USAID PUBLIC FINANCIAL MANAGEMENT PRIMER

BUREAU FOR DEMOCRACY, DEVELOPMENT, AND INNOVATION
DEMOCRACY, HUMAN RIGHTS, AND GOVERNANCE CENTER
GOVERNANCE TEAM

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PREFACE

Over the past two decades, USAID has worked on Public Financial Management (PFM) reform and system strengthening in more than 60 countries. USAID advances PFM reform in recognition of the role that strong domestic revenue mobilization (DRM) and public expenditure planning and management systems play in delivering democratic development. USAID’s investments in PFM have yielded significant dividends. For example, a comprehensive PFM program in Georgia from 2005 to 2010 resulted in an increase in tax revenues from 18 percent of GDP in 2004 to 25.8 percent in 2010 — enabling the government to more than triple spending on health and education on a per capita basis.

Time and again, USAID has seen how the sustainability of sectoral results in important areas such as health, education, and water and sanitation rely on the ability of partner government systems to raise and manage the finances required for the partner government to gradually assume responsibility for service delivery. For example, in Tanzania USAID worked with the government to develop a customized local government integrated financial management system that was rolled out to 185 local governments and 24,000 schools and health facilities. It significantly improved efficiency, leading to a 48 percent cost savings (reduced transport, per diem and printing costs) and 31 percent time savings for budget preparation — resources that can be used for service delivery.

PFM is also an essential element of USAID’s approach to democracy promotion. Good PFM provides democratic regimes with the resources needed to deliver the services that citizens care about, thereby strengthening the social contract. Effective PFM enhances the checks and balances between branches of government. For example, research conducted on USAID’s work in Ghana has shown that central government audits of subnational governments reduced the incidence of partisan manipulation of public resources by politicians. Good PFM also helps reduce opportunities for corruption and better detects corruption when it occurs, thus mitigating one of the most damaging forces to democratic resilience.

This PFM Primer is a foundational tool for USAID staff working in all sectors and contexts, whether they are engaging on PFM issues for the first time or simply refreshing their knowledge. It sets out the major functions of the PFM system in a straightforward manner, while providing practical recommendations for programming. With the USAID Guide to PFM (2022) and the DRG Center’s other technical guidance on good governance, it enables all USAID staff to understand the critical role that PFM plays in their work.
1. INTRODUCTION

1.1 THE PUBLIC FINANCIAL MANAGEMENT (PFM) PRIMER

The Public Financial Management (PFM) Primer is an introductory guide for USAID field officers on the basic concepts and components of the PFM system. Strong PFM systems are critical for the effective, transparent, and accountable use of public funds. It is recommended that the Primer be used as a desk reference on the general parameters of good practices in each PFM subject area. This Primer is based on the USAID Guide to PFM (2022), which is a helpful reference when more detailed information might be required. Annex 1 provides a glossary of terms.

1.2 WHAT IS PUBLIC FINANCIAL MANAGEMENT?

PFM refers to the set of laws, regulations, systems, and processes used by national (and subnational) governments to mobilize government revenue, allocate public funds, undertake public spending, and account for and report on the use of those funds. In other words, a PFM system includes all the components of a country’s fiscal situation and budget process — upstream (strategic planning, medium term expenditure frameworks, annual budgeting) and downstream (revenue management, budget execution, control, accounting, reporting, monitoring and evaluation, audit and oversight).

There are three primary objectives for public financial management:

1. Fiscal discipline, or the ability to control budget totals by setting ceilings on expenditures that are binding at both the aggregate level and on individual ministries, departments, and agencies (MDAs—also commonly referred to as spending units).

2. Allocative efficiency, or the ability of the government to allocate budget resources in accordance with established government priorities defined in strategic planning documents and principles of program, fiscal and operational efficiency.

3. Operational (or technical) efficiency, is the ability of the government to deliver good value for money for the public (lowest cost per unit while maintaining desired service quality levels).

A sound PFM system that aims to achieve the above three objectives is an essential (but not sufficient) component of good governance and is vital for the achievement of public policy objectives. Without a robust PFM system, governance will be unsustainable and service delivery will be compromised.

To be effective, each of these forms of decentralization should align revenue assignment and transfers from the central government with service delivery responsibility so that decentralized service delivery functions are adequately funded.

Exhibit 1, on the next page, describes how PFM links to service delivery across the sectors at both the national and subnational levels.

1.3 STRUCTURE OF THE PFM PRIMER

The remaining sections of the PFM Primer will explain each of the major components of the PFM system in turn, followed by sections that explore cross cutting elements related to subnational PFM and the
design of PFM reforms. The sections of the PFM Primer include: (1) Budget Planning and Preparation; (2) Budget Execution; (3) Revenue; (4) Treasury Operations and Cash Management; (5) Public Sector Accounting and Reporting; (6) Audit, Controls and Evaluation; (7) Subnational PFM; and (8) Designing and Sequencing PFM Reforms. Annex 1 to this Primer provides glossary of terms. For more detailed guidance on the full range of PFM topics, including a rich resource library, please reference the USAID Guide to PFM (2022).

Exhibit 1: Cross-Sectoral Linkages of PFM and Service Delivery

The public budget is the means through which a government can mobilize resources to achieve its goals to improve health, expand education, increase access to clean water, and improve the road network, among others. Translating public resources into service delivery improvements, however, is not automatic. It requires raising sufficient revenues to fund the budget, allocating those revenues to the strategic priorities, and implementing the budget efficiently and effectively. The United Nations Sustainable Development Hub estimated in 2023 that low income countries will need to mobilize an additional 8.3 percent of GDP annually to reach and sustain the education and health Sustainable Development Goals (SDGs) by 2030. Similarly, an additional 7.1 percent of GDP annually would be required to finance the roads, electricity and water sanitation SDGs by 2030.

To translate additional resources into service delivery improvements, countries must also improve their budget implementation and oversight systems to make sure resources are spent as planned, without loss to corruption, and maximizing impacts. USAID’s programming has worked both to improve PFM systems overall and within sectors. For example, under a two-year program working with the Ministry of Health in Uganda to improve public expenditure management, USAID helped to boost the proportion of the budget the Ministry of Health spends from just 79.9 percent of released funds in FY2015/16 to 97.0 percent in FY2017/18, resulting in an estimated increase of $17.4 million in health spending between 2016/17 and 2020/21.

2. BUDGET PLANNING AND PREPARATION

Budget planning and preparation is the process by which a government develops, approves, and enacts a budget. The budget contains the government’s annual financial plan and articulates how the government will pay for its programs and ongoing operations. To be meaningful, a good budget should not simply list planned expenditures; rather it should describe how the government will generate the needed funds, serve its citizens, and support national and MDA priorities and objectives through its expenditures. The budget should describe the government’s plan to move towards the country’s long-term vision within the current year and should aggregate the plans and priorities across government.

Exhibit 2 shows the budget planning and preparation process and stakeholder involvement. The process begins with preparing the macro-fiscal framework that forecasts major economic parameters such as inflation, economic growth, and public revenues and establishes the resource envelope. Using these forecasts, the Ministry of Finance (MOF) or other designated agency1 communicates the respective budget ceilings to MDAs, who develop draft budgets within these funding constraints. The draft MDA budgets are finalized through an iterative negotiation process between the MDA and the MOF. The draft

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1 While certain countries may assign responsibility for coordinating the budget preparation process to a separate Ministry of Budget or other agency, Ministry of Finance will be used throughout for simplicity.
MDA budgets are consolidated into a draft government-wide budget for submission to the legislature, which reviews, amends (as needed), and approves the final budget.

**Exhibit 2: Budget Planning and Preparation Process**

2.1 LEGISLATIVE FRAMEWORK

An appropriate legal framework is the foundation of a well performing budget process. In most countries, the legal framework for budgeting draws on several sources, usually including the country’s constitution, a specialized PFM law, and implementing regulations and guidelines. Legislation should include provisions requiring preparation of an annual budget, guidelines for implementing a centralized budgeting process, identification of the agency responsible for producing a consolidated draft budget, and what to do in the event of a lapse in appropriations without a new budget in place. The Organization for Economic Cooperation and Development (OECD) recommends that laws should delineate responsibilities and issues of separation of government powers; executive regulations should detail budget preparation processes; and parliamentary regulations should define budget enactment or appropriation processes.

2.2 BUDGET PLANNING PROCESS

The national development plan, sector strategic plans, and macro-fiscal framework are inputs that help a government produce a budget that reflects economic and fiscal realities along with strategic priorities.

**Exhibit 3: Inputs to the budget process**

<table>
<thead>
<tr>
<th>INPUT</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>National development plan</td>
<td>Identifies long-term vision of the country and government, usually ten years or more, and the priorities, policies, and investments needed to progress toward the vision. Ideally, the plans and priorities of all government MDAs should be aligned with national ones and contribute to achieving the national vision.</td>
</tr>
<tr>
<td>INPUT</td>
<td>DESCRIPTION</td>
</tr>
<tr>
<td>-------</td>
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</tr>
<tr>
<td>Macroeconomic framework</td>
<td>Estimates projections of key economic variables, such as GDP (and components, i.e., consumption and investment), inflation, exports, imports, exchange rates, and oil prices.</td>
</tr>
<tr>
<td>Fiscal framework</td>
<td>Draws on the macroeconomic framework to estimate revenue and expenditure over the medium-term and the fiscal position (deficit, balance or surplus), fiscal sustainability, and fiscal vulnerability for a three-to-five-year span.</td>
</tr>
<tr>
<td>Medium-term expenditure framework (MTEF)</td>
<td>Uses the macro-fiscal framework and the national development plan to estimate a fiscal outlook for a 3-to-5-year period and that is updated annually. It connects available resources and the strategic priorities of the government through budget ceilings for MDAs. Although the MTEF estimates funding amounts, it does not authorize the government to spend money; the annual appropriations (budget) law provides that authorization.</td>
</tr>
<tr>
<td>National development plan</td>
<td>Identifies long-term vision of the country and government, usually ten years or more, and the priorities, policies, and investments needed to progress toward the vision. Ideally, the plans and priorities of all government MDAs should be aligned with national ones and contribute to achieving the national vision.</td>
</tr>
</tbody>
</table>

The government’s macroeconomic forecasts, fiscal framework and MTEF, together with the underlying assumptions, should be included in budget documentation submitted to the legislature. They should also be made public once they are finalized and whenever they are updated. This allows stakeholders and citizens to have information about the government’s assumptions, projections, and plans.

