# ENHANCING GOVERNMENT EFFECTIVENESS IN YEMEN: AN ASSESSMENT OF THE MINISTRY OF FINANCE

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This report was produced for review by the United States Agency for International Development. It was prepared by Mr. Carlos de la Torre.

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# CONTENTS

# ABBREVIATIONS

| | |
|---|---|
| CBY | Central Bank of Yemen |
| COCA | Central Organization for Control and Auditing |
| CoA | Chart of Accounts |
| FL | Financial Law |
| GFS | Government Finance Statistics |
| MOF | Ministry of Finance |
| MoPIC | Ministry of Planning and International Cooperation |
| NDP | National Development Plan |
| PEFA | Public Expenditure and Financial Accountability framework of the World Bank/IMF |

# INTRODUCTION: INFORMATION AND GOVERNANCE[1]

If information is power, then of all kinds of information, financial information is the most powerful. This is the kind of information at the core of power relations among different actors in any state and society. In his book, *Capital and Collusion*, Hilton Root explains that a national economy is an economy of information.[2] He argues that the productivity of an economy hinges of the efficiency by which information is spread through markets. In this regard, a key role of a Ministry of Finance is to help ensure that financial information about the public sector is accurate, comprehensive, and accessible. Its effectiveness as a ministry is decided in great part by its ability to deliver on this institutional responsibility. This is critical to enable the government to develop sound public policy and for stakeholders and the general public to provide feedback and ensure government accountability.

Without the right information, a Finance Ministry's ability to establish fiscal discipline, assure strategic allocation of resources, and ensure effective delivery of public services are severely hampered. In a poor governance society such as Yemen, the role of a Finance Ministry, from the perspective of an economy of information, is pivotal and decisive. Like many poor governance countries, public financial information in Yemen is among the most prized currencies, procured and traded as among the most vital products for economic advancement. This is because financial information in Yemen, even if by law available to the public, is hoarded and guarded.

In recent years, Yemen's Ministry of Finance (MOF) has made important progress toward greater effectiveness in carrying out its objectives to generate and utilized financial information. In particular, the authorities have enhanced the coverage, timeliness, and periodicity of the budget and fiscal reports, and are undertaking reforms related to budget classification and commitment controls, which will contribute to improve effectiveness. However, a broader and more sustained effort will be required to make the MOF more effective.

The legislative basis for fiscal management in Yemen is quite comprehensive, but there are weaknesses in the enforcement of legislation that in turn impairs the ability of the MOF to carry out its objectives. The structure of the government, and the role of different government bodies are clearly defined in the law, but the definition of government for MOF purposes excludes many important government activities. The framework for budget preparation, execution and reporting has improved in recent years, but still fails to meet many requirements. Fiscal data on general government operations are often available within the government but are not compiled and disseminated to the public. In addition, mechanisms for ensuring fiscal data quality, as well as arrangements for external scrutiny of the budget process, need to be improved.

This report provides an assessment of government effectiveness at the Ministry of Finance in Yemen. The assessment has four parts. The first part contains a description of the level of effectiveness at the MOF on the basis of consultations with the authorities, and other available information. The second part provides explanations of the existing level of effectiveness. The third part assesses past work by the MOF and

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[1] This report was prepared by Carlos de la Torre for the Enhancing Government Effectiveness (EGE) project. Mr. de la Torre was a member of the EGE team that conducted an assessment of select government ministries in Yemen in February 2008. The views in this report are the author's and does not necessarily reflect the views of USAID.
[2] Hilton Root, *Capital and Collusion: The Political Logic of Global Economic Development*, Princeton and Oxford: Princeton University Press, 2006.

donors in the area of effectiveness. The last part provides a commentary and recommendations on how to improve effectiveness.

# MEASURING THE EFFECTIVENESS OF THE FINANCE MINISTRY

This section defines a set of core objectives that a Ministry of Finance would follow using international standards. It then discusses measuring the effectiveness of Yemen's MOF in carrying out these objectives against a set of indicators developed in the literature (notably the Public Expenditure and Financial Accountability (PEFA) indicators).[3] The measurement relative to this set of indicators is done to establish an individual, organizational and institutional baseline and in monitoring progress of future interventions to improve the effectiveness of the Ministry.

International best practices suggest that a Ministry of Finance should focus on three main goals:

1. **Establish aggregate fiscal discipline**, i.e. that budgets are set consistent with a realistic macroeconomic framework and a sustainable fiscal program, and brought in on target;

2. **Ensure strategic allocation of resources,** i.e. that resource allocations reflect the policies and priorities of the government's program; and

3. **Support effective service delivery,** i.e. that resources are utilized efficiently and effectively towards the purpose for which they have been allocated.

