A number of authors have used Public Expenditure and Financial Accountability (PEFA) and other analytic tools to evaluate and draw conclusions about PFM issues in post-conflict and other fragile states. However, this paper takes a very different approach. Rather, its conclusions come from the ‘on-the-ground’ experiences of the author in five post-conflict countries. The paper touches on the issues presented in the analytical framework for the ODI’s ‘Case Study Protocol of Public Financial Management Reforms in Fragile and Conflict-Affected States’. This includes the importance of legacies and starting points; approaches to PFM reforms and their implementation, and PFM results and achievements. It also looks at recommended approaches toward donor financing of both fiscal operations and technical assistance (TA).

The conclusions about PFM reforms are similar to those in Gupta et al. (2005), ‘Rebuilding Fiscal Institutions in Post-conflict Countries’. This explains how the building blocks of PFM reforms create a proper legal and regulatory fiscal framework and the authority for fiscal policy. Furthermore, Gupta et al. highlight the importance of implementing priority revenue and expenditure policies, along with simple arrangements in revenue administration and public expenditure management. This is to effectively leverage scarce human resources. The paper recognises that this approach may not always be feasible since it depends on a variety of factors.

This paper supports those conclusions and discusses how they are best accomplished, drawing on personal experiences.

The post-conflict situations discussed in this paper are somewhat diverse. In two cases (i.e. Kosovo and Timor Leste), the UN played a major role in running the country. Furthermore, whatever governmental structures existed before conflict were irrelevant in the post-conflict era and local citizens had little or no previous PFM experience.

In the other three cases (i.e. Afghanistan, Iraq and Liberia), the UN played a role, but much less so. Some governmental structures and systems were in place and some authorities and staff had some PFM experience.

The author led technical assistance teams in these post-conflict countries that were designed to provide a blueprint for fiscal management. The missions included people with expertise in revenue and expenditure policy and management. Some donors used the reports compiled by these teams to draw up their TA programmes. In particular, this was the case for the Australian Agency for International Development (USAID)’s support in Timor Leste; the United States Agency for International Development (USAID) and US Treasury in Kosovo, and USAID, the UK Department for International Development (DFID) and the US Treasury in Afghanistan.

The author also did follow-up visits to evaluate recommendations and their implementation. There are many more examples from Afghanistan because the author not only led six TA missions to the country, but was also the International Monetary Fund (IMF)’s mission chief for three years. This paper and its conclusions draw quite heavily on these experiences.

**What makes a post-conflict country unique? Does this affect the recommendations?**

It would be helpful if there were a simple categorisation of post-conflict countries. As will become clear, there are some important differences, even in the five cases discussed in this paper: these affect the recommended strategy and conclusions. However, it is also true that many of the issues and lessons drawn in this paper could apply equally well to other developing countries situations (e.g. the need to use existing structures, coordinate donor assistance, and adequately fund maintenance and recurrent costs).

What then is different about post conflict countries that make them worth studying as a separate category and how does it affect the conclusions? I would argue that the key differences from the typical developing country are:

1. **Human capacity will either be non-existent or much lower than in other countries.** This can be because of control by other countries (Kosovo, Timor Leste, and, to a lesser extent, Afghanistan), rapid outflow of talent to escape repression or seek better opportunities elsewhere (Afghanistan, Iraq and Liberia), and the country/institution that is supporting the post-conflict country not using existing talent (e.g. ‘debathification’ in Iraq). In general, this means the TA effort must be much greater and the approach different than in other developing countries, and even other failed states, that have not suffered internal or external conflict.

2. **Physical capital and operating systems are either non-existent or have not operated for a relatively long period.** In Kosovo and Timor Leste there was nothing in place. In Afghanistan, although laws and systems existed before Russian and Taliban control, these were not operational and there had been no reform influence for several decades. In Liberia, the previous regime had devastated the fiscal systems and physical capital (except for some buildings). In Iraq, coalition bombings and looting after the war destroyed all the equipment and many of the buildings. The need for foreign financing was consequently enormous.

3. **Domestic Revenue is minimal compared to even recurrent expenditures.** The usual revenue sources (income and goods taxes) are either effectively non-operational or do not ex-
ist. This was true in each of the countries. There is thus a need to establish a revenue system. But this also means donors will have to fund the recurrent budget for a substantial period. In Iraq, Liberia and Timor Leste, there was at least the prospect of natural resource revenue, but this was not likely to come onstream for several years. This is why more emphasis is needed on donor financing. Furthermore, in countries that have fewer prospects of natural resource revenue, donors must support domestic revenue systems, if they hope to see fiscal sustainability.

4. Initially, most emphasis is placed on establishing security and stability rather than promoting development. This was true in most cases and means more budget support is devoted to these areas. This creates two problems: i) World Bank trust funds and support cannot be used to support this sector; and ii) priorities over the short- and often the medium-term are distorted.

These and other factors highlight why the provision of finance and PFM reform should proceed differently than in other developing countries.