### 2.3 BUDGET PREPARATION PROCESS

The purpose of the budget preparation process is to compile the detailed funding needs of government agencies and seek legislative action to set aside the funds for future MDA spending in a fiscal year. The budget preparation process includes the following steps:

1. Dissemination of a budget circular, which includes instructions for the preparation of sector budgets and expenditure ceilings based on the MTEF by sector;
2. Preparation of budget submissions by MDAs in accordance with the budget instructions and within the expenditure ceilings set by the set by the MTEF, often with stakeholder inputs;
3. Submission of draft budgets by the MDAs. often utilizing an automated system;
4. Negotiations between the MDAs and the MOF and, ideally, sectoral working groups to reconcile MDA requests and expenditures ceilings defined in the MTEF and budget circular;
5. Compilation of the budget, either before or after final legislative approval;
6. Submission of the draft budget to the legislature; and
7. Legislative approval and amendment (if necessary) of the budget.

#### 2.3.1 BUDGET CIRCULAR

The budget circular is a set of guidelines issued to MDAs to develop their requests for future funding. The MOF should issue the budget circular early to allow time for MDAs to prepare their budgets and for MOF to compile the budget for the legislature. The budget circular will typically describe:

- The government’s priorities;
- The laws and policies that govern the budget preparation process;
The responsibilities of various agencies involved in the process;

- The MDAs that should submit a budget request;
- Resource envelopes for MDAs
- Requirements for public consultation or civil society engagement or inputs;
- The information that should be in an MDA's request for funding;
- The format for budget preparation;
- The means through which it should be submitted;
- How expenditures should be estimated;
- The types of justification that should be provided; and
- The timing of key dates in the budget process.

After issuing the budget circular, the MOF should begin its discussions with MDAs on budget issues, and MDAs prepare and submit their budget requests following the budget circular guidelines. The budget circular should be issued early to allow sufficient time for individual MDAs to plan, prepare, and consult; as well as for the central budget authority to compile the budget for the legislature. After initial MOF or government decisions on budget requests have been made, MDAs may be allowed to appeal the decisions and engage in negotiations with the central budget authority.

### 2.3.2 BUDGET PREPARATION METHODOLOGIES

While all countries prepare a budget, the format and approach can differ. Usually, the budgeting approach depends on the highest priority budget objective, and the capacity of the MOF and MDA budgeting staff. Exhibits 4 and 5 show several different budget approaches. These can be utilized in conjunction with one another (for example, performance information is often attached to programs/activities).

The budget formulation approaches outlined in Exhibit 4 and Exhibit 5 reflect advancing levels of complexity with each serving as a building block for the successive level. Line-item budgeting provides the platform for all other budget approaches. Program and performance budgets are still developed through a line-item budget, but crosscutting information is presented for programs, rather than MDAs or their sub-units to better align costs with service delivery functions. Performance budgeting goes further than program budgeting by estimating the results that can be achieved by each program and the funds expended.

There are also several methods MDAs use to develop their budget estimates. Most countries do not rely purely on one approach for estimating their budget but tend to mix estimation techniques based on the category of expenditure. Conventional, or incremental budgeting takes the current year's budget as a baseline and adjusts that amount for factors such as inflation, or planned increases in service level or quality and tends to perpetuate the current level of funding. By contrast, the zero-based approach requires all MDAs to justify the entire level of funding based upon what is needed for the upcoming fiscal year, regardless of whether the budget is higher or lower than prior allotments. Activity-based budgeting allows the MDA to build up the costs of undertaking the various activities or services it provides, identify the cost drivers and cost per unit of delivering those services, and scale up or down their budget based on those cost drivers. Zero-based budgeting and activity-based budgeting are resource intensive and rarely used in isolation but may be used in concert with other approaches. Costing for personnel
may require a separate but complementary approach driven by the number of approved positions and the related salary and benefit costs per position.
### Exhibit 4: Comparison of Budget Formulation Approaches

<table>
<thead>
<tr>
<th>TYPE</th>
<th>PURPOSE</th>
<th>CHARACTERISTIC</th>
<th>SUCCESS FACTORS</th>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line Item</td>
<td>• Spend according to plan&lt;br&gt;• Low misappropriation risk&lt;br&gt;• Promote financial accountability</td>
<td>Focus on prior year allocation as starting point</td>
<td>Low staff time and expertise</td>
<td>Works well when time is short and multiple stakeholders and a high potential for conflict</td>
<td>Not well-suited for improving efficiency or effectiveness. Discourage major changes (i.e., to adapt to emerging needs)</td>
</tr>
<tr>
<td>Program</td>
<td>• Ensure that programs are achieving goals and objectives&lt;br&gt;• Promote accountability</td>
<td>Focus on plans, goals, and objectives</td>
<td>Requires resources to develop plans, goals, and objectives</td>
<td>Clearly links program activities, allocations, and government priorities</td>
<td>Expensive and may cause conflict between MDAs. May require updates to financial management information systems to facilitate.</td>
</tr>
<tr>
<td>Performance</td>
<td>• Ensure that programs are effective (generating results) and efficient (least-cost)</td>
<td>Performance metrics to determine efficiency and effectiveness</td>
<td>Requires resources to develop reliable metrics and time to develop the skills and systems to collect and maintain data</td>
<td>Provides a way to document accomplishments, and link results to resources</td>
<td>Time-consuming and expensive; potential for resistance because of fear that performance measures will lead to reduced funding. Creates incentives for distorted performance reporting.</td>
</tr>
</tbody>
</table>

### Exhibit 5: Comparison of Budget Preparation Approaches

<table>
<thead>
<tr>
<th>TYPE</th>
<th>PURPOSE</th>
<th>CHARACTERISTIC</th>
<th>SUCCESS FACTORS</th>
<th>ADVANTAGES</th>
<th>DISADVANTAGES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental</td>
<td>• Enables a simple way to adjust an MDA’s budget year to year</td>
<td>Uses last year’s allocations or spending as the baseline</td>
<td>Low effort required to prepare budget; requires accuracy of last year’s allocation and stability in priorities year to year</td>
<td>Works well when cost information is not well known, and when time or skilled staff are scarce</td>
<td>Not well suited to linking the budget to strategic priorities or identifying opportunities for cost savings.</td>
</tr>
<tr>
<td>Zero-Based</td>
<td>• Year to year funding of programs&lt;br&gt;• Focus on priorities and detailed input projections</td>
<td>Annual evaluation of ongoing programs</td>
<td>High staff time and expertise required to assess all programs annually and justify decisions</td>
<td>Enables activities to be evaluated annually and reallocation of resources</td>
<td>High resource requirement and difficult to achieve comparability across organizational units</td>
</tr>
<tr>
<td>Activity-Based</td>
<td>• Identifies the cost drivers and unit costs of major services by MDA</td>
<td>Links budget to service delivery levels</td>
<td>Requires good understanding of all costs of service delivery</td>
<td>Links strategy and budget; complements program- or performance budgets.</td>
<td>If used in isolation, may neglect a MDAs fixed operating costs.</td>
</tr>
</tbody>
</table>
2.3.3 CAPITAL BUDGET AND PUBLIC INVESTMENT PROGRAMS

Capital expenditures are investments to acquire, construct, or repair assets with an expected life of greater than one year, including land, buildings, facilities, equipment, vehicles, and other infrastructure. Capital investments require budget planners to exercise particular care because they are costly, complex, and subject to cost overruns. They also may have environmental or social impacts that should be considered. Further, they require more complex financing – including multiyear commitments and in many cases bond issuance. Finally, capital budgets often have implications for recurrent costs or operating expenses. A public investment program (PIP) can help guide capital investment decisions and implementation for better planning and execution over a three-to-five-year (or longer) period. A PIP can also help leverage and manage donor and private sector financing, as well as set priorities for future projects and tracking costs of multi-year capital projects. The PIP should estimate the recurrent costs for operation, maintenance, and replacement of capital assets and the government’s ability to fund them.

2.3.4 SUPPLEMENTARY BUDGET

A supplementary budget is the outcome of a formal process to approve changes to an enacted budget, including the appropriation of additional funds. In some countries, MDAs may be allowed to make small transfers between budget lines (e.g., up to 10 percent) by “virement” through a notification to or approval by MOF. MOF typically issues formal guidance on how to request supplementary funding and/or changes to an MDA budget, as well as the calendar for development, submission, negotiation, and consolidation of these requests.

2.3.5 TRANSPARENCY

A transparent budget is open and accessible for the public with sufficient detail and clarity to enable the government to be held accountable for services. A transparent budget allows the government to engage stakeholders in budget implementation, in turn, helping ensure that policy objectives are achieved.

Government priorities, economic/fiscal outlooks, and assumptions should be presented towards the beginning of the budget process. Budgets should be comprehensive, including all government MDAs and should be provided to the legislature to review with sufficient time and information. It should include a medium-term perspective with deviations from previous forecasts explained and distinguish between mandatory programs and discretionary spending. In the case of performance or program budgeting, it should also describe progress toward the achievement of key performance indicator targets.