International standards also recommend that these three objectives be anchored on a number of key principles and practices.[4] These principles and practices include:

- public sector employment controls that account for civil service payroll; employment procedures are documented and accessible to interested parties and governed by a code of conduct that precludes unethical behavior of officials handling or making decisions about the receipt or use of public funds.

- a clear definition of the scope of government and a clear framework for fiscal management.

- practices fostering openness in budget processes, such as in budget preparation, documentation, and presentation, as well as procedures for budget execution, fiscal reporting, and auditing.

- practices that facilitate accessibility of comprehensive information on fiscal activity and government objectives to the legislature and the public, and the presentation of such information in a way that aids policy analysis and promotes accountability.

- operations of oversight mechanisms that provide assurances to the legislature and the public about the integrity of fiscal data.

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[3] This section uses as reference several of the indicators developed by the Public Expenditure and Financial Accountability (PEFA) initiative to assess the performance of the Ministry of Finance in carrying out these three objectives. Please see annex for a detailed assessment.
[4] These principles and practices are outlined in the IMF Manual of Fiscal Transparency.

Global experience has shown that, deviations from these principles and practices are likely to result in a reduction in the MOF's ability to carry out its objectives. Table 1 describes the implications of the three main goals, particularly in relation to budget formulation and budget execution issues.

## TABLE 1. KEY FEATURES OF AN EFFECTIVE MINISTRY OF FINANCE

| GOAL | Budget Formulation Features | Budget Execution Features |
|---|---|---|
| ***Aggregate Fiscal Discipline*** | 1. Multiyear macrofiscal framework used to set public revenue, expenditure and debt policy within realistic economic framework, supporting anticipation of crises and measured restructuring.<br>2. The total budget envelope should be:<br>(i) explicit and set prior to determining individual spending allocations;<br>(ii) consistent with the broader macro-economic framework; and<br>(iii) sustainable over the medium term.<br>3. Current policies, laws, and programs are reconciled in annual budget to assure affordability.<br>4. New policies with expenditure or revenue implications are adopted during year *only if* affordable in medium-term framework, sources of financing identified, and supplemental budget approved to finance within budget targets.<br>5. Budget is comprehensive, accurate, annual, authoritative, and transparent. | 1. Commitment control system limits commitments of available resources.<br>2. Treasury cash management supports matching of expenditures to revenues.<br>3. Treasury payment system and internal controls support proper payments.<br>4. Accounting system and Financial Management Information System (FMIS) support comprehensive, timely and accurate information on spending and revenues for government and line ministry management.<br>5. Fiscal and banking accounts regularly reconciled.<br>6. Annual accounts closed in timely manner.<br>7. Debt management assures sustainable debt policy, timely issuance of debt for cash flow management and reaching the spending target.<br>8. Internal audit detects and corrects fraud, waste, and abuse; assures integrity of financial information.<br>9. External audit assures fairness and accuracy of financial reporting, effectiveness of internal audit and control systems. |
| ***Strategic allocation of resources*** | 1. Expenditure allocations between and within sectors are consistent with government policies and priorities.<br>2. Sectoral ceilings set early in expenditure process to encourage ministry prioritization.<br>3. Current policies, laws, and programs are reconciled in annual budget to assure prioritization of resource use.<br>4. Resources are reallocated from lesser to higher priority programs and from less to more effective programs, across and within sectors. | 1. Commitment and Treasury controls execute the budget as approved.<br>2. Formal, transparent procedures used to amend budget if necessary.<br>3. Frequency of FMIS reporting allows management action to correct deviations from approved budget. |
| ***Effective service*** | 1. Budget planning supports | 1. Budget execution (with commitment |

| GOAL | Budget Formulation Features | Budget Execution Features |
|---|---|---|
| ***delivery*** | productivity improvements and management/program development.<br>2. Budget process supports analysis and review of performance, structure, staffing and organization, and policies.<br>3. Program classification structure within ministries supports focus on objectives and results.<br>4. Basic program performance information allows linking of resources with results, with pressure for increased efficiency.<br>5. Program evaluation supports regular review of program impact and effectiveness. | and cash controls) limits critical expenditures, but supports flexible resource use at program level (e.g. across non-personnel economic classifications, with respect to seasonal spending patterns) for efficiency (controls are not excessively detailed to prevent management of program).<br>2. FMIS supports program managers.<br>3. Civil service system supports quality public staff, flexibility in reallocating staff resources and restructuring workforce.<br>3. Procurement system supports competitive, efficient, and timely contracting.<br>4. Internal audit able to identify options for improved economy and efficiency. |

Source: Adapted from World Bank - Albania Expenditure and Institutional Review – April 2001

Utilizing the above critieria, our assessment of Yemen's MOF indicates that several key features are absent or insufficient (see Table 2).

