Inspectorate (administrative control), the Court of Accounts (judicial control) and the National Assembly (parliamentary control).

**Origins of the General State Inspectorate**

Under the French approach, there are a series of inspectors for each public service, for example, inspectors of education, inspectors of health etc. In 1906 the Governor General of French West Africa created the Inspection Service of Administrative Affairs. This body reported directly to the Governor and provided findings and propositions, which were less prescriptive than recommendations (Gueye 2008).

This service was reorganized in 1936 and again in 1937. At this stage the service was independent and essentially mobile. Inspectors were not allowed to take on other management or executive responsibilities. The scope of their work was now all the administrative services except for the treasury and the technical services of the colonies head quarters. The inspectors had the obligation to inspect each territorial region every year and to provide an annual report of their activities, observations and follow up (Gueye 2008).

In 1943 the name of this service was changed to the General Inspection of Administrative Affairs. The General Inspector was nominated by decree of the Governor and chosen from amongst the governors of the colonies or the chief administrators. The service was based in Dakar and covered all of French West Africa (Gueye 2008).

With independence, the General Inspection of Administrative Affairs reported to the President of the Council and then to the President of the Republic. The General State Inspectorate was formed in Senegal in 1964. Similarly in Togo, the General State Inspectorate was established in 1972 from the Permanent Mobile Inspection of Administrative and Financial Services. In 1982 a General State Inspectorate (Contrôle Général des Services Publics) was formed in Tunisia from the previous Inspection Générale des Services Administratifs (Prime Minister, Tunisia 2010).

The independent Francophone countries generally had strong presidents and weak or non-existent parliaments. In these circumstances it would appear to make more sense to have a public audit institution which reports to the president rather than to parliament. As a result, in several independent Francophone African countries General State Inspectorates were established. In contrast, the Court of Accounts in these countries did not exist or in name only. So, for example, in Burkina Faso, although the Court of Accounts was mentioned in the 1960 constitution it was not, in reality established until 2002 (PEFA 2010). Similarly in Mali, the
Court of Accounts has been referred to in the constitution since independence in 1960. However, it only produced four reports in the twenty years leading to 2008. Again in Cameroun, a Court of Accounts was only established in its current form in 2003 and the General State Inspectorate was and continues to be the main public audit body. As a result, for at least the four decades after independence, it was the General State Inspectorate that was the main public audit body and so was nominated as the member of INTOSAI in these three countries (as in several other Franco-phone African countries).

More recently General State Inspectorates were also established in countries which did not have them before, for example, in Djibouti in 2004 and in Mauritania in 2005. In 2001 the Commission on Reform of Structures and Missions of the State in Algeria recommended the formation of a General State Inspectorate reporting to the President to control the functioning of all public services and administration. This was to have been in addition to the Court of Accounts which reviews the financial operations linked to budget execution.

In addition, General State Inspectorates were created in 2009 in Burundi and the Democratic Republic of the Congo by moving the General Inspectorate of Finance into the Office of the President.

In Djibouti, despite the already existing Court of Accounts, a General State Inspectorate was established in law in 2001. The idea was that the ex post juridical control (after the event legal control) of the Court of Accounts would be complemented by a body which could act during the implementation of the budget (General State Inspectorate, Djibouti, 2007). The general state inspectorate has developed its own approach to audit which takes in to account all management sub-systems, “this includes:

- evaluating whether the character of new or existing programmes are effective, appropriate or pertinent considering their objectives and whether the expected results are achieved
- identifying constraints and performance factors and whether management has identified alternative solutions or the opportunity costs to achieve the programme’s objectives effectively and efficiently
- identifying any overlaps or duplications or conflicts with other programmes and recommending ways of executing programmes in the best manner possible
- evaluating programmes for conformity with laws and regulations, but also the adequacy of systems of internal control and especially systems to monitor their success” (page 10/11).

This first annual public report from the general state inspectorate of Djibouti (General State Inspectorate, Djibouti, 2007: 24) also notes that:

“The general state inspectorate is a concept specific to Africa, with a universal, general and extended scope. It usually consists of elite staff recruited through competition from

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amongst the highest officials of the state (magistrates, national directors, secretaries general of ministries etc), at least in Sénégal, Burkina Faso, Côte d'Ivoire etc.”

This evolution and the spread of the formation of General State Inspectorates shows that the value and the usefulness of such organizations has been clearly demonstrated and recognized across Francophone Africa.

Responsibilities for value for money and anti-corruption

In recent years at least some General State Inspectorates have taken on responsibility for value for money or performance audit. In Senegal, for example, with the legal amendments in 2005 and 2007 the work of the General State Inspectorate was reoriented towards value for money or performance audit (Keita 2007).

The clearest example of a General State Inspectorate taking on responsibility for anti-corruption work is in Burkina Faso where the Supreme Control Authority of the State (Autorité Supérieure de Contrôle d’Etat) was formed in 2007 from the following bodies (General State Inspectorate, Burkina Faso 2009):

- General State Inspectorate (Inspection Générale d’Etat)
- Higher Authority for Co-ordination of the Fight Against Corruption (Haute Autorité de Coordination de la Lutte contre la Corruption), and
- Part of the National Co-ordination of the Fight Against Fraud (Coordination Nationale de Lutte contre la Fraude).

Following this introduction, the relative independence of the General State Inspectorates and the Courts of Accounts in Francophone Africa are assessed against each of the eight principles from the INTOSAI Mexico Declaration. The position in the following eight largest Sub-Saharan African Franco-phone countries is investigated in detail (however, other smaller countries and north African countries are also referred to):

- Democratic Republic of Congo
- Ivory Coast
- Madagascar
- Cameroon
- Burkina Faso
- Niger
- Mali
- Senegal

The paper finishes with some conclusions and final thoughts.
Principle 1: The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework

Guidelines
Legislation that spells out, in detail, the extent of SAI independence is required (INTOSAI 2007b).

The Court of Accounts is referred to in the Constitution of all eight of the larger Francophone Sub-Saharan African countries. However, the provisions are not necessarily appropriate in terms of the Mexico Declaration.

The Monetary and Economic Union of West Africa (UMEOA) Code of Transparency (2000) required its members states to establish an autonomous Court of Accounts by the end of 2002 (paragraph E2-2). However, in a review in early 2010 this had only been achieved in half the member states.

The General State Inspectorate was the INTOSAI member for Burkina Faso until 2007. This was despite the constitution (Article 127) from 2000 saying that, “The Court of Accounts is the superior legal body for the control of public finances”.

In most cases the President (some times through the Council of Ministers) appoints the members of the Court of Accounts, it is the President that guarantees the independence of the judiciary according to the Constitution and the reports of the Court of Accounts are sent to the President (and may also be sent to National Assembly). It is only the 2006 Constitution of the Democratic Republic of the Congo which provides for the involvement of the National Assembly in the appointment or removal of the President of the Court of Accounts. In this case the National Assembly advises the President (Democratic Republic of the Congo 2006).

The Constitutions do not necessarily emphasize the general relationship of the Court of Accounts with the National Assembly, for example, the 2001 Constitution of Senegal states that the “Court of Accounts assists the President of the Republic, the Government and the National Assembly in the control of the execution of the budget”. Similarly the 2006 Constitution of Democratic Republic of the Congo requires the annual report of the Court of Accounts to be sent to the President of the Republic, Parliament and the Government. It is only this Constitution (of the eight largest countries) which requires the annual report of the Court of Accounts to be published. Similarly, the constitution of the Democratic Republic of the Congo provides for a clear relationship with parliament. The second paragraph of article 178 of this constitution states that the: “Court supports the National Assembly” (Democratic Republic of the Congo 2006). Similarly the Constitution of Burkina Faso (2002) states that the National Assembly is assisted in controlling the accounts of the nation by the Court of Accounts which it may require to undertake any enquiry or study on public financial management (article 105).

33 “La Cour des comptes est la juridiction supérieure de contrôle des finances publiques.”
These Constitutional provisions do not necessarily provide the Courts of Audit with the independence they require. The State President is often the guarantor of independence of the judiciary (Côte d’Ivoire, Cameroon, Burkina Faso and Mali). However, the president may use this power to restrict the work of the Court of Accounts, for example, the President of Senegal threatened to close the Court of Accounts over its plans to review the management of an agency managed by his son and an NGO employing his wife. Only the intervention of the IMF stopped the budget of the Court of Accounts being cut by two thirds (World Bank 2009). In Algeria the current President has stopped the publication of the annual general activity report of the Court of Accounts since he came to power in 1999. In 1969 the Court of Accounts of Cameroon was suppressed by Presidential decree and it was not re-established until 1996 (Bizeme 2010).

The provisions of the Constitution are generally supported by more detailed laws. In some cases, for example the Democratic Republic of the Congo and Burkina Faso, this is an organic law which provides more protection against amendment than a normal law. However, the laws may not be up to date, apply best practice or be implemented as required. The law creating the Chamber of Audit in Democratic Republic of the Congo has not been amended since 1987 and so the Court of Accounts does not have legal backing. In Côte d’Ivoire, the Constitution refers to a Court of Accounts, but the law to support such a Court independent from the Supreme Court has yet to be agreed by the National Assembly (Court of Accounts, Côte d’Ivoire 2010).

In 2009 the Monetary and Economic Union for West Africa (UMEOA 2009) revised its requirements for the regulation of public financial management, including those governing the Court of Accounts. These regulations are not achieved by many of its members and in early 2010 UMEOA considered that in only three of its eight member countries did the Court of Accounts have functional financial autonomy (Senegal, Burkina Faso and Guinea Bissau).

Although Chambers (or Courts) of accounts were established constitutionally and legally from independence (1960) in several countries these bodies did not come into effective existence until much later. For example, in Mali the Court of Accounts (Section of the Supreme Court) only produced four reports in the twenty years leading to 2008. Similarly in Burkina Faso, although the constitution made provision for a chamber of accounts it was not established in fact until 1984 when three judges were appointed. However, regular annual reports for the National Assembly and public reports were only produced from 2003-04 after the Court of Accounts had been established.

The proposed organic law of the Côte d’Ivoire will still allow the accounts of public accountants to be subject to the procedures of the Court of Accounts only at least every five years (World Bank 2009b).

The General State Inspectorates are not referred to in the Constitution of any of the eight larger countries, but their main attributes are detailed in laws which have all been amended within the last 15 years. These laws have usually been subject to regular reform so, for example, the General State Inspectorate in Senegal was created in 1964 and the relevant law was then amended in 1974, 1987, 2005 and 2007 (Keïta 2007).
In all Francophone countries in Sub-Saharan Africa there is largely appropriate Constitutional and/or legal provision for both the Court of Accounts and the General State Inspectorate. Neither with the case of the Court of Accounts nor the General State Inspectorate do the legal provisions provide for any significant relationship with the National Assembly in ensuring their independence. In addition, the state President in each country (sometimes through the council of ministers) usually appoints the heads of both types of institution. This aspect is considered further in the next section.

**Principle 2: The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties**

**Guidelines:**

The applicable legislation specifies the conditions for appointments, re-appointments, employment, removal and retirement, of the head of SAI and members of collegial institutions, who are:

- appointed, re-appointed, or removed by a process that ensures their independence from the Executive
- given appointments with sufficiently long and fixed terms, to allow them to carry out their mandates without fear of retaliation; and
- immune to any prosecution for any, act, past or present, that results from the normal discharge of their duties (INTOSAI 2007b).

In each of the eight larger countries in Francophone Sub-Saharan Africa the heads of both the Court of Accounts and the General State Inspectorate are appointed by the State President (usually through the Council of Ministers) as indicated by the following table:

**Table 2: Mode of Appointment of the General State Inspectorate and Court of Accounts**

<table>
<thead>
<tr>
<th>Country</th>
<th>General State Inspectorate</th>
<th>Court of Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic Republic of the Congo</td>
<td>Appointment by President on the advice of the Minister of Finance and Public Administration (competitive examination for staff)</td>
<td>Members appointed by the State President advised by the National Assembly</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>General State Inspectors appointed by the President</td>
<td>President appointed from amongst the magistrates</td>
</tr>
<tr>
<td>Madagascar</td>
<td>General State Inspectors appointed by the President through the Council of Ministers</td>
<td>President and members appointed by the State President advised by the Higher Judicial Council</td>
</tr>
<tr>
<td>Cameroon</td>
<td>The head is appointed by the President</td>
<td>Members appointed by Presidential decree</td>
</tr>
<tr>
<td>Country</td>
<td>General State Inspectorate</td>
<td>Court of Accounts</td>
</tr>
<tr>
<td>--------------</td>
<td>------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>The head and staff are appointed by the Council of Ministers (recent staff by public competition with 15 years of service)</td>
<td>President and members appointed by the Council of Ministers advised by the Higher Judicial Council (which the state president chairs) for a five year renewable term</td>
</tr>
<tr>
<td>Niger</td>
<td>General State Inspectors appointed by the Council of Ministers (new group of 20 appointed in May 2010)</td>
<td>First President appointed for a four year term by the State President on the advice of the Minister of Justice with the consent of the Higher Judicial Council. Members of the Court appointed by the State President on the advice of the Minister of Justice</td>
</tr>
<tr>
<td>Mali</td>
<td>General State Inspectors appointed by the Council of Ministers</td>
<td>President and vice president appointed by the State President advised by the Higher Judicial Council Other members by Council of Ministers</td>
</tr>
<tr>
<td>Senegal</td>
<td>Presidential decree for appointment of the Auditor General, General State Inspectors are appointed by competition for senior officials of grade A special or A1 with a least 10 years of service</td>
<td>Members appointed by the State President advised by the Higher Judicial Council</td>
</tr>
</tbody>
</table>

The Court of Accounts may be considered to have more independence in terms of appointment of its members as the President is usually advised on their appointment by the Higher Judicial Council or the Minister of Justice. However, in Mali, for example, the “nomination of the members of the Court is more political than being based on their professional competences” (Ezeilo 2008: 28). Similarly, in Burkina Faso, the PEFA report (2007) noted that the procedure for the nomination of members of the Court of Accounts was not sufficiently based on competitive appointment and too much on nomination by the executive. Again, in Burkina Faso the State President is advised by the Higher Judicial Council on the appointment of the President and members of the Court of Accounts. However, the Higher Judicial Council is itself dominated by the executive with the State President as its chair and the deputy chair being the Minister of Justice and the State President nominating a third member of the seven person council (African Peer Review Mechanism 2008).
The 2008 Open Budget Survey found that head of the Court of Accounts could be removed by the executive without the final consent of the judiciary or the legislature in the following countries: Democratic Republic of the Congo, Burkina Faso, Algeria, Chad, Equatorial Guinea and Morocco. Of the Francophone countries surveyed in Africa, only the heads of the Court of Accounts in Niger, Senegal and São Tomé e Príncipe had such protection.