In the middle of the fiscal year, the government should review performance against the budget plan, and prepare a midyear budget report that presents the same information as above, as well as the impact of changes in economic assumptions, legislative changes, and technical changes.

At least once every five years, the government should analyze the long-term sustainability of current policies and should publish this information. Accounting policies should be summarized and presented and should be used for all reports. Each report should contain a statement of responsibility by the senior official responsible for producing the report.
2.3.6 SPECIAL AND CROSS-CUTTING ISSUES IN BUDGET PREPARATION

Budgeting systems have adopted and adapted approaches to address special needs that have historically been overlooked during budget planning and preparation. This may include special consideration for the needs of women and socially excluded groups, use of grassroots participatory budgeting techniques, or consideration of the climate implications of budget decisions in Exhibit 6 below.

Exhibit 6: Gender, Participation, and Climate in Budget Preparation

<table>
<thead>
<tr>
<th>APPROACH</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender- Responsive Budgeting</td>
<td>Uses an intersectional gender lens to consider the different experiences of women, men, and gender-diverse groups and the impact of government revenue and expenditures on women and men, boys and girls, and gender-diverse groups. It requires line ministries to consider and budget for measures that enhance gender equity in access to services.</td>
</tr>
<tr>
<td>Participatory Budgeting</td>
<td>A process which directly involves local people in discussing spending priorities, making spending proposals and voting on them, as well as giving local people a role in the scrutiny and monitoring of the process.</td>
</tr>
<tr>
<td>Climate Adaptive or “Green” Budgeting</td>
<td>Analysis of revenue mobilization and spending decisions with respect to how they impact climate risks and contribute to climate goals.</td>
</tr>
</tbody>
</table>

A more detailed discussion of budget planning and preparation is available in Chapter III of the USAID Guide to PFM (2022).

3. BUDGET EXECUTION

Budgets are only well-intentioned plans without the resources and systems for implementation. Budget execution is the set of processes through which goods, services, and infrastructure are procured to achieve the programmatic objectives outlined in strategic planning documents and the annual budget.

3.1 BUDGET AUTHORIZATION AND APPORTIONMENT

Once an annual budget is approved by the legislature, the MOF will authorize MDAs to begin executing their budgets. The MOF typically apportions an MDA’s budget into monthly or quarterly allocations (i.e., warrant releases, allotments). To prepare the apportionment, the MOF generally requires MDAs to develop spending plans that project their cash needs for the year by month and/or quarter. This process also helps the MOF manage its cash flow and plan for short-term borrowing by comparing projected revenue plans against consolidated spending plans. The spending plans also allow budget officers within the MOF and MDA to monitor spending patterns and identify over- or under-spending since an MDA usually cannot carry forward unspent funds to the next fiscal year. This also allows the Government to introduce some measure of commitment controls (see below) such as the total value of contracts signed to warrants/allotments/apportionments.
3.2 PROCUREMENT, CONTRACT MANAGEMENT AND PAYMENT

Procurement is the use of public funds to purchase goods and services during budget execution. To achieve value for money, public procurement and expenditure systems should be based on open competition, transparency, and accountability while minimizing fraud, waste, and corruption.

Procurement systems vary by country, with some being more centralized and others more decentralized. In a centralized procurement system, one entity is responsible for obtaining goods and services for all central government MDAs and, in some cases, subnational government units. The benefits of centralized procurement include scale efficiencies in purchasing and administration, and ability to maintain centralized control. The downsides relate to the need for more advanced planning and difficulty in standardizing some products across government. In a decentralized procurement system, MDAs procure their own goods and services. The benefits of a decentralized system include flexibility and ability to place orders quickly, while the negative aspects include lack of economies of scale and the weaker ability to exert central control.

MDAs should prepare procurement plans in line with their spending plans. This allows procurements to proceed in an orderly basis. Major procurements generally follow a six-step process:

- **Requisition Request.** A user department completes a requisition form and submits it to the procurement unit. The form should state the specifications of the goods or services and the quantity required. The level of approval required for the request generally varies based on the monetary value of the request.

- **Bid Solicitation.** Based on the requisition request and regulatory requirements, the procurement unit determines the type of procurement method to use. Typically, procurement regulations dictate that larger bids must use open competition, while smaller procurements may proceed based on a direct request for quotations from a few companies or shopping.

- **Bid Evaluation.** A Tender Committee evaluates bids based on the tender specifications and evaluation method (e.g., lowest cost technically acceptable, quality and cost scoring, quality-based selection, and sole source selection). The Committee should document the evaluation process and scores. Bidders should be notified of outcomes and unsuccessful bidders should be able to seek appropriate appeals.

- **Contract Negotiation and Signature.** The procurement unit negotiates contract terms with the first-choice bidder, often using a standard contract that stipulates payment terms and other standard clauses but may negotiate on specific issues such as delivery dates.

- **Contract Management.** The user department oversees the vendor’s work through periodic reviews and monitoring of compliance with contractual deadlines and quality specifications.

- **Verification.** After the goods and services have been received, the user department and procurement staff must verify receipt or completion according to the contract specifications.

After all goods or services under the contract have been received and payments made, the procurement unit should close out a contract. This involves ensuring the procurement file is complete and up to date.
3.3 COMMITMENT OF FUNDS AND COMMITMENT CONTROLS

Procurement processes are implemented in parallel to accounting functions that track an expenditure against an approved budget line, and ensure the expenditure is approved by the appropriate manager. A commitment generally arises when a purchase order is made or a contract is signed, though this may vary slightly based on the accounting standards used. Controlling the ability to issue purchase orders or sign contracts helps avoid the accumulation of arrears and situations where the government incurs expenses not included in the budget. Many countries introduce a “reservation” phase when anticipated commitments are recorded, even before a legal commitment is made.

The MDA should designate specific senior officers (e.g., department heads) who can authorize the purchase of goods and services based on the approved budget. These controls are more effective when automated within a computerized Financial Management Information System (FMIS) (see Section 6.3), and when there are consequences for noncompliance. Commitment controls may be centralized in MOF or decentralized to MDAs, depending on the institutional and operational arrangements of the country.

Governments should typically track an uncommitted balance of funds (i.e., the portion of the appropriation or allotment not tied up with commitments), in order to ensure an MDA does not exceed its budget authority or cash plan. Prior commitments, like multi-annual contracts, or ongoing arrangements, such as wages, can be offset automatically against the appropriation/allotment.

3.4 PAYMENT PROCEDURES

After verification, an invoice can be processed for payment. For more centralized payment systems, MDAs initiate purchase orders and conduct verification, but payment is made by the MOF or Treasury. In a decentralized payment system, MDAs pay vendors directly. The MDA prepares the payment request form with supporting documentation (e.g., invoice, proof of delivery, purchase order) and submits it to the payments department in the MOF or the MDA’s finance department. The relevant department first confirms that budget funds are available (usually through the FMIS), then approves and issues the payment. Best practice is for payment to be made by electronic transfer to reduce risk, provide an audit trail, and eliminate the need for the vendor or MDA to pick up the check at the MOF.

3.5 ASSET MANAGEMENT AND INVENTORY

After goods are procured and their receipt is verified, the MDA’s must record non-expendable property in a fixed asset register (FAR) and label items with a permanent ID tag linked to the FAR. A FAR is usually maintained by an MDA’s asset management or finance department. In some countries, the FAR is integrated in the FMIS, which allows greater control. FAR can help prevent theft and/or the misappropriation of assets. It can also track the value of assets and help calculate depreciation. Depreciation is an important component of annual financial statements when using accrual accounting (see Section 6 on Public Sector Accounting) and allows MDAs to better understand their financial position and future obligations for replacing assets. Annual audits of the FAR help ensure items currently owned are cataloged, correctly valued, can be located, and are operable.

3.6 PAYROLL

Payroll is often the government’s largest expenditure category. Government payroll should be based on a personnel database that is verifiable against the list of approved positions for the budget (i.e., the establishment list). These two databases are not always directly linked or updated to reflect new hires,
terminations, retirements, and transfers. This can result in so-called “ghost employees” who have left the institution or are perpetually absent yet continue to receive payment, or a single civil servant receiving multiple payments. This issue may be addressed through better linkages between the two systems, government employee censuses, periodic payroll audits, and/or requirements that staff be physically present to receive payment.

Internal controls and audits are the cornerstone of any payroll management system. Control systems should be able to:

- Effectively monitor employee time and absence, including through use of biometric controls;
- Mitigate payroll errors through requirements for multiple approvers and segregation of duties; and
- Establish checks to ensure employees are properly identified before payment.
- In some countries, payroll is integrated into the FMIS through a payroll module. This allows for better tracking of salary and allowance expenditures.

A more detailed discussion of budget execution is available in Chapter IV of the USAID Guide to PFM (2022).

4. REVENUES

Government revenues fund government operations, including service delivery and social benefits. Through government tax policies and administration, governments aim to collect a stable and adequate stream of revenues without stifling economic growth or unduly burdening any segment of the economy.

4.1 REVENUE CONSIDERATIONS DURING THE BUDGET PROCESS

Revenue forecasting is an important input into budget planning (see Section 2) and helps establish the government’s “resource envelope” for the upcoming budget. During budget implementation, accurate revenue projections enable governments to prepare realistic budgets and help the government’s treasury to better match the timing of cash outflows and borrowing with cash inflows.

