

# Good Financial Governance in Africa

Developments 2007 – 2014



Implemented by:



## Imprint

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# **Good Financial Governance in Africa**



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## Abbreviations and Acronyms

<b>AEO</b>	African Economic Outlook
<b>AfDB</b>	African Development Bank
<b>AFRISTAT</b>	L'Observatoire économique et statistique d'Afrique subsaharienne
<b>AFRITAC</b>	African Technical Assistance Centre
<b>AFROPAC</b>	African Organisation of Public Accounts Committees
<b>AFROSAI</b>	African Organisation of Supreme Audit Institutions
<b>AGO</b>	African Governance Outlook
<b>APP</b>	African Progress Panel
<b>APRM</b>	African Peer Review Mechanism
<b>ARABOSAI</b>	Arab Organisation of Supreme Audit Institutions
<b>ATAF</b>	African Tax Administration Forum
<b>AU</b>	African Union
<b>BEPS</b>	Base Erosion and Profit Shifting
<b>BMZ</b>	Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung
<b>CABRI</b>	Collaborative Africa Budget Reform Initiative
<b>CAP</b>	Common African Position
<b>CAR</b>	Central African Republic
<b>CBC</b>	Capacity Building Committee (INTOSAI)
<b>CBCR</b>	Country-by-country reporting (EU standard)
<b>CD</b>	Capacity Development
<b>COBAC</b>	Commission Bancaire de l'Afrique Centrale
<b>CPA</b>	Country-programmable Aid
<b>CPA</b>	Country Performance Assessment
<b>CPI</b>	Corruption Perception Index
<b>CPIA</b>	Country Policy and Institutional Assessments
<b>CREDAF</b>	Centre de rencontre des administrations fiscales
<b>CRS</b>	Creditor Reporting System
<b>DAC</b>	Development Assistance Committee (at OECD)
<b>DG MARKT</b>	Internal Market and Services Directorate General
<b>DRC</b>	Democratic Republic of Congo
<b>DTA</b>	Double Tax Agreement
<b>EAAPAC</b>	Eastern African Association of Public Accounts Committees
<b>EAC</b>	East African Community
<b>ECCAS</b>	Economic Community of Central African States
<b>ECOSOC</b>	Economic and Social Council (UN)
<b>EIP</b>	Effective Institutions Platform
<b>EITI</b>	Extractive Industries Transparency Initiative
<b>ENAREF</b>	National University for Finance Administration
<b>ESAAG</b>	East and Southern African Association of Accountants-General
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>GDC</b>	German development cooperation
<b>GDP</b>	Gross Domestic Product
<b>GFG</b>	Good Financial Governance
<b>GIZ</b>	Deutsche Gesellschaft für Internationale Zusammenarbeit (GmbH)
<b>GOV</b>	Guidance (guidelines) on good governance (INTOSAI)

<b>GS</b>	General Secretariat
<b>HDI</b>	Human Development Index
<b>IDA</b>	International Development Association (WBG)
<b>IDI</b>	INTOSAI Development Initiative
<b>IFI</b>	International Finance Institutions
<b>IIAG</b>	Ibrahim Index of African Governance
<b>IMF</b>	International Monetary Fund
<b>INTOSAI</b>	International Organisation of Supreme Audit Institutions
<b>IRAI</b>	IDA Resource Allocation Index
<b>ISSAI</b>	International Standards of Supreme Audit Institutions
<b>ITC</b>	International Tax Compact
<b>ITD</b>	International Tax Dialogue
<b>LICUS</b>	Low-income Countries Under Stress
<b>MDG</b>	Millennium Development Goals
<b>NEPAD</b>	New Partnership for Africa's Development
<b>NRGI</b>	Natural Resource Governance Institute
<b>OBI</b>	Open Budget Index
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>OTA</b>	US Treasury Department's Office of Technical Assistance
<b>PAC</b>	Public Accounts Committee
<b>PEFA</b>	Public Expenditure and Financial Accountability
<b>PFM</b>	Public Financial Management
<b>PI</b>	Performance Indicator
<b>PMF</b>	Performance Measurement Framework (PEFA)
<b>PRS</b>	Poverty Reduction Strategy
<b>PSG</b>	Peace- and State-building Goals
<b>QBFM</b>	Quality of Budgetary and Financial Management (CPIA)
<b>RGI</b>	Resource Governance Index
<b>SADC</b>	Southern African Development Community
<b>SADCOPAC</b>	Southern African Development Committee Organisation of Public Accounts Committees
<b>SAI</b>	Supreme Audit Institution
<b>TA</b>	Technical Assistance
<b>TPA</b>	Tax Policy and Administration (IMF)
<b>TRIPS</b>	Total Revenue Integrated Processing System
<b>UN</b>	United Nations
<b>UNCAC</b>	United Nations Convention against Corruption
<b>UNDESA</b>	United Nations Department of Economic and Social Affairs
<b>UNDP</b>	United Nations Development Programme
<b>UNODOC</b>	United Nations Office on Drugs and Crime
<b>US\$</b>	US Dollar
<b>WAAPAC</b>	West Africa Association of Public Accounts Committees
<b>WAEMU</b>	West African Economic and Monetary Union
<b>WBG</b>	World Bank Group
<b>WGVBS</b>	Working Group on the Value and Benefits of SAIs (INTOSAI)

# Executive Summary

In 2007, during the G8 Summit of Heiligendamm, Heads of State endorsed an action plan that was directed towards strengthening Good Financial Governance in Africa. This report, commissioned by GIZ, provides an overview of the sector since 2007, and summarises trends observed.

The GIZ Good Financial Governance in Africa programme provides support in the following action fields:

- External Audit in collaboration with the African Organisation of Supreme Audit Institutions (AFROSAI)
- Tax Policy and Administration in collaboration with the African Tax Administration Forum (ATAF)
- Budget Reform in collaboration with the Collaborative Africa Budget Reform Initiative (CABRI)
- Legislative Oversight in collaboration with African networks of legislative oversight
- African Voice on Good Financial Governance/AFRITAC.

This year, 2015, is an especially busy one for the international cooperation agenda, with Germany hosting the G7 summit in June in Elmau. During the last German G8 presidency in 2007, the G8 Action Plan for Strengthening Good Financial Governance in Africa was agreed upon (see **Box 1**).

## Box 1 G8 Action Plan for Good Financial Governance in Africa

1. Contributing to good financial governance through bilateral and multilateral development assistance
2. Strengthening African tax systems
3. Establishing transparent and comprehensive budgeting procedures
4. Promoting accountability and transparency, enhancing budgetary control
5. Increasing accountability for revenue from extractive industries
6. Securing public debt sustainability
7. Supporting fiscal decentralisation
8. Promoting donor harmonisation through knowledge management
9. Enhancing capacities for governance in fragile states and situations
10. Developing local bond markets in emerging market economies



Furthermore, in July 2015, the Third Financing for Development Conference in Addis Ababa, Ethiopia, will follow up on the process started at the first conference in Monterrey, Mexico, where financial governance aspects were moved up to the top of the international development agenda for the first time. In September 2015, the UN General Assembly will set the sustainable development goals for the post-2015 agenda, where GFG aspects will also receive more attention than under the Millennium Development Goals (MDGs).

This report describes the development of GFG in Africa since 2007 through a multitude of aspects. It uses aggregate data collections and performance assessments, and analyses a sample of Public Expenditure and Financial Accountability (PEFA) assessment reports. It should be noted that the conclusions have to be perceived in that light.

## Findings

**The background to GFG reform in Africa can build on a positive economic perspective to some extent**, but the political and social background remains challenging, with poverty reduction showing rather mixed results and many African states remaining in fragile situations. These conditions have not changed fundamentally since 2007.

**Multilateral and bilateral development cooperation to support GFG reform has increased both in terms of financial contributions and advisory services, but challenges remain to improve aid effectiveness:**

- The portfolio of development cooperation contributions has become more complex with new partners outside official development assistance (ODA) and more non-ODA contributions of OECD Development Assistance Committee (DAC) donors.
- Financial contributions show volatility, and predictability remains an issue.
- Some of the technical donor support activities compete with the programmes developed by the regional GFG organisations.
- The policy frameworks guiding planning and budgeting, as well as aid delivery, have improved greatly on the side of partner countries since 2007. However, their use of country systems has decreased across the board.
- Public financial management (PFM) analytical tools in use have multiplied.
- African leadership regarding GFG has been reaffirmed since 2007, but high-level back-up for the implementation of GFG reforms is often missing.

**Revenue mobilisation has been a core topic on the international agenda since 2007, and in spite of progress in tax administration, average tax collection yields did not increase.**

The coordination and dialogue networks on the topic have amplified and intensified their work. Although the work of tax administrations shows improvement with regard to PEFA assessments, the African average tax-to-GDP ratio has been decreasing since 2007.

In the extractive industry sector, revenue governance is still very weak in most resource-endowed African countries. However, the implementation of the Extractive Industries' Transparency Initiative (EITI) is a great African success story. Most candidate countries were compliant by 2014, and the

number of countries affiliated with the EITI has increased significantly since 2007. The new EU Country-by-country Reporting (CBCR) standards will complement the EITI progress.

**The quality of budgetary and financial management in Africa has only improved in a few countries since 2007.** Budget transparency does not receive positive assessments at the aggregate level, but the basic documents are published in most countries and the trend is positive. The same holds for PEFA assessments under comprehensiveness and transparency for most countries. Stagnation, with a negative trend, has been observed regarding the extent of unreported government operations.

**Budgetary oversight and anti-corruption have been recognised increasingly, in line with its important role in the GFG system.** Since 2007, the supreme audit institutions (SAIs) and parliaments have played considerably more visible roles in the field of financial governance. African SAIs have been highly committed to supporting the initiatives of the International Organisation of Supreme Audit Institutions (INTOSAI). Furthermore, support structures to strengthen those institutions have been amplified. However, the accountability and anti-corruption performance measurements still show mixed results.

## Conclusions

Broadly summarised, the data analysed for the purposes of this study show improvements in some areas of financial governance – most of all, improvements at the technical administrative and at the affirmative level – but the impact does not convincingly reflect in GFG country performances. There are some factors that might explain this observation:

**Methodological problems** may prevail when analysing conceptual interrelations in the data. However, it would be important to understand the respective dimensions in greater detail and at country level, because the assessment landscape has grown since 2007. These assessments are used for policy dialogue and as background to governmental negotiations, and eventually also influence the commitment of funds, as well as the choice of the mode of delivery.

**Political economy, resistance to change and the aspect of time:** The study concentrates on the period 2008–2014, which is a rather short time for reforms in the financial governance system to take effect. Such reforms imply legal, possibly even constitutional changes and fundamental organisational development in public administration. These systems cannot be expected to show successful results over one or two project cycles of development assistance.

**Support to GFG reform – do the right things:** If political economy implications for resistance to change in countries are to be recognised, support measures need to be designed in a manner that allows for progress. Such measures include prioritising areas where progress is possible under the given political circumstances in a country, planning for procedures that can be managed by the administration in its actual state, and designing information systems that can be managed permanently by the administration itself.

To respond to these concerns and still respect the political context, it would be helpful to develop a path for GFG reforms that is based on a realistic sequencing, strictly related to the country-specific history and conditions.

**... and do things right:** Overall, this study has provided some evidence that progress in aid effectiveness issues has not maintained the momentum in emphasis and commitment it used to have after the Paris Declaration in 2005. In addition, the CABRI, AFROSAI and ATAF Status Report on GFG in Africa in 2011, has already outlined the negative impacts of undue development partner influence on reforms in financial governance. In this regard, much more effort is required by development partners. The GFG systemic model provides the conceptual framework to understand the various factors influencing financial governance and their interrelation, and to manage the support of the resulting complexity.

**African leadership is needed:** However, to overcome “undue development partners’ influence”, stronger leadership is required on the African side. Progress in financial governance is an essential government responsibility that cannot be delegated, or, in the long run, be excused by external factors: inappropriate consultancies and contributions may be rejected, and reform activities need to be coordinated under the responsibility and ownership of the ministry of finance.

Thus, in summary, the responsibilities of providers and countries come down to one of the most important aid efficiency guidances, **mutual accountability**, renewed by the Busan Partnership: “Mutual accountability and accountability to the intended beneficiaries of our cooperation, as well as to our respective citizens, organisations, constituents and shareholders, is critical to delivering results.”

This report has been commissioned by the Good Financial Governance (GFG) in Africa programme of Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, and provides an overview of the development of Good Financial Governance in Africa since 2007.

The GIZ Good Financial Governance in Africa programme provides support in the following action fields:

- External Audit in collaboration with the African Organisation of Supreme Audit Institutions (AFROSAI)
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- Legislative Oversight in collaboration with African networks of legislative oversight
- African Voice on Good Financial Governance/AFRITAC.

The programme is implemented by GIZ on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) and the European Union (EU).

Since the signing of the G8 Action Plan for Strengthening Good Financial Governance in Africa (see **Annex I**) at the occasion of the G8 Summit in Heiligendamm, Germany, in 2007, the German government has increasingly supported African states in building the necessary capacity to achieve Good Financial Governance. With the assistance of GIZ, the partner organisations AFROSAI, ATAF, and CABRI published the Status Report on Good Financial Governance in Africa in 2010 and initiated the Declaration on Good Public Financial Governance in Africa, which found recognition by African finance ministers.

The purpose of this report is to provide an overview of the development of Good Financial Governance (GFG) in Africa since 2007 and to summarise trends observed. This year, 2015, which is especially busy for the international cooperation agenda, seems to be a good opportunity for this undertaking:

- In June 2015, the G7 annual meeting of Heads of State will be convened in Elmau under the German G7 presidency.
- The Third Financing for Development Conference is planned for July 2015 in Addis Ababa, Ethiopia. It follows the First Financing for Development Conference in 2002 in Monterrey, Mexico, where GFG issues were moved to the top of the international development agenda for the first time.

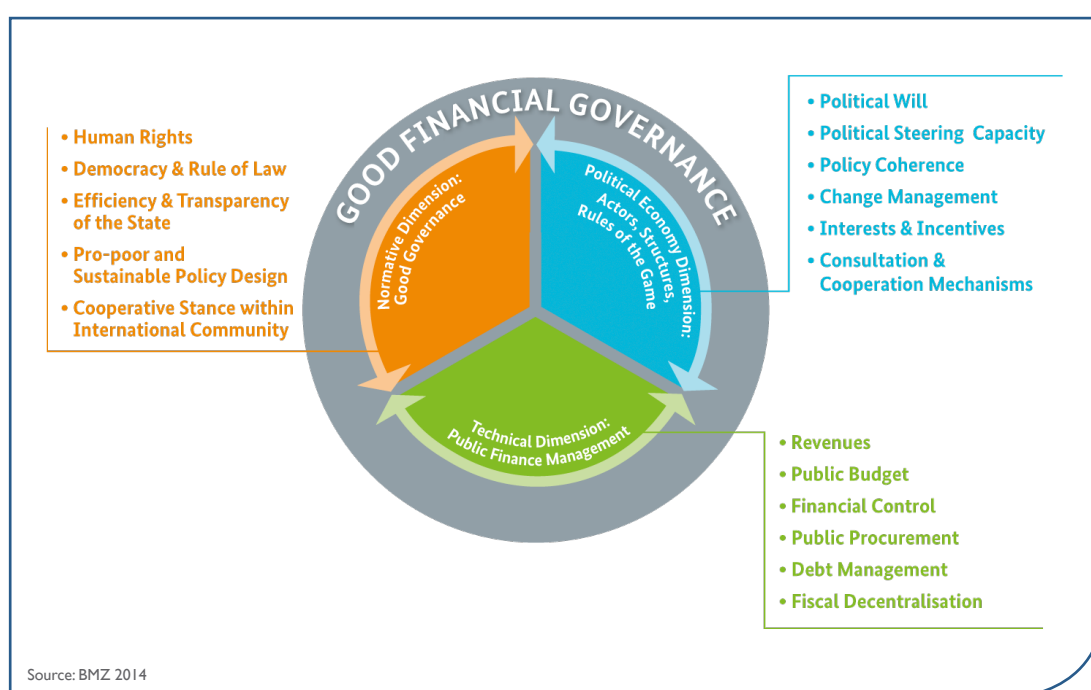
- In Addis Ababa, the post-2015 development agenda will be discussed, based on the reviewed sustainable development goals. Governance aspects are now under discussion to be included among sustainable development goals for the post-2015 development agenda. Goal 16 is as follows: “Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective, accountable, and inclusive institutions at all levels.” Thus, a GFG perspective – the focus on the effectivity and accountability of public institutions – has found its way onto the post-2015 agenda. The sustainable development goal-setting phase will reach a climax at the UN General Assembly in September 2015.
- Furthermore, substantial progress under the UN Framework Convention on Climate Change (UNFCCC) is expected at the UN Conference on Climate Change, to be held in Paris, France, in December 2015. The planning, implementation and financing of climate-resilient development in Africa will challenge GFG systems throughout the next few years.

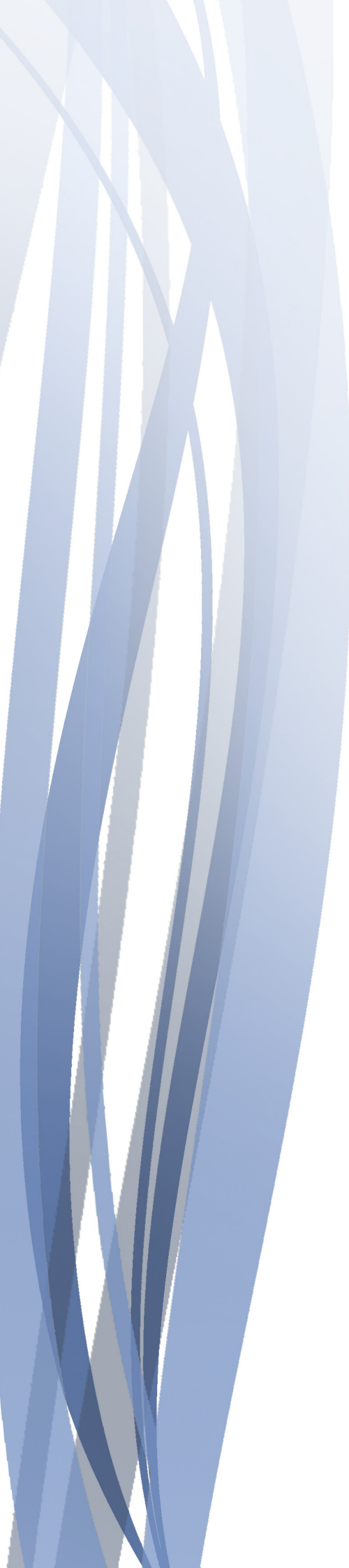
For GFG practitioners, it is evident that the topic will remain high on the international cooperation agenda, because a government can successfully fight poverty and promote economic and social development only if a state is capable of (BMZ 2014:7):

- Mobilising sufficient resources to sustainably finance development objectives
- Implementing its policies and the related priorities effectively and transparently through the public budget
- Ensuring effective financial control

The German BMZ has published its new strategy paper on GFG in October 2014. According to this paper, GFG is a holistic, systemic and value-based approach which is aligned to the understanding of good governance in German development cooperation (GDC). By implementing GFG, Germany helps to reduce poverty and foster economic, social and ecological sustainable development. The approach takes into account aspects from three dimensions and their interrelations:

**Figure 1** The Good Financial Governance approach



- 
- The technical dimension encompasses measures to strengthen public financial management (PFM) processes, tools and capacity.
  - The political economy dimension takes into account that reforming public finance is a politically highly sensitive process, as it interferes with established power structures and the allocation of scarce resources in a society. GFG considers the different stakeholders, their interests and their interactions in formal and often informal structures in order to contribute to the success of reforms.
  - The normative dimension places special emphasis on the general governance situation in a country, such as the level of democracy, rule of law, transparency, or state efficiency, and their impact on the quality of public finances and vice versa.

Based on this concept, and against the 2015 international agenda background, this report reviews the situation of Good Financial Governance in Africa in 2007 and traces evidence of developments since. It starts with an introductory background on the economic and political developments in Africa, followed by the priorities set out in the G8 Action Plan for Good Financial Governance in Africa. The following chapters analyse the support to GFG through multilateral and bilateral development assistance and coordination among governments and development partners. The topical analysis concentrates on the main technical focus areas in the G8 Action Plan for Good Financial Governance in Africa and the Declaration on Good Public Financial Governance in Africa:

- The mobilisation of public revenue
- The enhancement of budget processes
- The promotion of accountability and budgetary oversight

For the report, a large amount of data has been studied, aggregated and analysed; **Annex 2** covers the details of the data used and the methodological approach. The largest part of the study is rather descriptive – it mostly summarises incidences related to GFG issues measured by different sources for the period 2007 to 2014. The interpretation of causes and results is difficult and may depend much on the background of the reader; conclusions will be carefully drawn in **Chapter 7**.



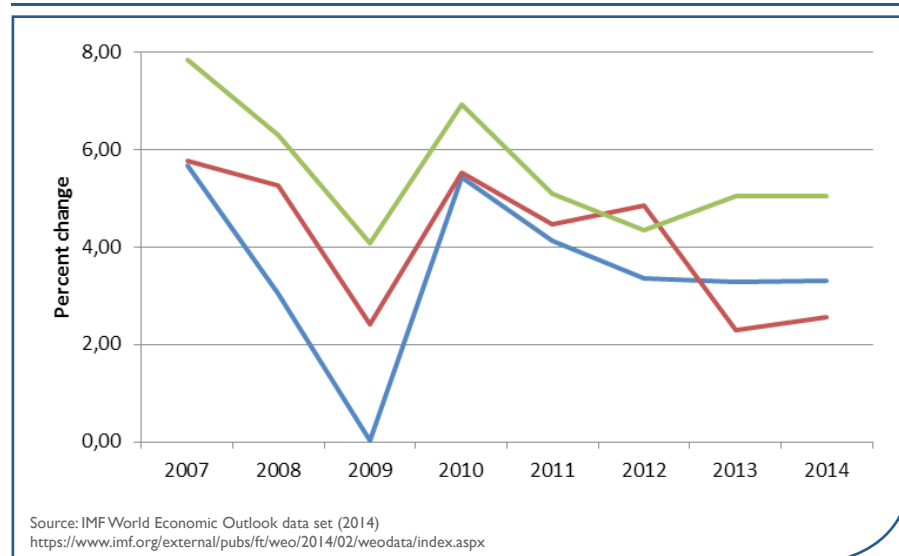
## 2 Development of economic and political background data

### Macroeconomic development

Comparing aggregated data for all African countries includes nations that differ immensely from each other, with variations in political and economic settings. Even among the 49 countries in sub-Saharan Africa, the recent economic performance and their growth prospects vary to a great extent. Ethiopia and the Democratic Republic of the Congo, for example, both have fast-growing economies, but that are where the similarities end. The challenges facing the Central African Republic and South Sudan are not those facing Kenya or Zambia (APP 2014:28). Analyses of aggregated data should take this into account when describing the common patterns.