PFM and financing recommendations in post-conflict countries

1. Use existing structures – including the legal framework – whenever possible

This point cannot be stressed enough and was contrary to my view after working in the first two post-conflict countries, Kosovo and Timor Leste. It underscores the facts that one needs to take account of the starting point and PFM legacy systems. It also reinforces the view that there is no single best approach; rather it depends on the particular circumstances.

In Kosovo and East Timor, the local population played no part in running the country before the conflict. After the fighting ended, the UN (with support from the EU in Kosovo) was responsible for running the country. Since there were few, if any, physical structures or human capacity post-conflict, almost everything was built from scratch. International experts were brought in to help the UN run the country, including the Ministry of Finance (MOF) and the financial management system.

This has its advantages since everything could be developed from first principles. But with no physical infrastructure or human capacity, running a government and implementing a fiscal system is challenging. With no local capacity, many of the internationals were initially in charge. Although they had not worked in government before, there was no alternative (see Recommendation 9. It can be acceptable for international experts to take on-line or near-line positions but they need to be qualified). In Kosovo, these internationals were often European Commission (EC) or UN staff members who had never worked in government; some had little or no experience in their specific area, and little idea of how to run a ministry, let alone a budget.

Furthermore, there was little to guide fiscal management, except possibly UN rules and regulations. To make payments as soon as possible, some sort of PFM system must become operational, even before there is a legal basis. The drafting of controlling laws created its own problems. Experts tend to introduce their own country’s laws and institutions. This often results in inconsistencies, especially when there are individuals from both presidential and parliamentary systems.

One would have expected a similar situation in Afghanistan, because of years of Taliban and Soviet control. But there was, at least on paper, an underlying PFM system. Although implementation had broken down, the underlying basis was largely consistent with many of the modern principles of good PFM.4 The focus was to use existing laws and structures and improve implementation. Reforms were only introduced after the basic PFM system was operational. The Chart of Accounts was fairly simple and largely based on the fiscal reporting used by the IMF in the 1970s. The authorities in Afghanistan also had a budget law and document dating back to the pre-Russian period that explained the expenditure management system and several officials in the MOF understood how it worked. There were even the old expenditure books that tracked spending against allocations. These indicated that the underlying system had not been replaced but was inoperative under Russian and Taliban rule. Thus, contrary to ‘ex-ante’ expectations, there was no need to immediately introduce a new PFM system but rather to get the system on paper working correctly with only minor modifications. International experts, working with local Treasury staff, computerised these processes. The advantages of quickly introducing computerisation are explained in the next section. But, in retrospect, it is not surprising that despite the current situation, the budget execution system is working extremely well in Afghanistan.

Iraq also had useful systems in place. But the first US experts, who were working in the ‘green zone’, trashed much of what had worked. This has been quite problematic. Payments that months earlier were paid could no longer be made, and not only were working procedures replaced but many key MOF individuals who worked with the previous system were labeled ‘Bathists’ and lost their jobs. This significantly delayed the implementation of a functioning PFM system despite large amounts of technical assistance. Compounding the problem was the lack of a cohesive approach. Many contractors were not allowed to work directly with Iraqi officials. Although the IMF was playing an oversight role, it provided advice without going into the country; after the UN headquarters was bombed. Despite large amounts of TA, trained local staff and a source of revenue, PFM development lagged considerably behind other efforts.

2. In the early stages, budget execution is more critical than budget preparation – computerisation can help

In the immediate aftermath of the conflict and probably for the first few years, very little expenditure goes through government systems. In both Timor Leste and Kosovo, the UN established a trust fund but there was great resistance to let these monies go through the rudimentary government systems set up by international experts. The UN felt it had a fiduciary responsibility to control spending. The problem with the UN approach was that the UN PFM system (including procurement) was unwieldy, as the rules and procedures were established to run missions and not a country. At the same time, unless spending and revenue used government systems, the budget would not be very meaningful: most spending would occur outside the government and there would be little pressure for the government to develop its own systems.

The approach encouraged by the author was to develop initial expenditure regulations and eventually laws. While regula-
tions included some guidance on budget development, the focus appropriately was on budget execution. Since most spending was implemented directly by donors, the budget was, essentially, not critical. The challenge was for government to show the international community that it had proper controls on spending, strong reporting, proper accountability and audit trails. Success in this area would provide the government with the information to develop budgets and mean donors could trust the system. Only then were donors likely to use government systems. Once money was channelled though the government by donors, the budget became a real policy tool and the focus switched to budget preparation.

Computerisation can help, even if there are weaknesses in procedures. This touches on a flaw in IMF thinking at the time, as some IMF experts felt there should be a one- to two-year study of business processes before anything was implemented. USAID in Kosovo and the World Bank in Afghanistan and Timor Leste ignored this advice. To their credit, Afghanistan, Kosovo, and Timor Leste had a financial management system running in less than two months from when the systems were purchased. It is interesting to note that the IMF has praised computerisation in Afghanistan and Kosovo.