## TABLE 2. OBSERVABLE FEATURES OF YEMEN'S MOF IN RELATION TO INTERNATIONAL STANDARDS OF EFFECTIVENESS

| GOAL | Budget Formulation Features | Budget Execution Features |
|---|---|---|
| ***Aggregate Fiscal Discipline*** | 1. No multiyear macro-fiscal framework used to set public revenue, expenditure and debt policy within realistic economic framework for line ministries, resulting in extensive use of *supplementary budgets*.<br>2. Fiscal oversight limited by level of disclosure and integrity of fiscal information | 1. No control system to limit expenditure of available resource, and no treasury cash management that supports matching of expenditures to revenues for line ministries.<br>2. No expenditure controls to execute the line ministries' budget as approved.<br>3. Fiscal and banking accounts are only partially reconciled.<br>4. Internal audit is not operational. |
| ***Strategic allocation of resources*** | 1. Expenditure allocations between and within line ministries may not be consistent with government policies and priorities.<br>2. Sectoral ceilings set early in expenditure process to encourage ministry prioritization may become | |

| GOAL | Budget Formulation Features | Budget Execution Features |
|---|---|---|
| | *artificial* because subsequent cash allocations or supplementary budgets render them redundant.<br>3. Resource allocation limited by level of disclosure and integrity of fiscal information as several spending programs occur outside the budget (tax expenditures, foreign assistance, quasi-fiscal expenditure such as the fuel subsidy, and extrabudgetary funds) | |
| ***Effective service delivery*** | 1. Poor budget planning (and inability to execute budget as approved) at the line ministry level do not support productivity improvements and management/program development. | |

# EXPLAINING THE MOF'S LEVEL OF EFFECTIVENESS

This section aims to explain the Finance Ministry's level of effectiveness at three levels: individual, organizational, and institutional.

## Effectiveness at the Individual Level

Effectiveness at this level is shaped by the *incentives* supplied by the Ministry to attract, and account for, talent and performance. The importance of incentives is arguably no different for any public sector organization. In the case of the Finance Ministry, its capacity to provide incentives is affected, in turn, by performance management systems, payroll policies, employment procedures and ethical standard that determine how incentives are distributed. Ideally, public payroll controls should be able to account for civil service payroll. Similarly, employment procedures and conditions should be documented and accessible to interested parties. Finally, officials handling or making decisions about the receipt or use of public funds should be subject to a code of conduct that precludes unethical behavior. Deviations from these principles and practices will diminish the Ministry's capacity to implement its objectives.

In our view, the low level of effectiveness at the individual level is explained by three principal issues, specifically (1) inadequate control over the civil service payroll, (2) weaknesses in enforcing the legal framework for employment procedures, and (3) poor ethical standards, as discussed below.

**Inadequate controls over the civil service payroll have contributed to over- employment.**[5] There are tremendous pressures on government officials to hire on the basis of social networks, not on the basis of meritocracy or competencies. The lack of controls on civil service payrolls does not help to resist these pressures. In addition, the real value of government wages and salaries in Yemen remains grossly inadequate compared to the private sector, particularly at the higher grades of the civil service, and the

[5] Based on PEFA performance indicators 18, Effectiveness of payroll controls.

quality of the civil service has suffered as a result. At the same time, at around 10 percent of GDP, the government wage bill continues to weigh heavily on the budget. The government has committed to address these shortcomings through a comprehensive civil service reform program that aims to create a leaner, better paid and more effective civil service. Progress has already been made in this direction with the completion of a census of the civil service, the establishment of a computerized data base of civil servants, the launching of restructuring plans in ministries and agencies, and the establishment of the Civil Service Fund.

**We have also found that the set of criteria used to select and promote civil servants is discretionary, and there is wide variation in wage policy and job stability among different public sector employees.** The regulations for the civil service apply to staff in most of the government agencies.[6] In principle, recruitment and wage policies are highly centralized and operate under standards for competitive exams and publicity of vacancies. In practice, however, Cabinet decisions sometimes interfere in the transparency of the process by overcoming merit-based criteria to benefit certain sectors with higher-than-average salary increases. In addition, actual procedures are not transparent for either hiring or promotion decisions. Scant use is made of aptitude tests, examinations, or public contests, as established by law, and there is significant variation in the wages paid by different public bodies for equivalent jobs. The exemptions to normal procedures along with the authority given to heads of departments to award supplementary pay benefits outside the basic salary have also affected transparency in the management of the civil service and distorted the salary structure across public agencies.