The comment of the peer reviewer of the Court of Accounts of the Democratic Republic of the Congo (Global Integrity 2006) was that, “the head of the agency in Congo is not protected. If he has not been removed, it is because he works for the president. If his agency audits national accounts and issues reports critical of the government, I would make the case that he would be removed without defensible justification.” They went on to say, “Appointments were political. So I do not see how they would support the independence of the agency”.

With the General State Inspectorate, in some countries the head is a clearly a political appointment, for example, in Cameroon and Burundi the head of the General State Inspectorate is a deputy minister. In early 2010 the new government in Niger appointed a new set of 20 General State Inspectors. In other countries the head of the General State Inspectorate may have more independence from the politicians. In Senegal, for example, the law was amended in 2005 with the appointment of an Auditor General (vérificateur général) for a fixed non-renewable term of seven years (Keita 2007). In this case and in some other countries, there is a tradition of appointing the head of the General State Inspectorate from within the service. However, in Burkina Faso, for example, the current head of the General State Inspectorate was appointed from outside the service.

The staff of the Court of Accounts and the General State Inspectorate generally have complete freedom in undertaking their work and this is guaranteed by law. The General State Inspectors in Burkina Faso, for example, are free for their assignments and do not receive any instruction. In Senegal their independence in the interpretation of the facts and the conclusions made is legally guaranteed (decree 2007).

By the 2004 law, “Administrations of Inspection or of Control of the public finances of Madagascar”, the General State Inspectorate is independent in the exercise of its work of inspection or control. It is only subject to the Constitution and the law. They cannot be disciplined or subject to legal proceedings for their conclusions, recommendations or in exercising their functions.

The independence of the General State Inspectorate in Cameroon is described in the following terms on the website of the Presidency:

“In the field, members of the mobile audit teams enjoy total independence from the administration and the entities subject to audit and have all powers of investigation. During their investigations auditors should not suffer any restriction to their freedom without the prior agreement of the President of the Republic”
Principle 3: A sufficiently broad mandate and full discretion, in the discharge of SAI functions

Guidelines

SAIs should be empowered to audit the

- use of public monies, resources, or assets, by a recipient or beneficiary regardless of its legal nature;
- collection of revenues owed to the government or public entities;
- legality and regularity of government or public entities accounts and entities;
- quality of financial management and reporting; and
- economy, efficiency, and effectiveness of government or public entities operations.

Except when specifically required to do so by legislation, SAIs do not audit government or public entities policy but restrict themselves to the audit of policy implementation.

While respecting the laws enacted by the Legislature that apply to them, SAIs are free from direction or interference from the Legislature or the Executive in the

- selection of audit issues;
- planning, programming, conduct, reporting, and follow-up of their audits;
- organization and management of their office; and
- enforcement of the decisions where the application of sanctions is part of their mandate.

SAIs should not be involved or be seen to be involved, in any manner, whatsoever, in the management of the organizations that they audit (INTOSAI 2007b).

As indicated in the introduction to this paper both the Courts of Accounts and the General State Inspectorates usually have a wide mandate to review the whole of the public sector and other organizations in receipt of public funds. This is better than a number of OECD countries.

But especially Courts of Accounts may be restricted by their lack of resources and so their work often concentrates on the audit of accounts of Public Accountants. In Senegal, for example, the PEFA review of Dakar Council (January 2009) found that the Court of Accounts had undertaken some audit fieldwork in October 2008, but that their previous visit to the council had been in 1999. Similarly in Burkina Faso, the PEFA review in 2007 noted that the central government accounts had not been audited from 1983 to 2000 and those of local government since 1963. The
accounts for central government were subsequently brought up to date with those 1985 to 2000 being agreed in May 2000 and finally the accounts for 2008 being agreed by the National Assembly in early May 2010.

Courts may also not have the legal power to undertake performance audit. General State Inspectorates, are however, more likely to have this power (as indicated above). So, for example, the law governing the General State Inspectorate in Senegal states that one of its ten objectives is to propose, “all useful measures to simplify and improve the quality of the administration, reduce management costs and increase efficiency (Official Journal 2005).

The Courts of Accounts usually have a large measure of autonomy on the work they undertake beyond judging the accounts of the Public Accountants. However, they may be requested to undertake other assignments, for example, the Court of Accounts in Algeria may have cases referred to it by the President of the legislature (Transparency International 2002). Similarly in Mali, the Court of Accounts may have cases referred to it by the State President, the Prime Minister or the President of the National Assembly (Ezeilo 2008). In the Democratic Republic of the Congo (PEFA 2008) and Madagascar (personal communication), the government or the State President may request the Court of Accounts to undertake specific assignments. In fact in 2007 most of the work undertaken by the Court of Accounts of the Democratic Republic of the Congo was at the request of the government (PEFA 2008). The Court of Accounts of Congo and Equatorial Guinea determine less than 80% of their annual programme (Dehove 2010).

The General State Inspectorates usually have their annual programmes agreed by their State President. In addition, in Senegal and Cameroon, for example, the terms of reference for each mission are signed off by the Presidency. However, in practice this may leave a wide measure of independence for the General State Inspectorate to determine its own work programme.

In Senegal the Auditor General (head of the General State Inspectorate) has stated that “the General State Inspectorate is neutral and objective in its work. It constitutes an impregnable fortress that cannot be at the service of any politician” (Rewmi.com 2007). “The general assembly of the General State Inspectorate develops an annual programme of work which is then passed to the President for approval. Generally the programmes are approved… But the President can require the General State Inspectorate to undertake an occasional mission”.

Similarly in Togo, the annual work programme of the General State Inspectorate is agreed to by the State President who may request occasional missions to be undertaken. However, this institution indicated that it sets less than 80% of its annual programme (Dehove 2010).

In Burkina Faso, the State President may request the Court of Accounts to undertake particular missions of enquiry (article 26, decree 2005-258 Covering the Approach to the Control of Financial Operations of the Government and other Public Organizations). The same law (article 23) states that the General State Inspectorate may be requested by the President, the Prime Minister or the Speaker of the National Assembly to undertake any study or inquiry whatever may be its subject.
The 2007 PEFA report for Burkina Faso states that General State Inspectorate has a large measure of independence in determining the work it undertakes:

“The annual work programme (around 90% of reviews) is determined by the General State Inspectorate. Each year the prime minister sends a formal letter of instruction to the General State Inspectorate which does not include detailed plans. The General State Inspectorate then develops its annual work programme and sends it to the Prime Minister for information”34 (page 114).

The head of the General State Inspectorate in Burkina Faso stated in a recent interview that, “the law says that the General State Inspectorate is totally independent in the execution of his mission”. However, much of the work of this institution is now taken up with investigating cases of alleged fraud or corruption.

An example of this occasional work is in Benin, where, in August 2009, the President attacked the trade unions after a two day strike and protest march against the rise in the cost of living, corruption and poor management of public finances. The President then asked the General State Inspectorate to investigate state support to the trade unions over the previous five years.

Most of the Courts of Audit and the General State Inspectorates generally have a sufficiently broad mandate and large discretion, in the discharge of their functions. However, the Courts of Audit may be restricted in their legal mandates, and the level of resources they are provided with, to undertaking audits of the accounts of public accountants. They may not have the express legal power to undertake performance audit. At least some of the General State Inspectorates are also restricted by having their annual work plans and the terms of reference agree by the State President. However, they generally have a wider remit than the Courts of Audit and often have the express power to undertake performance audit and anti-corruption work.

**Principle 4: Unrestricted access to information**

**Guideline**

SAIs should have adequate powers to obtain timely, unfettered, direct, and free access to all the necessary documents and information, for the proper discharge of their statutory responsibilities.

Members of the Courts of Accounts and General State Inspectorates generally have full access to the information they need to complete their assignments. The only member of CREFIAF which said it did not have free access to information, the ability to review evidence and to visit the necessary offices was Guinea (a General State Inspectorate) (Dehove 2010).

34 La programmation annuelle (environ 90% des contrôles) ne dépend que de l’IGE ; le premier ministre envoie chaque année une lettre de mission formelle à l’IGE sans instruction de contrôle précis, l’IGE élabore son programme de travail et le transmet pour information au Premier ministre.
In Senegal the members of the Court of Accounts have wide access to information in the field of their investigations (PEFA 2007). Similarly, officials of the General State Inspectorate have their rights of access, enshrined in law and these are superior to many other African Supreme Audit Institutions. They have access to all documents even if classified confidential or secret, including secret national defense documents (Wynne 2010).

According to the State President of Senegal, Abdoulaye Wade:

“The General State Inspectorate should be protected from all sides to ensure its total freedom, because the role of the General State Inspectorate consists of making fully objective reports and improving the management and the very difficult weaknesses in public administration”35 (Adigbli 2008).

The website of the General State Inspectorate of Côte d’Ivoire (2010) says that:

“When undertaking their inspections, the General State Inspectors have all the powers of investigation, information and interpretation. They have access to all sources of information and documentation, files, registers, correspondence, accounts etc and generally all documents that they judge necessary to fulfil their missions. No information may be refused even by private sector organizations relative to audited bodies. They are independent of the management that they inspect and their appreciation of the things they examine and the conclusions they draw.”

Each Inspector of the General State Inspectorate of Cameroon has an identity card including their photograph and the personal signature of the President. This card details the access the Inspector has to any officials or documents required for them to undertake their work. If necessary, the card empowers the police to enable this access without delay.

The report of the Court of Accounts of the Democratic Republic of the Congo for 2006-07 states that:

Despite the importance attached by the Government to this task, the Court of Auditors noted the lack of willingness and cooperation from the heads of Departments and Services (page 3)36.

Thus in practice staff of the Court of Accounts and General State Inspectorate may not receive the co-operation they require to do their work effectively.

35 « l’IGE doit être protégée de tous les côtés, de façon à lui assurer une liberté totale, parce que, explique-t-il, le rôle des IGE consiste à faire des rapports en toute objectivité et de redresser le fonctionnement et les insuffisances de l'administration publique très difficile »
36 « En dépit de l'importance accordée par le Gouvernement à cette mission, la Cour des comptes a noté le peu d'empressement et de collaboration de la part des responsables des Ministères et Services. »
**Principle 5: The right and obligation to report on their work**

**Guidelines**

SAIs should not be restricted from reporting the results of their audit work. They should be required by law to report at least once a year on the results of their audit work.

Most Supreme Audit Institutions in Francophone Africa produce an annual report which is made public. But few institutions are able to communicate with the public and none of the Court of Accounts or General State Inspectorates said they were feely able to do so in the recent CREFIAF survey (Dehove 2010). Four of these institutions said they did not produce an annual report (three Courts of Accounts and one General State Inspectorate) (Dehove 2010).

The Court of Accounts of Cameroon issued is first annual report (for 2006) in over thirty years in December 2007.

“The reports of the Court of Accounts in Mali are supposed to be public documents, but, in reality they are far from being accessible to the public” (Ezeilo 2008). In addition, the Court of Accounts has only produced two reports in the last ten years.

In Algeria the current President has stopped the publication of the annual report of the Cour des comptes since he came to power in 1999.

The General State Inspectorate of Senegal may publish its reports if they have been declassified by the President. It has developed “a new communications strategy with the right to inform the citizens… In this framework, the General State Inspectorate will present, each year, a report on the state of public governance” (Keïta 2007).

Courts of Audit have little contact with the National Assembly, even when their reports are considered by the National Assembly there may be little exchange of information. For example, the Finance Committee of the National Assembly of Burkina Faso considered the budget out-turn report for 2006 in two meetings in March 2008 (lasting in total nearly six hours). The agenda for the meetings suggested that the Court of Accounts would be interviewed and questioned for 3.5 hours. However, the actual reports of these meetings indicate that although staff of the Court of Accounts were present, they had no clear role and their input was not reported (Commission des Finances et du budget 2008).

