

Towards Good Financial Governance

Successful Approaches to Public Finance Reform:
Examples from Africa, Asia, Central America and Europe

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Preface

Good financial governance is seen as one of the foundations for sustainable development. Domestic tax revenues are essential for achieving development goals; transparent government budgets that finance tangible improvements in public services are vital for ensuring the willingness of citizens to pay taxes; and oversight is crucial for securing compliance, among taxpayers as well as state officials.

The German Federal Ministry for Economic Cooperation and Development (BMZ) has developed a holistic and multidimensional approach to good financial governance which addresses the manifold challenges in a targeted and effective manner. Its activities in this field are numerous and diverse, as we would like to show in this publication.

The compilation of 16 projects and success stories from Africa, Asia, Latin America and Europe provides insights into the multifaceted work of German development cooperation, implemented by GIZ, in the field of good financial governance. The collection of examples intends to document which activities have been carried out and to help answering key questions: What has been achieved? What positive changes have been implemented for the benefit of citizens in our partner countries?

Measuring results is not an easy task: many factors often contribute to a change in a partner country. Technical cooperation interventions take place in interaction with other activities. In many cases it is therefore difficult or impossible to precisely determine the contribution of a particular activity to a change in the situation in the country. Reliable statements about cause and effect are also challenging due to the fact that there is often a time lag between them.

With this compilation we present selected activities and success stories. In part, the successes described are concrete results of specific activities: Additional taxpayers were registered, generating additional tax revenue. The cooperation of various agencies to combat illicit financial flows was improved, enabling the recovery of assets. The

adoption of a new tax law was supported, now contributing to an increase in government revenues and a reduction in energy consumption. Digitally supported, transparent and competitive procurement processes were implemented, fostering competition to save public money. A new routine in government accounting was set up, leading to the disbursement of international funds.

In part the activities also promoted developments even though it is not possible to directly measure the effects of the particular activity on the population: transparent budget planning and implementation are expected to strengthen citizens' trust in the state and thus also tax compliance. However, it will not be possible to measure such correlations immediately, and considerable efforts would be required to do so after a reasonable lapse of time. But such activities also make an important contribution and we would like to give them appropriate space in our collection of projects and success stories. Therefore, in these cases we describe the direct response to the activities: How many citizens use digital solutions that provide information on budget planning and spending? How is the government changing its budget preparation and planning processes? Do gender equality and the protection of vulnerable groups receive priority in the allocation of funds?

As important as the quantification of results is, we did not want to compile figures and present a compendium of tables. We wanted to tell stories that inform about results achieved, quantitatively and qualitatively, while reporting on the specific challenges in the respective country and the lessons learnt.

On behalf of the BMZ, GIZ's Sector Programme Good Financial Governance produced this publication with the great help from our partner country institutions and colleagues implementing the projects in the field. We thank them for this cooperation and, even more, for their efforts to improve good financial governance for sustainable development.

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Introduction

Many steps towards one major goal

Good financial governance is the basis for sustainable development

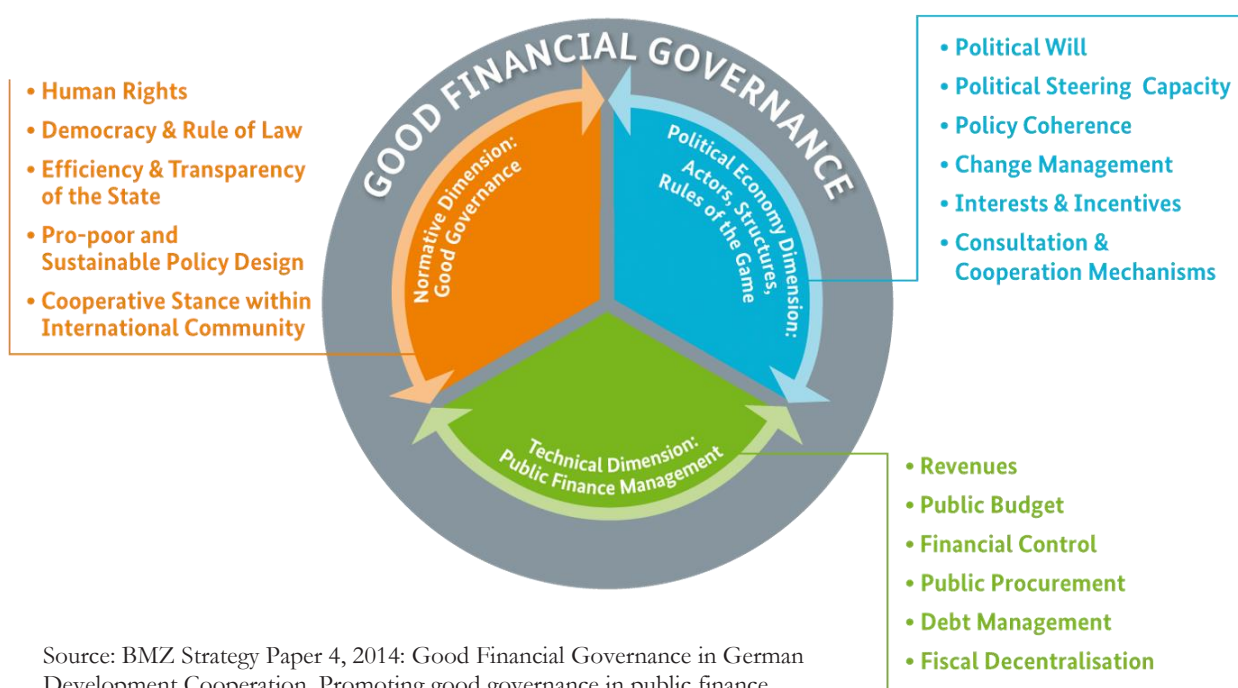
A functioning public finance system is the bedrock of every country. Fair, transparent and effective tax systems ensure that the state has the means to provide services to its citizens: to build and maintain roads, to run hospitals and schools, the government needs money. Transparent, results-based budget planning and execution ensure that available resources are used effectively for the benefit of citizens. This is underpinned by cost-efficient and transparent procurement processes in line with environmental and social principles. Effective auditing ensures that the available resources are used fully for the common good. Decentralised structures in all these areas ensure that government action on public finances is closely linked to the needs of citizens.

The good financial governance (GFG) approach as designed within the context of German development cooperation targets the whole cycle, fostering efficient and fair revenue mobilisation with well-targeted budget planning and effective execution as well as smoothly functioning

accountability mechanisms. Conceptualised as a holistic approach, it covers three mutually interacting dimensions:

1. The principles of good governance, such as transparency and the rule of law, represent the normative dimension.
2. The legal framework, structures and political interests represent the political economy dimension.
3. The technical processes and tools of the public financial management system represent the technical dimension.

The concept is based on the conviction that a legitimate and transparent system of public finance is the foundation for long-term success in development. Such a system includes the mobilisation of domestic resources to sustainably fund a country's own development goals and to become increasingly independent of external aid and borrowing. Such a system requires the effective and transpar-



Source: BMZ Strategy Paper 4, 2014: Good Financial Governance in German Development Cooperation. Promoting good governance in public finance.

ent use of public funds to implement the government's policies. And it needs effective control mechanisms to hold governments accountable.

None of the areas of action is to be considered in isolation. A fair and transparent tax system can increase tax revenue, reduce differences in wealth distribution and improve public service delivery. If improvements in the provision of public services can be experienced and the allocation of funds can be understood through transparent budgets, this will in turn support citizens' willingness to pay taxes. Effective financial control not only supports the impactful use of public funds for the common good, but also strengthens citizens' trust in the state and thus tax compliance.

German development cooperation supports good financial governance for sustainable development in partner countries worldwide. It cooperates with key stakeholders such as ministries of finance, ministries of planning, supreme audit institutions and civil society organisations in order to promote the effective, efficient, transparent and accountable use of public resources for the welfare of citizens. The support covers all areas of action and takes into account the mutual interactions between them. German development cooperation combines technical expertise with thorough political economy analysis to make public finance reforms work in more than 30 countries worldwide.

Sound public finances are basic prerequisites for poverty reduction and sustainable development. The fight against poverty is the most urgent objective of international development cooperation and it is closely linked to a number of further pressing goals, globally known as the Sustainable Development Goals of the 2030 Agenda.

The 2030 Agenda for Sustainable Development - adopted at the UN summit in 2015 - takes the form of a pact on the world's future and is intended to help enable all people in the world to live a life of dignity. The 17 development goals link the principle of sustainability with economic, environmental and social development. The diversity of the Sustainable Development Goals underlines the complexity of the underlying challenges. None of the challenges is isolated - in contrary: they are closely interconnected with each other.

As a state's central steering instrument, public finance systems are particularly relevant for reacting to economic, environmental and social challenges. Good governance in public finance is a central approach both on the revenue and spending side when it comes to promoting transparent, legitimate and development-oriented action. At the same time, good financial governance is an expression of

value-based policies. Public financial management that promotes development is not only focused on efficiency but also on sustainability, realising human rights, democratic legitimacy, transparency and inclusive participation.

Good financial governance is an essential building block for fostering sustainable economic development, including investment promotion and creating employment opportunities. With regard to its basic principles, the GFG approach is consistent with the Marshall Plan with Africa. The cornerstones for the plan initiated by the German Federal Ministry for Economic Cooperation and Development (BMZ) were presented in early 2017 and have since been used to create the conceptual and strategic framework for BMZ's Africa policy. Economic activity, trade and employment, peace and security, democracy and the rule of law form the core elements.

Moving forward from theory to practice, this brochure presents 16 success stories from 16 different countries in Africa, Asia and Europe. Each of the reports gives practical examples of how individual aspects of the overarching approach have been adopted by specific measures. The examples cover various parts of the GFG cycle: domestic revenue mobilisation, budgeting, procurement as well as accountability.

Every single story presents an example of good practice in one specific area of action. All in all, they mirror the complexity of the context and in some cases show their strong interconnection - hence stressing the importance and meaningfulness of an integrated approach.

Background

'Good financial governance is defined as transparent, legitimate and development-oriented state action in the area of public finance on both the revenue and the expenditure side. Good financial governance implies that a country has effective and accountable state institutions and financial administrations that are based on the rule of law, and that it has efficient audit institutions and parliamentary and civil society control mechanisms and institutions.' (BMZ Strategy Paper 4, 2014: Good Financial Governance in German Development Cooperation. Promoting good governance in public finance.)

The German Federal Ministry for Economic Cooperation and Development (BMZ) provides financial support amounting to EUR 40 million per year for around 30 financial and technical cooperation projects in the area of good financial governance.



Photo: GIZ Zambia

Domestic Resource Mobilisation

Domestic Resource Mobilisation

The backbone of a functioning state

No development without taxes

Domestic resource mobilisation (DRM) is the backbone of a functioning state. Without revenues the state will not be able to fulfil its mandate and provide basic services, such as education, health care and infrastructure as well as security to its citizens. As such, DRM plays a crucial part in achieving development, especially for low-income countries. It is the most important source of financing for countries because only the state's own revenues enable it to predictably plan and autonomously implement its national policies. The mobilisation of domestic revenue - through taxes, income from state-owned companies and concession regimes, customs duties, fees and levies - is crucial for moving beyond reliance on external aid.

For any state, taxes are one of the most important, sustainable and reliable sources for generating its own revenue. Taxes form the basis for financing the state's core tasks and functions. Therefore, the ability to effectively collect them influences how a country develops. This also requires a determined fight against criminal and immoral practices such as tax evasion and tax avoidance, corruption, fraud and embezzlement. A fair design of the tax system plays a key role in reducing poverty and inequality. And the use of tax revenue determines the distribution of resources within the society. Public finance reforms are therefore not simply technical matters but have political, legal and social dimensions as well. Progress in mobilising domestic revenue relies substantially on the will to fair, sustainable and transparent taxation, in line with the rule of law. This - together with improved public service delivery - will win peoples' trust and foster compliance.

However, raising domestic resources efficiently by creating a fair, sustainable and transparent tax system is not an easy task. Tax policy establishes the overall framework by, for example, defining a proper mix of taxes, designing a specific type of tax or taking measures to counter tax avoidance and evasion. Thus, it can contribute to an investment-friendly environment. The administration is in charge of imple-

menting these policies. This includes the collection of taxes, so that all citizens - according to the given rules - contribute to the public good.

The building and functioning of a fair, sustainable and transparent tax system relies not only on good tax policies and an efficient and effective tax administration - both certainly major components - but also on the willingness of the taxpayers to pay due taxes. Ultimately, this comes down to the trust of taxpayers in the tax administration and the government - meaning they are assured that tax revenue is invested in the development of the country. Tax administrations that deliver reliable services - provide advice to taxpayers on their concerns, process the requests quickly and offer modern, digital, lean communication channels - can contribute to the improvement of tax morale and compliance.

Legitimate, transparent and development-oriented public finance systems strengthen the relationship between the state and its citizens. A state that finances its activities primarily from tax revenue has a greater incentive to use public funds in the interests of development and the public good. Therefore, good public expenditure policies in key sectors such as infrastructure, health and education are essential for promoting economic growth and equal opportunity.

There are a multitude of different aspects to be considered in the context of increasing domestic resource mobilisation, and the following success stories highlight some of them. Be it the enhancement of revenue collection in Tanzania, improved services for taxpayers in Zambia, combatting illicit financial flows in Kenya, the implementation of an environmental protection tax in Viet Nam, the improvement of tax auditing in Guatemala or a tax holiday for small business start-ups in Serbia: they all contribute to the mobilisation of domestic revenue and combine to show a variety of possibilities and good practices.

The big triumph of a little gadget

Point of Sales machines improve the local revenue collection

Payment day in Tanzania: only a few years ago it used to be a strenuous and expensive journey. Citizens of rural districts who wanted to pay their taxes had to travel to the headquarters of their Local Government Authority (LGA). Depending on the place of residence, they had to cover a distance of up to one hundred kilometres. Whether they went by bus or rented a motorcycle, they had to bear high additional costs and lost a full day just to pay their tax.

In Longido and Ngorongoro District, that now belongs to the past. With the implementation of the Local Government Revenue Collection Information System (LGR-CIS), those extra costs are minimised as taxpayers now can pay at their local premises. This simultaneously reduces administration costs and curbs corruption too, as receipts are handed out immediately and the electronic collection allows greater control of the revenues. GIZ's 'Good Financial Governance' programme implemented a project to enhance the use of Point of Sales (PoS) machines with the aim of increasing local revenues. To ensure the proper use of PoS machines, the GIZ project team, in collaboration with LGA staff, mapped revenue collection procedures and trained revenue collectors in applying them.

'It is for collection and inspection'

Views of beautiful natural landscapes, herds of wild animals in the valleys and flamingos on Lake Natron are shown in a video about the project. But this video does not promote the touristic sights. The main attraction is, instead, a little gadget, held in one hand and operated with the other, similar to a smartphone and handled just as easily. Revenue collectors are shown at work, visiting shops and restaurants, guest houses and bars, milling machines and kiosks. 'It is for collection and inspection,' they explain. Besides collecting due taxes, they check liquor and business licences, renew them if expired and collect the respective fees. Every payment process is electronically recorded and automatically added to the total amount of money the tax collectors deliver to the bank at the end of the day.