Africa maintained growth rates above the world's average over the whole period under review (2007 to 2014) (see **Figure 2**). The macroeconomic data is promising: African countries have indeed been affected by the international financial crises of 2008/09, but not as much as other regions of the world. During 2012 and 2013, one-third of the region has exhibited growth rates above 6%. This growth is driving African countries towards the middle-income status: in 2006, 13 countries were classified as middle-income, and in 2013 the number rose to 21 (APP 2014:30).

**Figure 2** GDP Growth (constant prices)



The fastest growing countries in Africa in 2012 were Sierra Leone, Niger, Côte d'Ivoire, Liberia, Ethiopia, Burkina Faso and Rwanda (WBG 2013:3). Of these, four – Sierra Leone, Niger, Liberia and Burkina Faso – are listed as resource-endowed countries.<sup>1</sup> In many of the resource-endowed countries, growth relies heavily on high

<sup>1</sup> For the Resource Governance Index, see <http://www.resourcegovernance.org/rgi/countries>. This index is based on the definition of the International Monetary Fund (IMF): "A country is considered rich in hydrocarbons and/or mineral resources if it meets either of the following criteria: (i) an average share of hydrocarbon and/or mineral fiscal revenues in total fiscal revenue of at least 25 percent during the period 2000-2005 or (ii) an average share of hydrocarbon and/or mineral export proceeds in total export proceeds of at least 25 percent ..." (IMF 2007:2).

commodity prices (see AFDB/ OECD/ UNDP 2014:27), but there are also cases where resource endowment is combined with other prospering economic sectors: In Burkina Faso, the service sector contributed 30% to the annual real growth in gross domestic product (GDP) between 1995 and 2010, and in Rwanda it contributed more than 40% (APP 2014:29).

Improved economic governance may have contributed to the growth performance, as the macroeconomic framework data looks reassuring for many countries:<sup>2</sup>

- Inflation remained under 6% in most years after 2009.
- In most countries, the fiscal balance is recovering slowly after 2009.
- With an average debt-to-GDP ratio of 20.9%, the external debt is lower than in many European countries.
- The investment-to-GDP ratio for sub-Saharan Africa shows a positive trend. Foreign direct investment has recovered from the decrease after 2008 and turned out robust to the weakening global economic environment in 2012 (WBG 2013:4).

The positive trends reflected by the African Economic Outlook data set's projections for 2015 are expected to continue.

## Poverty reduction

Africa has made progress on all Millennium Development Goals (MDGs) in recent years. Most countries have achieved impressive results towards the MDG targets, but the vast majority of countries are expected to only meet the 2015 targets of MDG 2 (primary education enrolment) and MDG 3 (gender equality and women's empowerment) (UNECA 2014:32ff, 40ff). The main messages of the last MDG report are as follows (UNECA 2014):

- Poverty rates are increasingly declining after 2005. This is mostly due to economic growth. On average in Africa (without Northern Africa), poverty rates have declined from 56.5% to 48.5%, but this is some 20% off the MDG 1 target, which will not be met in most countries.
- Climate change effects (floods and droughts) and conflict have a debilitating impact on efforts to fight hunger in Africa; malnourishment remains a challenge.
- Economic growth rates are not high enough to absorb the youth, and unemployment rates still remain high. The perspectives are mixed: labour productivity is growing, but at a declining rate.
- Income inequality is declining but remains high. It constitutes one of

<sup>2</sup> African Economic Outlook data set: <http://www.compareyourcountry.org/african-economic-outlook?cr=afr&cr1=oced&lg=en&page=1>



the major factors that limit the impact of economic growth on poverty reduction.

- Most countries are on track with meeting the primary education enrolment target, but completion rates are still low and the quality of education needs to be improved.
- In primary education and in women's representation in parliaments, a strong development towards gender parity has been reached in most countries.
- Good progress has been made in reducing child and maternal mortality, but it is insufficient to reach the MDG targets.
- The rising trend in the prevalence of HIV/Aids has been reversed. Further, the number of malaria cases and deaths are declining.
- Access to safe drinking water has been improved, but the performance on the sanitation indicator remains poor.

Thus, the results on progress regarding the MDGs are rather mixed. Progress has been made in almost all countries, but some are lagging behind. Between 2008 and 2013, only three countries declined in their Human Development Index (HDI) rating - Guinea-Bissau, the Central African Republic and Libya - but many experienced only very little improvement (see **Table I**). Again, resource endowment plays a pertinent role in progress: among the ten countries with the strongest improvement on the HDI between 2008 and 2013, only three are not part of the resource governance index list (Rwanda, Chad and Ethiopia). Among the sub-Saharan countries showing the lowest HDI progress, only Equatorial Guinea is qualified as resource endowed.

**Table I** HDI variation in Africa between 2008 and 2013

Highest HDI 2013		Highest progress	
Tunisia	0.721	Zimbabwe	0.070
South Africa	0.658	Zambia	0.056
Namibia	0.624	Tanzania	0.037
Morocco	0.617	South Africa	0.035
Libya	0.784	Rwanda	0.074
Ghana	0.753	Liberia	0.038
Gabon	0.674	Ethiopia	0.041
Egypt	0.682	Chad	0.034
Botswana	0.683	Burkina Faso	0.039
Algeria	0.717	Angola	0.036

Lowest HDI 2013		Lowest progress or decrease	
Sierra Leone	0.374	Egypt	0.015
Niger	0.337	Equatorial Guinea	0.013
DR Congo	0.338	Swaziland	0.012
CAR	0.341	Senegal	0.011
Chad	0.372	Madagascar	0.011
Eritrea	0.381	Gambia	0.009
Burkina Faso	0.388	Eritrea	0.008
Burundi	0.389	Guinea-Bissau	-0.001
Guinea	0.392	CAR	-0.003
Mozambique	0.393	Libya	-0.005

Source: INDP Human Development Reports, <http://hdr.undp.org/en>

With regard to the reasons for the slow improvement, most reports agree on Africa having to start from a very low level: sub-Saharan Africa started from a worse position on the MDGs than the rest of the developing world (WBG 2013:7). If MDG monitoring assessments take into account the initial low-level conditions in most African countries, it shows that the pace of progress on the MDGs in Africa has accelerated since 2003 (UNECA 2014:i).

The APP (2014:40) describes three factors that create substantial challenges for economic growth leading to poverty reduction in Africa:

- Because of the profound depth of poverty, more growth is required to lift the average poor person above the poverty line.
- High levels of initial inequality limit the power of growth to reduce poverty.
- A major part of the growth has been taking place in the extractive sectors, with little impact on rural areas where most of the poor are living. In rural areas, inclusive growth in agriculture would be necessary.

In January 2014, the Heads of State and Government of the African Union adopted the Common African Position (CAP) on the post-2015 development agenda (CAP 2014). The overarching goal is to eradicate poverty – among other things – through making economic growth more inclusive.

## Development of political governance

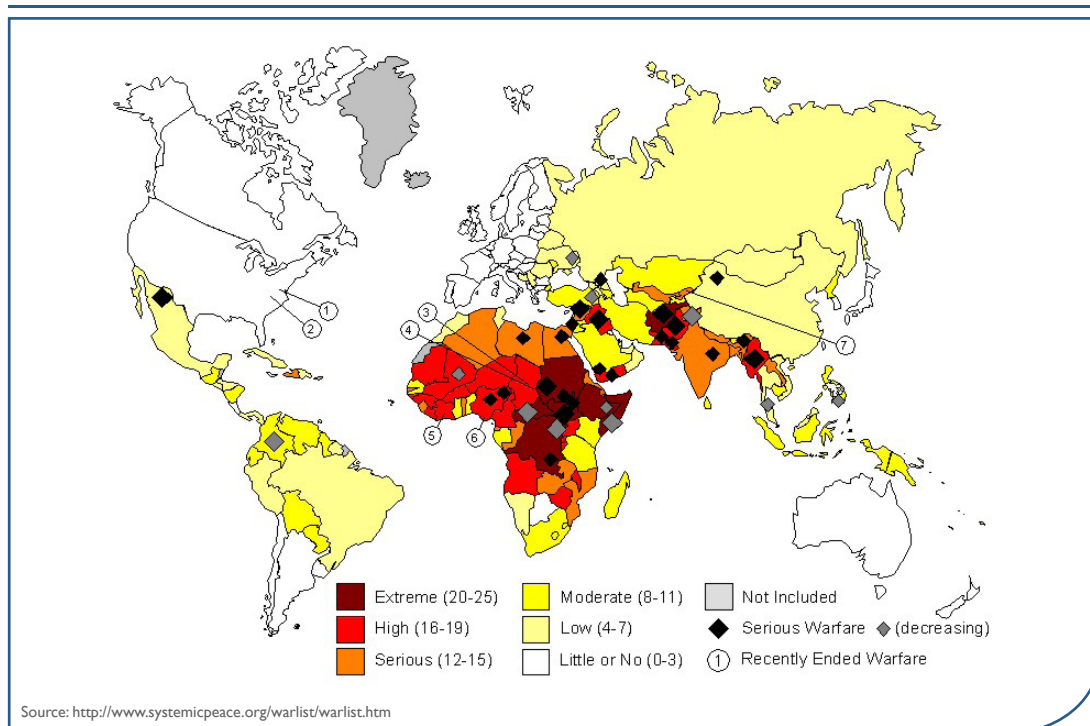
It is often said that Africa should not only be perceived under the focus of crisis. The new Africa Strategy of German Development Policy (BMZ 2014), sees “Africa on its path from a crisis to an opportunity continent”<sup>3</sup>. Positive economic developments, including poverty reduction, have taken place.

However, Good Financial Governance deals with the essential government functions of providing and financing efficient public duties and responsibilities. Conversely, political crises characterise the failing of Good Financial Governance. The efforts to improve Good Financial Governance – and also the progress in this regard – have to be evaluated against the political situation in which they are created.

The map on state fragility and warfare in Figure 3 shows that fragility in Africa still plays an important role for GFG-related reform. Six out of the seven countries rated “extremely fragile” in the last Global Report on Conflict, Governance and State Fragility are African, as well as sixteen out of the twenty-one countries rated as “highly fragile”. Sub-Saharan Africa has the world’s highest mean in the State Fragility Index score (Marshall & Cole 2014:42)

<sup>3</sup> [http://www.bmz.de/de/presse/aktuelleMeldungen/2014/maerz/140321\\_pm\\_025\\_Die-neue-Afrika-Politik-des-BMZ/25\\_Die\\_neue\\_Afrikapolitik\\_des\\_BMZ.pdf](http://www.bmz.de/de/presse/aktuelleMeldungen/2014/maerz/140321_pm_025_Die-neue-Afrika-Politik-des-BMZ/25_Die_neue_Afrikapolitik_des_BMZ.pdf)

**Figure 3** State fragility and warfare in the global system, 2013



However, the situation has continuously improved on average since 1995: The mean score has risen by 0.37 points between 1995 and 2001, by 1.83 points between 2001 and 2007, and by 0.68 points between 2007 and 2013 (Marshall & Cole 2014:40). The countries with the highest improvement rates over the last 20 years are Liberia, Sierra Leone, Angola, Togo and Madagascar (between eight and six points).

In addition, democratisation has moved forward. Since 2010, Africa has witnessed an increasing number of free and fair elections, and the trend is expected to continue (AFDB/ OECD/ UNDP 2014:105). Developing stable democratic states with accountable institutions will need much greater effort and more time. Since the 1980s, many African autocracies have been moving into what is called “anocracies” by the Polity Project. This term describes a type of regime where governments are neither fully democratic nor fully autocratic, but rather characterised by an “incoherent mix of democratic and autocratic traits and practices” (Marshall & Cole 2014:21).

This might explain why joint African efforts to develop democratic governance remain slow: The African Charter on Democracy, Elections and Governance, which has been issued by the African Union in Addis Ababa in 2007, is signed by 35 governments, but has been ratified only by 10 states until now. The African Peer Review Mechanism (APRM), which includes an important chapter on democracy and political governance, has progressed slowly but constantly, reviewing twenty countries since 2005.<sup>4</sup> However, there is no follow-up to the reviews, and only Ghana has published a progress report once.

Reforms with a focus on Good Financial Governance may have a considerable effect on the interests of political and economic elites in a country, and they usually do – and not only in Africa, but everywhere. Knowledge of, and respect for formal and informal political economy aspects of the countries are thus critical to inducing progress in this complex field.

<sup>4</sup> <http://aprm-au.org/category/document-categories/country-reports>. Country reviews published in 2005: Ghana, Kenya, Rwanda; 2006: none; 2007: Algeria, South Africa; 2008: Benin, Burkina Faso; 2009: Mali, Nigeria, Uganda; 2010: Lesotho, Mauritius, Mozambique; 2011: Ethiopia; 2012 Sierra Leone; 2013: Tanzania and Zambia.

# 3

## Promoting Good Financial Governance through bilateral and multilateral development cooperation

Improving financial governance in Africa is closely related to development cooperation and aid effectiveness: The better financial governance works, the more effectively aid can be used by governments; the better financial governance systems are monitored – and rated – the more willing development partners are to use country systems for their support; the more country systems are used, the more experience a country's administration gains in financial management, which again contributes to the improvement of financial governance.

This chapter explores the landscape of Good Financial Governance in the context of bilateral and multilateral development assistance. This includes the following:

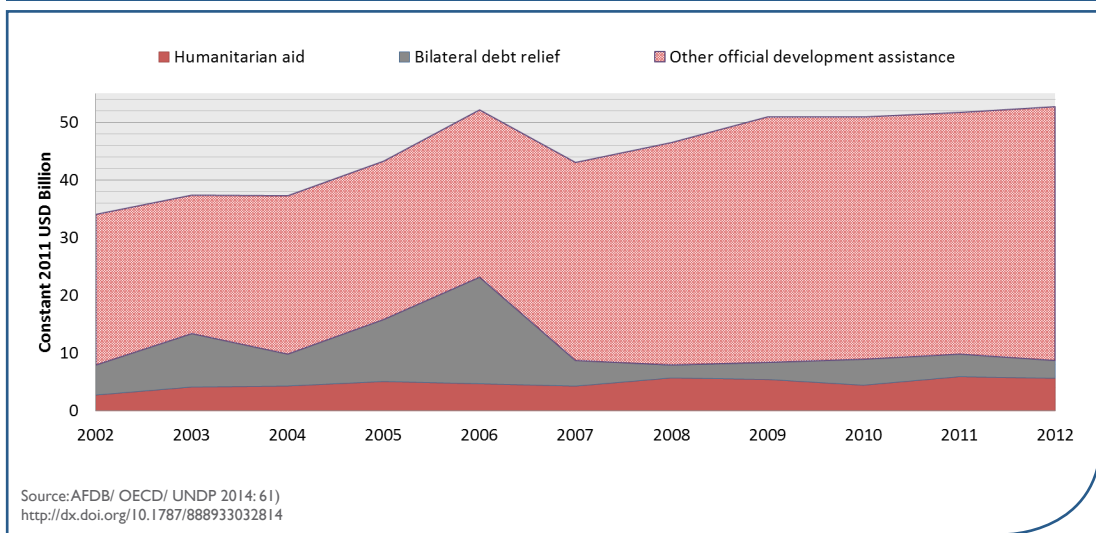
- The developments that can be observed from official development assistance (ODA) data (3.1)
- How capacity development on GFG has evolved since 2007 (3.2.)
- The specifics that aid effectiveness brought about in the context of improving financial governance (3.3)

### 3.1 Good Financial Governance reflected in ODA data

On an aggregated level, total ODA to developing countries has declined for the first time in years in 2012, but Africa has been receiving constantly increasing ODA inflows since 2007 (see **Figure 4**). Net ODA disbursements to Africa have increased by almost 2% and add up to 52.7 billion USD in 2012. Of these ODA inflows, almost 70% can be attributed to country-programmable aid (CPA), which is the part of aid countries themselves can decide on.<sup>5</sup> Since 2007, this share of country-programmable aid in total ODA has slightly increased – by 2% between 2007 and 2012.

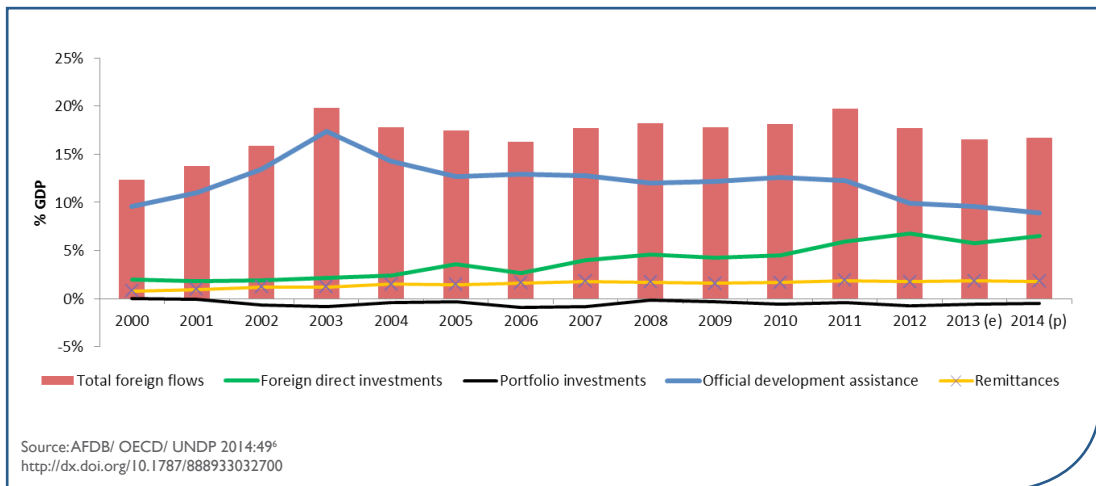
<sup>5</sup> See [http://webnet.oecd.org/dcdgraphs/CPA\\_recipient/](http://webnet.oecd.org/dcdgraphs/CPA_recipient/); ODA also covers financial engagements that are outside the decision of recipient countries, for example, cultural programmes. Country-programmable aid is the portion of aid development partners programme for individual countries, and over which partner countries could have a significant say. Developed in 2007 in close collaboration with members of the Development Assistance Committee (DAC) at the Organisation for Economic Development and Cooperation (OECD) members, CPA is much closer to capturing the flows of aid that go to the partner countries than the concept of ODA.

**Figure 4** Net ODA disbursements to African countries in billion US\$ (constant 2011)



However, the portfolio of external finance in African countries has become more complex than it used to be. For the 27 African low-income countries, ODA remains the most important source of external financing after direct foreign investment and remittances (see **Figure 5**) and OECD/ DAC countries remain the largest ODA contributors to that group of countries. Official development assistance as a share of GDP has been declining in low-income African countries since 2011, and they are expected to rely increasingly on domestic resources and other external flows (AFDB/ OECD/ UNDP 2014:49). In lower-middle-income countries, remittances from citizens working abroad are already the single most important and the fastest growing external financial inflow per capita (AFDB/ OECD/ UNDP 2014:50, 59).

**Figure 5** Development finance to low-income countries in Africa (percentage of GDP, weighted)



<sup>6</sup> Note from AEO (2014:49): "ODA (e) estimates and (p) projections based on the real increase of country-programmable aid in the forthcoming OECD Report on Aid Predictability: Survey on Donors' Forward Spending Plans 2013-2016. Forecast for remittances based on the projected rate of growth according to the World Bank. (This figure excludes loans from commercial banks, official loans and trade credits.) Source: Authors' calculations based on OECD/DAC, World Bank, IMF and African Economic Outlook data."

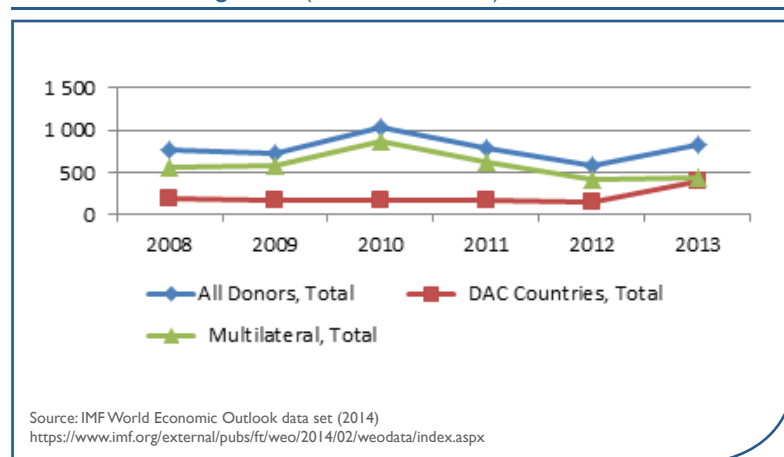


Even if Africa still receives increasing ODA, other sources will become more important in the near future. Furthermore, new non-DAC providers of finance have gained significance. They might use other support mechanisms than ODA. China is an example of these providers. Further, DAC members may increase their support in the form of non-ODA financing instruments (AFDB/ OECD/ UNDP 2014:63), which is not included in ODA data. The Green Climate Fund, for example, finances climate change-related investments, but is qualified as non-ODA.