Both the Courts of Accounts and General State Inspectorate now generally provide annual reports on the results of their audit work, but these reports may not necessarily be made public.
Principle 6: The freedom to decide the content and timing of audit reports and to publish and disseminate them

**Guidelines**

SAIs are free to decide the content of their audit reports.

SAIs are free to make observations and recommendations in their audit reports, taking into consideration, as appropriate, the views of the audited entity.

Legislation specifies minimum audit reporting requirements of SAIs and, where appropriate, specific matters that should be subject to a formal audit opinion or certificate.

SAIs are free to decide on the timing of their audit reports except where specific reporting requirements are prescribed by law.

SAIs may accommodate specific requests for investigations or audits by the Legislature, as a whole, one of its commissions, or the government.

SAIs are free to publish and disseminate their reports, once they have been formally tabled or delivered to the appropriate authority—as required by law.

There are two main reports of the Court of Accounts:


- **Reports accompanying the budget out-turn report** (sent to the president to send on to the National Assembly with the draft budget out-turn law)
  - presentation on the budget out-turn, observations and recommendations
  - report of conformity between the accounts of the general financial administration and the accounts of the principal public accountants.

The Code of Transparency of UMEOA (2009) states that:

*The Court of Accounts makes public all the reports it transmits to parliament, the government and the state president. Similarly it publishes all its specific decisions on its website, if it exists, and in at least two major national newspapers with a large circulation* (5.7).

The general activity report of each Court of Accounts is usually made public, but this is not the case for Madagascar, Mali or Niger.

The annual reports for the General State Inspectorates are not usually made public, although this is improving. The General State Inspectorate of Burkina Faso publishes their annual reports on their website, as does the General State Inspectorate for Djibouti. The General State Inspectorate
for Senegal also plans to move in this direction. It is committed to producing an annual report on the state of public governance for the citizens of Senegal. Generally the reports are sent to the State President and may then be made public (Wynne 2010).

A summary of the position on publication of annual reports is shown in the following table:

<table>
<thead>
<tr>
<th>Country</th>
<th>General State Inspectorate</th>
<th>Court of Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic Republic of the Congo</td>
<td>-</td>
<td>Official Journal (2006-07 report on Internet – only covers three months)</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>Official Journal</td>
<td>Official Journal and website</td>
</tr>
<tr>
<td>Madagascar</td>
<td>-</td>
<td>Internet</td>
</tr>
<tr>
<td>Cameroon</td>
<td>-</td>
<td>Internet</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>Internet</td>
<td>Internet and Official Journal</td>
</tr>
<tr>
<td>Niger</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Mali</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Senegal</td>
<td>-</td>
<td>Internet</td>
</tr>
</tbody>
</table>

The annual reports of the Court of Accounts of Cameroon are posted on its website. The report for 2008 is the latest available (in December 2010) and was published in October 2009. The reports for 2006 and 2007 are also available from the website.

A comment from the peer reviewer of the 2006 Global Integrity Report for the Democratic Republic of the Congo about the reports of the Court of Accounts was that, “The audit reports are accessible at a prohibitive price. They are generally published as special items in the official bulletins which cost between 2,500 and 5,300 Congolese francs or between US$5 and US$10. This amount represents a significant portion of the salary of middle class citizens (journalist, high school teacher, etc)”. Thus the reports may be available to journalists, but they would not be available to the overwhelming majority of the population. The report available from the internet only covers the three months from December 2006 to February 2007.

Similarly, a researcher on the Courts of Accounts of Mali and Niger could not gain access to the reports of either institution (Ezeilo 2008).

The reports for the Court of Accounts of Congo, Djibouti and Guinea Bissau are not issued to parliament (Dehove 2010). The Court of Accounts of Madagascar did not produce an annual report (PEFA 2006), but one was produced and made public in 2009 (personal communication).
In Burkina Faso the annual reports of the General State Inspectorate and the Court of Accounts can both only be published with the permission of the State President (PEFA 2010), but in practice both reports are made public immediately after they have been issued to the State President. In addition, the content of the reports is determined by the institution itself. However, this has only been the case in the last five years for the Court of Accounts and the last three years for the General State Inspectorate. The General State Inspectorate manages to produce an annual report which is publically available within three or four months of the end of the year. In contrast, the Court of Accounts only produces its report by the end of the following year and this refers to the financial year for the year before. So for example the 2009 public report (on the 2008 financial year) of the Court of Accounts was nearly ready for publication at the end of 2010.

In Côte d’Ivoire, in 1990, it was obligatory for the annual public report of the Court of Accounts to be sent to the National Assembly and to be published in the Official Journal (Tam: 339):

> However, the issue, publication and distribution [of the annual report of the Court of Accounts in Senegal] is not obligatory. It depends on the State President who is the sole judge of this opportunity.

Since 2001, the annual reports of the Court of Accounts of Senegal have been made available on its website. The report for 2001 said that it was its second General Public Report.

In recent years there has been a general increase in the publication of the annual reports of both the Court of Accounts and the General State Inspectorate. The annual public reports of the Courts of Accounts are usually publically available (in five of the eight largest countries). In contrast, for the General State Inspectorates, their annual reports are currently (early 2011) only publically available in two of the largest Francophone countries. In late December 2010 the General State Inspector of Niger, Gabriel Martin appeared on state television to provide an interim report of the work of the General State Inspectorate (Martin 2010).

**Principle 7: The existence of effective follow-up mechanisms on SAI recommendations**

<table>
<thead>
<tr>
<th>Guidelines</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAIs submit their reports to the Legislature, one of its commissions, or an auditee’s governing board, as appropriate, for review and follow-up on specific recommendations for corrective action.</td>
</tr>
<tr>
<td>SAIs have their own internal follow-up system to ensure that the audited entities properly address their observations and recommendations as well as those made by the Legislature, one of its commissions, or the auditee’s governing board, as appropriate.</td>
</tr>
<tr>
<td>SAIs submit their follow-up reports to the Legislature, one of its commissions, or the auditee’s governing board, as appropriate, for consideration and action, even when SAIs have their own statutory power for follow-up and sanctions.</td>
</tr>
</tbody>
</table>
The Code of Transparency of UMEOA (2009) states that the Court of Accounts should:

Follow-up the extent of implementation of its recommendations and the results of this exercise should be regularly brought to the attention of the public (5.7).

However, the parliamentary commissions of Francophone countries rarely follow-up on recommendations made by either the Court of Accounts or the General State Inspectorate. The Finance Commission for Burkina Faso did include such a review in its report on the 2006 budget (Commission des Finances et du budget, 2008).

The CREFIAF survey (Dehove 2010) reported that nearly a third of their member bodies follow-up the extent to which their recommendations have been implemented. This is more common with General State Inspectorates.

The International Budget Partnership (2010) report on Mali noted that:

There is no document that attests to the report of the steps the executive has taken to address audit recommendations of the Accounts Section of the Supreme Court (page 109).

The annual report of the General State Inspectorate in Burkina Faso for 2009 (General State Inspectorate, Burkina Faso 2010) includes a section on following up the recommendations made in the previous annual report. In addition, this General State Inspectorate reviews the extent to which recommendations made by financial and technical inspectorates in each ministry are implemented. The General State Inspectorate received 275 reports from such bodies in 2009 (General State Inspectorate, Burkina Faso 2010).

The annual public report 2008 of the Court of Accounts of Burkina Faso (2009) included a formal follow-up of the recommendations made in its previous four annual reports. This was the first time that such a follow-up had been reported.

In Senegal, the General State Inspectorate is also charged with following-up the recommendations made in all internal audit reports (Keita 2007).

Recommendations made by Courts of Accounts and General State Inspectorates are not usually followed up by these organizations or the National Assembly. However, it is more common for the General State Inspectorates to undertake such a formal follow-up and this may also include recommendations made by other inspectorates or internal auditors.
**Principle 8: Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources.**

**Guidelines**

SAIs should have available necessary and reasonable human, material, and monetary resources—the Executive should not control or direct the access to these resources. SAIs manage their own budget and allocate it as appropriately.

The Legislature or one of its commissions is responsible for ensuring that SAIs have the proper resources to fulfill their mandate.

SAIs have the right of direct appeal to the Legislature if the resources provided are insufficient to allow them to fulfill their mandate.

Few Courts of Audit or General State Inspectorates comply with this principle. None of the 19 member institutions of CREFIAF suggested that they had adequate financial means to fulfil their mandate (Dehove 2010). Only three of these institutions could defend their annual budgets in parliament (two were Court of Accounts and one a General State Inspectorate) (Dehove 2010).

The size of audit institutions in Francophone African countries is far smaller than those in Anglophone African countries. A recent AFROSAI survey found that on average there were 35 auditors for each Francophone member, whilst Anglophone members had an average of nearly 300 auditors each. This disparity in staffing is not explained by differences in the sizes of countries, although the French countries have, on average around half the population of Anglophone countries. But it may be explained, by the existence of more inspectorates or internal audit sections (as they are usually referred to).

In Francophone countries there are a variety of organizations that very broadly undertake similar work to the staff of offices of the Auditors General in Anglophone countries (ex post review/audit of payments). Thus in Burkina Faso, for example there is the Court of Accounts, the General State Inspectorate, the General Financial Inspectorate, the General Budgetary Inspectorate and the General Treasury Inspectorate. In total, these five organizations have approximately 135 professional staff (PEFA, Burkina Faso 2010). In addition, there are also separate inspectorate services for both the customs and the taxation inspectorates. Thus the total professional staffing of all the audit functions in Burkina Faso is comparable to similar sized Anglophone countries, for example, Malawi and Zambia, where the Auditor General has less than 300 professional staff (personal correspondence).

The relatively small size of Supreme Audit Institutions in Francophone countries may also be explained, at least in part, by the level of salaries paid as the French public sector officials generally have higher salaries.

Schiavo-Campo and others (1997) found that:

> in franc-zone countries where, by and large, the civil service is much better paid (with wages averaging up to ten times per capita GDP, compared to a continental average of
and

*Not coincidentally the size of the civil service in Burkina Faso is relatively modest.*

The figures for the eight largest Francophone countries suggest that, on average, the Courts of Audit have significantly fewer staff than General State Inspectorates (see table below).

<table>
<thead>
<tr>
<th>Country</th>
<th>General State Inspectorate</th>
<th>Court of Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democratic Republic of the Congo</td>
<td>75 (PEFA, 2008)</td>
<td>65 (AFROSAI)</td>
</tr>
<tr>
<td>Ivory Coast</td>
<td>26 (website)</td>
<td>36 (2008/9 Report)</td>
</tr>
<tr>
<td>Madagascar</td>
<td>29 (PEFA 2006)</td>
<td>56 (personal communication)</td>
</tr>
<tr>
<td>Cameroon</td>
<td>124 (AFROSAI)</td>
<td>22 magistrates</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>22 (personal communication)</td>
<td>33 (personal communication)</td>
</tr>
<tr>
<td>Niger</td>
<td>21 IGEs (2010 decree)</td>
<td>14 (AFROSAI)</td>
</tr>
<tr>
<td>Mali</td>
<td>31 (AFROSAI)</td>
<td>15 (Ezeilo 2008)</td>
</tr>
<tr>
<td>Senegal</td>
<td>30 General State Inspectors (by law)</td>
<td>42 (AFROSAI)</td>
</tr>
<tr>
<td><strong>AVERAGE</strong></td>
<td><strong>45</strong></td>
<td><strong>35</strong></td>
</tr>
</tbody>
</table>

In Mali the Auditor General’s Office (Bureau de Vérificateur générale) also had 100 staff including 63 audit staff (ICGFM presentation 2008).

The Courts of Accounts in many Francophone Sub-Saharan African countries are not strong nor well established institutions. In Mali, for example, for many years the Court of Accounts was understaffed, finding it difficult to achieve its objectives and causing a delay in the execution of its tasks. This problem was partly resolved by the increase of the number of magistrates from two in 2000 to nine in 2002 and 15 in 2003. However, the capacity of the Court of Accounts is still largely insufficient. An institutional analysis carried out in 2002, concluded that 60 magistrates would be needed to carry out all the tasks assigned to the accounts court (Ecorys 2006: 83). The Court also suffers from a lack of general personnel (only 40 staff), offices, information, IT and archives (Toure 2004).

The Court of Accounts of the Democratic Republic of the Congo has never been supplied with the resources necessary to implement the law. It was reformed in its current state in 1987. But
no further recruitment took place for twenty years until 30 auditors were recruited and trained in the second half of 2007 (Cour des Comptes, Democratic Republic of the Congo 2008). On the basis of a meeting with officials of the Court of Accounts in September 2009, the International Budget Partnership questionnaire could report that “None of the national departments are ever audited due to the [Court of Accounts’] insufficient budget” (International Budget Partnership 2010). During a workshop on parliamentary control of public finance in Kinshasa in May 2010, the President of the Court of Accounts, Ernest Izemengia Nsaa-Nsaa, noted that “the Court of Accounts does not have financial autonomy and is dependent on the Ministry of Finance to finance its activities. The Court only receives 10% of its annual budgetary allocations and this constitutes as serious constraint on the institution’s ability to intervene” (ACP 2010). However, things were not better for the General State Inspectorate at least over the period 2003 - 2006, “it could not access its operational budget. It was often manipulated by the ministers in charge to settle their scores with political enemies” (Kodi 2008: page 55).