Infrastructure and security as benefits

'We get a good supply of infrastructure and security,' Tyson Huho says, stressing how he benefits from the local tax revenues, as the District Council provides its own public services. The shop owner expresses his general consent to pay taxes and fees, and he appreciates the new electronic way of collecting them, as it is more comfortable, transparent and efficient. Additionally, the GIZ team reports a general advantage of having collectors from the local instead of the central level. Whether they collect parking fees, market fees or fees for licences and local taxes - they are villagers, who went to the same secondary school, live together and know each other. They don't come as strangers.

It is about challenges and opportunities, supporting selected local government authorities with the goal of improving mobilisation of own revenues. In this area tourism plays an important role, since it accounts for 80 per cent of the revenues. 'We have also made some interesting observations,' says Akbar Mohabat who is a senior advisor at GIZ Tanzania. 'For example, at Lake Natron the setting is that there are three different collectors from three different authorities,' he explains, and each of them has set up its own collection point 'so that each visitor that arrives receives three invoices instead of one'. Especially for the collection of tourism fees, some of the PoS versions accept debit or credit cards. In Ngorongoro District, 'in the high season we receive one hundred visitors a day,' says local tourism officer Joseph Meng'oru and points to ambitions of developing the touristic attractions of the area and conserving the natural environment.

New system prevents fraud

With the introduction of the PoS machines, training was offered at nine LGAs at three different levels, for 24 users, 20 super-users and eight trainers. Meanwhile, after good experience at the nine innovating LGAs, the PoS guideline developed with GIZ support has been rolled out Tanzania-wide through its inclusion in the Local

Authorities Revenue Administration Manual, facilitating revenue collection to fund the provision of public services to citizens in all 185 LGAs in Tanzania.

There had not been anything comparable before. Over the years, collecting revenues was a matter of barely regulated practice, every LGA had its own method that was performed more or less randomly. The absence of a regulatory system and monitoring made the revenue collection extremely vulnerable to fraud. One could never be sure that all of the collected revenues were brought to the bank.

Now the digital system sets clear and uniform rules and provides thorough control of every step. The PoS machines are connected with the Local Governments Revenue Collection Information System which is operated centrally by the President's Office - Regional Administration and Local Governments (PORALG). The administration can follow every single PoS machine round the clock, knowing the amount of revenue at any particular time - also revenues derived from subcontractors and even offline.

The Finance Act of 2015/16 states that local revenue should be collected electronically. So PoS machines became a crucial tool for Tanzania's local revenue mobilisation. But the law requires that LGAs have to procure PoS machines using their own resources, and that turned out to be a vicious cycle for many LGAs. The majority of rural

LGAs have low financial capacity to purchase the required number of PoS machines. And without the devices they could not increase their budgets.

GIZ contributed to the Government's efforts by procuring 103 PoS machines which were distributed in nine partner rural LGAs. As a consequence of this impetus, in 2019 PORALG procured 7,227 PoS machines which were distributed to all 185 LGAs, and rural LGAs with low domestic revenue collections were given high priority. By now all 185 LGAs are using the PoS guideline developed by GIZ. In general, one PoS machine is used by one revenue collector. At some revenue collection points, there are more than one revenue collectors using the same PoS machine on a shift basis.

High priority for water and education

The nationwide implementation had been preceded by a stakeholder consultation meeting with the relevant Government ministry, the President's Office, Regional Administration and Local Governments (PORALG) which GIZ supported and facilitated in October 2018. Since August 2019, all 185 LGAs in Tanzania had applied the new collection system for their own revenues which will fund the provision of public services to citizens. Among those public services, development projects in the fields of education, water and health care are highly prioritised.



Point of Sales machines - some grey, some red - improve local revenue collection in Tanzania.

Photo: Alessandra Argenti

The allocated funds account for approximately 40 per cent of the domestic revenues, and a further 10 per cent are generally spent to provide loans to women, youth and disabled people to empower them economically, for in-

stance by supporting them in starting up a business. The rest, i. e. the other half of the total local revenues, funds the running of the respective municipal council.

Programme: Good Financial Governance in Tanzania

Duration (current project phase): 01.05.2016 - 31.10.2023

Commissioned by: German Federal Ministry for Economic Cooperation and Development (BMZ),
European Union, Swiss Development Cooperation

Taxpayers benefit from innovative e-services

Access to the national revenue authority by app and mobile phone

In Zambia, taxpayers must travel enormous distances to reach the next tax service centre. While the country is twice as large as Germany, there are only 13 service centres where taxpayers can address their tax queries with the Zambia Revenue Authority (ZRA). The majority of taxpayers rely on public transport which makes a trip to a ZRA service centre extremely strenuous, expensive and very time-consuming, especially for the population living in rural areas. For example, a taxpayer from Ikilenge, a town located in the North-Western Province, has to travel 340 kilometres to get to the next service centre located in Solwezi. But now the implementation of new e-services, supported by GIZ, offers enormous benefits to taxpayers.

Service requires no internet connection

The first of these is TaxOnPhone, which allows fast and cheap electronic access to the services of the ZRA. Taxpayers can use their phones to register and obtain their taxpayer identification number, file returns and check their tax status. No internet connection is required, as the system works with interactive text menus via USSD (Unstructured Supplementary Service Data). Therefore, all phones, not just smartphones, have access to the service - by simply dialling *858# - saving the taxpayers a lot of time and money.

This was a crucial condition, as almost all Zambians own a mobile phone, while smartphones and internet access are less common, according to the 2019 report of the Zambia Information and Communications Technology Authority. As of December 2019, more than 300,000 Zambians have used TaxOnPhone, among them about 50,000 taxpayers who used the system to register for the first time with ZRA. Currently the total number of active taxpayers in Zambia amounts to 1,813,967.

App as alternative for smartphone users

The TaxOnApp application has been developed as an alternative to TaxOnPhone for smartphone users, with a variety of extra functions. Taxpayers can use the app to register, file returns, access information materials, and, additionally, make payments via internet banking and mobile money providers. The latter are widely used to make payments in Zambia. Also integrated were services for customs processes such as a motor vehicle calculator, a form for integrated border declaration and passenger clearance. The app was finally launched in November 2020 and is now available nationwide. The release of the final version - envisaged for August 2020 - had been postponed for three months because of the COVID-19 pandemic.

Electronic payment to be offered next

Making payments online is an important feature as many taxes are due on a monthly basis leading to a significant number of required visits for payments only. Thus, this is the main advantage of TaxOnApp in comparison to TaxOnPhone. However, the possibility of electronic payments will shortly also be offered within TaxOnPhone, in particular enhancing the benefits for individual taxpayers and small enterprises.

While it had seemed an easy measure during conceptualisation, the actual implementation of this final step (electronic payment within TaxOnPhone) took longer and was technically more challenging than anticipated. One of the reasons was that various stakeholders had to be closely involved. There are still challenges to be addressed, such as creating the interface to ZRA's internal system and web

portal TaxOnline2 as well as the customs system, which is expected to be replaced by a new solution in early 2021. So, the adapted modular approach to the design and the implementation of TaxOnPhone turned out to be a huge advantage, as users could already benefit from the initially installed services. The modular construction also proved to be advantageous for future development.

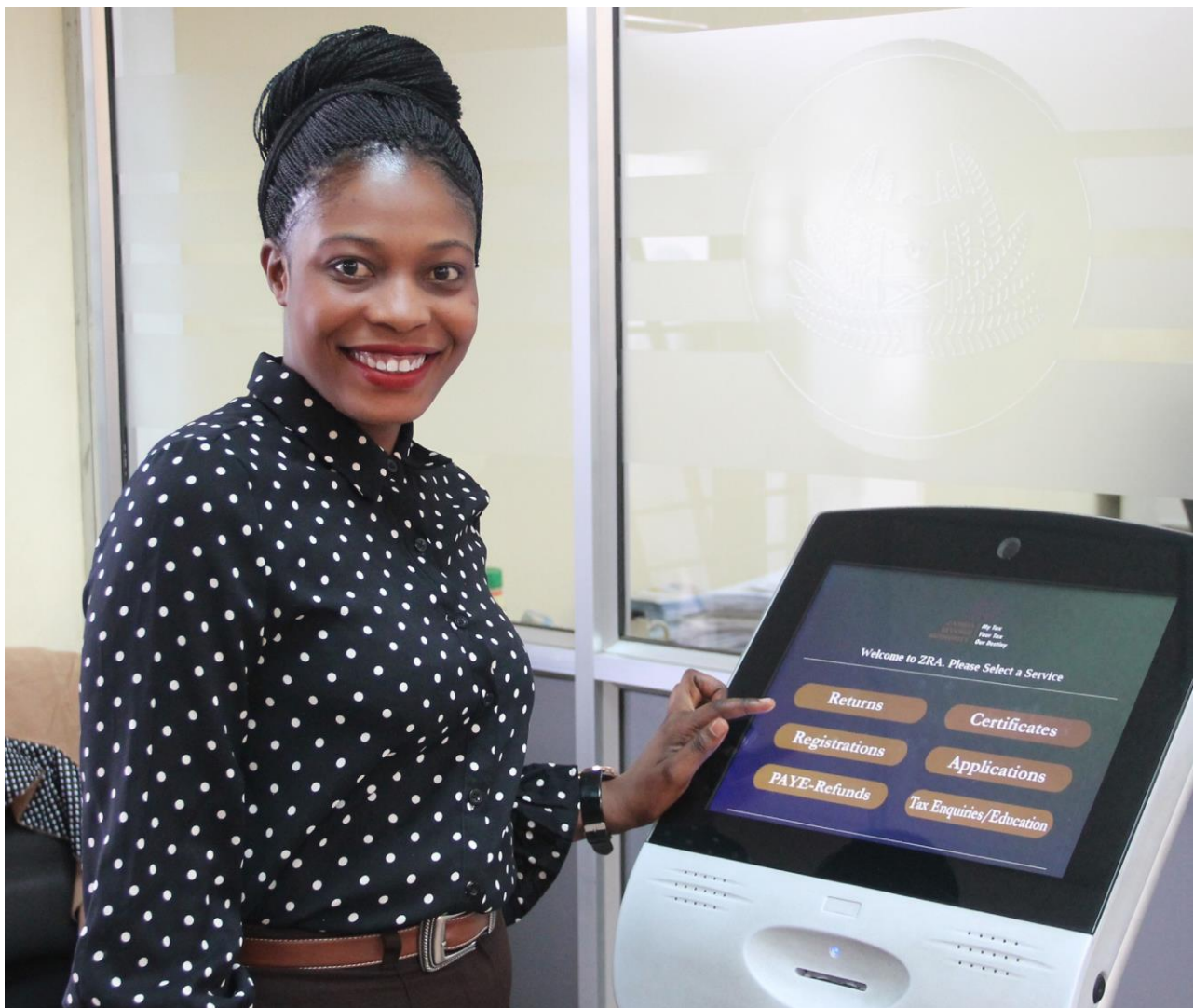
Waiting time at centres significantly reduced

Until further technical progress has been made in terms of e-services, taxpayers benefit from the third project: the Electronic Queue Management System (EQMS) has reduced waiting times in the service centres significantly from several hours to less than 20 minutes on average.

This is a simple and effective improvement making tax compliance less burdensome and time-consuming for taxpayers, especially until electronic payment via TaxOnPhone becomes possible. Also, regardless of the missing payment function of TaxOnPhone, reduced waiting times through EQMS represent a crucial benefit for taxpayers. In the 2019 taxpayer satisfaction survey, personal contact proved to be the preferred mode for information access from ZRA for individuals as well as for small and medium-sized companies.

With the completion of the EQMS project, taxpayers will receive faster service delivery in the *Zambian cities of Kitwe, Lusaka, Livingstone, Nodla, Chiptat and Solwezi.*

Additionally, the system allows the ZRA management to track the number and type of requests that the service



Diana demonstrates the new Electronic Queue Management System in Lusaka.

Photo: GIZ Zambia

centres experience, allowing for the creation of more tailored service offers. For the time being there is only one inconvenience: the data are only stored locally, whereas a centralised server or a cloud solution would be useful for even better compilation, processing and analysis of the data. But this will be a step to be taken in future.

Development of a holistic strategy

Currently, German development cooperation with ZRA is aiming at embedding the measure within a wider service delivery strategy. The development of a holistic service strategy is part of the support co-financed by the European Union. The strategy development includes a holistic analysis of the existing service channels. Recommendations will be made on how to address possible insufficiencies and implement further improvements.

Background

The initial idea for the project was developed in the lab of tomorrow, which is run on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) and is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.

The lab of tomorrow provides access to an extensive network of international key players from the public and private sector. The foundation for the project was laid and the first module implemented in a so-called developPPP.de cooperation. Through public-private partnerships, BMZ has been fostering the involvement of the private sector in areas where business opportunities and development policy initiatives overlap for more than twenty years.

Programme: Good Financial Governance in Zambia III

Duration (current project phase): 01.01.2019 - 31.12.2022

Commissioned by: German Federal Ministry for Economic Cooperation and Development (BMZ), co-financing by Bill & Melinda Gates Foundation/DRM Innovation Fund (TaxOnApp) and European Union (strategy development)

Making sure that crime does not pay

Multi-agency team combats illicit financial flows

The dimensions of the enormous and permanent loss resulting from illicit financial flows (IFFs) are almost unimaginable. The United Nations estimates that developing countries lose more than one trillion US dollars to illicit financial flows each year. This is nine times the amount of the official development assistance they received in 2017. According to the African Union, some African countries face a loss of up to 25 per cent of their annual gross domestic product.

The GIZ global programme entitled Combating Illicit Financial Flows strengthens the fight against IFFs in many countries across the world, among them Kenya. By focusing on the proceeds of crime, the programme has already achieved remarkable success.

Efforts to recover and regain assets

Criminal activities can only be stopped if they do not pay off. Therefore, one important activity is the recovery of assets - meaning any efforts by governments to regain the proceeds of crime, such as money, real estate, vehicles, art, artefacts and precious metals hidden in foreign jurisdictions.

In fiscal 2018 and 2019, the Ethics and Anti-Corruption Commission (EACC) in Nairobi recovered over USD 26 million worth of assets. This recovery already earmarked a significant rise in comparison with the previous year. Then in the last six months of 2019, the EACC recovered the record sum of more than USD 80 million. Additionally, the number of court rulings regarding financial crime has increased considerably in recent years. From 2017 to 2018 alone, the EACC's conviction rate grew by more than 75 per cent. Several court rulings involved high-level political leaders including governors, members of parliament, heads of state corporations. Thus, the criminal prosecution - 81 trials in 2019 until November alone - attracted considerable public attention. And, learning that high office does not save anyone from prosecution, conviction, and even imprisonment, has an important impact

on the public's trust in the rule of law and its awareness of crimes, such as corruption, fraud, tax evasion, money laundering and human or drug trafficking.