Good Financial Governance as a broad and systemic concept is not fully reflected in ODA data. The ODA data provide a code for PFM in the OECD Creditor Reporting System (CRS),<sup>7</sup> which shows the financial engagement of development partners classified as PFM.

It is very difficult to draw conclusions from these data on the development of support to Good Financial Governance, or even only PFM. **Figure 6** shows that ODA qualified under the PFM code in the CRS has reached a peak in 2010, mainly caused by multilateral official development assistance. It then decreased in the following two years and again increased between 2012 and 2013, mainly because of bilateral development partners' ODA. In reality, the picture is blurred by single high disbursements, for example the UK grant to the Democratic Republic of Congo of US\$115 million in 2008, an International Development Association (IDA) loan of US\$350 million to Nigeria in 2010, or the US disbursement of a grant of US\$190 million to Egypt in 2013. Similar prominent payments can be found with most development partners' engagement, although in smaller dimensions.

**Figure 6** Gross disbursements targeted at public financial management (CRS code 15111), US\$ million



The largest part of aid targeted at PFM is delivered as budget support. The multilateral contributions are important, but also volatile, and a clear trend is not visible in the data (see **Table 2**).

<sup>7</sup> CRS Code 15111. There are other codes that might include relevant data, for example the code for customs (33120) or corruption (15113), but the interpretation of CRS data is difficult and the risks grow with compiling data from different codes.

**Table 2** ODA type of aid “budget support” related to PFM, to African countries, 2008–2013 (US\$ million, CRS code 15111)<sup>8</sup>

	2008	2009	2010	2011	2012	2013
All donors, total	448,00	428,00	778,30	537,21	291,43	537,00
DAC countries, total	--	6,22	9,32	6,96	0,81	190,00
Multilateral, total	448,00	421,78	768,98	530,24	290,62	347,00

Source: OECD CRS data

In general, the use of budget support as an instrument of aid delivery has declined: the share of budget support within the more focused concept of country-programmable aid was considerably lower in 2012 (8.57%) than in 2007 (10.5%).<sup>9</sup> If budget support is being reduced in general, budget support related to PFM should not be expected to increase.

Budget support is financially the most important type of aid to use country systems, and these schemes are usually related to policy dialogue on the reforms of the broader PFM systems. Volatility in budget support certainly is a big challenge for PFM and should be avoided. The Busan Partnership framework emphasises the need for action to bring about predictability. Although annual predictability increased from 79% in 2010 to 83,8% in 2013, medium-term predictability remains at 70%: “Development countries’ governments are faced with continued unpredictability and are managing increasingly complex resource equations where providers’ disbursement both fall short of – and exceed – the initial plans” (OECD/ UNDP 2014:91).

However, a reduction in budget support as such does not necessarily mean that support to Good Financial Governance has been reduced or is insufficient. Reforms in PFM and in the broader GFG system are not high-investment areas, such as infrastructure; nor do they need comparable important operational expenditure in education or health. Developing financial governance means supporting the development of political, social and administrative systems – the domain of capacity development.

## 3.2 Support to capacity development for Good Financial Governance

The GFG description in **Figure 1 (“Introduction”)** clearly shows that the technical issues are only part of what is needed to improve financial governance – they must be embedded in improving the elements under the political and the normative dimensions. Capacity development is therefore the major support need under this multidimensional approach. This has also been recognised by the G8 Action Plan for Good Financial Governance in Africa. Therefore, the developments in related ODA data, capacity development in international finance institutions’ (IFIs’) activities, and the capacity development work of the regional GFG network organisations will be analysed next.

<sup>8</sup> Table 1 does not show all budget support; only budget support classified for support to PFM. Sector budget support education, for example, would not appear under CRS code 15111.

<sup>9</sup> See [http://webnet.oecd.org/dcdgraphs/CPA\\_recipient/](http://webnet.oecd.org/dcdgraphs/CPA_recipient/)

## GFG capacity development in ODA data

The ODA data under the aid classification “experts and other technical assistance”, reported under the PFM code, indicate an important surge in budget support in 2010, which has not been maintained at the same level, but remained high compared to 2009 (see **Table 3**).

**Table 3** ODA type of aid “experts and other technical assistance (TA)” related to PFM, to African countries, 2008–2013 (US\$ million, CRS code 15111)

	2008	2009	2010	2011	2012	2013
All donors, total	--	8,5	56,8	42,4	47,1	42,6
DAC countries, total	--	8,5	47,2	37,2	40,9	39,9
Multilateral, total	--	--	9,7	5,2	6,1	2,8

Source: OECD CRS data

**Table 3** also shows that this increase is based on expanded bilateral cooperation in the field; multilateral cooperation has shown a decreasing trend. Again, the financial data show considerable volatility.

One can conclude that analysing the financial flows provides a rather limited picture of how bilateral and multilateral development assistance has evolved in support of GFG. Furthermore, the cooperation modes have become more complex: bilateral donors are financing IFIs’ technical assistance, allowing them to amplify their programmes as intended by the G8 Action Plan for Good Financial Governance in Africa. In German development cooperation, the portfolio has generally evolved into rather supporting the GFG system in broad cooperation networks than individual support of targeted institutions. Further, bilateral and multilateral donors are financing capacity development of African professional networks, their exchange of experiences and targeted support to their members.

## GFG and capacity development in IFI activities: the AFRITACs

The G8 Action Plan for Good Financial Governance in Africa projected “a stronger role in IFI activities” in the area of GFG and capacity building. Although it might not be visible in ODA data, substantial progress has been made in recent years, especially with the African Regional Technical Assistance Centres (AFRITACs) as part of the IMF Capacity Building Initiative in Africa. The three main developments are that (a) the AFRITAC programme has expanded considerably in the region, (b) its activities have been scaled up, and (c) increasing support of multilateral and bilateral donors made this possible.



The AFRITACs support recipient countries in their efforts to strengthen financial governance and develop effective and legitimate institutions. The regional scope of the initiative has been broadened considerably, so that the AFRITACs now cover all sub-Saharan African countries: AFRITAC East started in 2002 and serves seven countries in East Africa today; AFRITAC West was initiated in 2003 and it currently covers ten countries in Francophone West Africa; AFRITAC Central was created in 2007 and supports nine countries in Central Africa; AFRITAC South started in June 2013 and covers 13 countries in Southern Africa and the Indian Ocean; AFRITAC West 2 has opened only recently and it assists the non-Francophone countries in West Africa.

The AFRITACs have scaled up their activities significantly in recent years. The thematic focus has been on the technical dimensions of GFG, among others: modernising PFM legal and regulatory frameworks, strengthening planning and budgeting practices, improving the quality of fiscal reporting, strengthening budget execution, and enhancing treasury and cash management. Recently, there has been particularly strong interest in natural resource management-related issues, fiscal tax law, statistics capacity and financial market infrastructure.

Support is mainly provided via the provision of technical assistance measures, for example, by offering training for public officials and PFM key actors. Corresponding activities are designed to complement other IMF measures and programmes. Furthermore, the AFRITACs provide networking measures at regional level, such as regional workshops, attachments and mentoring programmes.

AFRITAC activities have expanded enormously in recent years. AFRITAC East, for example, has scaled up its overall delivery (measured in field person weeks) by 50% above that of 2014 (AFRITAC East 2015:2), and the sum of all activities of AFRITAC South started with 316 in 2013, while 530 activities are scheduled for 2015 (AFRITAC South 2015:3). The AFRITACs have also expanded their financial basis considerably. The increase in the 2015 work plan of AFRITAC West from 518 to 564 field person weeks, for example, was rendered possible by the financial contribution of the European Union (AFRITAC de l'Ouest 2015:5). Partnership arrangements vary between regions and extend, for example, to the World Bank, the African Development Bank (AfDB), the Economic Community of Central African States (ECCAS), L'observatoire économique et statistique d'Afrique subsaharienne (AFRISTAT), the Commission Bancaire de l'Afrique Centrale (COBAC), the IMF Institute for Capacity Development, the EU, the United Nations Development Programme (UNDP), the GDC, the French Development Agency, and the US Treasury Department's Office of Technical Assistance (OTA).

Through the AFRITACs the IMF thus provides technical assistance on a large scale all over Africa. This is fully in line with the target of the G8 Action Plan for Good Financial Governance in Africa to increase the role of IFI in capacity development. The broadening network of co-funders also offers the possibility to improve donor coordination.

However, the large offering of training, regional workshops and other activities by AFRITACs also presents a competitive factor that might weaken the sustainability perspectives of some of the regional GFG umbrella organisations. In the long run, some of these organisations will need to finance themselves through membership fees and the pricing of support measures to their members. These support measures have a large overlap with the training and events provided by the IMF without direct fees for the participants. The organisations follow different business models, but all provide assistance to their members.

## GFG portfolio of German development cooperation

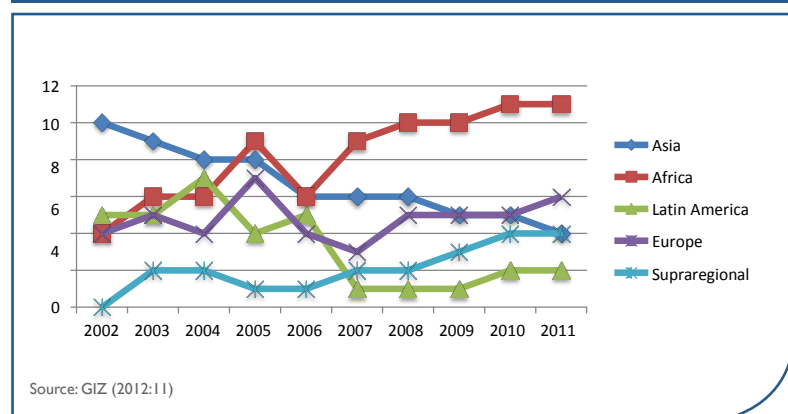
Supporting partner countries in public finance reforms has been an important field of action of German development cooperation since the 1990s. GDC increasingly follows the holistic, systemic and value-based GFG approaches described in the introduction. This implies that important public financial management subthemes, such as budgeting, are not dealt with in isolation, i.e. as stand-alone projects. Rather, these are increasingly supported in a systemic approach according to which the interlinkages in the GFG subsystems are integrated into the same programme, for example, a budgeting component and another component supporting budgetary oversight. This reflects the interrelation and connectivity between themes and actors in public finance.

The involvement of GDC in the field of GFG has led to three major developments since 2007:

- The number of projects and their values have increased significantly.
- This increase has been most important in Africa.
- There are very few stand-alone programmes left; most have a holistic GFG approach.

The first two points are illustrated in **Figure 7**: The strongest increase in support to GFG reforms can be observed in Africa. In 2012, more than half of GFG projects and programmes (64 %) have been carried out on the African continent (compared to an average percentage of 31 % between 2002 and 2011).

**Figure 7** Number of GDC GFG projects per region and year

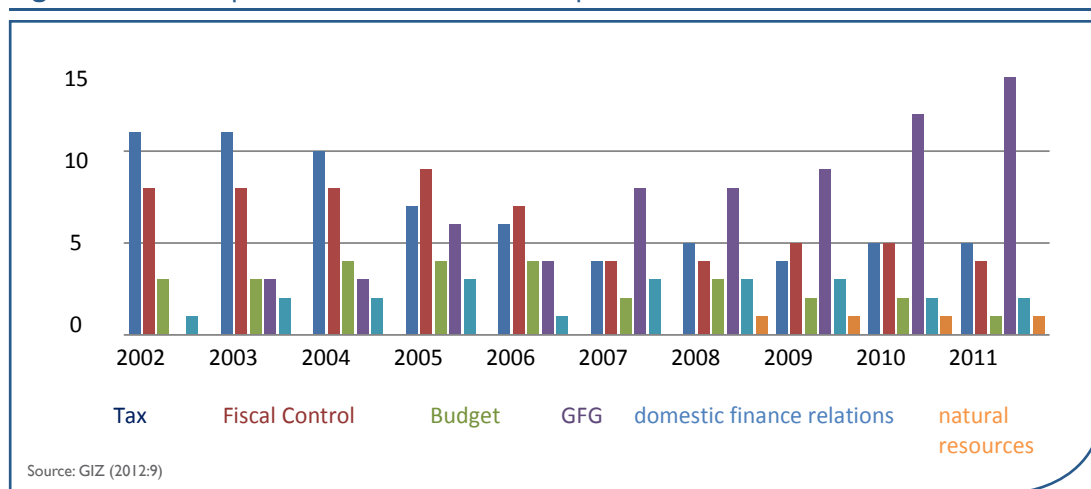


The entire portfolio of Germany's technical cooperation indicates that the support provided in this area in general has risen significantly since 2002, and the systemic GFG approach, in particular, has increased. **Figure 8** shows, that since the first implementation of the GFG approach in 2005, this integrated programme type has expanded the most rapidly.

Only a few stand-alone projects still existed in 2011, especially in the budgeting area.

Experience shows that a systemic approach is particularly well suited to respond to a changing environment over time. The programme in Ghana, for example, originally oriented towards tax reform, was complemented by the themes of budget management and domestic accountability after its first phase. This reflected the mutual dependency among GFG subsystems to a greater extent. The programme in Mauritania initially only worked with the supreme audit institution (SAI), but was then extended to parliament and included budget process objectives. A similar development occurred in Zambia, where German development cooperation responded to demands of its counterparts by adding a component on revenue, thus directing its engagement towards a truly comprehensive approach.

**Figure 8** Development of German technical cooperation in different GFG subthemes



## Exchange of experiences in regional network organisations

The most complex and far-reaching GFG approach of GIZ in Africa is the Good Financial Governance in Africa Programme. It supports the broad-based, long-term capacity development of regional professional networks such as AFROSAI, ATAF, CABRI, and African networks of legislative oversight. The commitment to cooperate with these regional networks is a guiding theme through the entire G8 Action Plan for Good Financial Governance in Africa. By promoting stronger cooperation with and among African partners, a continental alliance for improving financial governance seems possible.

The importance of these networks as platforms for interchange, partly as service providers for their members and as collaboration partners for development assistance in the field of GFG, has increased significantly in recent years. The role of the networks as communities of practice to share experiences with reform programmes has grown stronger. Among their core activities are the collection and dissemination of experiences and lessons learnt, as well as the provision of training and the development of appropriate learning material. This work has intensified in recent years.

Since the General Secretariat (GS) of AFROSAI has been assigned to Cameroon- to the Services du Contrôle Supérieur de l'Etat- in October 2012 on an interim basis, and in October 2014 for an official mandate of nine years, the organisation's activities have gained new momentum. AFROSAI has developed a new joint vision and strategic plan for the period 2015-2020, it has recovered its financial

management (which was lost during the upheavals in Libya where the GS had been based since 2005), and it has organised a number of activities that support learning across language groups (a study tour and discussion workshop on the strategic value and benefits of performance auditing).

In addition, AFROSAI-E, the English language group of SAI in Africa, has been especially active in providing their members with guidelines, tools and training, for example the Communication Toolkit, which targets the communication between SAIs and public accounts committees (PACs) (see **Box 10**, p.42).

CREFIAF, the French-speaking chapter of African SAIs, has received growing support in recent years and thus was able to increase and broaden its training in financial and performance auditing for its members.

*The networks all have grown their reach to their member and target organisations.* In addition to its official nine member countries, CABRI currently has more than 40 regular observers attending its events. Similarly, the membership of ATAF has grown steadily since its inception in 2009 (from 28 founding member states to 38 members at the moment). The strong interest by member states in regional networks is also demonstrated by their input to relevant conferences and events. All institutions have annual meetings, which are mostly hosted by their members and to a large extent organised by the hosts themselves. The AFROSAI family, in particular, cultivates strong member involvement in the delivery of network activities, for example through their involvement in technical committees and the hosting of events.

*African regional networks gain increasing recognition worldwide.* One example is AFROSAI, which, in collaboration with GIZ, received excellent recognition at the World Congress of Supreme Audit Institutions (INTOSAI, Beijing 2013) when it presented the process of the joint environmental audit of Lake Chad. The results of this process, which was conducted by the four SAIs of Lake Chad's neighbouring countries (Nigeria, Niger, Chad, Cameroon), were highlighted as a one-of-a-kind example of south-south learning.

Similarly, CABRI positioned itself successfully in international expert discussions. Technically supported by GIZ, CABRI compiled a study that was represented at the OECD Effective Institutions Platform (EIP) in 2013. It will serve as basis for the development of a new indicator to measure the quality of budget systems in developing countries.

*Also, regional networks increasingly strengthen the representation of Africa in international processes:* CABRI, for example, played a prominent role during the 4th High Level Forum on Aid Effectiveness in Busan, drafting the African position on aid transparency and providing input to the Busan Outcome. ATAF, supported by GIZ, successfully hosted the Consultative Conference on New Rules of the Global Tax Agenda in 2014. The Conference brought together Heads of African Tax Administrations and Ministries of Finance

## Box 2 Overview of important regional professional networks

**AFROSAI** was founded in 1976, following the recommendations of the International Organisation of Supreme Audit Institutions (INTOSAI) congress. It has 54 supreme audit institution (SAI) members and two associate members (the SAI of the West African Economic and Monetary Union and the Commission of the African Union). AFROSAI's main purpose is to promote and develop the exchange of ideas and experiences between the SAI members in the field of public financial control and the auditing of public organisations.

**ATAF** promotes efficient and effective tax administration. It facilitates mutual cooperation among African tax administrations and other relevant and interested stakeholders. To this end, it serves as a platform where progress, challenges and new directions for tax policy and administration are being addressed. ATAF was created in 2009.

The East and Southern African Association of Accountants-General (**ESAAG**) is a multinational association of accountant-generals (AGs) in the Eastern and Southern African region created in 1995. ESAAG provides a knowledge base for senior management and government officials, offering networking and information sharing opportunities, advice on PFM legislation, and collecting and disseminating PFM best practices. It also supports capacity development for its 14 member countries by, for example, offering advice on PFM legislation and training programmes.

**CABRI** is a professional network of senior budget officials in African ministries of finance and/or planning. In December 2009, CABRI became a legal and independent membership-based organisation. CABRI's main objective is to promote the efficient and effective management of public finances, which fosters economic growth and enhances service delivery for the improvement of the living standards of African people.

**SADCOPAC, EAAPAC and the West Africa Association of Public Accounts Committees (WAAPAC)** were created in 2003, 2004 and 2009 respectively. They constitute permanent regional networks of legislative, fiscal and budgetary oversight. They aim at promoting mutual support, as well as fostering the exchange of ideas, knowledge and experience among PACs. The overall objective is to contribute to good governance and transparency.

In addition, **AFROPAC** was launched in 2013 in the context of the 10th anniversary of SADCOPAC. Its aim is to create structures where member countries could network with a view to sharing best practices, and where the work of PACs at Pan-African level could be harmonised and standardised. It also focuses on strengthening the capacity of PACs through development initiatives to effectively fulfil their mandates.

to deliberate on international tax issues, the G20/OECD-driven project on Base Erosion and Profit Shifting and its related Action Plan. For the first time, a deliberate attempt to find a unified African response to these international challenges was undertaken.

All these developments point to the value-added of regional affiliations and peer-assisted learning groups when promoting public finance reforms. Many donors have extended their support to these efforts, thus taking into account the respective commitment in the G8 Action Plan. At the same time, challenges remain:



Financial sustainability is a challenge to all networks. The approach to finance an independent core business only by member contributions through member fees, voluntary contributions in cash and in kind and for pricing of services might be undermined by too much support to the budgets of rather small secretariats. Also, capacity building measures by multinational and bilateral contributors might contribute to spoiling the market for the networks services.

Also, capacity constraints of the secretariats remain, although at a very different level among the networks. But with a limited amount of personnel that can be financed from own sources sustainably there are also clear absorption capacity constraints to scaling up the capacity development support to the networks organization and their staff.

Thus, there are limits to promoting the exchange of experiences and supporting the regional networks. Further support needs to be designed in a manner, which does not challenge sustainability of the networks as organisations and respects absorption capacity constraints. This needs careful targeting and planning of programmes with the partners. It is possible for instance by providing time bound measures in areas without competition conflict with the networks services, but still under the roof of the networks. An example is the ATAF/GIZ tax academy programme, which under the umbrella of ATAF, provides a university degree to its participants.

### **3.3 Aid effectiveness for Good Financial Governance**

With the increasing complexity of providing capacity development on PFM – and possibly against the background of various volatile financial contributions – aid effectiveness remains a very important issue for the support of GFG in Africa. In this section, the focus will be on how two of the most important features in the context of financial governance have evolved:

- The use of country systems
- The coordination of donor PFM analytical works

The latter has been highlighted by the G8 Action Plan for Good Financial Governance in Africa as improving knowledge management.

Since 2007, international development assistance has moved from the Paris Declaration concept of aid effectiveness to the Busan Partnership for Effective Development Cooperation, initiated at the 4<sup>th</sup> High-level Forum on Aid Effectiveness in Busan, Republic of Korea, in November/December 2011. The Busan Partnership marks a paradigm shift from a focus on aid harmonisation, centred on relations between development partners and recipient countries, to increasing the effectiveness of development cooperation in a broader sense (see Mexico Communiqué 2014: para. 4). This broader concept recognises that a country's or region's development is based on a multitude of internal and external factors; consequently the Busan Partnership is supported by governments, regional and international organisations, as well as non-governmental role players. This wider approach builds on the ideas of the Paris Declaration (2005) and the Accra Agenda for Action (2008), similarly highlighting the ownership of countries for their own development processes and orientation towards results and sustainable impacts. It broadens the concept by introducing wide-ranging development partnerships and requiring development cooperation to be transparent and accountable to all citizens.

## Good Financial Governance and the use of country systems

Country systems assisted by development partners cover the whole budget cycle. It starts with a policy framework that guides priorities for support, and allows for the allocation of external and internal public resources to these priorities in the budgeting systems, up to the procedural frameworks and practices in budgeting, policy implementation and the respective oversight mechanisms. The OECD found no minimum threshold that would be needed to use systems; the most important requirement was the governments' commitment to improve the financial governance systems (OECD 2009:3).

