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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**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)

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Foreword

“Government accounts generally... [have an] orientation towards accountability requirements” (UN 1970: 211). This is recognised by the *Cash Basis International Public Sector Accounting Standard* (IPSAS) which accepts that financial reporting “is necessary for accountability purposes” (Page 7). However, this Standard is not based on existing good practices and so breaks some of the fundamental traditional precepts of financial accounting in the public sector.

The budget cycle includes three key stages, authorisation of the budget by Parliament, implementation by the executive and reporting back to Parliament on the budget out-turn. Before the beginning of the financial year, parliaments traditionally provide authority to the government to raise taxes and details how this shall be spent (the budget). The annual financial statements or appropriation accounts subsequently account to Parliament how the funds raised have actually been spent by the various ministries, departments and agencies.

*Clearly it is important that accurate accounts of the receipts and disbursements should be kept, and it is evident that these accounts should be in such a form as will enable the revenue actually collected and the amounts actually disbursed to be compared readily with the Estimates of Revenue and Expenditure* [the budget] (Colonial Audit Department 1951: 172).

The next stage of the accountability cycle is then the audit. The auditors work on behalf of parliament (or in some cases the president) to confirm that the, “moneys made available by the legislature are expended properly and for the purposes for which appropriations are sanctioned” (UN 1970: 34). Thus auditors confirm that the budget was complied with and that all payments were made in line with the Financial Regulations. Where this is not the case, such irregularities, if significant are included within the auditor’s annual report.

In addition, to a detailed comparison of the actual receipts and payments with the budget agreed by parliament, the annual financial statements traditionally included a statement of assets and liabilities. The balance of this statement shows, “the territory’s accumulated balance available for appropriations, i.e., available for disbursements on government services” (Colonial Audit Department 1951: 29). The final main statement was the Statement of Public Debt which showed the government’s outstanding liability to repay loans it had raised. It also may show any associated Sinking Funds which have been established to pay off each of the loans when they fall due.

Despite the recent renewed interest in the level of government debt, the Cash Basis IPSAS does not require governments to maintain the traditional practice of reporting on the level of this liability. In contrast the Standard does require a full consolidation of all controlled entities including government business enterprises (GBEs, also called parastatal organisations or government corporations).

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GBEs have traditionally used commercial accounting and so “depreciation accounts will customarily be maintained” (UN 1952: 17). Thus it is practically very difficult to consolidate the financial statements of GBEs with those of central government ministries, departments and agencies as this would first require the conversion of their accrual based financial statements back to the cash (or modified cash) basis.

This explains why South Africa, for example, produces separate “Consolidated Financial Information” for its public entities (GBEs). These statements are not consolidated with financial statements from its national departments (ministries). In addition, the two sets of “Consolidated Financial Information” for the ministries and separately for public entities merely present an aggregation of financial information without the elimination of all inter-entity transactions (see http://tinyurl.com/SAaccounts2011).

Similarly the Ugandan Government produces consolidated financial statements for its central ministries, departments and agencies, but its GBEs are excluded as the benefits are not considered to be worth the effort. The Government Accounting Standards Board of India goes further (2008) saying:

> Though this is fundamental requirement of Cash IPSAS, it is likely to cause more distortion than bringing in clarity in the financial statements of government... Further, consolidating Government Companies accounts with that of Government will result in artificial inflation of cash inflows and outflows and is not likely result in any improved presentation of financial statements (page 9).

The objective of producing consolidated public sector financial statements is not clear as the main objective of these financial statements has been for individual Accounting Officers to be held to account by parliament on the way in which funds allocate to them in the budget have been utilised. It is this personal responsibility to parliament (and specifically the Public Accounts Committee) that is at the core of the Westminster approach to public financial accountability and the control of public funds. The French approach is similar as the accounts of individual Public Accountants are audited by the Court of Accounts and, if the funds have been used appropriately, they are cleared or given quitus.

Unfortunately, the Cash Basis IPSAS does not follow this traditional approach and is not based on the existing good practices which have been developed in many countries over the last few decades.

The Cash Basis IPSAS was first issued in January 2003, but although it has been widely promoted by the donor community, PEFA and IFAC, not a single government in the world has actually been able to adopt this standard. This is not from want of trying, many governments have looked at the standard, but recognised that it is not practical to implement its key requirements. It is estimated, for example, that at least 31 governments in Africa have tried to adopt this standard. One international consultant recently estimated that he had worked in

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www.gasab.gov.in/pdf/Gap_Analysis.pdf
around 30 countries trying to adopt the standard, but that its key requirements had not proved practical.

As a result of these problems, the International Public Sector Accounting Standards Board is planning to fundamentally revise the Cash Basis IPSAS. However, this process appears to have stalled. The IPSAS Board has not considered this issue since its June 2010 meeting and no further progress has been made to revise the Standard.

What is needed is for existing good practices to be identified and used as a basis for ensuring that the Cash Basis IPSAS becomes a practical standard that most governments can implement within the medium term. A start has been made with a study, funded by the African Capacity Building Foundation. This reviewed the annual financial statements of 12 governments from across sub-Saharan Africa and identified attributes of good practice (see www.scribd.com/doc/94003101).

We begin this issue of our Journal with An Overview of Accounting in the Nigerian Public Sector which is the first chapter of a recent book by two eminent Nigerian authors, Eddy O. Omolehinwa and J. K. Naiyeju. This paper reviews the differences between public sector accounting and that undertaken in the private sector. It then discusses the different types of public sector organisation and the approaches to public sector accounting which have been developed for each of these institutions. Finally the authors consider the research challenges in the area of public sector accounting. They note that the most important has been access to data, but that this has improved in recent years with the annual and even quarterly financial statements now being made available for the Nigerian public sector on the Internet.

Administrative Cameralistics is a particular accounting model developed for use by governmental organizations in German-speaking European countries. In this paper, Norvald Monsen builds on previous papers in this Journal with a practical example. This illustrates the two developed variants of Administrative Cameralistics. These both include two core financial statements: the Statement of Revenues and Expenditures and Statement of Financial Status. These examples again show that the public sector has traditionally been based on the modified cash basis of accounting.

In our third paper, Udaya Pant, considers Public Financial Management Reforms in Nepal. He presents an analysis and scrutiny of the evolution of the Nepali public financial management system and recent reform efforts. A description of the historical background should help readers to understand the subject and the key issues. He concludes that basic reforms need to be institutionalized. The intent should not be to ‘push reforms’ to please the donors. Rather, the basic systems may be tried first, to internalize the skills and the spirit of reform and ensure that the reforms are monitored regularly.

Our next paper provides a reflection on public financial management reforms in Liberia (West Africa) by a senior financial official from the public service of India. Amitabh Tripathi notes that despite the consensus on its importance, post-conflict public financial management capacity building is a tale of two contrasting ideal types – one that is prescribed, in theory and another that is practised. The paper argues that despite the ‘intrusive’ international engagement, capacity building in Liberia evolved through a slow and incremental process.

In our final paper of this issue, Andy Wynne briefly outlines why business style accrual accounting is not generally appropriate for the public sector. This conclusion is based on the actual evidence for the costs and benefits of business style accrual accounting from Britain,
Australia and New Zealand. He also reviews the significant problems around the implementation of accrual accounting in the Cayman Islands. The paper concludes that incentives are needed to develop existing approaches to public sector financial reporting in ways which recognize the distinctive objectives and nature of government in the provision of public goods and services.

We again 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!

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An Overview of Accounting in the Nigerian Public Sector
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Introduction
The public sector in Nigeria includes the federal government, the 36 states, the 774 local government councils, all government corporations, commissions and institutions. This paper highlights the main differences between accounting in the public sector and the private sector. In doing this, attention is first drawn on the main differences between the two different sectors that can assist us in our understanding of some differences that exist between accounting in the public sector and that of private sector. However, because the public sector institutions are not homogenous, the two types of public sector institutions that are of interest to this paper are identified and briefly discussed.
After this, the paper discusses the roles of government in the society before rounding up with what the research challenges have been in the area of Public Sector accounting.

1.1 Non-Profit Organization

According to Anthony (1978) a non-profit organization to which a public sector organization belongs is characterized by two main features which are:

i. It does not operate for the primary purpose of making profit.
ii. Any income raised or asset acquired cannot be distributed; to or benefit members, directors, or officers of the organizations. Even in the event of the dissolution of such an organization the proceeds realized revert to the state and not to any particular individuals.

Two Types of Non-Profit Organizations

Anthony (1978) went on to classify non-profit organizations into two broad categories.

i. Type A Non-Profit Organization

This is a non-profit organization whose financial resources are obtained entirely or almost entirely from the sale of goods and services. It may be termed a government business enterprise or a parastatal organisation. All the 31 corporations initially listed in the Schedule to Fiscal Responsibility Act before seven of them were privatised and reproduced in Appendix 1 are Type A public sector institutions. Although many of them engage in business type of activities, their conditions for doing business in Nigeria are not the same as private sector business organizations. Before any business in the private sector can operate in Nigeria, such business

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5 This paper is the first chapter of the book by the authors: Theory and Practice of Government Accounting in Nigeria (2011). It is reviewed later in this issue of the Journal.
must first register with Corporate Affairs Commission, Abuja. Government corporations in Nigeria are not required to register with Corporate Affairs Commission. They are all created by Acts of Parliament and consequently no public funds can be spent on any government corporation that has not been created by law.

**Type B Non-Profit Organization**

This is a non-profit organization that is financed from sources other than sale of goods and services. Such an organization is financed primarily through taxes raised by the government. Within the Nigerian context, Nigerian Police force is an example of type B non-profit organization.

**1.2 Profit Oriented Organizations Vs Non-Profit Organizations**

The dominant purpose of a profit oriented organization is to earn profit. The success of such an organization can be measured to some extent by the amount of profit earned in relation to the assets of the organization. An investor who is interested in such an organization can look at its financial statements for the relevant information on the extent of fulfillment of the profit goal of the company. On the other hand, the dominant purpose of a non-profit organization is to render socially desirable specific service to the society at a reasonable cost. While profit is a good measure of performance of a profit oriented organization; this cannot be said of a non-profit organization even in the case of Type A organization that raises its financial resources predominantly through the sale of goods and services. A high excess revenue over expenses in a non-profit organization, is not enough evidence that the organization is doing well because it is less subjected to market forces than a profit oriented organization in a competitive industry. This means that while a profit oriented organization is expected to produce goods at the selling price that are in line with what the market is willing to pay or go out of business, a non-profit organization has no such danger signal because of the unique circumstances in which the services are priced. Power Holding company of Nigeria (formerly Nigerian Electric Power Authority, NEPA) is a Type A Non-Profit Organization in Nigeria that as at the time of going to press is a monopolist in its own area of operation and it is not likely to be bothered about going out of business because of consumers revolt against the prices charged for its services. Thus, in the Non-Profit Organization, there is no satisfactory single overall measure of performance that is analogous to the profit measure in the private sector. In view of the importance of profit in performance measurement in the private sector, the public is more interested in the annual reports of companies than their annual budgets which are virtually internal documents of the companies.

On the other hand, the budget documents are of more interest to the public than the government annual financial reports (which they hardly care about). This is because the annual budget document communicates to the different stake holders the intended beneficiaries of the resource allocation for the financial year.

Another important area of difference is output measurement. In the private sector, especially in the manufacturing industry it is easy to determine the output of the organization. In the case of public sector especially Type B institutions, it is difficult to measure the output of the organization. This is because the core of government activities centers on provision of public
goods like defence, diplomacy and law and order where output cannot be quantified. For example, how do we measure the output of Ministry of Foreign Affairs that is involved with diplomacy or the military that is involved with protecting the territorial integrity of Nigeria?

Failure to recognize the problem of output measurement was one of the reasons why Nigerian government had unrealistic expectation from Planning Programming and Budgeting System (PPBS) which it introduced in 1980. According to the former Adviser to the President, on Budget Affairs, Chief Akinyele (1981:19).

“For the avoidance of doubt often expressed ... almost every cost can be measured in terms of output, every activity will respond to quantifiable measurement”

If output cannot be determined how will “every cost be measured in terms of output”?

However, the problem of output measurement has not discouraged many countries from trying to develop some measures of performance that lay emphasis on outcome\(^6\) rather than output. This is subject to the observation of Talbort et al (2000:4) that what “governments say they are doing on performance measurement is not always the same as what has actually been implemented.”

1.3 Nature of Government Accounting

As indicated earlier in the paper, the primary purpose of a private sector organization is to make profit. As a result of this, the focus of accounting in private sector is to enable the business to determine the profit of the business over a given period. However, because government ministries are not run for the purpose of profit making, many factors influence government accounting such as the role of government in the different fields like health and education and the methods set by government to achieve its set objectives. The focus of accounting in government is the determination of how much money was received and the sources of such receipts, how much money was spent and for what purposes and what remains after meeting the financial obligations. This then means that government accounting is more concerned with information gathering that will enable government to prepare Receipts and Payments accounts as it is the case with Clubs and Societies rather than the profit and loss account of a private sector business. This point is reinforced by the fact that the Accountant-General of the Federation is referred to as the “Chief Accounting Officer for the receipts and payments of the government of the federation\(^7\).

As a result of more interest in receipts and payments account, the government accounting practice that evolved over the years focused on cash receipts and disbursements on the basis of

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\(^6\) Outcome measure is concerned with the comparison of the results of a program activity with its intended purpose. This is to determine the impact of government policies on social conditions focused upon by government.


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budgetary headings to reveal the balances available at a given time under various heads and sub-heads of votes. This therefore means that the basis of accounting in government is normally the cash basis (or modified cash) rather than the accrual basis of the private sector. Under the cash basis, the government revenue is recorded and accounted for when cash is received and expenditure is incurred when cash is paid irrespective of the accounting period in which the benefit is received or the service rendered. This therefore means that the amount incurred by the government to purchase official car will be treated the same way as salaries paid to the workers in that both will be written off as part of expenditure for the period the costs were incurred.

Since the payments made for the acquisition of fixed assets by the government are written off in the year of acquisition irrespective of the useful life of the fixed assets, it follows that fixed assets like buildings and motor vehicles which will normally be seen on the balance sheet of a private sector business will be absent in the case of government. This explains why, for example, the Accountant-General’s Statement No. 2 which is a statement of assets and liabilities of government does not indicate anything on the fixed assets of the government. Since fixed assets are not capitalized, it follows that there is no room for depreciation in government accounting system that uses cash basis of accounting.

It should also be pointed out that since revenue is recognized only when cash is received, debtors as it is known in the private sector will be absent from government financial statements (but will, of course, be recorded).

In the private sector, accrued expenses are recognized as current liabilities and taken into consideration in determining the total debt of the organization. Government departments do not recognize current liabilities thereby giving a wrong impression of total government debt (if the liabilities are significant).

One other point to discuss on the topic is the role of fund accounting in government. In the case of a private sector business, the whole of the business is treated as an accounting entity. This implies that accounting measures and reporting are carried out in the name of one single entity. As a result, unless an asset is set aside for a specific purpose (such as replacement of a fixed asset) the organization’s resources are available as a pool which can be used in any area of its operation to achieve the main goal of profit making. Thus, the pool of resources can be used to acquire fixed assets, pay wages or pay debt. However, in the case of the government that has diversity of goals and functions to carry out, the resources are not available as a pool to be spent on just any area of government operation at the discretion of the officials. There are often restrictions on how available resources may be utilized on individual areas of government operation. The mechanism for carrying out the restriction is the fund accounting. Under this arrangement, separate funds are provided for carrying out different specific functions of

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8 For the purpose of expenditure control, categories of government expenditures are coded and given expenditure heads. Expenditure head therefore represents a major expenditure category. Under each head are contained small groups of items called Sub-heads.

9 This is subject to the fact of the move to accrual basis of accounting in some countries.
government. A fund is the total amount of money set aside for a specific purpose. Each fund is then accounted for separately, so that the fund is the accounting entity on which accounting reports are based. Thus fund accounting can be defined as a method of accounting, which treats a fund as the accounting entity on which accounting reports are based rather than the organization as a whole. It should be remembered that the purpose of fund accounting is to ensure that the government organization uses the resources provided for each fund only for the purposes designated for the fund. Thus, the fund of motor vehicle advances can only be used to advance vehicle loans to the civil servants and money for other funds cannot be used by them as vehicle loans.

In the private sector, the technique of flexible budgeting has been developed to set standard for cost in the light of output achieved. For example, if \( Y \) is the cost allowed and \( X \) is the output achieved, a predictive model of cost with output may be given as

\[ Y = 5,000 + 5x. \]

If output is 1000 units, then expected cost is N10,000. By the same token if one is given a budget of only N8,000, the output expected from the budget is 600. The absence of output measure in the delivery of public goods means that such technique cannot be used in a typical government department. In the absence of a predictive model, there is no way (for example) that we can know precisely as above, the impact on crime rate of increases/decreases in police funding.

### 1.4 The Role of Government in the Society

Adam Smith in the *Wealth of Nations* identified the three basic duties of the state as:

i. protection of the citizens from external aggression

ii. protection of the citizens from other members of the country and administration of justice.

iii. engagement in activities that are of benefit to the society as a whole because they are not profitable for individual efforts\(^\text{10}\).

Thus, because government gets the problems that the private sector “can’t or won’t handle” (Taylor of OMB Watch\(^\text{11}\), 2,000:4) there is the need for government involvement in the provision of public goods.

A public good is characterized by two main features

i. the consumption of the goods by one person does not prevent anyone else from consuming it (non – rivalry concept).

ii. it is impossible to prevent people from using or benefiting from it (non – exclusion concept).

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\(^{11}\) OMB Watch is a non-profit Research and Advocacy Organization (in USA) that seeks to promote government accountability and citizen’s participation in government.
A very good example of this in Nigeria is the street light (wherever it exists). Other examples of public goods include security, defence and public roads. However, it is not only the citizens alone that the government is supposed to provide security for but also for business organizations such as the banks and the oil producing companies as reflected in the crisis in Niger Delta region of Nigeria. Government must also try to control the activities of the business organizations, through the setting up of various regulatory agencies. Thus the government is expected to provide enabling environment to business organizations by ensuring reliable and efficient electricity supply, water, good roads and effective security among others. However, the extent of involvement of government in society has always been a constant source of controversy.

To Friedman and Friedman (1980) the need for government to engage in activities that are of benefit to the society as a whole because they are not profitable for individual efforts has been used as an excuse for unlimited extension of government power in the economic activities even though government spending is not a requirement for economic growth. To Friedman and Friedman even government’s involvement with social security runs counter to economic growth because an attempt to divert funds from the rich to the social services tend to reduce the potential fund for investment.

However, to O’Connor (1973), government spending on economic and social matters is justifiable. In O’Connor’s view while the state should assist in the process of capital accumulation through the provision of infrastructure and manpower, it should also cater for the less privileged members of the society, especially the unemployed if there is to be social harmony. To O’Connor, unemployment benefit (where it exists) is a necessary expenditure by the ruling class to pacify and control the surplus population which the capitalist system cannot absorb.

In the case of Nigeria, on gaining independence in 1960, the country’s leader inherited socio-economic structures that they found unsuitable for economic development of the country. According to Nwankwo (1991) as far back as the 1930s, the United Africa Company (UAC) alone controlled over 40% of Nigerian import-export trade a situation the Nationalists did not find funny.

“It is not therefore surprising that economic nationalism was the dominant factor in government intervention and consequent expansion of public sector in economic management in Nigeria…. The expatriates dominated the scene and crowded out the indigenous sector which bitterly complained and cried out very loudly against the apparent domination and discrimination.”

(Nwankwo, 1991:11)

Thus, at the time of independence, the country had to use the “instrumentality of the public sector” to address the socio-economic problems of the country. The government was subsequently helped in its efforts by the oil wealth of 1973 – 1980. Such wealth gave the government the impression that it could play increasing role in the economy. This is reflected in the substantial role the government was expected to play in the 1981 – 1985 Fourth National Development Plan. This role as measured by the amount of money the government was expected to spend on capital investment in the country is illustrated in Table 1.1

Table 1.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Capital Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>$500 billion</td>
</tr>
<tr>
<td>1982</td>
<td>$600 billion</td>
</tr>
<tr>
<td>1983</td>
<td>$700 billion</td>
</tr>
<tr>
<td>1984</td>
<td>$800 billion</td>
</tr>
<tr>
<td>1985</td>
<td>$900 billion</td>
</tr>
<tr>
<td>Funding Body</td>
<td>Investment in Billion Naira</td>
</tr>
<tr>
<td>-----------------------</td>
<td>----------------------------</td>
</tr>
<tr>
<td>Federal Government</td>
<td>42.5</td>
</tr>
<tr>
<td>States and Local Govt.</td>
<td>28.0</td>
</tr>
<tr>
<td>Total Govt. Investments</td>
<td>70.5</td>
</tr>
<tr>
<td>Private Sector</td>
<td>11.5</td>
</tr>
<tr>
<td>Total</td>
<td>82.0</td>
</tr>
</tbody>
</table>


From Table 1.1, the total government investment was expected to be 86% of the total investment plan out of which the federal government proposed investment amounted to 51.8%. Only 14% of the total investment was expected from the private sector. The government was therefore expected to play a more important role in the economy than the private sector.

However, by the end of 20th century, the economy has become private sector-led and market-oriented with government primary role centered on ensuring, "in co-operation with the private sector, the urgent creation of adequate and efficient infrastructure particularly of energy, telecommunications, water and financial services, to bring about a positive and internationally – competitive environment for economic activities."^12^

More recently, there has been a growing realization that the state has a wider role to play in the form of a developmental state (UN Economic Commission for Africa and AU 2011).

### 1.5 Research in the Area of Public Sector Accounting

Until 1980s, accounting academics did not show enough interest in public sector accounting. According to Perrin (1981:297)

"Less than one percent of the papers published in the two British academic accounting and finance journals during the decade of the 1970s were concerned specifically with accounting or finance in the public sector institutions."

In response to this neglect, a journal to cater solely for public sector institutions, *Financial Accountability and Management* was launched in 1985 in Britain.

In the field of government budgeting, the first journal devoted specifically to the area, *Public Budgeting and Finance* was launched in 1981 followed by *Public Budgeting and Financial Management* (now called *Journal of Public Budgeting, Accounting and Financial Management*) “in order to reflect its cross-disciplinary nature” in 1989 while OECD *Journal of Budgeting* made its debut in March 2001.

Even though there have been some interest in public sector accounting recently, Khumalawala (1997) is of the view that most researchers have virtually ignored the governmental accounting systems of developing countries. This is in spite of the fact that developing countries not only

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have the fastest growing economic segment but also tend to have very large, dominant government entities.

One of the reasons for the past neglect of research in the public sector institutions is provided by Hopwood (1980:185)

“Issues of both practical and theoretical significance have not been investigated because they have not been seen as being compatible with current methodological procedures and approaches.”

The methodological approach referred to by Hopwood is the rigorous quantitative analysis which McCosh et al (1981:7) claimed “has thrown out the baby of relevance in the search for an unimpeachable hygienic variety of methodological bathwater.”

Perrin (1985:14) also complained that in his editorial work in the journal devoted to the private sector

“a high proportion of academic research... is based mainly on cranking ‘published’ and ‘randomly’ collected numbers through statistical tests and computer programs with little evidence of in-depth research or close insight into real-life problems of the institutions whose behavior is being studied.”

Tomkins (1981) probably had this type of complaint in mind when he called for research in the public sector accounting that places greater reliance upon the analysis of qualitative rather than quantitative data. Tomkins then warned that in the case of public sector research

“The path has risks for accounting researchers trained in positivistic, quantitative research methods. When ice meets fire, one or the other or both vanish.” (Tomkins, 1981:335).

1.6 Problems Of Doing Research On Government Accounting In Nigeria

However, it is not just the problem of methodological approach that a researcher on government accounting in a country like Nigeria has to cope with but also having access to the data. In an earlier comparative study of planning and budgeting in the third world countries by Caiden and Widavsky (1974) only two African countries (Ghana and Uganda) were included in the sample of 12 countries partly because

“it was more difficult to interview in Africa than elsewhere.” (Caiden and Widavsky, 1974:xiii).

The observation of Caiden and Widavsky is still relevant in Nigeria thirty six years after (2010). In spite of the fact that the Phillips Committee (2000) was a government commissioned one, it had difficulties collecting the required data.

For example, as at the deadline on January 31, 2000 for the submission of the required data, “only 5 out of over 30 ministries had submitted memoranda and only one Ministry had submitted its survey return on current financial commitments”(Phillips Committee; 2000:3).

Until 2004, some relevant information on Nigerian government accounting was not available on the Internet. Even the one provided was very scanty. The only relevant information that could be obtained from the websites of Ministry Of Finance, Accountant-General of the Federation
and the Budget Office of the Federation (as at July 2005) was on monthly revenue allocation (from the Federation Account) to each of the three tiers of government from May 1999 (when the country returned to democratic rule). There was virtually nothing on government expenditure. The only relevant information for the purpose of this book was on Development fund General Warrants for the First and Second quarters of 2004 financial year.

However, anybody interested in doing research on government accounting in Nigeria needs not be discouraged as things have started to improve. As a result of ongoing reform on financial management at government level especially the enactment of Fiscal Responsibility Act 2007, government financial records are now relatively easier to come by. For example, the audited and more user friendly Federal Government Financial statements for 2008 were ready in 2009 and now available on the website of the Office of Accountant-General of the Federation. In addition, the four quarterly reports of 2009 budget implementation were on the website of the Budget Office of the Federation as at July 2010.