New investigation approach combats financial crimes

The Kenyan success in prosecution and asset recovery can be traced back to a new cooperation approach, the institutionalisation of the multi-agency investigation approach to combat financial crimes. The Multi-Agency Team, which was formed with the support of the global programme, strengthened inter-agency cooperation and increased the efficiency of financial investigations.

A lack of trust and effective cooperation between authorities as well as fragmentation or overlaps of the investigative mandates had been identified as major challenges in the fight against illicit financial flows. Therefore, GIZ supported the establishment of a governance structure that ensures efficient cooperation between at least nine authorities.

These include the Ethics and Anti-Corruption Commission (EACC), Office of the Director of Public Prosecutions (ODPP), Directorate of Criminal Investigations (DCI), National Intelligence Service (NIS), Financial Reporting Centre (FRC), Asset Recovery Agency (ARA), Kenya Revenue Authority (KRA), Office of the President and Office of the Attorney General: various public authorities that are concerned with the same issues.

In cooperation with all these authorities, comprehensive guidelines for the exchange of information between those authorities have been developed. Additionally, the programme supported the Multi-Agency Team members through regular training in financial investigation methods and - to ensure sustainable success - developed a train-the-trainers concept which has successfully been adopted by EACC.

Strengthening the rule of law

Effective national coordination and cooperation form part of the international standards against money laundering and terrorist financing of the Financial Action Task Force (FATF). These standards are important components of the international fight against illicit financial flows. Countries need to set up a national framework that clearly defines the agencies' role, responsibilities and corresponding processes: very critical in this regard is the ability to share information in a timely and secure manner. Only if financial investigation and prosecution function seamlessly can the proceeds of crime be successfully traced, seized, and returned to state coffers. This will bolster domestic resources available for financing sustainable development, have a deterrent effect on criminal activity, increase security and strengthen the rule of law.

As a consequence of the positive effects in Kenya, the programme was able to disseminate the approach regionally. The Asset Recovery Inter-Agency Network for Eastern Africa (ARIN-EA) adopted the approach to roll it out in the Eastern Africa region among eight member states of the Eastern Africa Association of Anti-Corruption Authorities (EAAACA).

Dissemination in Eastern Africa

Various training courses on financial investigations, peer-to-peer learning and experience-sharing forums on legal frameworks and best practices have been conducted in several East African countries. The participating institutions were asset recovery offices, attorney general's offices for mutual legal assistance, anti-corruption and tax authorities, prosecution offices as well as police and financial intelligence units.

The financial investigation training, which addressed forensic analysts, investigators, intelligence officers, lawyers and prosecutors has been completed in Rwanda with 36, Tanzania with 26 and Djibouti with 35 participants. At the same time, together with the GIZ Good Governance Programme in Kenya the programme promoted the dissemination of the approach at the level of the Kenyan counties. For instance, in Mombasa, a regional Multi-Agency Team was established. This cooperation at different levels using the same methods and standards facilitates investigations and makes them more efficient in combating illicit financial flows. The goal is not just to regain money. As IFFs destabilise countries and regions, erode citizens' trust in government and law enforcement and, thus, increase the risk of violent conflicts, combating IFFs is worth any effort.

Background

The international community has pledged to combat IFFs as part of the UN Sustainable Development Goals (SDG, target 16.4) and the debate on sustainable development financing (Addis Ababa Action Agenda, Addis Tax Initiative).

A Multi-Agency Team consists of a (i) high-level decision-making organ, a (ii) technical team at the operational level, a (iii) secretariat and a (iv) seconded liaison person per authority.

The global programme focuses on the proceeds of crime. GIZ supports partners in increasing their compliance with important international standards. The programme's holistic approach covers three areas of intervention:

1. **Prevention:** To prevent IFFs, the programme supports partner countries in strengthening their legislative framework in line with international standards, in analysing risks and increasing transparency.
2. **Financial investigation:** The programme assists national law enforcement agencies in adopting new investigation methods, overcoming the challenges of cross-border investigations and improving inter-agency co-operation.
3. **Asset recovery:** To ensure that crime 'does not pay', the programme supports the recovery of assets stolen in developing and emerging countries. It does so by fostering collaboration among relevant agencies at the national, regional and global level.

The term 'illicit financial flows' (IFFs) is not defined in the international normative framework. It refers to different types of financial transfers, made for different reasons, including funds of criminal origin and funds with a criminal destination as well as legal, but 'immoral' financial flows.

Programme: Global Programme 'Combating Illicit Financial Flows'

Duration (current project phase): 18.01.2019 - 31.01.2022

Commissioned by: German Federal Ministry for Economic Cooperation and Development (BMZ),
co-financed by Norwegian Ministry of Foreign Affairs

New tax enhances environment protection

A close look at international practice preceded implementation

The introduction of a completely new tax has to be prepared thoroughly. On the one hand, this is to ensure that the desired effects will be achieved and, on the other hand, it is important to promote acceptance by future taxpayers. Not least, it is a question of convincing taxpayers that the revenue from the new tax will be used in a socially expedient way. Therefore, the legislative process for the Law on Environmental Protection Tax in Viet Nam was lengthy, complex, but fruitful. In fact, as every law needs to be continuously adjusted to reality, this process is still ongoing.

Before the environmental protection tax law entered into force in 2012, a variety of activities were conducted, followed by a thorough evaluation of the impacts until 2019. The preceding activities ranged from an ex-ante impact

assessment which helped the Viet Nameese partner to evaluate the consequences of the envisaged new law and to convince critics, to the provision of international good practice. International experts were involved in Viet Nam and in several fact-finding missions to the United Kingdom, France, Sweden, Estonia, Belgium, Germany and Austria, delegations from the Viet Nameese Ministry of Finance learned from the experience gained by the governments of other countries.

Beyond the initial success of getting the Environmental Protection Tax (EPT) implemented, several positive effects are mentioned by the ex-post analysis, for instance, the significant and further growing contribution to the government's revenues and a reduction in energy consumption. The lower energy consumption amounts to



Gas powered oven for ceramics saves fossil fuels.

Photo: Morgan Uwe Ommer / NOI Pictures Company



Vegetables wrapped in banana leaves to avoid plastic.

Photo: Morgan Uwe Ommer / MOI Pictures Company

minus 4 per cent in the domestic use of petrol and minus one per cent in coal, both together accounting for 99 per cent of the total EPT revenues.

Strong push to renewable energies

Contrary to the experts' recommendation to finance environmental protection measures up to the amount of the EPT revenue, revenue goes to the general budget and, for example, also serves to pay debt. However, the Government has committed itself to investing at least one per cent of the state budget in recurrent expenditure for the environmental sector. Thus, efforts to develop renewable energies such as solar and wind benefit even more.

The EPT regulates taxation on a variety of pollutants, focusing on fossil fuels, as the main lever for CO2 emission reduction. The law enumerates precisely: '1. Petrol, oil and grease, including: a) petrol, except ethanol; b) aircraft fuel; c) diesel oil; d) petroleum; e) fuel oil; f) lubricants; g) grease. 2. Coal, including a) lignite; b) anthracite coal (anthracite), c) fat coal; d) other coal.'

Different rates lead to substitution effects

The effects on different industrial sectors differ by type, of course, with energy-intensive sectors being most affected by increasing prices. In transport systems, for example, energy accounts for over 40 per cent of total costs and these energy costs are almost entirely petrol costs. Petrol is also a major cost factor in fishing and aquaculture. The ad valorem equivalents of the specific Environmental Protection Tax rates - that is the percentage by which the tax directly raises the industry-level purchaser prices of coal and petrol products on top of unit production costs and trade or transport margins - varies between 1 and 2 per cent for coal and 5 to 8 per cent for petrol products.

In concrete terms, it can be seen that different tax rates - as existing for petrol and coal - lead to substitution effects. To avoid this, the programme recommends equal taxation for different sources of energy, especially as the currently less taxed consumption of coal is more harmful to the environment. The ex-post analysis concludes: 'The relations between the EP tax rates on coal and petrol products do not adequately reflect relative environmental impacts - hence the EPT is in need of reform.'

Herbicides, pesticides and plastic bags are taxed

In general, the current trend is that environmental tax revenue and its proportion of the budget increases year by year. However, this points to the difficulty of judging the success of an environmental tax. Having the aim of reducing the consumption of natural resources, the lower the revenue it supplies, the more successful it is.

The law also regulates the taxation of pesticides, herbicides and plastic bags. And the valuation of success in this area is also difficult. Reduction of plastic carrier bag use was not as expected. In supermarkets customers are asked to bring along their own bags and if not, they have to pay for a plastic bag. On the street markets though, where fresh raw fish and chicken is sold, plastic bags are still common and free - apart from the fact, of course, that dealers add the price for the bag implicitly to their calculation. Additionally, deficits have been noticed in tax collection. Each kilogram of plastic bags should be taxed by between 1.5 to two dollars, but due to tax evasion and

lack of control or collection abilities, not every enterprise pays as required.

‘The most considerable effect lies in raising public awareness,’ says Ha Nguyen Thi Thu of GIZ Viet Nam and refers to a campaign via the mass media to enhance public acceptance and compliance. ‘From a purely macroeconomic perspective, the Environmental Protection Tax on plastic bags, pesticides and other harmful chemical substances plays a negligible role.’ Nevertheless, products in daily use play a great role in terms of changing awareness, as citizens are directly confronted with their own environmental behaviour. The social impacts on living conditions - especially of the poorer population - are therefore being closely monitored and evaluated.

Slight improvement in income distribution

Early findings showed that the poverty rate still declined after the implementation of the EPT. For instance, the poverty rate - the ratio of the number of people whose



A woman drives an e-roller in Hanoi.

Photo: Morgan Uwe Ommer / NOI Pictures Company

income falls below the poverty line - for the whole country dropped from 11.1 per cent in 2012 to 9.8 per cent in 2013, but at a slower pace than in the absence of the tax. The price rise resulting from the tax led to real income loss for households, tending to be stronger for the citizens in rural regions like the North Central Coast, the Central Highlands, and the Mekong River Delta.

Nevertheless, income distribution in Viet Nam has slightly improved since implementation of the EPT. This may be explained by the fact that the real income of poorer groups of households deteriorated to a lesser extent, as fossil fuels, especially petrol, are a smaller item in their consumption basket than in richer households.

To sum up, the implementation of the Environmental Protection Tax had unfavourable economic and social

impacts that were reflected in a marginally reduced gross domestic product, sectoral outputs and a slower pace of poverty reduction, but it had positive impacts on the environment, mainly through a diminished level of industrial carbon emissions. That means two main objectives have been achieved, firstly in the form of contributions to a trend towards a sustainable green economy with more environmentally friendly production; and, secondly, raising citizens' awareness of environmental pollution.

Or, in the words of Viet Nam's Vice Minister of Finance, Do Hoang Anh Tuan: 'The enactment of the Environmental Tax Law aims at raising awareness of environmental protection in society, strengthening state management, fulfilling commitments to the international community, and properly mobilising social contributions to generate revenue to solve environmental problems.'

Programme: Macroeconomic Reforms - Green Growth
Duration (current project phase): 01.01.2019 - 31.12.2021
Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ)

Getting a grip on big data

Modernising the audit process increases tax revenues

It's all about data, huge amounts of data. Data - in the form of book entries - is the raw material that tax auditors work with. The task of the auditors involves thorough analysis of a company's financial transactions in order to conduct an audit efficiently and detect potential errors or sometimes even fraud. Given the high number of transactions a company conducts over the course of a year, it seems almost a mission impossible to analyse data without digital support. However, a manual procedure was the norm in Guatemala and thus cost the tax auditors a lot of time.

Apart from the disadvantages of a manual analysis time-wise, the possibilities of identifying errors or irregularities are limited without software support. This applies even more so to financial fraud, as such planned criminal activities are generally extremely well hidden and hardly traceable.

Software used worldwide

In Guatemala, a software called IDEA (Interactive Data Extraction and Analysis) has been supporting the tax administration's audit process since 2017. GIZ on behalf of the German Federal Ministry for Economic Cooperation and Development supported the implementation. The software, which is used by controllers, supreme audit institutions, accountants as well as tax auditors worldwide to analyse large amounts of data efficiently, makes the everyday work of the Guatemalan auditors significantly easier. With the help of the software including pre-programmed and largely self-executing sequences of instructions for the analysis, the auditors can concentrate on drawing conclusions instead of getting too involved in technical details to prepare relevant evaluations.

Not all tax auditors use the software yet, but for those who do, the process of auditing has changed completely. The software allows the identification of suspicious transactions or irregularities more easily, requiring even less time than before. The tax administration is enabled to set and collect taxes earlier and more precisely.

In the past, even the initial review of accounting data - one of the first steps within an audit - took weeks or months, even up to a year, without being very effective in the end. Auditors spent a lot of time conducting an audit, bringing in late and few results, though. Additionally, as they often worked at one of the audited company's offices, where they had access to all required books and documents, over time there was a growing likelihood that an inappropriate bond to the company would be formed, increasing the risk of corruption. Nowadays, this time spent on-site can be significantly reduced as the complete audit journal of a company can be fed into the software. Thus, all required data analysis can be done from everywhere without having to access the company's accounting system.

'Red flags' indicate errors

In addition to the time savings and the increased independence from taxpayer accounting systems, use of the software can help to conduct audits more strategically: summarised displays of transactions as well as filtering and analysis functions make it possible to identify 'red flags' - potential error or even fraud - more easily. Based on this, relevant audit areas can be recognised which appear to be promising in terms of generating additional tax revenue.

In order to take full advantage of the offered possibilities, intensive on-the-job training was needed. A technical team for the implementation and data analysis was established, 17 staff members were trained in the use of the software, and formats were continuously developed to optimise the processes of data preparation and analysis.

Meanwhile the GIZ project has procured further 24 licences for specific auditing issues, including licences for a transfer pricing database to identify comparable data. This can help to combat tax avoidance, as the tax auditors can check more easily if the price used by the company corresponds to market prices.

In the years 2018 and 2019, with increased operational efficiency in the use of IDEA and the audit process, tax collection amounted to more than EUR 20 million. However, as there are still several ongoing disputes concerning tax assessments and as the revenue authority has also taken additional efforts to increase its results, the precise outcome of the use of IDEA is difficult to quantify. '20 million is an estimate, but a conservative one,' says Gustavo Sánchez Buriticá, an advisor at the responsible regional GIZ programme in Central America.

Getting a grip on big data paid off threefold for Guatemala, resulting in more efficient audit processes and additional tax revenues. And making sure that everyone pays their fair share of taxes - by detecting fraud or corruption on a large scale, corruption or cheating on a smaller scale or even only errors - increases citizens' confidence in the state and its organs.

Background

With a so-called Benford analysis test, IDEA can give an indication if an amount used in the books is likely to be an invented amount or a real amount. This function is based on Benford's law, which says that digits and digit sequences in a data pool follow a certain pattern.