The annual public report of the Court of Accounts of Madagascar for the financial year 2006 included the following note:

it is important to note the inadequate staffing of the Court of Auditors. The last recruitment of staff was in 1999 and the functions of the Court continue to grow (page 8) 37

In Senegal, the Court of Accounts had 28 magistrates and reporters in 2008 whilst its strategic plan aimed to have 60 magistrates (World Bank 2009). In Senegal the EU paid the salaries for an additional 13 auditors for the Court of Accounts (World Bank 2009). Similarly in Burkina Faso the EU paid for the salaries of 12 assistant auditors (World Bank 2009a).

The budgets of the Courts of Audit are often under the Ministry of Justice (or the Supreme Court in the case of Chambers of Audit) and usually have to be submitted through the Ministry of Finance to the National Assembly. In addition, the Ministry of Finance will usually control the release of budgets to the Court of Accounts (and often the General State Inspectorate).

In Burkina Faso the Court of Accounts and the General State Inspectorate each have their own individual budget lines. But neither institution has sufficient staff. The General State Inspectorate has only 22 professional staff (after recent recruitment) and the Court of Accounts has only 33 magistrates and auditors (12 funded by the EU). One result of this is that in 2008, for example, the Court of Accounts made judgments on only 22 of the approximately 350 local authorities that they should cover.

Independent trade unions

The independence of Supreme Audit Institutions may also be affected by the right of their staff to join trade unions and to take part in collective action. This right can provide some protection for the staff of these institutions against political interference and the quality of their conditions

37 “il importe de noter l’insuffisance des effectifs de la Cour des Comptes dont le dernier recrutement remonte à 1999, alors que ses attributions continuent à croître”
of service. This is recognized in the United Nations’ Global Compact (UN, 2000) which is said to have universal consensus and has as the third principle of ten:

“Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.”

However, this right may be curtailed in a number of Supreme Audit Institutions. In Senegal, for example, the General State Inspectors are prohibited from joining a trade union or a political party and their right to strike is not recognised (Journal Official (Senegal) 2007). Similar restrictions apply for the staff of the General State Inspectorate in Burkina Faso. In contrast, the staff of the Court of Accounts in Burkina Faso and in Madagascar are allowed to join a trade union (personal communication).

In addition, Supreme Audit Institutions may be used as part of a government’s campaign against trade unions in general. This was the case in Benin in 2009 after a two-day strike which included demands against corruption and the poor management of public finances (Matinal 2009). As mentioned above, the General State Inspectorate was then used to investigate state funding on the orders of the State President.

Despite such restrictions on the freedom of association of officials of Supreme Audit Institutions, there are several recent examples of such rights being utilized.

The annual report of the Court of Accounts for the Côte d’Ivoire for 2008-09 (Court of Accounts, Côte d’Ivoire 2010) indicated that a strike by clerks and administrative staff had disturbed the work of the court throughout the whole of the year.

Members of the Union of the Officers of the Ministry of Control of the State of Gabon started a strike on 1st July 2009 and held a sit-in in the road out-side their offices. They were claiming harmonization of their housing allowance with other ministries and improvements to their conditions of service and said the strike would continue until negotiations were held (Senego 2009).

In Algeria in 2002 the anger of the magistrates of the Court of Accounts surprised public opinion:

The trade union of the magistrates of the Court of Accounts (CoA) mobilized its supporters at the beginning of the year 2002, by publishing a communiqué where it denounced a certain number of ways in which the Court was dysfunctioning and it organized a ‘sit-in’ in front of the headquarters of the institution…


The Court of Accounts in Algeria had not had much credibility in the eyes of the public and had not been distinguished by the independence of its action. But the magistrates demanded, “in a spectacular manner”, the establishment of a Council of Magistrates, a reduction in the exorbitant
powers of the president of the Court of Accounts, against discrimination in promotions and the lack of use made of their official reports (Transparency International 2002).

The presence of women as heads of Supreme Audit Institutions may also suggest progressive and independent organizations. Whilst most of the heads of such organizations in Francophone countries are men, a few are women. For example, a woman has led the Court of Accounts in Tunisia since 1998 and the head of the General State Inspectorate in Senegal since 2005 is a woman.

Conclusions

In most African countries the external audit functions would benefit from significant strengthening. One recent overview suggested that:

> in both Francophone and Anglophone developing countries, the external audit function has not been accorded the priority it deserves. In both regions, external audit offices are often deprived of the necessary financial, human and material resources for carrying out their mandates. Very few developing countries are able to present audited annual accounts to Parliament within 12 months... Finally, when reports become available, they are not acted upon with the seriousness they deserve. This is not so much a problem of the system design, but rather the lack of material and human resources devoted to the external audit function (Ecorys 2006: page 27).

All of the Francophone countries have been challenged to create anew or reform their external audit function in the past decade (Andrews: 40, 2010). The original Code of Transparency (UMEOA 2000) required a Court of Accounts to be established in each member country by December 2002 (rather than there being just a chamber of the supreme court). Despite this not being achieved, the revised 2009 Code just said that the creation of such a court in each member country was obligatory.

Some people claim that General State Inspectorates should not be considered as Supreme Audit Institutions. However, several General State Inspectorates are full and active members of INTOSAI. The General State Inspectorate of Cameroon is currently (2011) hosting the Secretariat of CREFIAF the sub-regional body of Francophone African countries. In 2002 the 8th General Assembly of AFROSAI (the regional body of Supreme Audit Institutions in Africa) was held in Burkina Faso where the General State Inspectorate was the Supreme Audit Institution and it was agreed that they would continue as the Secretary General of AFROSAI for another three years. The General State Inspectorate of Burkina Faso was elected as a member of the Governing Board of INTOSAI for three years from the INCOSAI in 2001 and the General State Inspectorate of Cameroon had been a member until this conference (Kabore 2003).

The independence of the General State Inspectorate is however, demonstrated by the fact that it may lead to the dismissal or even imprisonment of ministers, something that few Auditors General have achieved. The General State Inspectorate (Supreme State Audit Office) in Cameroon led to the dismissal of a former Minister of Health, a Secretary of State for Education and the General Manager of the Fuel Transport Company (personal communication). Similarly, in Senegal a review led by the current General State Inspector resulted in the imprisonment of...
two ministers. This review was undertaken before the General State Inspector was promoted to her current position of Auditor General and head of the General State Inspectorate.

Despite this, the argument against the General State Inspectorate is that they are not independent of the executive and especially the State President, unlike the Court of Accounts. However, the main section of this paper has demonstrated that the two types of institutions have similar levels of independence as summarised in the following table:

**Table 4: The independence of the General State Inspectorate and the Court of Accounts compared to the Mexico declaration**

<table>
<thead>
<tr>
<th>Mexico Declaration principles</th>
<th>Relative level of independence</th>
</tr>
</thead>
<tbody>
<tr>
<td>The existence of an appropriate and effective constitutional/statutory/legal framework and of de facto application provisions of this framework</td>
<td>Court of Accounts marginally better as usually referred to in the Constitution</td>
</tr>
<tr>
<td>The independence of SAI heads and members (of collegial institutions), including security of tenure and legal immunity in the normal discharge of their duties</td>
<td>Approximately equal</td>
</tr>
<tr>
<td>A sufficiently broad mandate and full discretion, in the discharge of SAI functions</td>
<td>Court of Accounts marginally better as the General State Inspectorate may more often be requested to do work by the State President</td>
</tr>
<tr>
<td>Unrestricted access to information</td>
<td>Approximately equal</td>
</tr>
<tr>
<td>The right and obligation to report on their work</td>
<td>Approximately equal</td>
</tr>
<tr>
<td>The freedom to decide the content and timing of audit reports and to publish and disseminate them</td>
<td>Court of Accounts marginally better as annual reports published in five of the eight biggest countries, compared to only two countries for the General State Inspectorate (but this is increasing)</td>
</tr>
<tr>
<td>The existence of effective follow-up mechanisms on SAI recommendations</td>
<td>General State Inspectorate generally better as more likely to have a formal follow-up process</td>
</tr>
<tr>
<td>Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources</td>
<td>General State Inspectorate generally better as usually have significantly more staff (on average 45, compared to 35 for the Courts of Accounts)</td>
</tr>
</tbody>
</table>

The above table indicates that for three of the eight Mexico principles the levels of independence of the two types of institution are approximately equal; for three the Courts of Accounts tend to be more independent; and for two the General State Inspectorates are on average more independent. This analysis suggests that both the Courts of Accounts and the General State Inspectorates would both benefit from greater independence rather than one type of entity being significantly more independent than the other.
This view is confirmed by a senior journalist on one of the major newspapers in Burkina Faso (personal communication):

Neither the Court of Accounts nor the General State Inspectorate is independent of the president nor the executive. The head of each entity is appointed by the State President and so they will only report what they think will be acceptable to the President or the Prime Minister. The General State Inspector sends the annual report to the Prime Minister and it is only published once it has been approved. The First President of the Court of Accounts sends their annual report to the State President and the President of the National Assembly. But they only include information which will be found to be acceptable to the executive.

Both the General State Inspectorates and the Courts of Accounts are experiencing improvements in their independence in a number of countries. Their role is becoming more effective and the resources devoted to these institutions are increasing.

In Francophone African countries the Court of Accounts and the General State Inspectorate can play complementary roles in the audit, review and inspection of the financial management systems of their governments. The original Code of Transparency for the Monetary and Economic Union of West Africa (UMEOA 2000) stated that:

The transparency of the public financial management requires the establishment or the strengthening of the systems of administrative, juridical and parliamentary control which will ensure the effective and regular audit of public accounts (E2).

The General State Inspectorate is traditionally the supreme administrative control body and the Court of Accounts is responsible for juridical control.

In 2002 Transparency International made the following recommendations for further improvements in the quality of both the Court of Accounts and General State Inspectorate.

Court of Accounts
- The mission, objectives and the internal regulations should be defined and voted upon by parliament.
- Systems should be developed to protect the autonomy of the magistrates, their nomination and career management.
- The decisions by the Court of Accounts in their evaluation of public accounts should be final and not subject to any further appeal to another body.
- The annual reports of the Court of Accounts should be made public and subject to extensive publicity.
- The Court of Accounts should be provided with the necessary human, financial and material resources to undertake their work.
General State Inspectorate

- General State Inspectorates should be able to determine the majority of their annual work programmes.
- The annual reports of the General State Inspectorates should be made public and subject to widespread publicity.
- The relevant authorities should take into account the propositions made by the General State Inspectorate, especially when these concern cases of fraud or corruption, and to recommendations to prevent these in future.
- Recruitment to the General State Inspectorate should be by competitive examination to avoid favouritism. Staff should benefit from regulations to protect the security of their positions and their career development.

In some countries co-operation between the Court of Accounts and the General State Inspectorate has improved in recent years. The General State Inspectorate in Burkina Faso is responsible in law for the technical co-ordination of all organs of administrative control. For this reason it organizes an annual meeting for these bodies which the Court of Accounts attends along with the General Inspectorate of Finance, National Co-ordination of the Fight Against Fraud and technical inspection services (General State Inspectorate, Burkina Faso 2010). Similarly in Senegal the General State Inspectorate has the responsibility to encourage and co-ordinate all the systems of internal control (Keïta 2007).

As with the co-operation between internal audit and the Auditor General in Anglophone African countries, there are a number of ways in which this could be further improved including the following steps (Diamond 2002):

- There should be proper coordination to ensure adequate audit coverage and to minimize duplication of effort.
- There should be access to each other’s audit plans and programmes.
- Periodic meetings should be organized to discuss matters of mutual interest.
- There should be an exchange of audit reports.
- Institutional mechanisms should be created to ensure common understanding and sharing of audit techniques and methods.
- Sharing of training and exchange of staff for two to three years in each case.

An effective Supreme Audit function is essential to achieve sound public financial management, but this may be provided by more than one institution. In Francophone African countries, either the Court of Accounts or the General State Inspectorate may be nominated as the Supreme Audit Institution for that particularly country. However, these institutions play complementary roles. Despite significant improvements in recent years, further work is needed to optimize the
independence, capacity and the resources available to both types of organization and to improve the level of co-operation between them.

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Rasheed A. Tiamiyu, Continuing Education Centre
The Polytechnic, Ibadan, Nigeria
ratiamiyu@yahoo.com

ABSTRACT
As blood is to a living being, so finance is to any organization. Effective and efficient financial management of any organization, including educational institutions, requires the presence of a Finance Officer on the board or Governing Council that undertakes policy formulation and decision making for the organization. The Finance Officer should provide the board with efficient financial information and help to prevent malicious obedience of decisions. The board should be adequately informed about the financial implications of every decision it takes. Thus, the absence of a Finance Officer from the board of some educational institutions is a significant handicap in their quest to optimize the financial management of the institution.

Key words: finance officer, board, financial advice, educational institutions

INTRODUCTION
Knowledge, which is the bedrock of sustainable development, comes from education. Education, according to Longman’s dictionary (2011), is “the process of teaching and learning, usually at school, college, or university”. The source of this knowledge, through which development takes place, is however said to be threatened by crisis of which the major cause is the declining ability of governments and other relevant stakeholders of educational institutions to provide them with adequate funds.