Finally, it is worthy of note that even though the Institute of Chartered Accountants of Nigeria (ICAN) was given government backing by an act of Parliament in 1965, Government Accounting as a subject was not examined until 1992 and it still only forms one of the papers in the ICAN examinations. However, ICAN is working with CIPFA to develop a new public sector accounting qualification.

References


APPENDIX 1

List of Corporations, Agencies and Government-Owned Companies that Come Under the Provisions of Fiscal Responsibility Act (FRA)

1. Nigerian National Petroleum Corporation
2. Nigeria Deposit Insurance Corporation
3. Bureau of Public Enterprises
4. National Agency for Science and Engineering Infrastructure
5. Nigerian Social Insurance Trust Fund
6. Corporate Affairs Commission
7. National Clearing and Forwarding Agency
8. Nigeria Unity Line
10. Nigerian Shippers Council
11. National Maritime Authority
12. Raw Material Research and Development Council
Development of administrative cameralistics: An example

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Abstract

Administrative cameralistics (ACAM), which is a particular accounting model for use by governmental organizations in continental European German-speaking countries, is developed into nonprofit cameralistics (NCAM) and status cameralistics (SCAM). Even though NCAM/SCAM is developed explicitly for use by other nonprofit organizations than governments, it could also be used by the latter organizations as a replacement of ACAM. This is so, because...
NCAM/SCAM contain precisely the same information as ACAM, but also additional information that might be of interest to politicians, administrative officers and other users of governmental accounts.

**Introduction**

All organizations incur expenditures that must be covered by revenues. Different types of organizations acquire, however, revenues in different ways. According to Danielsson (1977) we could separate market-linked organizations from budget-linked organizations, precisely based on how they acquire financial resources in the form of revenues. Market-linked organizations acquire revenues through market exchange transactions, where goods and services are exchanged for money. Business enterprises are examples of such organizations. Governmental organizations (i.e., governmental administrations like a city treasury) can, however, be classified as budget-linked organizations, because they primarily acquire revenues through one-way money transactions, as opposed to market-exchange transactions. By this I mean that they receive tax revenues from the inhabitants, without giving a direct service in return. The expenditures (resulting from service delivery to the inhabitants) are incurred in various parts of the administration (like the school department and the health department), while the tax revenues are received by the treasury department. Therefore, the budget is used for allocating the tax revenues to the various departments, so they can finance their expenditures (from this the term ´budget-linked organizations´).

In the governmental sector we also find governmental enterprises (like municipal electricity companies and municipal bus companies), in addition to the governmental administration. These enterprises are financed by revenues received in exchange for service delivery (electricity and bus transport) to the inhabitants (the electricity customers and bus passengers). Accordingly, governmental enterprises receive revenues through market-exchange transactions and not through one-way money transactions. Governmental enterprises have therefore more similarities with business enterprises than with the governmental administration with regard to the acquisition of revenues for financing the expenditures incurred.

The term ´nonprofit organizations´ refers to other organizations than governmental organizations that do not have profit objectives. Norwegian Red Cross is an example of such an organization. Another example is a Norwegian housing co-operative. This co-operative is established for acquiring and managing the apartments of the unit holders; it is not established for getting involved in any profitable activity (e.g., buying/producing and selling goods/services).

This implies that nonprofit organizations have more similarities with the governmental administration, that also has no profit objective, than with a business enterprise that has such a profit objective for its activities. This indicates that cameral accounting in the form of administrative cameralistics (ACAM), which has been developed for use by governmental administrations (see e.g., Monsen, 2011a), should be of interest for use by nonprofit organizations. As a result, I have earlier used ACAM when preparing the accounts of a Norwegian housing co-operative. When transferring ACAM from the governmental administration to the nonprofit sector, illustrated by a housing co-operative, ACAM was also developed to additional information of interest that is not usually reported within the framework...
of ACAM. In this connection I developed the terms nonprofit cameralistics (NCAM) and status cameralistics (SCAM) for the two developed variants of ACAM (see Monsen, 2011a).

The purpose of this article is to illustrate the two developed variants of ACAM: NCAM and SCAM. Even though they are developed for use by nonprofit organizations, they could also be of interest for use by governmental administrations, because they contain precisely the same information as ACAM as well as other information that might be of interest to politicians, administrative officers and other users of governmental accounts (more details will follow).

The article is structured like this: In the next section the concepts of revenues and expenditures are explained, followed by an introduction to ACAM. Thereafter, a numerical example is presented, which in the two following sections is used for illustrating NCAM and SCAM. Based on these two new variants of cameral accounting, the two following financial statements are thereafter prepared: Statement of revenues and expenditures and Statement of financial status. Then a discussion follows, before a conclusion ends the article.

**Revenues and Expenditures**

According to Mülhaupt (1987), the two main accounting concepts are ‘revenue’ and ‘expenditure’. Revenue represent claim on cash receipts, whereas expenditure represent obligation for cash payments. Accordingly, the revenues and expenditures will always have money effects, which influence the money deposit of an organization in the form of monetary assets minus liabilities. Furthermore, the revenues and expenditures may also have an additional effect, a profit effect that influences the equity of the organization in the form of monetary and non-monetary assets minus liabilities. When explaining the money and profit effects of the revenues and expenditures in more detail below, Figure 1 will be used as a reference.
When preparing the accounts for a specific period, the revenues and expenditures may be accrued with a view to their respective money effects or profit effects. We therefore face two different accrual principles: a money accrual principle and a profit accrual principle.

**The money accrual principle of accounting**

In Figure 1, the concepts of ‘revenue’ and ‘expenditure’ refer to revenues incurred and expenditures incurred. Those parts of the revenues and expenditures that have been authorised for cash receipt and cash payment are referred to as ‘current due revenue’ and ‘current due expenditure’. The remaining parts of the revenues and expenditures that have not been authorised for cash receipt and cash payment are referred to as ‘non-current due revenue’ and ‘non-current due expenditure’. The concepts of ‘immediate cash revenue’ and ‘immediate cash expenditure’ refer to those parts of the revenues and expenditures that have been received in cash and paid in cash immediately (i.e., during the accounting period in question). The concepts of ‘later cash revenue’ and ‘later cash expenditure’ refer to those parts of the revenues and expenditures that are to be received in cash and paid in cash later (i.e., during later accounting periods).

In the public sector, at least in continental European countries and Norway, there is a basic principle saying that authorisation of cash receipts and cash payments are to be issued by an actor with receipt and payment authorisation authority, such as the chief municipal administrative officer. Then cash may be received and cash may be paid by another actor with cash receipt and cash payment execution authority, such as the municipal cashier. This is, however, not a principle in the business sector, where cash is exchanged for goods and services without first issuing cash receipt and cash payment authorisations. In any case, independent of whether authorisations of cash receipts and cash payments have or have not been/will not be
given, revenues may be received in cash and expenditures may be paid in cash (referred to as ‘immediate cash revenue’ and ‘immediate cash expenditure’), something that appears in Figure 1.

The explanation above implies that we face three alternatives for how to accrue the revenues and expenditures with regard to their respective money effects. That is, the revenues and expenditures may be accrued with a view to whether they have been incurred, have been authorised for cash receipt and cash payment, or have been received in cash and paid in cash. These three alternatives are reflected in the three concepts of the ‘incurred principle’, the ‘current due principle’ and finally, the ‘cash principle’.

**The profit accrual principle of accounting**

As distinct from the upper part of Figure 1, which focuses on the money effects of the revenues and expenditures, the lower part of the figure focuses on their profit effects, if any. Given such a profit effect, we may first split the revenues and expenditures into two groups: revenues and expenditures having profit effects and revenues and expenditures not having such effects. Revenues with positive profit effects are referred to as ‘profit revenue’, while expenditures with negative profit effects are referred to as ‘expense expenditure’. Revenues and expenditures without profit effects are referred to as ‘non-profit revenue’ and ‘non-expense expenditure’. Examples may be loan revenues and instalment expenditures.

The part of the revenues with a positive profit effect immediately (i.e., during the accounting period in question) is referred to as ‘immediate profit revenue’, while the part of the expenditures with a negative profit effect during this period is referred to as ‘immediate expense expenditure’. Examples may be revenues from sale of pens and expenditures for raw materials used during the period in question for producing the pens. Revenues and expenditures with profit effects later (i.e., during later accounting periods) are referred to as ‘later profit revenue’ and ‘later expense expenditure’. Examples may be revenues in the form of prepayment from customers that will have positive profit effects in later accounting periods and investment expenditures that will have negative profit effects (in the form of depreciation expense) in later accounting periods.

**Administrative Cameralistics**

The main objective of ACAM is to report information to be used for democratic (political) control of expenditure from tax revenues in the governmental administration (see e.g., Monsen, 2011b). This means that ACAM aims at reporting information, showing if the revenues have been raised in line with the budget and have been used to finance politically adopted expenditures, as detailed in the budget. A money accrual principle (in form of the current due principle) is therefore used for accruing the revenues and expenditures with a view to their respective money effects (see the upper part of Figure 1; also see below for further explanation). ACAM thus represents money accounts in the form of current due accounts.

**Bookkeeping**

The principle of single-entry bookkeeping and the cameral single-sided account with a revenues side and an expenditures side (see Table 1) is used for ACAM. This implies that one or more single entries are entered on the cameral account. On each side of this account we find the following four columns: Balances or residual dues brought forward (BD), Current dues (CD),
Actuals (A) and Balances or residual dues carried forward (B). Within ACAM, revenues authorised for cash receipt (see ‘current due revenue’ in Figure 1) are entered in the CD-column on the revenues side, while expenditures authorised for cash payment (see ‘current due expenditure’ in Figure 1) are entered in the CD-column on the expenditures side. When a current due revenue is received in cash (see ´immediate cash revenue´ in Figure 1), the cash receipt is entered in the A-column on the revenues side. Similarly, a cash payment of a current due expenditure (see ´immediate cash expenditure´ in Figure 1) is entered in the A-column on the expenditures side. In this way bookkeeping rule (1) is followed, which says that no A-entry can be carried out without an earlier or a simultaneous CD-entry. Bookkeeping rule (2) says that the balance (rest) amount at the end of the period that is to be transferred to the following period, appears as follows: Balances or residual dues carried forward = Balances or residual dues brought forward + current dues – actuals (B=BD+CD-A).

Since the cameral account consists of a revenues side and an expenditures side, only one of these two sides are used together with the principle of single-entry bookkeeping: revenues are entered on the revenues side and expenditures are entered on the expenditures side. This implies that the two cameral bookkeeping rules that were explained above, apply separately on the revenues side and the expenditures side of the cameral account.

**Four tasks**

In order to fulfil its main objective (i.e., report information to be used for democratic (political) control of money received from tax revenues), ACAM has four tasks. The first task is to contribute to budgetary control in the form of a comparison of accounting figures (extracted from the cameral account) and budgetary figures (extracted from the budget). With regard to the budget, we do not face alternative figures: the budgetary revenues and budgetary expenditures are both intended to represent cash receipt authorisations and cash payment authorisations and intended for being received in cash and paid in cash during the financial year. With regard to the accounting figures used for comparison with the budgetary figures, however, we face two alternatives that result in current due closing and actuals closing (von Wysocki, 1965). Actuals closing is based on the use of cash receipts and cash payments (see ´immediate cash revenue´ and ´immediate cash expenditure´ in Figure 1), extracted from the A-columns of the cameral account (see Table 1). Current due closing is, however, based on the use of revenues and expenditures.
expenditures that are authorised for cash receipt and cash payment (see ‘current due revenue’ and ‘current due expenditure’ in Figure 1), extracted from the CD-columns of the cameral account (see Table 1). According to von Wysocki (1965), actuals closing has been the tradition in the state sector (p. 35), while current due closing has been the tradition in the municipal sector (p. 36).

The second task of ACAM is to contribute to receipt/payment control. The cameral account with separate columns for receipt and payment authorisations (CD) and actual cash receipts and payments (A), as well as the single-entry bookkeeping method of administrative cameralistics with its two bookkeeping rules (no A-entry without an earlier or a simultaneous CD-entry and B=BD+CD-A) have been specifically developed so the receipt/payment control becomes an integrated part of the bookkeeping (Mülhaupt, 1987). This implies that control with the cash receipts (see ‘immediate cash revenue’ in Figure 1, reported in the A-column on the revenues side of the cameral account in Table 1) is carried out by comparing them with revenues that have been authorised for cash receipts (see ‘current due revenue’ in Figure 1, reported in the CD-column on the revenues side of the cameral account in Table 1). In a similar way, control with the cash payments (see ‘immediate cash expenditure’ in Figure 1, reported in the A-column on the expenditures side of the cameral account in Table 1) is carried out by comparing them with expenditures that have been authorised for cash payment (see ‘current due expenditure’ in Figure 1, reported in the CD-columns of the cameral account in Table 1). Expressed differently: the receipt/payment control is an integrated part of the bookkeeping within ACAM through a comparison of revenues/expenditures authorised for cash receipt/cash payment (i.e., CD-amounts) and revenues/expenditures being received in cash/paid in cash (i.e., A-amounts).

Accordingly, the cameral account is studied horizontally when carrying out the receipt/payment control.

In addition to this receipt/payment control (in form of a comparison of cash receipts/cash payments with receipt authorisations/payment authorisations), it is also important to control the actual cash receipts and cash payments themselves (see ‘immediate cash revenue’ and ‘immediate cash expenditure’ in Figure 1), referred to as cash control. This is therefore the third task of ACAM and is carried out by a vertical study of the A-columns. In these columns the actual cash receipts and cash payments are entered on the revenues and expenditures sides of the cameral account (see Table 1). Net cash change thus appears as the difference between the total entries in the A-column on the revenues side (i.e., total cash receipts during the period) and the total entries in the A-column on the expenditures side (i.e., total cash payments during the period).

Within ACAM a money accrual principle in form of the current due principle is used for accruing the revenues and expenditures. This implies that revenues and expenditures are entered in the CD-columns of the cameral account in Table 1 (on the revenues and expenditures sides) when they are authorised for cash receipt and cash payment (see ‘current due revenue’ and ‘current due expenditure’ in Figure 1). When the CD-columns are studied vertically, a money result thus appears as the difference between current due revenues and current due expenditures. Reporting of a money result as the difference between current due revenues and current due expenditures is therefore the fourth task of ACAM. Reporting of such a money result is important, as will now be explained in more detail.

In the introduction, it was pointed out that all organizations incur expenditures (in form of payment obligations) that must be covered by revenues (in form of money claims). A money result appearing as the difference between revenues and expenditures (see ‘revenue’ and ‘expenditure’ in Figure 1) will thus show if the organization in question has covered its expenditures by revenues: A positive money result (in form of revenues minus expenditures)
will reveal that all expenditures have been covered by revenues. A negative money result will, however, reveal that the expenditures have been higher than the revenues, implying that all the expenditures have not been covered by revenues.

In some countries (like continental European countries and Norway) receipt/payment authorisations must be issued before revenues/expenditures incurred may be received/paid in cash by governmental organizations. As a result, a revenue incurred (see ‘revenue’ in Figure 1) must be authorised for being received in cash (see ‘current due revenue’ in Figure 1). Then it may be received in cash (see ‘immediate cash revenue’ in Figure 1). Now this cash amount may be used – and thus become a cash payment (see ‘immediate cash expenditure’ in Figure 1) to pay an expenditure incurred (see ‘expenditure’ in Figure 1) that has been authorised for cash payment (see ‘current due expenditure’ in Figure 1). And this situation where the issue of receipt/payment authorisations play such an important role in the cash process is precisely the reason why a money accrual principle in form of the current due principle (or in other words, the ‘receipt/payment authorisation principle’) is used in ACAM. Accordingly, a money result in form of current due revenues minus current due expenditures will report if the expenditures authorised for cash payment have been covered by revenues authorised for cash receipt. Since governmental organizations, like other organizations, have to pay in cash their expenditures with revenues received in cash, it is of utmost importance to learn (through reporting of a money result) if they have managed to do so.

**Numerical Example**

An organization has a cash deposit of 2,000 at the beginning of the fiscal period. For this period we have the following information:

<table>
<thead>
<tr>
<th></th>
<th>(1) Budget</th>
<th>(2) Incurred</th>
<th>(3) Current dues</th>
<th>(4) Received/paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Operating revenue</td>
<td>16,500</td>
<td>16,000</td>
<td>15,200</td>
<td>14,500</td>
</tr>
<tr>
<td>(2) Operating expenditure</td>
<td>10,500</td>
<td>11,000</td>
<td>10,000</td>
<td>9,900</td>
</tr>
<tr>
<td>(3) Interest expenditure</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>(4) Loan revenue</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>(5) Instalment expenditure</td>
<td>200</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>(6) Investment expenditure (in a fixed asset)</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

Column (1) *Budget* contains budgetary revenues/expenditures. Since the budget relates to a future fiscal period, we have no incurred amounts here. Neither do we have any distinction between receipt/payment authorisations and cash receipts/payments, because the budgetary revenues/expenditures are planned to be received/paid in cash, after the issue of receipt/payment authorisations. The last three columns, however, contain accounting figures. Column (2) *Incurred* contains revenues/expenditures that have been incurred. Column (3) *Current dues* contains revenues/expenditures that have been authorised for cash receipt/payment and thus
represent current due amounts. Column (4) Received/paid contains revenues/expenditures that have been received/paid in cash.

**Non-Profit Cameralistics**

The revenues and expenditures are entered on the cameral account in Table 2 that contains three accounting sections: Accounting section 1 (AS1: Revenues), Accounting section 2 (AS2: Expenditures) and Accounting section 3 (AS3: Closing). The single-entry bookkeeping method of administrative cameralistics is used in AS1 and AS2, implying that the revenues and expenditures are accrued with a view to their respective money effects by use of the current due principle (in the CD-columns). In AS3, however, the current due principle is not used, because here the cash deposit and net revenue (as opposed to current due revenues and current due expenditures) are entered. Nevertheless, the two cameral bookkeeping rules are applied in AS3 in the same technical ways as they are applied in AS1 and AS2 (no A-entry without an earlier or a simultaneous CD-entry and B=BD+CD-A). Accordingly, cameral single-entry bookkeeping is applied in all the three accounting sections in Table 2.

<table>
<thead>
<tr>
<th>Table 2: Nonprofit cameralistics (NCAM)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
</tr>
<tr>
<td>Bal-ances or residual dues b/f (BD)</td>
</tr>
<tr>
<td>Current dues (CD)</td>
</tr>
<tr>
<td>Actuals (A)</td>
</tr>
<tr>
<td>Bal-ances or residual dues c/f (B)</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
</tr>
<tr>
<td>Bal-ances or residual dues b/f (BD)</td>
</tr>
<tr>
<td>Current dues (CD)</td>
</tr>
<tr>
<td>Actuals (A)</td>
</tr>
<tr>
<td>Bal-ances or residual dues c/f (R)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AS1: REVENUES</th>
<th>1) Op. revenue</th>
<th>4) Loan revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15,200</td>
<td>2,000</td>
</tr>
<tr>
<td></td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Total AS1</td>
<td>0</td>
<td>17,200</td>
</tr>
<tr>
<td></td>
<td>14,500</td>
<td>16,500</td>
</tr>
<tr>
<td></td>
<td>700</td>
<td>700</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AS2: EXPENDITURES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2) Op. expenditure</td>
</tr>
<tr>
<td>3) Interest exp.</td>
</tr>
<tr>
<td>5) Instalment exp.</td>
</tr>
<tr>
<td>6) Investment exp.</td>
</tr>
<tr>
<td>10,000</td>
</tr>
<tr>
<td>9,900</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>200</td>
</tr>
<tr>
<td>200</td>
</tr>
<tr>
<td>3,000</td>
</tr>
<tr>
<td>3,000</td>
</tr>
<tr>
<td>Total AS2</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>13,220</td>
</tr>
<tr>
<td>13,120</td>
</tr>
<tr>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>AS3: CLOSING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total AS1 and AS2</td>
</tr>
<tr>
<td>Cash deposit</td>
</tr>
<tr>
<td>Net revenue</td>
</tr>
<tr>
<td>TOTAL</td>
</tr>
<tr>
<td>2,000</td>
</tr>
<tr>
<td>3,380</td>
</tr>
<tr>
<td>3,980</td>
</tr>
<tr>
<td>2,000</td>
</tr>
<tr>
<td>20,580</td>
</tr>
<tr>
<td>16,500</td>
</tr>
<tr>
<td>6,080</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>20,580</td>
</tr>
<tr>
<td>16,500</td>
</tr>
<tr>
<td>4,080</td>
</tr>
</tbody>
</table>

AS=accounting section
Table 2 is prepared in the following way: We begin by entering the cash deposit of 2,000 at the beginning of the period on the revenues side of the cameral account in AS3 (Revenues-BD=2,000). Thereafter we enter the revenues on the revenues side of the cameral account in AS1, whereas we enter the expenditures on the expenditures side of the cameral account in AS2.

Operating revenue (1) is incurred with 16,000, and a receipt authorisation of 15,200 of this amount has been given (Revenues-CD=15,200). Of the latter amount, only 14,500 has been received in cash (Revenues-A=14,500), resulting in a rest amount (i.e., accounts receivable for which a receipt authorisation has been given, but is not received in cash) with 700 in the ending balance column of the cameral account (Revenues-B=BD+CD-A=0+15,200-14,500=700). Operating expenditure is incurred with 11,000, and a payment authorisation has been given of 10,000 of this amount (Expenditures-CD=10,000). Of the latter amount only 9,900 has been paid in cash (Expenditures-A=9,900), resulting in a rest amount (i.e., liability for which a payment authorisation has been given, but is not paid) with 100 in the ending balance column of the cameral account (Expenditures-B=BD+CD-A=0+10,000-9,900=100).

Interest expenditure (3) of 20 has been authorised for cash payment (Expenditures-CD=20) and has been paid (Expenditures-A=20). Accordingly, there is no rest amount at the end of the period (Expenditures-B=BD+CD-A=0+20-20=0). Before the loan revenue (i.e., the liability revenue) (4) may be received and entered on the cameral account with 2,000 (Revenues-A=2,000), a receipt authorisation of this amount must be given and entered on the cameral account on the revenues side (Revenues-BD=2,000). Thus, no rest amount will appear on the revenues side (Revenues-B=BD+CD-A=0+2,000-2,000=0). Instalment expenditure (5) has been authorised for payment and has been paid with 200 (Expenditures-CD=200 and Expenditures-A=200; Expenditures-B=BD+CD-A=0+200-200=0). Furthermore, investment expenditure (6) has been paid with 3,000, after a payment authorisation of this amount has been given. The bookkeeping on the cameral account is as follows: Expenditures-CD=3,000, Expenditures-A=3,000 and Expenditures-B=BD+CD-A=0+3,000-3,000=0.

Net cash change appears as the difference between Revenues-A and Expenditures-A:

<table>
<thead>
<tr>
<th></th>
<th>Revenues-A (AS1)</th>
<th>Expenditures-A (AS2)</th>
<th>Net cash change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(14,500+2,000)</td>
<td>(9,900+20+200+3,000)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>16,500</td>
<td>-13,120</td>
<td>3,380</td>
</tr>
</tbody>
</table>

We enter this cash increase in the A-column on the expenditures side in AS3 (Expenditures-A=3,380) at the same time as we also enter this amount in the CD-column on the same side of the cameral account in AS3 (Expenditures-CD=3,380) (bookkeeping rule 1). Moreover, we also enter this amount in the CD-column on the revenues side in AS3 (Revenues-CD=3,380). The latter entry has two effects: First, it cancels the influence on the net revenue by the first CD-entry (Revenues-CD minus Expenditures-CD=3,380-3,380=0). Second, it increases the cash deposit (Revenues-B=BD+CD-A=2,000+3,380-0=5,380).

The net revenue appears as the difference between Revenues-CD and Expenditures-CD:

<table>
<thead>
<tr>
<th></th>
<th>Revenues-CD (AS1+AS3)</th>
<th>Expenditures-CD (AS2+AS3)</th>
<th>Net revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(15,200+2,000)+(3,380)=(17,200+3,380)</td>
<td>(10,000+20+200+3,000)+(3,380)=(13,220+3,380)</td>
<td>3,980</td>
</tr>
</tbody>
</table>

We enter this positive net revenue in the CD-column on the expenditures side in AS3 (Expenditures-CD=3,980), and by use of the second cameral bookkeeping rule (rule 2), this net revenue appears as: Expenditures-CD=BD+CD-A=0+10,000-9,900=100. The net revenue appears as the difference between Revenues-A and Expenditures-A:

<table>
<thead>
<tr>
<th></th>
<th>Revenues-A (AS1)</th>
<th>Expenditures-A (AS2)</th>
<th>Net revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(14,500+2,000)</td>
<td>(9,900+20+200+3,000)</td>
<td>3,380</td>
</tr>
</tbody>
</table>
revenue is transferred to the ending balance column on the expenditures side in AS3 (Expenditures-B=BD+CD-A=0+3,980-0=3,980).