Programme: Promotion of Good Financial Governance within the Countries of the Central American Integration System
Duration (current project phase): 01.07.2018 - 30.06.2021
Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ)

‘A real boost to success’

A one-year tax holiday supports start-ups in Serbia

Optimism, enthusiasm and a good business idea are the best prerequisites for the decision to set up one’s own business. But the financial and administrative burdens can be quite discouraging and often prevent realisation of the plan. In Serbia the answer to this challenge is called ‘Start Legally’ - a measure that forms part of the Government’s national programme for countering the shadow economy. It has broad effects on the country’s start-up culture and the formalisation of the economy as well as on the government’s attitude to tax exemption, beyond individual support for the fledgling businesses, of course.

‘That is how I can finally make my dreams come true,’ Jelena Jović said when she first heard about ‘Start Legally’. She had worked in marketing for 17 years in different companies and had loved her job. ‘But I always wanted to have my own business,’ says the new entrepreneur. And after she had found out that ‘all paperwork and administration decreased significantly’ within the programme, she registered online and took her first step towards independence.

Businesses are part of the formal economy

Jelena Jović was also encouraged by the fact that she did not have to save extra money for taxes and contributions in advance and pay it back later. Giving small business start-ups one year of tax exemption, so that they can develop their products, find clients, settle their business in the market and make some first profits, the project paves the way for successful establishment of a business. And the additional benefit is that the business is even part of the formal economy as opposed to so many other businesses in Serbia, meaning it will contribute to the Government’s future tax revenues.

Initially the Government had been sceptical when the German development cooperation project entitled Public Finance Reform - 2030 Agenda, implemented by GIZ together with the National Alliance for Local Economic Development (NALED), suggested the measure. As is often the case, the Serbian Government considered it com-

pletely unthinkable that somebody should run a business without paying taxes.

Meanwhile the good experiences have not only convinced the Government in Belgrade but also a growing number of municipal authorities. Dragan Agatunović of the Serbian Tax Administration (STA) puts emphasis on the long-term expectations, saying that the tax exemption allows start-ups ‘to prepare themselves in a timely manner for future administrative obligations’. The Tax Administration welcomes the measure that is aiming at developing entrepreneurs, simultaneously reducing the number of unemployed persons and combating the informal economy, thereby fostering the development of society as a whole.

Youth is looking for security

High unemployment and the shadow economy are often two sides of the same coin, especially as during the process of economic privatisation, millions of employees in public and state-owned enterprises lost their jobs. Too old to get a new job in the formal economy, but still too young to retire, many of them are trying to keep their heads above water by doing some business in the grey zone. Although this age group had not been the measure’s original target group, it turned out to have a high demand. As a surprise to the supporting team, one third of the business founders that registered to ‘Start Legally’ were aged over fifty.

The younger generation, which faces a very high unemployment rate and to which the measure originally applied, actually took less advantage of it than expected. Less than 20 per cent of the registered start-ups were driven by entrepreneurs below 30, while the largest group among the total of 962 new businesses were aged between 31 and 40. ‘The ultimate goal for young people is to find a job in the public sector,’ says Irena Djordjevic of NALED, pointing to the weak start-up culture and the uncertainties of an unpredictable political and economic environment.

Focus on intense communication

According to what young people expressed, Irena Djordjevic reports, the basic obstacles to starting up their own business 'were the initial financial costs, primarily administrative, and then every month they must pay taxes and contributions on salaries. These costs are between EUR 100 and 250 a month, and that was one of the key reasons why young people, young entrepreneurs, work under informal conditions.'

In cooperation with the National Employment Agency, seven educational workshops were conducted, supplying 124 participants with detailed information on the measure. Five info days were organised for 160 students at universities and six info days in cooperation with the Serbian Tax Administration addressed 150 public servants of six Serbian cities. 'We made the utmost effort to communicate the measure at the national and the local level,' Irena Djordjevic says. Besides a strong media campaign, a website was launched, a call and email centre was established and information materials for the institutions involved were prepared.

'Everything is legal from the very beginning'

'We believe that informing start-ups about the possibility of a tax exemption, how to apply for it and steps on how to start a business is crucial to encourage them to get their enterprise off the ground and make it a success,' says Maja Ilić of GIZ Serbia. She also stresses that 'the promotion of entrepreneurship is important for countering the informal economy.'

Milica Spasojević is one who pursued her aim persistently. 'It was extremely important to me that everything was legal from the very beginning and I could fully devote myself to my business,' she says and states that 'Start Legally' was the main reason for her decision and 'a real boost to success'. The statistics underline that: from October 2018 until June 2020 there were 962 newly founded businesses using the tax exemption, and while only 18 of them have closed, 944 are still active. Compared to the nationwide figures this is an outstanding rate, as normally half of the start-ups do not survive the first year.



A conference on founding small start-ups aroused great interest.

Photo: Nemanja Jovanovic

‘Business start-ups have a big problem securing funds for initial investment, which is why most of them already give up at the very start, and of those who still plan to open a shop or a company, less than half survive the first year,’ says Željko Tomić of OSA computer engineering, who advises start-ups as a so-called ‘business angel’. From his point of view, fiscal incentives ‘are very important for putting your business on a sound footing. As someone who’s been through all this and survived in business for over 30 years, I know how important it is to have some certainty at least when you start to navigate the entrepreneurial waters.’

160 municipalities took part in the competition

All in all, the Serbian economy successfully withstood the crisis caused by the coronavirus pandemic in the first six months of 2020. This emerges from the semi-annual report on the state of the economy elaborated by the National Alliance for Local Economic Development (NALED) and the Public Policy Secretariat of the Republic of Serbia (PPS), with support from German development cooperation. The report was developed in the context of a competition called Champions of Entrepreneurship 2020. Organised by NALED, this is a promotion measure among 160 Serbian municipalities with the aim to stimulate higher commitment at the local level.

The competition ranked the participating cities by the number of newly founded businesses in relation to the number of inhabitants and in three different categories of size. Within the total number of newly established businesses, the ones whose founders were beneficiaries of the ‘Start Legally’ measure were separately identified. There turned out to be 180 of them in the competition among the 160 municipalities. With a total of 301 newly regis-

tered businesses and 20 start-ups in the ‘Start Legally’ measure, Loznica City led the competition in the first half of the year. Efforts to promote the measure in all cities across the country will continue.

Background

Youth unemployment in Serbia is three times higher than the general rate of unemployment.

Young people regard the initial financial costs of a start-up as the biggest problem. For taxes and contributions on salaries, the monthly costs are between EUR 100 and 300. That was identified as one of the key reasons why young entrepreneurs work in the informal economy.

‘Start Legally’ was developed for small company founders or individual entrepreneurs who graduated from school twelve months before starting their business or have been on the records of the National Employment Service for at least six months.

The age distribution of the beneficiaries differs from what was expected. Less than 20 per cent of the registered start-ups were driven by entrepreneurs below the age of 30 (17%). The largest group was aged between 31 and 40 (30%) and almost as large was the group aged between 51 and 65.

Within the ‘Start Legally’ measure, new businesses were set up in various branches, among them retail sales and manufacturing industries as well as accommodation, food services, construction and transportation, thus contributing to a diversified economy.

44 per cent of the businesses were launched by women and 56 per cent by men.

Project: Public Finance Reform - 2030 Agenda

Duration (current project phase): 01.01.2018 - 30.09.2022

Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ), Swiss Government



Photo: Quentin Gouzien

Budget

Budget

Where the money goes

Public budgets serve as an instrument for fostering sustainable development

A public budget goes far beyond figures. It lists up the revenues and where they come from; it shows the expenses and what they are used for. If well-structured and comprehensive, it shows precisely how much public money is available and for what purposes it is allocated. When a government's budgeting practices are based on the principles of legitimacy, accountability, transparency and participation, the country will be able to address the fundamental needs of its citizens in the best possible way with the available resources.

The public budget reflects the government's strategic priorities and serves as the key instrument to implement them. German development cooperation supports expenditure planning and management that is development-oriented and contributes to the implementation of poverty reduction strategies. If the budget contains the corresponding funding, the achievement of social, economic and environmental sustainability goals can be fostered in this way.

Transparency plays a central role throughout the entire budget cycle, in terms of planning and implementation as well as oversight. Budget transparency is established through disclosure of all relevant fiscal information in a timely and systematic manner. This requires clarity, comprehensiveness, reliability and accessibility of reporting on public finances - enabling parliamentary debate and decision, independent auditing and allowing a meaningful public dialogue on budget priorities.

Transparent budget processes are part of a government's activities designed to account to its citizens. That is achieved by disclosing whether the allocated funds were in fact used as intended and, in particular, whether the government's objectives could be reached. Transparency

on public expenditures enhances the effective and efficient use of public funds by making sure that targets are met and unproductive expenditures are cut.

The benefits of budget transparency can be summarised in five keywords: accountability, meaning that clarity about the use of public funds is necessary so that political decision-makers can be accountable for effectiveness and efficiency. Integrity, referring to preventing fraud, corruption, waste and misuse. Inclusiveness, as transparency demands an open debate about the impacts on different groups in society. Trust, meaning that a transparent budget process fosters citizens' trust in being respected and that public money is used for the common good. Finally, effectiveness, as transparent budgeting supports impactful policy implementation.

Structuring budget planning and execution in a transparent manner strengthens the rule of law and fosters citizens' trust in the state. Not least, it enhances compliance and increases the willingness to pay taxes, if taxpayers are given the opportunity to track how the government spends their tax money.

The following success stories provide practical examples of different reforms of the budgetary process: In Kosovo, a transparency portal provides access to information on public expenditures at the national and municipal level. In Benin, budget transparency according to the Open Budget Index increased impressively after the implementation of an action plan. In Malawi, the Government improved public accounting by introducing bank reconciliation. In Burkina Faso, budgeting on gender and children's rights became a cross-sectional task in the Government. And in Cameroon, the Government has set new standards for improved expenditure planning.

Transparency portal indicates public expenditures

Digitalisation paves way to effective budgetary control

Budget transparency is an important precondition for effective public budget control. Knowing who uses the money, how much and what for is - in simple terms - the aim of the transparency portal in Kosovo. It enables budgetary control and thereby guarantees the government's accountability for public expenditures.

The transparency portal was launched in 2018 and delivers open access to all public expenditure data, from the national level down to the local level. Quarterly reports can be downloaded by the general public in Excel formats covering annual budgets with a volume of about EUR 2.3 billion. Additionally, links to budgetary laws and documents are offered. A citizen-friendly user interface was developed, and further improvements are in progress.

New features to raise citizens' interest

Under the title 'Transparency Portal 2.0', digitalisation is moving forward. New features and functions are being installed on the platform, downloads will be provided in open data formats and the user interface will be further improved to facilitate handling by citizens. 'Without citizen engagement, the portal is useless,' says GIZ project manager Kadri Sternberg. Her ambitious objective is to raise broad public awareness of the importance of budget control and to encourage the use of the platform.

Reading a public budget requires special skills. Therefore, from its start the Transparency Portal has mainly been used by experts, students and scientists from universities, and NGOs dealing with public finance-related issues. In order to make the system even more user-friendly and get the wider public involved, new features are planned: The next version will provide, for example, the possibility of comparisons over time, and the data will be more up-to-date. Both features are expected to increase common interest. The automatic connection to the data warehouse system of the Ministry of Finance is aiming to provide

monthly reports and make it possible in the future to follow public procurement processes.

Experts consider the portal 'a very well-done project'

'Various evaluators who deal with financial and budgetary analysis consider the Transparency Portal a very well-done project which has contributed to making the expenditures of the Kosovo budget transparent,' says Muharrem Shahini, Director of the Office of Public Communication, Ministry of Finance, and adds: 'Thanks to the commitment of the Office of Public Communication in the Ministry of Finance and the unreserved support of the German state through GIZ, the project, Transparency Portal for the Ministry of Finance was able to be developed and have a significant impact on the transparency of the state budget.'

'We focus on how to make change happen,' says Kadri Sternberg, who knows that the process of getting people involved takes time. 'It is not only a technical approach, but also one with psychological and mental dimensions,' she says and mentions for example, 'the perception of corruption needs to be changed'. Therefore, various communication and training initiatives appeal to the common perception of what is right. There was a school competition on the importance of taxation, for instance, a workshop at universities, and the involvement of a local comedian who made jokes about corrupt people, while conveying the message: corruption is no laughing matter.

Awareness raising and capacity improvement

'Change has to happen in people's hearts, not just their heads,' says Sternberg, adding: 'You have to know their culture and mindset if you really want to reach the people.' Only if they were convinced of the necessity of change

would they commit themselves, and, for instance, ‘declare their taxes more honestly,’ states Sternberg. On the other hand, as she adds, tax inspectors need to receive more support; they are not highly respected by taxpayers and can be easily cheated. Thus, there is still much room for improvement when it comes to building a trustful relationship between the citizens and the tax administration.

Activities, therefore, cover a lot more than transparent budgeting, which has indeed reached an impressively high standard. Additional efforts are being made to increase IT capacity in the Ministry of Finance and the Tax Administration, for instance, conducting various training courses on the management of services, requests, incidents and security, supporting e-learning applications and communication training, as well as a number of further measures.

One concrete measure with a useful outcome for future projects was a survey on the most efficient channel of communication with taxpayers. While e-mails were opened by only 20 per cent of recipients, and text messages might not always reach the right recipient, telephone

calls conducted by a call centre proved to be the most reliable way to come into contact. The traditional letter, however, turned out to be less appropriate than expected. Due to wrong addresses during the survey, only one in two out of 8,000 letters arrived.

Democratisation in Europe’s youngest state

‘Sometimes progress takes surprising forms,’ Sternberg says, as this finding, finally, led to a long-suggested revision of the administration database. This experience hints at the specific and complex challenges Kosovo faces. Being the youngest state in Europe, it is deeply concerned with the process of democratisation, state building and reconciliation. Development is difficult under the ongoing political and ethnical tensions. During the phase of implementation alone, the transparency project had to cope with two ministerial changes. Considering this, the Transparency Portal looks even more ambitious and impressive - aiming to generate full budget transparency and strengthen citizens’ trust.



The homepage of the transparency portal www.ptmf.rks-gov.net

Programme: Good Financial Governance in Kosovo
 Duration (current project phase): 01.01.2019 - 31.12.2020
 Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ)

Great leap in transparency ranking

Scores in Open Budget Index above global average

Learning from the best was the purpose of a study tour that led a Beninese governmental delegation to Pretoria. South Africa - together with New Zealand - comes top on the latest Open Budget Index, a comparative measure of central government budget transparency. Both leading countries have reached 87 out of 100 possible points, and as the Government of Benin is committed to increase budget transparency, the Head of Budget Office met his South African counterpart to discuss good practice.

He did so with considerable success, judging from the measures taken after the study tour. According to the Open Budget Index, budget transparency in Benin improved significantly. With a score of 49 out of 100 points Benin performed slightly better than the average in 2019 and has climbed the ranking to 51 out of 117 countries. Starting with only one point in the rankings between 2012 and 2015, the Government in Cotonou made great leaps forward and made Benin the leading francophone country in Africa in terms of budget transparency.

