

GOVERNANCE AND OVERSIGHT

How the correct constitutional and legislative environment support innovative PFM practices

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Introduction

Key Goals / Agendas for Africa's Development:

- SDGs
- Agenda 2063

Challenges to address:

- Scarce / uneven financial resources
- Lapses in the mechanics of good governance
- Resource management
 - Effective revenue generation
 - Efficient allocation of public funds
- Effectively engaging stakeholders at all stages of development programmes - planning, execution, evaluation.

Introduction (Cont'd)

Abuja Declaration 2003:

[Commonwealth Heads of Government]

Democracy, Political, Economic and Corporate Governance

Codes of Good Practice advocated:

- Transparency in Monetary and Financial Policies
- Fiscal Transparency
- Budget Transparency
- Public Debt Management
- International Accounting Standards
- International Standards on Auditing

“Innovative PFM practices” are critical for all these areas.

Introduction (Cont'd)

Paris Declaration on Aid Effectiveness (2/03/2005):

Developing countries committed to strengthen their systems, including PFM, procurement, audit, monitoring and evaluation.

Transparency and accountability lie at the heart of the Paris Declaration.

Accra Agenda for Action (04 Sept 2008):

Commitment to accelerate and deepen implementation of the Paris Declaration.

Participants: 91 countries, including 23 African countries.

Definitions:

What is Public Financial Management (PFM)?

Traditional Definition

PFM is concerned with how governments manage the budget. This involves budget formulation, approval and execution.

Long-established objectives of PFM

- Maintaining a sustainable fiscal position;
- Effective allocation of resources;
- The efficient delivery of public goods/services

Definitions (Cont'd)

Emerging Definition

PFM is concerned with ALL aspects of managing public resources, including:

- Budget management
- Resource mobilisation
- Debt management
- Risk management (esp. post-2008 financial crisis)

PFM also covers a set of systems for producing information, processes, and rules, e.g., fiscal rules.

[Fiscal rules

- help support fiscal policy
- provide instruments for implementation]

Definition: “innovative PFM practices”

Three senses / aspects of “innovative”:

1. Scope
2. Effect on governance
3. Reform

Scope of PFM

PFM draws together knowledge from Economics, Political Science, Public Administration, Accounting, and Auditing.

In view of this, PFM is **interdisciplinary**.

The scope in the emerging definition goes beyond the original, narrow focus on the budget.

Interdisciplinarity is a driver of innovation. Innovations in PFM include:

- fiscal responsibility laws
- fiscal rules
- medium-term budget frameworks
- fiscal councils
- new fiscal risk management techniques
- performance budgeting
- public-private partnerships

Definition of Terms

- fiscal responsibility laws:
- fiscal rules:
- medium-term budget/expenditure frameworks (MTEF):
- fiscal councils:
- new fiscal risk management techniques:
- performance budgeting:

Effect on Governance

PFM reforms have had an effect on governance.

This is facilitated in part by the interdisciplinary nature of PFM, which now integrates, e.g., economics and political science.

Four basic dimensions of governance benefit from reforms:

1. A functioning PFM system makes actors more *accountable* to Parliament, national audit office and the public;
2. Established PFM structures encourage *separation of powers*;
3. PFM reforms help to *improve transparency* by generating information, by networking sources of information;
4. PFM processes *improve the effectiveness and efficiency* of government action and so increase the state's legitimacy.

Reforms

An objective of reform is to create a PFM system that works better, i.e. “innovative PFM”.

- Reform must be implemented as **part of an overall strategy** (Linking various parts facilitates innovation)
- Reform must start with sound policy formation at a **macroeconomic level** (define role of the state, key institutional arrangements, and macro-economic policy)
- Reform must be backed up with **continuous political commitment** at the highest level
- **Key institutions** need to be empowered to operate autonomously from government (the central bank, the revenue service, oversight bodies). Full legal (or constitutional) underwriting. No interference. Transparent mandates.

“Correct” Constitutional and Legislative Framework

“Correct” vs. “appropriate”

- Constitution should specify roles of Parliament and other bodies in budget, as well as the process of budgeting;
- Constitution should provide for the establishment and independence of oversight bodies, including Office of Auditor-General;
- Constitution should enshrine principles of good governance, including transparency, accountability, effective financial management. Legislation should give effect to these;
- Legislation should not be overly prescriptive. It should emphasize management of public finances, not just control.

Supporting for Innovation

- Enshrine in constitution, and enact through legislation, principles conducive for effective PFM (transparency, accountability, VFM)
- Strengthen Parliament. Separation of powers. Provide for creation of necessary structures, including oversight
- Empower actors. Provide protection (e.g., freedom of information law)
- Provide for regulations (they change over time for innovation)
- Allow adoption of international standards

Case Study: South Africa, Rwanda

South Africa (Act No. 108 of 1996):

- Require national legislation to establish a national treasury, to prescribe measures to ensure transparency and expenditure control, procurement (Sec 213)
- Budgeting process must promote transparency, accountability, effective financial management of economy (Sec 217)
- Establishes the Auditor-General
- Public Finance Management Act (1999)

Case Study (Cont'd): Rwanda

- Instituted comprehensive and modern legal framework for PFM through adoption of 2003 constitution
- Organic Budget Law (2006).
 - Establishes principles and basis for planning, budgeting and monitoring of state resources and management of budget
 - Provides for major changes in Rwanda's budget framework. Control and execution of budget decentralised to budget agencies. Result: flexibility and accelerated budget execution
 - Specifies role of Cabinet in budget process
 - Defines role of Ministry of Finance in budget
- The Constitution makes provision for Parliament to obtain information and exercise oversight of activities of government

Thank You