The situation had not been easy for development partners in the early years of the aid effectiveness agenda. Many countries did not provide systematic frameworks to guide support contributions. The 2011 International Development Report of the United Nations Department of Economic and Social Affairs (UNDESA) indicated that most countries had no aid policy, "and virtually none have targets for individual providers" (UNDESA 2010:xvi). In 2014, however, this situation improved considerably. The Third Global Accountability Survey on Mutual Accountability (ECOSOC/BMZ 2014b) includes 42 countries, of which 19 are African. Among those 19 countries, all had some kind of national aid policy in effect and 11 were to assess the progress of their aid policies (ibid.: **Annex 1**).

On the side of development partners, however, the use of country systems seems to be on the decline in Africa. The first progress report to the Busan Partnership process clearly shows a decrease in the use of country systems between 2010 and 2013 in 14 out of the 18 African countries in the sample (see **Figure 9**). The situation is different only in Rwanda, Niger, Kenya and Cameroon. This is especially noteworthy, as some countries were rated as making good progress in indicator systems evaluating their implementation of public financial management reforms. In most countries, the country systems that can be used remain at the same level, while these systems have improved in some countries, and only a few have been downgraded (also see **Chapter 5**, p. 41).

Generally and on average, the use of country systems slightly increased from 48% to 49% between 2010 and 2013. However, many important development partners are falling behind significantly, for

example Germany (49% in 2010 to 45% in 2013), the Netherlands (70% in 2010 to 52% in 2013), the UK (75% in 2010 to 59% in 2013), Sweden (71% in 2010 to 49% in 2013) and the World Bank (62% in 2010 to 52% in 2013) (OECD/ UNDP 2014:137).

**Figure 9** indicates that the development of aid on budget and the use of country systems does not relate to developments in public financial management reform. The figure reflects data on the development aid on budget related to the Paris Declaration and Busan Partnership and the use of country systems for 18 African countries between 2010 and 2013, with the rating of the Country Policy and Institutional Assessments (CPIA) indicator on “quality of budgetary and financial management” (QBFM) and its development between 2010 and 2012.

No systematic pattern is visible. Countries with a high and even improving CPIA/QBFM rating might register only a little bit more aid on budget and experience less use of their systems, while countries with a lower rating in CPIA without any improvement might experience an increase in aid on budget and/or the use of country systems. Madagascar, for example, which has the largest downgrading in CPIA/QBFM, is experiencing an improvement in aid on budget and only a small negative change in the use of country systems.

On the other hand, Burkina Faso has the highest score in terms of the CPIA/QBFM, with an improved rating between 2010 and 2012, but it receives only slightly more aid on budget and its indicator for the use of country systems goes into the negative. Togo, which – with a relatively high score on the CPIA/QBFM and a considerably increased rating in the period 2010 to 2012 – receives a third less aid on budget and its country systems are used to a lesser extent. It thus seems that donors provide aid on budget and use partner countries for other reasons than the assessment of the PFM systems.

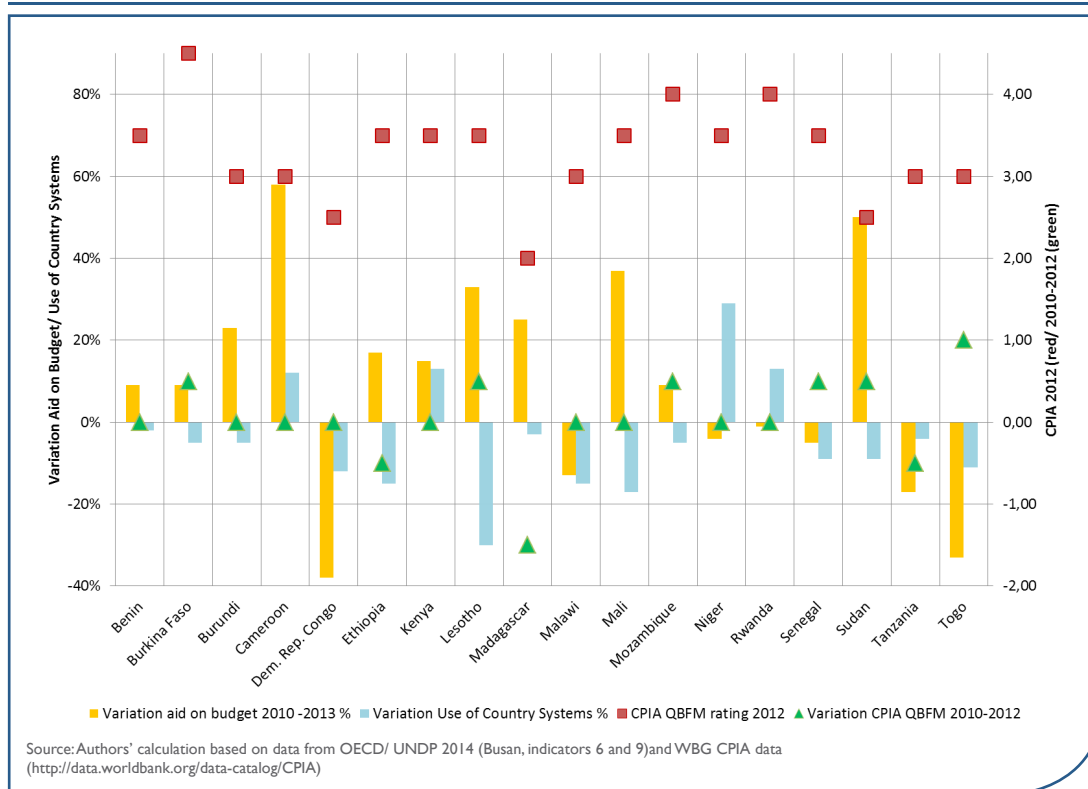
## Knowledge management in donor harmonisation

In general, the knowledge base on the status of GFG-relevant processes in partner countries has been considerably enhanced since 2007. The discourse on aid effectiveness – including the variations in aid delivery modes – has increased the need of development partners to understand partner countries’ PFM systems.

The G8 Action Plan for Good Financial Governance in Africa has specifically emphasised that the collaboration with PEFA should be intensified, especially since PEFA has widened its cooperation modus from the PEFA Steering Committee and the PEFA Secretariat into a broader network from 2007. This network includes a virtual community of PFM practitioners working with PEFA, and an annual open forum that provides



**Figure 9** Aid on budget and use of country systems related to CIA QBFM



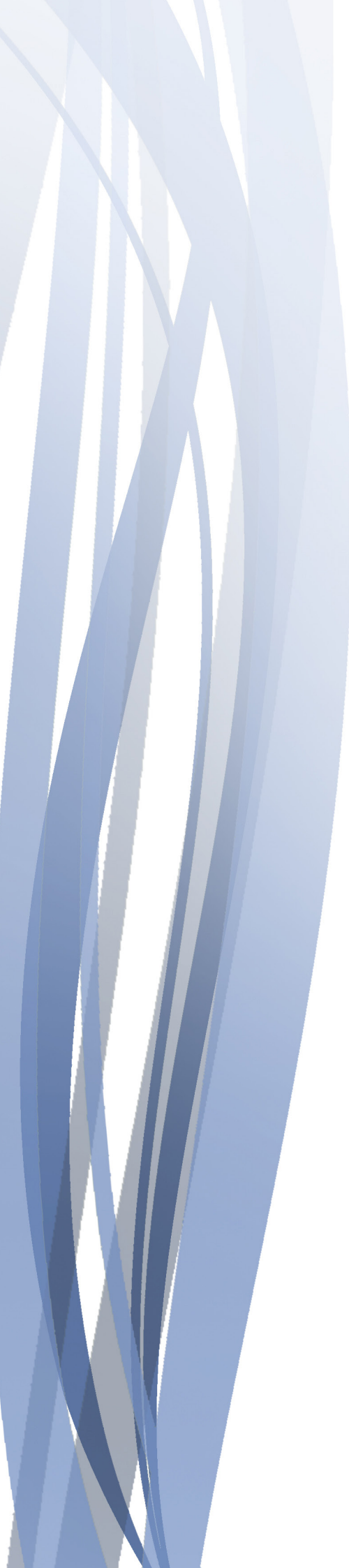
opportunity for face-to-face interaction between PFM practitioners and institutions on the one hand, and the PEFA Steering Committee and Secretariat on the other hand.<sup>10</sup> The PEFA Performance Measurement Framework (PMF) has been upgraded in recent years into a largely reconciliatory process that includes many partners.<sup>11</sup> In January 2015, the Country Testing Version of the upgraded PEFA PMF has been released (PEFA 2015), and the testing phase will be implemented throughout the first half of 2015.

PEFA has thus been enhanced, and in the same time, other PFM diagnostic tools have multiplied. The stocktaking study of PFM diagnostic instruments (Mackie & Ronsholt 2011), which was prepared in the context of the High-level Forum in Busan, found that there were more joint assessments and increased collaboration between partner countries' governments and development partners. However, the study also indicated, rather critically, the "increased numbers of broad based and drill down assessment tools; which have been developed to fill a perceived need by their respective institutional owners but which are poorly coordinated by development partners, international agencies and professional bodies. In addition, large numbers of uncoordinated fiduciary assessments are being conducted; driven by development partners' operational requirements rather than development need" (Mackie & Ronsholt 2011:12).

There is an increasing demand by development partners for PFM diagnostic studies to be carried out, otherwise organisations will try to cover the information needed for their procedural purposes by their own means. It is possible that different diagnostics will produce completely different results, or development partners may perhaps have greatly different views on the adequacy of PFM systems. However, both would raise questions on the methodologies used and assessments may end up far away from the idea of mutual accountability.

<sup>10</sup> See <http://www.pefa.org/en/content/pefa-network-0>

<sup>11</sup> See the list of respondents in PEFA 2015:2.



The stocktaking study – commissioned by the OECD Task Force on Public Financial Management and overseen by the PEFA Secretariat – recommended that all important players revisit and streamline their assessment needs and instruments in use, and enhance coordination. Internationally, this should be done through a “single user-friendly portal to give access to development partner instruments, completed diagnostic and fiduciary assessments ...” (ibid.:13) – the PEFA Performance Measurement Framework. At country level, “governments should have a coherent, integrated medium-term strategy of diagnostic instruments; supported by development partners” (ibid.).

However, PEFA – as useful as it is – is a donor instrument and partner countries’ governments seem to have been rather reluctant to participate in the further development of the PEFA Performance Measurement Framework. Only a few partner countries commended the upgrade of the performance indicators, namely the Comoros, Sierra Leone, Madagascar, Côte d’Ivoire, Burkina Faso, Myanmar, Vietnam, Thailand, Samoa, Peru, Honduras, El Salvador, Jamaica, the Philippines, and South Africa.

What contributes further to the rising demand for PFM-related data is the broadening of global dialogue on PFM issues after the Doha Conference in 2008. This brought about increasing requests at providers’ headquarter levels to improve knowledge on activities and measures for better coordination at country and regional level. The initiatives to provide such information in a centralised way have had limited success. In the field of taxation, for example, two mapping studies<sup>12</sup> have shown that the cost of providing centralised data is high, that surveys are never even nearly completed, and that often information is not up-to-date any more at the moment of publishing. Regular reporting has not been possible continuously: The International Tax Dialogue (ITD) databank has been closed down, and the recommendations for regular reporting based on CRS data (Tortella & Eckardt 2012) have never been realised.

The simple explanation of these challenges is that the coordination of support measures to PFM needs to be done closest to the intervention level – at country level for country-specific support and at regional level through the regional providers via professional networks such as ATAF, AFROSAI and CABRI. This means that partner countries, who should be the drivers of their reform processes, should also lead the coordination of the support of these processes. At a regional level, the African professional networks, legitimated by their member institutions, should coordinate support on behalf of those members. The country dialogues on using and strengthening local systems have recently started, and the Effective Institutions Platform (EIP 2015) might be the next step in the right direction. The leading role of CABRI on the topic (together with USAID) will ensure a country-relevant working focus.

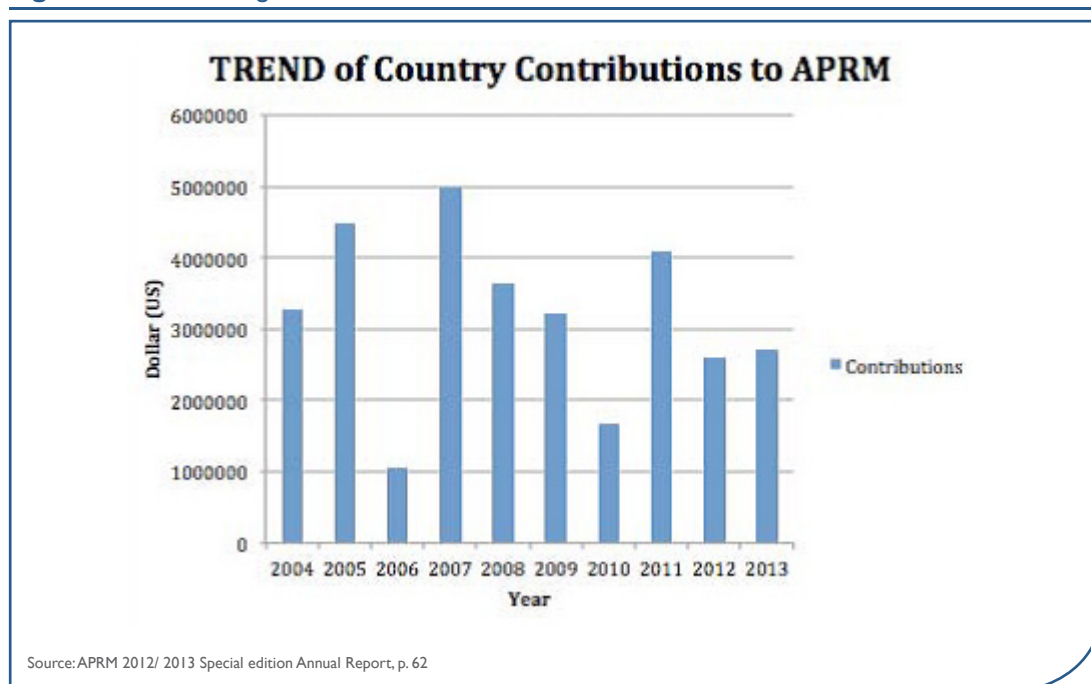
<sup>12</sup> See Köhnen, Kundt & Schuppert 2010 and Tortella & Eckardt 2012

## African leaders' awareness and political commitment to GFG

Improvements in financial governance are not realised without high-level political commitment. African leaders have affirmed their strong commitment to the GFG agenda at highest level many times – the last time was at the occasion of the 22nd Ordinary Session of the Assembly of the African Union on January 2014 with regard to the Common African Position (CAP) on the Post-2015 Development Agenda. Under the headline of enabling implementation, the African leadership strongly reaffirmed their support of measures leading to GFG (CAP 2014:22):

- **Para. 89:** “Adopt additional measures to fight corruption, promote good political and socio-economic governance, transparency and accountability, especially in the field of natural resources management; and improve the enabling environment for the involvement of civil society.”
- **Para. 90:** “Accelerate decentralisation of the governance system, reinforce rule of law frameworks and strengthen capacities of our institutions in order to protect human rights and meet the aspirations of our people; and promote integrity and leadership that is committed to the interests of the people.”
- **Para. 91:** “Enhance the implementation and impact of existing continental mechanisms, such as the African Peer Review Mechanism (APRM), the NEPAD and the African Governance Architecture.”

**Figure 10** Financing of the APRM



These topics are imperative for progress on implementing GFG reforms, and often, the lack of high-level political backup is one of the strongest impediments. The CAP gives hope to renewed efforts to implement ongoing GFG reforms. It would be even more promising if African leaders would combine efforts to financially sustain the regional networks. Financial contributions to the APRM, for example, have been declining since 2007. The independent and sustainable construction and financing of African governance networks and the GFG professional organisation is an important indicator for GFG ownership at the political level in Africa.

# 4

## Supporting revenue mobilisation in Africa

Revenue mobilisation in developing countries has been high on the political agenda since the Monterrey Consensus in 2002.<sup>13</sup> Correspondingly, support to the development of tax systems has intensified to a large extent since then. The G8 Action Plan for Good Financial Governance in Africa also underlined the support of tax policy and tax administration reform. African countries were encouraged to make use of regional networks and international knowledge on tax policy and tax administration, particularly in order to bolster domestic expertise. In this chapter, the following will be discussed:

- The development of these networks
- Whether progress can be observed in aggregate tax collection data
- Whether progress can be observed in performance assessments of tax administration reform

Resource mobilisation from extractive industries is increasingly important in many African countries, and therefore the development of the extractive industries' accountability initiatives will be summarised in **Section 4.2**.

### 4.1 Support in the tax area

#### Development of cooperation networks on taxation

Many international and African initiatives and cooperation networks have been initiated since 2008 to improve revenue systems and administration:

- At the International Conference on Taxation, State Building and Capacity Development in Africa, held in Pretoria, South Africa, from 28 to 29 August 2008, commissioners, senior tax administrators and policy-makers from 28 African countries resolved to work towards the establishment of the African Tax Administration Forum (ATAF).
- The Follow-up International Conference on Financing for Development was held in Doha, Qatar, from 29 November to 2 December 2008, to decide on future steps for combating tax evasion and inappropriate tax practices.

<sup>13</sup> The Monterrey Consensus on Financing for Development (United Nations 2002)

- In March 2009, the International Tax Compact (ITC) was established. This is an informal platform that supports the establishment of better tax systems, which allow partner countries to increase domestic revenue and fight tax evasion and inappropriate tax practices more effectively.
- In November 2009, ATAF was officially launched in Kampala, Uganda, with 29 members.
- In January 2010, the OECD's Task Force on Tax and Development was created. It is co-chaired by South Africa and the Netherlands, and advises the OECD committees on delivering a Tax and Development Programme to improve an enabling environment for developing countries to collect taxes fairly and effectively.
- Since 2011, the UN Economic and Social Council (ECOSOC) has been holding special meetings to consider international cooperation on tax matters with the participation of national tax authorities.
- Also in 2011, the IMF launched its topical Trust Fund on Tax Policy and Administration (TPA), which is financed by a variety of bilateral development partners and supports low- and lower- middle-income countries in implementing well-designed and administered tax systems.
- In 2015, a joint Africa Initiative is created by ATAF, the Centre de rencontre des administrations fiscales (CREDAF), the Global Forum on Transparency and Exchange of Information for Tax Purposes, the OECD, the World Bank and individual African members of the Global Forum in order to raise awareness in African countries on exchange of information in tax matters, as well as to enhance the introduction of respective systems.<sup>14</sup>

#### **Box 4** Tax harmonisation in the East African Community (EAC)

The GIZ programme Support to the EAC Integration Process has been working for years with the EAC Secretariat on the harmonisation of tax policies and laws on domestic taxes in these countries to remove tax distortions in order to promote trade and investment. One of the successes was the member country-driven development of a model double tax agreement (DTA). The joint EAC DTA was approved by the EAC Council of Ministers in 2010. However, up until now, the document was adopted only in Rwanda. In all other countries, reluctance at presidential level and/or in parliament prevails.

In September 2014, the EAC Council adopted the harmonised EAC tax procedures. The member states are required to implement the directive within a period of one year.

See: <http://eacgermany.org>

Similarly, civil society organisations such as the Tax Justice Network, Oxfam, and the Global Policy Forum have contributed much to advocating on revenue governance topics internationally. The largest part of these topics centres on international tax issues, including transfer pricing, automatic information exchange, and, more recently, the Action Plan on Base Erosion and Profit Shifting (BEPS).

The first African Governance Outlook (AGO) outlines that on the African side, this international tax dialogue agenda was and is carried forward by strong African leadership seeking the reform of tax systems and administration (AfDB & African Capacity Building Foundation 2012:14). The

<sup>14</sup> <http://www.oecd.org/tax/transparency/gf-african-initiative.pdf>



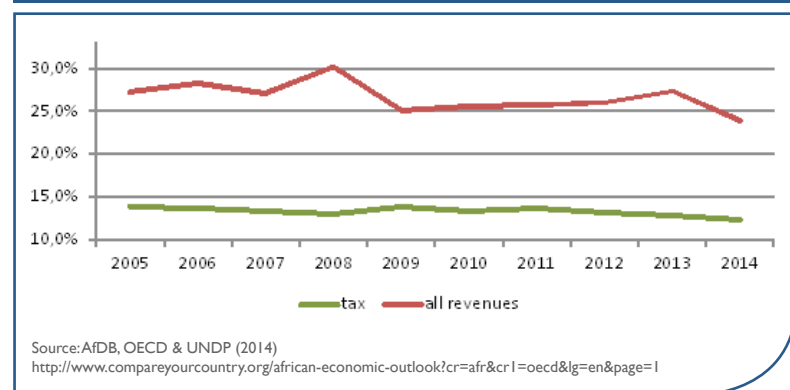
AGO pilot countries<sup>15</sup> were steadily improving their performance in revenue governance. The AGO emphasises the strong political will and commitment of African leaders to effectively drive the implementation of revenue administration reform. This is fully in line with the G8 Action Plan for Good Financial Governance in Africa target to enhance the use of regional and international networks, and has pushed tax reform in Africa. However, high-level political support is not a guarantee for policy implementation. A good example of this is the East African Community (EAC) Double Taxation Agreement (DTA) that was approved by the EAC Council of Ministers in 2010, but has not been adopted, except in Rwanda (see **Box 4**).

## Development of tax collection in Africa

The African Economic Outlook reports a substantial increase in the total collected tax revenue in Africa. Since 2000, tax revenues have increased fourfold from US\$137.5 billion to US\$572.3 billion in 2012 in absolute terms (AFDB/ OECD/ UNDP 2014:65).