Government budget decisions - what taxes to levy, what services to provide, and how much debt to take on - affect how equal a society is and the well-being of its people, including whether the most disadvantaged will have real opportunities for a better life, the Open Budget Survey states, adding: 'It is critical that governments inform and engage the public on these vital decisions that impact their lives.' Therefore the Open Budget Survey assesses opportunities for citizens' participation as a second category. And in this category of the ranking too, Benin scored better than the global average. In figures: the global average transparency score in 2019 is 45 out of 100 - Benin: 49 - and the average global score for participation is 14 out of 100 - Benin: 24.

Action plan set main objectives

Returning from their study tour, the delegation - including experts in the fields of budgeting and internet technology - had collected numerous ideas which the budget office used to develop an action plan with support from GIZ.

An assessment one year afterwards revealed that at least 12 out of 16 actions had been implemented. Among them was improved availability of the Mid-Year Review, and additionally those actions which facilitate public access to budget information, enhance citizens' participation, and involve local municipalities.

The Executive's Budget Proposal is the most important document for budget transparency and therefore accounts for about 50 per cent on the Open Budget Index. On top of expert advice about budget transparency, various activities of the GIZ project in the field of budget preparation and governance finance statistics have helped to improve the Executive's Budget Proposal, for example through the development of programme-based budgeting, the functional classification of public expenditures and reporting on priority social expenditures.

Mayors trained in reading budget

Local mayors across the country were trained in reading the national executive budget and gaining deeper insights in budgetary processes. With low revenues of their own, the municipal authorities depend on national payments and these account for less than 5 per cent of the national budget. Training courses were also offered to journalists in order to enhance their abilities to read and analyse the budget. 30 journalists took part in the three-day seminar. Additionally, to increase public participation a video has been produced, entitled 'Understanding the budget in 135 seconds'. GIZ supported the translation of the video into three local languages.

Citizens' Budget provides key information

A further innovation explicitly mentioned by the Open Budget Survey is the Beninese Citizens' Budget, which aims to achieve greater civil society involvement. It is a simple and less technical version of the Government's Executive's Budget Proposal or the Enacted Budget, de-

signed to convey key information to the public. Written in simple language - translated into local languages by the GIZ project, which also worked on the format and design - it delivers some basic information on the budget cycle, the main actors, revenue and expenditures. Improvements have been made with regard to timeliness, as in 2019 the Citizens' Budget was published as soon as the Executive's Budget was sent to parliament for debate and approval.

Public participation in budget process

Along with access to information, as regarded within the assessment of budget transparency, public participation is an essential component for building open institutions where budgets are proposed, decided, implemented, and audited in the public sphere and not behind doors. Public participation in the budgeting process is linked to better government responsiveness, to more effective service delivery, and to greater willingness to pay taxes.

Despite maintaining stable macroeconomic growth since the early 1990s, Benin is still one of the world's poorest countries. Most of its workforce is employed in agriculture, the dominant sector in Benin's economy. It accounts for more than 75 per cent of all exports, but its productivity is too low to meet the food needs of the country's steadily growing population. Although decentralisation and municipal development in Benin are progressing, public sector reforms, the privatisation of state-owned companies and private sector development are proceeding slowly. The lack of a nation-wide electricity supply is hampering economic development. Around 70 per cent of Benin's population have access to clean water, and just 46 per cent have access to proper sanitation.

There are numerous good reasons for getting citizens more involved, and the ongoing progress in budget transparency follows this aim. GIZ supported the Government through a combination of various activities and technical advice. During the study tour in South Africa it organised

meetings with non-governmental organisations (NGOs) and networks mobilising synergies that were key to achieving the described results. The Collaborative Africa Budget Reform Initiative (CABRI), the International Budget Partnership (IBP) as well as the Global Initiative for Fiscal Transparency (GIFT) have already gained solid experience on the complex reform process for more public participation - in contrast to Benin, where engagement by NGOs has been very low so far.

Focus on sustainability of reforms

International rankings like the Open Budget Index are powerful tools for drawing attention to transparency. This is one conclusion the project draws from the impressive success Benin has achieved. 'However, it's important to avoid "cosmetic" reforms and focus on the sustainability of reforms,' says Quentin Gouzien of GIZ Benin, being aware that budget transparency may be subject to volatility. The latest Open Budget Index Report points out that global progress is constrained by failure in many countries to sustain improvements in transparency practices over time. Therefore, the conclusion is disparate, stating a modest global improvement in budget transparency on the one hand and limited levels of publicly available budget information on the other.

Having achieved results above the global average in both categories - transparency and participation - Benin has, indeed, made remarkable progress. And compared to the low global scores on participation (14/100), the achieved 24 points out of 100 do not look bad at all. A country's budget transparency score, reflected on the Open Budget Index, assesses the public's access to information on how the central government raises and spends public resources. A transparency score of 61 (out of 100) or higher indicates a country is probably publishing sufficient material to support informed public debate on the budget. Thus, there are still targets left that Benin can achieve with further efforts to ensure greater budget transparency and participation.

Programme: Macroeconomic Advice for Poverty Reduction
Duration (current project phase): 01.07.2017 - 31.12.2020
Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ)

Bank reconciliation serves as a ‘traffic light’

New routine in government accounting contributes to disbursement of funds

A bank account serves to manage money; receipts and payments are made into and out of it and the current balance can be established at any time. Every bank account holder is well advised to keep a close watch on what happens in his or her account. False bookings, accounting errors and fraud attempts are possible and may - if not detected in time - become uncorrectable. What applies to every bank account holder is, of course, even more important for a responsible government.

Since the government operates with public funds, strict supervision of the movements in government bank accounts is essential. Committed to that, the Malawian Ministry of Finance refocused on bank reconciliation of Government bank accounts and asked GIZ for support.

Disbursement of USD 76.8 million

The challenge has been met successfully. Nowadays bank reconciliation is being carried out by Government accounting officers and entrenched as a routine process in the accounting processes of the Government. As a measurable outcome, the Extended Credit Facility (ECF) of the International Monetary Fund (IMF) and disbursement of funds to the Malawi Government were resumed in June 2016, so that Malawi received USD 76.8 million and continued to benefit from IMF funding it in the following years.

This was achieved three years after the huge financial scandal commonly known as 'Cashgate', at Capital Hill, the seat of the Malawi Government in Lilongwe. The massive abuse of public funds involved corruption, looting, and theft of millions of dollars. As a consequence, the country's main donors lost their trust in the Malawi Government and withheld funding, demanding a comprehensive investigation.

The IMF postulated a number of preconditions for the resumption of the ECF programme, including the reconciliation of government bank accounts. After all, the non-compliant activities had not been detected over a long period of time. Most probably that would not have been

possible if bank reconciliation had already been a properly applied standard at that time.

A means of error and fraud prevention

Bank reconciliation is one of the fundamental means of controlling the movements on government bank accounts and the inflows and outflows through those accounts. It helps to detect and prevent intentional fraud, along with errors by bank officers, accountants and bank management. Figuratively speaking, it serves as a 'traffic light' for the completeness and accuracy of the transactions processed through the bank accounts and the health of the public financial management system.

After the disclosure of Cashgate, the Malawian Accountant General's Department (AGD) started a process to improve bank reconciliation, but progress was very limited. This, combined with mounting pressure from the IMF made the Minister of Finance ask GIZ for support. This included namely the development of a tailored strategy and the hiring of national short-term consultants to support the process which needed to be tailored to the specific Malawian circumstances. Additionally, the integration of the main bank accounts into the Government's Integrated Financial Management Information System (IFMIS) was crucial. Over 100 accounting officers across the Government were trained by Lamin Sanyang, an advisor at GIZ Malawi, on carrying out bank reconciliation within IFMIS, and GIZ also supported on-the-job training for the AGD bank reconciliation unit.

Capacity development in the area of bank reconciliation has been an important pillar with regard to operating capacities as well as to the process of consolidating and reviewing the new routine. Having access to hundreds of different government accounts - among them the six operating accounts of highest interest, of course - reconciliation is a permanent task that may be further improved by automation. For the time being, it is being done manually with electronic spreadsheets, receiving a green light for correct transactions, a yellow one, if more investigation is required and a red one that signals error and leads to the

transaction being stopped immediately. If fraud is discovered, an investigation is started.

As a conclusion of the project, Lamin Sanyang recommends that a public financial management reform should focus on getting the basics right first before advocating for or supporting more advanced and complex reform activities. Countries should take ownership of capacity diagnosis and the identification of capacity development strategies. The GIZ advisor considers it important that public finance management projects ‘focus closely on the needs of the governments that they support. Reforms take time, they need persistence and perseverance.’ In his view this is the approach which has made the tremendous progress possible.

Background

In the course of the project some further problems were identified, for example the insufficient regulation of payments by cheque and the currency exchange rate, which have also been successfully resolved.

Programme: Support to Public Financial and Economic Management in Malawi
Duration (current project phase): 01.04.2018 - 31.03.2022
Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ)

Budgeting: education is key

Most of the ministries are committed to gender and children's rights

It is, indeed, a rare and overwhelming success if all ministries are committed to budgeting for gender and children's rights. In Burkina Faso this exceptional situation is on the horizon: 20 out of 28 ministries are already involved, and had the COVID-19 pandemic not slowed down the process, all of them would probably now be on board.

This development is even more impressive because of its high speed. In 2018, Burkina Faso started to gradually roll out a framework for gender- and children's rights-responsive budgeting. At the time, six line ministries planned pro-gender and pro-children policy interventions in their 2019 annual budgets. The Government envisaged bringing a total of 15 ministries on board by 2020. But, in 2020, the number of participating ministries has already increased to 18 and in 2021 there will be 20, with eight still to follow suit.

Budget planning focuses on results

Gender equality and protection of children's rights have been mainstreamed both politically and institutionally into the budgetary process. The initiative has also promoted transparency through continuous monitoring of budget allocations related to gender and children's rights. It has further promoted the results-based budgeting approach, which aims to focus budget planning on the intended results and has been operational at central government level since 1 January 2017. This achievement has earned Burkina Faso recognition from its regional peers.

'The sums don't have to be big,' says GIZ project manager Ksenija Maver in Ouagadougou, referring to the involvement of every single ministry. 'It is important to show that we all are thinking about improving the lives of disadvantaged people.' Each ministry can contribute something, she explains, and gives the example of improving street lighting to increase the safety of women on the streets. But beyond various small steps, fundamental work remains to be done in the ministries whose portfolios cover families, women, children, education and employment. And there is a lot to be done.

Despite a good legal framework, women are disadvantaged in many areas of life, including widespread domestic violence, persistent genital mutilation (disregarding the 1996 ban), discrimination in inheritance, land acquisition and access to education. Almost two million children are victims of exploitative child labour in households, agriculture and non-industrial gold mines.

Being convinced that these challenges are morally wrong and economically irresponsible, the Ministry of Economy, Finance and Development has played a central role in implementing a comprehensive initiative, supported by GIZ and a group of development partners, notably UNICEF, the Swiss Agency for Development and Cooperation (SDC), the Delegation of the European Union, the National Democratic Institute (NDI), Canada, and the United Nations Population Fund (UNFPA), with continuing engagement of the Ministry for Women, National Solidarity, Family and Humanitarian Action.

This initiative aims to promote a dialogue and raise awareness; it consists of the following pillars:

- The institutional setup, including the national strategies on gender and children's rights as well as gender units in each ministry.
- Capacity development, encompassing learning materials (two training modules, eleven case studies, two brochures), a pool of 25 trainers and workshops for ministries, Court of Audit, National Assembly and civil society, with more than 1,600 participants from 2017 until the end of 2020.
- Reference to the initiative in the budget circular letter and its annexes. Signed by the President of Burkina Faso, the annual budget circular letter signals high-level political commitment to the initiative.
- Report to the National Assembly attached to the draft annual budget law about the activities planned by line ministries in relation to gender and children's rights.
- Evaluation report addressing past engagements of line ministries.

The lack of gender-disaggregated data remains a challenge, as these are needed to evaluate the effectiveness of projects ex ante. Additionally, technical capacities in the ministries have to be strengthened. Budgeting for gender and children's rights will be extended to some 370 municipalities by 2025, supported by extensive outreach activities to communicate with the public and an updated set of learning materials, and assisted by a group of development partners, including three GIZ projects (Decentralisation and Social Cohesion, Protection of Children's Rights and Good Financial Governance). The current violent conflicts, however, with the Government's loss of control over a third of the country, make this goal seemingly unattainable at the moment.

'But it is crucial,' says Ksenija Maver, 'to go out to the regions where possible, closer to the people, where the impact is more direct. A lot of it is about a mentality

change.' The various policy interventions that have already been implemented - be it on forced marriages or female genital mutilation, street children, belief in witchcraft or girls' education - show how true this testimony is.

Violence is part of daily lives

Child labour in gold mines is an alarming problem which concerns a large number of children. A governmental study conducted in 2011 identified almost 20,000 children working at mining sites, of which almost half were girls. The causes are multiple, lying in poverty, death or divorce of parents, erosion of community relations and difficult access to education, for instance. The consequences are extremely serious. In addition to the heaviness and danger



Education is key.

Photo: Pascale Drevet

of their work, children are victims to all kinds of violence: physical, verbal, economic and sexual. Girls are the most affected by sexual, boys by physical violence.

The number of homeless children living on the streets cannot even be quantified. They often suffer from traumatic incidents in their families and develop hard-to-change habits. Almost all street children are used to begging. Violence is part of their daily lives, and almost 50 per cent of these children have already been in prison. They live in permanent danger of trafficking either for work or sexual exploitation or theft of organs. Many of them develop a drug addiction, and over the years their chance of reintegration declines. Most of the interventions by various organisations have failed.

Nevertheless, in 2018 the Ministry for Women, National Solidarity, Family and Humanitarian Action launched an operation to take children and women in street situations off the streets and recorded up to 654 children in ten days. A ministry's team went through the streets of Ouagadougou and enrolled the children in emergency reception centres. There, they were helped to return to their families or to find vocational training. The ministry, however, is aware of the importance of preventing and combatting the phenomenon before it occurs. Education is, obviously, an important lever, and in terms of schooling, girls are particularly disadvantaged. Now the budgeting for gender and children's rights makes it possible to take action and allocate funds for the focused challenges.

Children in Burkina Faso can expect to complete 6.5 years of education, and when adjusted for quality of learning, according to the World Bank, this is only equivalent to 4.2 years. Six out of ten children working in the mines have never been to school. Only five per cent are literate and less than one per cent reached secondary level education.

The impact of education can clearly be seen in the context of further problems Burkina Faso is focusing on: excision, for example. In 2010, 76 per cent of women aged between 15 and 49 had been subjected to genital mutilation, according to the National Institute for Statistics and Demography. It is more common in rural areas where most girls are still kept from going to school at all.

Child marriage is also a problem which is - at least partly - caused by lack of education and knowledge about rights. According to the Demographic and Health Survey (EDS 2010), victims of child marriage are mostly rural, and were only allowed to go to primary school or not attend school at all. Burkina Faso is responding to this situation with a programme to secure access to secondary education.