In summary, Table 2 reports the money effects of the revenues and expenditures by use of the current due principle (in AS1 and AS2; ACAM). This implies that the revenues and expenditures are reported in Table 2 (in the CD-columns) when they are authorised for cash receipt and cash payment (see ´current due revenue´ and ´current due expenditure´ in Figure 1), and not when they are incurred (see ´revenue´ and ´expenditure´ in Figure 1). Furthermore, the cash deposit (at the beginning and end of the period as well as the cash change during the period) and the net revenue (as the difference between current due revenues and current due expenditures) are reported in AS3. This means that Table 2 represents a developed variant of ACAM and is referred as nonprofit cameralistics (NCAM), because it is developed for use by a nonprofit organization. The bookkeeping method used in Table 2, which is a developed variant of the single-entry bookkeeping method of administrative cameralistics, is referred to as the single-entry bookkeeping method of nonprofit cameralistics.

**Status Cameralistics**

Revenues and expenditures that have been incurred but not authorised for cash payment (see ´non-current due revenue´ and ´non-current due expenditure´ in Figure 1) are entered in the CD-columns on the cameral account in Table 3. Specifically, this applies to the following items (the numbering refers to the numerical example): (1) operating revenue incurred but not authorised for cash receipt (referred to as ´Other operating accounts receivable´), (2) operating expenditure incurred but not authorised for cash payment (referred to as ´Other short-term operating debt´), (3) interest expenditure incurred but not authorised for cash payment (referred to as ´Other interest debt´) and (4/5) loan revenue minus instalment expenditure for which no payment authorisation has been given (referred to as ´Long-term debt´). Also, (6) a money amount (book value) representing the fixed asset acquired through the investment expenditure incurred is reported in Table 3. The two cameral bookkeeping rules (no A-entry without an earlier or a simultaneous CD-entry and B=BD+CD-A) are also used when preparing Table 3.

**Table 3: Status cameralistics (SCAM).**

<table>
<thead>
<tr>
<th></th>
<th>Revenues</th>
<th>Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balances or residual dues b/f</td>
<td>Current dues (RD)</td>
</tr>
<tr>
<td>Other operating accounts receivable</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td>Other short-term operating debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other interest debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed asset</td>
<td>3,000</td>
<td>300</td>
</tr>
</tbody>
</table>

Table 3 is prepared as follows: Operating revenue (1) is incurred with 16,000, and a receipt authorisation of 15,200 of this amount has been given. Accordingly, operating revenue with 800
(16,000-15,200=800) is incurred, but no receipt authorisation has been given for this amount. The amount is entered as other operating accounts receivable on the revenues side of the cameral account (Revenues-CD=800 and Revenues-B=BD+CD-A=0+800-0=800).

Operating expenditure (2) is incurred with 11,000, and a payment authorisation of 10,000 of this amount has been given. Accordingly, operating expenditure with 1,000 (11,000-10,000=1,000) is incurred, but no payment authorisation has been given for this amount. The amount is entered as other short-term operating debt on the expenditures side of the cameral account (Expenditures-CD=1,000 and Expenditures-B=BD+CD-A=0+1,000-0=1,000).

Interest expenditure (3) is incurred with 20, and a payment authorisation has been given for this amount. Accordingly, there is no incurred interest expenditure for which a payment authorisation has not been given (20-20=0). No bookkeeping is therefore to be carried out on the expenditures side of the cameral account (Expenditures-CD=0 and Expenditures-B=BD+CD-A=0+0-0=0).

Loan revenue (4) is incurred with 2,000 and instalment expenditure (5) is incurred with 200, implying a rest amount for long-term debt incurred with 1,800 (2,000-200=1,800) at the end of the period. Since no payment authorisation has been given for this amount, we carry out the following bookkeeping entries for long-term debt on the expenditures side of the cameral account: Expenditures-CD=2,000, Expenditures-A=200 and Expenditures-B=BD+CD-A=0+2,000-200=1,800.

Investment revenue (6) is incurred with 3,000. Based on the assumption that the fixed asset acquired through this investment expenditure has an expected life-time of 10 years, resulting in an annual depreciation of 300, we undertake the following bookkeeping entries on the revenues side of the cameral account: Revenues-CD=3,000, Revenues-A=300 and Revenues-B=BD+CD-A=0+3,000-300=2,700.

In summary, Table 3 reports rest amounts, or in other words status amounts, for selected items and is referred to as status cameralistics (SCAM). The bookkeeping method used in Table 3, which is a developed variant of the single-entry bookkeeping method of administrative cameralistics, is referred to as the single-entry bookkeeping method of status cameralistics.

**Statement of Revenues and Expenditures**

Departing from NCAM (accounting figures; see Table 2) and the budget (budgetary figures; see column (1) in the numerical example), a statement of revenues and expenditures is prepared. This financial statement reports revenues/expenditures that have been authorised for cash receipt/payment (accounting figures; see `current due revenue´ and `current due expenditure´ in Figure 1), budgetary revenues/expenditures and variances, if any (see Table 4 below).
Table 4: Statement of revenues and expenditures.

Statement of revenues and expenditures

<table>
<thead>
<tr>
<th>Accounts</th>
<th>Budget</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Operating activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating revenue</td>
<td>15,200</td>
<td>16,500</td>
</tr>
<tr>
<td>Operating expenditure</td>
<td>-10,000</td>
<td>-10,500</td>
</tr>
<tr>
<td>Interest expenditure</td>
<td>-20</td>
<td>-20</td>
</tr>
<tr>
<td><strong>A. Net operating revenue</strong></td>
<td><strong>5,180</strong></td>
<td><strong>5,980</strong></td>
</tr>
<tr>
<td><strong>Investment activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment revenue</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Investment expenditure</td>
<td>-3,000</td>
<td>-3,000</td>
</tr>
<tr>
<td><strong>B. Net investment expenditure</strong></td>
<td><strong>-3,000</strong></td>
<td><strong>-3,000</strong></td>
</tr>
<tr>
<td><strong>Financing activities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loan revenue</td>
<td>2,000</td>
<td>2,000</td>
</tr>
<tr>
<td>Instalment expenditure</td>
<td>-200</td>
<td>-200</td>
</tr>
<tr>
<td><strong>C. Net financing revenue</strong></td>
<td><strong>1,800</strong></td>
<td><strong>1,800</strong></td>
</tr>
<tr>
<td><strong>Net revenue (A+B+C)</strong></td>
<td><strong>3,980</strong></td>
<td><strong>4,780</strong></td>
</tr>
</tbody>
</table>

**Change of cash deposit:**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net revenue</td>
<td>3,980</td>
<td></td>
</tr>
<tr>
<td>Increase of operating accounts receivable</td>
<td>-700</td>
<td></td>
</tr>
<tr>
<td>Increase of short-term operating debt</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td><strong>Change of cash deposit</strong></td>
<td><strong>3,380</strong></td>
<td></td>
</tr>
</tbody>
</table>

The statement of revenues and expenditures is prepared based on NCAM and the budget. The following procedure has been applied: Accounting figures for revenues/expenditures (in the form of current due revenues/expenditures) are extracted from the current dues (CD) columns on the revenues/expenditures sides of the cameral account in Table 2. Budgetary revenues/expenditures are, however, extracted from the budget (see column (1) in the numerical example). Departing from net revenue, the change of cash deposit is reported, after considering changes of operating accounts receivable (i.e., operating revenue rest for which cash receipt authorisation has been given, but is not yet received in cash) and short-term operating debt (i.e., operating expenditure rest for which payment instruction has been given, but is not yet paid in
These changes are extracted from the rest columns in Table 2 (that is, changes from BD to B).

The statement of revenues and expenditures reports, among other things, the net difference between current due revenues and current due expenditures (3,980 in the numerical example; see Table 4). This net revenue is also reported in the statement of financial status and explains net change of the money deposit (in the form of cash deposit and accounts receivable minus short-term debt) during the same period (3,980 in the numerical example; see Table 5).

**Statement of Financial Status**

Departing from NCAM (see Table 2), a statement of financial status is prepared. This financial statement reports the money status in the form of cash deposit and accounts receivable (i.e., operating revenue rest for which cash receipt authorisation has been given, but is not yet received in cash) minus short-term operating debt (i.e., operating expenditure rest for which cash payment authorisation has been given, but is not yet paid in cash). Furthermore, departing from SCAM (see Table 3) supplementary information is given about other accounts receivable (i.e., operating revenue incurred but not yet authorised for cash receipt), other short-term operating debt (i.e., operating expenditure incurred but not yet authorised for cash payment) and long-term debt (i.e., loan revenue minus instalment expenditure for which no payment authorisation has been given). Also, a money amount (book value) representing the fixed asset (after depreciation) acquired though the investment expenditure is reported as supplementary information.
Table 5: Statement of financial status.

<table>
<thead>
<tr>
<th>Statement of financial status</th>
<th>Beginning of the period</th>
<th>End of the period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash deposit and accounts receivable:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash deposit</td>
<td>2,000</td>
<td>5,380</td>
</tr>
<tr>
<td>Operating accounts receivable</td>
<td>0</td>
<td>700</td>
</tr>
<tr>
<td><strong>Total (A)</strong></td>
<td><strong>2,000</strong></td>
<td><strong>6,080</strong></td>
</tr>
<tr>
<td><strong>Short-term debt:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Short-term operating debt</td>
<td>0</td>
<td>100</td>
</tr>
<tr>
<td><strong>Total (B)</strong></td>
<td><strong>0</strong></td>
<td><strong>100</strong></td>
</tr>
<tr>
<td><strong>Money deposit:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash deposit 01.01. (A-B)</td>
<td>2,000</td>
<td></td>
</tr>
<tr>
<td>Net revenue</td>
<td>3,980</td>
<td></td>
</tr>
<tr>
<td><strong>Money deposit 31.12. (A-B)</strong></td>
<td><strong>5,980</strong></td>
<td></td>
</tr>
</tbody>
</table>

**SUPPLEMENTARY INFORMATION:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other operating accounts receivable</td>
<td>0</td>
</tr>
<tr>
<td>Other short-term operating debt</td>
<td>0</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>0</td>
</tr>
<tr>
<td>Fixed asset</td>
<td>0</td>
</tr>
</tbody>
</table>

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other operating accounts receivable</td>
<td>800</td>
</tr>
<tr>
<td>Other short-term operating debt</td>
<td>1,000</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>1,800</td>
</tr>
<tr>
<td>Fixed asset</td>
<td>2,700</td>
</tr>
</tbody>
</table>

The statement of financial status is prepared based on NCAM and SCAM. The following procedure has been applied: Cash deposit and accounts receivable as well as short-term debt are extracted from the balance columns (BD and B) in Table 2. In a similar way, the supplementary information (about other operating accounts receivable, other short-term debt, long-term debt and fixed asset) is extracted from the balance columns (BD and B) in Table 3.

**Discussion**

Profit organizations (like business enterprises) enter into market-exchange transactions (in the form of buying/producing and selling goods/services) with profit objectives. Accordingly, they need information about the profit effects of the revenues and expenditures being incurred in these market-exchange transactions (see the lower part of Figure 1, especially ‘immediate profit revenue’ and ‘immediate expense expenditure’ that relate to the fiscal period in question). On the other hand, nonprofit organizations that per se do not have profit objectives have no need for
information about the profit effects of the incurred revenues and expenditures. In fact, it may even be questioned if it is possible – or meaningful – with a profit focus when the revenues and expenditures are incurred in independent one-way transactions, as opposed to being incurred in market exchange transactions (see introduction).

Governmental organizations are examples of nonprofit organizations, because they do not have profit objectives. And as pointed out earlier in the article, ACAM has been developed for use by such organizations in continental European German-speaking countries, for fulfilling four tasks: budgetary control, receipt/payment control, cash control and reporting of a money result. Given use of a money accrual principle in form of the current due principle, however, some types of information that might be of interest to politicians, administrative officers and others are missing in ACAM: accounts receivables that have not been authorised for cash receipt, liability that have not been authorised for cash payment and fixed assets.

Inspired by a study of another type of nonprofit organization than a governmental organization (i.e., a Norwegian housing co-operative), a numerical example has been used in this article, developing ACAM. This development has consisted of the following steps: First, AS3 has been added to AS1 and AS2 in Table 2, where AS1 and AS2 represent ACAM, so the cash account and the net revenue become an integrated part of the bookkeeping, instead of having to be added to the bookkeeping such as the case is when using ACAM. Second, the missing pieces of information that were mentioned above, resulting form use of the current due principle, have been entered on a separate cameral account (see Table 3). Third, the concepts of nonprofit cameralistics (NCAM) and status cameralistics (SCAM) have been generated to refer to Table 2 and Table 3, respectively. Fourth, the terms the single entry bookkeeping method of nonprofit cameralistics and the single-entry bookkeeping method of status cameralistics have been generated, referring to the bookkeeping methods used for preparing NCAM and SCAM, respectively.

Furthermore, based on NCAM (see Table 2) and SCAM (see Table 3), the two following financial statements have been developed: statement of revenues and expenditures (see Table 4) and statement of financial status (see Table 5). These two financial statements aim at presenting the information in NCAM and SCAM in a way that is more easily understandable to the readers, in a parallel way to the presentation of a statement of profit and loss and a balance sheet statement based on profit result accounts and balance accounts prepared by use of the merchant’s double-entry bookkeeping method in the business sector (see e.g., Monsen, 2011a).

**Conclusion**

NCAM and SCAM (supplemented with a statement of revenues and expenditures and a statement of financial status) represent a development of ACAM. In particular, NCAM reports precisely the same information about the money effects of the revenues and expenditures as ACAM, but added by cash deposit and net revenue: information for budgetary control, receipt/payment control and cash control, supplemented with reporting a money result. In addition, SCAM reports additional information that is not reported in ACAM, but might be of interest to users of governmental accounts: other operating accounts receivable, other short-term operating debt, liability and fixed asset (this list could be extended to the extent desirable).

In conclusion, NCAM/SCAM that have been developed for use by other nonprofit organizations than governmental organizations could also be used by the latter organizations as a replacement of ACAM. This would allow the reporting of additional types of information - in the status cameralistics (SCAM) – that might be desirable today or tomorrow, but will not be reported when the current due principle is used for accruing the revenues incurred and the expenditures...
incurred with a view to their respective money effects. This principle that plays an important role in the cash process could still be used: in accounting sections 1 and 2 (AS1 and AS 2) in the *nonprofit cameralistics* (NCAM).

**Literature**


Public Financial Management Reforms in Nepal

Udaya Pant

Nepal is one of the recent entrants into the democratic system of governance after having a long history of monarchy and progressive adaptation of the internationally recognized systems and practices. In this paper, we are presenting the analysis and scrutiny of the evolution of the public financial management system and recent efforts of reforms. Some description of the historical background will help understand the subject and issues better; and hence, it has been included in the write up.

Nepal Administrative System

Historically, the Panchayat system represented "democracy at the grassroots," and until April 1990 it included four integrated levels: local or village, district, zonal, and national--the Rashtriya Panchayat. Only the village panchayat was directly elected by the people. Championing panchayat rule as a political system, the then King Mahendra was able to tap into nascent Nepalese nationalism and also to outmaneuver the evolving political parties which had posed a challenge to the monarchy’s vested power.

The country was divided into fourteen zones and seventy-five districts in support of the complex hierarchy of the panchayat system. The lowest unit of government was the gaun panchayat (village committee or council), of which there were 3,524. A locality with a population of more than 10,000 persons was organized as a nagar panchayat (town committee or council). The number of nagar panchayat varied from zone to zone. Above the gaun panchayat and nagar panchayat was the district panchayat, of which there were seventy five. At the apex of the panchayat system was the Rashtriya Panchayat, which served as the unicameral national legislature from 1962 until 1990.

Political Liberalization

A drive for political liberalization that begun shortly after the 1959 constitution, was abrogated and all political activities were banned in 1960, did not revive until the pro-democracy movement of 1990. At that point, ongoing debilitating inter-party conflicts and demands for reforms of the political system ended, and a movement to achieve democratic rights caught up.

The interim government that was installed in April 1990 consisted people with contrary views; yet the nation had its first free and fair elections in thirty two years. In April 1990, the nagar panchayat was renamed nagar palika (municipal development committee), and the gaun panchayat became gaun bikas samiti, or village development committee. The Ministry of Local Development posted an officer to each district to help the various programs of the development

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13 Udaya Pant has more than 30 years of experience in the PFM; and worked with the Indian Civil Service, Asian Development Bank, UN; and UNDP, currently he is IMF’s PFM Advisor to the Ministry of Finance, Nepal

14 Panchayat means a body of elected representatives for local self government; later it was also used for denoting assembly at the national level
committees. In mid-1991, a Nepali Congress Party government came to power, and a conglomerate of communist parties was playing the role of opposition. At that time, there were 4,015 village development committees and thirty-three municipal development committees. Elections for the heads of the development committees were scheduled for June 1992. In Nepal, after restoration of democratic government in 2006 tried to initiate the economic strategy of maximizing public participation by promoting the changing role of the government from a controller to facilitator for the economic development of the country. Liberal and market oriented economic policy is followed against the inward looking and controlled economic policy for the attainment of sustainable higher growth rate in non-agricultural sector.

**PFM Systems**

The PFM and budgetary policies of the Nepal Government during the Nineties were directed towards economic liberalization, privatization, poverty reduction and decentralization. Policies and programs of the budget were mainly concerned with agriculture, modernization, employment promotion, women’s empowerment, financial sector reform, government expenditure management, tax reform, good governance, social service and the development of basic and physical infrastructure.

PFM system of Nepal, like most developing countries, continued to be dominated by the traditional objectives of control and accountability rather than a concern for allocating limited public sector resources to well defined programs and projects that were intended to serve a set of national objectives. The extension of the budget coverage involved a combination of formal and informal incorporation of expenditure activities. The other formal extension involved the incorporation of foreign assistance programs, which were previously outside the budget. Planning the allocation of scarce resources was not given due priority 15.

The pattern of government expenditure followed more or less the uniform course till the 1990’s. Public expenditure and revenue both increased; but the expenditure increase trend was greater than the revenue. The inadequate mobilization of domestic resources through government revenue resulted in a serious problem of widening resource gap in Nepal. Foreign aid was the main source of development financing and deficit financing continued to increase. Planning, budgeting, and implementation had inherent problems such as lack of capacity, co-ordination and monitoring. In spite of a number of initiatives taken, one of the main problems of Nepal has been the lack of proper domestic resource mobilization 16.

Several factors have contributed in varying degrees to the lack of effectiveness of public spending in Nepal. The institutional factors played major role in the over-programming (having too many programs in scarce resources) of the budget, its lack of focus and prioritization and implementation problems 17. The lacks of ownership of projects/programs at various levels and the absence of accountability, also undermined the quality and effectiveness of public spending.

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16 Pathak, Rita (1999), Pp 34-35
17 World Bank (2000)
Managing the national budget became increasingly difficult for Nepal Government to further their objectives of poverty alleviation and attaining the MDG’s\textsuperscript{18}.

\textbf{Nepal Budgeting System}

The first annual budget of Nepal was presented in 1952. Prior to being overthrown in 1951 the country was ruled by Rana’s Oligarchy. The state treasury belonged to the Rana Prime Ministers. The government mechanism was geared towards maintenance of law and order. The country practiced self-isolation from the outside world. The ruling elites had little or no concern about balanced growth and development of the country. During the period, the treasury offices in different district headquarters were responsible for collection of revenue and disbursement of expenditure. The central level state treasury control office was Kumari Chowk. The concept of systematic planning, budgeting; and economic development through budget were absent at that time. The major sources of revenue consisted of traditional items like land revenue, customs, excise duties, royalties on contracts for felling trees and for supplying of porters, vehicles, liquor licensing fees and so on. The major expenditure items included salaries of army, police and administrative personnel.

In 1952, the first annual national budget was presented in the form of an annual plan by the then Finance Minister Subarna Shamser with the estimation of expenditure of Rs. 52.5 million. The revenue estimation was amount of Rs. 30.5 million. According to Interim Government Act 1952, it was mandatory to prepare income and expenditure estimate for coming year and obtain assent from the King. Budget was made public only after obtaining the assent from King.

In 1957, the budget was classified into regular budget and development budget. The first development plan was introduced in 1958 with economic and social objectives; and laid down priorities for development of economy. With a view to achieving a set objectives and investment in priority sector, the government began to increase the budget size and customary budgeting process was changed. Ever since, Nepal’s annual budget is brought out with the classification into Regular Budget and Development Budget. The regular budget to deal with the administrative and ordinary expenditure of the government where as the development budget deal with the expenditure as provided for the development plans.

In 1959, a new accounting system was devised for facilitating the preparation and execution of budget. In the fiscal1962-63 (this was the year when Nepal Government implemented its second three year plan) functional classification was introduced organized the budget items in terms of functions of government, viz. Economic Administration and Planning, Social Services, Economic Services, and Miscellaneous (on the development budget side), and similarly Constitutional Bodies, General Administration and Planning, Judicial Administration, Foreign Services, Social Services, Economic Services, Defense and Miscellaneous (on the regular expenditure side). The functional classification of budget facilitated allocating the resources according to the policies of the government and the consolidated accounting information

\textsuperscript{18} Adhikari, Deepak (2004)
became available. Economic classification was attempted by the Ministry of Finance in the fiscal year 1969/70 to identify the impact of the budgets transactions on the economy by distinguishing allocations between current and capital expenditure.

Planning for the development also came into focus in the late 50’s and 60’s. First five year plan started in 1956 and a party-less Panchayat System was established in 1962 by King Mahendra. Major reorganization was done in economic planning, with the high-powered planning board under the previous government dissolved in 1961 and the National Planning Council (NPC) was established. The King had direct control over economic policies for some time as Chairman of the Council of Ministers; and headed the NPC also. The king also appointed royal commission on taxation and land reform.

The government budgets remained in deficit. During the seventies and eighties, most of the development expenditure was met from Foreign aid. For financing budget deficit, government adopted policy of borrowing from internal and external sources.

After the political revolution of 1990, multi-party democracy came with the King, as nominal executive head of the state. The liberalization of Nepalese economy also started from the year 1991-92; and it was realized that the government’s role in the industrial and other enterprises should gradually be decreased with corresponding increase of the private sector initiatives. Several reform measures in the fiscal sector were introduced and initiated; on both the revenue and the expenditure side.

The first budget (1997-98) of the Ninth Plan envisaged to pursue the objective of poverty alleviation in a more co-coordinated, integrated and effective manner. The budget was committed in such a way that “NPC will be made more active in project selection, monitoring and evaluation. MOF will require preparing budget on the basis of three year rolling expenditure plan. The mid-term evaluation of the budget will be conducted on time and budget will be managed accordingly.” 19 The 2000-01 budget gave special emphasis on reform in public expenditure management, revenue administration; and improvement in the effectiveness of foreign aid.

**Structural Adjustment Program (SAP) and Enhanced Structural Adjustment Facility (ESAF)**

The government adopted a stability program supported by the IMF Standby Arrangement and a Structural Adjustment program in 1987 and in 1989 financed by the World Bank Structural Adjustment Credits and by an IMF Structural Adjustment Facility. The specific objectives of the adjustment program in Nepal were:

- Macroeconomic Stabilization,
- Increased resource mobilization,
- Enhanced investment efficiency,
- Improvement in financial management of public enterprises,

19 Nepal Finance Minister’s Budget Speech, 1997
• Increased productivity and employment in the agriculture sector, and

• Encouraging private sector involvement in agriculture, forestry, trade and industry.

Nepal entered into another agreement with IMF under the Enhanced Structural Adjustment Facility in 1992 after second SAP expired in 1990. The objectives were:

• Raising GDP growth to about 5 percent per annum in the next three years,

• Reducing annual inflation to 5 percent and limiting current account deficit to 9.6 percent of GDP,

• Reducing fiscal deficit to 7.8 percent of the (before grant) with domestic borrowing limited to 0.2 percent of GDP by the end of the program period (1994-95).

Immediate Action Plan (IAP) and Medium Term Expenditure Framework (MTEF)

In June 2002, Nepal Government adopted the IAP that was designed to expedite reforms in three critical areas-prioritizing public expenditures, improving service delivery and strengthening anti-corruption and accountability measures. Main IAP action points for public expenditure included:

• Setting a realistic budget ceiling and eliminating a number of low priority projects.

• Assuring funding for high priority projects, but tying funds release to performance.

• Implementing public procurement and financial accountability reforms.

• Public posting of budget information and tracking of expenditures.

On the recommendation of the 2000 Public Expenditure Review and the work of the Public Expenditure Review Commission in 2001, and prompted by the worsening fiscal situation, Nepal Government decided to introduce MTEF Starting in FY 2002/03. Overcoming the entrenched tendency to seek increased foreign aid to cope with fiscal stress, the reform minded NPC and MOF used the fiscal pressure to motivate serious adjustment in budget allocations. The MTEF was a good beginning but was not sustained later.

Three Years Interim Plan (2007/08 to 2009/10) and Budget Policy

After coming to an end of Tenth Five Year plan, NPC formulated and implemented the Three years interim plan (2007/08 to 2009/10); echoing the sentiments and expectations of the Jan-Andolan (people’s revolution). This interim plan was prepared to address issues specific to the transition period, in a post-conflict situation. This Plan put special emphasis on increasing public expenditure to assist relief and generate employment as well as on peace building, reconstruction, rehabilitation, reintegration, inclusion, and revitalization of the economy.

A. Expenditure Policies

The following policies were adopted in order to improve public expenditure management:
• Additional efforts to be made to increase efficiency in public expenditure to
strengthening fiscal system, and maintaining fiscal discipline in order to help maintain
macroeconomic stability.

• Additional measures to be adopted to reduce the imbalance between current and capital
expenditure.