This highlights a key and separate point regarding PFM and other reforms – that the best can be the enemy of the good. This does not mean that good business practices should be ignored, but rather, the systems should be easily configurable so that procedures can be adopted over time. The approach in the countries we looked at was to adopt a financial management system that could be quickly implemented, needed little technical support once installed and was configurable. This has proved to be very successful in the three countries. Donors and the international community should thus not maintain the same exacting standards of appraisal in these very difficult circumstances. This point is discussed in more detail in Recommendation 6. Avoid higher level reforms until the basics are in place.

This does raise a related issue, which is how to determine when to move beyond the simple approach of concentrating on reporting. It is important to have basic systems that are stable and running in a timely manner; but quick-fix answers that served their purpose at the time need to be followed by a serious external evaluation of the medium- to longer-term needs of the country. These should look at decentralised processing, procurement, budget integration and other related issues. This evaluation should probably occur around two to three years after the ‘quick-fix’ is first established.

3. Donors should use trust funds and rely on government systems

This recommendation requires the second recommendation to be in place. The key is not just having a trust fund or pooled resources but rather allowing the government to use the trust fund in a similar way to a bank account. The UN trust fund in Kosovo and the UN and the World Bank–Asian Development Bank (WB–ADB) trust funds established in Timor Leste did not work this way. Instead, spending under these systems was used largely to implement projects by international contractors under UN or WB–ADB rules. While the government does have some say on which projects might be financed, this approach does little to develop a country’s PFM system. In fact, what develops are parallel systems. Often the best local staff work for these international agencies and Project Implementation Units (PIUs) at salaries significantly above the level of civil servants. This approach undermines the legitimacy of the state. In summary, pooling and trust funds do little on their own to develop good PFM.

In contrast, the Afghanistan Trust Fund, established with oversight by the World Bank, empowers the Government and effectively supports the development of a PFM system. Once expenditures and payments have gone through the government system, they are audited by the monitoring agents of the Trust Fund. After the paperwork is approved by the monitoring agents, the money is then transferred from the Trust Fund into the Government’s own bank account. This provides an appropriate level of integrity and assurance for donors using the government budget preparation and execution systems.

This approach has been widely praised by both government and the international community. It has helped the Afghan PFM system develop. It was understood that the Government controlled a large part of fiscal spending in the country but, appropriately, the post-conflict country does not have a completely free hand. In the case of Afghanistan, while budget priorities were left to the Government, donors that contributed to the Afghanistan Trust Fund met regularly with the Government to ensure that appropriate PFM reforms were being implemented.

PIUs tend to retard the development of government PFM systems. While they may prove more efficient than the government’s systems over the short run in terms of delivery, they operate parallel, duplicate PFM procedures and divert human resources from central needs. They should thus be avoided.

Another approach, the Governance and Economic Management Assistance Programme (GEMAP), was used in Liberia. This was put in place in late 2005, less to encourage donor budget support and more because of widespread corruption in the Taylor and transitional Governments. It was much more restrictive than the Afghanistan model as it consisted of placing binding counter-signatory authorities at key locations.

These were namely:

1. for government spending at the Bureau of the Budget, to countersign allotments (handled by USAID); and in the Expenditure Department, to countersign payment vouchers (handled by the World Bank);
2. for revenue collection at the Central Bank, to see that revenues were deposited into the government account (handled by the IMF); and at a number of autonomous agencies including the National Ports Authority, and the Bureau of Maritime Affairs (handled by USAID).

This arrangement was largely put in place by the International Financial Institutions (IFIs) and donors and was not removed (except for the IMF component) until completion of the Heavily Indebted Poor Countries (HIPC) initiative in 2009. Donors did not want to relinquish the agreement and continued to exercise their signatory power right until the end, and even after the election of the reform government of Ellen Sirleaf-Johnson. Although donors provided very little budget support, all financial support from donors was linked to GEMAP. The Afghanistan model was developed to ensure there was sufficient financial accountability and donor agencies could give assurances to their capitals that their money was being properly spent. However, in Liberia, constraints resulted in the authorities feeling that they
were trapped. This had a negative impact on relations between the authorities and some IFIs. It also distorted the PFM processes and delayed progress, in particular in the budget execution area.