Although girls now have access to primary education almost at the same level as boys, they remain a minority in secondary schools. There are significant variations in regions and the Sahel and the East are most affected by this problem. 'And yet,' states the ministry's programme, 'educating a girl is educating a nation.' This requires, of course, the provision of funds, which the budgeting for the gender and children's rights initiative is helping to mobilise.

**Vieux Abdoul Rachid Soulama,
Budget Director,
Ministry of Economy, Finance and
Development of Burkina Faso:**

'The roll-out of the gender and children's rights budgeting initiative was gradual, involving six ministries in the 2019 and 20 ministries in the 2021 budgets. The mid-term review shows that the initiative helped streamline gender and children's rights into the economic policy.

By way of illustration, the 20 ministries allocated 4.5 percent and 4.8 percent of their total 2021 budgets to activities aimed at reducing gender inequalities and at protecting children's rights, respectively.

In order to consolidate these results, there are two main objectives going forward. First, to extend the initiative to all ministries and institutions as well as to local authorities. Second, to continuously strengthen the line ministries' ownership of the gender and children's rights budgeting process.'

Programme: Strengthening of Good Financial Governance in Burkina Faso

Duration (current project phase): 01.08.2018 - 31.07.2021

Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ)

New standards for better expenditure planning

COVID-19 pandemic required online training as premiere

The better they are planned, the more efficient public expenditures are. Following this principle, the medium-term expenditure framework (MTEF) is an important tool for good financial governance. Therefore, GIZ's programme to support the modernisation of public finances in Cameroon put a focus on establishing a proper methodology for expenditure planning laid down in new guidelines.

Before, some ministries had already started to set up MTEFs but did not follow a unified methodology. GIZ supported the establishment of a common methodology which is now described in binding guidelines. These were initially followed by three ministries as pilots and since 2019 have set the standard for the whole central administration after official validation by the Minister of Finance as well as the Minister of Economy, Planning and Regional Development. Likewise, in future they will be also applied by the local authorities of Cameroon.

Guidelines for a unified method

Aiming for more transparency and accountability in public finances, GIZ supported the modernisation and standardisation of the procedures for the preparation of each ministry's medium-term expenditure framework. The MTEF is a management tool for planning and programming the activities of public administrations over a three-year period within the framework of programme budgets. Programme budgets allow a clear definition of the activities to be implemented in a given period of time in order to achieve public policy objectives and produce results. The medium-term expenditure framework is important to get funds allocated according to potential resources. Following the standards set by the guidelines the ministries now provide all documents required and prepare mature projects within their MTEFs.

GIZ supported the two central ministries in charge of finance and economy in developing the guidelines. They were first followed by three pilot ministries whose staff were trained to draw up their MTEFs according to the

newly developed uniform method: the Ministry of Public Health with 20 participants, the Ministry of Decentralisation and Local Development with 20 and the Ministry of Higher Education with 35 participants, including the heads of the State universities. The eight Cameroonian State universities also apply the methodology to their medium-term expenditure planning, their budget being part of the budget of the Ministry for Higher Education.

As a consequence of the COVID-19 pandemic, the four-day training was conducted in an e-learning format. Staying at their offices, the participants were well connected to the interactive platform, able to ask questions and receiving answers immediately.

In order to be able to conduct internet-based training for the first time and spontaneously, GIZ rented an existing platform from a training institution that has been developing e-learning for several years, in this case the Programme Supérieur de Spécialisation en Finances Publiques (Higher Specialisation Programme in Public Finance). 'As part of the measures aimed at containing any danger of spreading COVID-19, online training is an important precaution and an opportunity to be seized,' says Patrice Serge Ekombo, Head of the Planning and Projects Unit of the Ministry of Decentralisation and Local Development, and also a course participant. 'It still needs to be improved, though,' he adds.

Process of learning by doing

E-learning conditions are 'slightly less practical than face-to-face training because interactions are limited and do not allow trainers to effectively evaluate learners,' says Georges Christol Manon Manon, another participant from the Ministry of Decentralisation and Local Development. 'As far as content is concerned, it is just as rich as that communicated on-site with downloadable digital media and even evaluation modules. However, we believe that more needs to be done on evaluation procedures to ensure, for example, that predefined responses are adapted to the nuances that learners would make.'

It was a process of learning by doing and a special success during the pandemic to be able to organise the activities, ensure the preconditions for a good and stable internet connection and proper access for the participants. Under the Government's restrictions, face-to-face meetings would not have been permitted. The experience of distance learning will certainly lead to further exploration and application in future work.

Better allocation of resources

Referring to the conveyed contents of the training courses, the participants fully agree that 'Standardisation of MTEF preparation procedures makes it possible to have coherent, reliable MTEFs that serve the strategic objectives of the ministerial department, with streamlined activities and mature projects,' says Patrice Serge Ekombo. 'One of the greatest advantages is that this system promotes better legibility and transparency of public action,' Georges Christol Manon Manon says and states: 'It highlights the government's action agendas by promoting better public policy formulation. It allows for better allocation of resources according to the government's priorities and takes into account the constraints of the macro-economic framework.'

The practical results confirmed the high expectations. The responsible Ministry of Planning expressed its gratitude to GIZ as the quality of the MTEFs has already significantly improved - with likely positive effects on the medium-

term budget framework managed by the Ministry of Finance. The medium-term budget framework includes the preparation, execution and monitoring of multiannual budget plans. It includes expenditure as well as revenue projections. The feedback GIZ received from its partners stated the general impression that their MTEFs presented better identified and better planned activities.

The projects registered were more readable, better presented and more mature so that they could be implemented without further delay. All in all, the improved MTEFs of the sectoral ministries received a better rating during the budget conferences, hence receiving budget allocation more easily.

Good communication improves cooperation

'Procedural changes to the national budget process take time,' says the GIZ team, summarising the experience made with the project. One of the main reasons had been 'the weak level of communication between the Ministry of Finance and the Ministry of Planning regarding the tools and their harmonised updating based on latest legal developments'. Now, collaboration between the two ministries has improved in the process of planning, programming and budgeting as well as in macroeconomic and budgetary forecasting, GIZ sums up: 'Good financial governance projects have the golden possibility to cooperate well with both ministries and coordinate their communication for a good course, as already wanted by law.'

Programme: Support Programme for the Modernization of Public Finances (PAMFIP)
Duration (current project phase): 01.09.2020 - 31.08.2023
Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ)



Photo: GIZ Ukraine

Procurement

Procurement

Saving public money

Transparent procurement supports development-oriented spending

Public procurement is about large amounts of money: contracts are to be awarded for the construction of roads, the modernisation of school buildings or the supply of medical materials to hospitals. As governments continuously spend a lot of money on a huge number and variety of projects, it is an extraordinarily lucrative market for the respective providers. Promising profitable orders, often for long periods of time, public tenders are attractive to many companies. On the other side, if public tender processes do not work properly, qualified bidders refrain from participating and prefer to do business in the private sector.

Since taxpayers' money is at stake, it has to be spent in a highly responsible, effective and efficient manner. Therefore, governments and state-owned enterprises are expected to conduct the purchase of goods and services under conditions that ensure cost efficiency and high-quality delivery as well as to safeguard the public interest by strict fairness. In order to make sure that governments select the best bidder - as to both price and quality - public procurement processes have to meet the highest standards. They have to be efficient and competitive, transparent and fair, as well as open to everyone and not prone to corruption. German development cooperation measures support the improvement of procurement processes in partner countries with the aim of supporting development-oriented spending and enhancing public service delivery.

Modern public procurement increasingly takes into account horizontal policy objectives such as corporate responsibility and sustainability. In terms of public welfare,

the quality of products or services and value for money are not the only selection criteria. Social and environmental standards such as fair wages and resource saving are equally important and are crucial aspects of sustainability. Furthermore, it is becoming increasingly important to prevent corruption and exclude companies that commit white-collar crimes from public procurement.

Digital solutions can help to create transparent procurement processes that are hard to manipulate. In digitally conducted tenders, encouraging more bidders to participate not only fosters competition, it also makes it easier to identify companies involved in unlawful practices. As electronic platforms minimise interfaces and document activities automatically, they also prevent errors and fraud on the side of the procurement office. Information about tenders is openly available, bidding is free and easily to access, contract awards are comprehensible and transparent. Digitally enhanced transparency, competition and efficiency contribute to the overarching purpose of procurement: to improve public service delivery.

The successes achieved through the digitalisation of procurement processes are evident in Ukraine: since the launch of ProZorro competition has increased significantly, considerable savings in procurement are expected. In parallel, another transparency platform, E-data, has been established which provides data about public expenditures to the general public. On this platform every single contract can be found. Making the awards of public tenders transparent to all citizens serves as an additional protection screen against corruption.

Transparency as guiding principle for managing public funds

Open data platforms set an example for successful collaboration

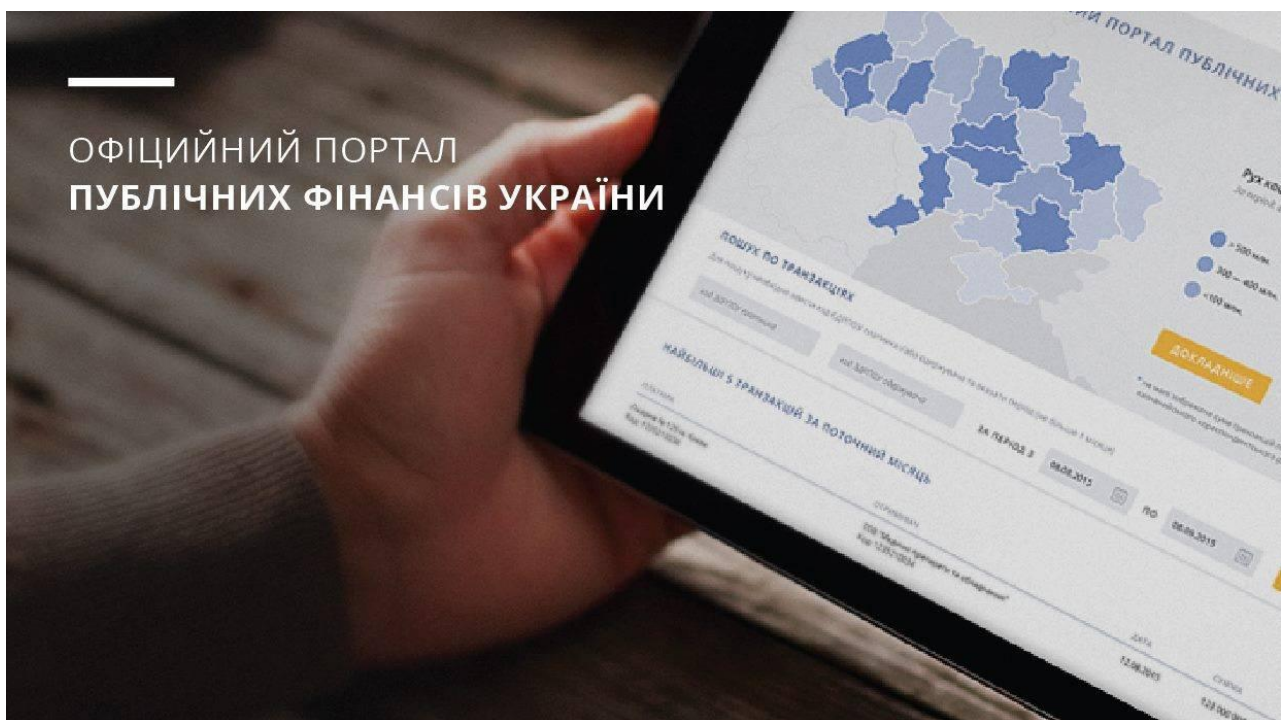


Photo: GIZ Ukraine

‘Everyone can see everything.’ According to the official website, this is the official motto of ProZorro, one of the most innovative open-source electronic public purchasing systems. And, as the motto indicates, it is a very ambitious governmental project indeed. While ‘Zorro’ may remind some readers of the hero of the eponymous novel, in Ukrainian ProZorro means transparency. And transparency is the guiding principle of three online initiatives - developed in collaboration between businesses, the state and civil society, the so-called ‘golden triangle’.

Meanwhile there are three online platforms concerning public finances - ProZorro, ProZorro.Sale, and E-Data. These are operated by respective state-owned enterprises, firmly embedded in the public administration and making a substantial contribution to the fight against corruption. Ukrainian citizens are enabled to hold the government accountable by accessing public finance information.

Number of users growing rapidly

All of these platforms are attracting a rapidly growing number of users and are constantly expanding the covered government bodies and budgets at the national and local level. In detail, the transparency initiatives have successfully achieved the following results:

ProZorro, the public procurement platform, became obligatory for all public contracting authorities in 2016 with some exceptions, for instance with respect to defence purposes and financial services. All tender announcements are available online without any limitations immediately after being published. Following the completion of a tender procedure, absolutely all data are disclosed and available online, including the list of all participants, their bids,

the information about the tender process, decisions of the tender committee and all qualification documents. This makes public tenders transparent, fosters competition and combats corruption and embezzlement of funds.

Since the launch of ProZorro competition has increased significantly: the number of bidders for tenders has doubled. Where there were 50,253 bidders in 2017, their number increased to 107,076 bidders in 2020. The intensified competition is expected to lead to considerable savings in procurement.

More transparent sale of state assets

ProZorro.Sale allows the transparent and effective sale of state and municipal property. Following its launch in 2016, a total of EUR 1 billion was generated by October 2020 through transparent sales of state assets. Different types of auctions are conducted on the platform, for example the sale of assets and property of liquidated banks, the sale of non-performing loans, or the lease of assets and property of state-owned enterprises, as well as timber sales, the sale of mineral extraction rights or railway car leases.

Citizens get access to public funds data

E-Data, finally, allows every citizen in Ukraine to view data on the use of state funds. It provides data on public expenditures and the citizens' budget, as well as on the use of international funds. Hence, it is a key element of transparency, control and public participation in the budget process. Between 2018 and 2020 the number of users has increased from 300,000 to more than 540,000.

Via E-Data citizens gain access to the expenditure of the budget funds by public agencies at different levels. They can monitor payments for their city, their village, their school, for instance, and also check the payments for public services or public goods such as the repair of roads or the maintenance of school buildings. 'And if you want to know how much detergent your school has bought and at what price, you can find even that,' says Olga Mitskevych of GIZ Ukraine, referring to the highly detailed information available. Treasury transactions are updated on the platform automatically at the end of each business day, while public funds data are updated in a regular cycle.



The ProZorro.Sale team.

Photo: GIZ Ukraine

Currently, the average number of daily visits is 6,972, among them by analysts, scientists and journalists. Several efforts have already been made to further promote the platform and raise more public interest. There was, for instance, a series of informational and learning events such as round tables, press conferences, coffee events for journalists, training, online seminars and lectures at universities. And there will be more communication activities in future as the platform will be expanded continuously.

Controlling and monitoring

Activities to promote ProZorro.Sale differ from those mentioned above because the objective is a different one. In regional events the project tried to increase the commitment of further cities and local authorities. At the same time non-governmental organisations were addressed for the sake of controlling and monitoring activities. Promotion videos have been created and a campaign on internet and television is planned.