However, in relation to GDP, this picture cannot be confirmed by more recent the data. In spite of an upward trend in many years,<sup>16</sup> the average tax-to-GDP ratio in African countries shows a negative trend between 2005 and 2014, especially since 2011 (with 13.6%), and a projected amount of 12.3% in 2014 (see **Figure 11**).

**Figure 11** Tax-to-GDP ratio, 2005–2014, average for Africa



In general, African government revenues have been decreasing since the major economic downturn after the worldwide financial crisis – from 30.2% revenues/GDP in 2008 to 25.1% in 2009. In that year, the average

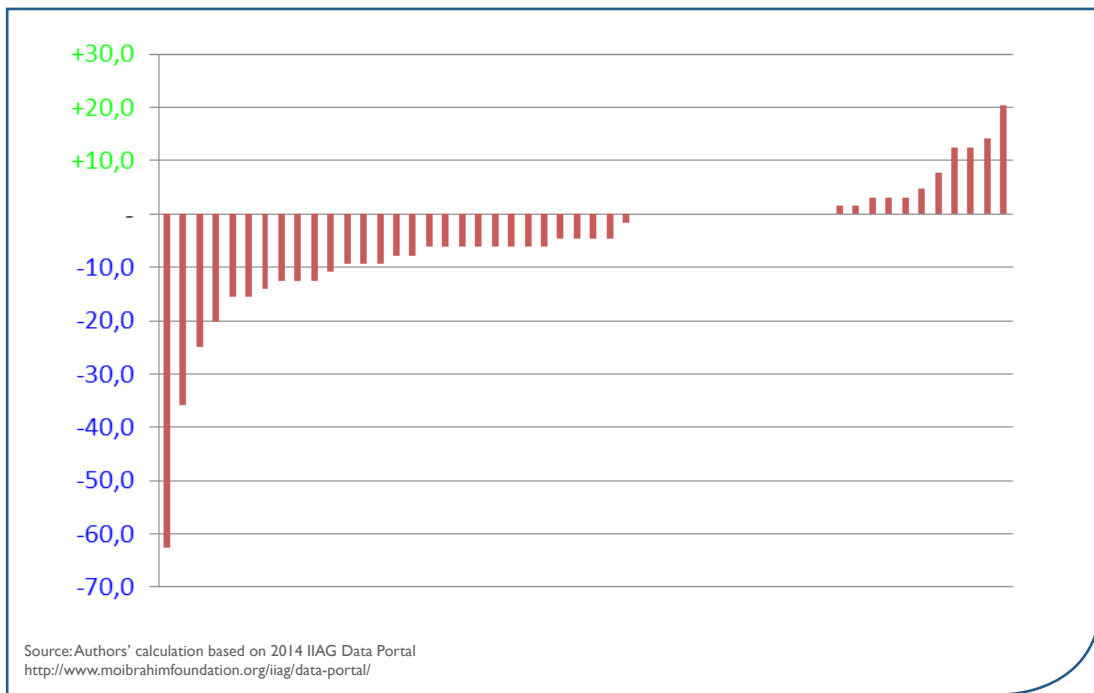
<sup>15</sup> The AGO report analyses Africa’s financial governance performance based on 25 qualitative financial governance variables, complemented by a qualitative analysis of public financial management reform. The AGO project uses information, experience and lessons from existing Africa-based governance assessment tools, including the African Peer Review Mechanism (APRM), and the (Mo) Ibrahim Index of African Governance (IIAG). The pilot report of 2012 concentrates on ten African countries: Kenya, Mali, Mozambique, Tanzania, Rwanda, Burkina Faso, Ghana, Ethiopia, Nigeria, Senegal, and Uganda.

<sup>16</sup> [http://www.africaneconomicoutlook.org/en/outlook/financial\\_flows/](http://www.africaneconomicoutlook.org/en/outlook/financial_flows/)

tax-to-GDP ratio increased slightly, but did not keep up. It is a trend that turned around the positive development before 2007, which was mostly based on the strong increase of revenue from the extractive industries (CABRI, AFROSAI & ATAF 2010:16).

The decreasing trend of tax-to-GDP ratios is a broad phenomenon in Africa; it cannot be attributed to the particular performance of large, individual countries. The vast majority of countries have not reached progress in revenue collection since 2009.

**Figure 12** Variation in African revenue collection, 2009 to 2013 (IIAG), 52 countries



**Figure 12** shows the variation in IIAG scores on revenue collection between 2009 and 2013.<sup>17</sup> Out of 52 African countries in the IIAG data set, 11 have improved their scores on revenue collection, 12 maintained their performance levels and of the remaining 29, the revenue collection scores of more than half have declined.

On average in Africa, revenue collection is among the most deteriorated of the more than 100 IIAG indicators between 2009 and 2013. In 2009, revenue collection scored 58.4, and in 2013, 53.3. While many of the countries struggling with their revenue collection at that time were those that experienced political and economic crises, such as Libya or Madagascar, a number of strong-performing countries such as Ghana (-20.3 in IIAG score), Kenya (- 7.8) or Zambia (-9.3) also struggled. The impact of the various initiatives created to improve revenue mobilisation is yet to materialise – in spite of the many successes that have been reached at the working level.

<sup>17</sup> The IIAG compiles its index by combining over 100 variables from more than 30 independent African and global sources (see <http://www.moibrahimfoundation.org/iiag/>). "Revenue collection" is one of the ten indicators that are used to calculate the "public management" subcategory score. The tax collection index ranges from 1 to 100, and Figure 12 shows the points in variation on that scale between 2009 and 2013. IIAG tax collection is measured, based on the Country Performance Assessments (CPA) of the African Development Bank (AfDB) and on the IDA Resource Allocation Index (IRAI), a cluster within the World Bank Group (WBG) CPIA data set.

## Improvements in African tax administration

Even if the revenue collection data do not yet show any impact, a study of the details of reform progress at country level in PEFA reporting shows that African countries have put much effort into implementing revenue administration reform.

**Figure 13** summarises the development of PEFA ratings for 18 countries.<sup>18</sup> All the performance indicators (PIs) that directly relate to tax administrations – PI-13, PI-14 and PI-15 – show at least some improvement for the majority of cases included. Only PI-3, which measures the aggregate revenue outturn compared to originally approved budget planning capacity, shows decline when compared to the other indicators:

- PI-13, “transparency of taxpayer obligations and liabilities”, shows improvements for all countries but one, which maintained its level. Three countries improved slightly, nine countries improved by one full step, three by one and a half (for example D to C+ or C to B+), and two countries even reached two and three steps’ progress.

PI-13 also includes a sub-indicator dimension that has been specifically targeted to align with the G8 Action Plan’s intention, especially regarding the aspect to “provide citizens with the legal means to effectively scrutinise the decisions of their tax administrations”; PI-13 (iii) asks about the existence and functioning of a tax appeal mechanism. This sub-indicator shows slightly minor improvement compared to the overall indicator PI-13. Nine countries have remained at their performance levels, most of them at the elevated level “B”, and four have further improved, but three decreased in scoring.

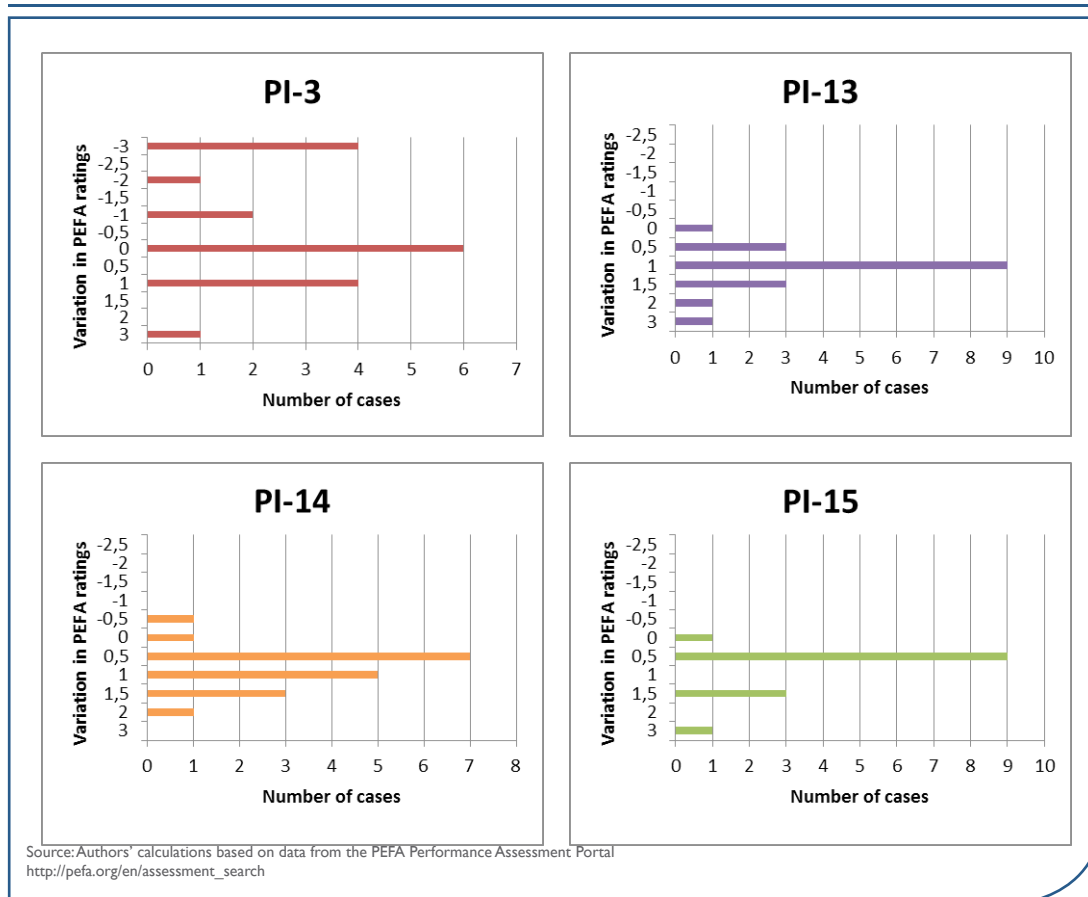
### Box 5 GIZ contribution to improve effective taxpayer administration in Ghana

In Ghana, GIZ has been supporting the Ministry of Finance for many years in working towards good governance in tax and budget policy and administration – important priorities in the Ghanaian Growth and Poverty Reduction Strategy. The modernisation of the tax system has shown in 2012 that the large taxpayer’s department accounts for more than 60% of all taxes collected. Specific administrative procedures to work with medium-sized taxpayers are being developed. These include a medium-sized taxpayer’s registration module that has been developed and tested under the tax process information system, Total Revenue Integrated Processing System (TRIPS).

<sup>18</sup> The sample covers all African countries for which it was possible to compare two reports with at least a three-year period in between reporting, after 2006. Due to this methodology, Figure 13 can only show the direction of change in the rating – positive, neutral, or negative – and its magnitude. It does not allow for an assessment of the performance level.



**Figure 13** Development of tax indicator ratings in PEFA performance assessments<sup>19</sup>



- Performance indicator 14 addresses the “effectiveness of measures for taxpayer registration and tax assessment”. Under that heading, the PEFA framework assesses three dimensions:
  - Controls in the taxpayer registration system
  - Effectiveness of penalties for non-compliance with registration and declaration obligations
  - Planning and monitoring of tax audit and fraud investigation programmes

PI-14 also shows positive developments. Only one country has received a slightly inferior rating from one PEFA report to the other, but all the other countries have maintained their levels or raised them. The detailed data also show that most progress is assessed under the third sub-indicator regarding the planning and monitoring of tax audit and fraud investigation programmes. In this category, eight countries have raised their performance assessments by one full step, and one country even by two. This has to be recognised against the fact that increasing a PEFA rating on the scale A–D by one step (D–C, C–B or B–A) requires the successful implementation of important organisational developments in the tax administration.

<sup>19</sup> Data compare the development of ratings between two PEFA assessments for 18 countries (see Annex 2). “0” means no change between ratings of the reports, 1/-1 means an improvement/a reduction of one full letter (as A to B, B to C etc. or B to A, C to B), 0,5/-0,5 variation stands for an improvement or reduction, as in C+ to B or B to C+. The number of cases shows how many countries show similar developments. The reports’ dates vary; two reports per country are compared with at least two years’ difference.

- Furthermore, PI-15 on the “effectiveness in collection of tax payments” shows improvements for almost all countries and no decline for anyone.
- Indicator PI-3 measures the “predictability of public revenues through the aggregate revenue outturns compared to original approved budget” and shows rather mixed results. Little progress has been reached and some countries have also experienced a significant decrease in rating. However, the PI-3 indicator does not only measure the performance of tax administration and tax collection, but targets budget credibility. Depending on the country’s background, it might be influenced by difficulties in budget forecasting – for example, performance-based payment systems in tax administration might incentivise a pessimistic prognosis of tax yields for budget planning. Further, volatile commodity prices for extractive industries might distort this indicator, as it covers all domestic public revenues.

In summary, it can be said that at country level and in the practice of implementing tax administration reform, much more has been achieved than is visible in tax collection data. African tax administrations have improved their performance on a very broad base. Such improvements in the ratings of the relevant PEFA indicators can only be achieved by significant organisational development. However, the successes of reform implementation at administrative level do not materialise in rising tax-to-GDP ratios yet. One factor is certain: implementing tax reform and tax administration reform needs time; much more time than a development cooperation programme cycle covers, and also longer than the time between two cycles of PEFA assessments.

The CABRI, AFROSAI and ATAF GFG Status Report of 2010 has highlighted the numerous challenges for African tax systems (CABRI, AFROSAI & ATAF 2010:22ff.). The report also clearly states that tax evasion, corruption, abuse and misappropriation of provisions for tax exemptions, political interference and the low capacity of the tax administration remain the roots for deficiencies in improving revenue mobilisation. Thus, there is no alternative to continuing the efforts. However, further in-depth research should help to reveal how progress in reforming tax administration can also assist in increasing revenue collection.

## 4.2 Increasing accountability for revenues from extractive industries

The highest potential for increasing revenues is to be expected from extractive industries (AFDB/ OECD/ UNDP 2014:65). In the case of resource-endowed countries, the success of the Extractive Industries Transparency Initiative (EITI) in Africa highlights this perspective. The

G8 Action Plan for Good Financial Governance in Africa has thus emphasised support to increase accountability in the extractive industry sector to improve resource mobilisation. Much has been done and also achieved in this regard since 2008, although resource governance systems still remain a challenge.

## Resource governance

**Table 4** African rankings in the Resource Governance Index (RGI) 2013

Rank	Country	Resource Measured	Composite	Institutional and legal setting	Reporting practices	Safeguards and quality controls	Enabling Environment
15	Ghana	Minerals	63	79	51	73	59
16	Liberia	Minerals	62	83	62	71	31
17	Zambia	Minerals	61	71	62	72	37
21	South Africa	Minerals	56	69	31	73	72
25	Morocco	Minerals	53	48	60	56	42
27	Tanzania	Minerals	50	44	48	68	42
30	Botswana	Minerals	47	55	28	53	69
32	Gabon	Hydrocarbons	46	60	51	39	28
33	Guinea	Minerals	46	86	45	43	11
35	Sierra Leone	Minerals	46	52	47	59	24
38	Egypt	Hydrocarbons	43	40	44	48	40
40	Nigeria	Hydrocarbons	42	66	38	53	18
41	Angola	Hydrocarbons	42	58	43	52	15
42	Kuwait	Hydrocarbons	41	28	43	36	57
44	Congo (DRC)	Minerals	39	56	45	42	6
45	Algeria	Hydrocarbons	38	57	41	28	26
46	Mozambique	Hydrocarbons	37	58	26	37	37
47	Cameroon	Hydrocarbons	34	63	33	25	17
50	South Sudan	Hydrocarbons	31	80	17	35	8
51	Zimbabwe	Minerals	31	48	23	56	6
52	Cambodia	Hydrocarbons	29	52	13	46	20
55	Libya	Hydrocarbons	19	11	29	15	10
56	Equatorial Guinea	Hydrocarbons	13	27	14	4	4



**Institutional and legal setting:** The degree to which laws, regulations and institutional arrangements facilitate transparency, accountability and open, fair competition

**Reporting practices:** Government disclosure of information

**Safeguards and quality controls:** The presence and quality of checks and oversight mechanisms that encourage integrity and guard against conflicts of interest

**Enabling environment:** The broader governance environment, based on more than 30 external measures of accountability, government effectiveness, the rule of law, corruption and democracy

Source: <http://www.resourcegovernance.org/rgi/countries>

The Resource Governance Index (RGI)<sup>20</sup> measures the quality of governance in the oil, gas, and mining sectors of 58 countries, of which 23 are African. For 2013, it shows for Africa that not one country has achieved the overall composite assessment “satisfactory”. In spite of EITI’s success, not one country is rated “satisfactory” under the reporting practices. However, some countries are managing well: Ghana, Liberia, Zambia, Guinea and South Sudan are testified satisfactory institutional and legal settings, and eleven countries more received at least “partially satisfactory”. Again, this is the part that can be supported by external advice. Some success can also be observed with safeguards and controls.

The enabling environment that rates the broader governance environment with indicators as accountability, government effectiveness, the rule of law, corruption, and democracy is rather difficult.

## Implementation of EITI in Africa

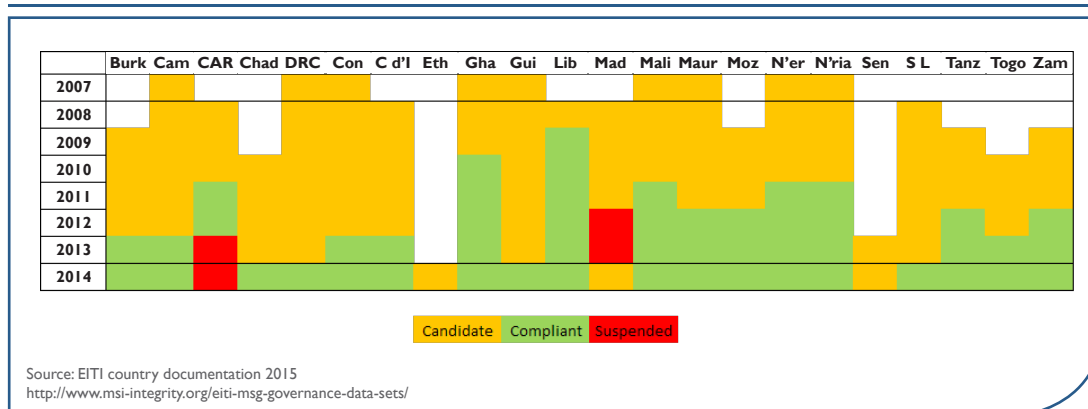
Even if resource governance in resource-endowed African countries remains challenging, implementing the EITI has been a great success story in Africa since 2007. The story of EITI is also tied to its African partner countries. Today, more than half of the 32 EITI-compliant countries are African.

Over the years, the EITI has steadily increased the requirements and specification of its rules and regulations. In 2008, the EITI Validation Guide for the first time introduced binding requirements for countries that wanted to become compliant with the EITI principles. The Validation Guide was amended in 2011 and its name changed to Rules and Validation. In 2013, the EITI standard has been introduced as authoritative source on how countries can implement the EITI. The EITI standard is now the global transparency standard for improving the governance of natural resources. Its main objective is to verify and reconcile company and government data on payments and receipts. In an EITI report, companies publish what they pay and governments what they receive. This process is overseen by a multistakeholder group of governments, companies and civil society. Over the period of increasing the specifications and requirements of EITI, the African EITI community has grown rapidly, as shown in **Figure 14**.

In 2007, nine African countries were EITI candidates. One year later, this number increased to fourteen countries. In 2014, 18 African countries have been fully compliant with the EITI. Three have candidate status, and Madagascar was again accepted in 2014 after being suspended for two years. The Central African Republic complied in 2011 and 2012, but was temporarily suspended in 2013 because of political instability.

<sup>20</sup> The RGI is developed by the Natural Resource Governance Institute (NRGI). Natural Resource Charter is now the Natural Resource Governance Institute (NRGI), the former Revenue Watch Institute - Natural Resource Charter.

**Figure 14** African EITI countries, 2007 to 2014



The EITI process is not easily passed: On average, countries take four years from candidacy to compliance. Since 2010, the EITI has entered a consolidation phase; no additional candidates have joined, except for Ethiopia and Senegal, which joined as candidates in 2013 and 2014.

**Box 6** GIZ regional support to resource mobilisation from extractive industries in Liberia and Sierra Leone

In Liberia and Sierra Leone, GIZ supports – with Australian co-financing – the partner countries in increasing the efficiency and sustainability of their natural resource management through reforms of in their political, economic and legal conditions. Thus, greater transparency and accountability of public revenue reduce incentives for corruption in the extractive industries. Capacity development targets managers in government departments, regional and local governments, as well as in civil society, private sector and regional institutions. Networks among all stakeholders have been strengthened. The overall objective is to increase tax revenue from the extractive sector in order to increase public resources to fight poverty and develop the countries.

The project is based on a regional approach between Sierra Leone and Liberia that allows for a shared multiplication of good experiences. Furthermore, regional dialogue and exchanges on resource governance are supported, especially with the Mano River Union.

At the local level, the project supports dialogue between mining companies and local communities to ease existing conflicts and convert them into more development-oriented cooperation. Together with the citizens, communities and companies formulated local development plans for mining areas.

**New EU CBCR standards**

In response to the international dialogue on the transparency of extractive industries, mainly driven by the EITI, the G8 and the G20, the EITI was followed by the new EU reporting standards (ITC 2014:43ff.). The process of developing new country-by-country reporting (CBCR) standards was

led by the EU's Internal Market and Services Directorate General (DG MARKT) and the Accounting and Transparency Directive was adopted in June 2013. EU member states will need to pass the directive into national law until 20 July 2015. The EU CBCR Standard makes it obligatory for multinational companies to disclose payments to governments on a country and project basis. Listed and large unlisted companies in the EU with activities in the oil, gas, mining and logging sectors will have to report annually on operations managed into or from the EU. Reporting is mandatory in financial statements for financial years starting on or after 1 January 2016. The new standard will help civil society organisations in resource-endowed countries to hold their governments accountable for any income from the exploitation of natural resources.