**Moreover, we have observed that while there is a code of conduct for public servants, the implementation framework is weak.** The Civil Service Law defines the ethical responsibilities of civil servants. It sets modalities for disciplinary actions and sanctions. An independent department (the Civil Service Ministry) reporting to the prime minister is charged with ensuring that these regulations are implemented transparently, efficiently and fairly. The principal law is clear: No government employee shall take advantage of his office or powers to achieve personal benefits or gain, or accept gifts, bonuses or grants from any person who has a financial link, relationship or interest in his department. However, there is no adequate framework to ensure that civil servants abide by the law. In addition to the existing legislation, a new anti-corruption act that mandates financial disclosure for high officials is still waiting implementation[7].

## Effectiveness at the Organizational Level

The effectiveness of the Finance Ministry at the organizational level is affected greatly by the clarity of definition of the scope of government itself, the framework for fiscal management; and the openness of budget processes that concern budget preparation, documentation, and presentation. The latter includes procedures for budget execution, fiscal reporting, and auditing. The first two dimensions -- the scope of government and the framework for fiscal management -- are crucial as bases for assigning accountability for the design and implementation of fiscal policy. Identification of all those entities that supply a public good or service provides the public with an understanding of the true scope of government. A legal and

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[6] See General Law of Civil Service No. (19) of 1991 and Law No. (43) of 2005 related to employment, wages and salaries system and relevant resolutions issued by the Council of Ministers.
[7] Penalties for violation of conduct are documented in the legislation. See the Anti-Corruption Law No. 39 of 2006, the Republican Decree Law No. 12 of 1994 on Crimes and Penalties, the Financial Law No. 8 of 1990, Implementing Regulations for Tenders Law No. 3 of 1997 issued by Decree No. 234 of 2007 of the Prime Minister and the Decree No. 27 of 1997 of the Prime Minister on Regulations for Financial and Administrative Penalties and Violations.

administrative framework that clearly assigns the roles and responsibilities of government in the collection and use of public resources promotes accountability and good governance. The third dimension -- openness of budget processes -- is critical in ensuring support to the annual budget, which is the government's main instrument for setting fiscal policy. Deviations from these principles and practices will result in a reduction of a Finance Ministry's capability to deliver.

The effectiveness of Yemen's Finance Ministry is weakened at the organizational level due to three fundamental problems, namely (1) the Ministry's limited coverage of the actual scope of government activity, (2) weaknesses in enforcing the legal framework for fiscal management and (3) fragmented practices relating to budget preparation, execution, reporting, and auditing.

**In terms of the Ministry's inadequate coverage of the totality of Yemen's government activity, we are specifically concerned about the following:**

- **Government Finance Statistics (GFS) coverage of general government entities[8] in the budget process is *limited*, and does not provide adequate information on the scope of actual government activity.** The general government includes the central ministries and agencies,[9] public authorities having dependent or annexed budget and special funds,[10] public service enterprises, public production enterprises and joint ventures. Several agencies under the budget definitions of public authorities having dependent or annexed budget and public service enterprises are an extension of the central government and can be defined as autonomous agencies. The budgets of the Social Security funds are included with the government budget, under the budget definition of public authorities having dependent or annexed budget and Special funds. At the local government level, governorates vote their own budgets, which are approved by the ministry of local administration, and receive transfers from the central government budget.[11] We found no general government aggregates are provided in budget documents but the budgets of the central and local governments are shown on a consolidated basis.

[8] The public sector consists of the general government sector and public corporations. The general government sector consists of all government units and all non-market nonprofit institutions (NPIs) that are controlled and mainly financed by government. Government units encompass all national and sub-national units that perform functions of government as their primary activity. This would include any entities that receive the majority of their funds through transfers, earmarked revenues, or other government sources to carry out government functions; as well as any spending of public money for fiscal purposes even if not covered by institutional arrangements. The two main types of public corporations are non-financial public corporations and financial public corporations, which include the monetary authority (central bank) and non-monetary financial corporations. Separation of government functions from commercial and monetary activities helps to establish clear accountability for the conduct of these very different activities and facilitates assessment of the macroeconomic impact of fiscal activities.

[9] These entities are part of the General Budget, both at the central level, with 98 spending units regrouped in 35 line ministries or agencies, and at the decentralized level (22 governorates) and districts.

[10] Under budget definition of public authorities having dependent or annexed budget and Special Funds of the Budget, there are 4 Social security funds and 37 extra-budgetary funds.

[11] Starting in 2002, the budget is being prepared, executed and reported on a decentralized level. This entails the creation of numerous additional spending and accounting units, to perform the same tasks as before, but at a decentralized level, such as the issuance of checks and monthly reporting. The operations of ministries and agencies at the decentralized level are now reported at the local level and aggregated at the governorate level, while the copying of monthly reports to the line ministry headquarters has been interrupted.

