



Challenges in Financial Management with Decentralization

Post-Conflict Countries: Rwanda
and Sierra Leone



Background

- Rwanda (population 8.2 million)
 - Civil war, genocide, 1990/94
 - 1 million killed, 3 million migrated, 107,000 imprisoned.
 - Professionals/skilled singled out for killing. Many emigrated
 - HIV/AIDs affects 1 in 7 aged 15-49
 - Lusaka peace accord implemented 2001
- Sierra Leone (population 5 million)
 - Ten year civil war starting in 1991
 - Millions displaced internally/migrated; human capital flight
 - In 2004 at bottom of UNDP Human Development Index
 - Lome peace accord, 1999. UNAMSIL entry



Remedying Conflict Causes by Decentralization

- Sierra Leone
 - Population previously deprived of services outside Freetown, excluded from political process. LG abolished.
 - May 2004 local elections established 19 councils.
 - Decentralization is devolution. Primary education and health, feeder road maintenance devolved in January 2005.
 - LG priorities clean water and better roads: classic local public goods
- Rwanda
 - Local administrations previously appointed. Centralization seen as a cause of the Genocide by the National Unity and Reconciliation Commission.
 - Creation of 107 local governments. Elections in March 2001.
 - Devolution/local governments, deconcentration/11 provinces



Difference between Post-Conflict, Low Capacity Countries

- Post-conflict countries may have had more skilled professionals than low-capacity countries.
- Being mobile because of marketable skills, many professionals fled the conflicts and the countries.
- But many skilled emigres return home when order is restored and assured



Public Financial Management Capabilities

- Heavily Indebted Poor Countries Initiative Assessment and Action Plans provide a checklist.
- In 2004, Rwanda and Sierra Leone satisfied 9 of 16 HIPC budget benchmarks:
 - Preparation: Sierra Leone satisfied 6 of 7; Rwanda 5 of 7
 - Execution: both satisfied 1 of 4 benchmarks.
 - Reporting: Rwanda satisfied 3 of 4 benchmarks; Sierra Leone 2 out of 4.
 - Both countries were judged to have inadequate procurement systems.



Principal Budgetary Preparation Problems:

- Treatment of donor funds inadequate in both countries' budgets. Aid provides
 - 49% of budget in Sierra Leone, 55% in Rwanda.
 - 88% of Rwanda's development budget, basically all of Sierra Leone's
- MTEFS are implemented in Rwanda but beyond most Sierra Leone ministries.
- Development budgets in both countries have the most variability and least credibility.
- Plans to integrate recurrent and development budgets have low priority.



Budget Execution

- Both countries met only 1 of 4 HIPC budget execution benchmarks. They
 - have problems with arrears in payments,
 - lack an effective internal control system,
 - and cannot confirm the quality of fiscal data by reconciling bank accounts with accounting records.
- Public Expenditure Tracking Surveys show compliance with budget execution guidelines and PFM capacity. Both countries use PETS; Sierra Leone more effectively.



Accountability and Oversight

- The supreme state audit office assures financial accountability by external audit.
- Office of the Auditor General (OAG) is a new creation in Rwanda and reports to Parliament, whereas its predecessor reported to the Executive.
- In Sierra Leone, powers of both the OAG and the Public Accounts Committee were emasculated in the conflict but have been restored and strengthened.
- LGs should publish budgets and meeting minutes, follow basic procurement rules, make meetings public.



Issues Arising from Aid

- Aid obviously generous, but qualifies independence
 - Alexander Hamilton
- Hinder integration of capital and recurrent budgets
- Instability in financing flows
 - cash budgeting in Rwanda
- Transactions costs
 - 240 missions in Rwanda in 2004
 - 60-70 accountability measures in 2003 (Brooke)
 - reduce time for routine bureaucratic duties; lead to reform fatigue



Tackling Aid Issues

- Reduce donor duplication:
 - harmonize reporting requirements : HIPC, PEFA
 - reduce document confidentiality
- Make more aid available as general budget support
- Example is *Partnership Framework for Harmonization and Alignment of Budget Support*, Rwanda, 2003



Developing Local Government

- Financial Management
 - augment capacity by training
 - create financial management cadres
 - reform civil service pay scales
 - contract out tasks
- Seek alternatives for service provision
 - special purpose districts
 - local government cooperative arrangements
 - contract out to the private sector, NGOs and other levels of government



Transfers to Local Governments

- Use conditional transfers to preserve national interests, avoid central micromanagement of functions
- Use unconditional transfer-equalization- so local governments can supply essential services with the same local tax effort



Sequencing of FM Initiatives

- Need a prioritized plan (as in Sierra Leone) for best use of aid, limited domestic capacity.
- Get basics in FM and accountability right first. Both countries now meet only 9 out of 16 HIPC benchmarks.
- Consider introducing more advanced techniques such as multiyear planning, performance budgeting with caution:
 - Both techniques are only now being introduced in the Bank!
 - Rwanda has MTEFs but they are beyond most Sierra Leone ministries.
 - PB requires substantial investments in change management.
- Use caution in introducing IFMIS.
 - 60% failure rate in US public agency reform initiatives of “rather simple” ICT.
 - Sierra Leone dropped a bespoke IFMIS for the pre-packaged Freebalance system.