**Table 5** Comparison of CBCR and EITI reporting requirements

	EU CBCR Standard	EITI Standard
Where?	Company's home country	Country of resource
What?	Company payments of tax, royalties and signature bonuses	Whole governance chain: licences, policies, laws, registers, production, ownership, payments, subnational payments, social payments, expenditure, etc.
Who?	All EU-based companies	All companies operating in host country, including state-owned enterprises, non-listed companies, medium-sized companies, etc.
How?	Project-by-project company template in line with audited accounts	Project-by-project (in line with EU law) company and government templates in line with audited accounts, and then reconciliation
When?	Next fiscal year	Within two years

Source: Eddie Rich, EITI Secretariat, in ITC (2014:45)

Essentially, the EU's CBCR Standard is designed to support the EITI's goal of increasing the level of transparency for tax payments and receipts. It will put pressure on governments to generate higher tax revenues. It will also provide a focal point for investors, civil society organisations and the media in the debate on how much resource extraction contributes to the public purse. Thus, much progress has been made on increasing transparency on extractive industries.

However, to generate higher tax revenues from extractive industries, much greater efforts from partner countries and supporting networks are needed. In resource-endowed countries, extractive industries potentially form the backbone of domestic revenue. The regulatory situation in many countries is characterised by complex fiscal regimes, involving different taxes, fees, royalties and other non-tax revenues with complex rules, which result in highly opaque and unwieldy fiscal systems. Against



this background, the participants of the 2014 ITC workshop on the taxation of extractive industries expressed some reservation towards the usefulness of the information provided by the EITI and the EU CBCR standards for revenue mobilisation (ITC 2014:66), because neither standard includes reports on the full value chain or on the companies involved in trading. The scope of the information provided thus remains limited from the point of view of the tax administration (see **Table 5**).<sup>21</sup>

Nevertheless, efforts need to continue – improving resource governance cannot be underestimated. Poor governance and corruption are considered “a, perhaps the, major contributor to the ‘resources curse’” (IMF 2014:14). The extractives sector exponentially multiplies challenges known in other sectors: “Natural resource revenue administration presents all the normal challenges of business administration, but in addition may present a wide variety of special issues, and the scale of risks involved may be exceptionally large” (ibid.). Thus, there is little alternative to continuing to support improvements. The concerted transparency initiatives in partner countries and among development partners and networks will contribute in their respective ways.

<sup>21</sup> The EU's focus is on extractive and logging operations; the transport of oil, for example, is not covered, since that would fall under trade. The EITI's focus is on the first sales level of the value chain: companies are obliged to disclose any value they receive through the first sale level; the next level appears to be very difficult to cover. The information provided by CBCR and the EITI will therefore be of limited help to tax administrations in their efforts to address BEPS and transfer pricing, the most pressing issues in international taxation (ITC 2014: 66).

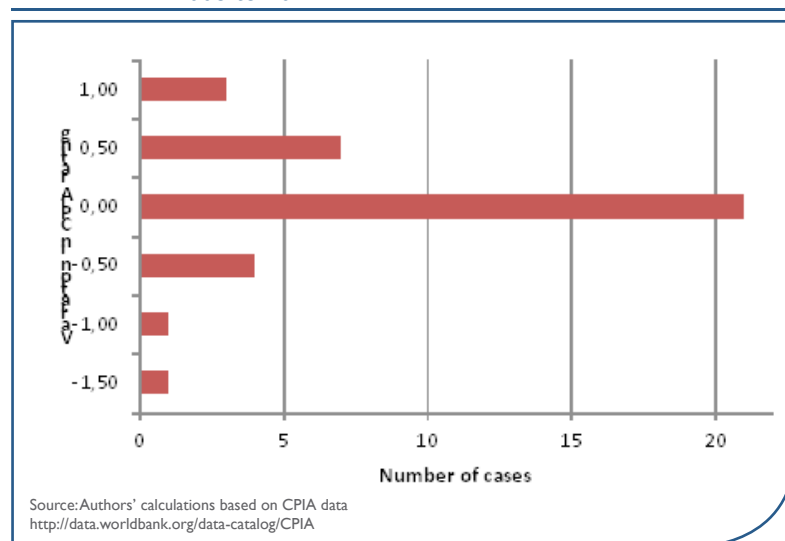
# 5

## Establishing transparent and comprehensive budgeting procedures

Working towards transparent, accountable and reliable budget management has been at the top of the international development cooperation agenda since the declaration of Rome in 2002, when the concepts of aid harmonisation, mutual ownership and alignment with country systems were placed at a high policy level for the first time – although not yet named so. In this chapter, the focus will lie on the development of performance assessment of policy-making and budgeting, the extent to which budget data is published, and how the comprehensiveness and transparency of public budgeting procedures have evolved.

### Integrating policy-making, planning and budgeting

**Figure 15** African IDA countries' variation in CPIA rating on the quality of budgetary and financial management, 2008 to 2012



The G8 Action Plan for Good Financial Governance in Africa aimed at improving the integration of policy-making, planning and budgeting. This is measured by the dimension “quality of budgetary and financial management” (QBFM) under the World Bank Group’s CPIA Framework, which regularly assesses IDA-eligible countries’ performance. The QBFM dimension evaluates the extent to which there is a comprehensive and credible budget linked to policy priorities, effective financial management systems, and timely and accurate accounting and fiscal reporting. Between the assessments of 2008 and 2012, the vast majority of African IDA

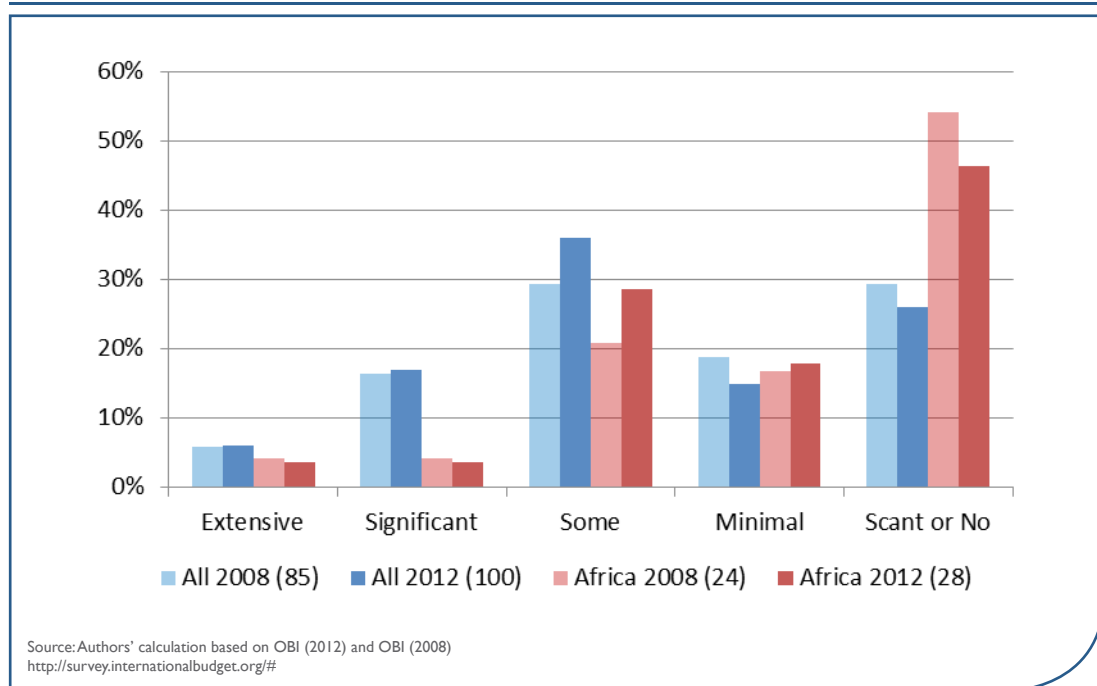
countries stagnated with no change, but still more countries have improved in their ratings than deteriorated. Thus, 84% of the African IDA countries have maintained or enhanced their performance levels between 2008 and 2012. The average rating has improved slightly from 3.04 in 2008 to 3.00 in 2012.

Although no deterioration could be detected, in many countries the CPIA level is worryingly low. According to the World Bank’s definition, all low-income countries that score 3.2 or less on the overall CPIA index are classified as fragile states: “Low-income Countries Under Stress” (LICUS) (WBG 2011:4). In 2014, this was the case for 17 sub-Saharan African countries, half of all IDA-eligible countries in this region.<sup>22</sup>

## Budget transparency

The Open Budget Index (OBI) evaluates – through thorough questionnaires – the amount of budget information that is made publicly available, mostly focused on eight key budget documents.<sup>23</sup>

**Figure 16** Open Budget Index rankings, 2008 and 2012



In 2012, the Open Budget Survey summarises its findings as follows (International Budget Partnership 2012:iv): “The OBI 2012 scores are not impressive.” Among these low scores, African countries are even underperforming (see **Figure 16**). In 2012, only 8% of the African countries in the OBI sample provided their citizens with “extensive” (South Africa) or “significant” (Botswana) information on the budget

<sup>22</sup> <http://siteresources.worldbank.org/EXTLICUS/Resources/511777-1269623894864/HarmonizedlistoffragilestatesFY14.pdf>

<sup>23</sup> The eight document types are the pre-budget statement, the executive’s budget proposal, the enacted budget, the citizen’s budget, in-year reports, mid-year reports, the year-end report and the audit report. The OBI scores from 0 to 100 in the following classes: extensive information: 81–100, significant information: 61–80, some information: 41–60, minimal information: 21–40, and scant or no information: 0–20 (International Budget Partnership 2012:11, 15).

process. In the overall OBI sample of 100 countries, 23% offer extensive or significant information. All over the world, 41% of the countries provided only minimal or no budget documentation in 2012 – Africa formed 64% of the sample. However, even if the situation is critically assessed by the Open Budget Survey, there are two aspects that point towards more positive developments:

- The basic documents were published in most countries in 2012. Ninety-two out of 100 countries published the enacted budget, 79 the executive's budget and 78 even published in-year reports. A trend towards publication of almost all reports produced could be observed, for example, citizens budgets were only produced in 24 countries and all of those documents were published (International Budget Partnership 2012:15).
- The direction of OBI development is clearly towards improvement, especially in the case of African countries: Many countries have moved up the scale by providing more budgetary documentation to the public. Zambia, Liberia and Niger even moved up two steps from “no information” to “some information”.

#### **Box 7** GIZ support to budget transparency in Zambia

In a large systemic GFG approach, GIZ supports the Zambian Ministry of Finance in reaching better transparency, accountability and equity in public revenue mobilisation and public expenditure. In 2014, the Zambian Budget Law 2015 was prepared and for the first time included a pilot on results-based budgeting with the budget of the Ministry of Education. This is meant to create a significant increase in budget transparency and also to enhance understanding of the budget content. GIZ broadly supports the Zambian process with the creation of budget guidelines, consultancy to the Ministry of Education to formulate products/programmes to be funded out of the budget, sensitisation and other capacity-building measures with the parliament, and assistance in developing software compliant with the new procedures. Furthermore, since 2014, GIZ has supported the publishing of the citizen's budget, which is meant to give Zambian citizens easier-to-understand information on the state budget.

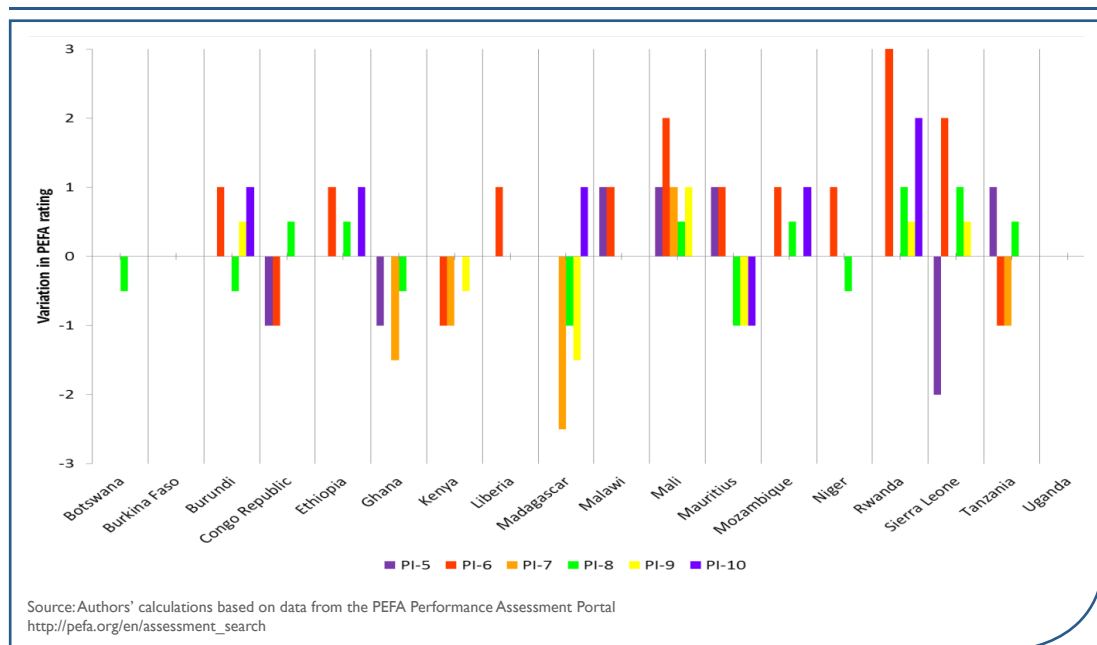
## **Comprehensive and transparent budgeting procedures**

A more differentiated view on progress regarding the comprehensiveness and transparency of budget management in Africa can be gained by analysing PEFA data. Within the PEFA Framework, the “comprehensiveness

and transparency” of PFM systems, procedures and institutions are assessed according to six indicators (PEFA 2011):

- PI-5: Classification of budget
- PI-6: Comprehensiveness of information included in budget documentation
- P-7: Extent of unreported government operations
- PI-8: Transparency of intergovernmental fiscal relations
- PI-9: Oversight of aggregate fiscal risk from other public sector entities
- PI-10: Public access to key fiscal information

**Figure 17** Development of ratings on the comprehensiveness and transparency dimension in PEFA performance assessments<sup>24</sup>



Similar to **Figure 13** on page 34, **Figure 17** shows the development of PEFA scores between two country reports of a sample of 18 countries. In the general picture of all indicators reflecting the dimension “Comprehensiveness and transparency”, the tendency to improve is more prevalent than the tendency to decline. However, there are large differences between countries and also between the indicators:

- *PI-6: Comprehensiveness of information included in budget documentation:* Most progress was reached on PI-6 regarding the improvement in comprehensiveness of budget documentation. Ten countries improved – Mali and Sierra Leone even by two rating steps – five countries maintained their levels and only three declined in performance.
- *PI-10: Public access to key fiscal information:* In this indicator, performance levels were maintained (twelve countries) or improved (five countries); only Mauritius declined by one scoring point.

<sup>24</sup> As in Figure 13, page 27, data compares the development of ratings between two PEFA assessments for 18 countries. The number “0” means there has been no change between the ratings of the reports, 1/-1 indicates an improvement/a reduction of one full letter (such as A to B, B to C etc. or B to A, C to B), 0,5/-0,5 variation stands for an improvement or reduction such as C+ to B or B to C+ f.i. The number of cases shows how many countries show a similar development. The reports dates vary, and two reports per country are compared, with at least two years’ difference.

This underlines the conclusions drawn from the Open Budget Index data above: perhaps slowly, but the development trend in this area is positive.

- *PI-8: Transparency of intergovernmental fiscal relations showed mixed results:* seven countries improved, six declined, and four maintained their ratings.
- *P-7: Extent of unreported government operations was the indicator with the least improvement:* apart from Mali, which moved from C+ in 2008 to B+ in 2011, ten countries maintained their levels, and Madagascar, Ghana, Tanzania and Kenya deteriorated.
- With regard to the indicators *PI-5 (budget classification)* and *PI-9 (oversight of aggregate fiscal risk from other public sector entities)*, three countries declined, four improved and all the others maintained their levels.

Focusing on the various ratings of individual countries, the more detailed look reveals that developments in performance vary vastly among countries: two countries (Burkina Faso and Uganda) stagnated, three (the Congo, Ghana and Kenya) countries showed only negative development or stagnation, eight countries showed positive progress or stagnation, and five showed positive and negative development in the same period. Tanzania, for example, improved on the transparency of intergovernmental fiscal relations and the budget classification between 2011 and 2013, but the ratings on comprehensiveness of the information included in the budget and the extent of unreported government operations decreased.

## Enhancing capacity for governance in fragile situations

Seven out of the eighteen countries in the PEFA sample above are rated as fragile countries by the World Bank 2014.<sup>25</sup> Fragility creates a challenge to GFG, and consequently the G8 Action Plan for Good Financial Governance in Africa has highlighted the necessity to intensify the engagement in fragile states by establishing and strengthening key governmental functions, especially in the budget system, to enable the provision of basic services and security for the population.

German development cooperation based its policy in 2013 on the five peace- and state-building goals (PSGs) developed in the WBG's World Development Report, 2011, entitled "Conflict, security and development" (BMZ 2013:10):

- *PSG 1: Legitimate politics* – Foster inclusive political settlements and conflict resolution.

<sup>25</sup> Burundi, Democratic Republic of Congo, Liberia, Madagascar, Malawi, Mali and Sierra Leone



- *PSG 2: Security* – Establish and strengthen people’s security.
- *PSG 3: Justice*: Address injustices and increase people’s access to justice.
- *PSG 4: Economic foundations*: Generate employment and improve livelihoods.
- *PSG 5: Revenues and services*: Manage revenue and build capacity for accountable and fair service delivery.

Revenue mobilisation and budget transparency – although the latter is not explicitly mentioned – are thus also important topics in fragile states. The patterns observed in **Figure 17** demonstrate that even under the difficult conditions of fragility, progress is possible.

## **Box 8 Supporting GFG in Burkina Faso**

### **Background: A harmonised framework for public finance in the WAEMU**

In 2009, the West African Economic and Monetary Union (WAEMU) adopted several new directives aimed at improving and modernising the instruments used in the management of public finances in its eight member states. A central feature of this initiative is to establish a harmonised framework for public finances in the WAEMU, i.e. introducing common standards for the regulatory, accounting and statistical frameworks of each member state. Directive 06/2009/CM/UEMOA, establishing Finance Laws, in particular, has been hailed as landmark legislation: it introduces uniform rules for the drafting, execution, control and monitoring of the national budget.

Along with other important innovations (e.g. accrual-based accounting), the directive contains provisions on results-oriented budgeting and a multi-annual approach for drafting national budgets. These changes are included in new budgetary documents, which will be used for the formulation of draft finance laws. Ultimately, the reform’s objective is to introduce programme budgets with a standardised nomenclature. This, in turn, will strengthen the connection between national development goals and the budget, enable better budget execution, and will improve the quality, transparency and credibility of public finance.

### **Implementation steps: Towards a results-oriented programme budget in Burkina Faso**

While the current status of transposition in domestic law is characterised by significant variations among member states, the process accelerated recently. As a WAEMU member state, Burkina Faso has committed itself to the implementation of the above described legislation at national level. In doing so, it is supported by German development cooperation. GIZ experts, in close cooperation with the IMF, specifically advise the Ministry of Economy and Finance in the following areas:

- Reform of the budget system in line with GFG principles
- Enhancing the strategic steering of reform by the Ministry
- Strengthening capacity for the expansion of programme budgets in public institutions





- Adjusting internal and external fiscal control for the results orientation requirement by introducing efficiency audits
- Establishing training on central reform issues
- Systematically integrating gender budgeting in the budget cycle

In addition, GIZ supports non-state umbrella organisations that work for improved transparency, accountability, gender sensitivity and a results orientation towards public resources. The aim is to strengthen their capacity and facilitate their networking, thereby enabling actors in civil society to exercise their control function and to hold the government accountable.

#### **Outcomes: What has been reached so far**

Since GIZ started its advisory services in 2012, substantial reform success has been achieved: In a pilot exercise, all 41 national ministries and institutions allocated their resources using programme budgets. In 2014, an official programme budget was presented to parliament for the first time. In addition, three training modules on results-based budgeting, gender budgeting and macroeconomic analysis have been integrated into the course schedule of the National University for Finance Administration (ENAREF). Since 2014, 200 junior employees of the Ministry of Economy and Finance have been trained annually in results orientation. Furthermore, approaches towards analysing the implementation of the national development strategy and public finances have been developed in cooperation with civil society networks. Nowadays, the interests of non-state actors are better represented in the political dialogue with the government; citizen-oriented reports on the developmental impact of sector policies are published on a regular basis. In addition, pilot measures on gender budgeting by civil society have been launched at local level.

# 6

## Enhancing budgetary oversight and fighting corruption

Budgetary control and oversight are the founding pillars in the GFG system. Therefore the G8 Action Plan for Good Financial Governance in Africa includes the promotion of supreme audit institutions to assist their respective governments in improving performance and fostering the efficient and effective receipt and use of public resources through increased capacity building measures. In this chapter, an overview over the main developments under the International Organisation of Supreme Audit Institutions (INTOSAI) that are relevant for Africa and the development of budget oversight by the networks of African parliamentary committees will be provided. Finally, the chapter will deal with the development of the United Nations Convention against Corruption (UNCAC) in Africa and the extent to which the development of budget oversight in Africa is reflected in performance assessments on public accountability.