- **Expenditure figures in the budget documents are presented in gross and net terms**[12] **and classified by institution and economic category but there is *no functional classification*.** [13] As a result, the budget classification provides a limited picture of the budget's main policy objectives.

- **Notably, extra-budgetary activities are extensive and the mechanisms for the coordination and management of budgetary and extra-budgetary activities are only partially in place**.[14] Extra-budgetary activities are largely those related to autonomous agencies, special funds, foreign assistance and off budget accounts[15] Although these autonomous agencies and special funds are responsible for preparing their own budgets, they are in principle subject to the annual budget guidelines issued by the MOF. In practice, however, many institutions have been exempt from these guidelines. Apart from the overall budget envelope set by the MOF, there seems to be little coordination of policies across budgetary and extra-budgetary institutions.

**With regard to weaknesses in enforcing the legal framework for fiscal management, the following aspects are notable:**

- **The legal framework for management of public funds is clear, but the responsibilities are *fragmented* and not adequately accountable across government institutions.** The Constitution provides the basis for the budgetary process by: (i) establishing the deadlines for the presentation of the budget to the Assembly and its approval; (ii) giving the Assembly responsibility for approving the budgets of the central government, (iii) allowing the Assembly to approve, disapprove the budget or change it in coordination with the executive; (iv) setting deadlines for final account submission to the Central Organization for Control and Auditing (COCA) and to the Assembly. The Constitution also sets a similar track for institutions outside the central government such as autonomous institutions. Finally, the Constitution gives COCA responsibility for the external audit of all public sector institutions. In practice, the assembly has never revised or disapproved a proposed budget.

  The framework for public financial management is further developed in the Financial Law (FL) and its regulations. The FL regulates the execution of the government budget by any department or institution, and any institution with administrative and financial autonomy, together with financial and accounting rules. It gives the Minister of Finance a strong central role in fiscal management. In practice, key functions are managed outside the MOF (e.g. the treasury function is managed by the Central Bank of Yemen (CBY) and the capital budget by the Ministry of Planning and International Cooperation (MoPIC). The FL also stipulates that all cash and in-kind grants or donations should be recorded in the budget. In practice, this is not done for extra-

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[12] Based on PEFA performance indicators 23, Availability of information on resources received by service delivery units. The team's discussion with MOF authorities indicates that several spending units receive and manage extra-budgetary revenues that are not accounted for or reported in budget documents.

[13] Based on PEFA performance indicators 5, Classification of the budget.

[14] Based on PEFA Performance Indicator 7, Extent of unreported government operations.

[15] Each authority has one or more current accounts in addition to the real accounts that are used for budgetary purposes. These accounts are used for extrabudgetary revenue and expenditure and are not operated on a zero balance basis. These accounts include both specific project accounts, trust accounts and general accounts that are not activity based or time bound, but are used by the line ministry to collect miscellaneous revenues and make extrabudgetary expenditures. These extrabudgetary funds have separate accounts at the CBY and - subject to CBY approval- in commercial banks. Intermediate accounts hold balances of local authorities units that can be used for capital expenditures. These are not covered by the general government account.

budgetary revenues such as in-kind grants that do not require a counterpart allocation by government. The FL determines the modalities for issuing budget appropriations and controlling their uses, and confers the role of budget managers to finance officers of ministries and to regional governors. The FL defines the government's general budget to cover the central administration and autonomous agencies. Subsequent laws have allowed some line ministries to collect fees under their control to finance spending. However, ministries are required by law to incorporate and manage these resources within the budget.

- **The annual budget timetable is clear but there is no strict adherence to the budget calendar.**[16] The main steps and timing for budget preparation is presented in Table 3. It appears there is significant variance in the adherence to a budget calendar rooted in several pieces of legislation. The preparation process sets aggregate spending limits for line ministries and seeks to integrate the national development strategy into the budget. However, the budget documents submitted to parliament do not contain a complete economic budget classification for autonomous agencies (public authorities having dependent or annexed budget and special funds and public service enterprises), and it is thus difficult to evaluate the macroeconomic impact of the budget.