Altogether, the transparency platforms have improved the public finance system and increase transparency and the opportunity of public participation by innovative digital solutions. According to the Open Budget Index, Ukraine has reached a transparency score of 63 out of 100 and ranked 26th out of 117 in 2019 (2017: 39). A transparency score of 61 or above indicates a country is probably publishing enough material to support informed public de-

bate on the budget. The Open Budget Survey in 2019 rated public participation in Ukraine at 33 out of 100 (2017: 30).

‘Motivate more people to use it’

‘That’s what an informational revolution looks like,’ a user commented on E-Data, and another wrote: ‘Now is the time to learn and to educate others to process it.’ Oksana Markarova, former Finance Minister of Ukraine (2018 - 2020), also refers to the future development of the transparency platforms, saying: ‘We are delighted that E-Data involves a wide range of social activists and a large number of donors who keep developing the portal and fund training courses. Ultimately, that will motivate even more people to use it.’ She stresses that ‘E-Data is a key element of the reform process in our public finance system’ and that in 2017 ‘all relevant institutions were officially required to report through it’. And the process will be continued, driven by ‘258’ - a highly committed team, simply named after the number of the ministry’s office in which they met for the first time.

Data from the portal were not only used by the media, Oksana Markarova says, but - more and more often - also by the National Anti-Corruption Bureau and other law enforcement agencies. ‘E-Data shows how we are spending public money and thus ensures transparency in the public budget - the most critical aspect of the reform process so far.’

Programme: Good Financial Governance III

Duration (current project phase): 01.07.2019 - 30.06.2022

Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ)



Photo: Anis Masmoudi

Accountability

Accountability

Sound auditing creates trust

Strengthening financial control for effective use of public funds

Transparent and accountable public finances are at the heart of development. How budgets are prepared, executed and accounted for is crucial for the delivery of public services: public funds need to be used as effectively and efficiently as possible for education, health care and infrastructure as well as for the supply of electricity and water. However, low accountability is still a reality, hampering development in countries across the world - if governments are not accountable, public revenues are spent without giving adequate consideration to people's needs.

Supreme audit institutions (SAIs) are among the key actors responsible for holding governments accountable. They undertake audits to safeguard the government's strict adherence to financial accountancy rules and laws when collecting and spending revenues. Additionally, SAIs ensure that public funds are used effectively and economically: was a construction measure carried out in a legally correct and economical manner? Was the staffing adequate? Were grants distributed in a correct way? These are some of the questions investigated by SAIs.

The recommendations of SAIs give important hints as to how public financial management can be improved. The awareness of control alone can prevent engagement in uneconomical action. Solid auditing can also strengthen citizens' trust in the government's handling of public resources.

Objective number 16 of the 2030 Agenda for Sustainable Development is to 'promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels'. The existence and effectiveness of SAIs can contribute directly to a country's implementation of this Sustainable Development Goal (SDG), particularly with regard to fostering effective, accountable and inclusive government institutions.

Independence of the supreme audit institution from the government is crucial. Although state institutions cannot be absolutely independent because they are part of the state as a whole, supreme audit institutions must have the functional and organisational independence required to accomplish their tasks, as the International Organization of Supreme Audit Institutions states. And: the independence of supreme audit institutions is inseparably linked to the independence of its members.

Therefore, a lot of support is focused on strengthening both the independence and audit capacity of these institutions. Above all, good auditing requires good access to the data to be examined. And that is what the success story from Tunisia is about. It started with a hackathon and developed into official auditing software used by the Court of Auditors.

How a hackathon idea becomes a powerful tool

Digitalisation improves quality of public auditing

Plates of pizza, bottles of coke and a laptop: that is the setting in which young developers let their creativity flow. When the supreme audit institution (SAI) of Tunisia invited to a hackathon, Hack4Transparency, in the middle of 2019, two young Tunisian IT experts decided to participate and spend a full weekend on digital solutions that were meant to improve and facilitate the SAI's work.

Mohamed and Amel, having just graduated from university, had the time and - even more important - they had an idea. Less than one year, several meetings and workshops later, it has been put into practice. Together with a team of two experienced auditors, the Tathmine app was developed, intensively tested by two magistrates at five court chambers each and continuously improved in line with the actual needs that emerged in daily practice.

More efficiency, less time

Translated from the Arabic, Tathmine means valorisation, and, of course, the work of the Court of Accounts has a great deal to do with safeguarding public funds and resources. Year by year the supreme audit institution examines the expenditures side of the municipal budgets in order to detect management mistakes, mismanagement or fraud. The new application changes this work extensively, achieving more efficiency, substantial time savings and - in particular - a higher quality of the financial audits.

Stacks of thick books were the most important tool when audits started in some 100 municipalities in the third quarter



Hackathon 'Hack4Transparency' in June 2019.

Photo: Anis Masmoudi

of each year. The local accountants used to handwrite each single expense item down in those books, added the receipts and send them to the Court of Accounts for verification. There was already a data warehouse, providing the huge amount of data in a simple digital format, complicated and very time-consuming to handle.

The preparatory phase of an audit, in particular, relies heavily on data analysis. While this usually took up to 18 working days, with an assistant preparing the raw data files and an auditor evaluating them, the app reduces this workload to about four days. During the following steps - the on-site inspection and the report writing - there is not much scope for saving time. Estimations by GIZ say that the on-site inspection, which takes between two and four weeks, might be shortened by several days.

Meaningful investigations

But Tathmine enhances the quality of the audit as a whole by far more meaningful investigations and standardised presentation. The software enables the Court of Accounts to clarify facts on specific topics by a few clicks. Looking at the yearly fuel consumption in a municipality, for instance, the auditor can easily examine the figures over the course of the year and compare it with former years and with municipalities of similar size. And if any anomalies show up, the auditor can carry out a more concrete investigation to find the cause.

There may have been illegal purchases at filling stations, but there may also be factual reasons such as additional business trips. All in all, it is less about detecting fraud, and more about management mistakes, public mismanagement, the elimination and avoidance of double or delayed counting. Therefore, the municipalities benefit from digital progress too.

Own software development

It goes without saying that they retain full access to their own data on their expenditures, be it personnel costs, energy costs or vehicle fleet costs, which are well prepared in the form of statistics and in easy-to-read graphs and charts. And Tathmine is well on the way to being used by the Court of Accounts as one of its standard auditing tools, which requires the development of dedicated software without the need to buy expensive licences.

The COVID-19 pandemic has slowed down the process, as the Tunisian state has generally postponed all timelines for two months - including those for the municipal audits - and imposed a strict curfew over months. During a transitional period the application remains voluntary. But as it is a comfortable and adequate tool, many auditors are already taking advantage of it and the official launch is in sight.

GIZ took a second look

Looking back to the starting point of this success story - the Court of Auditors' hackathon - it may come as a surprise that the Tathmine team did not win the competition. At that time, the jury was more impressed by fascinating future plans in the context of artificial intelligence, especially when they were presented very professionally.

Mohamed and Amel went away empty-handed, but GIZ took a second look on Tathmine and discovered its high potential and feasibility for today's world. The Court of Auditors expressed interest, a development contract was concluded, the development team was formed, and intense work began. The result is a powerful tool in the hands of the auditors which increases the quality and meaningfulness of public finance auditing.

Programme: Strengthening Decentralisation

Duration (current project phase): 01.04.2018 - 30.06.2021

Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ)



Photo: Tommy Destrianto

Fiscal Decentralisation

Fiscal Decentralisation

Close to needs

Fiscal decentralisation strengthens municipalities

Close to needs. This is in short the guiding principle of fiscal decentralisation. There is a widespread belief that local problems and challenges can be best addressed locally - with local solutions. However, in order to be able to offer tailored solutions, a local government needs to be endowed with the respective rights and, perhaps more importantly, the financial means to do so.

Strengthening local governments by transferring money and giving them the right to raise and collect municipal taxes enables districts and municipalities to provide public goods and services for their citizens. Close to basic needs, they can use the funds to finance schools and health care, roads and public transports, water supply and waste collection instead of having to wait for the central government to take initiative at exactly this district, city or municipality.

The transfer of financial resources, including a limited right of taxation, and the mainly independent determination of focus areas to which money is allocated are the key components of fiscal decentralisation. It involves devolving powers and transferring financial resources away from the national level to the municipalities.

Regions and local communities play a vital role when it comes to modernising a country's administrative and governance system. Ideally, beyond the satisfaction of needs it is about participation. At the local level people can be directly involved in planning and decision-making processes and directly benefit (or suffer, if there is a negative outcome) from them. Thus, they feel empowered, responsible for changes, commit themselves to reforms and contribute to their success.

Various efforts are demanded at the local level to develop reliable and efficient administrative structures. Human and technical capacity development is needed. Digitalisation is a topic of growing importance. Citizens are involved in preventing corruption and misuse of public funds. Computerised management systems ensure transparency and lawful collection practice. There are exciting stories to be told.

The following success stories from Indonesia, Mozambique, and Mauritania highlight different aspects of the reform process on good financial governance at the local level. The challenges tackled and the solutions are different, but the aim is the same: ensuring that public resources are used effectively for the benefit of the people.

Watch and care: how citizens prevent corruption

Government enhances transparency via a mobile app

At the outset of the COVID-19 pandemic, the Indonesian Government introduced a social aid programme. The programme called 'Bansos' aimed to supply about 19 million needy people - as identified in the responsible ministry's database - with money for their urgent daily needs. The local governments were in charge of distributing the sum - 600,000 rupiahs (EUR 36) for three months - to each beneficiary of the COVID Aid Programme.

As corruption is still widespread, one major concern was whether the money would actually arrive at its destination. But, thanks to JAGA - a new mobile app - the Indonesian authorities had a tool to monitor the Bansos process and detect misuse or sloppiness. And thanks to committed citizens, of course, because the app relies heavily on the involvement of civil society, using accessible data to check the appropriate use of public funds.

Detailed information from schools and hospitals

In 2016, the Indonesian Corruption Eradication Commission (KPK) initiated the process of developing a digital platform and a mobile app, both called JAGA, which means 'to watch' or 'to care' in Indonesian. JAGA compiles data on the allocated funds of different public services provided by government institutions from national and local levels. Currently, it covers topics related to education, health, licensing, village funds, and the above-mentioned social assistance programme. It publicly shares information on budgets and other key facts from 404,000 schools, 2,777 government hospitals, 10,051 health centres and profiles of 48,000 villages. Data on further topics will be added continuously.

Since it was launched, the JAGA mobile app has been downloaded 47,943 times with 40,051 permanent accounts being set up. The user-friendly interface in JAGA's applications increases community engagement

in monitoring the data and makes it easy to prevent corruption. Because of JAGA, now local communities can monitor the use of village funds. The platform additionally provides background information about regulations and funds. The data provided in JAGA are current, complete and presented in a way that is easy to understand.

All village funds are included

The app is offered in 508 regencies and 34 provinces all over Indonesia as well as at national level. It includes the village funds of all 74,957 Indonesian villages with a combined volume of 72 trillion rupiahs (EUR 4.2 billion) in 2020. And it invites everybody to check fund usage that might differ from reality. Given the necessary information, villagers can suggest better spending allocation to address the problems they face via a discussion forum that is part of the app.

In several reported cases, that gap is extremely large. At one school, for example, there was a person listed as teacher who had never shown up at class. The students' parents initially thought that it was a former teacher who had already retired. However, since JAGA showed her in the list of active teachers, it meant that she continued to receive her monthly salary without working for it. The parents went to talk to the teacher and the matter was clarified. Now she comes back to school and stands in the class again.

This was a rather rare occurrence, but other irregularities occurred more often and harmed people more seriously. For instance, it became evident that employers often do not pay health insurance for their employees and this without their knowledge. On JAGA, employees can easily control whether health insurance has been paid, and - if not - complain and put pressure on their employers to pay it.

Money for students, not headmasters

Another area of widespread embezzlement is the public money that funds poor students to buy school material or a uniform. These sums often went into the headmaster's pocket, as neither the children nor their parents knew how much they should have received. It was an NGO that took the information from the Ministry of Education's database via JAGA and communicated it to the beneficiaries. Such personal information is, of course, not freely available in the app, but can only be accessed by entering a personal identification number.

Support from non-governmental organisations very often helps people to access the content of JAGA, as smartphones are not used widely among the population yet. Also, scientists, students and investigative journalists are eager users. And by approaching it from different angles, both of JAGA's objectives are pursued successfully: raising citizen's awareness about their vested rights, on the one hand, and committing government institutions to transparency, on the other. This makes it possible to check the intended and regular use of public funds.

Promotion on private video channel

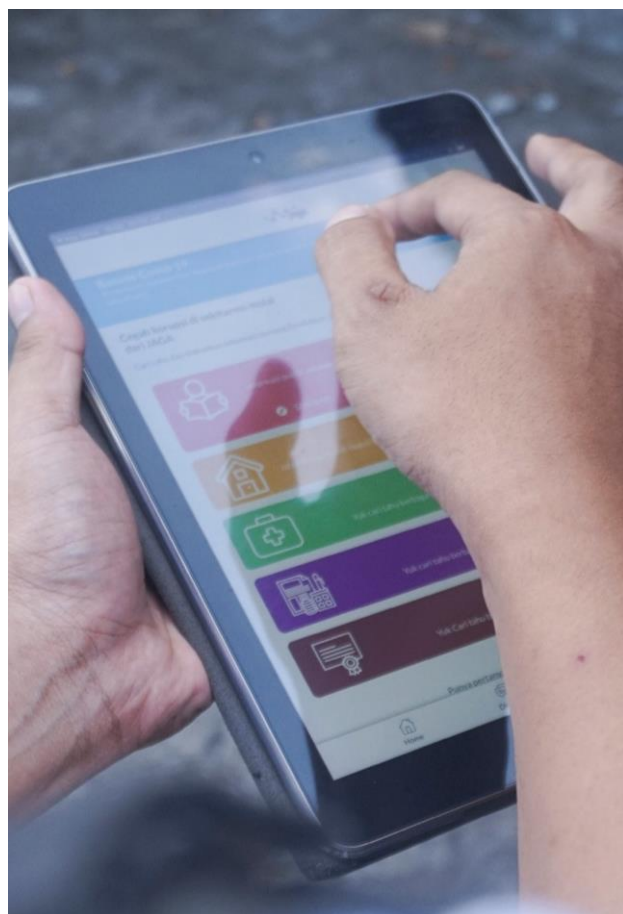
Efforts to provide good services to the public will increase with every new added topic covered by JAGA, and, of course, with more people who participate. Access to the mobile app is not restricted and various measures are taken to promote JAGA, ranging from workshops, focus group discussions and spots broadcasted on local and national radio and television programmes to online advertisements and several activities in social media channels such as YouTube, Instagram, Twitter and Facebook.

Besides a road show campaign that was conducted using the KPK education bus for the Java and Bali areas in 2018 and 2019, the digital campaign in particular met with a huge response. Three million hits were counted on the posts in three quarters of 2020 alone, and on YouTube videos turned up that were created by private persons, explaining how JAGA works and published on their own channels.