4.2 REVENUE POLICY

Revenue policy refers to the choices a national or subnational government makes as to what types of revenue to collect, for what purposes, in what amounts, and on whom. These dimensions affect the fairness, efficiency, and simplicity of a tax regime and its ability to generate adequate revenues. In designing tax and broader revenue policy, governments should consider the following principles:

- Revenues should be sufficient to cover planned spending;
- Revenue rules should be simple and transparent to reduce costs for payers and government;
- Revenues should be stable to provide predictable revenue and certainty to payers;
- Revenue burdens should be equitable; and
• Revenue should be economically **neutral** or **efficient**, meaning that they change people’s behavior as little as possible.

These tax policy principles may complement each other. For instance, taxes that are simple and easy to administer are also often neutral to economic decision-making. There may also be tradeoffs between the principles. For example, designing a tax to be more equitable may reduce the tax’s simplicity.

### 4.2.1 TAXES

Taxes are defined by the **OECD** as compulsory, unrequited payments to the general government sector. The fact that taxes are compulsory and not proportional to the benefits received by taxpayers has far-reaching implications. For example, since the benefits of taxes are not easy to discern, people may seek to alter their decisions (e.g., decisions about whether and how much to invest, produce, work or employ people) simply to avoid paying them. They may also devote considerable effort to transforming the form or substance of their activities to minimize their tax bill – depriving the government and society of critically needed resources.

### 4.2.2 FEES

Fees operate like a market transaction; a government charges a fee in return for a specific service. This payment-benefit linkage may make people more willing to pay a fee than a tax, though there may still be resistance if people do not perceive the benefits to be commensurate with fees. Fees may be charged by any level of government. Because of the nature of the services they provide, subnational governments - especially local governments - rely more heavily on fees as they are “closer” to their constituents and can more easily determine the demand for and beneficiaries of services.

In setting fee levels, a guiding principle is that the charge cannot be greater than the cost incurred in providing the service. For equity reasons, governments may set fees lower than the cost of providing the service – for instance, to make water or electricity affordable for poorer households. Beyond that, fee setting is largely a policy matter focused on who benefits from – and who pays for – the service.

### 4.2.3 OTHER REVENUE INSTRUMENTS

Governments have choices in deciding how to collect revenues. Licenses, for example, may be similar to fees, but have the added purpose of restricting the supply of a particular good or service (e.g., permits to fish in certain waters). Royalties are payments for the use of publicly-owned assets, and are often levied for the extraction of mineral resources. Governments may also collect rents, dividends, payments for the sale of goods or services, fines and penalties, and so on. Each of these may perform differently against the aforementioned objectives. For example, a driver’s license fee might not be simple and transparent if there are too many types of licenses that are unclear and arbitrarily applied.

### 4.3 REVENUE ADMINISTRATION

The revenue administration agency or department is the division of the central government tasked with collecting revenues. The responsibility of any revenue administration agency is: to collect the right amount of tax from the right taxpayer at the right time (according to legislation) and to do so at minimal costs of compliance to the taxpayer and minimal costs of administration to the government. Many governments have more than one revenue administration agency. It is preferable that the collection of
all core taxes (except for taxes on international trade, which are collected by Customs) be the responsibility of a single organization – the tax administration – to enable an integrated and coordinated approach. Often, the tax administration department is a part of the MOF or a Ministry of Revenue, and sometimes it is set up as an independent or semi-autonomous revenue authority.

Historically, tax administrators were “tax collectors” and focused on enforcing compliance. Today, tax administrations recognize that, with limited resources, it is not possible to enforce compliance for all taxpayers. Instead, they focus on three key objectives: 1) facilitating voluntary compliance; 2) monitoring to detect those who do not comply voluntarily; and 3) enforcing compliance for those who do not comply voluntarily. To do so, modern tax administrations typically perform the following functions:

- **Maintain a register of taxpayers** to understand taxpayers and to plan resources;
- **Provide services, support, and education to taxpayers** that helps taxpayers comply with their tax obligations and reduces the need for extensive enforcement, given limited resources;
- **Process tax declaration filings and tax payments** and monitor compliance;
- **Audit taxpayers** by selecting declarations that have been filed to audit/verify information reported and by making additional assessments that may require collection action;
- **Address taxpayer objections or appeals** — allow for a system of checks and balances to institute further trust in the tax system and enhance voluntary compliance;
- **Collect tax arrears** (taxes not paid by the due date) through enforcement measures, such as liens, levies, and seizure and sale of taxpayers’ property; and
- **Investigate fraud** in the most egregious cases of non-compliance.

To perform these functions, tax administration also require cross-cutting functions, including:

- **Information technology (IT)** to support registration, filing, payments, audits, taxpayer services and investigations;
- **Internal audit** to assess if processes and standards are implemented efficiently and effectively;
- **Integrity investigations** about the conduct (e.g., suspected corruption), of tax administration’s staff; and
- **Legal services**, including legal interpretation of tax laws and regulations, and representation of the tax administration in all judicial forums, including tax appeals.

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2 Beyond collecting “customs duties” and other international trade taxes, Customs may also be concerned with policy concerns such as national security and public health and safety.

3 Some practitioners contend that compliance is never truly voluntary as no taxpayer pays taxes voluntarily. No matter the term, some taxpayers will pay the correct amount at the correct time without government intervention. Such compliance can be called “voluntary.”


5 Customs administrations undertake much more of a “real time” approach to monitoring compliance — auditing transactions as they happen (upon transiting a port of entry), rather than after the fact as a tax administration does.
Tax administrations face a complex operating environment with numerous and diverse taxpayers. Large taxpayers, who pay a significant portion of revenues, may have complex transactions, with strong accounting records. Small taxpayers may operate less formal businesses without proper records. Monitoring compliance is a constant challenge given the increasingly globalized world, and the limited resources of tax administrations. Many tax administrations address these challenges through risk-based approaches to compliance monitoring and enforcement that recognizes that there are varying degrees of compliance risk associated with different groups of taxpayers, as a result, different approaches needed for compliance strategies, services, and enforcement.

In all cases, tax administrations are most effective when they establish productive relationships with other institutions, such as the judiciary, private-sector groups, financial institutions, domestic and international associations of accountants and attorneys, and others. For example, a tax administration may establish a working relationship with the government agency that maintains the country’s business registry to validate the information on businesses in its taxpayer register and to discover businesses that may exist in the business registry but failed to register for tax purposes. Finally, tax administrations all over the world are faced with powerful opportunities and challenges to use modern information technology in their operations.

A more detailed discussion of revenue issues is available in Chapter V of the USAID Guide to PFM (2022).

5. TREASURY OPERATIONS AND CASH MANAGEMENT

To purchase goods and services and pay its employees, a government must have money available to meet its obligations. This requires effective cash flow forecasting, or managing the timing of revenues and financing (cash inflows) to meet payments for expenditures (cash outflows). Key cash management objectives include safeguarding cash and investment assets (minimize financial, market, and operational risk), assuring the government is liquid at all times to pay its obligations, minimizing idle balances, reducing the cost of borrowing, minimizing transaction costs, and optimizing return on surplus funds.

As noted previously, the MOF in most countries will require MDAs to develop monthly or quarterly spending plans that lay out their expected expenditures. These plans guide cash payments and transfers and should be adjusted regularly to reflect the most up to date revenue and expenditure information. A lack of a good cash management system can result in cash shortages, leading to the accumulation of budget arrears and/or cash rationing. Cash rationing, where Governments can often determine on a day-to-day basis which bills and cheques get paid, can be responsible for significant dislocations in spending priorities relative to those that were agreed to in the approved budget and lead to significant opportunities for rent-seeking.

5.1 TREASURY SINGLE ACCOUNT

The treasury single account (TSA) is an essential tool for successful government cash management. A TSA is a bank account or set of linked bank accounts through which the government transacts all its receipts and payments, and which allows the MOF to determine the government’s consolidated cash position at the end of each day.
Fragmented banking arrangements are suboptimal for several reasons. First, if MDAs are allowed to maintain their own bank accounts without access by the MOF, then the MOF will lack visibility into the government’s consolidated cash position at any given point in time. Second, idle cash balances sitting in MDA bank accounts often fail to earn interest. Third, if the government is unaware of idle cash balances, it may unnecessarily incur borrowing costs to raise funds to cover a perceived cash shortage when in fact usable funds are sitting idle in another account. By consolidating government cash balances into one main account, a TSA gives the MOF/Treasury greater monitoring and oversight capabilities over all government cash flows.

Migrating to a TSA, however, can be challenging, due to the political will, capacity, banking environment, and information technology required to support its implementation. As with any PFM reform, implementing a TSA should move forward in stages. Some countries have found it useful to transfer certain disbursement categories over to the TSA first (e.g., salaries, capital expenditures, parastatals) with a full migration being phased in over time. Additionally, the introduction of electronic transaction processing (e.g., FMIS) and payment systems facilitates the establishment of a TSA. TSAs can be implemented in different forms, using private banking or the central bank’s systems depending on the available technology, reporting requirements and legislation in the country.

5.2 DEBT MANAGEMENT

Prudent debt management is essential for reducing risks and managing costs over the medium- and long-terms. High levels of debt accumulation raise the risk that debt will become unsustainable and/or that exogenous shocks will result in reversals of capital flows, cause currencies to fluctuate, or foreign assistance levels to drop. Poorly structured debt in terms of maturity, currency, or repayment terms, and large unfunded liabilities can also create significant macroeconomic risks.

Developing countries have been particularly affected by poor debt management, largely due to underdeveloped domestic financial systems, weak governance, lack of transparency, and shortage of skilled debt managers. Strengthening debt management may include limiting the ability of MDAs and subnational governments to incur debt, improving sharing of information between debt managers and fiscal and monetary authorities, increasing transparency and accountability in debt management activities, and applying appropriate tools such as cash flow simulation and debt recording and reporting systems.