Education has provided ample proof of its usefulness over the centuries. In particular, higher education has the ability to change and instigate change in society. Owing to the scope and pace of change, society has become increasingly knowledge-based so that higher learning and research now act as essential components of cultural, socio-economic and environmentally sustainable development of individuals, communities and nations.

Higher education is confronted with formidable challenges and must proceed to the most radical change and renewal it has ever been required to undertake to focus attention on the efficient management of resources. Our society needs to move beyond misconceptions of the unique view of Finance Officers. These challenges may not be surmounted if inefficient and ineffective financial information is allowed to undermine the learning environment of higher education.

It is in the quest for a solution to the challenges of education and of setting in motion a process of in-depth reforms worldwide that in 1998 the United Nations Educational Scientific and Cultural
Organization (UNESCO) convened a World Conference on higher education in the twenty-first century.

UNESCO is convinced that education is a fundamental pillar of human rights, democracy, sustainable development and peace, and should therefore become accessible to all people throughout their lives. This will require measures to ensure co-ordination and cooperation across and between the various educational sectors, particularly between general, technical and professional, secondary and post-secondary education as well as between universities, colleges and technical institutions.

The UNESCO conference also noted that a substantial change and development of higher education, the enhancement of its quality and relevance, and the solution to the major challenges it faces, require the strong involvement not only of governments and of higher institutions, but also of all stakeholders, including students and their families, the private sector, parliament, the media and professional associations. Higher institutions also need to take a greater responsibility for accountability to society for the use of public and private, national and international resources.

Such changes require the deeper and stronger involvement of further education finance officers, or bursars as they are often termed. It was agreed at the conference that the core missions and values of higher education, in particular, the mission to contribute to the sustainable development and improvement of society as a whole, should be preserved, reinforced and further expanded. Higher educational institutions should educate students to become well informed and deeply motivated citizens, who can think critically, analyze problems of society, look for solutions to problems, apply them, and accept social responsibilities.

The conference agreed that:

*This objective requires governance that combines social vision, including understanding of global issues, with efficient managerial skills. Leadership in higher education is thus a major social responsibility and can be significantly strengthened through dialogue with all stakeholders, especially teachers and students, in higher education. The participation of teaching faculty in the governing bodies of higher education institutions should be taken into account, within the framework of current institutional arrangements, bearing in mind the need to keep the size of these bodies within reasonable bounds (UNESCO 1998: 27).*

The financial health of an institution is better known and appreciated by its finance officer and therefore this official should not be excluded from the body making decisions that have financial implications.

The Australian Vice-Chancellors Committee states that institutional board members should be selected on the basis of the contributions such members will make to the effective working of the governing council by having the necessary skills, knowledge and experience, an appreciation of the values of a university and its core activities of teaching and research, its independence and academic freedom and the capacity to appreciate the university’s external community needs from
that university (AVCC 2003:6). Thus the governing body of an institution should not exclude the
custodian of financial resources.

Many scholars assert that adequate funding of education will make educational problems
manageable. However, if the economic theory of scarcity of resources still applies, will there be
a time when there are adequate funds for education, especially, faculty, departments and units in
tertiary institutions?

Suleiman A.A. Tajudeen (2000: 20), quoting Babalola, Okunola Adeyemi and Ibekwe (1996),
observed, “since 1977, Nigerian Universities have been experiencing an increasing short fall
between the amounts required and the amount eventually released to finance various
responsibilities. This problem of inadequate recurrent funds to cope with the ever expanding
teaching, research and public service programmes has made it expedient for the government, as
well as the universities, to explore alternative sources of revenue to supplement their
expenditures and thus reduce the cost of operating various programmes”

While according to according to Saint et al. (2003), the Nigerian university system has not had
the financial resources necessary to maintain educational quality in the midst of significant
enrolment explosion.

Educational institutions also have to go beyond exploring alternative sources of revenue to
incorporate, in much stronger terms, efficient management of available resources.

GOVERNING COUNCIL

The Governing Council of a higher education institution needs adequate financial information to
make optimal decisions on matters with financial implications. Indeed a Governing Council
should understand the financial implication of each of its decisions before proceeding to taking
it. Adequate financial information and provision of financial understanding is the responsibility
of the Finance Officer. Thus the absence of a finance officer from the Governing Council is
significant hindrance in the quest for optimizing the use of educational funds.

Governing Council exists, in part, to ensure freedom and creativity and protect the processes and
the conduciveness of the environment that make the attainment of its mission possible.
 Therefore, the Governing Council requires efficient and effective financial information to
optimize its decisions. This may not be adequately provided through written reports which are
not backed up with detailed oral explanations provided by the presence of the Finance Officer.

Decisions of a Governing Council made without adequate involvement of the Finance Officer
are prone to malicious obedience. Malicious obedience is carrying out a directive or instruction
with a mind negative to its positive outcome or obeying an order to the letter, which is not really
understood, resulting in its spectacular failure.

According to Saint (2003:214), in Nigeria “the government announced in July 2000 that
institutions henceforth operated under administrative and financial autonomy. They were
expected to specialize in areas of comparative advantage to be determined by participatory and
strategic planning processes. In future, government's budgeting would take account of institutional performance”.

Since funding remained insufficient, the need for strategically determined expenditures became all the more necessary. Strategic expenditures cannot be effectively done if the Finance Officer is not a member of the institution’s Governing Council.

We are all ignorant in a variety of ways, to various degrees, with respect to specific issues, problems and questions. Smithson (1989:9) provided the following taxonomy of ignorance:

(i) All things of which people are aware they do not know.
(ii) All things people think they know but do not.
(iii) All things of which people are not aware that in fact they do not know.
(iv) All things too painful to know.
(v) All things people are not supposed to know but could be helpful.
(vi) All things people are not aware that they do not know.

Of particular interest is all things people are not aware that they do not know about the institution and its finances. These are clearly known and understood by the institutions Finance Officer.

The inclusion of the Finance Officer on the governing council will enhance information on financial matters available to the governing council. Therefore, the legal framework, which in some institutions does not include the Finance Officer as a member of the governing council, should not be allowed to keep the council ignorant of financial developments. The Finance Officer should attend each governing council meeting until the legal framework is changed to make them a full member of the council.

All sources of information to make a right decision should be explored. For example, the calamity that befell Iraq would have been averted if sufficient information had been allowed. “The Secretary-General of United Nations may have failed to act due to insufficient information on the crisis and Sadam might have responded to the crisis differently had he obtained adequate information about political changes in the Soviet Union and U.S. due to his lack of understanding policies in both of those countries, he gravely underestimated their willingness to use force against Iraq.” (Rakisits1994). If inadequate information could be attributed to the cause of calamity that befell Iraq, the end of which is yet unknown, how much more financial mishap has inadequate information inflicted upon some tertiary institutions?

**ROLES OF FINANCE OFFICER**

The Finance Officer of an educational institution is the official who provides overall financial leadership and direction of the institution. They should also be responsible for effective stewardship, control and oversight of the organization’s finances. As such, they must necessarily work closely with the institutions Governing Council.

The formal responsibilities of a finance officer may include the following:

- Interprets Council policy on financial matters to the outside world
- Participates in setting strategy to translate the vision and mission of the Governing Council as it relates to finance.
- In collaboration with the Rector/Vice Chancellor, advises the Governing Council on matters having financial implications.
- Develops and provides effective financial information to the Rector/Governing Council.
- Provides written/oral report on finance to the Rector/Governing Council.
- Analyses and advises the Rector/Governing Council on economic trends as it affects the policy of the Council.
- Participates in recruitment of staff in a way to add value for remuneration and distribution of employees in the organization.
- Manages finance or accounts staff.
- Develops and maintains tools that enhance provision of local financial information.
- Coordinates budget process and produces the financial budget of the organization.
- Safeguards assets of the organization through adequate custodian and insurance coverage.
- Advises Rector/Council on financial policies that have legal implications.
- Sources and disburses fund to achieve the vision/mission of the Council.

The Governing Council is responsible for the financial health of the Institution. It, however, requires the inclusion of finance expertise on its body, if it hopes to achieve its goals and objectives in an efficient and effective manner. Financial aid to an educational institution should be anchored on the inclusion of a Finance Officer on the governing council.

The Higher Education Funding Council of England recommends that “the governing body and the finance committee include members with financial expertise. They understand the financial climate within which the institution operates and benchmarks against which the institution’s financial performance should be measured” (HEFCE 1998).

It is recommended that the Governing Council of an institution of higher education should have at least one member who is a financial expert. In this respect, the Finance Officer of the institution is ideal. They will be able to provide comprehensive information on financial matters to the Governing Council because of their insider knowledge of the resources and detailed financial management of the institution.

The inclusion of the Finance Officer on the Governing Council will enhance information on financial matters available to the governing council. Where the law does not allow the Finance Officer to be a member of the Governing Council, they should still be requested to attend each meeting until the necessary legal changes are made.

These legal changes are necessary to ensure that the Bursar, who is the finance officer of the Institution, is a permanent member of the Governing Council. Becoming a permanent member will enable the Bursar to contribute as appropriate at each Council meeting. Attendance status only allows the person to speak if requested by Council members. The Bursar should be a full member of the Governing Council to enable the provision of efficient and effective financial information to the governing council.
CONCLUSION

A paper was submitted to the Ad-Hoc Committee to Review the Principal Edict of The Polytechnic Ibadan. Subsequently, during 2010, interviews were conducted with some members of the Governing Council, principal officers, management and general members of staff of the Polytechnic. The Ad-Hoc Committee appeared positively disposed towards the inclusion of the Bursar on the Governing Council. The Governing Council must submit its recommendation to the State Ministry of Justice to be forwarded to the State Assembly to be enacted into law.

The Principal Edict of the Polytechnic Ibadan recognizes the Rector, who is an academician, and the Registrar who is an administrator as permanent members of the Governing Council. As the Rector and the Registrar are providing information on academic and administrative affairs, the Bursar who is the finance officer of the institution is also needed to provide advice on financial affairs. Thus the Bursar should also be named as a permanent member of the Governing Council. This will ensure that the council is provided with adequate financial information and advice. Pending this change, the Bursar should be invited to attend and report to each meeting of the Governing Council.

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North Africans Revolt Against New Public Management as Well as For Democracy

Andy Wynne – andywynne@lineone.net

Abstract
This opinion piece argues that the current revolts across North Africa and the Middle East are in favour of the introduction of democracy, but they are also against inequality. This has been accentuated by the Neoliberal reforms of privatisation, deregulation and other market based reforms. These included New Public Management and the standard reforms in public financial management. The paper considers how these reforms reflect the aims of Neoliberalism and how these were introduced in Egypt and Tunisia over the last three decades and more. It then considers an alternative programme of reforms. These are arising from the successful revolutions against tyranny and may mark a turning point towards the implementation of Shivj’s three principles of popular livelihoods, popular participation and popular power.

Key words: democracy, inequality, Neoliberalism, New Public Management, North African revolutions, privatisation

Introduction
After a slow start, the US and other western powers expressed support for the North African revolutions, called for an orderly transition to democracy in Egypt and Tunisia and led an attack on Libya. The West’s initial hesitation was because these revolts are against dictators who were their key allies in the region. Mubarak in Egypt was the second highest recipient of US aid in the world (after Israel) and received an estimated $30billion over the last thirty years. Ben Ali, in Tunisia, was heavily backed by France (receiving €147million, the third highest amount of official development assistance for any country in 2005). The French foreign minister resigned after holidaying in Tunisia in December 2010 and flying there in a private jet belonging to a friend of the ousted Tunisian dictator. France last shipped tear gas grenades to Tunis just two days before the then President, Ben Ali, was toppled from power. After coming in from the cold, Gaddafii was supported and armed by the UK in recent years. The British Prime Minister managed to combine a visit to the protesters in Egypt with an arms selling tour to the remaining dictators of the Gulf region.

Many people argue that the revolts across North Africa and the Middle East are an expression of an aspiration for democracy and market capitalism, as experienced by people of the major industrial countries. However, it may be a mistake to see the revolts in this light. This article argues that it is more appropriate to see the revolts as being in favour of democracy, but also against Neoliberalism, New Public Management and other ‘modern’ reforms. The people who led the revolts early this year also suffered from these reforms over the last two or three decades. Far from supporting such reforms, the revolts were against the increased inequality that they produced.
The support to Mubarak, Ben Ali, Gaddafi and others was in return for the political support for western policies in the region, but also for their support for the Neoliberal project of privatisation and deregulation, including New Public Management style reforms of public financial management.

The governments of the Middle East and North Africa re-affirmed their support for Neoliberalism in the *Marrakech Declaration on Governance and Investment* of November 2009 in which they declared their, “strong commitment to private initiative to generate employment and raise living standards” and “a vibrant business environment”. The autocratic governments signing the declaration went on to claim that they:

*Reaffirm our commitment to involve citizens and civil society in policy-making and to use consultation mechanisms prior to decision-making as an effective means to ensure better public services and successful policy implementation*

The revolutions are a problem for globalization and the assumption that the market must shape affairs across the planet. Ordinary people created a mass movement that finally gave them a chance to reject the political and economic policies they had endured for over 30 years. The revolts raise huge questions, especially about Egypt and Tunisia as models for economic reform. The revolutions have delivered a resounding “No” to free market neoliberal capitalism, but also to New Public Management and the associated ‘modernization’ of public financial management. The financial crisis which provoked the global economic recession led to a questioning of the dominant economic orthodoxy. The North African revolutions provide the beginnings of an alternative to the domination of neoliberalism and New Public Management.