The proactive support of the population is all the more remarkable as the reputation of public services is quite

bad. In response to lumbering bureaucracy processes and public service delivery that is not really citizen-centred, there is little trust and commitment. Corrupt practices worsen the situation and increase the importance of JAGA as a governmental transparency tool.

To come back to JAGA Bansos, which was launched in spring 2020, accompanying the COVID Aid Programme, by mid-November 2020 1,677 reports on complaints had been sent to the KPK, of which 583 were settled by inquiries at the national level, and 318 forwarded to local authorities, which solved a further 137 queries. They included the case of a jobless bicycle courier, who sent his complaint via JAGA, and it simply read: 'I don't get any benefits although I am registered as an eligible beneficiary.' But he didn't receive a written answer. Instead, the local government sent an officer to his home handing over the money in cash.



JAGA app provides data on local and national public funds. Photo: Tommy Destrianto

That is, indeed, an impressive example of encouraging and empowering citizens to pursue their rights and thereby cooperate in combating corruption. It was ena-

bled by the growing openness for transparency at the different government levels and two highly committed teams within the Corruption Eradication Commission.

Programme: Assistance in Preventing and Combating Corruption

Duration (current project phase): 01.01.2019 - 31.12.2021

Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ)

The wondrous discovery of houses

Registration as a first step to revenue mobilisation

The right to raise a municipal property tax is an important instrument for improving the financial situation of the municipality and strengthening its administration. In 2010, a decret that specified the IPRA (Imposto Predial Autárquico) came into force which allowed municipalities to collect property taxes in Mozambique. But there is still a lot of ground to cover between having the right to tax and actually exercising that right. Preparation is needed in terms of data research and processing, designing strategies for gaining knowledge about the taxpayers and their properties, determining a reasonable valuation technique for real estate and capital, and developing efficient collection strategies, not to mention the flow of information to the taxpayers.

This is one area in which German development cooperation, acting through GIZ, supported selected municipalities in Mozambique over a period of three years, with remarkable success. But, of course, the results differ due to circumstances such as geographical and socio-economic conditions. Political will and (human) capacities also play a decisive role. Committed decision-makers and capacity building are important to get things done successfully.

Starting with the definition of criteria for IPRA targets, German development cooperation supported the municipalities of Gorongosa, Marromeu, Nhamatanda and Dondo in Sofala to identify taxpayers by the type of their properties, making the main distinction between housing and commercial use, the latter leading to higher taxes, namely a tax rate of 0.7 instead of 0.4 per cent. In order to unlock the full potential of revenues, the totality of properties was to be determined, using all available data from the national and the local authorities and cross-checking them. As a result, newly identified properties then had to be registered.

Teams went out to find properties

The first step involved comparing data from national and local property registries. Data from the national level

proved to be more accurate, counting for example a thousand houses in one municipality where the local database had registered only 190. So to say, a wondrous discovery, as more than 800 buildings - though long existing and visible for all - had not been registered by the municipal administration.

The work on this, of course, was not only done at the computer table. Beyond the data research and evaluation, intensive practical fieldwork had to be performed. That required putting together teams and sending them out to the neighbourhoods so that they could take a look at the properties themselves. That way, the officials could make sure that all property had been successfully registered as well as determine the condition of the building and the property.

Increasing revenues by legislated formula

Only after this could the tax officials calculate the registered property's value by using the legislated formula. Finally, the four municipalities registered 3,351 new properties, 228 of them commercial, increasing the revenue potential and also facilitating revenue projections. The multisectoral teams from the areas of taxes, economic activities, real estate and information technology achieved their defined registration and revenue targets by consistently more than 100 per cent, in one special case, that of Marromeu, by 175 per cent.

This enormous success in Marromeu traces back to only one company, a sugar refining mill, which had been clearly underestimated with respect to its taxable value. As a result of the inspection, the company's tax burden almost doubled, as the taxes that had been paid before were only half of what the company's actual value suggests, thus, significantly increasing the municipality's domestic revenues. While this magnitude is an exception, there were a lot of commercial properties that had to be evaluated and whose owners now contribute to tax revenues.

Companies paid earlier in the year

With regard to the actual collection, the main focus was the collection of taxes on buildings used for commercial purposes as they are far more profitable in terms of the cost-benefit ratio. Therefore, considerable effort was made to identify the largest taxpayers and to motivate them to pay early in the year. In Gorongosa and Marromeu the municipalities sent newly worded payment notices and completed most of the collection as early as the first quarter of the year, i.e. clearly before the deadline. Realising that it is often not about what you say, but how you say it, the messages to the companies were worded in the form of demands, which in experiments had proved to be most effective if the addressees are companies.

The question of how to address the much larger number of private persons (given the illiteracy rate of over 50 per cent) proved to be more difficult. Starting the fieldwork on residential properties, the experts faced distrust and even resistance, whereas they had completed their work on the commercial properties quite easily. Obviously, the negative responses were caused by a lack of information. Initially, for most of the citizens the technicians appeared to come out of the blue, and resistance only subsided and registrations succeeded after the municipality officially informed the public about the project.

Basic information about taxation is needed

Learning from the experiences in Gorongosa and Marromeu, a radio spot was produced for upcoming campaigns in other regions, which mirrors the need for basic information about taxes. It is a fictional dialogue between a citizen concerned about a broken water pump and the municipal secretary responsible for the neighbourhood. It explains for what purposes the revenues are mobilised and simultaneously shows that many citizens have not even heard about the tax, let alone paid it.

The spot will be broadcasted by local radios in order to increase the public awareness and acceptance of the municipal property tax. Unfortunately, the COVID-19 pandemic has stopped many of the current activities. The municipal authorities have not yet officially agreed on the radio spot. Following the measures imposed by the Government, only one third of the technicians involved in tax collection and registration were permitted to work, less than half of the teams continued their work in the field and the revenues collected from January to June 2020 showed significant drops.

Beyond the setbacks resulting from the pandemic, the municipalities in Mozambique are still suffering from budget constraints in previous years. When it comes to redistributing governmental power to the local level, the public finance system, among others the municipal property tax, is obviously a critical lever. Municipalities are aiming to be able to meet the needs of their citizens to a sufficient extent. One important step towards that is mobilising domestic revenues, and using them in a transparent and efficient manner.



The team is measuring a house to evaluate and register it.

Photo: Josefa Miclasse

Programme: Good Financial Governance in Mozambique
Duration (current project phase): 01.05.2019 - 30.09.2021
Commissioned by: Federal Ministry for Economic Cooperation and Development (BMZ)

Digitalising tax collection mobilises municipal revenues

Visible results strengthen trust and compliance

El Mouhassil is the title of the project of developing a municipal tax collection system in Mauritania. Translated from the Arabic, mouhassil means collector. And, indeed, a considerable increase in municipal revenues has been achieved resulting in a strong growth of municipal spending capacity. This allows municipalities to launch independently financed investment projects, solidly planned as the forecasting of the revenues is improved, hence strengthening the role of the municipalities as public actors.

The success story started in the municipality of Sebkha with an annual tax revenue of EUR 32,000 in 2018. Since the roll-out of the new tax collection system in August 2019, more than EUR 68,000 has been collected, and for the year 2020 the Mayor of Sebkha estimated tax revenues to an amount of EUR 500,000. As a consequence of the COVID-19 pandemic, those ambitious expectations have obviously not been met, as during the nationwide lockdown in spring only food-selling market stands remained in operation. Most shops and businesses were closed, and the municipalities were not allowed to collect any taxes.

Nevertheless, the good results from the pilot phase convinced further municipalities to implement the tax collection system. Therefore, GIZ on behalf of the German Federal Ministry for Economic Cooperation and Development has extended its support to four partners, most recent among them the municipality of Rosso, starting from September 2020 - with many more waiting in line for public support and donors to get the new digital solution implemented.

Thousands of taxpayers registered for first time

The system is based on a census of taxpayers, meaning that all potential taxpayers needed to be identified and registered. When the preliminary exercise started, there were

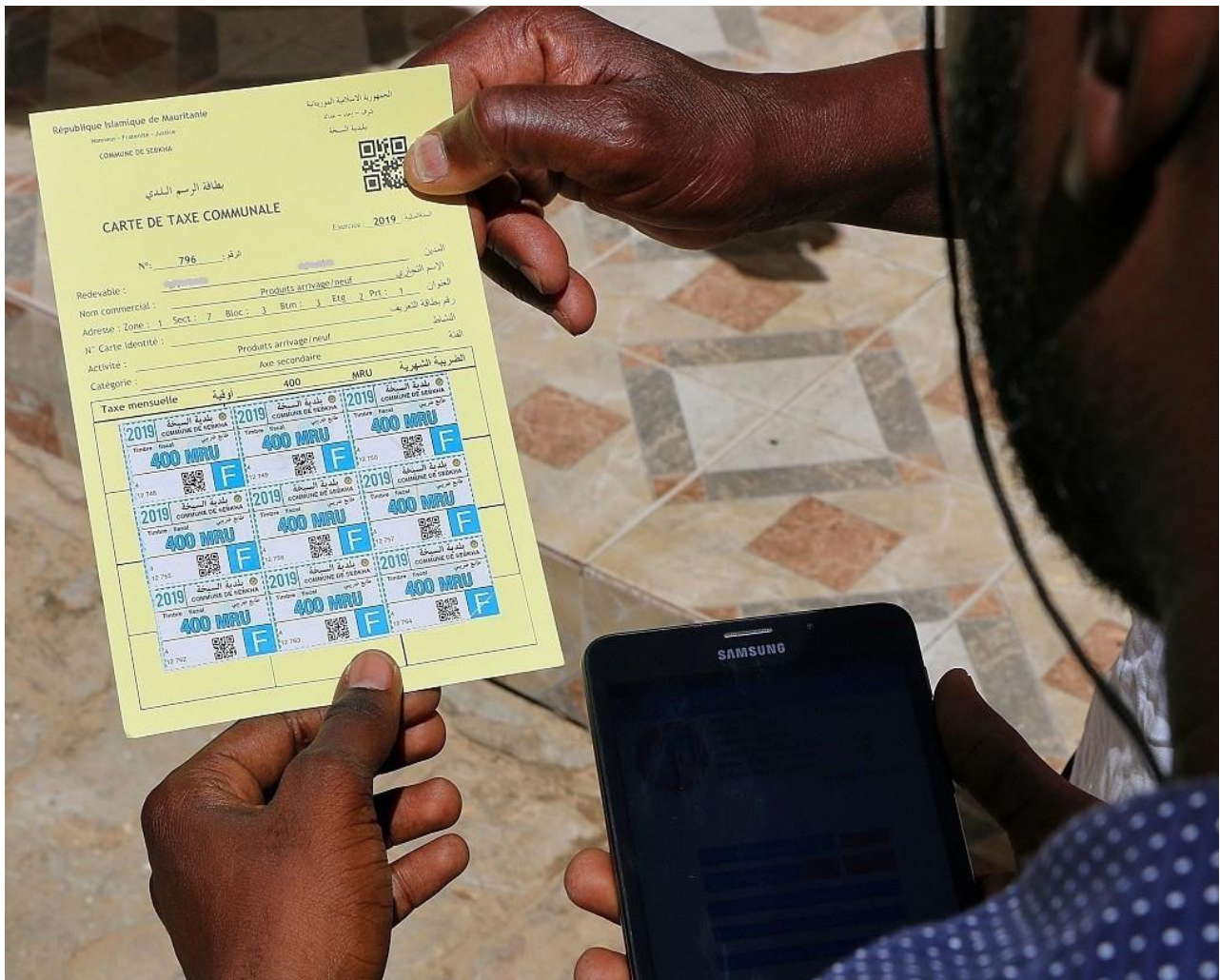
only 3,500 taxpayers registered in Sebkha; after it was finished, the number had increased to 10,767. Especially a lot of small businesses were added which had not been registered before - simply because the mayor and the municipal council did not have the tools for managing that large and growing volume of data.

In parallel, a database system has been built into which the newly verified data on taxpayers was fed. Now the system provides all relevant information on the taxpayers to the relevant officials and late payments can be consistently tracked. The municipality is in full control of the mobilisation process at every point in time, with regard to the payment as well as to the collection, as embezzlement is prevented. The taxes have to be paid monthly - some also periodically or occasionally - and the employees of the municipal authority go out to their districts as usual in order to collect the payments.

Tax stamps serve as receipt

In return all taxpayers receive a tax stamp as a receipt which is placed on their personal tax sheet, proving them to be reliable taxpayers. The datasheet contains several features to make them forgery-proof, for instance a barcode beneath the taxpayer's name and identity number. Theoretically, there is no possibility of fraud in the fully supervised El Mouhassil system, in which all values are personalised by user, taxpayer, period and contribution.

In specific single cases the municipality can decrease due taxes, for reasons of business development or competitiveness; for example if the owner of a garage is thinking of a change of location, the mayor and the municipal council can offer him a decrease as an incentive to stay. If such an agreement was made, it would, of course, be noticed within the El Mouhassil system and collection would be decreased accordingly.



Taxpayer's data sheet with monthly stamps.

Photo: Abderrahmane Nabgha

Enhanced fairness enhances trust

Altogether, the optimisation of the collection process has successfully enhanced trust between taxpayers and the municipality by

- identifying all taxpayers in the municipality,
- adjusting the level of taxes,
- avoiding embezzlement by collection agents,
- tracking late payment consistently,

thereby enhancing the fairness of municipal taxes.

Besides transparency and reliability within the system itself, the first visible results generated additional confi-

dence and compliance among citizens. The budget growth made it possible to launch independently financed investment projects from the municipal development plan including the rehabilitation of primary schools, for instance, the development and extension of public spaces and gardens as well as the pumping of stagnant rainwater in urban areas during the rainy season.

Transparency and control

Sebkhâ's Mayor Aboubacar Soumaré thanked German development cooperation for the remarkable support and particularly helpful technical expertise provided. He put special emphasis on the transparency and control the system provides to the municipality in terms of tracking financial flows.

Decentralisation aims to improve public service

El Mouhassil fits in well with the national Strategy for Accelerated Growth and Shared Prosperity that Mauritania adopted in 2017 with respect to the United Nation's 2030 Agenda for Sustainable Development. With its national strategy, Mauritania pursues the objective of implementing public finance and decentralisation reforms in a citizen-oriented, transparent and accountable manner. The digitalisation of the public finance administration, for instance, enables the state treasury

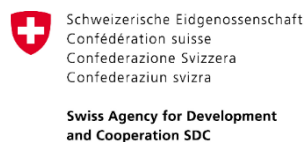
and local authorities to use a shared financial management platform, providing a current and consistent database to all.

In order to improve living conditions in the long term, the country is committed to enhancing local government capacity and performance through its decentralisation policy. In this field of activity, the GIZ project is working towards needs-based self-governance. The municipalities are being advised on strategies to mobilise their own income at local level and create tax registers, as has been done with El Mouhassil. The additional income generated will then finance more services for the citizens.

Programme: Support of Decentralisation and Reform of Public Finance in Mauritania
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