It is important to highlight that sound debt management in and of itself is not a substitute for sound macroeconomic and fiscal policies, and if not managed properly, debt can harm the larger economy.

More details on treasury operations and cash management are available in Chapter VI of the USAID Guide to PFM (2022).

6. PUBLIC SECTOR ACCOUNTING

Accounting is the process of recording, classifying, and summarizing the financial transactions of an organization. Financial reports and statements summarize this data for review and decision-making. Accounting data must be accurate, timely, and verifiable. Public sector accounting aims to ensure efficient, effective, and transparent use of resources.
6.1 BASIS OF ACCOUNTING

The basis of accounting is the method and timing of recording transactions in the books and records. The three primary bases for accounting are the cash, accrual, and modified accrual/cash basis. Exhibit 7 below summarizes some of the main aspects of cash and accrual accounting.

*Exhibit 7: Main Aspects of Cash and Accrual Accounting*

<table>
<thead>
<tr>
<th>CASH ACCOUNTING</th>
<th>ACCRUAL ACCOUNTING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>When revenue is recognized</strong></td>
<td>● When cash is received</td>
</tr>
<tr>
<td><strong>When expenditure is recognized</strong></td>
<td>● When cash is paid out</td>
</tr>
<tr>
<td><strong>Type of information recorded</strong></td>
<td>● Cash receipts and cash payments</td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td>● Easy to implement</td>
</tr>
<tr>
<td></td>
<td>● Accurately tracks cash on hand</td>
</tr>
<tr>
<td></td>
<td>● Focuses on stewardship and compliance</td>
</tr>
<tr>
<td></td>
<td>● Demonstrates performance in an individual budget year</td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
<td>● Does not accurately reflect outstanding receivables, payables, assets, liabilities, and other obligations</td>
</tr>
<tr>
<td></td>
<td>● Does not provide a medium or long term vision on finances</td>
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</tbody>
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Modified accrual/cash basis accounting combines elements of the two systems. A cash basis is used for revenues, and an accrual basis for expenditures, although there may be exceptions for specific purposes. This system recognizes revenues when they become available and expenditures as they are incurred.

6.2 CHART OF ACCOUNTS

A chart of accounts (COA) is a list of all financial accounts used by a government, including revenues, expenditures, and assets. The COA provides the structure of the general ledger, the primary accounting record of an organization, and is used in budgeting, recording transactions, and reporting. It also serves to standardize governmental financial information and accounting rules so that government-wide statements can be consolidated.

COAs should incorporate or be compatible with leading practices, such as the United Nation’s Classification of the Functions of Government (COFOG) and the IMF’s General Financial Statistics (GFS). COFOG and GFS provide a system to classify, codify, and organize the basic functions of a typical government for budget and accounting purposes. Compliance is often incorporated into basic fiscal and/or budget laws and should be made mandatory as soon as practical.
6.3 FINANCIAL MANAGEMENT INFORMATION SYSTEMS

A Financial Management Information System (FMIS) automates key components of the budget execution and accounting processes and provides information to facilitate budget preparation. An FMIS stores and organizes real-time financial information for current and past year spending and approved budgets, detailed inflows and outflows of funds, and inventories of financial assets and liabilities. An FMIS may incorporate controls to prevent overspending of the total budget of an MDA or specific sources and uses of funds, down to the line-item level. It also creates an audit trail.

The scale and scope of an FMIS can vary from a simple general ledger system to a more comprehensive system addressing budget, revenue, expenditure control, debt, asset and resource management, human resources, payroll, accounting, financial reporting, and auditing. An FMIS can be used across central government institutions or expanded to include local governments and quasi-governmental entities, such as parastatals (entities wholly or partially owned or controlled by the government).

An FMIS should be tailored to the specific needs of the country. If it is too cumbersome, hard to maintain, or provides too much detail, it will become unwieldy and expensive to maintain. Phased implementation of an FMIS allows the system to be gradually expanded to different user groups, including to subnational governments. The complexity of the system can be increased as financial, technological, and human resources allow.

Further details on approaches to public sector accounting are included in the USAID Guide to PFM (2022).

7. AUDIT, CONTROLS AND EVALUATION

An audit is a systematic and independent examination of data, statements, records, operations, and performance of government entities for a stated purpose like regulatory compliance, operational effectiveness, and financial accuracy.

There are three primary types of audits that serve different functions, including:

- Financial audit, which determines whether the financial results were reported fairly, in compliance, and provide a fair view of the organization’s financial position.
- Compliance audit, which looks at the extent that legal or regulatory requirements, and donor and financial institutions’ terms and conditions are being met through proper management systems and procedures.
- Performance audits, which evaluate the effectiveness or value for money of a program, operation, or process of an organization.

Audits are also classified as either internal or external. Internal audits are conducted by a specialized unit within an organization. External audits are conducted by a third-party such as the Supreme Audit Institution (SAI) or a professional auditing firm.
7.1 INTERNAL AUDIT

The internal audit function provides assurance to management and stakeholders that the organization manages risks that might impede its objectives. It includes periodic or on-going monitoring to assess how well the internal controls are functioning. Some items internal auditors may review include:

- Tone and risk management culture of the organization;
- Effectiveness and efficiency of internal controls;
- Proper segregation of duties within processes;
- Proper authorization of transactions;
- Safeguards over inventory and assets;
- Efficiency of processes or operations; and
- Accuracy of record keeping and documentation.

Recently, internal audits in many countries have moved to a more risk-based approach, in which internal auditors identify factors that could jeopardize the achievement of an organization’s objectives and prioritize these risks based on their likelihood and impact. This allows the internal audit unit to focus its limited resources appropriately.

An internal audit unit is located within an organization and usually reports to the organization’s management. An internal audit committee should provide oversight, set the budget for internal audits, and ensure that processes and reports are free from interference by management. However, some countries rely on a single government agency to coordinate and conduct government-wide internal audit activities, which are independent of the audited agencies.

7.2 EXTERNAL AUDITS

Unlike internal audits, external audits are performed by a firm or governmental body independent of the audited organization. They foster financial transparency and accountability and provide assurance to the government oversight bodies on operational integrity and financial reporting. These audits should be conducted in accordance with the guidance of the International Organization of Supreme Audit Institutions (INTOSAI), which issues General Standards for Governmental Auditing and International Standards on Supreme Audit Institutions (ISSAIs).

Supreme Audit Institutions (SAIs), financial enforcement bodies, ethics bodies, professional organizations, and parliamentary committees may provide oversight for the public sector. SAIs often have primary responsibility for external audits because of their relative independence from other agencies in the government. SAIs are most effective if the executive branch and legislature empower them fully and there are strong checks and balances between the executive and legislative branches.

Further details on approaches to audit and evaluation are included in Chapter VIII of the USAID Guide to PFM (2022).
8. PFM AT THE SUBNATIONAL LEVEL

The objectives and characteristics of a sound PFM system are similar at the national and subnational levels. In general, the PFM standards and practices followed at the national level should be followed at the subnational level. A country’s PFM legal framework should define the responsibilities, authorities, and fiscal powers of both the national and subnational governments.

The extent of subnational PFM will vary on the degree of fiscal decentralization. Fiscal decentralization refers to the legal delegation of revenues and expenditures from national governments to subnational governments and administrative units. For a more comprehensive discussion on decentralization, its forms, and relevant parameters, please refer to the USAID Democratic Decentralization Programming Handbook (2021).

8.1 SUBNATIONAL GOVERNMENT AND PFM

Around the world and across sectors (such as health), subnational governments are increasingly responsible for delivering essential services at the local level. When central governments devolve greater service delivery mandates (such as education) to local and regional governments, it has important implications for how they prepare and execute their own budgets and secure the resources to meet those service delivery needs. While subnational governments have varying levels of autonomy and responsibility, they never operate entirely independently from the central government.

8.1.1 INTERGOVERNMENTAL LEGAL FRAMEWORK AND FISCAL SYSTEM

Subnational governments’ responsibilities, authorities, and fiscal powers vary greatly between countries based on their legal framework. The subnational PFM legal framework may include the constitution, the PFM Act, and the Local Government Act or Decentralization Act and even sector specific laws, such as an Education Act. The legal framework generally defines:

- The service delivery mandates that subnational governments are expected to fulfill;
- The rights of subnational governments to collect and retain revenues, the types of revenue collected at the subnational level, and revenue sharing rules;
- The relationship of subnational government budgets to national, central, or consolidated budgets;
- Accountability requirements, including if subnational governments must use the central FMIS;
- The intergovernmental transfer system, including the types of transfers (e.g., conditional or unconditional) and sources of funding

Analyzing a country’s legislation reveals the extent of fiscal decentralization. The intent should be to ensure subnational governments have sufficient resources and authority to provide legislatively authorized services or competencies.

The intergovernmental fiscal system defines the stakeholders involved in intergovernmental financial management at both the national and sub-national level. The most important national government stakeholders typically include the Ministry of Finance, the Ministry of Local Government, Planning and Finance (Grants) Commissions, MDAs, and the Office of the Prime Minister or President. The National
Legislature, which amends or creates new Acts, can also be very important. However, stakeholders will vary between countries and other unexpected ones, such as the Ministry of Interior may be important.

### 8.1.2 SUBNATIONAL REVENUE SYSTEMS

Across USAID partner countries, total subnational government revenue (intergovernmental transfers and own-source revenue) accounts for 23 percent of general government revenues and six percent of GDP on average. However, there is significant variation across and within countries (i.e. urban vs. rural).