• Medium Term Expenditure Framework to be reviewed and input/outcome/impact system
to be adopted in a concrete manner for new methods of Sectoral prioritization and
investment effectiveness.

• Budget release and control system to be reviewed and improved.

• Unproductive expenditure to be gradually reduced, and auditing enforced to maintain
fiscal discipline.

• Feasibility study to be carried out to implement a zero-based budgeting system.

• Gender accountable budget system will be institutionalized.

Tax Policies

• The system of collecting and mobilizing taxes to be made transparent and simple by
reviewing existing tax system and acts.

• Revenue leakage will be controlled by strengthening revenue administration capacity.

• Value added tax system to be made more effective

• The tax base to be gradually broadened.

• Customs rate and other tax systems to be adopted in line accordance with Nepal's
commitment to international and regional organizations like World Trade Organization,
and SAFTA.

• Domestic revenue mobilization to be strengthened by broadening reintegration and
inclusive development.

The Formulation Process

Budgeting in Nepal used to be categorized into a regular budget and development budget. This
was adjusted to meet international nomenclature of current budget and capital budget from
2004-05. The current budget is prepared at the Ministry of Finance under major headings of
expenditures on consumption expenses, office operation, grants and subsidies, service and
production expenses, contingency expenses, principal and interest payments on domestic and
foreign loans. The items under capital expenditure are on capital transfers, capital formation,
investment in share and loan, and capital grants.
The NPC determines the size of capital/development expenditure conformity with the policies, programs and priorities envisaged in the national plan also by considering the extent of external borrowing (both bilateral and multilateral grants) and loans; and the domestic borrowing. The magnitude of current/regular expenditure is estimated on financial ceiling provided by the Ministry of Finance and the NPC.

Budget formulation starts with resource estimation. The budget division of the Finance Ministry is responsible for preparing budgets. The NPC plays major role in preparing development budget. A Resource Committee (RC) is chaired by the Vice Chairperson of National Planning Commission (NPC), comprising of Member of NPC – Macro Sector, Governor of Nepal Rastra Bank (NRB), Financial Comptroller General and Secretary of Ministry of Finance. The RC determines the size of the budget by analyzing overall economic situation of the country with the help of macroeconomic indicators.

Resources estimates comprise estimates of revenue, foreign loan, foreign grant and domestic borrowing. Upon accomplishing resource estimation, the Resource Committee sets the ceiling for budget for the next fiscal year. Revenue Consultative Committee (RCC) set up at the national level under MOF provides recommendations for designing policies, determining tax base and tax rates, setting the level of exemptions, and personal and business deductions. The budget ceiling is fixed considering availability of both internal and external resources.

The NPC sets out the priority and policy goals with respect to plans and programs for forthcoming FY and provide necessary guidelines to the concerned ministry and the MOF, prior to sending of circular for preparation of budget. In the course of preparing the budget documents, Finance Ministry issues guidelines, identifying the priorities consistent with economic planning and fiscal policy and sends the circulars to all ministries and departments to prepare the budget with following information:

- Ceiling of funds including external assistance available for each Ministry for various budget funds.
- Formats to be used for various estimates and instruction to be followed in preparing the estimates.
- Policy guidelines to be followed in prioritizing activities
- Prescribed chart of accounts to be used for resource allocation under various budget headings

Each line Ministry submits the budget proposal and the annual program through one copy each to NPC and MOF in the beginning of the third trimester of the fiscal year. In the case of capital budget, the first round of discussion takes place at the NPC. The proposed program is critically examined in the prospective of policy guidelines and the circular. The MOF staff assesses the foreign aid involving projects in the context of the confirmed and commitments in the pipeline of the donors. The final round of discussion takes place at MOF, represented by the concerned ministries/ departments and NPC staff. MOF prepares a statement of expenditure containing description of all estimated expenditure for each sector Ministry, which would generally be ready by June.


Thereafter the approval of the legislature for the Budget is obtained through the Parliamentary process and the Finance Act and Appropriation Act is passed after approval by the President.

**Budget Execution**

The fund release process begins with the approval of the budget by the Parliament:

One sixth of the previous year’s expenditure can be released as Advance to each spending unit by the DTCO’s, without waiting for the Presidential assent. Subsequent releases are possible only after the Appropriation Bill gets President’s assent.

Release of budget is made by the DTCO on a monthly basis by adjusting the expenditure incurred against the previous releases.

For donor funded projects, budget is released on a pre-funding (donors have to put deposit to GON Treasury in advance) and reimbursement basis (generally applied for loan-financed projects; and to some extent for grants and bilateral donor–financed projects depending upon the agreement).

The Financial Comptroller general Office (FCGO) and District Treasury Control Offices (DTCO’s) play key role in the budget execution process. DTCO’s release the fund upon the receipt of the following main documents and exercise the internal control through release of funds:

a) Authority letter from the concerned Ministry
b) Release order to DTCO by FCGO
c) Project/Program duly approved by NPC and documented in the budget
d) Statement of expenditure of the previous month from the requesting agency
e) Progress report (80% progress) on the development projects
f) Taking cognizance of any budget cuts or stop payment orders by the Ministry/MOF

**Auditing**

The Office of the Auditor General (OAG) is the Supreme Audit Institution in Nepal. OAG prepares the annual report after accomplishing auditing of all Government transactions. Within six months of the close of financial year, OAG has to complete the audit of all (about 4000) spending units across the country and present their annual report thereafter. The OAG presents its annual report to the Parliament. The Report is examined by the Public Accounts Committee (PAC) and taken up for further scrutiny, discussion and implementation. The irregularities are also pursued by the PAC. The irregularities (beruju) pursuance is coordinated by the FCGO for the entire government.

**Weaknesses of Budget Formulation in Nepal**
Estimation Issues
The resource estimation in Nepal is mostly based on accounting information and expenditure trends. Variation of up to 25 percent in the estimated and the realized revenue is common. The budget is also not based on the ‘resource envelope’. The donor funded projects funding gets delayed during the year; and there is always a gap between the estimated spending therein and the availability of resources.

Political Intervention
Budget in Nepal is driven more by political objectives rather than social and economic objective of the government. The Nepal Public Expenditure Report (PER), 2000 pointed out that the development budget is heavily over programmed. Because of the political pressures, the size of the budget is set at levels, which are not consistent with the actual availability of resources and institutional capacity. The limited resources thus get spread too thinly among too many projects. The budget cycle is often delayed.

Poor Performance Review
Performance based budgeting system is intended but it is not effective on ground. There are Minimum Conditions Performance Management (MCPM) introduced in the ministries like Local Development; but the performance reviews are done more as a matter of compliance of the provisions and are grossly ineffective and perfunctory.

Donor’s Agenda
In spite of the Paris Declaration principles and Accra Action Agenda, some donors and the line ministries continue to prefer going through the route of projects being funded and managed outside the national budget and the national procurement systems. The aid effectiveness has several underlying problems and issues in Nepal. All donor funded projects in the Budget are also kept under the Priority –I category. The Nepal’s new procurement reforms and internal audit rejuvenation will help donor rely more and more on the national systems of PFM and expenditure effectiveness. In spite of this being the issues, several donors increasingly prefete to contribute funding directly through the national agenda and national systems.

During several past reviews by the multilateral organizations and other donors, weak Public Financial Management (PFM) practices were recognized throughout the Government of Nepal (GON). The Public Expenditure and Financial Accountability (PEFA) assessment carried out in 2007 found a high risk environment in financial management. Consequently, a PFM Reform Program (PFMRP) has been envisioned and is being developed in two stages. The Government of Nepal (GON) is committed to improving public financial management with view to establishing and sustaining peace in Nepal. This has been stated in the government’s Three Year Interim Plan (2007-10) and in the recent budget speeches.

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21 IMF, FAD Report (2011)
22 Funding is assured for this category projects
An IMF Report on Basic Systems of the PFM (2010)\textsuperscript{23} observed that despite a well conceived PFM system, with a detailed legislation and regulation, there is increasing evidence that this is not working well in Nepal. It is threatened by lack of monitoring of fiscal risks, poor capital budget preparation and implementation and weak reconciliation of revenue accounts. Despite advanced set of laws, regulation and processes, there are gaps in the framework and implementation and large fiscal activities remain outside the scope of the government budget. The Report highlighted the following key deficiencies (reiterated and supplemented by 2011 FAD Mission Report\textsuperscript{24}) in Nepal PFM system:

- **Significant problems exist in the present budget planning system** arising from a number of factors, among the most important of which are: the approach to setting overall budget ceilings; incomplete coverage of government operations; the high level of in-year re-budgeting and the persistent and increasingly significant under-performance of the capital budget.

- **The effectiveness of MTEF is minimal** to have a connection between planning and budgeting.

- **Budget execution** in Nepal follows elaborate and complex processes and monitoring of the budget implementation process is weak. The pace of expenditure is uneven, with 60 percent of spending taking place in the last two months of the Fiscal Year, especially in the capital budget.

- **There is no FMIS at the ministries level.** While the web based FMIS of the FCGO is accessible to the Budget division of the MOF; the same is no accessible to the line ministries and departments. The SU’s of the line ministries keep the accounts of their transactions. The line ministries need to have the current information available about the progress of expenditure of the programs and projects.

- **There are number of constraints in accounting system.** Its coverage of the general government transaction is incomplete. Some key data, especially on liabilities, are not captured adequately. There is no comprehensive Chart of Accounts, (COA) which hinders standardized capturing and classification of all transactions. There are also some methodological issues for quality data.

- **General government data is available at scattered locations and no bird’s eye view is available.**

- **The budget is virement-friendly and gives powers to line ministries and spending units to enter into large scale virement.**

\begin{quote}

\textsuperscript{24} Blondy Guilhem and others (2011), IMF, FAD follow up PFM Mission Report,
\end{quote}
• **Internal audit system** falls far below international standards as a part of effective compliance and control. The **Office of the Auditor General** has been weakened considerably.

• The final annual accounts are not prepared timely, since these are prepared nearly one year after the end of the Fiscal Year which causes delay in final auditing.

• There is significant insufficiency in **training and education** in accounting and financial management which is critical for sustaining accounting reforms.

• **Claiming reimbursement** is being slowed which has created deficit in government treasury.

**The PEFA Assessment 2007**

The Public Expenditure and Financial Accountability (PEFA) Assessment based on FY2005/06 data was initiated by the government with the support of the World Bank to provide a basis for objectively assessing the country’s Public Financial Management (PFM) systems. The assessment covered 31 indicators including three donor-related indicators that were assessed and benchmarked covering six core dimensions of an open and orderly PFM system. The next PEFA assessment is due now.

The PEFA Assessment indicated a **high fiduciary risk environment** in Nepal. It showed that the system is generally well designed but unevenly implemented. The budget has become a policy tool that is largely credible. It is clearly linked to policies in some sectors with solid control of aggregates and has a reasonable control framework at the transaction level (notably for payroll). However, despite advanced set of laws, regulations and processes, there are gaps in the control framework and implementation, and large fiscal activities remain outside the scope of the Government budget. These weaknesses reflect the weak demand (from both Government and external stakeholders) for better budget information (financial and physical) and management.

The performance in fiscal discipline is generally positive but remains threatened by four main weaknesses: (i) lack of monitoring fiscal risks (including those related to donor funding) that create significant uncertainties; (ii) poor capital budget preparation and implementation that weaken the Government’s capacity to make the best use of existing fiscal space; (iii) weak sector strategies that prevent Government from managing medium-term fiscal space; and (iv) weak reconciliation of revenue accounts that reduces available resources.

The efficiency of delivering services has improved, notably through more predictable cash releases and some devolution of resources. However, it is hampered by several factors, including lack of procurement plans and non-observance of competitive tendering; focus of internal audit on transactions and external audit only on “irregularities” as opposed to systemic improvements; and major gaps in the monitoring systems. These factors result in rush of expenditures toward the end of the fiscal year.

**Approach to Strengthening the PFM Systems**

Section III of the PEFA Assessment envisaged the development of a programmatic approach to PFMRP using the platform approach through a well-sequenced sector strategy. While the

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platform approach may be a useful guide to the structure of the reform process, given the
transition phase in the political system, the GON aims to focus on a few realistic actions that are
achievable and can demonstrate results over the next three years (Stage 1). During this time the
new Constitution of Nepal is expected to be adopted and the country would be in the process of
defining the federal arrangements for the provincial states and local governments. The approach
facilitates a change management process to enable genuine leadership of the PFMRP through
achieving gradual and manageable steps. It supports a holistic government-wide approach
encompassing both the institutional and technical aspects of reform.

This approach calls for greater coordination amongst the Public Accounts Committee (PAC), the
Ministry of Finance (MOF), the Financial Comptroller General Office (FCGO), the Office of
the Auditor General (OAG), the National Planning Commission (NPC), the Ministry of Local
Development (MOLD), the Ministry of General Administration (MOGA), Local Government
Bodies, and concerned departments. It also calls for effective donor coordination and
harmonization to address fragment support, and build partnership and trust with the government.
The GON will review the results in three years’ time and will then propose another stage of the
program which will either cover other aspects of a PEFA Development Action Plan (DAP)
which have a more medium-term outlook or build upon ongoing initiatives or both.

The basic principles adopted to formulate PFMRP Strategy in the short-term are:

1. To deliver a few simple actions that could yield effective results which would
demonstrate progress in strengthening the PFM system in the next three years while the
focus of the country is on the development of the new Constitution and restructuring of
the State; and
2. Building up the capacity of the PEFA Secretariat to lead the PFM agenda and
institutionalize the reform process.

This Strategy emphasized the importance of clearly identified activities with an orientation
wards results which are realistic and achievable within a given timeframe. Similarly, the need
for the PEFA Secretariat to develop project management and reporting skills to manage the
PFMRP over 7-10 years is recognized; a realistic time frame for the comprehensive change to
legislation, systems and capacity needed in Nepal.

**GON Agenda**

The 2009-10 Budget Speech of the Finance Minister announced following priority areas:

- Implementation of the MTEF (introduced in 2002 but not sustained) to allow multi-year
  contracts and ensure funds for construction works and supply of goods;
- Mandatory arrangement of e-tendering for big infrastructure projects;
- Performance based incentive systems in selected big infrastructure projects for timely
  completion of projects;
- Establish a budget monitoring mechanism including periodic review under the
  chairmanship of the Prime Minister;
- Constitute a Budget Management and Expenditure Review Commission under the
  chairmanship of a Member of the PAC;
- Implement public sector cash accounting system in line with IPSAS;
• Upgrade the Financial Management information System (FMIS) in line with new accounting standards;
• Financial arrangements for the implementation of the Strategy;
• A budget provision was made in the government’s budget for 2009-10; and 2010-11 under a separate budget head for Public Financial Management Reform. Some donors have agreed to supplement this with funds from to achieve the development outcome;
• To implement the above, each activity will be a module on the basis of the program and projects. The Steering Committee will direct and coordinate action to meet the financial requirements through internal or external assistance; and
• A designated agency will initiate action to channelize the external assistance through potential development partners and meet the financial gap to the concerning programs/projects with the consent of the PEFA Steering Committee.

Ongoing Reforms and New Areas
GON have taken several initiatives with the donor support and national budget in this area. Some of the examples are the Budget Management System, IT based Financial Management Information System, Districts Expenditure Control System, computerized Revenue Accounting System, Computerized Government Accounting System to map various transactions through the FMIS, centrally in the FCGO, Procurement System and e-tendering, Health Sector monitoring and financial information system etc.

IFMIS can be the single source information MIS for the government authorities, Budget, Budget Execution, public debt and investment, Financial Reporting, donors, researchers, media and public, development projects, international organizations; and so on. It will help GON achieve several of the outcomes envisaged in the PFMRP.

The ongoing and planned reforms in Nepal are as follows:

Treasury Single Account (TSA)
FCGO have also decided to work for the Treasury reforms by way of a Treasury Single Account system recommended by the IMF. TSA is being implemented in the country progressively. As a beginning, the pilot run was done in the districts of Lalitpur and Bhaktapur; and it has now been rolled out in 36 more districts, already. The FCGO intend to cover 25 districts in the current fiscal and all 75 by end of next fiscal. TSA prima facie looks at the treasury reforms; but it is more like an ‘iceberg reform’, that will have strong linkages with budget, cash and debt management etc.

Once the TSA regime is fully operationalized, most of the responsibilities related to payment services, management of bank accounts and government accounting and reporting will be shifted from the Nepal Rastra Bank (NRB), banks and the spending units to the DTCOs. The available accurate real-time or prompt information will be useful for cash forecasting, cash management, working on the better debt management; and just in time release of funds for the
budget execution. Besides, the DTCO’s will have the accurate and authentic information on the expenditure, revenue and deposit accounts of the spending units on a day to day basis. This will pave way for a comprehensive IFMIS availability.

**Nepal Public Sector Accounting Standard (NPSAS)**

GON is committed to implement Nepal Public Sector Accounting Standard (NPSAS), in line with cash based International Public Sector Accounting Standard (IPSAS). On 5th September 2009, the government also approved NPSAS to be used for use in public entities; as recommended and pronounced by the Accounting Standards Board of Nepal. It is expected that the Financial Comptroller General Office is gearing to start its financial statements in NPSAS format from financial year 2012-2013. The actual implementation will have to be seen on ground.

**Sustained Reform Effort to improve Public Financial Management**

PEFA secretariat capacity to institutionalize the PFM reform process is being strengthened. PEFA secretariat is likely to be institutionalized in a broad based system, by way of PEFA units in line ministries; and development of capacity building to support technical outcome will be enhanced to achieve the objective defined in PFMRP strategy.

**Integrated Financial Management Information System (IFMIS)**

The gap in the IT area is still under the donor funds exploration. A comprehensive vision and strategic plan on the Integrated Financial Management System (IFMIS) is of utmost importance. The IFMIS will provide the convergence of the fiscal data from various Spending Units (4000); DTCO’s (75), Ministries and Departments, public Institutions holding stand alone welfare or development funds, Central Bank, Commercial Banks engaged in carrying out government business, public debt and investment data, fiscal operations carried out on behalf of the government by agencies and authorities; etc.

By upgrading and joining up the existing FMIS and IT systems incrementally, Integrated Financial Management Information System (IFMIS) will be available in the FCGO. Through the robust IT applications, the convergence of data in the full TSA regime will include nearly all financial transactions of the government. This will give accurate information on cash position, treasury position, budget execution, funds utilization, MIS for taking management decisions at all levels. This will also cover the gap of non-availability of accounting and financial information system at the departments and ministries levels of the government.

**Budgeting Reforms**

There are a number of reform measures that are meant to improve deficiency on current budgeting system. There is a need to improve in setting overall budget ceilings, to enhance coverage of government operations, average under-performance of capital budget, despite some improvement seen in the current FY. In order to overcome various anomalies seen in the current budget planning and execution, the Government constituted a Government Budget Management and Expenditure Review Commission (PERC) set up to improve the government budget and
The expenditure system has submitted its interim report to the government. The final report and its implementation are expected to help bring efficiency and effectiveness in public expenditure management.

A practice has been initiated from FY 2009/10 (first introduced in 2002-03) to submit Three-year Expenditure Projection based on the Mid-term Expenditure Framework (MTEF) before the Parliament. However, there is a need to improve the quality of MTEF process. From the current fiscal, the practice 12 remote districts spending from the annual budget up to four extra months beyond the end of the budget year has also been stopped and their spending cycle has been recognized by front-loading the allocations in the budget. Also, to avoid the last quarter rush of expenditure, the annual budget spending in the last quarter has been capped at 40% of the allocation; and 20% in the last month.

The government has brought out the Budget for the Fiscal Year 2011-12 based on IMF’s Government Finance Statistics, 2001. New coding in chart of account has also been introduced to incorporate corresponding changes. The previous expenditure classification of three categories (recurrent, capital and principal payment) has been classified as recurrent, capital and financing (investment). Revenue classification has also undergone suitable revisions.

**Internal Audit**

In Nepal the FCGO is also in charge of conducting the internal audit of the spending units though its DTCOs. The internal audit, carried out by the staff of the DTCOs, is rather cursory and the approach is limited. The staff handling internal audit are ill-equipped in terms of skills as well as methods. They somehow perform this task in a traditional environment and without any skills developed. Generally the DTCO staff conduct internal audit as a part time activity alongside their other work in executing the budget of spending units. As a consequence, there is a potential conflict of interests and no structure of independence for the internal auditors.

Donor agencies and the Auditor General have recommended strengthening of internal audit in line with the best practices. Following weaknesses revealed in the PEFA report, an element of the PEFA reform strategy is dedicated to strengthening internal audit.

**Audit**

The main oversight institution on public finance in Nepal is the Office of Auditor General (OAG) and it is often viewed that this institution is considerably weak. The institutional and systemic issues need to be addressed on priority and new role to be adopted in line with the best practices in the developing and developed countries. To improve compliance in financial system, the most important challenge is to strengthen the institutions of the OAG. As a part of the overall PFM reform agenda, OAG has prepared a ‘strategic plan’ to improve the effectiveness of audit. This plan includes capacity building through provision of greater manpower and training. The discussion is also undergoing whether concurrence audit is possible with further enhancing the capacity of Office of Auditor’s General. The OAG has plans to introduce the contemporary auditing practices and Risk-Based audit.
Reforms in Public Procurement

As a part of this reform agenda, GON promulgated Public Procurement Act (PPA); and Public Procurement Regulation (PPR) in 2007, to make the procurement system transparent, fair, competitive and efficient. These two legislations had aimed at maximizing returns of public expenditures in an effective and efficient manner by promoting competition, fairness, accountability and reliability in public procurement processes.

Public Procurement Monitoring Office (PPMO) implements Public Procurement Law provisions, through the development of operational guidelines and monitoring the enforcement of legal provisions. Besides, PPMO recommends the procurement policy to the government along with the measures for reforming the procurement laws and initiating actions to implement the public procurement law so as to enhance the quality of procurement outcomes.

PPMO has brought out a Result Based Strategic Framework (2010-2013) by summarising the public procurement activities in three major pillars:

- improve the institutional capacity in public procurement
- establish embedded learning process
- improve public procurement operations and market practice

Reforms in Result based Monitoring and Evaluation (RBME)

The present system suffers from the following institutional weaknesses:

- Traditional input output based M&E system is still in place; that loses focus on results.
- Regular monitoring is absent by the committees in place.
- Poor functional and operational mechanism of Monitoring and Evaluation.
- Poor coordination among the line ministries, Finance Ministry; and National Planning Commission.
- Most M&E units established in the ministries are ineffective.
- Lack of capacity and skilled manpower puts M&E is in low priority.
- Limited use of IT in Monitoring and Evaluation.

Government of Nepal has initiated several reform measures to strengthen monitoring and evaluation system. Result Based Monitoring & Evaluation (RBME) Guideline 2010 has been approved by National Planning Commission (NPC) in July, 2010. This Guideline was prepared with wide consultation of sectoral ministries and other stakeholders including donor partners. The guideline will be implemented for donor funded projects/programs and other priority one (P1) projects/programs. RBME Guideline has focused on result based M&E instead of traditional input-output based M&E. Similarly, this guideline has suggested computer based monitoring and evaluation system at different levels. A software District Poverty Monitoring and Evaluation Analysis System (DPMAS) has been prepared, to link with two other software (under development), Poverty Monitoring and Evaluation System (PMAS); and Project Performance Information System (PPIS) software. Once the link is established, online monitoring will be easy.

NPC has issued policy guidelines to prepare sectoral Monitoring and Evaluation plan to all sectoral ministries; and made it mandatory from 2010-11. NPC has also advised all line agencies
to include enough resources for M&E. Ministry of Finance has created a separate budget head in some sectors like health, education and physical Planning and Works. NPC is also preparing a National level Monitoring and Evaluation Plan. M&E training has been provided to more than 60 officers working in M&E in different line ministries and projects. Independent or third party evaluation mechanism will be implemented in selected development projects and programs. Special and regular monitoring mechanism has been developed for large, high priority and public concern projects.

**Improving Projects’ Performance**

There is significant and persistent underperformance of the capital budget, due to poor and often delayed preparation of capital projects; lags in reimbursement of foreign-financed project spending; lack of skilled personnel; and a lack of compliance with set rules and procedures issued centrally. However, underlying all such problems is the general perception by donors of a deterioration of financial compliance in the Nepalese PFM system.

The performance of most development projects in Nepal is far below the expected one. Following the NPPR-2009, meetings were held at the Ministry of Finance with the representatives of the four development partners (ADB, DFID, JICA and the World Bank). As a follow up, project readiness filter has been revised and circulated to all concerned agencies and development partners for implementation.