*One of the things that make the Egyptian and Tunisian revolutions potentially important on a global scale is that they took place in states that were already neoliberalized. The complete failure of neoliberalism to deliver "human well-being" to a large majority of Egyptians was one of the prime causes of the revolution* (Abu Atris 2011).

Before the global rise of Neoliberalism, with Regan and Thatcher, President Sadat of Egypt introduced the “infitah” or “opening” from 1974 (Carana Corporation 2002). This was a commitment to dismantle the social and welfare provisions of the state and to hand the initiative to private business. Mubarak embraced this and in the 1980s and 1990s he reduced state subsidies on staple foods—government spending on bread, flour, rice, sugar and cooking oil declined by two thirds.

In 1991, the newly appointed Prime Minister, Ebeid, agreed to the International Monetary Fund/World Bank Structural Adjustment Programme in return for a $300 million stand-by loan, a $28 billion loan from the Paris Club and $15 billion in debt restructuring, and inaugurated Egypt's privatization program with Law 203. By mid 2002, 190 public enterprises of the 314 identified in Law 203 had been privatized. As a result, the number of workers employed by these Government businesses halved from just over a million employees. USAID made direct disbursements of US$ 321 million to the government between 1995-2002 in support of Egypt’s privatization program (Carana Corporation 2002).
In 2007 the World Bank declared that Egypt was “the world’s top reformer”. “The World Bank’s 2010 Doing Business report identifies Egypt as among the top reformers” (IMF 2010: 24). Economic journalists in Cairo described Mubarak as “an IMF poster child”. The regime became a model for the IMF. States worldwide were encouraged to follow its example. In April 2010 the IMF praised Egypt’s reforms saying, “Egypt made significant progress in wide-ranging structural reforms that accelerated after 2004” (2010: 6). The introduction of universal health insurance with focus on self-financing were supported, but the report called for further reduction of “inefficient and costly energy subsidies” despite moves to reduce these since 2004 (2010: 22). Similarly in Tunisia, Ben Ali’s neoliberal restructuring won praise from the World Bank and Western governments. In November 2008, the Director General of the IMF, Dominique Stauss-Kahn personally visited Tunis to complement Ben Ali. In August 2010, the IMF again praised the economic policies of the Ben Ali government, saying, “Over the last two decades, Tunisia has carried out a wide ranging reform program based on improving the competitiveness of the economy, enhancing the business environment and increasing trade openness” (IMF 2010a: 3).

In recent years, the IMF and the World Bank have also supported the reform measures in Libya. In early February 2011, the Executive Board of the IMF, “welcomed Libya’s strong macroeconomic performance and the progress on enhancing the role of the private sector and supporting growth in the non-oil economy” and “commended the authorities for their ambitious reform agenda”, but they recommended that the “retrenchment program be accelerated” despite 324,000 public employees having been identified for retrenchment (IMF 2011).

Egyptians have long known who benefits from pro-business policies. Mubarak enriched himself and his family, but also protected a network of new capitalists, financiers and speculators who acquired huge wealth. According to the Egyptian commentator Abu Atris on al Jazeera:

*Privatization provided windfalls for politically well-connected individuals who could purchase state-owned assets for much less than their market value, or monopolise rents from such diverse sources as tourism and foreign aid (2010).*

On the other hand, inequalities increased. In 2000 the World Bank said that 16 percent of Egyptians lived on under $2 a day, just before the revolution it had reached 40 percent.

In April 2010 the *Egyptian Gazette* reported (Kamel 2010) that there were only 153 State-owned companies left out of 314 firms back in 1991. This led to a huge increase in unemployment as employment in the country's public-sector firms fell from one million in the 1990s to around 373,000 in 2009, according to official reports. This contributed to an official level of unemployment of around nine percent in 2010.

In 1987, when Ben Ali became president of Tunisia, a series of reforms towards becoming a market-based economy were introduced. The privatization program was launched in 1989 (World Bank 2000). One hundred and forty (140) companies were included in the initial privatization program, of which about half had been fully privatized and about 25 percent liquidated by the end of 2000 (World Bank 2000). By early 2010, the country had privatized at total of 219 state enterprises and Tunisia had established itself as one of the most attractive destinations in the region for foreign investment (Reuters 2010). This program was also
supported by the industrial countries, with the EU, for example, providing € 10 million to support the government privatization program.

This program contributed to unemployment in Tunisia, the official jobless figure was around 14 percent in 2010, but higher unemployment levels existed in towns such as Sidi Bouzid, where the uprising began. There were also extremely high levels of youth and college graduate unemployment. It was this unemployment that sparked the revolts, but they did not come out of the blue.

In late December 2006 over 20,000 Egyptian textile workers in Mahal el-Kubra went on strike against privatization and won. Workers drove out the hated security police during their strike. They also held massive rallies that became a symbol of freedom in a country where speaking out was considered a crime. The victory at the Mahala Textile Company was the first significant victory by Egyptian workers for a generation. Similarly in Tunisia, a rebellion had rocked the phosphate mining region of Gafsa in early 2008.

What is neoliberalism?
In his Brief History of Neoliberalism, the eminent social geographer David Harvey outlined "a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterised by strong private property rights, free markets, and free trade." Shivji (2009) argues it is “par excellence the ideology, nay, the propaganda of, for and by the vested interests of the status quo” (page 23). He provides a history of its effect on the Global South in general and Sub-Saharan Africa, specifically (Shivji 2009b).

According to Neoliberalism, guaranteeing the sanctity of markets is the limit of legitimate state activity, and state interventions should always be subordinate to markets. So New Public Management and ‘modern’ public financial management reforms are part of the Neoliberal project. Each of the currently standard reforms of public financial management aim to produce or facilitate a smaller state and the introduction of private sector type approaches to the management of the public sector.

The emphasis on balanced budgets, reduced deficits and low government debt all reduce the reach and size of government. If government borrowing is reduced then the resources available for the state are lessened. But the costs of funding the public infrastructure will also increase if is provided by the private sector as the risk premium increases the rate at which they are able to borrow money (as with the case of Public Private Partnerships – called PFI in the UK). Pressure on governments to reduce their debt and borrowing has also increased as the abolition of capital controls has increased the ease with which money can be exported and the banks have been give a greater say in the rates of interests which governments are forced to pay for their loans.

The emphasis on efficiency, performance and value for money also aims to reduce the size of the state. There is supposed to be a balance between inputs and outputs in maximizing efficiency. But it is economy, or reduced spending, which is dominant and is clearly the major aim. So, for example, the UK National Audit Office claims to save eight pounds for each pound it spends, whilst in the US the GAO says it saves $95 for each $1 of its budget. However, money is always
available if considered necessary. The one time when, as minister of finance, Gordon Brown said that money was no object was during the invasion of Iraq. In the final week before Hosni Mubarak was removed the Egyptian government borrowed $2.2 billion to fund, amongst other things, a 15% increase in pay and pensions for public sector workers (BBC 2011). Similarly in Libya, each family was promised monthly payments of about $400 in early March.

Program budgeting and the Medium Term Expenditure Frameworks (MTEF) facilitate cost cutting or economy by eliminating expenditures which are not directly related to the government’s core objectives. They also assist governments in ensuring that their future fiscal plans are sustainable, thus providing a further brake on the growth in government spending.

The objective of governments to reduce poverty through redistribution has been side lined. Poverty reduction is expected to be achieved through economic growth. So progressive taxation like import duties, income taxes and property taxes are reduced whilst regressive taxes like Value Added Tax (VAT) are promoted (Christian Aid and SOMO 2011)

Decentralisation helps to reduce the size and power of the central state and so its ability to try and plan for the future.

Integrated Financial Management Information Systems (IFMIS) and accrual accounting are private sector tools and approaches which are touted as being part of the process of transformation and modernization of the public sector.

Similarly the rise of ‘civil society organizations’ are promoted as an alternative to provision of services by the central state. However, trade unions, often the largest CSOs after religious institutions, are usually ignored. Their potential power was again emphasized with their central role in the overthrow of Ben Ali and then Mubarak.

A recent World Bank review of public financial management reforms across North Africa and the Middle East (World Bank 2010) concluded that, “Egypt’s experience during the past decade clearly illustrates that successful implementation of PFM reform is much more than a technical exercise. With the support of donors, and under the leadership of the Ministry of Finance, Egypt has tackled many of the crucial dimensions of PFM.” (page 14). This report also noted that, “it is encouraging that public financial management (PFM) reform and modernization has occupied a prominent place on Egypt’s policy agenda over the past decade. The reforms have covered a range of areas, including revenue administration, financial information systems, cash management, financial decentralization and internal financial control.” (page 12).

The World Bank report (2010) also noted that support for Egypt’s public financial management reforms was provided by a range of multilateral and bilateral sources. These included the United States, Netherlands, European Commission, International Monetary Fund and the World Bank. The largest donor by far was the United States, which has invested heavily in improving PFM. Among the reforms supported by the United States Agency for International Development (USAID) have been tax policy and administrative reform, financial management information systems, introduction of the Treasury Single Account, budget reform and organizational development of the Ministry of Finance.
The same World Bank report (2010) also provided praise for the public financial management reforms in Tunisia. Which it claimed showed, “solid performance on [World Bank Institute] governance rankings and is well ahead of the rest of the region in terms of government effectiveness, control of corruption, rule of law and regulatory quality (page 67). The report went on to praise the political support at the highest level for the public financial management reform program, noting:

*The 2004 Presidential electoral program proposed PFM reforms, such as performance based budgeting, which were then integrated in the XIth Development Plan (2007-2011). The 2009 presidential program added the accounting and public administration reforms (e-governance and public service quality) (page 67).*

These reforms included decentralization of powers to the 24 governorates who were responsible for “an increasing amount of public expenditures” (page 68). They also include the introduction of MTEFs, at least on a pilot basis:

*Initially, three ministries and a division of the Ministry of Education have been selected as pilots for the MTEF and performance budgeting initiative. The 2008 agreement with the EC provides for three additional pilot ministries in 2010. The whole Ministry of Education has been made a pilot in late 2009, at the request of its minister and staff. The [World] Bank and the EC will provide technical assistance in these pilots. (page 75)*

An OECD study (2010) of public management reforms in the Middle East and North Africa noted the following standard public financial management reforms as common features across the region:

i) “modernising audit and control functions to reinforce ex post performance audits; and

ii) granting managers more spending autonomy in exchange for firm obligations to deliver measured outputs and eventually outcomes.” (page 98)

**What should we support?**

In February 2010 independent trade unionists in Egypt outlined “a workers’ programme” which included the following eight demands:

1. Raising the national minimum wage and pension
2. The freedom to organise independent trade unions
3. Job security and protection from dismissal
4. Renationalization of all privatized enterprises
5. Complete removal of corrupt managers
6. The right of Egyptian workers to strike
7. Decent health care for all workers

8. Dissolution of the Egyptian Trade Union Federation.

Similarly, in mid-February 2010 the giant factory, Egyptian Spinning and Weaving was on strike. The workers were demanding the sacking of the chief executive of the factory, Fouad Hassan, who they accused of corruption. They were also demanding an increase in their salaries and benefits and improvements in their working conditions (Le Monde Diplomatique, March 2011, page 13).

These developments reflect the concepts of popular livelihoods, popular participation and popular power, as the three cornerstones of a new consensus which were developed by Prof Issa Shivji of the University of Dar es Salaam in the late 1990s. Shivji uses the term popular to mean being anti-imperialist, based on the mass of the poor people in the towns and rural areas and to be based on customs and cultures developed in a “living terrain of struggles” (2009, page 14).

Popular livelihoods are necessary to address the poverty of millions who cannot be expected to make further sacrifices when the corrupt elite prosper whilst “their children’s lives are reduced to sub-human existence” (page 15). So the workers of Egypt are correct to demand pay increases for themselves and increases in the minimum wage.

Popular participation describes the extension of politics to include the “issue of control and distribution of resources and differences in society” (page 15). So, for example, the demands of the Egyptian workers for the dismissal of corrupt managers and the renationalization of all privatised enterprises are justified.

Finally popular power draws attention to political legitimacy and the institutional organization of state power. We have to develop a new consensus which does not restrict politics to the casting of votes every five years and allows the majority of people greater control over their lives. The Egyptian workers are correct to demand greater job security, an end to temporary contracts and the right to form independent trade unions and the right to strike.

Shivji (2009) has also questioned the legitimacy of the current governance agenda of the IMF, World Bank and other donors. He points out the hypocrisy of these institutions which in the past provided despotic colonial regimes, organized the overthrow, and in some cases the assassination of radical nationalist leaders such as Kwame Nkrumah of Ghana, Patrice Lumumba of what is now the Democratic Republic of the Congo and Thomas Sankara of Burkina Faso. They also supported such corrupt and autocratic dictators as Mobutu in the Democratic Republic of the Congo and, until a couple of months ago, Mubarak of Egypt and Ben Ali of Tunisia. As a result, economic and political conditionalities, including those on good governance, are an expression of the reassertion of imperial domination, however it may be labelled. (Shivji 2009, page 26)

In terms of public financial management these principals mean that poverty reduction will only be successful if it includes the redistribution of wealth, income and power and so states should
have this as one of their main objectives. As Roy Radner once put it, “When you allocate resources by market prices, you discriminate against poor people.” This is because in the market price you have one vote for each dollar that you possess. Whereas in a democracy each person has one vote, progressive taxation of wealth and income should be used to increase state incomes to fund quality public services which are accessible to the poor (and so have to be provided at no direct cost to the recipients).