Even in well-developed systems, intergovernmental transfers are likely to remain the most important source of funding for subnational governments. This is because the central government generally controls the tax bases that generate the most revenue (e.g., value-added tax). Transfers are also important to address fiscal imbalances and promote equity between different parts of a country.

Intergovernmental transfers or grants can be broadly classified as (a) general-purpose (unconditional) transfers that subnational governments can allocate and spend in a flexible way; and (b) specific-purpose (conditional or earmarked) transfers that incentivize subnational governments to undertake specific programs or activities. A third category of transfers, called block grants, fall in between general and specific-purpose transfers. These provide support to a specific sector, such as education, while allowing subnational units discretion in allocating the funding within that sector. Transfers can also impose process requirements (e.g., requiring citizen participation in budget planning) or service delivery outcomes. Such transfer requirements may be useful for policy objectives but also impose compliance costs for subnational governments; and, this may make it hard for them to access funding.

For some subnational governments, own-source revenues may also be a substantial source of funding. Own-source revenues may include taxes (especially property taxes), user fees (such as parking or market fees), property income, and sometimes royalties (such as on a wildlife park or mine). Own-source revenue does not tend to produce enough to offset the amount lost in transfers that do not reach subnational units in a timely fashion. However, it can be an important and empowering resource.

### 8.1.3 BUDGET PLANNING AND IMPLEMENTATION

Subnational government budget planning and implementation requires careful balancing of consideration of local needs and priorities with national strategies and legal requirements.

With respect to budget planning, funding sources can constrain subnational governments’ choices. As a significant portion of local revenue may come from conditional grants, subnational governments may have little discretion in the actual allocation of resources. Further, subnational governments may need approvals at both the local level and the national level for proposed budgets.

Similar to budget planning, subnational governments are subject to central government processes, requirements, and oversight in budget implementation. The extent of central government control in budget implementation varies greatly. For example, formal or informal approval from line national line

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ministries may be required for allocations to specific sectors. Central government approval of subnational budgets and amendments can be cumbersome.

Budget transparency and participation are key for increasing citizen engagement and subnational government legitimacy. This can lead to an allocation of resources that better reflects citizens' priorities. This is especially true when inclusionary activities are built into the budget process to increase the participation of marginalized groups such as women and people with disabilities. Furthermore, transparency and participation is not just limited to the formulation of the budget but also to monitoring expenditures and increasing the availability and accessibility of budgetary information.

In conclusion, while local officials need to be responsive to local demands and needs, there is often only a small amount of room for truly discretionary allocations in a subnational budget. However, as a subnational unit's own-source revenue increases, the scope for its discretion also increases. Community participation and greater transparency across the budget cycle for subnational governments can increase compliance with user fees and local taxes, generating additional revenue and creating a virtuous cycle where the most immediate local needs are better addressed.

More details, common challenges, and concrete examples related to subnational PFM are included in Chapter IX of the USAID Guide to PFM (2022).

9. SEQUENCING PFM REFORMS

Effective sequencing of reforms is important because developing countries generally cannot tackle all recommended reforms at the same time. The most effective strategy to sequence PFM reforms, however, has been widely debated. While there are some useful models and basic principles, there is little empirical evidence or research on which approaches are most effective and efficient.

9.1 PFM ASSESSMENTS

Before developing a sequencing strategy for PFM reforms, it is important to know the baseline and problems associated with the current system. Common assessment tools and processes for identifying the baseline and problems include the Public Expenditure and Financial Accountability (PEFA) assessment, the Public Expenditure Review (PER), the IMF’s Fiscal Transparency Code, USAID’s Government to Government Risk Assessment Approach, and other donor fiduciary risk assessments. The PEFA is the most widely used diagnostic tool for public financial management. It consists of 31 high-level indicators for budget credibility, comprehensiveness, and transparency; policy-based budgeting; predictability and control in budget execution; accounting, recording, and reporting; and external audits. The PEFA does not include recommendations for specific reforms, but the assessments can be used to identify PFM reform needs for discussion or planning purposes.

9.2 SEQUENCING APPROACHES

Countries at every level of development need to prioritize and sequence their PFM reform efforts; it is too disruptive to attempt to reform the whole system at once. PFM reforms are usually prioritized on the basis of one or more of the following factors:
Quick wins: Start with one or more discrete actions that are relatively straightforward to implement, on which there is broad consensus and that will yield demonstrable success (i.e., low-lying fruit).

Most buy-in: Start with the areas where the authorities have most interest, ensuring maximum commitment to the reform.

Respond to shocks: In some cases prioritization of reforms may shift due to events within the country that raise the importance of certain reforms. For example, a major corruption scandal might lead to a prioritization of procurement or internal controls. Alternatively, a drop in commodity prices for a resource rich country might lead to prioritization of cash management and revenue mobilization.

Weakest link: Choose the area that is the weakest (e.g., has the lowest PEFA scores) based on the argument that a system is as strong as its weakest link.

Basics first: If not already in place, start with fundamental reforms that focus on establishing basic accounting, compliance and control functions, along with basic credibility within a line item budget, and move to other reforms thereafter.

Platform or staged approach: A corollary to the “basics first” approach, prioritize reform activities based on complementary packages of reform that proceed in a logical sequence, where one reform sets the basis for the next one moving from less complex to more complex.

Overall, USAID recommends a phased approach to PFM reforms that takes into consideration where stakeholder buy-in is strongest. Depending on the country’s context, there may also be a need to begin developing and implementing some higher-level systems concurrently when there is strong political will to do so. Countries should begin preparing for future phases to reduce the risk of delays and decreased commitment for reforms that are more complex or difficult to implement.

It is also important to apply a higher level of scrutiny and attention to sequencing when implementing PFM systems building in post conflict and fragile settings. For a more detailed discussion on working on PFM in fragile and post conflict countries, please refer to Gallagher (2007).

USAID missions often apply an additional layer of analysis on sequencing of reforms in terms of how various PFM options might support sectoral outcomes within our broader Country Development Cooperation Strategy (CDCS). For example, USAID might work with the Ministry of Finance to prioritize the Health, Education, or Agriculture sectors as pilot sectors for new budgeting reforms. Similarly, USAID might advocate for and support a focus on audit and procurement in cases where we support government-to-government programming that includes payments for goods and/or works.

Exhibit 8 provides three common challenges to PFM reform and ways to overcome them, which may help to further inform the design and prioritization of USAID PFM programming.

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7 List expanded on and adapted from Diamond (2013).
Description of the challenge: Public Financial Management systems are complex and require a diverse set of specialized skills to perform well – including economic modeling, debt management, public sector accounting and audit, tax collections, information communication technology (ICT), legal and policy analysis, and public procurement and purchasing, among others. Often staff working on PFM functions will also need to have sectoral knowledge, for example procurement officers need not only to understand procurement rules and requirements but also specific aspects of the commodities and services they procure (e.g., pharmaceuticals, roads). Across countries at every level of development - as PFM reforms have increased in complexity (e.g., IFMIS, accrual accounting, program budgeting, public engagement), the needs of the PFM workforce have evolved to require higher-level financial management skills. This challenge can be more pronounced in some low- and middle-income countries – where there is strong competition from the private sector for a limited pool of qualified professionals.

Potential approaches: Countries use a range of different means to overcome skills shortages for PFM professionals. In Commonwealth countries (mostly former territories of the British empire), independent professional institutes play an important role in establishing a pipeline of qualified personnel. This is particularly the case for accountants and auditors that received their accreditations through Public Accountancy Organizations (e.g., Pan African Federation of Accountants). In countries whose institutions are more closely aligned with those of continental Europe, PFM professionals tend to gain their skills through a combination of elite higher education programs (e.g. Senegalese Ecole Nationale d’Administration was modeled after the French school of the same name) and public service training institutes. However, formal training and accreditation programs often need to be complemented by other measures. For example, government agencies involved in core PFM functions often develop their own competency frameworks and human resource strategies to map out their human resource needs and devise means to address them. This may include introducing measures such as merit based hiring and promotion. USAID’s Guidelines for Improved Tax Administration in Latin America and the Caribbean provides detailed guidance and country examples for how USAID has supported such efforts in the tax sector.

Challenge 2 – Low or Variable Political Commitment to Reform

Description of the challenge: In nearly every country, rent seeking comes into play in determining how the budget is used and, in many countries, public resources feed complex patronage systems. PFM reforms that challenge the ability of politically important groups to continue to benefit are vulnerable to interference and reversal. A Political Economy Analysis (PEA) on PFM in Sierra Leone found political leaders in the 2000s blocked reforms to strengthen core PFM systems such as financial controls because those reforms would limit their ability to direct benefits to their patronage networks. A 2020 IMF review of a range of experiences of Pacific Island countries in advancing PFM reforms noted that: “patronage systems and informal arrangements dominate decision making on the budget and fiscal policy, limiting the scope for measures to improve PFM performance and fiscal transparency and leading these countries to struggle with implementing the basic elements of PFM reform.” Even when commitment to advance reforms is secured, that political dynamic does not tend to last long enough to support the whole-time horizon of a PFM reforms. Any individual PFM reform can take five to ten years; as a result, elected officials who initiated the reform may not be in power to it through.

Potential approaches: Due to these challenges, it is particularly important for PFM system strengthening efforts to incorporate PEA not only at the outset of a new program, but as an ongoing effort to detect and adapt to changes in political will. In addition, new programs should be mindful of

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the electoral cycle. Elected officials may, for example, be most likely to advance reforms in the period just after entering office to demonstrate delivery of electoral promises. In Sri Lanka, the newly elected President Sirisena was able to push through a constitutional amendment in 2015 creating, among others, a new Audit Service Commission and National Procurement Commission, which provide needed oversight of core PFM functions. While Sirisena was able to make these constitutional amendments, other reforms in his 100-day agenda soon stalled due to increased power of the previous President in the Legislature. USAID quickly mobilized support just after the election to support procurement and audit in light of this opening. Even where political will is weak, there may still be options for programming. While there may not be a basis to move forward with comprehensive PFM reforms, there may be an option to work at a sectoral level or within a specific PFM function. This may be particularly the case when there is strong demand from civil society and the private sector for reform.