The need for budget provision for project preparatory work has been accepted and opening of a separate budget code in which line agencies can access the fund for this has been facilitated. Also, start up budget provision will be made for projects where project agreement is the pipeline; but fund is assured by donors to be disbursed during that Fiscal Year.
Agreed Actions under the Nepal Portfolio Performance Review (NPPR) 26
Action Plan 2010

1. Develop and adopt effective selection criteria for deploying accounting staff in development projects.
2. Develop transparent placement and transfer criteria of accounts staff in development projects.
3. Provide connectivity to FCGO’s FMIS system for selected development projects (selected programs/projects Education SWAp, Health SWAp, Road Sector Development Project, LGCDP, Nepal Peace Trust, RRRSDP, Melamchi, PAF, Rural Water Supply, Irrigation Water Resources Management Project) to implement computerized government accounting system (CGAS) which facilitates effective monitoring and reporting of financial information.
4. Provide basic financial management training (mainly dealing with foreign assisted development projects) to all accounts staff, and then a refresher training program in an interval of six months.
5. Monitor the accounts staff position in all foreign assisted development projects and ensure that there are no vacant positions.
6. Develop Performance Based Reward System for Finance Staff working in foreign aided development projects based on certain result indicators to recognize the contribution of Finance Staff.
7. Discontinue the system of allowing four months grace period to fiscal year for 12 remote districts which is having serious impacts in the financial management system.
8. Make an arrangement to involve FCGO in making decisions on accounts staff related to creating new positions, upgrading or canceling the positions.
9. FCGO representative to be mandatorily included in discussions during project preparation, appraisal and negotiations.
10. Issue the revised guidelines regarding Conditional Grants in line with the budget spirit.
11. Form a working group in each line ministry headed by the Planning Chief to internalize the MTEF into the line ministry.
12. All line ministries to be mandated to prepare sectoral MTEF prior to preparation of annual budget.
14. Provide basic financial management and auditing training (mainly dealing with foreign assisted development projects) to all audit staff, and then a refresher training programs.

Other Problem Areas that Need Further Attention:
Having seen PFM systems at work in Nepal, I have also flagged some practical issues that need attention of the Nepal authorities, to make the functional efficiency in the systems. They are listed below:

- There are questions over three-year rolling MTEF introduced to strengthen the connection between planning and budgeting and its effectiveness in practice. The approach to setting overall aggregate ceilings starts by setting expenditure targets and then finding the resources to finance them. The MTEF projections are reviewed and revised annually; makes it superfluous.

- *The nikassa* (Release) system needs to be replaced by a lump sum ‘assignment amount’ for a quarter (until TSA is not implemented in all districts); with joint responsibility of the SU and Bank for not exceeding this threshold limit fixed by the DTCO.

- Liabilities like Pensions payment have inefficient systems; and it keeps the reimbursement of pension’s payment, to the banks, pending for almost one year or even more. GON should make the system efficient and user friendly; to the satisfaction of all stakeholders.

- Accounting of the transactions is done by the banks in the system for both expenditure and revenue. As a result, there are large scale problems of reconciliation; and of reliable information systems.

- The TDS on salaries etc are remitted through checks to the tax office, which in turn deposits the same in the bank and monitors credits and accounting. It is much more simpler and easy way to credit the amount direct to the tax head and intimate tax office about the collection though letter statements/email. It saves the efforts of all and minimizes unnecessary long path for this activity.

- Salaries are generally not drawn through the bank accounts by the employees; it is much simpler and effective way of efficient payments and reduction of work for the SU/DTCO/Banks; and to eliminate possibility of any ghost payments.

- It is also important to start looking at the systems from the point of fiscal federalism; that is contemplated in Nepal. Many of the systems and procedures will require intensive discussions and make operational the new federalism based systems and procedures. This will include budgeting, financing, accounting, borrowing, taxation, manpower and administrative arrangements; and the Centre-sub-National relationships.

- Training and capacity building is a core issue. In the present arrangements, there is hardly any systematic and effective training available for the operational and lower level staffs. It would be worthwhile to have a captive training centre; to provide training and capacity building support to all districts and offices in PFM areas. Low capacity and inappropriate manpower selections create problems of implementation of the reforms in systematic and proper way.

- There has been rather slow and a bit indifferent involvement of the NRB and accredited banks in walking the extra mile for the implementation of reform and new system/practices. Regular monthly monitoring meetings may be organized by the MOF.

- It is difficult for the OAG to audit more than 4000 units every year within six months time prescribed. It would be much efficient to consider varied periodicity for auditing the smaller units that have routine operations only. This will also give more time to the audit the more important and larger units/programs.

- Internal Audit’s new role has been appreciated but the institutional and operational arrangements are not in place. The internal audit will become more important in the federal scenario when bulk of the development programs and projects will be...
implemented by the sub-national tiers of the government, through the central financial assistance.

- It would be time and cost saving and more efficient to have central procurement/tendering arrangements (by signing the ‘Rate-Contracts’ with suppliers) for the routine items like computers and peripherals, office equipments, stationery, vehicles etc.; instead of each unit going through the tender process for the same purpose.
- A comprehensive PFM reform planning is required to cater to the federal arrangements\(^{27}\).

The list of problem areas above is not exhaustive. There are more cross-cutting issues that need to be attended to on priority.

**Lessons to Learn and Conclusion**

In spite of conflicts and political turmoil, Nepal politicians have unanimity on reforms. The initiatives to improve the PFM systems and budgeting in recent years have been good starting points. However, the intended reforms did not bring the expected outcomes due to capacity and implementation issues. Nepal scored poorly in the PEFA assessment, on indicators relating to policy based budget and most other parameters. In areas like cash forecasting, commitments control, debt management and a borrowing calendar, treasury management, outcomes budgeting, gender budgeting, aid-effectiveness, investment of surplus, supply side of reforms etc. there is a lot to be initiated. There are national and donor assisted reforms that have paved way for the introduction of global standard systems and reforms. The people and the politicians now have a better appreciation of budgeting and PFM reforms and issues like the economy efficiency and effectiveness. Capacity constraints are there and they can be overcome by handholding and also ‘learning by doing’. The sequencing of reforms need to be done, in order to institutionalize the basic reforms first; instead of going all out for all reforms at the same time. The intent should not be to ‘push reforms’ to please the donors. Rather, the simple systems may be tried first, to internalize the skills and spirit of reforms. The recognition of the need for reforms and efforts of the government so far, need to be institutionalized and monitored regularly.

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Public Financial Management Capacity Building: Post-Conflict Liberia
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Abstract

Capacity building in public financial management has been seen as a priority and pre-condition for peace and economic growth in post-conflict countries. Despite the consensus on its importance, post-conflict public financial management capacity building is a tale of two contrasting ideal types – one that is prescribed, in theory and another that is practised. This duality is used to frame public financial management capacity building in Liberia, an experience that is already being seen as a departure from the existing practices in other post-conflict countries. The article documents the Liberian experience with reference to institutional and individual capacity building. It argues that despite the ‘intrusive’ international engagement, capacity building in Liberia evolved through a slow and incremental process and was closer to the theoretical ideal type of public financial management capacity building. In exploring the trajectory of these initiatives, the article examines the role of democracy, international engagement and national leadership in the reform process.

Ironically, Eliot’s despair with efforts at international reconciliation in the aftermath of World War I, finds a resonance in post-conflict public financial management capacity building efforts. These shadows, between idea and reality, conception and creation in context of public financial management are the subject of our enquiry here.

Public financial management refers to the crucial functions associated with management of public resources and has been recognised as a core capacity for effective and legitimate governance. In the context of post-conflict countries (characterised by weak institutions, high indebtedness, lack of basic infrastructure and low administrative and human capacity), it is seen both as a priority and pre-condition for sustainable peace and economic growth. Capacity building in our field is designed to improve institutional arrangements and management practices for effective financial management. In addition, these reforms are also seen as enabling a wider set of governance reforms. It is thus not surprising that public financial

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28 The views expressed herein are personal views of the author and do not reflect those of the organization to which the author belongs.

management capacity building forms a central plank of the international development discourse and has been at the core of aid policy debates.\textsuperscript{30}

This heightened awareness provides a backdrop for this article. The choice of theme and country is based on the special characteristics of the reform process in Liberia which, despite being controversial, has been seen as a departure from the existing norms and practice (Pretorius & Pretorius, 2008). The ‘intrusive’ nature of international engagement that identified economic governance as the central issue, the role of democracy and a committed national leadership makes Liberia a unique example to explore.

**Scope and Approach**

The article is organised in three sections: the first, based on a literature review, establishes post-conflict public financial management capacity building as a tale of disparate ideal types – one that is prescribed and another that is practised. The second section documents the public financial management capacity building experience in Liberia and argues that the Liberian experience is closer to the theoretical model that is preached but rarely practised. The final section, while assessing the Liberian experience in light of the ideal type model, explores some of the reasons underlying its trajectory. The article does not attempt to propose a model for post-conflict public financial management capacity building; instead it questions the existing framework and assumptions that advocate such a ‘model’.

The article describes the actual process of capacity building, adopting a narrative structure with the objective of fleshing out the Liberian experience. The ‘narrative’ is also a response to perceived limitations in existing literature where country studies end up commenting on general theoretical trends without detailing important issues of context, national leadership, indigenous institutions and external technical assistance, which get served as mere platitudes. There is little treatment, in these studies, of ‘how’ these issues were actually handled and operationalised (Whyte, 2004). So, though the reader will be justified in feeling overwhelmed by the details, the narrative allows us to correct this deficiency. The story, we believe, holds the key to an understanding of the circumstances and role of different actors in the process. It also helps in underlining the tenuous links that hold reform processes together and will hopefully lead to a more realistic understanding; as opposed to the prescriptive tenor often associated with public financial management capacity building in post-conflict countries.

Despite the understanding that capacity needs to be ‘built’ at institutional, organizational and individual levels, public financial management literature is generally preoccupied with the first two. The article seeks to correct this imbalance by highlighting capacity building at the level of individuals. In its coverage, the article limits itself to expenditure management with its focus on Ministry of Finance that provided leadership on public financial management issues. The exclusion of revenue administration and audit on one hand and line ministries on the other (not a

\textsuperscript{30} public financial management support is provided by 50 donors with an average of 7 working in each country (Allen & Last, 2007) and almost 25% of Overseas Development Assistance (ODA) is devoted to capacity building (Whyte, 2004).
reflection of their importance) does not however, detract from the conclusions that we draw about the overall reform process in Liberia.

**Country Context**

The civil war in Liberia that lasted for fourteen years has been one of the most brutal of civil conflicts with serious social and economic consequences.\(^{31}\) GDP declined by over 90%, the sharpest in sub-Saharan Africa over the last several decades and one of the biggest since World War II (Radelet, 2007, 3) with per capita GDP in 2004 reported at US$116 (IMF 2005a). Government finances collapsed with revenues falling to less than US$85 million a year between 2000 and 2005, an effective per capita public spending of US$25, one of the lowest in the world. This was compounded by an external debt burden estimated at about US$4.5 billion (800% of GDP) with the domestic debt and arrears amounting to US$304 million (IMF, 2005a). The gross economic mismanagement during this period along with the collapse of government revenue and loss of human resources severely impaired the capacity of public sector in delivering, even basic public services.

The conflict ended in 2003 with President Taylor resigning and conclusion of the Accra Comprehensive Peace Agreement (ACPA), signed between the warring factions.\(^{32}\) Peace and governance were sought to be built around the National Transitional Government of Liberia (NTGL) and the UN peace keeping mission (UNMIL).\(^{33}\) Despite the initial response to governance issues and the positive donor engagement, NTGL’s mismanagement of public finances continued, leading to establishment of the Governance and Economic Assistance Program (GEMAP) that was signed in September 2005. GEMAP provided for oversight over certain economic functions of the state, particularly of revenue collection and expenditure management through placement of international experts with co-signatory authority.\(^{34}\) The reform process however, got traction under the new government headed by President Ellen Johnson Sirleaf that came to office in January 2006.

Considering that post-conflict recovery is a long drawn affair, the progress made by Liberia since 2005, has been acknowledged as significant (Held, 2006, 2007; Atkinson, 2008; Reno, 2008; Hope, 2010). The new government not only agreed to the implementation of GEMAP; it also embarked on an ambitious reform program that aimed at overhauling the financial management system and renewing economic activity. The results of this process are reflected in the progressively improving basic economic parameters and effective budget implementation (PEMFAR, Liberia 2008) and are better than those of other post-conflict countries in a

\(^{31}\) The death toll is estimated at 270,000 with 500,000 displaced. A historical account is available in Dunn and Byron (1988) and Pham (2004). On impact of the civil war, see Sawyer (2005); Radelet (2007); Ackerman (2009).

\(^{32}\) An account of the negotiation process and role of various actors is available in Atkinson (2008).

\(^{33}\) Details at [http://unmil.unmissions.org/](http://unmil.unmissions.org/) accessed 7/2/12. UNMIL with its 25,000 troops represented the highest troop-to-population ratio in the history of peacekeeping.

\(^{34}\) For details see [http://www.gemap-liberia.org/](http://www.gemap-liberia.org/) accessed 7/2/12. An account of the circumstances leading to signing of the program that included pressure and threat of international actors is available in Dwan and Bailey (2006), Farrall (2010) and Hope (2010).
corresponding time frame. In addition, Liberia finalised its first Poverty Reduction Strategy Paper (PRSP), successfully implemented the IMF-supported staff-monitored program, got waiver of its long-standing debt to bilateral/multilateral institutions and significantly, reached the completion point under the enhanced Heavily Indebted Poor Countries (HIPC) which entitles her for further debt relief and financing. For a country that has been in continuous arrears to the IMF for twenty years and had her voting and related rights suspended in 2003, these achievements appear in contrast to other post-conflict countries. During the period, Liberia has significantly improved its governance rankings as per the Worldwide Governance Indicators. In addition, Liberia, according to the recent Open Budget Survey 2010 has shown substantial improvement in terms of budget transparency and accountability.

The article deals with public financial management capacity building initiatives that provided an impetus for some of these achievements. Though it refers to changes introduced by the NTGL government since its installation in 2003, the focus is on public financial management capacity building under the Sirleaf government. Considering the temporal proximity and the fact that most of the reforms are currently underway, this evaluation runs the risk of being labelled presumptive. Public financial management capacity building, after all, is an overwhelmingly incremental process. Yet it is a risk worth taking, as the time frame provides an opportunity for exploring public financial management capacity building in the initial post-conflict years, the driving forces underlying these initiatives and the implications this can have in terms of their sustainability.

Building in Post-conflict Countries: Theory and Practice

In theory, there is no difference between theory and practice, but in practice there is.”

This dichotomy is a truism, not unique to our field of inquiry and yet their relationship is significant to us. Given the fact that capacity building and public financial management are both driven by ‘practice’, one would expect a symbiotic relationship between the two. However, literature review suggests a wide divergence between the ideal type models of post-conflict public financial management capacity building as articulated in theory and practised in the field.

Theory

Capacity has been defined as “the ability of people, institutions and societies to perform functions, solve problems and set and achieve objectives” (UNDP, 2002, 2). There is near

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35 See studies of Uganda, Cambodia, Guatemala, Timor Leste, Afghanistan, Iraq, Kosovo and Palestine (Boyce & Madalene (2007) and that done by Castillo (2008) on post-conflict economic reconstruction.

36 Ranked 185th on control of corruption in 2006, Liberia within two years moved up 72 places to be ranked 113th: http://www.emansion.gov.lr/doc/Liberia_Corruption.pdf; accessed 19/12/11.

37 As per the report Liberia has increased its score from 3 to 40, the second largest increase after Mongolia. The survey is available at http://internationalbudget.org/wp-content/uploads/2011/06/2010_Full_Report-English.pdf accessed 20/12/11.

38 Jan L.A. van de Snepscheut, quoted by Rosenberg and Stephens (2007); also attributed to Yogi Berra.
agreement on this conceptualization and its basic tenets as typified in the ten default principles advocated by UNDP (UNDP, 2003). These guiding principles are echoed in most ‘how to do it’ accounts of post-conflict capacity building (Pugh, 2000; Lopes & Theisohn, 2003; Barakat, 2005; Brinkerhoff, 2007; Hayakawa, 2010). They emphasise the political nature of the process, aimed at building local ownership and consensus through a tailored, incremental approach. And though they acknowledge the urgency of reform in post-conflict countries, the ideal of ‘good enough governance’ (Grindle, 2004) is widely accepted.

Capacity building in our field has been seen as influencing public sector outcomes at three interdependent levels - aggregate fiscal discipline; allocation of resources as per strategic priorities and efficiency/effectiveness of program and service delivery (World Bank, 1998). An effective public financial management reform strategy however, is not merely a function of these objectives but also their sequencing, which has been recognised as being significant, especially in post-conflict countries. Schick’s “getting the basics right” (1998) and the “platform” approach have addressed some of the sequencing issues. The former called for securing the ‘basic’ rather than focusing on particular techniques. The latter, while recognizing these considerations takes a more holistic approach, aiming to implement (in specific timeframe) a ‘package’ of measures to achieve increasing levels (platforms) of competence. Despite the fact that a neat sequencing is not always possible (World Bank, 1998) and even the definition of ‘basic’ has been contested (Stevens, 2004; Allen, 2009), these approaches do underline the importance of context appropriate interventions. These concerns have also been reiterated in the “strengthened approach” that calls for a country led, IFI-donor coordinated, multi-year program aligned to the government’s public financial management reform strategy.

There has thus, been a shift in the focus of public financial management reform in post-conflict countries. The World Bank through its Post-Conflict Unit (1997) and the Low Income Countries under Stress (2001) has advocated ‘zero generation reforms’ with better sequencing in mind. Similarly, the IMF has focused on a three-step, basic process of: creating a proper legal framework; establishing a central fiscal authority and a mechanism for coordinating foreign assistance and designing appropriate tax policies while simultaneously creating simple tax administration and expenditure management arrangements (Gupta et. al., 2004). These considerations have also been reflected in the policies on emergency assistance and more sensitive approaches to the legacy of debt through the HIPC initiative for post-conflict countries.

Despite the agreed goals with reference to fiscal discipline, building an institutional framework and efforts to get spending underway quickly, these approaches do recognise that there is no one-best approach and context is all important (Campos & Pradhan 1998; Gallagher, 2007; Andrews, 2008; Dorotinsky 2008; Allen, 2009). They also agree that post-conflict public financial management capacity building requires not a short but medium- to- long-term approach. The discourse explicitly recognises that given the scarce technical, administrative and managerial implementation capacity in post-conflict countries, a minimalist framework, less than optimal policies, simple and basic customised interventions are avowedly preferred over pre-packaged universal templates.

**Practice**
This intellectually rational model of public financial management capacity building surprisingly is not the one that is practised. Infact, an overview of the models and a review of the reform experience suggests that it is not possible to relate the two and this in itself is seen as a significant shortcoming (Pretorius & Pretorius, 2008). The practice often is a mosaic of contradictory, irreconcilable elements drawn from different sources in the name of context sensitivity thereby reducing the theoretical model to a set of well meaning but problematic proverbs.

An assessment of the reform experience suggests that progress has been limited and the landscape is dominated by ready-to-implement templates (Wynne, 2005; De Renzio & Dorotinsky, 2007; Schiavo-Campo, 2008). Institutional improvements are thus equated with installation of formal legal arrangements as typified in public financial management and Procurement Laws, semi-autonomous revenue authorities; improvements in budgetary cycle are associated with introduction of new chart of accounts. Similarly, policy based budgeting is synonymous with development of Medium Term Expenditure Frameworks (MTEF) and Integrated Financial Management Information Systems (IFMIS) despite the recognition that both require a significant amount of capacity and skills, something that post-conflict countries do not possess. This preoccupation with MTEF and IFMIS also disregards the discouraging implementation results from the field (Le Houerou & Taliercio, 2002; Holmes & Evans, 2003; Diamond & Khemani, 2006). Infact, there have been instances of complex initiatives like program and performance budgeting being introduced without ensuring that the basics of budget cycle are in place and working effectively. And though, there are isolated examples of basic simple systems being installed, incongruous and complex interventions are universally promoted.

Andrews (2009) surveying the public financial management landscape in 31 countries across Africa finds evidence of this one-size-fits-all model - with most of them adopting the GFS or COFOG, international accounting standards, creating Treasury Single Accounts, pursuing MTEF, introducing program, performance or activity based budgeting, implementing IFMIS and using ceilings to prepare budgets. These technical public financial management standards have acquired near ‘deliverance’ status in practice. The ubiquity of these reform mechanisms across a varied set of countries, Andrews argues; suggest the presence of an externally imposed model (Andrews, 2010). Further, these technical standards relate only to the “de-jure” public financial management dimensions” – law, regulation and operational procedures (Andrews, 2009) and not the desired outcomes in terms of efficient and effective delivery of public services and the two are at best, only indirectly related. However, given the limited time frame associated with donor funding and the constant pressure (on both donors and client countries) to regularly demonstrate progress, introduction of these de-jure changes have been preferred (in practice) over the long term engagement advocated in theory.

This template approach which does not take cognizance of national capacity and preferences has been questioned in the case of post-conflict Afghanistan (Castillo, 2008; Ashraf et. al, 2007; Barnett et. al. 2007) and Timor Leste (Pires & Michael., 2007). These assessments also point towards a failure to provide enough capacity building and resources to the national governments, thereby creating only an illusion of reform.

39 Benchmarked with Government Finance Statistics (GFS) and Classification of the Functions of Government (COFOG).
Thus, ‘practice’ continues, irrespective of ‘emerging principles’ and ‘new approaches’ which keep repeating messages that have been common knowledge for the last two decades (Whyte, 2004; Pretorius & Pretorius, 2008). An exploration of the reasons for this frustrating divergence is beyond the scope of this article; suffice here to say that post-conflict public financial management capacity building is an account of two dissimilar and contrasting ideal types (Table 1), one that draws on the profanity of theory; the other, circumscribed by the reality of its practice.

### Building Capacity in Liberia

The experience in Liberia stands in contrast to the practice of public financial management capacity building in other post-conflict countries. Despite the ‘intrusive’ international engagement, capacity building in Liberia has been incremental and mindful of the absorptive capacity of the public sector. It has relied on building and partnering indigenous institutions thereby creating space for development of political consensus around the reform process. These features inform the capacity building initiatives at different levels: institutional capacity that concerns itself with legislation, rules/regulations, institutions and business processes; individual capacity building and management of donor assistance.\(^{40}\)

### Institutional Capacity

The UN/WB Joint Needs Assessment for Liberia (2003-04)\(^ {41}\) recognised that public financial management processes were “out of track” because of weaknesses in the institutional framework (UN/WB, 2004a; 3). Typically, peace accords have served as ‘focusing events’ in post-conflict countries, providing a window of opportunity for changes in the institutional framework. In case of Liberia, the Accra Peace Accord and constant international scrutiny led the NTGL to streamline government revenue in a central account (Executive Order #2, 2003), establishment of the Cash Management Committee (2004) and passage of Public Procurement and Concessions Act (2005). In spite of these initiatives, there were reports of leakages of government revenue, discretion in public expenditure, lack of legislative control of the budget and irregularities in the public procurement process (UN/WB 2004b, IMF, 2005a and 2005b).

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\(^{40}\) The framework used corresponds to the one developed by Olander (2007) for assessment and development of public financial management capacity.

\(^{41}\) This formed the basis for international engagement in Liberia after the Peace Accord.

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### Table 1

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<th>Public Financial Management Capacity Building: Contrasting Ideal Types</th>
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<td><strong>Theory</strong></td>
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<td>Context and absorptive capacity</td>
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<td>Modest and simple solutions</td>
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<td>Country led strategy</td>
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<td>Partner national institutions</td>
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<td>Coordinated IFI/donor multi-year program</td>
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As a result, the NTGL despite implementing a cash-based budget had accumulated arrears to the tune of US$12 million by the end of 2004 (IMF, 2005a) and there were concerns about their commitment to the institutional framework that was being instituted.  

This was to change with the new government (January 2006) that was committed to strengthening this framework and ensuring its implementation. The Ministry of Finance (MOF) framed a set of ‘Interim Financial Rules’ (February 2006) which prescribed the procedures for public spending and formed the basis of approval for all expenditure. These set of 33 rules, though basic in nature, reflected the ‘ground zero’ reality and can only be appreciated in context of the commitment shown by government in implementing them. Given the controversy surrounding foreign travel of senior public officials under the NTGL administration, these rules were followed by the Foreign Travel Ordinance (April 2006). The success in implementing the foreign travel ordinance and the increasing need for government employees for travel into the hinterland led to the framing of the Domestic Travel Ordinance (January 2007).  

These rules and regulations had no precedence in Liberia and can neither be traced to the GEMAP agreement nor to the policy recommendations of international actors. They were drafted by MOF with help from external advisors, explicitly on directions from the President’s office and are evidence of the initiative shown by the national leadership. The IMF administered Staff Monitored Program started in February 2006 and as per agreed benchmarks, the national government introduced an interim commitment control system (July 2006) to prevent accumulation of any fresh arrears. Interim Commitment Control and Cash Planning Manuals were issued by MOF and training was organized for line ministries to facilitate implementation of these procedures. These initial rules and manuals underwent revision (based on the implementation experience over the following two fiscal years) again on the initiative of the national leadership. The revisions reflected improving capacity across line ministries and laid greater emphasis on internal controls, accountability and reporting of fund utilization by ministries and agencies. Reform to the budget preparation process started with the preparation of budget for fiscal year 2006-07.  

These included integration of recurrent and development budgets, issuance of budget preparation forms and instructions on budget preparation and presentation. A Budget Transfer Act was also passed to restrict transfers to a maximum of 20% between agencies. This restriction though higher than the internationally acceptable 5-10%, was an improvement, as historically, there had been no formal limits on such transfers. The impact of these changes saw improved documentation and analysis in the budget documents, greater transparency and was reported positively in the IMF/WB reports and other independent surveys. As per the recent Open Budget Survey (2010), Liberia is one of the few countries that have shown substantial improvement in budget transparency - with scores having improved from 3 in (2008) to 40 in (2010). This “remarkable jump”, the report argues, is a result of publishing executive budget proposals, in-year reports, mid-year review and audit reports and has been  

International consensus on these concerns resulted in the conclusion of the GEMAP agreement (Farrall, 2010, Hope, 2010).  