### 6.1 INTOSAI developments in the African context

Supreme audit institutions have a long tradition of international cooperation and collegial support in the form of professional networks. The INTOSAI and its regional language groups cover any subject matter that could arise while developing and improving external audits. A multitude of committees and working groups develop standards, guidelines, evaluations, training material and much more.<sup>26</sup> Important milestones have been created with much commitment and many contributions by African SAIs since 2007:

#### **Endorsement of the International Standards of Supreme Audit Institutions (ISSAI)**

The ISSAI has been developed over years, and was officially endorsed at the XXth INTOSAI Congress in Johannesburg, South Africa, in 2010. The ISSAI framework consists of a comprehensive set of standards (ISSAI) and INTOSAI guidance (guidelines) on good governance (INTOSAI GOV(s)). The ISSAIs cover founding principles (Lima Declaration), prerequisites for the functioning of SAIs, fundamental auditing principles and auditing guidelines. The INTOSAI GOVs are aimed mainly at managers in the public sector, and provide guidelines on internal control in order to encourage good governance in the public sector.

<sup>26</sup> See the INTOSAI organisational chart 2014: [http://www.intosai.org/fileadmin/downloads/downloads/3\\_committees/Chart\\_February\\_2014\\_E.pdf](http://www.intosai.org/fileadmin/downloads/downloads/3_committees/Chart_February_2014_E.pdf)

The ISSAI framework thus provides the common reference document for building and developing SAIs and for implementing public sector audits.

### **Development of the SAI Performance Measurement Framework**

Given the common reference framework of the ISSAIs, it follows that it would only be consistent to create a basis for measuring SAI performance and country-specific external audit settings against the ISSAIs. Consequently, in July 2013, the official exposure draft of the SAI Performance Measurement Framework (SAI PMF) was issued. It was developed by the INTOSAI Working Group on the Value and Benefits of SAIs (WGVBS), headed by the Office of the Auditor-General of South Africa. It will be subject to consultations and piloting in the next years; the next version is planned to be presented at the INTOSAI Congress in 2016.

The SAI PMF is meant to evaluate how well a SAI performs, compared to international good practices. It can be used for self-assessment, for peer assessments by another SAI or by the INTOSAI body, and also for external assessments by consultants, development partners, external auditors or other experts (SAI PFM 2013:8).

In the development phase, the SAI PMF has been tested in Djibouti and Sierra Leone (and Norway). For the piloting phase, two African countries have volunteered to use the methodology: Mozambique is in progress and Burkina Faso has conducted a SAI PMF in April 2015 (WGVBS 2014, s. 9).

### **INTOSAI Development Initiative (IDI)**

The IDI was established in 1986, hosted by the SAI of Canada until 2000, and since 2001 by the Office of the Auditor-General of Norway. Since its establishment, the IDI has been responsible for delivering seminars and courses to SAIs of developing countries, mainly in the field of public auditing. With international development cooperation providing better impact orientation to its interventions, the IDI approach moved from training towards a broader understanding of capacity building. Since 2007, the IDI has thus started to develop more comprehensive programmes with the objective to strengthen the SAIs as institutions and to build the capacity of the professional SAI staff. In 2010, the IDI also became the Secretariat for the INTOSAI Donor Cooperation. The number of donors supporting IDI increased from 15 members in 2009 to 21 in 2013.

The IDI's self-evaluation in 2013 showed that since 2009, it had successfully implemented programmes in developing countries, and was well recognised among development partners and SAIs (Swedish Development Advisors 2013:42). The evaluation recommends that in future the IDI should rather work through the regional INTOSAI groups than working and measuring performance at the SAI level (ibid.).

## Commitment of African SAIs to INTOSAI

African SAIs make significant contributions to INTOSAI activities:

- The INTOSAI Capacity Building Committee (CBC) is headed by the SAI of South Africa. CBC's main tasks are to build the capabilities and professional capacity of SAIs through training, technical assistance and other development activities.
- The INTOSAI Working Group on Extractive Industries has been headed by the SAI of Uganda since 2013. A cooperative audit of seven African SAIs, targeted at extractive industries, is planned to be conducted from 2015.
- The INTOSAI Working Group on Illicit Financial Flows and Anticorruption is headed by the SAI of Egypt.

The INTOSAI network of francophone countries has active and influential African members, as well as the Arab Organisation of Supreme Audit Institutions (ARABOSAI) and the INTOSAI network of Portuguese-speaking SAIs.

## 6.2 The role of parliaments in budgetary oversight

Budgets usually are laws, and parliaments are thus the responsible organs in states to legally approve the governmental financial planning. Parliaments can influence the budget cycle at different stages:

- During parliamentary budget hearings, parliaments may influence equity in budgetary resource allocation. They should ensure that important policy goals, such as poverty reduction, are reflected in the budget.
- They may also control the technical solidity of proposed budgets.
- Parliaments may continuously follow up on the performance of the executive against its commitments, rather than only once a year when the audit office's report is published.
- In close cooperation with the audit office, media, and civil society, they are able to take action against mismanagement and corruption. They can introduce consequences for the budgets of sectors performing badly.
- They can make corrections to the legislative framework, thereby strengthening reforms.

Overall, the involvement of parliaments in the budget process informs choices for fiscal policy and ensures executive accountability. Although it is clear that the role of parliaments is potentially crucial for the sound management of public finance and GFG, it has often been neglected in the past. The G8 GFG Action Plan for Good Financial Governance in Africa mentions parliaments only briefly – and lists them among the “relevant” institutions among which an exchange of experiences should take place.

The extent to which the legislative arm of government influences the final budget in practice is determined by historical, constitutional and political factors, as well as the legal and procedural aspects of the budget process itself. Another determining element is the overall legislative organisational structures and processes (Parliamentary Centre 2010:5). The often weak role of parliaments is a

recurrent feature of African political systems. Often, the legislature does not use the abovementioned opportunities in the budgetary cycle as a result of non-conducive legal framework conditions, but also because of weak capacity of parliamentarians and their support structure.

However, progress has been made in recent years: parliaments, for example those in Ghana, Kenya, Uganda and South Africa, have strengthened their legislative finance and budget oversight. This includes the emergence of committee systems to shadow ministers, the strengthening of these committee's positions in certain processes and the development of professional staff (Heinrich-Böll Stiftung 2012:4).

The increasingly active role of African legislatures vis-à-vis executive actions, including their efforts to enhance oversight of the budget process, scrutinise allocations and monitor expenditure, has been supported by donors, thus leading to a more integrative approach to the promotion of public finance reform (see **Box 9**).

**Box 9** Good Financial Governance and support to parliament in Ghana

Germany has been supporting Ghana in improving its public finance system since 2003. Based on its integrated approach, GDC is cooperating closely with the Ministry of Finance in Ghana, the highest-level tax administration, the national procurement authority and the parliament.

Within this context, German technical cooperation provides advice on implementing Ghana's national Poverty Reduction Strategy (PRS), on the responsible and transparent use of revenues and the creation of a transparent and efficient tax system. With regard to specific assistance to the legislature, the parliament's public accounts committee (PAC) is supported in its oversight responsibilities for government expenditure (jointly with USAID). In this context, funds and technical assistance are provided to the PAC, which are used for the implementation of capacity development activities, advisory services, public hearings and peer-to-peer learning with public accounts committees of other West African countries.

One thematic focus in Ghana, as well as in other GFG programmes supported in the region, is to strengthen the role of parliaments and audit offices in controlling natural resource revenues. Revenues stemming from the natural resource sector are not efficiently controlled, because of the lack of capacity on the part of parliaments and audit offices and the absence of effective guidelines for action (BMZ 2014:14).



One of the most important challenges for the legislature's work on the budget is the high fluctuation of members of parliament and their lack of expertise when it comes to public finance issues. The vast majority of parliamentarians are not budget experts when elected, and hence need to educate themselves in this field, especially if they are to work in the budget or public accounts committee.

The administrative support structures can play a crucial role in enhancing the budgetary oversight functions of parliaments if they enable parliamentarians to fulfil their roles more effectively and provide long-standing expertise even when there is a high turnover in parliamentarians. An independent, non-partisan source of budget information created in parliament, such as the budget offices in Kenya and Uganda, can provide helpful support.

African networks of public accounts committees – SADCOPAC, EAAPAC, the West Africa Association of Public Accounts Committees (WAAPAC) and possibly in future AFROPAC – have been beneficial in enhancing the role of parliaments in budgetary oversight by extending their work (see **section 3.2** and **Box 2**).

The former Human Capacity Development (HCD) GFG in Africa programme supported the strengthening of the institutional capacity of the PAC networks of southern and eastern Africa. Several HCD approaches are utilised to support the networks. These include communities of practice to foster peer learning, as well as the development of manuals, advanced training and workshops. This work is currently taken up again with a broader focus on all African regions and a broader stakeholder group, including all relevant committees and forms of parliamentary support structures.

#### **Box 10** Strengthening the relationship between PACs and SAIs through regional initiatives

The relationship between PACs and SAIs is crucial to ensure the effective control of public expenditure. In many countries, however, SAIs and PACs do not sufficiently interact and do not have adequate knowledge about each other's roles and expectations. In the 2009 survey of PACs in selected countries of SADC (SAD-COPAC 2009:34), for example, the following was found:

- 67% of participating PACs reported that SAIs did not attend public hearings
- 22% indicated that SAIs did not brief new PAC members on the function of the SAI, nor on the SAI-PAC relationship
- 11% felt that SAIs did not sufficiently brief PAC members on the contents of the audit reports

As a result, reports presented to PACs often do not fully meet the expectations of these committees. PACs also sometimes struggle to know how best to use the reports to hold government accountable. However, the interaction between these two groups of stakeholders of the accountability framework is crucial to ensure effective scrutiny of government expenditure. Therefore, AFROSAI-E and GIZ decided to support anglophone African countries' SAIs in enhancing their communication with PACs by developing a communication toolkit. The toolkit's development and dissemination was carried out in a two-phased support programme, which included several workshops to train staff, as well as to conduct follow-up and review meetings in different countries (Lesotho, Zambia, Uganda, Kenya, Zimbabwe and Namibia) (GIZ 2014).

Furthermore, the GFG in Africa programme has supported AFROSAI-E in further developing a toolkit to enhance communication between SAIs and PACs (see **Box 10**). This toolkit targets the interaction between core state institutions responsible for budgetary oversight.

Since 2008, the role of parliaments in budgetary oversight has overall increasingly been recognised, and African parliamentarians have also increasingly assumed their responsibility.

## 6.3 Performance in anticorruption and accountability assessments

### UNCAC compliance

The UNCAC is the most comprehensive of all the anti-corruption conventions and has been signed by 170 countries by 2014 (Transparency International & UNCCAC Coalition 2014:7). It establishes common standards, policies, processes and practices to strengthen anticorruption efforts at the national level. Most governments in Africa (35) had signed the UNCAC already in 2007, the Democratic Republic of Congo (DRC), Liberia and Guinea-Bissau had ratified but not signed it, and Mauritania had accessed but not ratified it. Since then, Burundi, Botswana, DRC and Niger have ratified it, but have not signed yet. Furthermore, Germany ratified UNCAC in 2014, 11 years after accessing it in 2003.

**Table 6** Published and unpublished African UNCAC review reports, 2010-2014

Self-assessments	Rwanda (Y1), Tanzania (Y3), Botswana (Y4), Nigeria (Y4)
Full review reports	Burundi (Y1), Rwanda (Y1), Tanzania (Y3), Botswana (Y4)
Executive summaries	<p><b>Y1:</b> Burundi, Morocco, Niger, Rwanda, Togo, Uganda, Zambia,</p> <p><b>Y2:</b> Cameroon, Benin, Central African Republic, Congo, Mauritius, Mozambique, Sierra Leone, South Africa, Zimbabwe</p> <p><b>Y3:</b> Angola, Burkina Faso, Djibouti, Ghana, Mauritania, Tanzania, Tunisia</p> <p><b>Y4:</b> Botswana, Côte d'Ivoire, DRC, Egypt, Ethiopia, Guinea, Guinea-Bissau, Kenya, Liberia, Libya, Madagascar, Malawi, Namibia, Nigeria, Senegal</p>

Y1 = 2010/11, Y2 = 2011/12, Y3 = 2012/13, Y4 = 2013/14, Y5 = 2014/15

**Green:** Document available

**Black:** Document not available yet

Source: Eddie Rich, EITI Secretariat, in ITC (2014:45)

In 2009, at the occasion of the UNCAC Conference of the States Parties in Doha, a review mechanism to the UNCAC was decided upon and an Implementation Review Group was established (UNODOC 2011:ToR, IV.C). The review process covers a self-assessment through a standardised checklist and a peer review by two reviewing countries (ibid.:ToR, p. 7f.)

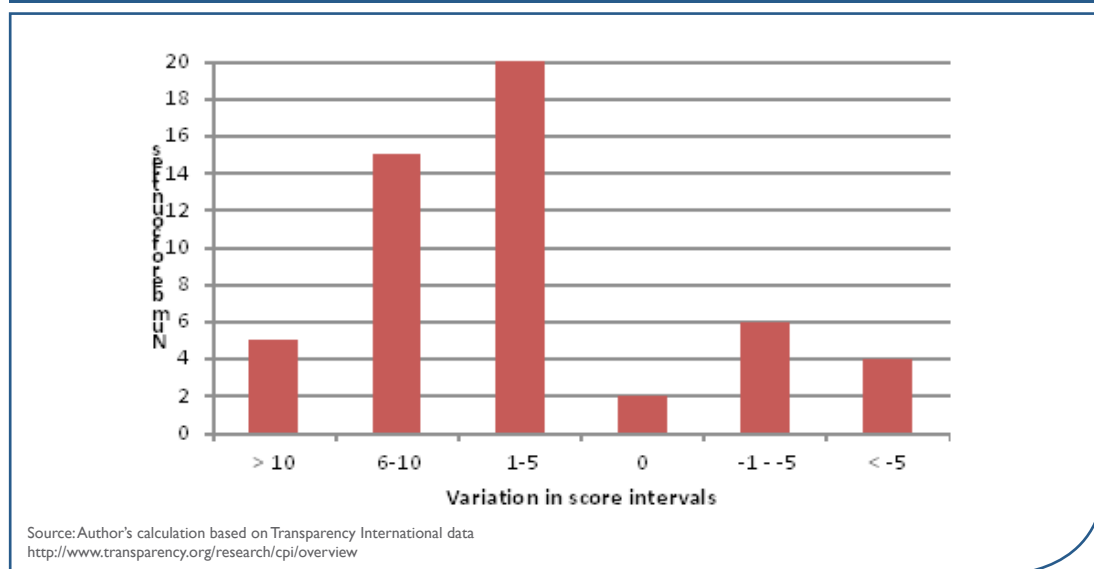
The review process is planned to be conducted in two five-year cycles:<sup>27</sup> The first cycle (2010–2015) covers Chapter III of the UNCAC on criminalisation and law enforcement and Chapter IV on international cooperation. The second cycle (2015–2020) will cover Chapter II on preventive measures and Chapter V on asset recovery.

Since 2010, 38 African countries have undergone the UNCAC review procedure. Most of the documents are not publicly available (see **Table 6** above). Only four countries – Burundi, Rwanda, Tanzania and Botswana – have made their full peer review reports publicly available. Similarly, a minority of countries have provided their executive summaries. Consequently, it is still difficult to assess the implementation of UNCAC in African countries.

## Development of CPI

Based on the development of the scores given by Transparency International’s Corruption Perception Index (CPI), it can be concluded that the overwhelming majority of African countries experienced an improvement in the perception of corruption (see **Figure 18**) in the period 2007 to 2013. Out of 52 African countries, 40 improved between the 2007 and 2013 CPI reports. On a scale of 0 (highly corrupt) to 100 (clean), twenty countries improved by 1 to 5 points, fifteen by 6 to 10 points and five by more than 10 points.

**Figure 18** Development of CPI scores in African countries, 2007 to 2013



However, the fact that most African countries still ranked rather low in 2013 should not be ignored. Only five exceeded 50 points, and more than half of African countries (28 of 52) scored 30 points and lower. There is still much room for improvement.

<sup>27</sup> See <http://www.uncaccoalition.org/en/uncac-review/uncac-review-mechanism>

## Accountability performance measurement

The IIAG measures “accountability” on a broad base using nine indicators (IIAG 2014:34):

- Accountability, transparency and corruption in the public sector in general
- Accountability, transparency and corruption in the rural sector
- Corruption and bureaucracy
- Accountability of public officials
- Corruption in government
- Corruption of public officials
- Prosecution of abuse of office and diversion of public funds
- Public sector corruption bodies
- Public access to information

With this rather broad view on accountability performance, the scores of most African countries measured on the IIAG decreased between 2009 and 2013, and only a third of African countries have made improvements. Interestingly, most improvement was made around the scoring scale’s median (40 points). This was the case for the very low-scoring countries as well as the strong-performing ones. Scores tended rather to decrease than to improve.

The regional averages (see **Table 7**) reveal that Central Africa, although ranked very low, achieved a positive development on average between 2009 and 2013, whereas all other regions’ scores decreased, and East and North Africa moved below the overall African average of -1.5 points.

**Table 7** Regional averages of IIAG 2013 and changes since 2009

Africa	38.9	-1.5
Central Africa	25.6	+0.1
Southern Africa	50.4	-0.7
Sub-Saharan Africa	39.2	-1.1
West Africa	40.0	-1.3
East Africa	35.6	-2.1
North Africa	37.2	-4.3

Source: IIAG data set  
<http://www.moibrahimfoundation.org/iiag/data-portal/>

The assessment of the WBG CPIA rating on “transparency, accountability and corruption in the public sector” is slightly better. It measures three dimensions:

- The accountability of the executive to oversee institutions and of public employees for their performance
- Access of civil society to information on public affairs
- State capture by narrow vested interests.<sup>28</sup>

In this analysis, the scores of the vast majority of African IDA countries stagnated between 2008 and 2012: 25 of 37 countries; six countries experienced an improvement and six a deterioration in their scores.

Overall, the support framework to SAIs has evolved a lot since 2007. It is not possible to attribute accountability assessments or the CPI to specific political changes, but only to describe the parallel incidences measured by different sources. Based on the data reviewed, it can be said that some progress is visible at the level of the CPI, whereas performance on accountability still does not show a breakthrough.

<sup>28</sup> It assesses the extent to which the executive can be held accountable for the use of funds and the results of its actions by the electorate, the legislature, and the judiciary, as well as the extent to which public employees in the executive are required to account for administrative decisions, use of resources, and results obtained (see <http://databank.worldbank.org/data/views/reports/metadataview.aspx>)

# 7 Summary and conclusions

## Summary of findings

This report has described a multitude of aspects characterising the development of GFG in Africa since 2008. On aggregate – and based on data collections, the performance assessments and the sample of PEFA reports analysed – the following can be summarised:

### Background to GFG development

- **Most African economies performed well**, with growth rates in Africa above the world average after the financial crisis in 2008. Inflation has remained under 6% in most years after 2009, and the fiscal balance is slowly recovering. Investment-to-GDP ratios are growing again, and foreign direct investment (FDI) has also recovered after the financial crisis. The economic background to GFG reform is slowly improving – albeit with large variation among countries.
- **Positive economic developments have only partly reached the poor.** Much has been done to achieve the MDGs, and in some areas and some countries progress has been impressive, especially regarding primary enrolment rates and containment of HIV and malaria. However, many countries lag behind and most of the MDG targets have not been met. Further, climate change is a threat to fighting hunger, and income inequality remains very high. The challenging social situation puts pressure on African governments for structural reform, as needed for GFG.
- **Fragility remains an important factor for public sector reforms in Africa.** The vast majority of African countries rates as extreme, high or serious fragility in the State Fragility Index, and correspondingly, sub-Saharan Africa has the world's highest average score under that index. Political crises is a sign of failing (financial) governance and but also leads to the failing of financial governance. Thus, on the one hand, state fragility particularly needs improvements in the direction of GFG, and on the other hand, fragility creates a rather challenging background to GFG reforms.

Therefore, GFG reform in Africa can build on a positive economic perspective to some extent, but political and social development remain challenging. These conditions have not changed fundamentally since 2007.

### Multilateral and bilateral development cooperation

- **ODA to Africa is – different to the overall trend – still increasing**, and includes a slight increase in CPA. However, the portfolio of development cooperation contributions has become more complex – there are new non-ODA providers and more non-ODA contributions of DAC donors. This might challenge aid effectiveness in future, for example, regarding climate change-related funding and support.



- **Development of the support to GFG since 2007 is not reflected well in ODA data**, even if restricted to the support aimed at PFM reform. Contributions seem to be rather volatile, which interfere with reforms targeted at GFG.
- Although GFG is a matter of capacity development support rather than requiring large investments, the ODA data on technical assistance provide a limited picture of the development since 2007. **Bilateral support to GFG has grown rather strongly**, but volatility can also be observed in the data.
- **The activities of the AFRITACs (IMF) have expanded considerably throughout Africa since 2007**, with the founding of three new technical assistance centres. The activities have been scaled up massively. This was made possible by increasing support through other multilateral and bilateral donors. The AFRITACs and their steering structure provide possibilities to improve donor harmonisation on technical assistance in PFM issues, but they also create a risk of competition to the capacity development services that the regional professional GFG organisations develop and provide for their members.
- **Three major developments of GDC cooperation in the field of GFG since 2007 stand out:**
  - The number of projects and their value have increased significantly.
  - This increase has been most important in Africa.
  - There are few stand-alone programmes left – most programmes operate according to a holistic GFG approach.
- **The importance of the professional GFG networks as platforms for exchange has increased significantly in recent years**; this is also partly true for their role as service providers for their members and as collaboration partners for development assistance in the field of GFG. The role of the networks as communities of practice to share experiences with reform programmes has grown stronger. The networks have all increased their outreach to their member and target organisations. These networks receive increasing recognition for their work worldwide, and as a consequence, strengthen the representation of Africa in international dialogue and processes. This is an important contribution to the perception of the importance of GFG for countries' development processes.
- **GFG is linked to aid effectiveness issues**, and this is a vast topic. This report has studied the use of country systems, the coordination of donor PFM analytical work and African leadership and commitment to GFG.
  - **Since 2007, the policy frameworks guiding planning and budgeting, as well as aid delivery, have improved greatly on the side of partner countries.** On the development partners' side, however, **a decrease in the use country systems across the board can be observed.** Furthermore, direct link between the development of PFM country assessments and the use of country systems can be confirmed. There must be other reasons to guide development partners in their decision to use country systems or not.
  - Although the use of country systems is decreasing, the **PFM analytical tools in use have multiplied.** It is also possible that the increase in the development and subsequent use of PFM assessments has led to more careful consideration to use country systems. PEFA as assessment framework has broadened its working base. It could serve as a harmonised analytical framework for the increasing information needs of development partners. However, the coordination of analytical work at donor headquarter level – such as the PEFA Secretariat in Washington – has proved to be ineffective in the past. The coordination of activities needs to be agreed upon at the country level in close cooperation – or better, under the guidance – of the ministry of finance involved.
  - **African leadership on GFG has been reaffirmed since 2007** at the highest level. The latest occasion was the Common African Position on the Post-2015 Agenda. However, high-level backup often is missing at ground level and while implementing GFG reforms.