**Challenge 3 – Development Partner (DP) Coordination**

**Description of the challenge:** PFM systems include many sub-systems (e.g., debt management, cash management, procurement, audit, etc), span multiple sectors and levels of government, and require multiple years and significant resources to institute reforms. As a result, government counterparts generally engage multiple DPs as they move forward with reforms. This may be exacerbated in cases where DPs are engaging or planning to engage in budget support or other “on-budget” forms of development support that runs through government systems. In such cases, development partners may push for certain PFM reforms to reduce the risks of such support. Engaging multiple DPs can have downsides, however. This not only results in duplication of efforts, but may also lead to system incompatibilities when different DPs are supporting systems development work.

**Potential approaches:** There are a number of good practices that DPs can take to improve their coordination of PFM support. In many countries, having interested DPs work with the government to implement joint diagnostics such as PEFA to set priorities for a PFM reform strategy that multiple DPs can sign-on to support. In some cases, such as in Nepal, USAID has participated in multi-donor trust funds (MDTF) to support PFM reforms. In many countries, USAID participates in PFM Reform Working Groups, though the effectiveness of such arrangements can vary by country. When IT systems are involved, DPs should engage with applicable government agencies to define and agree on the use of common standards in system development, including the use of standardized Application Programming Interfaces (APIs).

### 9.3 GOOD PRACTICES IN IMPLEMENTING REFORMS

The various approaches to sequencing PFM reforms emphasize the importance of incremental implementation at a pace that partner country institutions can absorb. Moreover, governments and the development partners they work with should plan steps necessary to move through all the stages of a reform. PFM reforms often start with the development of a new law, regulation or guideline and proceed through its piloting and roll-out across all relevant implementing units. This process should accommodate opportunities for internal and external stakeholders to weigh in on the reform and allow for training and change management for the government staff who will need to implement new policies and procedures. Many PFM reforms apply to all MDA and/or local government units. As a result, the reforms need to be feasible within the wide variety of implementing units and the scale of training and change management can be time consuming and should be planned in advance.

Country ownership of the reform process is essential for effective implementation and sustainability. Ideally, the partner country, rather than donors, should develop a PFM reform strategy and action plan.
that donors can then support. However, in most situations, PFM reform strategies and programs are
developed through discussions among major multilateral and bilateral donors (especially the IMF and
World Bank) and the government. In addition to partner government ownership of reform strategies,
USAID requires discussions with other stakeholders. The sequencing incorporated in the reform
strategies should reflect the country’s own priorities and context, including human and institutional
capacity, political economy, and stakeholder agreement. The partner government should set a realistic
timetable for reforms and be willing to make multi-year commitments to the process.

An expanded discussion of key stakeholders and design and sequencing of PFM reforms are available in
Chapter X and Chapter XI of the USAID Guide to PFM (2022), respectively. In addition, Annex 1 of the
Guide includes a technical resource library and Annex 2 includes a compendium of case studies on PFM
reforms.
ANNEX 1: GLOSSARY

**Accountability**: The systems, procedures, and mechanisms designed to ensure that public officials and institutions perform their duties and responsibilities while recognizing restraints on their power and authority. Accountability also refers to the processes that enable governments to be held responsible for their actions by their citizens, a central tenet of governance.

**Accounting**: The process of recording, classifying, and interpreting financial transactions that occur within an organization.

**Accrual Basis of Accounting**: An accounting method where revenues are recognized when goods and services are provided or the right to receive payment is obtained. Similarly, expenses are recognized when the expense occurs or expires or when there is an obligation to pay for goods and services.

**Audit**: An independent review and examination of system records and activities. Audits are used to verify financial records and statements, evaluate internal controls, assess compliance with internal processes and procedures and legal and donor requirements, detect fraud, and identify potential improvements in processes and procedures.

**Automated Directives System (ADS)**: is a standardized system consisting of (1) USAID internal policy directives and required procedures; (2) external regulations applicable to USAID; and (3) non-mandatory guidance to help employees interpret and properly apply internal and external mandatory guidance.

**Budget Authority**: The legal authority to incur financial obligations that result in expenditures. It can also refer to a ministry, department or unit of government that has received a budget through the government budget process and is accountable for that budget to the legislature.

**Budget Cycle**: A key process in any public financial management system governed by the legal framework that can be organized into four components: budget planning, budget preparation, budget execution, and auditing. Reporting occurs throughout the four components.

**Budget Planning**: The first component of the budget cycle, developing a short- to medium-term budget plan based on the established resource envelope. This component also includes the development of longer term strategic plans and medium term macroeconomic and macro-fiscal frameworks then linked to the budget plan. During budget planning, specific programs are defined at sectoral and activity levels to achieve national goals.

**Budget Preparation**: The second component of the budget cycle. It generally begins the development of an MTEF and/or with a budget circular published by the agency responsible for budgeting (usually, the Ministry of Finance), providing guidance for administrative and sectoral units on developing their budgets according to an approved Budget Plan.

**Cash Basis of Accounting**: An accounting method in which revenues are recognized when cash is received and expenditures are recognized when cash is paid for services and/or goods.

**Chart of Accounts**: The basic building blocks of any accounting system, listing all accounts (categories) used in budgeting, recording, and reporting revenues, expenditures, assets, and liabilities. The COA
includes codes that indicate key information, such as the department or unit responsible for the
transaction, the program or purpose, and nature of the transaction. This is also referred to as accounts
classification.

**Civil Society**: Per the F-framework, “Civil society organizations includes, but is not limited to, human
rights organizations, youth movements, informal groups, religious organizations, labor and trade unions,
professional associations, indigenous organizations, women organizations, LGBT organizations, and think
tanks.”

**Debt**: The outstanding amount that the government owes to lenders at any given point in time. Thus
debt essentially represents the total of all annual deficits, minus any annual surpluses, over the years.

**Deficit**: The difference between one year’s revenues and expenditures when expenditures exceed
revenues. It only reflects that fiscal year’s imbalance. Deficits are funded either with savings or through
borrowing or external funding.

**Debt Sustainability Analysis**: An assessment of the government’s ability to make the fiscal policy
adjustments (revenue collection and expenditures) needed to achieve solvency. A debt sustainability
analysis looks at how the ratio of the debt to Gross Domestic Product, will change over time based on
the outlook for the primary deficit, or fiscal deficit, and the interest rate- growth differential.

**Expenditures**: Government spending (outlays). Expenditures are made to fulfill a government
obligation, generally by issuing a check or disbursing cash in physical or electronic forms. Expenditures
may pay for obligations incurred in previous fiscal years or in the current year as permitted by law.
Expenditures are often subdivided into capital and recurrent. Capital expenditures are those for the
acquisition of assets with more than one year of useful life, while recurrent expenditures are those that
must be repeated on a regular basis, such as wages, utilities, etc.

**External Audit**: A periodic or specific-purpose audit performed by a qualified professional independent
of the entity being audited, in accordance with laws or rules on the financial statements of a company,
government entity, donor, or other legal entity or organization The objective is to verify the accuracy
and completeness of the entity’s financial information, its compliance with laws, rules, and/or regulations
governing its financial and other operations, and sometimes its performance vis-à-vis established goals,
objectives, and/or indicators.

**Effectiveness**: The extent that the development intervention’s objectives were achieved or are
expected to be achieved, taking into account their relative importance. In partner governments,
effectiveness is measured as the extent to which the government’s goals, objectives, and indicators are
achieved over a defined time period.

**Executive Branch**: The executive branch of government is that segment of government organizations
charged with the management and administration of government functions. The executive branch is thus
the administrative arm of government. It is often referred to as the ‘administration’; or the
‘administrative branch of government’. It generally includes most public employees because it operates,
implements and enforces all the laws created by the legislative branch, and as interpreted by the
judiciary branch.

**Financial Management Information System (FMIS)**: Stores, organizes, and facilitates access to
financial information. It supports the reliable collection and dissemination of information throughout the
public financial management cycle and provides decision makers with a set of tools to control, prioritize, and use public resources more effectively. It stores financial information related to current and past year spending as well as the approved budgets for the current year, details on inflows and outflows of funds and complete inventories of financial assets and liabilities. The FMIS may also be integrated with functions including asset controls, budget preparation, human resources, payroll, procurement, and other PFM sub-systems as needed.

**Financial Reporting**: The communication of financial information to inform interested parties about the decision-making process and enhance government transparency throughout the entire budget cycle.

**Fiscal Space**: Room in a government’s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy.

**Fiscal Deficit**: A fiscal deficit is caused when expenditures exceed revenues during a budgetary period once all government obligations have been paid and without deducting transfer payments. The payments made include debt obligations.

**Fiscal Framework**: A tool to establish medium-term fiscal targets with a focus on fiscal position, fiscal sustainability, and fiscal vulnerability. The fiscal framework is informed by the macroeconomic framework, and includes revenue and expenditure projections disaggregated by various categories.

**Fiscal Sustainability**: The ability of a government to sustain its current spending, tax and other policies in the medium to long term (3 to 10 or more years) without threatening government solvency or defaulting on its liabilities or projected expenditures.

**Fiscal Vulnerability**: When government fails to ensure adequate financial resources to meet all its payment obligations. Large fiscal deficits or public debt are leading indicators that fiscal policy is vulnerable.