Pooling of funds, especially when using government systems, tends to have an advantage over country-specific budget support. If the donors in the trust fund can agree to one set of trust fund rules for the government - this also makes sense from the recipient government’s point of view - then together they can more easily establish an agreed reform programme. Also, the size of the pooled fund will mean the recipient government will feel compelled to implement these reforms. It may be possible to ignore funds from one country but not from a large number of countries. Also, working through the World Bank has the advantage of the Bank having already done this quite successfully, partly because of its expertise in PFM. UN trust funds in contrast have often not worked as well.7

There is an additional bonus to using trust funds. Recent research has found that the domestic GDP impact of spending though trust funds is significantly higher than when funds are executed directly by donors. In Afghanistan, it was estimated that 80 percent of trust fund spending had a direct domestic demand effect compared with around 15 percent when donors executed projects through international contractors.8

4. Transparency is enhanced and corruption opportunities reduced if there is a strong focus on budget execution

Afghanistan, Kosovo and Timor Leste are cases in point. They are able to produce and publish fairly comprehensive and timely fiscal data for budget out-turns. Given the violence, weak starting point and lack of physical infrastructure (e.g. roads and internet access) in Afghanistan, and political turmoil in Kosovo, it is remarkable to see the comprehensiveness, quality and timeliness of their reports.9 The computerised financial management system also tends to reduce corruption opportunities. In Afghanistan, around seven signatures were needed for every payment in the paper-based system and each signature required a small bribe. This avenue for corruption was eliminated with the implementation of the Afghanistan Financial Management System. To date, only one case has been reported where there was an allegation of improper use of the system and the individual was caught.

While strong reporting and financial auditing may reduce corruption opportunities, transparency is only one small component of anti-corruption. This does not take the place of field audits, which see if the goods that are purchased arrive and the appropriate people are paid. But it does limit some corrupt practices. It is worth noting that the World Bank PEFA assessment for Afghanistan in 2008 stated: “In relation to other countries for which PEFA assessments have been conducted, Afghanistan’s ratings are better than the average for other low-income developing countries and in some areas better than the average for middle-income countries.” Technology can be an important building block in creating good governance but it should be introduced using phased implementation to allow absorption of key government reforms.

Strong audit and legal systems need to be put in place to combat corruption. But when donors avoid using government systems designed to guarantee a degree of integrity, this provides the opportunity for corruption. This has been especially true in countries with a large donor presence. The author is not aware of any evidence to show that corruption lessens when expenditures use a donor’s PFM system rather than reasonably strong PFM systems of a post-conflict country. In fact, there are numerous cases of well-publicised abuses when donors deliver aid directly (e.g. USAID built schools in Afghanistan).

Leaders in post-conflict countries promise quite a lot and are rarely held accountable. There needs therefore to be a focus on the monitoring of out-turns. A useful way to see if this is possible is through the PEFA and Reports on the Observance of Standards and Codes (ROSC) assessments. Although some might view these as impractical or meaningless in a post-conflict environment, they do make sense after a few years. Accountability of leaders can be evaluated with a transparent PFM system. Furthermore, these assessments speak indirectly to the success of TA donor support.

5. Donors should support PFM by reporting to government using its chart of accounts

Even if donors do not use the government systems for budget execution they should report their activities to the government in a manner that is timely and consistent with the post-conflict government’s accounting system. Countries that have supported PFM reforms through TA still tend to ignore this request. This has been true in every post-conflict country. There are several reasons why donors fail to comply. In some cases, their reporting systems have a very different timeframe than that of the host country. In others, they are not consistent with the government’s Chart of Accounts.

However since many recent post-conflict government systems tend to be compatible with some of the latest accounting frameworks, this argument is weak. The fact that in-country donor officials do not always have the necessary information is disturbing. The Peace Dividend Trust Report of donor spending in Afghanistan, for example, indicated that even those donors who were leading supporters of PFM reform were unable to produce a reasonable set of data for the Government. Possibly more alarming is that donors are more interested in reporting to their headquarters and delivering aid as prescribed in their capitals rather than responding to the real needs of the post-conflict country.

Failure to comply is one of the reasons why there is often a duplication of programmes and projects. Furthermore, it can explain why post-conflict countries do not allocate the appropriate recurrent expenditures for long-term support to donor projects. An interesting example of this occurred in Kosovo. A well-meaning high-level international advisor was able to get the German Government to donate some Mercedes garbage trucks. However, in the time I was there, the trucks were not being used because the fuel cost alone would have been prohibitive. It was determined that it would be more cost-effective and create jobs to hire farmers to pick up the garbage in their wagons. This is just one of numerous examples where recurrent and long-term costs are not taken into account when delivering aid. Others are many donor-built roads or schools falling apart because of no funds for maintenance. This demonstrates the need to coordinate foreign-financed aid with domestic budget process and use a common reporting system.
6. Avoid high-level reforms until the basics are in place

High-level reforms (e.g. programme, output and performance budgeting) often create confusion and divert valuable resources from more critical needs. Donors tend to like these reforms. But their planning and implementation often consume a tremendous amount of resources, and are carried out by international experts funded by donors. Local civil service staff have little understanding or appreciation of the rationale behind these reforms. While there is a lot to be gained by starting to think in terms of programmes, if this reform is to be encouraged, it needs to be implemented as a simple mapping from administrative level budgeting and control. Once the government can work effectively in cash and on an administrative basis, then programmes can start to be developed. In Afghanistan, for example, there have been numerous attempts and many resources devoted to a programme approach. While some experts developed a simple approach by limiting programmes to a single ministry, others felt this was unsatisfactory. The result has been confusion and wasted resources with very little to show. Focusing on outcomes and outputs, while these are important reforms, tends to divert attention and resources away from the basics of PFM.

