

# **(Re-)establishing Financial Management in Post Conflict Countries\***

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# Overview

- Background
  - Political and economic control
  - What is special about post-conflict
  - PFM Issues
- Importance of Budget Execution
- Why FMIS and how to implement
- Country Examples
- Problem Areas
- Lessons Learned

# Political and Economic Control

- Dictated by International events
- Local, foreign, or international control?
- Who controls has major impact on outcome
- Strongly prefer local control although it might entail a large international presence.
- What do you keep vs. start over again

# What is special about post-conflict countries

- Often political and constitutional flux
- Centralization increases efficiency
  - but political forces favor the opposite
- Loss of physical and institutional infrastructure
- Often some form of regime change
- International experts often fill key positions
- Off-budget donor expenditures increase aid volatility
- Thorough approaches vs. fast, pragmatic solutions
- Concentrated donor presence - can facilitate coordination of priorities and systems.

# Macro policy and the IMF

- IMF – financial program – stability
  - But less important than legal structure and TA.
- Overall framework
- Meaningful and monitorable benchmarks
- Government is often dysfunctional

# PFM Fiscal Issues

- Aid - driven by political/philanthropic urgency
- Flexible - focus on achievable reforms
- **Budget preparation – initially less important**
  - credible but subject to revision
- Develop government accounting system to track appropriations and outturns
- Review of the legal and regulatory framework for budget preparation and execution
- Encourage donors to use these systems

# Budget Execution

- Surprisingly hard to spend
- Expenditure reporting system
- Cash and commitment control not critical
- Legislation - Keep it simple

# Why a FMIS?

- Record where spending is occurring
- Why should donors care?
  - fiduciary standards
  - computerization can help and has worked
- Donors have large # of reporting demands
- Staff develop skills
- If simple, can be implemented quickly



# How to implement a FMIS in a Post-Conflict environment?

- Preconditions:
  - Authorities must see the need
  - Basic expenditure rules are established
  - Minimize the need for ongoing support
- How critical is an in-depth assessment of existing processes, functional needs, etc?
  - Concern about building in bad processes
  - But not a problem if changeable/configurable
- Start as a reporting system

# KOSOVO

- Role of UN – Little experience running a gvt
- Largely started from scratch
- UN Trust Fund – problematic
- No Budget – concept was foreign to them
- Originally Excel/Access
- RFP bids were greater than whole USAID MoF program
- FMIS – 1 month to implement – only in MoF
- Monthly expenditure reports
- Budget was almost exclusively current
- A few donors used government systems

# East Timor

- UN Role similar to Kosovo
- UN TF – problematic - but WB/ADB TF
- Australians helped with PFM
- Combined current and capital in one budget
- FMIS – borrowed from Kosovo
- Produced timely reports
- WB TF – still relied on PMUs
- A few donors used government systems
- Major problem – capacity and support

# Afghanistan

- Minimal UN role ; government systems survived
- UN Trust Fund – small ; WB TF – new approach
- Initially did not want a FMIS – lost jobs and side payments
- ARTF makes the budget an important document
- FMIS – implemented in 3 months
- Computerization of existing procedures
- Some donors do not use ARTF or government – although more than in any other post-conflict country
- More timely information than most countries
- Has been one of country's most successful projects
- Leader for change – slowly rolling outside of MoF and Kabul
- Questions raised about functionality
- Issues have arisen between software and implementer

# Iraq

- Similar to Afghanistan - government systems that survived
- But Coalition often started from scratch
- Proposed idea of Trust Funds but...
  - UN wanted its own TF to implement
  - Potential TF countries were not very supportive of US/UK effort
- Multiple budgets
- FMIS Implementation has been a failure – USAID has cancelled project – why? leave that to another time

# Liberia

- Similar to Afghanistan - government systems that survived
- Governance during transition being addressed by newly elected government
- Strong UN role, multi-donor approach, co-signatory arrangements introduced (GEMAP)
- TF, but biggest donor not a big contributor
- Currently multiple in-house systems(SQL/Excel)
- Engaged in discussions on an IFMIS

# Problem Areas

- Training and ongoing support
- Inevitable conflict between software and implementing companies
- How limited should functionality be initially?
- Centralized vs decentralized rollout
- When and how to introduce: *payroll, procurement, commitment control, asset management?*
- When is a functional assessment appropriate?

# Lessons Learned

- No one situation is the same
- Learn the local systems – use existing procedures if minimally acceptable
- Budget Execution initially need to be more of a focal point
- Start a FMIS with reporting and implement quickly
- Significant problem areas remain
- But....First best is NOT best