The fiscal year for Liberia is from July 1 to June 30. The new government that assumed office in January 2006 presented and executed a recast budget for the fiscal year 2005-06.  

The Budget Allotment Procedures and the Budget Transfer Request Procedures (September 2006)
attributed to the deliberate reform effort of the government, support of legislature and activism of the Supreme Audit Institution (OBS, 2010, 43).\textsuperscript{46}

The budget process though, continued to be fragmented as Bureau of Budget (BOB) responsible for budget preparation was independent of MOF. It is thus not surprising that IFIs were persistent in recommending their merger. Given the political nature of this decision, the government proceeded cautiously - in the interim, strengthening the National Budget Committee (chaired by Minister of Finance) to tide over lack of coordination in the budgetary process. The merger was finally approved by the Legislature in September 2008 and has come out of a consensus that would be crucial in sustaining the reform process. In addition, the earlier rules/ regulations and procedures and their implementation experience prepared the grounds for deeper reforms. It also helped build consensus around the introduction of a comprehensive legislation in the form of the Public Financial Management Act that was approved by the legislature in 2009.

This incremental and consensual approach however, was not visible in the case of procurement reforms despite early approval of Procurement Act in 2005. In any case, the international experience suggests that such legislations in themselves are not enough. Capacity constraints in procurement units (of line ministries) also contributed to a lack of appreciation of the Act.\textsuperscript{47} Despite the fact that the Act itself was recognized as providing a framework for a sound procurement system (IMF, 2007, Liberia PEMFAR, 2008), implementation was hampered by the delay in issuance of accompanying regulations and implementation manuals. In any case the ‘good’ principles advocated through international procurement norms are circumscribed by the exiting realities of domestic economy.\textsuperscript{48} After all a ‘competitive’ procurement process is contingent on issues that a Act cannot singularly address and the experience in Liberia suggests that it may be worthwhile in initial years to focus more on process changes in terms of increased transparency and accountability.

The MOF in Liberia is responsible for approving all government expenditure. This centralization however, has been mediated through a broad-based committee comprising of the key Ministries.\textsuperscript{49} So, when the NTGL administration re-established the Cash Management Committee (CMC) in October 2004, it was following an inclusive tradition that had existed prior to the civil war. The new CMC had the Minister of Finance as the Chair with its other members being the DG, BOB, Minister of Planning and Minister of State. This inter-ministerial committee became responsible for approving government expenditure and thus a key institution

\textsuperscript{46} The report is available at \url{http://www.internationalbudget.org}

\textsuperscript{47} Part of it was also related to the fact that the Act itself was poorly drafted.

\textsuperscript{48} The ‘thresholds’ for national and international bidding, limited number of vendors bidding nationally and the low interest that post-conflict procurement processes could generate regionally or internationally meant that meeting expectations relating to the competitive principle that underlines public procurement is going to be difficult in the short and medium term.

\textsuperscript{49} During the 1980s, it was the Economic Financial Management Committee (EFMC) consisting of Ministers of Finance, Planning and State, Director General of BOB and GSA, members of Central Bank and the Auditor-General. The EFMC nominated a CMC that included the MOF, DG, BOB and Governor of Central Bank who decided on the broad expenditure priorities and left day to day payments to MOF. This committee functioned till the onset of the civil war.
for budget execution. However, the CMC during the NTGL period was not able to discharge this function in a transparent manner and became the focus of attention under GEMAP. Even though as per GEMAP requirements, the external advisor acted as member of the CMC and had co-signatory powers, he had no role in the decision making process that continued to be arbitrary and non-transparent under NTGL administration.\(^{50}\)

It was the new government that created the operational structure for this engagement through the institution of a technical secretariat in MOF, headed by the public financial management advisor (external) and staffed by the employees seconded by MOF.\(^{51}\) The secretariat functioned as part of Department of Expenditure and along with the existing offices of the Bureau of General Accounting and Comptroller-General helped in instituting a transparent budget execution process - one that came to be acknowledged by international partners (IMF, 2007; PEMFAR, 2008; AfDB, 2008). These assessments, however, seem to privilege the ‘co-signatory’ aspect of GEMAP over the role and commitment of the national leadership in the successful working of CMC. Notwithstanding the critical role that external advisor had in the process, any a-priori assumption that mere provision of such an advisor can serve as a guarantee is oblivious to the reality of public financial management processes. The success of CMC is attributable to the fact that it was an indigenous institution that the international partners supported through GEMAP, instead of creating a new structure. It also underlined the importance of collaborative institutions which provide a better platform for consensus building in post-conflict countries (also echoed in the inter-ministerial constitution of the National Budget Committee). It is these aspects and the leadership provided by the Minister of Finance that made CMC a transparent and credible institution in the budget execution process.

Changes in public financial management business process have been associated with introduction of computerised information systems and the international experience underscores the importance of going slow, country ownership and user needs (Diamond & Khemani., 2006; Peterson, 2006; Wynne & Mfandaedza, 2010). The initial focus in Liberia was on restarting and stabilizing the manual accounting process with gradual introduction of computerized systems. This was through the implementation of a basic, customized voucher tracking and expenditure reporting system: Liberia Expenditure Control and Accounting Program (LECAP) designed to meet the short term needs of MOF.\(^{52}\) Its capability was gradually enhanced for tracking budgetary allotments, ensuring commitment control, approving payments, printing cheques and undertaking variance analysis (Kumar & Brar, 2008). LECAP was implemented by the in-house IT team in MOF and the then separate BOB through a focused training program for existing employees of these two institutions. It provided good foundations for the introduction of a more sophisticated IFMIS. The Liberia IFMIS Project Paper (World Bank, March, 2008) recognized the importance of this approach in opting for a low cost, simple to operate program that can be

\(^{50}\) Note on the functioning of the Cash Management Committee (2005) submitted by World Bank public financial management Advisor to Minister of Finance and EGSC.

\(^{51}\) This Secretariat was responsible for examination /vetting of all payment requests received by MOF before they were put up for approval of CMC and the preparation of the cash availability statement for government.

\(^{52}\) The program was developed by the IT Advisor assigned to MOF and funded by World Bank.
implemented in a relatively short period of time. This project design along with the concurrent efforts at capacity building, Kumar and Brar (2008) argue, addresses some of the sustainability issues that confront IFMIS projects. The planned introduction of a new chart of accounts (compliant with GFS 2001 and COFOG) alongside IFMIS, it is hoped, will help resolve the related accounting and financial reporting issues.

The effectiveness of this reform strategy that focused on slow and incremental change has been acknowledged by IFIs in case of Liberia, as has been the commitment shown by the national leadership. However, despite these acknowledgements the urgency of pushing big ticket reforms continues. The slow and incremental nature of reforms, sensitive to the absorptive capacity of the country emphasize the importance of building appropriate foundations while creating the right incentives and political support for the reform process. Yet donor documents have an impatient tone; the absence of a Public Financial Management Law was a constant refrain, as was the installation of IFMIS (mentioned as a priority as early as the GEMAP agreement) and the delay in developing MTEF. This refrain is oblivious to what the theory of public financial management capacity building advocates in terms of context appropriate solutions. It also undermines the initiatives undertaken by government and their contribution to the wider reform process. Thus the gap in the passage of Public Financial Management Law (2009), planned introduction of IFMIS and MTEF in fiscal year 2011-12 and 2012-13 respectively far from being signs of delay, may actually improve the chances of their success; build as they do, on the basic reforms that have gradually been introduced over the last five years.

**Building Individual Capacity**

The public financial management literature on capacity building while acknowledging the deficient administrative and managerial capacity in post-conflict countries has not paid much attention to individual capacity building. The discussions in country studies are confined to temporary capacity building through deployment of external technical assistance without sufficient attention being paid to the role of training and professional education in improving capacity. The engagement with individual capacity building here is a corrective measure, even as it acknowledges the difficulties in measuring the impact of these ‘soft’ interventions (Boesen & Therkildsen, 2004).

The UN/WB Needs Assessment on Liberia while reporting on weak human resources in civil services emphasized the importance of re-training in the short/medium term and developing training programs for the induction of a “new blood of civil servants” in the long run (UN/WB, 2004a; IMF, 2005b). One of the first initiatives towards this was the establishment of a financial management training school in MOF through World Bank funding. The training programs were however, slow to start partly because of lack of leadership in MOF but also because capacity building was not a priority for the NTGL administration. It is not surprising that only two courses (restricted to MOF employees) were organized during May and July 2005. These programs comprehensive in terms of their content were well received by the target audience. The first of these courses was evaluated by an auditor from CIPFA and got a positive

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53 More details on the rationale of project design and cross-country experience in implementing IFMIS in other post-conflict countries has been brought out in Kumar and Brar (2008) and IFMIS Project Paper (2008).

assessment. Despite these positive appraisals, the program could not gather enough support and ownership within MOF and was not extended to line ministries.

It was only under the new government and leadership provided by MOF, that these training programs were intensified both in terms of their content and coverage. The training needs increased in context of new Financial Rules, Travel Ordinances, institution of commitment control system and basic cash planning in the ministries. This demand was met by enhanced technical assistance for MOF. Training programs started targeting staff in line ministries and were delivered through hands-on sessions on implementation of new rules and regulations. The emphasis was on “learning through doing”; especially in context of preparation of cash plans and expenditure reporting. The MOF leadership was closely associated and made sure that introduction of these new set of rules was always followed by regular and intensive training. The leadership also saw these programs as a dissemination and consensus building mechanism for the reform agenda. These earlier set of programs were largely delivered by senior government officials, the external TAs working in the MOF and BOB with very limited support from outside trainers.

The initial programs, though well designed and executed, were confined to re-training. Sustaining these initiatives required a medium/long term focus, a credible capacity building program aimed at creating a new cadre of financial managers for government. It was some of these concerns and the success in delivering the earlier programs that led to the establishment of the Financial Management Training Program (FMTP)\(^{55}\) as a collaborative effort of the MOF, Civil Service Agency (CSA), University of Liberia (UL) and the Liberia Institute of Public Administration (LIPA). The program aimed at identifying and implementing capacity building initiatives in the field of public financial management had two components: (i) recruitment of two batches (30 each) of graduates as trainee civil servants for a two-year Masters Program; (ii) short-term training for serving civil servants.

Sustainability was a key concern and this was reflected in its focus on developing and partnering local and regional institutions. The collaboration amongst the partnering institutions was based on a formal Memorandum of Understanding (MOU, 2006) that clearly specified their roles, relationships and responsibilities. The management structure was headed by the Governing Board (GB) chaired by Minister of Finance with heads of the collaborating institutions serving as members (all in the rank of Cabinet Ministers); and to that extent, it represented the top leadership in government. The GB provided strategic direction and was assisted by one of the public financial management Advisors, full-time Director and Registrar who were responsible for the day-to-day administration of the Program. The collaborative nature of the program was borne out in respect of its key elements: development of curriculum, recruitment of trainees and monitoring.

The selected trainees were treated as civil servants on probation for the duration of program and were provided with monthly stipends and medical insurance. They signed a contract (bond) to serve the government for a minimum period of four years on completion of their training.\(^{56}\) The

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\(^{55}\) The program was funded by the World Bank, initially through the LICUS Trust Fund and later through the Economic Governance and Institutional Reform Project (EGIRP).

\(^{56}\) These bonds were administered by Civil Service Agency and vetted by the Ministry of Justice.
training infrastructure included class-rooms equipped with modern training aids, computer laboratory with internet access, reading room and a library with adequate text-books for the administered courses. The curriculum was designed as per University’s degree requirements and approved by their Senate. It was also designed with the aim of preparing the trainees for the Certified Accountancy Technician qualification administered by Association of Accountancy Bodies in West Africa (ABWA) and the program funded the training costs associated with this examination. In addition, the program sought to balance the academic content with practical inputs through short-term assignments to key Ministries between the academic semesters. The engagement of instructors and resource personnel also reflected this priority with the academic content being delivered by University instructors with the practical aspects being handled by government officials, TAs working in different ministries, professionals from the private sector and staff working in international agencies. The curriculum thus aimed to combine university level education and related professional accreditation with on-the-job training as preparation for the trainees’ civil service career in PFM. In doing this, FMTP provided trainees with concurrent opportunities at utilizing their newly acquired skills, something that has been considered as crucial for such capacity building initiatives (Godlee, 1995; AusAID, 2004).

The short-term programs also benefited from the institutional framework provided by FMTP. If on one hand, they served the purpose of focusing attention on the need for capacity building, their collaborative nature ensured acceptance across government departments. The frequency of programs increased and there was improvement in their content and outreach as they became increasingly responsive to the on-going reform process in Liberia. These training programs and the related institutional changes both contributed significantly to process improvements and qualitatively better internal checks in the expenditure management process (PEMFAR, 2009). Their contribution was also recognized in the independent evaluation report on GEMAP (Morsiani et. al., 2008).

The FMTP had initially provided for two batches of the Masters program and recruitments were done in 2007 and 2008 respectively. On the basis of a mid-term appraisal, it was decided to continue the program and subsequent batches have been recruited. The programs have gone as per schedule and trainees during their on-the-job assignment were well received by the recipient Ministries. The first two batches that graduated were assigned to the Ministries with a commensurate compensation package. Infact a group of trainees have been assigned to the on-going IFMIS project and are expected to play a key role in the implementation of the system. The long-term program is already being seen as the lynchpin for a “new cadre of financial managers schooled in accountability, transparency and ethical leadership in public financial management” and something that the national stakeholders are “proud” of.

57 No academic institution in Liberia then had anything comparable.

58 The training was organised by Liberia Institute of Certified Public Accountants (LICPA) a body that was being revived after the war.

59 Trainees were assigned in groups by rotation to different Ministries for a period of eight months over the two-year program.

Given the difficulties in evaluating the results of capacity building initiatives (Lusthaus et al., 1999; Crisp et al., 2000), it may be early to reach such optimistic conclusions. After all, the impact of individual capacity building is circumscribed by the broader reform process. It can also be argued that the FMTP through its two-year program sought to create a kind of elitism which may not be conducive for wider civil service reforms. In an ideal world (often ambitious), these parts of the process should dovetail into the broader sectoral reform strategy but then the opposite may also hold true wherein these bits and pieces (like FMTP) can have a cascading effect. As has been argued by Honadle (1981), as long as training needs are defined in a strategic context, selectivity and focus in specific areas can build support for extension and institutionalization of these initiatives. There is evidence that this is happening in Liberia, as capacity building initiatives in areas of procurement and auditing have adopted similar models, partnering LIPA and University of Liberia.

Notwithstanding the donor support for FMTP in terms of funding and direct involvement of public financial management advisors in its design and administration, it was the commitment of government and leadership provided by the Minister of Finance that made a difference. Rist (1992) has argued that the manner of selection of trainees has an impact on the effectiveness and credibility of the program. FMTP benefited immensely from a fair and transparent recruitment process. The institutional framework of the MOU recognised inter-institutional dependencies and echoed the designated roles and responsibilities in the overall governance framework. The importance of the institutional and accountability framework to the whole process can be gauged by the fact that the recruitment process for the two-year program was initiated twice in 2005 under the NTGL administration but did not get the desired response and in fact could not proceed beyond the issue of advertisements.

Consensus in collaborative initiatives like FMTP is never a seamless process as decision making tends to be contested and negotiated amongst partners. The collaborating institutions as would be expected wanted to corner the available funding for their respective institutions. There were also questions raised on the ‘mandate’ of MOF to host such a program. The University or LIPA, in normal situations, would have had a better claim at hosting such a program but Liberia had extenuating circumstances. The University could not have been able to isolate the program from the rest of their activities and that would have affected the program’s effectiveness. The University was also expected to launch their MBA program and the Senate saw FMTP (which was going to be affiliated to the same University) as a ‘rival’ program. LIPA on the other hand was still in the process of re-building itself and was not even able to carry out its normal activities. It was in this context that MOF became the preferred option and it is to the credit of the collaborating institutions that a consensus emerged and has held. The amount of stipend for selected trainees was another sticky issue that required substantial consensus building and maturity. In Liberia, where salary for civil servants was abysmally low, the GB showed remarkable maturity in pegging the amount at a level that was not de-motivating for the existing...

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61 Considering that this scale of recruitment had not taken place in Liberia in the last two decades the recruitment process was an accomplishment for the collaborating partners.

62 Issued twice in April and November 2005 they got a response from only 57 applicants.

63 When the program started in 2007 average monthly salaries ranged between US$40-70. The monthly stipend agreed was US$100.
civil servants whom the trainees were expected to join. In addition, there were implementation issues - delays in procurement of text books and training aids, recruitment of the support staff, absence of full-time instructors – something that could have been obviated by better planning.

It has been argued that successful capacity building programs need to meet the test of scalability and sustainability (Whyte, 2004). While there is evidence of scalability in the program, it is early to pass a judgment on its sustainability. Yet, in its limited lifetime, one can hypothesize on some issues that may have implications for its sustainability. The first relates to the absorption of trainees into civil services and their assignment to different Ministries. A big group (eleven) from the first batch was assigned to the IFMIS project and there is little doubt that the project will benefit from this. IFMIS however, is a MOF project and this cornering of ‘trainees’ may not inspire confidence. In a skill-deficient national administration sharing these trainees (skills) across all ministries and departments in an equitable manner would have been a better strategy for sustaining bottom-up interest in the program. Secondly, it would have been beneficial to extend the ABWA technician examination to serving employees of line ministries. This accreditation apart from augmenting skills would have enhanced the credibility of the program by providing equal opportunities to existing employees and not favouring the new trainees over them, as has sometimes been argued. Continuity of FMTP also needs to be addressed appropriately. Given the likely rate of attrition, as opportunities in both public and private sector increase, it would be prudent to plan for recruitment of more batches. Further, MOF as a host for the program was only an interim choice in 2006. LIPA with its substantially improved infrastructural facilities and mandate for public sector capacity building should be the ideal choice for hosting the program now. Yet there have been no moves in this direction. Crisp et. al (2000) have argued that funding agreements for capacity building should provide clear sustainability mechanisms and to that extent the funding agreement for FMTP would have been better-off incorporating a clause on the continuation of the program through the national budget, as and when donor funding was not available.

As a capacity building initiative, FMTP meets the criteria of equity, quality and relevance. Its governance structure provided for inbuilt incentives, institutional collaborations and sustainability. In 2006, Liberia neither had a professional accountancy body nor an academic institution focusing on training needs in financial management and FMTP served to meet these gaps both in the short and medium/long terms. The manner of its institution left sufficient policy and operational space for flexibility and learning amongst the national stakeholders. Success of programs like FMTP is often not related to the amount of resources expended but depends more on the leadership and commitment of recipients. The program provided a platform, not available in post-conflict circumstances, for institutions and professional groups to come together as ‘communities of practice’ across ministries and departments thereby fostering an

64 A screening process, funding the costs of examination and training, an incentive in form of an increment to those successfully clearing the examination could be the modalities for instituting a transparent process for the same.


66 With infrastructure in place, the running costs of the program could easily have been met by government.

67 The total cost of FMTP (excluding the cost of TAs) for the first two years was in the range of US$150,000, insignificant to what has been expended in other countries.
esprit-de-corps. It is these interactions that help change attitudes and practices and were probably the first steps towards development of professional worker norms.

**Managing Donor Assistance**

There is no dispute on the desirability of building long-term sustainable capacity but its elusiveness makes it tempting for donors and national governments to opt for temporary measures in post-conflict countries. These have included bypassing weak government capacity through special implementation units (for donor-funded projects), buying and/or building temporary capacity through the use of external technical assistance. The sustainability of these measures, however, has been the subject of intense debate (Hildrebrand, 2002; UNDP, 2002; Whyte, 2004).

Special implementation units are seen as circumventing the national budget and creating parallel systems thereby undermining government capacities. In emphasizing the negative aspects, these assessments disregard the importance of donor funds for recipient countries and the fiduciary assurances required by donors themselves in sustaining the funding stream, considerations that led to the establishment of the Project Financial Management Unit (PFMU) in Liberia. The unit, established initially for World Bank projects, has subsequently evolved as a central unit for financial management of all donor-funded projects. This not only mirrored the central role of MOF in the Liberian public financial management cycle but also helped establish cost efficient and standardized procedures for donor fund management – effective in context of capacity constraints in the public sector. The professional expertise located in the unit has been sourced effectively by MOF in strengthening its own procurement, internal audit and reporting practices. The institutional arrangements also ensured MOF ownership and operational control on the Unit much in contrast to the experience in post-conflict Timor Leste or Afghanistan (Pires & Michael, 2007; Ghani et. al, 2007).

Technical assistance, despite its argued limitations in institutionalizing capacity building, has been established as a consistent element of donor assistance in post-conflict countries. The focus thus is on its ‘management’ rather than questioning its existence. The original approach to building professional capacities is through advisors substituting for missing capacity in short, medium and/or long term period. In most circumstances, TA is limited to an advisory role but in Liberia the ‘co-signatory authority’ under GEMAP meant operational responsibility. Though all capacity building involves an adjustment of TA relationships (vis-à-vis senior management and national staff), the co-signatory aspect made this adjustment more complex. And it is to the credit of the leadership in MOF and BOB that a ‘fit’ could be achieved. After all TA can do precious little to create country ownership and to that extent the commitment and leadership of senior management was critical.

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68 Established in August 2006 as part of MOF, PFMU was supervised by the Deputy Minister for Expenditure.

69 The PFMU international staffs (as per their contracts) have collaborated with the respective divisions of MOF in capacity building initiatives – extension of the Sun Accounting software for MOF expenditure reporting, working alongside the internal audit and procurement divisions.

70 The same could not be said for the other GEMAP institutions.
The institutional framework of GEMAP and concentration of TA activities in budgeting and expenditure helped focus on dimensions central to financial management. The government on its part was able to use TAs to gain early results through formulation of the financial rules, travel ordinances, budget procedures and effective working of the CMC to establish credibility and momentum for the reform process. The operational responsibilities also meant that TAs went beyond their advisory role and could effectively mentor the national staff in these institutions. The submission of work plans and quarterly reports to the TT (and in turn to EGSC) meant that TA assistance was effectively monitored. All these created favourable conditions for actual skill transfer and prepared the national staff to take over operational responsibility in the respective institutions.

Another significant feature of technical assistance in Liberia, despite its co-signatory aspect, was its low intensity. It was provided through limited number of individual consultants which meant that MOF and BOB as recipient institutions were not inundated with external TAs assistance (as in Timor Leste and Afghanistan; Pires & Michael, 2007; Carnahan & Lockhart, 2008). The combined number of TAs in MOF and BOB was limited to four and those engaged had an average tenure of two years. This meant their increased and easier acceptability and impact, better coordination with senior management, making TA management that much easier and cost effective for the government. This nature of engagement also provided space for national ownership to develop and favoured the institutionalization of capacity into structures of the target jurisdiction.

If sequencing is a critical aspect of public financial management capacity building then the strategy that has developed in Liberia is an evolutionary one. The initial focus of the reform process was on the establishment of an effective system for financial control before moving on to the development of a macro-economic framework, policy-based budgeting and multi-year budget framework. The initial success of the reform process and implementation experience suggests that a sound foundation has hopefully been laid for the implementation of more comprehensive reforms being introduced through the Public Financial Management Law, IFMIS and MTEF.

Assessing the Underlying Factors

The ideal type, theoretical model for public financial management capacity building, emphasises country context and its absorptive capacity with a premium on optimal solutions that evolve through partnering national institutions and are part of an overall country-led strategy. The story of public financial management capacity building in Liberia, as we have seen, has elements of this model. The initial reforms were built on the existing institutions (as in the CMC) and had an internal focus in terms of establishing rules and regulations suited to the Liberian context. They provided accountability mechanisms that more complex laws and legal institutions have not been able to provide in most post-conflict countries (Collier & Soderbom, 2008; Jensen, 2008). In designing these solutions, emphasis was on local participation and building enduring political consensus (as in BOB and MOF merger). The institutional arrangements ensured that the negative effects associated with managing donor assistance through special implementation units and external technical assistance was mitigated. The

71 Post-GEMAP, it is the national staffs that have taken over these functions in the CMC and Budget department now.
individual capacity building initiatives relied on local resources and building in-country institutions thereby encouraging national ownership. Though there are instances of ‘pre-planned project culture’ (PPCC Act and the early mention of IFMIS), the experience in Liberia attests to the fact that countries with low capacity don’t need ‘best practice’ but only better ones (Behn, 2003); and they are better off ‘owning’ less than perfect reform than no ownership of state-of-the-art practices (Pretorius & Pretorius, 2008).

The trajectory of public financial management capacity building process as outlined in the previous sections was made possible by a multiplicity of factors. An assessment of the process thus needs exploration of some of the factors that made them possible. We examine here the importance of the democratic process, nature of international intervention as reflected in GEMAP and role of national leadership in analysing the direction of the reform process.

