

Promoting Public Financial Management Reform through Direct Budgetary Support in Post-Conflict Societies: An Analysis of DfID's Budgetary Support Operations in Sierra Leone

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Donors have now adopted the practice of providing financial support directly to the national budgets of countries designated as meriting such support. These flows of funds in the form of General Budgetary Support (GBS) are said to permit a substantial increase in public spending and also reduce costs of financing the budget by reducing the need for within year treasury operations to meet cash flow requirements. Budget support also engenders both 'endogenous' and 'exogenous' policy and institutional effects. Endogenous effects might arise from the increased use of the national budgetary process as opposed to the use of other aid modalities which are often off-budget. Exogenous effects will result from the 'new' external influence which is exerted through GBS arrangements such as the process of policy dialogue with development partners, from the budget support disbursement conditionalities and from the external capacity building support which might be provided. The combination of policy dialogue, disbursement conditions and capacity building which have been focused on improving PFM systems in recipient countries have yielded results in the form of an intense implementation of PFM reforms

The United Kingdom's Department for International Development is one of such donors that have been using budget support to trigger public financial reforms in recipient countries such as Sierra Leone. DfID commenced General Budget Support to Sierra Leone in 2001/02 with £30 million pledged for the period between 2001/02 – 2003/04. Since then DfID has been providing on average £10 million annual baseline and an additional £5 million performance tranche assessed against progress in set benchmarks.

This paper critically examines the use of budgetary support by DfID to promote policy and institutional reforms particularly in the area of public financial management. The paper argues that used judiciously and with Sierra Leone's institutional context in mind GBS has the potential to influence positive policy outcomes/reforms in Sierra Leone. There is enough evidence to suggest that GBS has triggered systemic changes in public financial management in the Sierra Leone public service. For instance DfID's benchmarks on auditing, which lead to the suspension of budget support just before the elections, had a significant impact on the political economy of Sierra Leone in 2007. GBS has promoted reforms in areas such as public procurement, decentralization, Integrated Financial Management Information Systems, the publication of public accounts, the parliamentary process on the annual Auditor General's report and the revision of PFM acts and regulations.

There are however some critical issues that have emerged in DfID's use of GBS to promote policy and institutional reforms. These include the unpredictability of the flow of funds, the practice of changing conditions midstream, late disbursement of funds and its attendant effect on in-year macro-fiscal aggregates, the tendency to focus less on capacity building and sustainability of the reforms

and alignment with other donors in terms of reporting formats and requirements.