Expenditure monitoring, reporting, and control take substantial resources, both to develop and to build local implementation capacity. But success in these areas can be achieved in a reasonable amount of time. However, it takes substantially more effort to develop capacity in areas of policy development and analysis than in other areas of fiscal management. Simple policy analysis, such as explaining fiscal out-turns relative to budget, is an achievable goal. But entering into more advanced tax policy or macro-economic issues, especially macro-modelling, would be a wasted effort. Instead, post-conflict countries should draw on the expertise of people from countries in a more advanced stage of development, and from IFIs.

Also, the MOF should concentrate on its core areas. A lot of donor effort and resources goes into developing a MOF, which tends to attract more qualified staff than other areas of government. Thus, when a new reform need is identified, a MOF should resist tackling an area that may only be peripherally related to its core work. As an example, the MOF in Afghanistan was given insurance oversight simply because it appeared to be the only institution with staff capable of taking on the work. This was however inappropriate. Similarly, while there may be a good argument for financial surveillance by the MOF and the creation of a financial sector unit, diverting resources to this activity is initially not worth the effort. In the case of the recent reports of the Kabul Bank in Afghanistan, for example, a number of international experts and local individuals pointed to the problem at a very early stage.

One higher level reform that can be beneficial is to undertake some medium-term fiscal forecasting/assessment. While it was argued above that budget preparation is less important than budget execution in the initial post-conflict period, there needs to be a focus on where the fiscal situation is headed. Fiscal uncertainty in a post-conflict setting is significant. But an understanding between the government, people and donor community about priorities and what is achievable and affordable can be very beneficial. This does not mean the goal should be a balanced budget. But the government should establish realistic priorities that are affordable once donor support wanes. At the same time, donors should realise that ‘bell-shaped’ financial support is preferable. Countries should be allowed to save funds rather than force to spend quickly. An interesting counter-example is Timor Leste. There, money being spent out of the UN trust fund was slow and it was decided to spend the money as quickly as possible - lots of cars were purchased - since there was a fear that if the trust fund had a large balance, donors would not provide additional aid at a donor conference that was planned.

7. Avoid overly centralised control and micro-managing

While centralised control is necessary in the immediate post-conflict period and when systems are first developed, too much MOF responsibility will doom the system to failure. In Afghanistan, Kosovo and Timor Leste, budget execution was initially implemented in each MOF. The staff in other ministries had little idea how to execute a payment and there was no infrastructure for payment orders to be entered outside the MOF. Admittedly cumbersome, especially since staff from other ministries had to come to the MOF to execute a payment, this was the only feasible solution when the system was first developed. When to move beyond a completely centralised approach is really a question of need and sequencing. If and when the need to decentralise or devolve budget execution authority is clear, it must be managed properly. Moving too abruptly from one extreme to another can cause chaos.

Related to this are some institutional oversight reforms that the international community encourages for what would be a regularly functioning government (e.g. parliamentary finance committees). The problem is that parliamentarians are generally ill-trained to oversee PFM issues. I remember the Minister of Finance telling me that when the newly appointed parliamentary finance committee came to him, he was prepared to discuss fiscal issues. Instead all they wanted to know was when parliamentarians would get their cars and houses. The essential point here is that the basics of a PFM system operational before decentralised control, and other types of oversight, can be effective.

However, in each of these countries, the MOF was somewhat reluctant to give up control. The result was that payment requests piled up in the MOF and staff had the choice of either approving without properly analysing the payment order or generating substantial delays. Even more problematic was that MOF staff felt the need to control at the ‘pencil’ level. Officials cited examples where various agencies overspent in some areas and thus required extra funds to meet the needs in others. However, MOF budget and treasury officials are rarely in a position to know which expenditures to approve, which funds should be vired internally, or when to transfer funds between spending units when resources are scarce. The PFM system thus needs to evolve, otherwise too much burden is placed on the MOF. Once the PFM system is established, an appropriate infrastructure exists, and ministry staff are adequately trained, it is better to provide high-level controls within the MOF, but distribute spending authority to ministries and agencies. At the same time, this increased authority should come with greater accountability. Although in all cases, this was resisted by the MOF, ultimately they did see the advantages of moving to higher-level control.

A more controversial issue regarding expenditure control and authority relates to decentralisation. In some post-conflict situations, conflict has been the result of ethnic strife. Then, the
resolution may be to avoid overly centralised control. While this view may be valid, regional or sub-national level government often lack the expertise to run their own budgets. In Afghanistan, Kosovo and Timor Leste, the MOF was the only institution that could initially access the system. Even ministries had first to come to the MOF for payments and the idea of providing control and authority to the regions was not feasible. On the other hand, at least in Afghanistan, the regions were somewhat independent before the conflict, so there was a real effort to decentralise budget and spending authority as soon as was feasible. In Kosovo and Timor Leste, by contrast, the regions did not have well-established PFM, and this was generally resisted. As with increasing devolvement of expenditure processing and authority to ministries, sequencing is also critical when decentralisation to lower levels of government is introduced. But there is a lesson here: in too many cases, decentralisation has been adopted without properly designed, even simplified, accounting and reporting systems, so that control is lost. Again this is an issue of proper sequencing.