**Democratic Process**

The role of democracy in enhancing and consolidating peace and development is increasingly being recognised in the case of Liberia (Held & McGrew, 2007; Atkinson, 2008). The 2005 elections have not only been perceived as the “freest and fairest that Liberia has ever seen” but also as those that broke the mould of post-conflict elections in Africa (Harris, 2006, 378). In addition, election of Sirleaf, the first woman President in Africa riding on the women’s peace movement, has had obvious implications for gender issues (Ackerman, 2009). The government continues to be inclusive, seeking to bring together competent Liberians (across political lines) in the Cabinet including a number of women. This democratization has been in sharp contrast to the political processes experienced in East Timor and Afghanistan. Consensus building has been a longer process in the absence of a single party domination but hopefully, a more sustainable one. This is reflected in the slow, albeit significant progress achieved in the budget preparation process, passage of the Public Financial Management Act, Anti Corruption Act and the Freedom of Information Act. The preparation of the Poverty Reduction Strategy (2008) has been commended for its participatory approach, making Liberia the first country where the development agenda for local governments was formulated concurrently with the national PRS (Mukendi, 2010). The government has built on its democratic credentials by strengthening the role of media, civil society and granting independence to the General Auditing Commission. All this has meant increased scrutiny of government functioning which in itself is very encouraging (Mukendi, 2010), a sign more of free press and government’s commitment to reform than of the reported increase in corruption.

**GEMAP**

The international engagement in Liberia has been regarded as a departure from other post-conflict interventions (Dwan & Bailey, 2006; Atkinson, 2008; Call & Wyeth, 2008; McGovern, 2008; Reno, 2008; Pretorius & Pretorius, 2008; Papagianni, 2008; Mukendi, 2010; Hope, 2010). This ‘departure’ has been seen in terms of the international consensus surrounding GEMAP, its

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72 In terms of disappearance of rebel forces from the political process and non-domination of a single political party. The fractured mandate in 2005 and 2011 elections has also has served as a check on the traditionally strong Executive in Liberia.

73 Highlighted in the acclaimed film ‘Iron Ladies of Liberia’ [http://www.youtube.com/watch?v=7_sPNLFGzZg](http://www.youtube.com/watch?v=7_sPNLFGzZg) accessed 13/11/12
singular focus on financial management and its heavily intrusive nature in the form of external experts with co-signatory authority. However, the preoccupation with ‘co-signatory authority’ diverts attention from other equally significant aspects of the program. In linking the continuity of GEMAP with Liberia reaching the HIPC completion point (a significant milestone in the reform process) the program ensured a long term commitment of both national and international stakeholders. The HIPC completion point (and the concomitant reform process) thus became definite goals and part of the agreed vision around which country ownership developed. All this ensured a more broad based support for GEMAP thereby making it politically legitimate, something that has been attested by commentators and public surveys (McGovern, 2008). The relatively long time frame of the program and its emphasis on capacity building made room for an incremental pace of reform in Liberia.

These are matters of design that retrospectively speaking, worked well in Liberia. However, the most significant reason for success of GEMAP has been the strong national leadership that has been able to neutralise the ‘heavy footprints’ associated with the program. And one would have to agree with the remarks of one of the discussants in an event hosted by United States Institute of Peace (USIP) “If GEMAP were implemented with the group that was in charge of the government (in 2005), we might not have such a positive story to tell today.” The fact that GEMAP was a response to NTGL’s performance and was signed by them (just before the elections) ultimately turned out to be significant for its implementation. Sirleaf during her campaign had criticised the program as an affront to Liberia’s economic sovereignty (McGovern, 2008), a stance she changed after assuming office. This change and the early endorsement of GEMAP (in her inauguration speech as a ‘necessary intrusion’ consistent with her own reform agenda) was a strategic move that not only provided the much needed political space to manoeuvre the reform process but also served to keep the international community engaged with Liberia (Atkinson, 2008). The endorsement, however, was soon to become an active stewardship of the program where in the nature and pace of change was subsequently led and managed by the national leadership.

Leadership

The role and significance of a change leader has been well recognized in context of post-conflict countries. In case of Liberia, the role of President Sirleaf and her team has been similarly acknowledged (Atkinson, 2008, Mukendi, 2010, Hope, 2010). However, leadership cannot merely be explained by the election of a “good person” (Sawyer, 2005, 21) or rest with a mere acknowledgement of its existence. The distinctiveness of the leadership in Liberia resides in its inherent nature and the context that made it possible.

74 The Technical Team and Economic Governance Steering Committee entrusted with program implementation provided an ideal platform for this.


76 While George Weah, her rival candidate supported the program in unequivocal terms.

77 Dr. Sayeh’s assessment at http://www.usip.org/resources/liberia-s-governance-and-economic-management-assistance-program-necessary-intrusion accessed 10/2/12
Despite the charisma associated with President Sirleaf, leadership in Liberia has not been of the ‘single heroic figure’ (Heifetz, 1994) but one that is ‘distributed’. Distributed leadership has been seen as residing in people and positions within the organization and as part of the larger network in which the organization is enmeshed and the processes connecting the two without undermining the formal power concentrated in the executive head. In context of the heavy international presence in post-conflict countries, the political space available for national leadership tends to be fluid, shared and often contested. Leadership thus cannot be seen as well defined, planned and stable in definition and location. In Liberia, the fractured electoral mandate and ‘intrusive’ GEMAP meant that leadership was dispersed, fluid and migratory. This leadership pattern, we argue (in hindsight) benefited the change process. It meant that instead of depending on a single individual, the reform process was driven by a shared commitment. These conditions correspond to what has been described as the ‘segmentation phenomenon’ (Thompson, 1967; Weick, 1976) where parts of the organization function autonomously with coupling taking place at different levels: strategic (President and the Cabinet), organizational (MOF and other key departments) and the environmental (engagement of multilateral organizations through GEMAP). These conditions have also been acknowledged by President Sirleaf when arguing that (in post-conflict countries) “…leadership roles and responsibilities are distributed at various levels of decision making” and there is a need to have a delicate balance between these levels while striving for “associated outcomes” (Sirleaf, 2007, 2).

An elaboration of the constituent elements of this distribution and their working is beyond the scope of this article but an awareness of the constraints and autonomy allowed to these different leadership levels is reflected in the working of the Budget Committee, CMC and the other initiatives discussed earlier. The broad based GEMAP oversight mechanisms and monitoring of performance under the IMF programs ensured that these levels performed in a differentiated yet complementary manner. The President and her colleagues with their background in the international civil services definitely facilitated the role of connecting with the network of multilateral agencies and ensured continued international engagement.

Our analysis of public financial management capacity building initiatives in Liberia has thus to be seen in context of these factors. These also point towards the tenuous links that hold the reform process together and preclude the possibility of any pre-determined strategy. Similar democratic processes, international engagement and national leadership may not yield the same results elsewhere. The manner in which these factors have coalesced can to some extent be attributed to fortuitous circumstances. In Liberia, however, there is evidence of what has been described as “concertive or conjoint action” (Bennett et. al, 2003) of international and national actors where steps initiated by one element are developed by others through “circulation of initiative” (Gronn, 2002). If international intervention led to the institution of GEMAP, the democratic process created the political space for national leadership to wrest this initiative and drive the reform process.

Conclusion

Distributed leadership though extensively studied in the public sector (Dennis et. al, 1996; Gronn, 2002; Bennett et. al, 2003; Van Wart, 2005) has not been used to frame leadership issues in post-conflict countries.
For capacity building to be truly sustainable, it must be indigenous, built on the experience of local people and nurtured by their own social conditions and experience, as well as their dreams and desires.  

This statement speaks of an understanding that clearly seeks the link between indigenisation and sustainability in context of capacity building. At one level, this understanding is commonly shared by the national leadership in most post-conflict countries. In our account of public financial management capacity building in Liberia, however, we have found evidence of this understanding transcending the rhetorical.

It would be presumptuous however, to celebrate, given the track record of reversal in post-conflict countries. The reform process in Liberia is still in its infancy; social economic indices continue to be low, governance structures are acutely centralised and basic security continues to be sustained by UNMIL. HIPC completion point, no doubt will increase the fiscal space available for post-war reconstruction but it will also throw up additional challenges in terms of inclusive growth and sustaining peace. During this period Liberia will also be implementing the ‘next-generation’ public financial management reforms. Liberia’s experience with these reforms, over the next five years will tell us if the foundations that were laid during the initial period were strong enough for these complex interventions to sustain. The experience till now suggests that an incremental, evolutionary approach that is ‘owned’ by the country has better chances of being absorbed and institutionalised.

Stories have often displayed a tendency to become ‘models’ wherein selected elements and characteristics from different sources are given the shape of a structural design for others to ‘emulate’. They have also been the primary tool for bridging the gap between theory and practice. There are signs that GEMAP may be in the process of becoming such a story (Dwan & Bailey, 2006; Pretorius & Pretorius, 2008, Hope, 2010). However to emphasise the role of GEMAP in the Liberian reform process is symptomatic of a limited understanding, an understanding that de rigueur neglects the role of indigenous actors and circumstances. The purpose of our story, on the other hand has been to ward off against this ‘convey-ability’ of ‘models’ by uncovering the processes and institutional mechanisms that lie beneath the renewal of momentum in Liberia. It is this uncovering that gives us an idea of the factors that influence what works, when and how, instead of just a list of what should work.

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An Efficient Technical Solution or an Ideologically Contested Approach - the balance sheet for business style accrual accounting in the public sector

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Abstract

This paper briefly outlines why business style accrual accounting is not generally appropriate for the public sector, but that this idea is not a recent development. It then goes on to consider the actual evidence for the costs and benefits of business style accrual accounting in the UK, Australia and New Zealand. It also reviews the significant problems of implementation in the Cayman Islands. The paper concludes that recent events have led to a greater questioning of New Public Management and so the possible value of business style accrual accounting for the public sector. This provides the incentive to develop existing approaches to public sector financial reporting in ways which recognize the distinctive objectives and nature of government in the provision of public goods and services.

Introduction

In recent years there has been a sustained argument from the International Federation of Accountants (IFAC), national professional accounting associations, the OECD, World Bank, IMF and others for governments around the world to follow the lead of Australia, New Zealand and the UK and introduce business style accrual accounting as the basis for government financial reporting (Smullen 2009). The claim is that this approach will provide more useful information and so enable governments to be managed more efficiently.

However, this belief is based more on the ideologically contested view that governments should be run like a business than the actual experience of using business style accrual accounting over the last couple of decades. So, for example, the then chair of IFAC’s public sector committee argued that a government “is no more than a huge business” and, therefore that the government’s financial reports should be similar to those in the private sector (Anon, 2003).

Since the late 1980s a variety of approaches, termed New Public Management, have been considered international best practice. This has emphasised the importance of efficiency and the claim that this will be increased if governments work more like business (Hood 1991; Pollitt & Bouckaert 2000). Alongside a range of other public management reforms, such as contracting out and the creation of agencies, business style accrual accounting has been advocated as the best model for governments to report on their finances (Guthrie, Humphrey, Jones & Olson 2005; Smullen 2009).

The actual level of implementation of business style accrual accounting has been limited to a few national governments. This has included Australia, New Zealand and the UK which have been the most fervent adherents of the New Public Management ideology and neo-liberalism more generally (Pollitt & Bouckaert 2000).
Despite nearly 20 years of experience of business style accrual accounting in the central government of New Zealand and the states of Australia and over a decade in the UK, the proponents of business style accrual accounting still rely on claims for its benefits rather than providing objective evidence of the actual experience. This may be because most objective research shows it to be a costly reform which does not deliver the benefits claimed for it.

**Defining business style accrual accounting and why public sector is different**

Business style accrual accounting was specifically developed to measure the profit earned by a company in a particular financial year. It does this by matching the cost of the production and provision of goods and services with the revenue gained from their sale. The cost of capital assets (for example, a factory) is spread over their useful life by charging the *Profit & Loss Account* with depreciation which is an estimate of the value of the assets used during the year. The residual value of the capital assets is reporting in the *Balance Sheet* along with any debts the company may have.

"Governments uniquely provide public goods and finance them through taxation… These characteristics sever the link between service delivery and revenue recognition, making it impossible to match revenues and expenses" (Chan 2003, p. 5). As a result the full costs of capital assets are reported by governments in the year in which the associate payments are made. The underlying principle of the cash based system, as developed for and within government, is democratic control over the use of public funds (Pallot 1992).

The unique properties of public sector entities was confirmed by the Government Accounting Standards Board (accounting standard setter for state and local governments in the US) when it stated that:

“Governments are fundamentally different from for-profit business enterprises in several important ways. They have different purposes, processes of generating revenues, stakeholders, budgetary obligations, and propensity for longevity. These differences require separate accounting and financial reporting standards in order to provide information to meet the needs of stakeholders to assess government accountability and to make political, social, and economic decisions” (GASB 2006: 1)

A fundamental objective of the financial statements for any public sector organisation should be to fulfil the stewardship function by providing an audited comparison of the actual use of recourses with the agreed budget. A government’s financial accountability arises from the budget setting process during which it gains agreement to the levels of taxation which will be levied and to the funding which will be allocated to the various services which it intends to provide. Thus the budget out-turn report and the associate report of the Auditor General are the prime documents by which governments are held to account by parliament for the regularity and probity of their financial management.

**Business style accrual accounting is not new in the public sector**

The use of business style accrual accounting is not a new idea, but only makes sense in the context of the adoption of New Public Management. With this approach, the public sector
adopts private sector approaches to financial management including business style accrual accounting.

Birmingham City Council, then the sixth biggest economic entity in Britain, moved to a form of accrual accounting in 1850. This decision was taken as its major activities were the provision of public utilities (gas, electricity, water etc) and so it was considered appropriate for the City to account for its finances in the same way as a private provider (Coombs and Edwards 1996). However, this approach was not accepted for general use across the public sector and the cash basis of reporting was retained by the central Treasury (Ministry of Finance) as part of the major financial reforms introduced in 1866. Thus it was the cash basis of accounting which was established in the British colonies across the world over the next 100 years (Wynne, 2007).

Moves to business style accrual accounting in the British central government only really started in 1991 when health trust were established as quasi-independent business entities (Wynne, 2007). At this time this approach was still contested for central government and it was not until the mid-1990’s that the move from the cash basis was agreed (Treasury 1995).

Many of the key British government officials responsible for the introduction of accrual accounting only accepted its relevance in the years immediately before they led the reforms. So, for example, Andrew Likierman was able to say, in a book published in 1992 that:

*Those who believe that private sector accounts are superior need to bear two factors in mind. First, that there are no immutable accounting or other financial reporting rules which apply irrespective of the nature and purposes of the organisation whose activities and results are being displayed or the objectives of presentation. Second, that cash accounts, despite their crudeness, have a degree of transparency that accrual accounts cannot give and that many private sector financial reports do not seek to offer* (page 23).

Similarly, Perrin (1998) explained the view held in the Treasury in the 1970s on accounting for central government funds as follows:

*The Treasury view was that accruals accounting involving allocating costs between years on the basis of resource use rather than cash funding was incompatible with Parliamentary sovereignty and therefore unacceptable. Parliament voted cash funding year-on-year, so therefore the main control accounts, reports and accountability must be on an annual cash basis* (Perrin, 1998, page 8).

Similarly, in Australia, the use of business style accrual accounting in the public sector is not a new idea. The Postmaster-General’s department commenced preparing commercial accounts (including a full profit and loss statement and balance sheet) in 1913, and continued to use this form from that date (Carlin 2003). Again this approach to public sector financial reporting did not gain general currency in the Australian public sector until New Public Management was adopted in recent decades.

So business style accrual accounting was not adopted because of its technical superiority, but because it was considered to be more appropriate within the context of New Public Management. However, the experience of those countries most committed to this approach is that business style accrual accounting does not provide the information that can be used to manage the public sector more efficiently.

**United Kingdom**

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Despite the objective of the reform being to increase efficiency and to reduce costs, no official study has been undertaken on the costs of introducing business style accrual accounting in Britain (Chow and Humphrey, 2003). However, one indicator of the scale of these costs is the number of professionally qualified accountants employed in central government. This increased from less than 600 in 1989 to 2200 in 2003 (personal communication with HM Treasury), the period in which business style accrual accounting was introduced, and has subsequently increased further. In addition, for example, the auditors fees for the UK National Audit Office increased by 67% with the introduction of accrual accounting in 2001/02 (NAO, 2002).

The National Audit Office has undertaken three studies in this area since the introduction of business style accrual accounting and two academic studies have been undertaken on the costs and benefits of its introduction.

The report of the first National Audit Office study concluded that:

> In most cases it is too soon to identify any discernible benefits from better resource management in terms of contributing to improved public services from for example, enhanced efficiency (2003, page 31).

Its second study reported that:

> Departments have made significant progress in using accruals-based accounting and budgeting systems since our previous study. This has allowed departments to better understand how they are using their financial resources, for example by offering more detailed information to manage their assets and liabilities. Departments have used this information to help identify under-utilised assets and to dispose of those no longer required. (NAO 2008, paragraph 9, page 7)

So the only specific benefit was that ministries (called departments in the UK) were able to identify and sell assets (mainly buildings) which were no longer used! However, most of the information for such an exercise would have been available in asset registers before the introduction of accrual accounting.

The third National Audit Office study, reporting in March 2011, recognised that business style accrual accounting is now well developed, but clearly indicates that senior managers do not appear to be using the information provided. So the summary of this study reports that:

> active management of cash flows and the balance sheet remains generally inadequate across government (page 5).

And:

> It remains unusual for departments to have good information on the unit costs of outputs, measures of productivity or the value of outcomes, especially where outcomes cross departmental boundaries (page 8).

The detailed report goes on to explain that:

> Our financial audit work confirms that the general standard of financial reporting has improved. There is also evidence that departments are gathering information on the working capital aspects of their balance sheets in a more regular and automated way, though they are not generally reporting this information to management or using it to manage the organisation” (page 13).
Both non-executive directors and finance directors told us that, in their view, their Boards did not handle or effectively challenge the financial information presented to them as well as they might. One reason is the complexity of the Government accounting framework (page 17).

In practice, however, the activity of producing annual resource accounts remains largely divorced from financial management within departments. Departments rarely prepare interim resource accounts, and essentially manage their finances based on cash, adjusted for working capital movements. Full resource-based information is created at the year end for Parliamentary reporting purposes. Resource information is therefore generally not integrated into, and does not drive, management of departments’ business (page 18).

Thus the view of the National Audit Office (UK) is that, after a decade of business style accrual accounting, the approach is now well established, but the additional information available is not being used by senior managers and the accrual accounts (resource accounts) are only produced at the year end as a legal obligation.

The UK health service is highly capital intensive and so it may be assumed that the move to accrual accounting from 1991 would have provided significant benefits in terms of the more efficient use of these capital assets, for example, hospitals and medical equipment. However, a research report (Mellet, Macniven & Marriott, 2007), funded by the Scottish Institute of Chartered Accounting, concluded that:

"there was no evidence that the perceived benefits from the introduction of... accruals accounting... were being realised"

In an article (2008) outlining the results of this study, the authors provided further details, indicating that:

"No positive impact on decision making was found. Accounting measures did not influence ‘rent or buy’ or ‘retain or dispose’ decisions, although the desire not to take an adverse ‘hit to the bottom line’ could impede disposal decisions. Similarly, no evidence was found of the opportunity cost of capital expenditure being recognised, as reflected through measures based on resource accounting, this being a matter for active consideration when acquiring or constructing fixed assets (page 7)."

This article concluded with the following advice:

"Governments which have undertaken to implement accruals accounting should therefore beware of the fact that... any potential benefits may not be realised (page 8)."

A second study, funded by the Association of Chartered Certified Accountants (ACCA), reviewed the costs and benefits of adopting accrual accounting in Northern Ireland (NI), a region of the UK (Hyndman and Connolly, 2005). This research concluded that:

"there was little evidence that [accrual accounting] information was extensively used in decision making within the NI public sector... Many interviewees identified the problems of unnecessary complexity and incomprehensibility of the information as undermining its potential use (page 7)"

"while no department had prepared a budget for the introduction of [accrual accounting], or kept records of actual costs, the costs were perceived as being substantial (page 7)."
Australia

The message from Australia is similar. In an academic review of international public financial management reforms (Guthrie, Humphrey, Jones and Olson, 2005: page 4) it was noted that “observations of actual outcomes of the NPFM change processes [including accrual accounting] have been limited to those made by the initiators themselves, while formal independent studies of public sector change impact have been rare”.

Another Australian academic has claimed that the “present mode of presentation of the accrual budgets and financial statements of Australian Government departments has become a controversial matter. It has led to widespread dissatisfaction in Parliament and parts of the Public Service” (Barton, 2004).

A former Australian Auditor General commented that “Parliament lost control of Commonwealth financial matters when it agreed to a number of fundamental changes in the reform of the Commonwealth finances” (quoted in MacDonald 2009).

In March 2007, the Australian Senate Finance and Public Administration Committee (Executive Summary: page iv) noted that:

The Committee considers that the adoption of accrual accounting and budgeting has the potential for enhancing the management of the Commonwealth’s funding and expenditure and has done so to an extent. Nevertheless, accrual budgeting and especially the associated outcomes and outputs framework, while resulting in some improvements in transparency, have posed challenges for Parliament’s control of the appropriations processes.

So a decade after its introduction, Australian parliamentarians are still noting only the ‘potential’ for accrual accounting. In addition, they complain about its detrimental effect on parliamentary financial control.

New Zealand

In the case of New Zealand, two academics (Guthrie et al, 2005) concluded that:

various financial mechanisms built on the accrual accounting base have, over the long term, had a detrimental effect on departmental capability in a manner that has escaped parliamentary understanding and control (page 8).

They also argued that this reform “promised significantly more in terms of efficiency, better service, and increased public choice than it delivered in practice” (page 7).

As with the UK and Australia, the introduction of accrual accounting in New Zealand has been accompanied by misunderstandings and confusion. Debits and credits were muddled with fiscal targets and capital expenditure (Ellwood and Newburry, 2007). In addition, there was controversy over the accounting treatment of heritage assets with the regional museums refusing to value their collections nor include the result in their balance sheets (Ellwood and Newberry, 2007).

In both Australia and New Zealand various academics have illustrated how the introduction of business style accrual accounting has facilitated neoliberal ideologies and supported
privatization policies. For example, it over-valued the costs of public sector goods and so supported their being contracted out to private sector suppliers that appeared cheaper (Carlin 2003; Elwood & Newberry 2006; Newberry & Pallot 2005; Smullen, 2009).

Cayman Islands

If business style accrual accounting did not provide the benefits expected of it in Australia, New Zealand and the UK, this reform has clearly failed in other countries, for example the Cayman Islands, with an associated loss of financial control.

In 2008, a special Auditor General report on the *State of Financial Accountability Reporting* described “a very grim assessment of the state of financial accountability reporting throughout the Cayman Islands Government”. The Auditor General found the “current situation deplorable”. Furthermore he believed that “the legislative assembly has lost control of the public purse”.

In an update report, issued in April 2010, the Auditor General concluded that, “the state of financial accountability reporting has gotten worse in the two years since I last reported on this matter”. The financial statements for 2004/05 (the first year of accrual accounting) had still not been issued, despite the Government having spent an additional $1 million in the current fiscal year to address the problem. The Auditor General assessed the efforts as being “too limited and therefore insufficient to address the situation”. He estimated that at the current rate it would be “several years before the accounting activities of the Government are up to date” and considered that this was “unacceptable”. The Auditor General concluded his second special report by saying: “I believe this situation has become a national crisis that could lead to tremendous consequences for the Cayman Islands Government if not addressed immediately”.

The Cayman Islands has one of the highest per capita incomes in the world and, as it is a tax haven and financial services centre, there are many qualified accountants available locally. If the introduction of accrual accounting can go so horribly wrong in the Cayman Islands, imagine what could happen in other developing countries where business style accrual accounting is still being promoted for the public sector.

Limited adoption

Despite all the claimed benefits of adopting business style accrual accounting, governments of many of the largest economies in the world have not introduced this reform. This includes the central governments of, for example, China, Germany, Italy, Japan and Russia. Several other governments have reviewed the evidence and decided that accrual accounting is not appropriate (for example, Ghana, Mauritius, Namibia, Netherlands and Pakistan).

In December 2007, Mike Hathorn (then chair of the IPSAS Board) said that only six governments across the world had actually issued financial statements on the full accrual basis (at the FEE Public Sector meeting, Brussels).

In their summary of the extent of adoption of IPSAS, the IPSAS Board list more than 50 countries which have made moves towards adopting IPSAS, but then admit that only five countries have fully adopted accrual accounting in line with their approach:
Governments that already apply full accrual accounting standards and apply accounting standards that are broadly consistent with IPSAS requirements:

- Australia
- Canada
- New Zealand
- United Kingdom

Research undertaken by the author of this paper in early 2012 determined that the only countries which have actually issued accrual based financial statements for their central government ministries are the following seventeen (also showing the date adopted and the standards followed):

- Spain (1989) – national standards (IPSAS from 2011)
- New Zealand (1991) - IFRS
- Australia (1994) - IFRS
- USA (1998) – national standards
- UK (2002) - IFRS
- Canada (2003) – national standards
- Latvia (2003) – national standards
- France (2006) – national standards
- Colombia (2006) – national standards
- Romania (2006) – national standards
- Switzerland (2007) - IPSAS
- Denmark (2007) – national standards
- Slovak Republic (2008) - IPSAS
- Lithuania (2009) – national standards
- Czech Republic (2009) – national standards

Many other people are concerned that the claimed benefits of business style accrual accounting are being over-sold especially to the governments of developing or transitional countries. For example, Noel Hepworth, based on his experience in Eastern Europe, concluded that:

To introduce accrual accounting is costly, time consuming and requires a diversion of resources from other activities. It requires a great deal of cooperation from key actors and will need significant changes of substance to the organisation, procedures and responsibilities of managers. As Parliament is also
affected because of the changes that will be needed to the cash allocation and budgetary control processes it too will need to be consulted. What is more, accrual accounting provides wide scope for the exercise of judgement and this requires technical knowledge, a disciplined approach and an audit system capable of monitoring how judgement is exercised... For these reasons the introduction of accrual accounting also carries considerable risk (2003, page 42).