Public financial management reforms should be firmly based on existing good practice and should be resolutely controlled by local people (not the sham of country led development which ensures that reforms are consistent with the currently dominant international agenda). Government’s should not longer be required or encouraged to waste untold millions on repeated white elephants of MTEFs or IFMISs, but should incrementally improve their financial systems based on approaches which have been clearly demonstrated to work in similar environments (a key advantage of countries in the Global South should be that they do not repeat the mistakes of the industrial countries). As a recent report by regional public financial management officials in Africa said: “it is difficult to determine whether governments themselves would have embarked on various budget reform approaches, such as Medium Term Expenditure Frameworks (MTEFs), programme budgeting or the introduction of Integrated Financial Management Systems (IFMSs) in the absence of donor pressure to do so” (CABRI 2010, page 28).

Transparency should mean accessible and understandable by the poor majority of people, not the complexity of accrual accounting or programme budgeting. Key revenue streams should be published including taxation income provided by the larger taxpayers and natural resource rents received by the government (see the work of Publish What You Pay (PWYP), for example). Expenditure reports should include the resources made available to local public services units, for example, schools and health facilities, as well as the salaries and other benefits provided to higher paid public officials and the ubiquitous consultants.

Central states need to be strengthened and enabled to undertake effective regulation of the private sector. Far from requiring decentralization, many states in the Global South need to come together so that they are able to collectively regulate and tax the multi-national corporations that operate in their jurisdictions (see work of Tax Justice Network). Rather than an endless game of beggar thy neighbour to attract foreign direct investment, states in the Global South should co-operate to increase the rate of taxation of the international companies.

The demands of the Egyptian workers referred to above and Shivji’s concepts of popular livelihoods, popular participation and popular power provide a reasonable basis for an alternative approach to public financial management reforms. This alternative is needed if we are really to achieve poverty reduction and the Millennium Development Goals across the Global South.

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http://go.worldbank.org/715WJLXHF0 (17 March 2011)
Recent Public Financial Management Publications and other Resources

In this section we review some recent publications which may be of interest to readers of the Journal. We would be pleased to receive reviews and suggestions of other resources which we should refer to in future issues.


This report was produced for African Ministers of Finance and is the outcome of a joint research project undertaken by the African Organisation of Supreme Audit Institutions (AFROSAI), the African Tax Administration Forum (ATAF) and the Collaborative Africa Budget Reform Initiative (CABRI) respectively the professional networks of supreme audit institutions, tax administrators and senior budget and planning officials in Africa. The report will inform the production of a Declaration on Good Financial Governance, to be considered by African finance ministers for adoption in 2011. Further background material on this project and the full status report are available from: www.cabri-sbo.org/en/programmes/goodfinancialgovernance

The Status Report is intended to underpin a Declaration on Good Financial Governance for consideration and adoption by African ministers of finance later in 2011. The report recognized that successful financial governance reforms require the full commitment of Africa’s leaders and bureaucracies to take charge of reforms.

Good public financial governance is defined as “the legitimate use of power and authority in the management of a country’s financial resources with integrity, transparency, accountability, equity and a result orientation to promote development”.

Good financial governance also requires building effective systems (including traditions and institutions) to mobilise resources and manage financial liabilities and assets, as well as building effective budgeting, budget execution, accounting, reporting and audit systems and robust oversight institutions.

The report recognizes that, over the last two decades, many countries have:

- successfully reformed their legal frameworks for financial governance, as well as institutions and processes across the public resource management cycle. Tax administration institutions have been reconstituted, fiscal framework processes developed, budget preparation institutions profoundly recast, budget classification dimensions added, systematic performance information collection and procurement laws introduced and audit institutions strengthened. The technical gains from these shifts are evident: there are pockets of the public resource management cycle that are performing better on average, for example tax payer management, fiscal forecasting and budget credibility, central budget planning and in some countries sector planning practices,
internal financial reporting and the timely submission of audit reports to parliaments.

To address the remaining challenges, the report proposes the following core principles for financial governance reforms in Africa.

- **Transparency**: Progress towards good financial governance will be limited unless African governments in general effect significant improvements in fiscal and budget transparency. The study has confirmed the need for Africa’s governments to commit themselves unequivocally to being open about decisions in the public resource management cycle.

- **Accountability**: A commitment by African political leaders and senior public servants to restoring and building the functionality of internal and constitutional accountability systems is necessary.

- **Institution building**: African governments need to focus on building transparent, accountable, and effective institutions in the public resource management cycle. This means focusing on the progressive formalisation of institutions, eliminating arbitrary privilege, enforcing the intelligent application of laws and procedures and holding actors accountable for informal practices.

- **Balancing reforms and capacity growth**: Poor human resource and system capacity can derail any reform initiative. When overly complex institutions are attempted in contexts where professional capacity is scarce, countries run the risk of being worse off because of the reforms. Capacity issues need to be taken into account in reform choices at the same time as African governments need to develop measures to train, recruit and retain the necessary skills for financial governance.

- **Autonomy in reform choices**: This means that African countries must decide for themselves what their reform priorities are. Ministers of finance have an important leadership role in this regard, to manage donor demands and proposals for reforms.

So there is much still left for African governments to achieve, but the donor community has yet to live up to its declarations on country led development. The report notes that:

*Over the last decades African budgeting systems had to accommodate Public Investment Programmes (PIPs), Poverty Reduction Strategy Papers (PRSPs), arrangements for the flow of HIPC funds and the Millennium Development Goals (MDGs), as well as various ways of delivering aid resources, such as budget support, sector wide approaches and pooled funding arrangements. Furthermore it is difficult to determine whether governments themselves would have embarked on various budget reform approaches, such as Medium Term Expenditure Frameworks (MTEFs), programme budgeting or the introduction of Integrated Financial Management Systems (IFMSs) in the absence of donor pressure to do so (page 27).*

Information transparency is theorized to be one of the key pillars of good governance in health and education service delivery. Transparency is assumed to empower citizens to demand better service delivery and hold providers to account. To consider this claim in greater detail, Global Integrity embarked on a pilot study of Macedonia in collaboration with a local partner organization by identifying and carrying out fieldwork on four key dimensions of information access in the health and education sectors. These are:

- Basic Issues around the Existence and Usability of Information
- Redress Mechanisms that Enforce Accountability
- Availability of Fiscal/Budget Information with Which to Conduct Citizen Audits of Local Facilities
- Citizen Participation in Local Decision-Making as Influenced by Availability of Information

www2.ids.ac.uk/gdr/cfs/pdfs/AnUpside-downViewofGovernance.pdf

The report is based on the idea that development practitioners similarly need to close off their mental models about governance and development that are rooted in OECD experience. Instead of prioritizing reform of formal institutions, they should look at the structures, relationships, interests and incentives that underpin them.

This paper draws together findings from a five-year research programme by the Centre for the Future State. It explores in an open-minded way how elements of public authority are being created through complex processes of bargaining between state and society actors, and the interaction of formal and informal institutions.

Informal institutions and personalized relationships are usually seen as governance problems, but the research suggests that they can also be part of the solution.

The research suggests a list of questions that seem particularly salient in understanding causes of bad governance and identifying ways of supporting more constructive bargaining between public and private actors. These are:

- What is shaping the interests of political elites?
What is shaping relations between politicians and investors, and might they have common interests in supporting productive investment?

What might stimulate and sustain collective action by social groups to demand better services?

What informal local institutions are at work, and how are they shaping development outcomes?

Where does government get its revenue from, and how is that shaping its relationships with citizens?

**OECD (2011) Asset Declarations for Public Officials - a tool to prevent corruption, PARIS: OECD**


Many countries around the world have introduced systems of asset declarations for public officials in order to prevent corruption. These systems vary greatly from country to country. The impact of such systems on the actual level of corruption is not well known.

This study provides a systematic analysis of the existing practice in the area of asset declarations in Eastern Europe and Central Asia, and in some OECD member states in Western Europe and North America. It examines the key elements of asset declaration systems, such as policy objectives, legal frameworks and the institutional arrangements; the categories of public officials who are required to submit declarations, and types of required information; procedures for verifying declared information, sanctions for violations, and public disclosure.

The study presents policy recommendations on the key elements of asset declaration systems. These recommendations will be useful for national governments and international organizations engaged in development, reform and assessment of asset declarations systems on a country level.


Tax may appear technical, but it is an issue too critical to bypass. Fair and effective tax collection is essential for raising the revenue to deliver services that citizens need. It is a powerful tool for redistributing wealth within society to address poverty and inequality.
The purpose of this toolkit is to strengthen the capacity of civil society organizations to:

- understand and analyze the issues surrounding tax in a given country
- develop advocacy strategies for tax justice
- do tax research
- plan and undertake different advocacy activities (for example lobbying, campaigning and media work)
- learn from the experience of others already doing tax advocacy.


http://web.hks.harvard.edu/publications/citation.aspx?PubId=7510

There are many technical and management lessons from Ethiopia, but it also provides a framework for understanding public financial management reform. Peterson argues that the key lesson is the need to ignore the summits of public financial management, but to establish firm plateaus in key areas of reform.

In recent years, public financial management summits in Africa have included several techniques that governments and their technical advisors have slipped on—Medium Term Expenditure Frameworks, performance/programme budgeting, IFMIS, accrual accounting, and business process reengineering to name just a few. The summit strategy and the techniques that underpin it are inappropriate for most, if not all, African governments.

Ownership is the defining variable of financial reform and it connotes property—physical and intellectual. To capture the qualities of property and ownership it is useful to think about a PFM system as a plateau. A well-established PFM plateau has an array of the basic *systems* of financial control (budgets, accounts, audit) that are adequately *executed* with government resources (funding, staffing, organizations, institutions). Only after a government has a financial plateau that is stable and sustainable, should it consider building a higher (more sophisticated) plateau. Plateaus not summits are what Africa needs.

**ACP-EU Water Partnerships**

http://www.acp-eu-waterpartnerships.org/

This website helps water utilities, local authorities and civil society organizations use EU aid to build not-for-profit water partnerships for African, Caribbean and Pacific countries.

The EU has earmarked €40 million of its Water Facility to support water partnership projects which are intended to: "develop capacity in the ACP water & sanitation sector, leading to better
water and sanitation governance and management, and to the sustainable development and maintenance of infrastructure"

This website has been created by PSIRU at the University of Greenwich to assist water and sanitation utilities in EU and African, Caribbean and Pacific (ACP) countries in forming partnerships to support the development of water services in ACP countries.

**Accruals accounting in the public sector: a road not always taken**


www.sciencedirect.com/science/journal/10445005

“The move from cash to accruals accounting… is viewed as an aspect of an ongoing New Public Management agenda designed to achieve a more business-like and performance-focused public sector. Proponents argue that accruals accounting provides more appropriate information for decision makers and ultimately leads to a more efficient and effective public sector. The transition from cash to accruals accounting for UK central government departments was announced in the early 1990s and was embedded within approximately ten years. At that time there were clear indications that analogous changes, following a similar timeline, would occur in the Republic of Ireland. In reality, the changes were significantly less extensive. Utilizing document analysis and interviews with key actors, this paper considers why a functioning accruals system was established in the UK whereas in the Republic of Ireland the change to accruals accounting was a ‘road not taken’” (page 36).

Many countries, especially in Eastern Europe, but also middle-income countries across the world are still being encouraged to adopt accrual accounting. This is despite the fact that “an increasing body of literature has criticized the adoption of accruals accounting by public sector organizations on both theoretical and practical grounds” (page 37). Those countries which are still considering a move to accrual accounting should carefully consider the evidence of the few countries that have actually made this move.

The authors of this paper have reviewed the experience of the UK central government which moved to accrual accounting almost a decade ago and the Republic of Ireland which decided not to. Being based in Northern Ireland (a region of the UK) they had ease of access to reform participants in both countries and so have a unique perspective on the actual costs and benefits of this reform.

The paper concludes by saying that in the UK with accruals, “the accounting information is complex, few managers understand it and there is limited conviction that its provision has
resulted in improved decision making. Moreover, the introduction of RAB [accrual accounting] has led to significant cost increases” (page 40). As a result, some years after it went live in the UK, “all interviewees questioned the value of the changes to the accounting system” (page 40) and they also, “all acknowledged that no costing of the system change had occurred, [but that] the cost was considered to be substantial” (page 40). Based on this experience, public officials in the neighboring Republic of Ireland have “considered and discarded” (page 44) a major move to accrual accounting. They have contented themselves with “more modest accruals adjustments” (page 44) to the annual financial statements.
International Conference on Accounting and Finance in Africa

Theme: Accounting, Finance, Governance and Development in Africa: Issues and Challenges

Venue: University of Ghana Business School, Legon, Accra, Ghana

Date: 7th-9th September 2011

The organizers of the International Conference on Accounting and Finance in Africa invite submissions on the theme Accounting, Finance, Governance and Development in Africa: Issues and Challenges. The conference aims to bring together established scholars, early career researchers, graduate students, policy makers, professional bodies and practitioners to debate the role of accounting and finance in governance and development in Africa. The conference will also host the launch the African Accounting and Finance Association (AAFA). AAFA aims to help advance knowledge and understanding of education, research and practice in all areas of accounting and finance in Africa.