8. Political buy-in of PFM systems can help but successful implementation can produce political support

Gaining both political and high-level civil servant support for PFM reform efforts is the first-best solution. However, the reality is that many of these individuals oppose many PFM reform efforts because they put constraints on their spending activities. Although generally appropriate from a governance perspective, these constraints are often seen as interfering and problematic by authorities. However, there are examples where the reforms have proven desirable, with ensuing support. For example, the first Afghanistan Treasury in the post-conflict period was worried about the loss of jobs (and of side-payments to staff) through computerisation. However, President Karzai, the Minister of Finance and the Treasurer became heroes when supplemental ‘Eid’ payments were made three days after they were announced—it used to take months. In several other cases, by embracing new PFM systems, relevant ministry officials were able to produce timely reports and better understand what was occurring in their ministries. This gave them the information they needed to provide support to some of their ministry programmes and even obtain more donor financing. Furthermore, rather than slowing the expenditure process, several found that purchases and payments were expedited. The lesson here is that while it is preferable to obtain support before the reform process starts, it is possible to acquire it over time.

In Afghanistan, after the success of some PFM reforms in the MOF, a few highly placed government officials approached MOF to see how they could better utilise these systems. What is critical is that the MOF needs to cooperate and work closely with other officials in developing and implementing reforms or it will become an island. A MOF can learn from the needs of its ministries. Furthermore, PFM banking requirements necessitate strong MOF–Central Bank cooperation. But, it is worrisome that in all countries discussed in this paper, there was generally a complete lack of cooperation between these two institutions, which in turn slowed the development of banking/treasury operations.

As technicians, many of us ignore political or even technical buy-in. This issue would form a paper in itself and should be left to political scientists. However, one option is to design the reform so that the local leadership feels that they own it. Some early laws in Afghanistan were never very effective, partly because they were written by foreigners in English and translated into Dari (one of the official languages of Afghanistan) and the essential meaning was lost (e.g. Central Bank Law). The first draft of the revenue law, in contrast, succeeded because of a different approach. An Australian legal expert sat down with an Afghan lawyer and laid out the principles behind the reforms. They discussed these in order to come to an understanding of what was needed in each article and regulation. The law was then drafted in Dari and translated back into English. Although there was not much support for any type of taxation, this approach succeeded where others failed because the Afghan lawyer and his institution took ownership.

9. It can be acceptable for international experts to take-on line or near-line positions but they need to be qualified

In both Kosovo and Timor Leste, international experts initially held all the key positions in the MOF, including the Minister of Finance and the Directors of Revenue, Customs and Budget. In both cases, the UN was the government; there were no experienced local residents to run these institutions, and having international experts run every ministry appeared to be the only viable solution. Eventually international experts became advisors as local citizens were given legitimate authority. In Iraq, US experts (with some other coalition country participation) ran every ministry/department. However in all cases the term ‘international expert’ should only be used loosely. Many of the experts leading service delivery ministries needed appropriate experience. At least the MOF in Kosovo and Timor Leste were run by people who had held similar positions in their working life and spent considerable time providing high-level TA advice in developing countries. In contrast, in Iraq, most of the high-level PFM advisors only had experience in the US and in some cases were academics with little relevant experience for these assignments. This partly explains why there were PFM weaknesses in Iraq early on. Eventually, contractors were brought into Iraq with the appropriate experience, but they were rarely given high-level positions.

In all fairness, it is difficult to find international staff with the proper skills and who are willing to go into a post-conflict country. The incentives in terms of salary and other benefits have to be great enough to attract quality staff. This was done in some cases, but in others the experts were quite weak. It is also a mistake to think that experts in your own country or in a particular organisation can automatically fill the position. In Kosovo, for example, one UN staff member who was overseeing all ministries in charge of delivery of services (roads, electricity, etc.) complained to me that the MOF should just “give us money and we will spend it correctly. Why waste time with budgets?” This highly placed individual had never worked in government and had little experience working with budgets. Many internationals brought in to oversee the delivery of services needed training in fiscal management. The EC, which was overseeing the economic institutions, at least realised its staff did not have the necessary skills and asked the IMF and World Bank to provide assistance to establish the Central Bank and MOF. In Timor Leste, there was more effort to bring in individuals who had worked in government, in particular relying on Australia for the ministries that
An excellent example of the ‘blame game’. Even worse, TA support is divided among two or more agencies, they often lack cooperation as this becomes a form of ownership. The aid agency and contractor feel a sense of responsibility for success in that area. When TA support is divided among two or more agencies, they often play the ‘blame game’. Even worse, different donor countries often have different ideas about reform and provide conflicting advice. But realistically, single donor support in an area cannot always be achieved, because of limited country-specific aid budgets. It is worth noting that in several cases, TA provided by several donors in one area ended up with only one donor because of the problems alluded to here (e.g. both tax and customs administrations in Afghanistan and Timor Leste).

