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

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* The views expressed herein are those of the author and do not represent those of the IMF, Executive Board, Management, or IMF policy.
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