## TABLE 3. LEGAL BASIS FOR THE BUDGET PREPARATION PROCESS

| Timing | Activities | Legal basis |
|---|---|---|
| May | Medium-term fiscal framework preparation | |
| June | The Prime Minister submits current and capital spending ceilings to line ministries | Cabinet directives |
| July | Line ministries and departments present budget proposal to the MOF, Ministry of Civil Service and MoPIC and start discussions | Budget circular guidelines, Civil Service Law* |
| August | Governorates and local governments present budget proposal to the Ministry of Local Administration and start discussions | Budget circular guidelines, Local Authority Law |
| October | The MOF submits the draft budget to the cabinet | Budget circular guidelines |
| November | Draft budget is submitted to parliament | Constitution, Financial Law |
| December | Parliament approves the budget | Constitution |

**Concerning the fragmentation of procedures and practices relating to budget preparation, execution, reporting, and auditing, the following issues need to be addressed:**

- **The preparation of the budget focuses only on the fiscal year**[17]. Annual fiscal policy objectives and priorities are defined in the budget proposal submitted to the Assembly. Medium-term macroeconomic and fiscal projections are not included, nor does the budget documentation include any analysis of the sustainability of fiscal policy. No work has been done to prepare a

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[16] Based on Performance Indicator 11, Orderliness and participation in the annual budget process.
[17] Based on PEFA performance indicator 12, Multi-year perspective in fiscal planning, expenditure policy and budgeting

quantitative and detailed medium-term expenditure framework, taking into account the impact on recurrent expenditure of the investment initiatives described in the National Development Plan[18] (NDP). However, the MOF has plans to frame the budget in a medium-term context.

- **Estimates of the budgetary cost of new initiatives and ongoing costs of government policies are not clearly distinguished in the budget documents.** The budget speech identifies in a broad manner the main government policies explaining major changes in budget revenue and spending. It also contains general statements on new government priorities. The budget documents, however, do not provide a quantification of the costs of new government spending programs nor clearly distinguish them from the cost of ongoing government activities.

- **The legislative basis for taxation is comprehensive but complex.[19]** The tax framework includes three major taxes, namely the income tax, the general sales tax (GST), and customs duties. Taxpayers are informed through the publication of tax laws and regulations, updated on an annual basis. The income tax and the custom duty regime have been frequently modified by investment promotion regulations, which provide significant tax incentives and exemptions. The GST has also been subject to changes (thresholds, sectors covered, and rates) over recent years. Despite the efforts made to strengthen tax administration, tax compliance for the income tax remains weak due to the incomplete observance of accounting rules and ineffective efforts to combat fraud. In addition, by allowing for negotiations between the tax assessor and the taxpayer, the tax framework allows for discretionary interpretation by tax officials, which is a major corruption vulnerability.

- **The basic accounting and internal control procedures in place are *not sufficient* to maintain an adequate control of government spending.[20]** While reasonable internal control procedures are in place, current accounting arrangements fall short of international best practice. There is no comprehensive general ledger based on a sound chart of accounts or an integrated information system for the financial management of government operations. The MOF depends on the monthly cash accounting reports generated by the CBY and line ministries and does not have in place a centralized recording of commitments nor a commitment control system.[21] Thus, *it is not possible to reliably track the accumulation of arrears, if they occur*. Though important progress has been made in expanding the coverage of the general government account, the practice of managing certain resources outside this account continues to undermine the effectiveness of central spending controls.

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[18] A number of line ministries have prepared sector plans but most are not costed. When they are, they are not prepared within a macro-fiscal framework.

[19] Based on PEFA performance indicators 13, 14 and 15, Transparency of taxpayer obligations and liabilities, Effectiveness of measures for taxpayer registration and tax assessment and Effectiveness in collection of tax payments.

[20] Based on PEFA performance indicators 4 and 20, Stock and monitoring of expenditure payment arrears and Effectiveness of internal controls for non-salary expenditure.

[21] The controls operate at the point of payment and there is no process to control expenditures at an earlier point in the transaction cycle. As a results commitments can be entered into by line agencies in excess of available allocations, and goods and services received for which payment cannot be made. These can lead to over expenditures and a build up of arrears that may have to be addressed through supplementary budgets. Both COCA and MOF also reported a weakness in the control system as a result of section 63 of the Financial law No 8 of 1990. The provision permits Ministers to authorize transactions, which would otherwise be considered a violation of the laws and regulations. The MOF official who effects the transaction is expected to notify the MOF and COCA for these bodies to investigate the violation.

- **There is *no cash management unit at the MOF* to optimize the utilization of government cash resources[22].** But there are existing banking arrangement that have some positive features, including the consolidation of budget related cash resources of the central authority in a general government account. However there are significant cash resources outside the general government account. These include "current accounts", including project and trust accounts and "intermediate accounts" (for local authorities).

- **The *debt management function is fragmented,* with responsibilities divided between the CBY, the Ministry of Planning and International Cooperation and the MOF**. The CBY is responsible for domestic debt issuance associated with its monetary policy role.[23] The MOF has a external debt management unit which is part of the External Relations Department. The MoPIC is responsible for project financing although the MOF is involved in the final negotiation with donors.