An alternative is to have the country actively coordinate TA. There was some attempt by Ashraf Ghani Ahmadzai, when he was the Minister of Finance in Afghanistan, to do this. But the post-conflict authorities do not have the experience or time. One recent approach in a few post-conflict countries has been to set up a technical assistance fund to allow countries to buy their own TA. While this paper argues for trust funds providing budget support, a trust fund is probably not appropriate for TA support. While it would help ensure TA coordination, the problems are: i) contractors are generally not willing to work for these governments as there is a real fear the country may not abide by the contract; and ii) backstopping, logistics and general TA support is very complicated and a process that post-conflict country officials may not be prepared to undertake.

A key point here is that in most post-conflict states, the capacity for the government to take a strong lead is lacking. This argues even more persuasively for donor coordination in TA and reform areas and puts increased onus on the donor community to work together and provide consistent messages regarding PFM.

A related issue is the delivery of training. With a large presence in post-conflict countries, the TA provider who assumes some line or near-line responsibilities is often also tasked to provide training. I heard complaints in both Afghanistan and Timor Leste (in the Treasury), that consultants limited the skills transfer component of their assignment. Whether because of limited time or because it helps ensure contract extensions related to implementation, there are distinct advantages to separating training from implementation. This was done reasonably successfully in the Afghanistan revenue administration, where DFID consultants provided training and USAID provided implementation support.

10. Donor coordination in the TA area is important

While the international community and recipient countries have engaged in considerable discussion about donor coordination in terms of budget support, donor coordination relating to direct delivery of TA is a more neglected area. In particular, in post-conflict countries where the needs are quite high, the issue of how to deliver TA most effectively and provide training does not receive enough attention. In Kosovo, it was somewhat counter-productive when several different aid agencies were involved in the same area. The MOF was mostly supported by USAID contractors but there was also one US Treasury advisor. Even though TA was provided by the same country, the two agencies did not fully cooperate with each other and one sometimes blamed the other for problems. In contrast, AUSAID had responsibility for the Budget Department in Timor Leste, while the UN supported the Treasury; AUSAID supported domestic taxation, and Portugal provided support for customs. This separation was preferable. In Afghanistan, the success of the Treasury can partly be explained by TA being provided by just one donor (World Bank), with one contractor. In contrast, the Budget Department was supported by the US Treasury, USAID, DFID and the United Nations Development Programme (UNDP). In the Budget Department, everyone blamed everyone else, while in Treasury they worked as a team. When there are multiple agencies or one agency with multiple contractors involved in a specific area, there is often a lack of cooperation.

Single support with one donor taking a specific area is preferable as this becomes a form of ownership. The aid agency and contractor feel a sense of responsibility for success in that area. When TA support is divided among two or more agencies, they often play the ‘blame game’. Even worse, different donor countries often have different ideas about reform and provide conflicting advice. But realistically, single donor support in an area cannot always be achieved, because of limited country-specific aid budgets. It is worth noting that in several cases, TA provided by several donors in one area ended up with only one donor because of the problems alluded to here (e.g. both tax and customs administrations in Afghanistan and Timor Leste).

11. It is best to work within the existing civil service structure

The usual approach in these post-conflict situations with a dearth of trained staff is to provide top-ups and/or high salaries for local skilled staff. The supplemental salary approach is often counter-productive and rarely sustainable. An excellent example from Afghanistan is a comparison of the Budget Department (with UNDP financial support for local staff), and Treasury (mostly civil servants). Although the Treasury initially lagged behind the Budget Department in the quality of their work, as a result of providing intensive training and working within the civil service system it is now one of the strongest units in the Government. The Budget Department, in contrast, had fewer, if any, civil servants. Even last year; staff were under UNDP contracts or paid for under TA contracts. During a visit in 2009, it was clear to me this was not sustainable. The turnover rate was high, as the donor community would hire these people, and staff had little allegiance to the department. The Central Bank in Afghanistan followed a similar approach to the Treasury, with noticeably positive results.

While advocating the use of existing civil service structures, there are a few words of caution. In many cases salaries are too
low to attract qualified staff and the civil service system needs to recognise this. In many countries, differentiated salaries are not the norm and it is very difficult to cite successful civil service reform. Commonly, special programmes are introduced to pay higher salaries for qualified staff but seem to spread quickly throughout the whole civil service and the cost becomes prohibitive. This is what happened with the first civil service reform efforts in Afghanistan. Thus, some salary supplements may be needed in the period directly after the conflict but it is important that there is a well defined exit strategy that is well publicised right from its inception.

