

Public Financial Management at the Sub-National Level in Sub-Saharan Africa

Public Financial Management (PFM) has in recent year become one of the key reform areas in developing countries in sub-Sahara Africa. PFM systems are crucial for improving service delivery across all sectors as well as to promote principles of good governance. Across Africa, governments are engaged in reforming their public sectors with the aim of improving efficiency and effectiveness across all stages of the budget cycle – revenue generation, budget planning, execution, reporting and external control. From the 1980s onwards, driven in part by the theoretical concept of subsidiarity and a political paradigm of strengthening the role of the private sector at the expense of the state, there has been a parallel drive for decentralization which today is high on the agenda amongst governments in SSA and development policy-makers again. In exploring the issue of PFM at the sub-national level in SSA, this paper aims to connect these two strains of development policy that so far have had little interaction. Policy debates to date have been insensitive to the interconnection and linkages between these two concurring developments.

Against this background, there is a strong and growing interest amongst development practitioners in the issue of PFM at the Sub-National Level. Within the most widely used framework on a global scale for assessing PFM quality - the Public Expenditure and Financial Accountability (PEFA) instrument - assessments carried out at the sub-national level are the fastest growing segment. Initially developed in 2005 as an assessment tool for PFM at the central level, already 35 assessments of sub-national governments across 12 countries have been conducted, are being planned or currently ongoing to date, including for the first time also some repeat assessments. While the evidence base is still too narrow to identify general trends and characteristics of PFM quality at the sub-national level, it suffices for some initial observations. In addition, the case of Rwanda will serve as a case in point.

To an extent, the obstacles that PFM reform programs face in many SSA countries at the central level seem to be aggravated when being implemented at the sub-national tiers of government, in particular through capacity issues and high staff turnover. Conflicting interests between central and local governments in most African countries are identified as another specific challenge. PFM at the sub-national level essentially operates between two objectives. First, arguably the major thrust of PFM reforms in SSA has been the goal of strengthening central functions and central control such as budget planning and financial control. At the same time, a demand is frequently placed on governments to devolve political powers, administrative responsibilities and fiscal space to move service delivery “closer to the people”, as well as the sub-national level being regarded as the “school of democracy”. Decentralization pertains to three distinct, yet interconnected spaces: the administrative, political and fiscal realms (fiscal space). Traditionally, PFM has by and large been perceived as a technical or administrative issue; however it is becoming more evident that PFM also constitutes a core dimension of governance, and thus has clear political linkages and implications as well (see Klingebiel/Mahn 2011). The capacity to perform in the area of public financial management is also crucial for fiscal decentralization. Without a sufficient PFM level, a necessary precondition for fiscal decentralization reforms is missing or rather unlikely to sustain. The existing analytical evidence also offers some insights on weaknesses and strengths of donor support in the area of sub-national PFM. Donor funding to sub-national level is often seen as a way of “bypassing” central governments, and delivering benefits directly to the people. Depending on existing national mechanisms for fiscal transfer from the central to the sub-national level, however, this can have potentially distorting and negative effects on local incentive structures.

The ongoing trend of decentralizing responsibilities to the sub-national level in many countries in SSA is likely to continue in the near future. In order to achieve its objectives, it will be crucial that this transfer of responsibilities will be matched with equal efforts to increase PFM capacity at the sub-national level.

Unlike in the common case at the central level, the processes of assuming responsibilities and building PFM capacity at the sub-national level often take place in parallel and frequently at uneven paces.