- **A new procurement law was introduced by decree in 2007 but it has yet to be actually implemented.**[24] The law aims to ensure greater transparency, safeguard competition, and raise ethical standards in procurement. Steps to improve procurement practices include a new manual, the removal of all ministerial representation from the High Tender Board, and the establishment of a new procurement monitoring committee. Overall, these arrangements meet international standards, but the challenge will be in the implementation which will require simultaneous technical assistance and training.

- **The Ministry's internal audit function is not operational.**[25] There is no internal audit function as defined by international standards, namely the auditing of the quality and effectiveness of a ministry's financial management system.

- **Fiscal reporting is partial and delayed.[26]** Line ministries provide the MOF with monthly reports (in hard copy) on their operations. These reports use the GFSM 2001 economic classification that was introduced in the 2007 budget. Under the provisions of the Financial Law, these reports should be submitted within 10 days of the end of the month. However, the reports are often returned because of errors and the final reports are sometimes received only after a significant time lag. MOF officials indicated that on average the reports are received with a delay of 2-3 months. The reports are received by the final accounts section in the Budget Directorate which makes comparisons between the monthly reports and the relevant CBY data, but does not prepare a consolidated report for each month based on the returns from line ministries and the governorates.[27] There is no systematic follow up on these reports by the MOF.

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[22] Based on PEFA performance indicators 16 and 17, Predictability in the availability of funds for commitment of expenditures and Recording and management of cash balances, debt and guarantees

[23] The financial arrangements between the government and the CBY are not transparent. The government does not pay directly for the banking or the budget execution service it provides but it does not receive interest on the cash balances held at the CBY. The CBY charges the MOF a commission of 1 percent on the issuance of domestic debt.

[24] Based on Performance Indicator 19, Competition, value for money and controls in procurement

[25] Based on Performance Indicator 21, Effectiveness of internal audit

[26] Based on Performance Indicator 24, Quality and timeliness of in-year budget reports.

[27] The MOF receives from the CBY daily reports on the previous day's cash inflows into and outflows from the main account of the MOF, referred to as general government account and monthly reports on cash flows based on the chapter and subchapter levels of the budget classification. These are usually received within 7-10 days of the following month. These report are the main mechanism for aggregate fiscal monitoring. They are also used for

(continued... )

## Effectiveness at the Institutional Level

The effectiveness of the Ministry at the institutional level is affected by external factors such as a clear legal and administrative framework that assigns the roles and responsibilities of government in the collection and use of public resources; the provision of comprehensive information on fiscal activity and government objectives to the legislature and the public; the presentation of such information in a way that facilitates policy analysis and promotes good governance and accountability; and oversight mechanisms that provide assurances to the legislature and the public about the integrity of fiscal data.

In reviewing the Finance Ministry's level of effectiveness at the institutional level, we find three particularly problematic areas, namely (1) weaknesses in enforcing the legal framework for fiscal management, (2) inadequate provision of comprehensive information on fiscal activity and government objectives, and (3) limited oversight mechanisms that provide assurances about the integrity of fiscal information.

**In terms of the enforcement of the legal framework for fiscal management, we observed that the fiscal roles of the executive, legislative, and judicial branches do not operate as defined by the constitution, particularly with the executive supplanting the roles of the legislative.[28]** The constitution divides the powers and functions of the government into executive, legislative, and judicial categories. The executive powers are vested in the President, who exercises his authority with the help of the Council of Ministers or cabinet (a prime minister, a deputy prime minister, and ministers). The legislative powers are assigned to national assembly. Judicial powers are vested in the courts. The Constitution indicates that: (i) taxes and duties are imposed by law; (ii) in approving the draft general budget law, the National Assembly cannot increase expenditure, or amend expenditures or revenues unless these initiatives are coordinated with the executive; (iii) tax exemptions are sanctioned by law; (iv) the budgets of autonomous institutions and special funds, public service are subject to the same laws governing the general budget and the final accounts; (v) in case the general budget law cannot be enacted before the new financial year, appropriations of the budget of the previous fiscal year become effective. The Constitution gives the legislature the power to approve the transfer of one chapter of the budget to another. However, in practice, given the strong control of the President over parliament through the GPC, the legislature has generally moved in unison with the executive.

**With regard to disclosure of financial information, we found inadequate provision of comprehensive information on fiscal activity and government objectives. Two major inadequacies are notable.**

**First, budget documents present only a limited coverage of fiscal activities**.[29] The main budget documents are the budget speech, the annual budget law, and the budgets of the central ministries and agencies, public authorities with dependent or annexed budget and special funds, public service enterprises, public production enterprises and joint ventures. The annual budget law includes budget revenue by major categories and current and capital expenditures provisions by ministries and line

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verification of disbursements against budget allocations, and for keeping track of the cash balance in the general government account. The MOF has an on-line connection that allows it to monitor the balance of the account on a daily basis. While the CBY reports provide timely and immediate information at an aggregated level on cash flows, these reports only provide limited view of financial operations.