Conclusion
The global economic slowdown coupled with the Arab Spring and widespread protest and revolt is undermining the previously dominant view of the efficiency of the free market and the private sector. Similarly, the failure of business style accrual accounting to deliver on its promises is having a demoralising effect on at least some of its previous supporters. There seems to be little doubt among academic commentators that business style accrual accounting has not satisfied the ambitious expectations of its proponents (Smullen 2009, 18).

Business-style accounting practices were not devised for the purpose of maintaining financial control. As the control and safeguarding functions continue to be the prime concern of public finance, then business style accrual accounting should not be considered as an appropriate basis for public sector financial reporting (Newberry 2011). Evidence from the few countries that have adopted business style accrual accounting is that it is a costly reform and that the additional information that it provides is rarely used to manage public sector entities more efficiently and so the benefits claimed for it are not achieved in practice.

In contrast, the cash basis of accounting is a relatively simple, robust and well-tried and tested approach to the accounting for public sector organisations. Its emphasis on financial control and parliamentary accountability ensures that these key objectives are more likely to be achieved. The clarity and simplicity of public sector financial statements are essential to ensure that members of parliament and the general public fully understand the implications of what is being reported.

For public sector financial managers, the current questioning of received wisdoms provides opportunities. Not least of these is the possibility of developing existing public sector accounting systems in ways which recognize the distinctive objectives and nature of the public sector. There is a wealth of existing good practice across the Global South which we can use to refine the financial reporting practices of our governments. This organic approach is more likely to be successful than adopting large scale radical reforms, like business style accrual accounting, which have not proved their value in practice.

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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.


1. Theory and Practice of Government Accounting in Nigeria

Eddy O. Omolehinwa and J. K. Naiyeju (2011) Pumark Nigeria Ltd pumarkbooks@yahoo.com

This is a comprehensive textbook which covers existing practices at the Federal and state levels in Nigeria, but also discusses current developments and reforms. Nigeria is a large country (one in five Africans are from Nigeria) and has a well developed publishing industry with a range of books of public financial management. However, few are written by such experienced and eminent authors.

J. K. Naiyeju is a former Accountant General of the Federation of Nigeria and Eddy O. Omolehinwa is a Professor of Accounting at the University of Lagos. Together they provide a formidable team to effectively cover the subject matter.

The first chapter provides an overview of the subject (and is reproduced as a paper earlier in this issue of the Journal). The second chapter considers the legal requirements and the national and international standards which may apply in Nigeria. This is complemented by Chapter 3 which provides details on the Fiscal Responsibility Act, 2007. This requires a medium term expenditure framework (MTEF) and limits the annual budget deficit to 3% (an optimistic level with recent pressures).

Chapter 4 considers the key roles of financial officers in government and is complemented by the next chapter on the various core institutions, especially the National Assembly and the Budget Office.

Chapter 6 provides a critical review of the experience of adopting accrual accounting in countries like New Zealand the Britain. The following chapter provides a historical view of budgetary reform, which has involved a number of experiments and innovations, many of which have not been clearly successful or stood the test of time. Although the general push to programme budgeting is still be pursued despite this being repeatedly attempted in Nigeria and other places over the last forty years. The next two chapters consider the current practice of budget formulation and implementation in Nigeria.

Individual chapters then consider accounting for capital projects; the varied sources of revenues; cash planning and management; special accounts; procurement and public borrowing.

Chapter 16 covers recent reforms of the financial reporting system in Nigeria, considering in particularly e-payments and the Government Integrated Financial Management System which, at a cost of $29million funded by the World Bank, went live in early 2012.

Chapters 17 and 18 cover an outline of current financial reporting by the Federal and state governments and more general issues of accountability. The books final chapter discusses the issues around a sovereign wealth fund in the light of the Nigeria Sovereign Investment Authority Act, which the president signed into law in May 2011.

This book provides an authoritative introduction to government financial reporting, which will be valuable within and outside Nigeria alike. The extensive and critical coverage of international guidance and good practice means that this book will be of interest to all those with in interest in the quality of their government’s financial reporting across the Global South.

The Model Law on Public Procurement contains procedures and principles aimed at achieving value for money and avoiding abuses in the procurement process. The text promotes objectivity, fairness, participation and competition and integrity towards these goals. Transparency is also a key principle, allowing visible compliance with the procedures and principles to be confirmed.

The 2011 Model Law replaces the 1994 UNCITRAL Model Law on Procurement of Goods, Construction and Services. While the 1994 text was recognized as an important international benchmark in procurement law reform, in 2004, the Commission agreed that the 1994 Model Law would benefit from being updated to reflect new practices, in particular those resulting from the use of electronic communications in public procurement, and the experience gained in the use of that Model Law as a basis for law reform. Nonetheless, the principles and main procedures from the 1994 text, the foundation of its success, have not been changed.

3. A Guide to Public Financial Management Literature for Practitioners in Developing Countries
www.odi.org.uk/resources/docs/7542.pdf

This guide has been prepared for people seeking to deepen their knowledge on public financial management (PFM) in developing countries. It caters to the needs of newcomers to the field who want to familiarise themselves with the introductory PFM literature, as well as practitioners broadening their PFM knowledge beyond their own area of expertise.

The world of PFM literature can be daunting, ranging from heavy handbooks on PFM reform and theoretical academic papers by economists and political scientists to country-specific evaluations and case studies. Navigating this sea of material can be difficult and time-consuming. In this guide, we have selected handbooks, guidance notes and articles that we think would be useful to the people implementing PFM systems: recommended readings are practical, concise, user-friendly and focused primarily on PFM systems in developing countries. As our objective is to save the reader time, we have consciously kept the lists short. Most of the recommended readings are available free online.

The paper is divided into two main parts. Part I provides an overview of the budget cycle architecture and recommends literature that describes what a sound PFM system looks like and
explains why. It also highlights specific areas where there is disagreement about the best approach, or where implementation practices differ widely between countries.

Part II sheds light on the gap between theory and practice, tackling the challenges low capacity and political and economic realities pose for the ideal PFM system. The literature covers PFM reform strategies on how to prioritise and phase reforms and what preconditions are required for reforms to be successful. It also discusses PFM diagnostic tools and some findings from evaluations of PFM programmes.

4. Buying Better Governance - the political economy of budget reforms in aid-dependent countries

Paolo de Renzio (September 2011)


This paper investigates the factors affecting the success of reforms of government budget institutions across a sample of 16 aid-dependent countries over the period 2001 to 2007. More detailed analysis is then undertaken of the experience of Mozambique and Burkina Faso.

There was an increase in funding for technical assistance from US$ 170 million in 1997 to US$ 1.6 billion in 2007. However, only half of the 16 countries improved the quality of their budget systems over the study period.

The results show that, unsurprisingly, economic and political stability are preconditions for successful budget reforms. In addition, the following are the main findings:

1. A minimum degree of government leadership and commitment to reforms is the most important factor shaping budget reform outcomes. Higher levels of leadership and commitment are influenced by:
   - past reform experiences and historical legacies in the relationship between governments and donors
   - levels of technical capacity and by the degree of politicization of the bureaucracy.

2. Degree of centralization of budget institutions, or more specifically the relative strength, power and influence of the Ministry of Finance vis-à-vis sector ministries

3. The overall fragmentation of aid flows and co-ordination in the ways in which technical assistance is delivered were important external factors. Lack of transparency and coordination, a multiplicity of implementation and reporting mechanisms, and high levels of volatility and unpredictability can all have a negative impact on different aspects of the quality of budget institutions

4. Surprisingly, the level of technical assistance and the use of so-called programme aid modalities (budget support and SWAps rather than project aid) were less important for the success of budget reform.

“Donors’ hopes of ‘buying’ better budget governance, therefore, are more likely to be enhanced not by additional technical assistance or general budget support, but by better behaviour,
reducing the perverse incentives induced by aid fragmentation and increasing coordination in the delivery of technical assistance.

5. **Supporting Capacity Development in PFM - A Practitioner’s Guide**

OECD DAC (2011)

Volume 1:


Volume 2 (case studies)


The Guide is intended to assist users in partner countries and development partners in designing and implementing initiatives aiming to strengthen institutional and human resource capacities in this particular component of country systems.

The guide is based on a literature review of capacity development and public financial management, five case study countries (Nepal, Rwanda, Lesotho, Mali and Morocco) and discussions with key practitioners from government, technical assistance centres and donors.

Part One sets out the theory and context. It covers definitions of key concepts for public financial management capacity development, then discusses the nature of capacity development, some of the key principles in support to capacity development generally and sets out some of the findings from the country case studies and highlights some of the lessons learnt over the past decade. Some of the challenges in implementing these lessons are discussed and why there are still ‘square pegs in round holes’.

Part Two contains the guidelines themselves – from pre-dialogue to post assessment and beyond. The approach taken for each step is one of setting out the theory (how it should be – good practice principles), the practice (how it really is - the good, the bad and the ugly) and then providing some suggestions for moving towards better practice.

6. **Good Practices in Supporting Supreme Audit Institutions**

OECD DAC (2011)

Supreme Audit Institutions (SAIs) are the lead public sector audit organisation in a country. Their principle task is to examine whether public funds are spent in compliance with existing rules and regulations. Well functioning SAIs can play an important role in confirming that controls are operating effectively and suggesting ways in which government organisations can operate better. But in many countries, SAIs lack the independence, the resources and the technical skills to carry out the rigorous high quality audit needed by governments, parliaments, citizens, the media and development partners.

This guide has been written to help staff in development partners, namely bilateral and multilateral providers of development cooperation, understand SAIs and how to help them play a more effective oversight role. To increase the usefulness of this guide, checklists are provided throughout the text. Development partner coordinating committees are encouraged to use these checklists when engaging with, and considering supporting, SAIs. However, they are checklists not straitjackets. Their purpose is to promote discussion and reflection, and encourage the development of local solution, not the imposition of external templates.

**7. Annual Financial Reporting by Governments - what is good practice in sub-Saharan Africa?**

Stephen Emasu, Mercy Nyangulu and Andy Wynne (2012)


Along with the auditor’s report, a government’s annual financial statements provide the essential financial data necessary for accountability purposes. It is the prime document enabling parliaments and citizens to hold their governments to account for the effective management its financial resources.

This study aims to identify and collate existing good practice in terms of annual financial reporting by governments in sub-Saharan Africa. As such, it is a bottom-up study of annual financial statements as an aid to revising international accounting standards for governments in the Global South. There have been a range of studies on public financial management in sub-Saharan Africa in recent years, but few of these provide details of how governments report annually on their financial management.

The international accounting standard promoted for governments of sub-Saharan Africa is the Cash Basis IPSAS, but it is not necessarily based on actually existing good practice and, as a result, not a single government globally has actually been able to implement its key requirements (see also - [http://tinyurl.com/wynne9](http://tinyurl.com/wynne9)). Similarly, in Africa at least 31 governments have tried to implement the standard, but none have actually implemented its key mandatory requirements (over nine years after the standard was issued). This standard is now planned to be revised and we hope that the results of this research will facilitate this process.

**8. A Guide to Transparency in Public Finances: Looking Beyond the Budget**

International Budget Partnership (October 2011)

The International Budget Partnership’s Open Budget Survey examines the accessibility in countries around the world of eight key budget reports that governments should publish in order to enable civil society, oversight institutions, and members of the public to participate effectively in budget processes and hold governments accountable for how they use public money. This is a compendium of five briefs that goes beyond the eight key budget reports to examine other areas of public finance that are less well understood and especially vulnerable to efforts to shield them from public scrutiny.

The five briefs are:
1. Extrabudgetary Funds
2. Tax Expenditures
3. Quasi-Fiscal Activities
4. Contingent Liabilities
5. Future Liabilities.

These five guides build on the International Budget Partnership’s earlier introduction and like this is available in English, French or Spanish:

*Guide to Transparency in Government Budget Reports: Why are Budget Reports Important, and What Should They Include?*


UN Economic Commission for Africa and AU (March 2011), Addis Ababa: UNECA

http://www.uneca.org/era2011/

Chapter 4, The Role of the State in Economic Transformation in Africa

Africa’s high growth rates have not translated into high levels of employment and reductions in poverty... They are also quite volatile, especially in sub-Saharan Africa.

The following analysis looks at economic growth in Africa during 1960–2007, categorized into three sub-periods: 1960–1972, when 26 African countries posted real per capita growth rates equal to, or in excess of, 2 per cent a year (implying a doubling of real per capita in 35 years or less); 1973–2000, when growth collapsed in many African countries; and 2000–2007, when many African countries recorded a growth recovery. In the context of these growth processes, the record of structural transformation during 1970–2007 is reviewed with special reference to the role of the state in promoting economic transformation on the continent. Finally, possible roles for the African state in achieving structural transformation are proposed (page 75).

The main lesson to be drawn from the Malaysian and other relevant development experiences – such as those of Japan, South Korea and Brazil - is that successful economic transformation was
achieved by deliberate state involvement, based as it was on a disciplined planning process aimed at transforming the structure of the economy. The evidence shows that the involvement of the state in this process included not only formulation of relevant development policies, but also creation of the required institutions and provision of the required investment (Yusof and Bhattasali, 2008). (page 77)

**Growth and transformation in Africa**

Notwithstanding Africa’s diversity, it is generally recognized that growth performance in the region during the period since independence in the 1960s and up to the first oil price shock of 1973 was at par with that of other regions (Rodrik, 1999: 68). Using the latest version of per capita GDP in 2005 PPP dollars (Summers, Heston and Aten, 2009), during 1960–1972, 26 African countries registered average annual real per capita GDP growth rates in excess of 2 per cent a year, and 13 countries achieved fast growth in excess of 3.5 per cent a year. During this early period, only 10 countries experienced negative growth rates, while 16 countries recorded positive growth rates of less than 2 per cent (page 78).

Africa’s average growth improved notably since the turn of the 21st century (page 79).

The same World Bank publication [World Bank, 2006. World Development Report 2006: Equity and Development, Oxford University Press, Oxford, United Kingdom] identified three areas of public policy interventions from an equity focus: investment in human capacity (early childhood development; schooling; health, safety nets and taxes for equity); expanding access to justice (building equitable justice systems), land (greater equity in access to land), and infrastructure (equitable provision of infrastructure); and promoting fairness in markets (financial, labour and products) (page 87).

Countries that have succeeded in unleashing high growth rates and social development are not the ones that implemented the prescriptions of the Washington Consensus (page 87).

It is therefore important for the state that is accountable and responsive to the needs of its population to assume its developmental responsibility and guide sustainable social and economic development in African countries. The key questions are: How can such a developmental state emerge? What are its characteristics and functions? How do we ensure that it can effectively guide economic transformation and development? How can we ensure that it is accountable and that it acts in the interest of its citizen? (page 90)


Morten Jerven, December 2011


What do the statistics from the international databases tell us about income and growth in sub-Saharan Africa? Less than we would like to think. The article takes a starting point in per capita GDP estimates in Africa. Recently, Ghana announced a revision of its GDP statistics, increasing its national income estimates by over 60%. This article shows that similar revisions are to be expected in other countries. Many statistical offices are currently using outdated data and methods. It is argued that with the current uneven application of methods and poor availability
of data, any ranking of African economies according to GDP levels is misleading. It is argued that the World Bank, prominent among data disseminators, is currently not providing the necessary information to complement its datasets, and that this shortcoming misleads data users.

11. *Les budgets nationaux au service du développement et de la réduction de la pauvreté*

Mohamed Moindze 2012, Hermann: Paris  
Prix : 28.00 €  
ISBN : 9782705682248

Se voulant résolument pragmatique et orienté vers les nouvelles finances publiques, l’ouvrage «Les budgets nationaux au service du développement et de la réduction de la pauvreté» édité, en janvier 2012, est centré sur la budgétisation des politiques de développement et de réduction de la pauvreté dans les pays en développement de tradition francophone.

L’ouvrage se veut également exhaustif en proposant une vision d’ensemble des questions relatives à l’élaboration des budgets nationaux basés sur les politiques publiques. Il est composé de deux parties. La première traite des stratégies globales et sectorielles dans leurs différents aspects de diagnostic, d’élaboration, de costing et de suivi en se basant sur les stratégies de croissance et de réduction de la pauvreté développées par les pays en développement.

La deuxième partie traite d’une manière détaillée la question de la budgétisation basée sur les politiques publiques. Elle comporte cinq chapitres :

- Le premier chapitre examine les « bons » principes d’une budgétisation des politiques publiques, en s’appuyant, dans la plupart des cas, des expériences de nombreux pays. Il présente particulièrement le budget comme un outil de politique économique. La transparence dans la gestion des finances publiques est traitée avec toute son importance. L’organisation et la gestion budgétaire par programmes y sont également examinées.

- Le chapitre 2 présente les principaux éléments du cadrage macroéconomique du budget et leur importance dans la réalisation de la discipline budgétaire sans laquelle la mise en œuvre des politiques est compromise.

- Le chapitre 3 examine le développement d'une approche budgétaire pluriannuelle (et particulièrement à moyen terme) qui constitue un élément essentiel d'une budgétisation basée sur les politiques publiques. Après une présentation de ce qu’est un Cadre de Dépenses à Moyen Terme (CDMT), ce chapitre examine ses principales caractéristiques, les procédures et le contenu des documents CDMT. Également, les difficultés rencontrées dans la mise en place des CDMT dans les pays en voie de développement et des perspectives pour limiter les échecs sont discutées.

- Le chapitre 5 aborde la notion de bonne gestion de trésorerie infra annuelle et son importance ainsi que ses principaux éléments constitutifs (plan de trésorerie, plans des marchés et d’engagements des dépenses, Compte Unique du Trésor).

Cet ouvrage propose différents encadrés, diagrammes et tableaux élaborés à partir de travaux réalisés dans divers pays et illustrant des bonnes méthodes d’élaboration budgétaire. De même, il cite des exemples et contre-exemples dans le but d’illustrer la démarche. Enfin, il comporte des annexes:
l'annexe 1 discute brièvement des approches sectorielles ;
• l'annexe 2 présente les relations entre les comptes macroéconomiques ;
• l'annexe 3 aborde la notion d’espace budgétaire et fournit quelques éléments pour l’éviter ;
• l’annexe 4 fournit des questionnaires dont le but est d’identifier les forces et les faiblesses d’un pays en matière d’élaboration budgétaire
• et enfin l’annexe 5 fournit un glossaire pour préciser certains concepts et termes essentiels.

Avec les nouvelles finances publiques, le besoin de formation se fait sentir de plus en plus notamment dans les pays en développement. Cet ouvrage voudrait donc proposer des instruments de formation nouveaux, adaptés à ce nouveau contexte. Il s’adresse ainsi à un public très large: cadres des ministères des finances en charge des réformes budgétaires, cadres des ministères sectoriels en charge de l’élaboration, de la mise en œuvre des stratégies sectorielles et de l’établissement des budgets ministériels, cadres des structures de contrôle, parlementaires qui votent les budgets, étudiants en gestion publique, sociétés civiles. Didactique et simple, il s’adresse à tous les décideurs publics, même ceux qui n’ont pas reçu de formation spécialisée en finances publiques.

Invitation to Potential Authors

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.*

**Submission of Manuscripts**

*We do not charge a fee for submission or publication of articles.*

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.

Authors must warrant that the work does not infringe any existing copyright and does not contain material of a libellous or scandalous nature. By submission of a paper to the Journal, the author indemnifies the publisher and editors against any breach of such warranty or copyright restrictions.

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**Format and Style**

The manuscripts should include:

- no more than 20 single spaced pages (or 10,000 words);
- an abstract not exceeding 150 words - it should summarize the purpose, methodology, and major conclusions of the article;
- 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.

**Bibliography**

A bibliography should be included at the end of the text containing details of all books, articles papers, etc which have been referred to in the text. The bibliography should only include references cited in the text. These should be arranged in alphabetical order according to the surname of the first author. The following details should be included: author and initials, full title and subtitle, place of publication, publisher, date, and page references (for direct quotations). References to journal articles must include the volume and number of the journal.

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.

The layout should adhere to the following convention:

- **articles**:


- **books**:


- **citations from edited books**:


- **translated books**


- **reference to a report.**


- **references to material on the Internet**


**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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We would also like to hear from other individuals who would be willing to assist with the editorial work of the Journal. The work would consist of reviewing potential contributions, suggesting whether they should be accepted for publication and making editorial recommendations to improve the quality of submissions.

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.

Invitation aux Auteurs Potentiels

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
- contribuer à la promotion des principes et normes de la gestion des finances publiques, en particulier par le biais de la description des bonnes pratiques existantes
- 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.

Nous réservons un accueil particulier aux contributions venant de personnes ou groupes de personnes travaillant dans les pays en développement. Nous invitons les auteurs potentiels à consulter les anciens numéros du journal à l’adresse : [http://www.icgfm.org/digest.htm](http://www.icgfm.org/digest.htm)

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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Nous ne faisons pas payer la soumission ou la publication d’articles.

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.

Les auteurs doivent garantir que le travail ne porte atteinte à aucun droit d'auteur et ne contient pas de matériel de nature diffamatoire ou scandaleuse. Par la soumission d'un article au Journal,
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Les manuscrits doivent inclure :

- pas plus de 20 pages à interligne simple (ou 10.000 mots)
- un résumé n’excédant pas 150 mots – il doit récapituler l’objectif, la méthodologie et les principales conclusions de l’article
- le titre, le(s) nom(s) de(s) auteur(s), la position/poste et l’institution d’affiliation (ministère, université, etc.), l’adresse email et les remerciements éventuels
- l’auteur ne doit pas utiliser des termes ou styles sexistes ou discriminatoires, comme par exemple "elle/lui" ou "il/elle"
- un usage limité des abréviations pour faciliter la lecture
- des références appropriées (voir ci-dessous) à la littérature sur le sujet pour soutenir les faits, les affirmations et les opinions ; toutes citations doivent être référencées correctement
- les notes de bas de page, identifiées dans le texte par un numéro en exposant, ne doivent pas comprendre des citations, et doivent être listées à la fin de l’article juste avant la bibliographie

**Référencement du texte**

Les références aux livres, articles, etc., à l’intérieur du texte doivent inclure les noms des auteurs, l’année de publication, et le numéro de page s’il s’agit de citation directe (par exemple : Mickey & Donald, 1968, p.24). Pour les articles dont le nombre d’auteurs est supérieur à deux, la citation doit être abrégée de manière suivante : (Kramdon et autres, 1988, p.1). Plusieurs citations du/des même(s) auteur(s) dans la même année doivent être distinguées dans le texte (et dans la bibliographie) par a, b, c, etc., après l’année de publication. Les termes latins tels que : et al, ibid, ou op cit doivent être évités.

**Bibliographie**

Une bibliographie doit être incluse à la fin du texte, et contenant les détails de tous les livres, articles, etc., dont il a été fait référence dans le texte. La bibliographie doit contenir uniquement les références citées dans le texte. Ces références doivent être ordonnées alphabétiquement suivant le nom de famille du premier auteur. Les détails suivants doivent être inclus : l’auteur et ses initiales, le titre complet et les sous-titres, le lieu de publication, l’éditeur, la date, et les références des pages (pour les citations directes). Les références aux articles de journal doivent inclure le volume et le numéro du journal.

Dans la mesure du possible, les détails des adresses internet des matériels disponibles sur l’internet doivent être fournis. Dans ce cas, la date à laquelle le matériel a été lu doit être mentionnée.
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**Graphiques, Diagrammes, Figures, Tableaux**

Ils doivent être tous appelés figures, numérotés de manière consécutive en chiffre arabe, avec un bref titre en majuscule, libellés, axes, etc. Le texte doit indiquer le lieu d’emplacement de la figure.

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Toutes autres personnes disposées à nous assister dans les travaux d’édition du Journal peuvent nous contacter. Les travaux consistent en la révision des contributions potentielles en suggérant si elles peuvent être acceptées pour publication et en faisant des recommandations éditoriales qui permettront d’améliorer la qualité des soumissions.

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.
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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 solicitará.

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*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.

Los autores deben asegurar que el trabajo no viola cualquier derecho de autor existente y que no contenga material de una naturaleza difamatoria o escandalosa. Al entregar un trabajo a la revista, el autor exonerará a la editora y a los redactores contra cualquier violación de tal garantía o restricciones de derecho.

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Los manuscritos deben incluir:

• no más de 20 páginas en espacio sencillo (o de 10.000 palabras);
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• el título, el(los) nombre(s) del (de los) autor(es), el cargo que ejerce(n) y la afiliación institucional que tiene(n) (universidad, ministerio, etc.), su dirección electrónica y cualquier mención necesaria.
• los autores deberán escribir de una manera no sexista o discriminatoria, utilizando, por ejemplo, (para) él/ella, él o ella, etc.
• un uso limitado de abreviaturas para facilitar la lectura
• referencias apropiadas (vea abajo) a la literatura sobre el tópico para respaldar los hechos, las aserciones y las opiniones; todas las citaciones deben venir acompañadas de una referencia completa.
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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.

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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.