Possibly a more problematic impediment is that donors, the UN and other international agencies want competent staff and offer salaries for local staff that make it nearly impossible for the government to hire qualified personnel. This is a form of what economists call ‘Dutch disease’, where one sector raising the real wages of a country harms the competitiveness of the rest of the economy. An attempt was made by some international advisors in the MOF in Afghanistan to ask the aid and international agencies to limit the salaries of locally hired staff. However, this request was ignored. It is clear such practices undermine any attempt at meaningful civil service reform.

12. Keep revenue policy simple and practical

In post-conflict countries, with most of the infrastructure destroyed, emphasis needs to be placed on simple, feasible and practical approaches to revenue generation. The approach used in the countries discussed in this paper was tax at the borders and a few other easy-to-collect revenue sources. This does not just mean a tariff but rather that goods crossing the border were subject to customs duties and sales and excise taxes. Although a US-type sales tax is not generally efficient because of ‘cascading’ and since little production occurred in the initial post-conflict period, there was, in reality, little cascading. Furthermore, this was one way to tax internationals since they often accounted for a large amount of consumption. The second form of taxation was a tax on services such as restaurants and hotels. Again, these could be easily identified and were the places where internationals spent their money. Income taxes were generally avoided, especially ‘scheduler-type’ income taxes. A flat ‘withholding’ tax was tried in a few places, but with mixed success. The drawback was that government workers were the most feasible group to tax. But taxing the income of this group rarely improves the net position of government finances, and civil servants are generally at the lower end of the income scale.

Because there were no records or accounting systems in Kosovo, a Soviet-style ‘presumptive’ tax (based on square feet and type of establishment) was introduced, which made more sense than the alternatives. Income taxes (as well as a Goods and Services Tax (GST) and Value Added Tax (VAT)) were introduced, only once it was clear that records were being kept and that the tax administration had the ability to implement these. In some cases, taxation of natural resources or a key good should serve as a revenue source. This includes oil in Iraq, minerals and natural resources in Liberia, and oil and natural gas in Timor Leste. In Timor, in addition to taxation of oil, imports and services, a logical source of domestic revenue was taxation of income related to coffee production. However, this took place on small farms and the only feasible way to collect revenue was at the export stage. Although export taxes are generally considered a very inefficient revenue source, this tax was tantamount to a ‘production’ or income tax, since all coffee was exported.

Finally, success in revenue collection is significantly enhanced with the introduction of large taxpayer units. Success with this approach is for the same reasons as in all countries. The top ten percent of taxpayers account for around 90 percent of revenue. Furthermore, these taxpayers prefer dealing with trained and professional staff. Given the lack of trained staff in post-conflict countries, establishing a large taxpayer unit is possibly more essential than in other countries, and seems to have worked quite well.

From a medium-term and governance perspective, donors should support revenue generation, not just through TA but also by participating as taxpayers themselves. Otherwise it sends the wrong signal. In each of these post-conflict cases, donors and their contractors went to extreme lengths to avoid payment of any taxes. One very large donor country even has a clause that says any money received via taxation will result in a reduction in its contribution of double that amount. It is difficult to establish a revenue system when the groups spending the largest amount of money do not pay taxes as this undermines the credibility of revenue generation. Furthermore, if little money is obtained through domestic revenues and customs, little TA effort will be put into developing these systems.

Endnotes
1. See Public Finance Management in Fragile and Conflicted Settings, a draft background paper for the World Development Report 2011, prepared by Doug Porter, Matt Andrews and Clay Wescott. The paper provides its own assessments (largely drawing on PFA studies) but also cites a number of other analytical papers.
2. The term ‘country’ is used loosely in this paper: Timor Leste was still part of Indonesia at the time of the first few TA missions, and it is only recently that Kosovo has been officially recognised as an independent country.
3. In Kosovo and Timor Leste, the institutions that performed the relevant functions were not really ministries, since these were not countries. For example, the institution tasked with fiscal management was called the Central Fiscal Authority. Eventually the Central Fiscal Authority was converted into a Ministry of Finance.
4. The author had arrived in Kabul with a Terms of Reference to build a new system, expecting a situation similar to Kosovo and Timor Leste.
6. In Afghanistan, the UN set up a special Law and Order Trust Fund because the World Bank Trust Fund could not finance these activities. In contrast to the efficient workings of the World Bank Trust Fund, the UN Trust Fund was widely criticised, for a multitude of reasons: ‘Spending the Development Dollar Twice: The Local Economic Impact of Procurements in Afghanistan’, July 2009, a report by the UN’s Peace Dividend Trust.
8. But not all PFM reforms are applicable to other institutions. In Kosovo, for example, the Governor of the Central Bank approached me about using the Governor’s computerised financial management system for their accounting needs. Of course this was illegal since a Global Financial Management System (GFMS) does not meet the requirements of a central bank.

The views expressed in this paper are those of the author and do not necessarily represent the official policies or views of ODI, IMF or DFID.

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