**Fixed Asset Register**: An accounting method used to keep track of the fixed assets of a firm or government. The register shows the value of assets, date of acquisition and other details necessary to compute for depreciation, control and tax purposes. Fixed assets include land, buildings, machineries and other items used in the business that are not for sale in the ordinary course of operations.

**General Ledger**: An organization’s primary accounting records containing a complete record of financial transactions over its life. Information from the general ledger is used to prepare financial statements. The general ledger generally includes accounts for budget, assets, liabilities, revenues, and expenses consistent with the chart of accounts.

**Good Governance**: Governance that respects the democratic rights and interests of stakeholders while promoting government accountability, transparency, and efficient and effective delivery of public services and the rule of law.

**Governance**: The exercise of authority, involving the process and capacity to formulate, implement, and enforce laws and public policies and provide public services.

**Government Cash Management**: The management of cash inflows and outflows to maintain liquidity so that the government is always in a position to meet its obligations as they become due. Government cash management deals with both collections (sources of funds) and disbursements (use of funds).
**Gross Domestic Product (GDP):** The market value of all finished goods and services produced within a country during a specific time period. It includes all private and public consumption, government outlays, investments, and exports less imports. Real GDP, as opposed to nominal GDP, is adjusted to remove the effects of inflation. Per capita GDP is the GDP divided by the population of the country.

**Imprest Fund:** A cash fund with a fixed amount established through an advance of funds to an authorized imprest fund cashier, without appropriation change, for immediate cash payments of relatively small amounts for authorized purchases of goods and non-personal services.

**Interest Rate-Growth Differential:** The differential between the interest rate paid to service government debt and the growth rate of the economy.

**Internal Audit:** Frequent or on-going audits conducted by an entity’s own accountants, rather than independent external auditors. The objective of internal audit is to identify risks and weaknesses in the financial and operational control environments and to develop recommendations to mitigate or rectify them.

**Internal Controls:** Systems, policies, and procedures to reasonably ensure orderly, ethical, and efficient operations in accordance with the organization’s mission; compliance with laws and regulations; and reduce risks of waste, fraud, abuse, and mismanagement. These include segregation of duties within processes; appropriate authorization of transactions; safeguards over inventory and assets; efficiency of processes or operations; good record keeping and documentation; and reporting and use of the information.

**International Public Sector Accounting Standards (IPSAS):** A set of accounting standards issued by the IPSAS Board recommended for the preparation of financial statements by all public sector entities in. These standards are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). They are used to improve the quality of general purpose financial reporting by public sector entities for better informed assessments of the resource allocation decisions made by governments for greater transparency and accountability.

**International Organization of Supreme Audit Institutions (INTOSAI):** A governing and participatory body dedicated to the improvement of public external auditing standards and practices. Many national Supreme Audit Institutions belong to this group.

**Judicial Branch:** The segment of governing institutions that includes courts or other bodies charged with making rulings based on laws or interpreting the laws of a country. In certain governance systems may include prosecutorial and other bodies whose responsibilities include participation in the system of adjudication. In some countries the judicial branch may be effectively part of the executive branch of government or be partially under its control through appointments or influence.

**Legislative Branch:** The segment of government, whether elected or appointed, that is responsible for the passage of primary legislation, or the laws under which a country is governed. Ideally, legislatures are primarily elected by the citizens. In good practice public financial management legislatures approve government revenues and expenditures through a budget law. The primary institutional components of legislative branches include parliaments, congresses, assemblies, councils, or similar bodies and their integral supporting units.
**Line Item Budgeting:** Budgets are based on the cost of specific categories of inputs (e.g., salaries, electricity, and fuel). Line item budgets focus on the resources spent, but do not provide information on the intended results. Also known as Input Budgeting.

**Macroeconomic Framework:** Projections of the real, external, fiscal, and monetary sectors based on a set of macroeconomic goals and policy framework. The macroeconomic framework assesses domestic and global economic trends to estimate the resources that will be available to the government.

**Macro-Fiscal Framework:** The macro-fiscal framework draws on the macroeconomic and fiscal frameworks to estimate a resource envelope based on projected revenues and expenditures for a 3–5 year period. These revenue and expenditure amounts appear in the medium-term expenditure framework and annual budgets and are an integral part of the budgeting process and the PFM system. These may also be referred to as medium-term fiscal frameworks.

**MDA:** Ministries, Departments, and Agencies. MDA are organizations and/or institutions that are primarily funded through a government’s budget and are responsible for government operations, policies, and the provision of government services with those funds. Such organizations may additionally include those identified by any and all terms used to refer to government entities, including departments, offices, etc.

**Medium Term, Short-Term, and Long-Term:** In general PFM and governance practice, short term refers to periods of less than 3 years, medium term to periods of between 3 and 5 years, and long term to periods exceeding five years.

**Medium Term Expenditure Framework (MTEF):** The expenditure portion of a Medium Term Budget Framework and a critical tool during the budget preparation process that translates strategic objectives and priorities into financial figures over the medium-term. It links the top-down resource envelope (what is affordable based on the aggregate expenditure ceiling established through the medium-term fiscal framework) to the bottom-up cost estimates (what is needed) prepared by spending agencies. It provides a medium-term framework for policy makers to decide on program priorities and make political choices as the budget is being prepared.

**Medium Term Budget Framework (MTBF):** A framework for integrating fiscal policy and budgeting over the medium-term by linking aggregate fiscal forecasting to a disciplined process of maintaining detailed medium-term budget estimates by ministries that reflect existing government policies.

**National Budget:** A legal document authorizing government officials to spend public funds within pre-agreed constraints. The budget allocates resources and thereby expresses the policy priorities of the government. Such documents may include items directly related to the achievement of goals and objectives by government as well as program descriptions and performance reporting.

**Non-expendable property:** An accounting term for purchase of goods that have a long operational life. In the U.S. Government it is defined as, “Property which is complete in itself, does not lose its identity or become a component part of another article when put into use; is durable, with an expected service life of two years or more; and which has a unit cost of more than $500.”

**Office of Management and Budget (OMB):** The Office of Management and Budget (OMB) is an agency of the United States of America’s federal government that evaluates, formulates, and coordinates...
management procedures and program objectives within and among departments and agencies of the executive branch.

**Organization for Economic Co-operation and Development**: The OECD is an international economic organization of 34 countries founded in 1961 to stimulate economic progress and global trade. It is a forum for countries committed to democracy and a market economy that offers a platform to compare policy experiences, seek answers to common problems, identify good practices, and coordinate domestic and international policies of its members.

**Parastatals**: A company, entity, organization or agency owned or controlled wholly or partly by the government. Examples might include state owned enterprises, universities, joint stock companies, etc.

**Petty Cash**: A small fund of money for rapid reimbursement of incidental expenses of an operating unit.

**Primary Deficit**: A country’s primary deficit is caused when expenditures exceed revenues during a budgetary period once all government obligations have been paid before deducting interest payments on debt or government obligations.

**Program Budgeting**: A type of budget that groups revenues and expenditures by program, regardless of the number of budget institutions involved and shifts the focus from resource input to service delivery.

**Public Expenditure and Financial Accountability (PEFA)**: A multi-donor partnership of seven donor agencies and international financial institutions founded in 2001 to assess the conditions of country public expenditure, procurement and financial accountability systems and develop a practical sequence for reforms and capacity development. A steering committee manages the program and a secretariat implements the activities.

**Public Financial Management (PFM) System**: The national or sub-national government policies, procedures, and infrastructure for planning, directing, controlling, monitoring, and reporting on public financial resources intended to result in inefficient and effective operations.

**Public Investment Program (PIP)**: A phased, multi-year (3-5) program within an administrative unit or sector that aims to facilitate efficient and effective capital investments or improve management of donor financing.

**Public Procurement**: The use of public funds by public entities for purchasing goods and services from the domestic or international private sector or civil society organizations. Also, the processes used for such transactions.

**Public Sector Oversight**: Mechanisms within the government through which the Legislative branch, independent agencies, and in some countries entities within the Judiciary conduct independent checks on whether the Executive is conducting its activities effectively, efficiently and within the legal and regulatory framework.

**Responsiveness**: The extent to which a government meets the needs perceived by its citizens and can react to changing conditions.
**Social Accountability**: A set of approaches to hold public officials and institutions accountable drawing on the actions of citizens, media actors, communities, and/or civil society organizations. It includes, among others, monitoring of public service delivery, investigative journalism, and social audit. It complements but does not replace public sector oversight.

**State Owned Enterprises**: A shareholding arrangement in which a government entity has a controlling or minority ownership interest that allows it to exercise management control over a business providing services to non-state entities.

**Strategic Plan**: A plan that covers an extended period (usually 5 years or more) and that identifies national priorities and policies, generally without fiscal components. Sectoral or institutional strategic plans can also be developed in line with a national strategic plan.

**Supreme Audit Institution (SAI)**: A national organization that sets standards for audit work and generally controls the external audit processes for the government.

**Transparency**: A form of accountability that is based on accessibility and openness of information. Transparency may be internal or external (public).

**Treasury Single Account (TSA)**: A unified structure of government bank accounts that gives a consolidated view of government cash resources. Based on the principles of the unity of cash and the treasury, a TSA is a bank account or a set of linked accounts that all governmental entities use in for revenue and payment transactions.

**Zero-Based Budgeting (ZBB)**: A budgeting technique based on the principle that all prior allocations need to be re-justified every year, rather than assuming continued baseline funding. Zero-based refers to the fact that each major budget item is reviewed as thoroughly as if it had not been funded in the previous year. Since this is a time-consuming and data-intensive approach that does not take political realities into account, it is rarely used in practice, although partial or modified ZBB is often a component of a single budget process.