## Revenue mobilisation

- Revenue mobilisation has been a core topic on the international agenda since 2007. **The coordination and dialogue networks on the topic have expanded and intensified their work.**
- Tax collection has not improved in absolute terms. **The tax-to-GDP ratio on the African average has decreased since 2007.**
- **Nevertheless, the work of the tax administrations has improved.** Administrations' relationships with taxpayers, in particular, improved, as measured by the transparency of taxpayers' obligations and liabilities. Taxpayer registration processes have also been assessed with better scores. The change is small, but an observable trend is progress in the collection of tax payments. This does not show in the macrodata on tax collection, which might imply that the tax-to-GDP ratio could have decreased even more without the tax administration's efforts.
- **In the extractive industries' sector, revenue governance is still very weak in most resource-endowed African countries.** However, the implementation of the EITI is a great African success story. Most candidate countries were compliant by 2014, and the number of countries affiliated with the EITI has increased considerably since 2007. The new EU CBCR standards will complement the EITI progress.

## Budgeting procedures

- **The quality of budgetary and financial management in Africa has improved only in a few countries,** and most others stagnated at low levels. The average CPIA on the quality of budgetary and financial management slightly improved from 3.04 to 3.00 between 2008 and 2012. Countries with an overall CPIA below 3.2 are classified as fragile by the World Bank.
- **Budget transparency does not receive positive assessments at the aggregate level, but the basic documents are published in most countries** and the trend is positive.
- Furthermore, **the budget procedures, as rated by PEFA assessments under comprehensiveness and transparency, show a positive trend in most countries.** Information included in the budgets seems to have improved in many countries, and public access to key fiscal information did not deteriorate. A slightly stagnating or negative trend is observed for the extent of unreported government operations.

The trend for establishing transparent and comprehensive budgeting procedures thus seems to be positive. However, progress was slow and very reluctant in crucial areas: If parts of the government operations remain being unreported, the increasing public access of fiscal information cannot lead to more transparency.

## Budgetary oversight and anti-corruption

- **INTOSAI and its working structure (committees and working groups) have intensively developed a framework to guide and support supreme audit institutions.** African SAIs have been active and influential in this process.
- **The role of parliaments in budgetary oversight has increasingly been recognised and African parliamentarians have increasingly assumed their responsibility.**
- Budgetary oversight, however, does not directly lead to anticorruption:
  - **The UNCAC has been signed by most African governments and also mostly ratified.** The 38 signatories in Africa have undergone the UNCAC review procedure, but the reports are – contrary to the UNCAC target – often not published.
  - **Since 2007, the CPI has improved in 40 of 52 African countries.** Their rankings still remain low.
  - **However, accountability measured by the IAG with nine corruption-related indicators shows deterioration in two-thirds of African countries between 2009 and 2013.**

Since 2007, the role of SAIs and parliaments has become much more visible in the field of financial governance. Furthermore, support structures to strengthen these institutions have been further developed. The accountability and anticorruption performance measurements, however, still show mixed results.

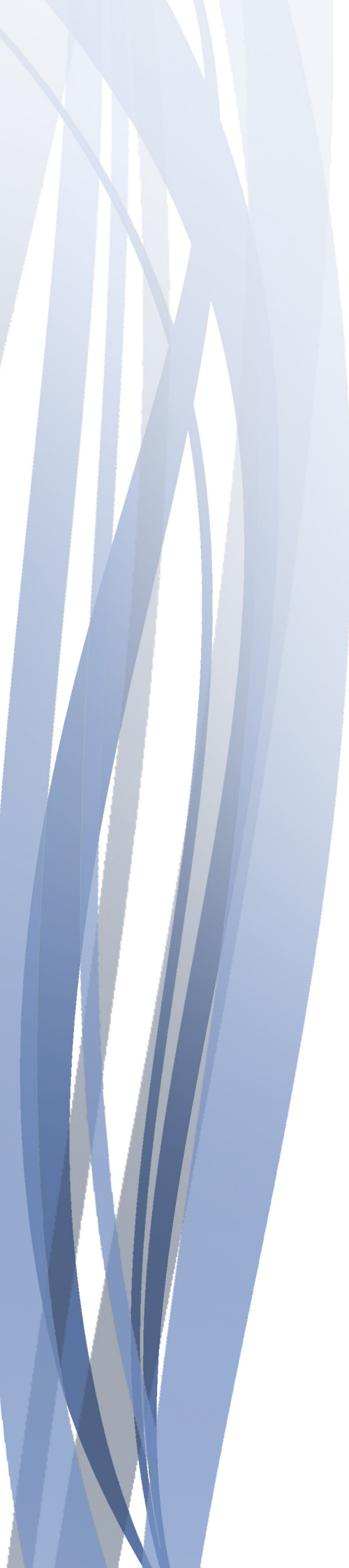
## Conclusion

A very broad landscape of findings was summarised with regard to the development of indicators assessing different aspects of financial governance, its support through development cooperation and the regional professional initiatives as umbrellas for Pan-African cooperation in the field. From the helicopter perspective, the picture shows improvements in some areas – mostly at the technical, administrative and at the affirmative level – but the impact does not convincingly translate into GFG country performances. The question is: Why?

### Methodological aspects

If one does not see convincing impact, it might also be a methodological problem. Indeed, some assessments described seemed to be a bit contradictive at the conceptual level:

- The non-matching of progress in tax administration and the averages in tax collection yields serve as an example. Milestones in tax administrations in Africa have definitely been realised since 2007 – improvements were made to tax information systems, and most administrations now have large, functional taxpayer departments (some are even getting familiar with transfer pricing issues and improving their position vis-à-vis multinational firms and much more). Whether and how far those reforms do translate into increased tax collection could and should be a topic for more detailed research.
- Another example is given with the anticorruption assessments: Whereas the perception of corruption (CPI) has seen a clear positive development, the IAG as clearly shows the contrary. Does this mean that corruption is prevalent or even spreading further, but is not experienced in this way by citizens?



Perhaps the assessment data are comparable only to a limited extent. If this was the case, it would be important to know why and the exact dimensions. This is highly relevant, because the assessment landscape has multiplied since 2007, and those assessments are used for policy dialogue, as background to governmental negotiations, and eventually to influence the commitment of funds as well as the choice of the mode of delivery.

### **Political economy, resistance to change and the aspect of time**

The study concentrates on the period 2008 to 2014. This is not a long period for reforms in the financial governance system. Such reforms imply legal changes, possibly even constitutional reform, and in-depth organisational development in public administration. They cannot be expected to show successful results over one or two project cycles of development assistance.

GFG reform touches the interests of different groups – politically, regionally and personally. Under democratic conditions, this requires political bargaining processes that need windows of opportunity to advance and may take years. From the Federal Republic of Germany there are extreme examples. It took almost 20 years to decide on the first part of the financial constitution reform necessary after unification in 1989, and until today the reform only covers the distribution of responsibilities between government levels – the reform of the principles for resource allocation are yet to be discussed and decided. Another example: at administrative level it took more than 25 years from the first initiatives to harmonise the information systems of the tax administration, because the cooperation of all federal states was required. Thus, what seems to be a technical issue might imply strong political resistance for a multitude of reasons, and this may need time for progressing reform.

Furthermore, public administration is not known for its dynamics, and the conditions in which many public servants in Africa work are usually rather difficult: a salary that hardly allows bringing up a family, tiny offices squeezed with staff, difficult technical conditions, and bottleneck organisations that do not favour personal initiative are among many other limiting factors. So, even if a reform finds politically sound support, the implementation at administrative level will be rather challenging. All public finance advisors know how impressive the commitment of partners often is, given their working conditions.

This means: If one does not see impact at the aggregate performance level, it might be for the reason that seven years are a too short period for impact to materialise.

### **Support to GFG reform: Are the right things being done?**

Citizens of African countries, however, do not want to wait 25 years to see the performance of their governments improve, and contributing

development partners might also want to see some progress in the short-run.

If political economy factors and reasons for resistance to change are recognised, some questions on the design of support programmes are implied: Does the support to financial governance prioritise those areas where progress is possible under the given political circumstances in a country? Does it plan for procedures that can be managed by the administration in its actual state – and not only after a generation that received all kinds of training? Are the investments in information systems designed to be managed permanently by the administration?

To respond to those concerns and still respect the political context, it would be helpful to develop a path for GFG reforms that is based on realistic sequencing, and that is strictly related to the country-specific history and conditions. The request for suitability of support approaches is not new, but there is ample evidence for their relevance:

### **... and are things being done right?**

All in all, this study has provided some evidence that progress in aid effectiveness issues has not maintained the emphasis and commitment it used to have after the Paris Declaration in 2005. The CABRI, AFROSAI and ATAF Status Report on GFG in Africa outlined a large need to overcome the negative impacts of undue development partner influence on reforms in financial governance. These impacts may include a high dependency on development partners and their consultants, along with the suppression of local capacity and initiative, projects that may not be timely or appropriate for the country concerned, costly “big-ticket” programmes that take up reform space without sufficient local ownership, unrealistic assessments of the capacity required and of time frames for reform, and unmanageable reform loads, sometimes with contradictory or overlapping reform activities required by different development partners (CABRI, AFROSAI & ATAF 2011:11).

The GFG systemic model provides the conceptual framework to understand the many factors influencing financial governance and their interrelation, and to manage the resulting complexity for support. Since its introduction in 2009, the GIZ approach to capacity development (Capacity Works) has proved to be especially valuable and suitable for managing change within the complex financial governance networks.

### **African leadership needed**

To overcome “undue development partners’ influence”, much stronger leadership from the African side is needed. Progress in financial governance is an essential government responsibility that cannot be delegated or – in the long run – be excused by external factors. It is the responsibility of African governments to use the development support in a way that induces progress and does not interfere with the financial governance system. Inappropriate consultancies and contributions may be rejected, and reform activities should be coordinated under the ownership of the ministry of finance.

In summary, the responsibilities of development assistance providers and recipient countries come down to one of the most important aid efficiency directives, renewed in the Busan Partnership (para. 11.d): “Mutual accountability and accountability to the intended beneficiaries of our cooperation, as well as to our respective citizens, organisations, constituents and shareholders, is critical to delivering results.”



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### **G8 ACTION PLAN FOR GOOD FINANCIAL GOVERNANCE IN AFRICA**

Against the background of higher aid flows, debt relief and increasing revenues from natural resources in Africa, good governance is receiving a growing amount of attention. In addition to other governance issues, such as the regulatory frameworks, the rule of law, and political stability, progress in implementing effective and efficient tax policy and tax administration, public expenditure management and debt management (in other words, good financial governance) is of particular importance with a view to achieving the MDGs. Strong financial governance plays a critical role in supporting development in Africa. The primary responsibility for improving financial governance rests with national governments, and therefore the utmost priority is to develop the capacity of individuals, institutions and societies. Donor governments can play an important role in supporting these efforts through a range of complementary actions. This plan outlines ten areas for action, drawing on the principles of the Paris Declaration on Aid Effectiveness and on ongoing initiatives to support the reform of public finance systems in Africa. We invite all donors and African countries to participate in the dialogue on the development and promotion of good financial governance.

- I. Contributing to good financial governance through bilateral and multilateral development assistance.** Based on the Paris Declaration on Aid Effectiveness, it is our objective to harmonise donors' cooperation by establishing and using common procedures in order to enhance the effectiveness of international development assistance and contribute to the development of our partner countries' own public financial management systems. In addition, the allocation of programme-oriented development cooperation resources could be linked more closely to good financial governance and the development of country capacity, bearing in mind the specific characteristics of fragile states. Therefore, it is necessary to exchange experiences between the relevant institutions – such as the ministries of finance, parliaments, supreme audit institutions, procurement offices, and donors – and to identify actions to be taken to strengthen the relevant systems. To this end, good financial governance and capacity building in this area should play a stronger role in international financial institutions' (IFI) activities. African leaders' awareness of the importance of sound public finances for their countries in the future is key. No substantive progress can be achieved without direct commitment and political resolve by the countries themselves. Within such a framework, donors could contribute to sharpen the focus on the APRM by asking that adequate emphasis be put on financial governance in the review of countries' governance.

- 2. Strengthening African tax systems.** We support African countries in reforming their tax policies and tax administrations, especially with a view to providing citizens with the legal means to effectively scrutinise the decisions of their tax administrations. We encourage African countries to make use of regional networks and international knowledge on tax policy and tax administration in order to bolster domestic expertise. We will therefore enhance our efforts to enable partner countries to participate in bilateral and international initiatives, such as the International Tax Dialogue (ITD).
- 3. Establishing transparent and comprehensive budgeting procedures.** Positive economic development in African countries is also based on national budgets that reflect governments' current political priorities. We encourage our African partners in their efforts to develop concepts for transparent, accountable and reliable budget management, as stated by the African finance ministers in May 2006 in the Abuja Commitment to Action. Our objective is to provide assistance to partner countries wishing to strengthen their systems of budget management at all levels of government, so that these systems better serve as a basis for political decision-making. This includes improvements in the integration of policy-making, planning and budgeting. Regional networks for budget directors or accountants-general can be very useful instruments for budget reforms. A process of mutual support and learning has, for example, been initiated through cooperation with senior officials in CABRI. We welcome and support the role and activities of African subregional institutions in order to improve financial governance.
- 4. Promoting accountability and transparency, and enhancing budgetary control.** We promote good governance by enabling SAIs to assist their respective governments in improving performance and fostering the efficient and effective receipt and use of public resources through increased capacity building measures. We assist regional organisations, such as AFROSAI, in fostering the implementation of international standards and in encouraging the exchange of ideas and experiences. Meeting these standards will validate SAI recommendations that focus on improving the operations and services of government agencies, increasing the effectiveness of government spending, and enhancing citizens' trust in their governments. The majority of African states have already committed themselves to the UN Convention against Corruption (UNCAC). We encourage other African nations, as well as donor countries, to join this global anticorruption agreement. This could also contribute to the recovery of corruptly acquired assets.
- 5. Increasing accountability for revenues from extractive industries.** We give our full backing to the EITI and support it in its efforts to optimise its implementation and monitoring mechanisms and to contribute to enhanced participation by all stakeholders. We encourage other resource-dependent countries and industries from the extractive sector, especially from emerging market economies, to participate in the EITI. We welcome the fact that an independent validation process has been initiated to monitor the national implementation measures. We encourage a prompt application of arrangements to identify countries that have achieved the target levels of transparency, as well as those that are making progress towards them. The applicability of EITI principles to other sectors should be examined more closely. Moreover, measures could be considered to use revenues from extractive industries for the long-term benefit of the respective countries by establishing stabilisation funds or funds for future generations.
- 6. Securing public debt sustainability.** We call for the effective use of countries' own resources and restraint in borrowing on non-concessional terms in coherence with the IDA's policy. We commit to applying responsible practices in our lending decisions. To this end, we urge all borrowers and creditors to share information on their borrowing and lending practices. The debt sustainability framework, developed by the IMF and the World Bank, provides an important guiding tool for decisions on new borrowing and lending, and we encourage its broad use by all





borrowers and creditors as a way to prevent new lend-and-forgive cycles. Technical assistance to improve debt management in African low-income countries is crucial. We highlight the importance of the quality of public investment for debt sustainability: not only does the concessionality of lending matter, but also the returns on investment.

- 7. Supporting fiscal decentralisation.** A system of multilevel governance needs clearly defined financial and political competences for all levels of government. A dialogue was initiated at the Kigali Conference in 2006, where the need for strengthened capacity at all levels of government, transparency and accountability of local governments, and mechanisms for coordination between central and local governments were emphasised. If our partners wish to pursue a policy of fiscal decentralisation, involving the establishment of sustainable and efficient intergovernmental fiscal relations and the promotion of civil society participation, we will endeavour to support them.
- 8. Promoting donor harmonisation through knowledge management.** In the donor community, we are making greater efforts to attain a better understanding of partner countries' political processes and administrative systems. We call for more sharing of information and transparent knowledge management on the part of donors with regard to partner countries' systems. To this end, we intend to work more closely with the PEFA multidonor partnership, the instruments of which should be used jointly by donors to analyse public finance systems. Furthermore, other instruments should be developed to analyse governance risks and capacity needs.
- 9. Enhancing capacity for governance in fragile states and situations.** Capacity building can be achieved even in states and situations with acute governance challenges. To do so, we increasing our engagement in fragile states by establishing and strengthening key governmental functions, especially in the budget system, to enable the provision of basic services and security for the population. Capable and sustainable systems of public finance should help to reduce the risks of post-conflict countries becoming dependent on external assistance over the long term and support the effective financial engagement of donors in the course of providing emergency assistance. Civil society organisations also have a key role both in demanding good governance and in terms of service delivery.
- 10. Developing local bond markets in emerging market economies.** Modern and efficient domestic market structure can provide an important contribution to principal stability and sustained growth. To foster progress in this area, a specific action plan has been developed to strengthen market infrastructure and public debt management, to broaden and diversify the investor base on local bond markets, to develop appropriate derivative markets, and to improve the information available on local bond markets.



## Annex 2

### NOTE ON METHODOLOGY

In this paper, the aim is to reflect on the developments and – if possible – achievements of the targets set under the G8 Action Plan for GFG in Africa. The information base for such an analysis has broadened significantly in the first decade of 2000. A multitude of PFM diagnostic tools has been introduced and further developed, and many now provide data sets covering important time frames.<sup>29</sup> Many of those instruments are publicly available; others are for the procedural purposes (mainly for fiduciary risk assessments) of international finance institutions, development banks, European commissions and other development partners. The list of PFM diagnostic tools presented in Mackie & Ronsholt (2011) lets the Greek troika/institutional dialogues seem minuscule compared to the reality many African countries are facing.

From the data sets available, this study uses those that allow comparing data and performance over the relevant time frame in Africa: 2007 to 2014. The data does not always allow covering the full time frame, and sometimes developments are described for 2008 to 2012, or 2009 to 2012, for example. This report uses the available data that comes closest to 2007–2014, and covers three years as a minimum.

The main sources used are the following:

- Data from the IMF World Economic Outlook data set: <http://www.imf.org/external/pubs/ft/weo/2014/02/weodata/index.aspx>
- The African Economic Outlook: <http://www.africaneconomicoutlook.org/en/>
- The Ibrahim Index on African Governance: <http://www.moibrahimfoundation.org/iiag/>
- The World Bank Group's (WBG) Country Policy and Institutional Assessments: <http://datatopics.worldbank.org/cpia/>

Additionally, specific performance measurement data were consulted for specific purposes:

- The Open Budget Index: <http://internationalbudget.org/what-we-do/open-budget-survey/rankings-key-findings/rankings/>
- The Corruption Perception Index: <http://www.transparency.org/research/cpi/overview>
- The Resource Governance Index: <http://www.resourcegovernance.org/rgi>

In order to gain a more detailed picture of the developments of GFG policy and administration reforms, a data set was compiled, based on the available PEFA assessments at [https://www.pefa.org/en/assessment\\_search](https://www.pefa.org/en/assessment_search). This data set includes African countries for which two PEFA assessments were available after 2006 that cover at least a time frame of three years between assessments. If more assessments were available, the larger time frame was chosen. Following these criteria, a sample of 18 countries was selected. For processing reasons, the PEFA ratings of A to D were transformed into the numbers 1 to 4. The numerical development between the first and the second report in the sample was thus analysed.

<sup>29</sup> See the overview in Mackie & Ronsholt (2011:9, 11) and the details in Vol II (annexes).

There are, however, extensive methodological limits to using PEFA data for comparing country performance (PEFA 2009). The analysis provided in this case can thus not be taken for more than it is: the observation whether progress may be assessed – yes or no – or even whether a downgrading in performance occurred. For the purposes of observing progress on the G8 Action Plan targets, this is nevertheless very interesting.

Developments on the side of development partners are described by the following:

- Data reported under the Official Development Assistance (ODA) Creditor Reporting System (CRS), as included in the OECD DAC CRS Statistics.<sup>30</sup> Only code 15111, “Public Financial Management”<sup>31</sup> (PFM), is used in this case. There are other codes that might include relevant data, for example, the code for customs (33120) or corruption (15113), but the interpretation of CRS data is difficult in any event and the risks grow if data from different codes is used.
- The donor performance indicators in the PEFA assessments of the 18 sample countries
- Monitoring data from the Global Partnership for Effective Development Cooperation (OECD & UNDP 2014).

These large data sets made it possible to describe relevant progress in order to mirror the development after the G8 Action Plan for Good Financial Governance in Africa. Although it is possible to describe developments, neither the reasons for those developments, nor the impacts of the G8 Action Plan can be based on those descriptions. This could and should only be done through more in-depth country analyses.

<sup>30</sup> See <http://www.oecd.org/dac/stats/dacguide.htm> and <http://www.oecd.org/dac/stats/crsguide.htm>. For an explanation, see Tortella & Eckardt (2012:18ff).

<sup>31</sup> “Fiscal policy and planning; support to ministries of finance; strengthening, financial and managerial accountability; public expenditure management; improving financial management systems; tax policy and administration; budget drafting; intergovernmental fiscal relations, public audit, public debt” (see DAC CRS Purpose Codes).

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