Abstracts of between 200 and 300 words are invited; indicative topics include, but are not restricted to:

Financial Accounting and Reporting; Public Sector Accounting and Finance; Corporate Governance and Accountability; Corporate Social Responsibility and Corporate Disclosures; Managerial Accounting; Taxation; Accounting Education; Accounting Information Systems; Internal and External Auditing; Finance and Stock Market Development; Financial Markets and Institutions; Regulatory Issues in Accounting, Banking and Finance; Interdisciplinary Perspectives; African Critical Accounting; Gender and Race Issues; Financial Accountability; International Financial Reporting Standards (IFRS); The Impact of Donor Activities on Accounting and Finance; Accounting and Financial Management issues in Small and Medium Sized Enterprises (SMES); Accounting and Financial Management issues in the Informal Sector; Islamic Accounting and Finance; Oil and Gas Accounting and Finance

All abstracts should be submitted electronically in Word format by 30th April 2011. Authors will be notified of the acceptance of their abstracts by 31st May 2011. Full papers must be submitted by no later than 31st July 2011. Abstracts and full papers should indicate the name(s) of author(s) and the name of the corresponding author with their email address and other contact details.

Submissions should be made electronically to: aafconference@ug.edu.gh All submissions will be peer reviewed.

For details on how to register for attendance at the conference, please visit the conference website http://aafaconference.com/ or email: aafconference@ug.edu.gh
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The International Journal on Governmental Financial Management (IJGFM) aims to provide a forum for practitioners, academics and the general public to discuss the many disciplines involved with governmental financial management. These include accounting, auditing, budgeting, debt management, information technology, tax management and treasury management.

We would like to be able to publish articles and comment which will:

- encourage collaboration among professionals and others concerned about public financial management
- contribute to the advancement of government financial management principles and standards, especially through describing existing good practice
- identify problems or weaknesses through the critique of currently dominant views on public sector financial management reforms; and
- assist public sector financial managers to identify their own solutions to common challenges.

We would particularly welcome contributions from individuals or teams working in the developing countries. We invite potential authors to review past issues of the journal at: http://www.icgfm.org/digest.htm

The Journal does not currently provide double blind reviews (where both the author and the review’s identities are not disclosed) as the standard approach. The aim is to provide confidential comment on submitted contributions and to provide editorial suggestions (detailed as necessary) to help the author to produce a paper which is suitable for publication. A double blind review facility may be provided if requested by individual authors.

The Journal primarily publishes papers in English. However, for a trial period at least, we will now also accept articles for publication in French or Spanish. Such articles will not be translated, but will be published in their original language. We welcome comments on this initiative from our readers.

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Manuscripts should be sent as email attachments to the editor, Andy Wynne – andywynne@lineone.net and be copied to icgfm@icgfm.org
Ideas for articles are welcome and may be discussed with the editor before submission of the full text. The editor is happy to respond to informal enquiries about the suitability of papers for possible publication.

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- the title, the authors name(s), position/post and institutional affiliation (ministry, university, etc), email address and any acknowledgements
- authors should write in a non-sexist and non-discriminatory style, using, for example, "her/him"; or "s/he"
- limited use of abbreviations to improve ease of reading
- appropriate references (see below) to the literature on the subject to support facts, assertions and opinions; all quotations should be fully referenced
- footnotes, identified in the text by a numeral that is superscripted, should not include literature citations, and should be listed at the end of the paper, before the bibliography.

Referencing the text
References in the text to books, articles etc should include the authors' names, the year of publication, and the specific page numbers if direct quotations are provided (e.g. Mickey & Donald, 1968, p.24). For more than two authors, the citation should be abbreviated as follows: (Kramdon and others, 1988, p.1). Multiple citations of the same author(s) in the same year should be distinguished in the text (and in the bibliography) by a, b, c, etc following the year of publication. Latin terms, for example, et al, ibid or op cit should be avoided.

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Where possible, details should be provided of the web address for material which is available on the Internet. In this case the date the material was read should be provided.

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   http://icgfm.blogspot.com (6 September 2008)

**Charts, Diagrams, Figures and Tables**

These should all be called figures, numbered consecutively in arabic numerals, with a brief title in capitals, labeled, axes etc. The text should indicate where the figure is to appear.
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Please contact the editor, Andy Wynne - andywynne@lineone.net - if you would like to discuss the role of the editorial board and any input you could provide.

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Le Journal International sur La Gestion des Finances Publiques [International Journal on Governmental Financial Management (IJGFM)] organise un forum pour les praticiens, les universitaires et le public général pour discuter des différentes disciplines impliquées dans la gestion des finances publiques. Ces disciplines comprennent la comptabilité, l’audit, la budgétisation, la gestion des dettes, la technologie de l’information, la fiscalité et la gestion de la trésorerie.

Nous aimerions être en mesure de publier des articles et des commentaires qui vont :

- encourager la collaboration entre les professionnels et autres concernés par la gestion des finances publiques
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- identifier les problèmes ou les faiblesses à travers la critique des points de vue actuellement dominants dans le domaine des reformes de la gestion des finances publiques; et
- assister les gestionnaires financiers du secteur public à identifier leurs propres solutions aux défis courants.

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Le Journal ne fait pas de commentaires avec identités voilées (où à la fois l’identité de l’auteur et celle de la revue ne sont pas révélées) comme l’approche standard. L’objectif est d’offrir des commentaires confidentiels sur les contributions soumises et de faire des suggestions éditoriales (aussi détaillées que possible) afin d’aider l’auteur à produire un article pouvant être publié. La revue avec identité voilée peut être offerte à tout auteur individuel sur demande.

Le Journal publie essentiellement en anglais. Toutefois, pour la période d’essaie tout au moins, nous allons accepter pour publication des articles en français et en espagnole. Ces articles ne seront pas traduits. Ils seront publiés dans leur langue d’origine. Tous commentaires de la part de nos lecteurs sont les bienvenus.

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Les manuscrits devront être adressés en fichiers attachés au directeur de publication : Andy Wynne andywynne@lineone.net avec copie à : icgfm@icgfm.org

Les idées d'articles sont les bienvenues et peuvent être discutées avec le directeur de publication avant la soumission du texte de l’article. Le directeur de publication est heureux de répondre aux demandes de renseignements informels sur la pertinence des articles en vue de leur publication éventuelle.
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Les manuscrits doivent inclure :

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Ils doivent être tous appelés figures, numérotés de manière consécutive en chiffre araboque, avec un bref titre en majuscule, libellés, axes, etc. Le texte doit indiquer le lieu d’emplacement de la figure.
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Veuillez prendre contacte avec Andy Wynne - andywynne@lineone.net – si vous souhaitez discuter du rôle du comité de rédaction et de quelque proposition d’amélioration.
Invitación a posibles Autores

La revista *International Journal on Governmental Financial Management* (IJGFM) es un foro para académicos, profesionales y el público en general para el debate de las muchas disciplinas involucradas en la gestión financiera gubernamental. Éstas incluyen la contabilidad, la auditoría, el proceso presupuestario, la gestión de la deuda, la tecnología de la información, la gestión impositiva y la del tesoro.

Nos gustaría publicar artículos y comentarios que:

- alienten la colaboración entre profesionales y otros que están preocupados por la gestión financiera.

- contribuyan al avance de los principios y normas de la gestión financiera gubernamental, especialmente al describir las buenas prácticas existentes.

- identifiquen problemas o debilidades a través de una crítica de las opiniones actualmente dominantes sobre las reformas de la gestión financiera en el sector público; y

- ayuden a los gerentes financieros del sector público a identificar sus propias soluciones a los retos comunes.

Sería de interés especial recibir contribuciones de individuos o equipos que trabajan en los países en desarrollo. Invitamos a los potenciales autores a consultar los números anteriores de la revista en: [http://www.icgfm.org/digest.htm](http://www.icgfm.org/digest.htm)

Los trabajos son aceptados y publicados en inglés, francés o español.

Actualmente la revista no dispone de un sistema de revisión de doble ciego (en que la identidad tanto del autor como del revisor no se revele) como norma usual. El objetivo es brindar un comentario confidencial de las contribuciones enviadas y ofrecer sugerencias editoriales (detalla si fuera necesario) para ayudar al autor a producir un trabajo digno de publicación. Sería posible proveer una revisión de doble ciego si un autor individual la solicitara.

**Entrega de manuscritos**

*No cobramos tasas por la entrega o publicación de artículos.*

Los manuscritos deberán ser enviados como anexo a un mensaje electrónico dirigido al redactor, Andy Wynne: andywynne@lineone.net con copia a icgfm@icgfm.org.

Serán bienvenidas ideas para artículos y éstas podrán ser comentadas con el redactor antes de entregar el texto completo. El redactor está dispuesto a responder a indagaciones informales sobre la conveniencia de trabajos para posible publicación.

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- no más de 20 páginas en espacio sencillo (o de 10.000 palabras);
- un sinopsis de no más de 150 palabras – que debe resumir el propósito, la metodología y las principales conclusiones del artículo;
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**Referencias en el texto**
Las referencias en el texto a libros, artículos, etc. deben incluir el nombre del autor, el año de publicación y las páginas específicas de las citaciones directas (p. ej., Mickey & Donald, 1968, p. 1). Para más de dos autores, la citación debe ser abreviada así: *(Kramdon y otros, 1988, p. 1)*.

Citaciones múltiples al mismo autor en el mismo año deben ser diferenciadas dentro del texto (y en la bibliografía al final) por las letras a, b, c, etc. después del año de publicación. Términos en latín, por ejemplo, *et al, ibid o op. cit* deben evitarse.

**Bibliografía**
Debe incluirse una bibliografía al final del texto con los detalles de todos los libros, artículos y otros trabajos que hayan sido referenciados en el texto. Estos deben ser puestos en orden alfabético de acuerdo al apellido (patronímico) del primer autor. Deben incluirse los siguientes detalles: nombre (apellido, nombre de pila e/o iniciales), título y subtítulo completos, lugar de publicación, editora, fecha y referencias a páginas (para citaciones específicas) Las referencias a artículos de revistas deben incluir el volumen y el número de la revista.
Donde sea posible, los detalles de la dirección electrónica deber incluirse para materiales disponibles en el Internet. En este caso, la fecha de consulta del material debe ser indicada.

La presentación de las referencias debe seguir la siguiente convención:

1. artículos:

2. libros:

3. citaciones de libros compilados:

4. libros traducidos:

5. referencia a un informe:

6. referencias a material del Internet:
Cuadros, diagramas, figuras e tablas
Todos estos deben denominarse “figuras” y ser numerados consecutivamente en números arábigos con un breve título en letra mayúscula, con etiquetas, etc. El texto debe indicar donde aparece la figura.

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Nos complacería también recibir correspondencia de otros que estén dispuestos a ayudar con el trabajo editorial de la Revista. El trabajo consistiría en revisar potenciales contribuciones, indicando si deben ser aceptadas para publicación y haciendo recomendaciones editoriales para mejorar la calidad de los materiales enviados.

Tenga la bondad de contactar al redactor, Andy Wynne - andywynne@lineone.net – si le gustaría comentar sobre el papel de la junta editorial y cualesquier sugerencias que usted pudiera ofrecer.
Dear partners,
The Institut des Finances Basil Fuleihan is pleased to announce that it will soon be launching the first issue of “Assadissa”, a quarterly journal that tackles key issues of public finance and governance in both Lebanon and the Arab world. The journal aims at fostering dialogue between researchers and policymakers, as well as spreading economic, financial, and administrative knowledge to a wide audience of Lebanese and Arab readers.

Clarity, directness as well as conformity to the scientific method of research and inquiry constitute the cornerstones of the journal as it tackles subjects from the descriptive, analytical and critical facets.

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The journal is composed of both fixed and variable sections. As a general rule, these sections will include: the main theme, study and research papers, book reviews, a statistical report, international financial indicators, and a legislation report. Authorship is requested for:

- **The main theme**: Comprising multiple research papers that revolve around one central topic, the main theme seeks to provide the reader with a comprehensive analysis of the topic, approached from multiple sides and perspectives. Since topics are set in advance, authorship to the main theme’s research papers requires previous correspondence with and the approval of the editorial committee. Papers that are to be published as part of the main theme should be precise, objective, and limited to approximately 2000-2500 words.

- **Study and research papers**: The journal will include multiple independent research papers that focus on finance and governance related topics. Submitted papers are required to fall within the range of 4000-5000 words and should abide by scientific research methods including validity and reliability of information and sources.

- **Book reviews**: This section is dedicated to the reading, analysis and critique of relevant books. By introducing a new author, the book review section essentially aims at encouraging the reader's critical and independent thinking. The review itself is composed of the introduction, breakdown, and analysis parts. Submitted reviews should fall within the range of 1000-1200 words.

**Publishing conditions**
Conditions required for publication are:

- Submitted papers must not have been previously published in an Arabic publication or website.
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Corniche Al Naher
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