[28] Based on Performance Indicator 27, Legislative scrutiny of the annual budget law

[29] Based on PEFA performance indicators 6 and 10, Comprehensiveness of information included in budget documentation and Public access to key fiscal information.

agencies. Financing data is presented in an aggregate table and budgetary provisions are made for the line ministries' financial assets and liabilities flows. However, no general government aggregates are provided in budget documents; budgets of the central and local governments are shown only on a consolidated basis.

**Second, statements on contingent liabilities, tax expenditures and quasi-fiscal activities are not included in the budget documents.**[30] There is no budgetary information for the contingent liabilities associated with guarantees granted by the government to sub-national governments, public enterprises and autonomous agencies. No estimates of tax expenditures (i.e. tax exemptions) are included in the budget documents or annual accounts. Different corporate income tax rates apply to specific economic activities and exemptions for the GST are applied to the supply of hotel accommodation, transport and electricity.[31] Non-financial public institutions carry out significant quasi-fiscal activities, most notably the fuel subsidies. There is no centralized reporting of the cost of these quasi-fiscal activities.

**Concerning the integrity of financial information, we found limited oversight mechanisms that provide weak assurances about data integrity. Among our concerns are the following:**

**First, initial budget estimates are not reliable, and there is wide variance between the budget and actual expenditures**.[32] During the 2004–06 period, there were significant differences between the initial budget estimates and the actual expenditures. The repeated use of large supplementary budgets shows weaknesses in budget formulation and execution, and undermines fiscal discipline.

**Second, statements on accounting policy are not included in the budget or final accounts documents.** The preparation of final accounts is stipulated in the financial law, and accounting procedures are prescribed in a separate accounting instruction. Accounting is based on the cash principle and double-entry recording of transactions.

**Third, the processes of accounts reconciliation are only partly effective.**[33] Each ministry and governorate reconciles its reports with bank account data. The MOF reconciles the accounting reports from the ministries and governorates with their budget appropriations. However, given the MOF's inability to access timely transaction-level data in the ministries, this reconciliation is not fully effective. The MOF reconciles its own accounts with payments made through the general government account, but there is no overall reconciliation of aggregate fiscal data for the government with the government's position based on monetary data.

**Fourth, there is weak follow-through on external audit findings**. [34] The president of COCA is appointed by the President for an open-ended period. COCA's budget is included as an item in the budget

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[30] Based on PEFA performance indicator 9, Oversight of aggregate fiscal risk from other public sector entities.
[31] The government's policy to promote investments has made the tax framework complex. Corporate income tax rates are differentiated by sector, and the new investment promotion law has introduced generous tax incentives based on sectors and regions. Exemptions for the general sales tax (GST) were granted to hotel accommodations, transport and electricity, and, until recently, petroleum products. Tax holidays under investment promotion arrangements are generally provided uniformly, as long as the specific conditions are met. Tax exemptions for individual taxpayers are approved by the cabinet. Tax exemptions have led to distortions and to significant revenue losses.
[32] Based on PEFA performance indicators 1-3, Aggregate expenditure out-turn compared to original approved budget, Composition of expenditure out-turn compared to original approved budget and Aggregate revenue out-turn compared to original approved budget.
[33] Based on PEFA performance indicator 22, Timeliness and regularity of accounts reconciliation.
[34] Based on PEFA performance indicator 26, Scope, nature and follow-up of external audit.

law. COCA's mandate covers all regular budget organizations, as well as autonomous government agencies. Traditionally, it has focused on compliance and financial controls, in particular related to procurement, and on auditing the final accounts. It plays a role in *ex-ante* control of financial management through its field offices in the ministries and by placing COCA staff as observers of procurement activities. In recent years, COCA has put more emphasis on performance audits. According to its charter, COCA submits its annual report to parliament within three months of receiving the final accounts from the MOF. COCA carries out an external audit of all line ministries and provides a comment on the final accounts prepared by the MOF. While an opinion is expressed by the President of COCA on the accounts prepared by economic units, there is no formal opinion expressed on the final accounts of the government as an indicator of the government's financial performance. However, the annual auditing report for the final accounts of 2006 make reference to a variety of serious weaknesses in asset maintenance, procurement practices,, and capital budget execution. To date, these findings have yet to be fully investigated by the executive and legislative branches as well as by the new anti-corruption agency, the Supreme National Agency for Controlling Corruption (SNACC)

To be sure, the legislature discusses external audit reports, but it does not conduct public hearings on audit findings.[35] The Assembly receives the reports prepared by COCA, and its findings are discussed at the Assembly's permanent commission for the control of public revenue and expenditure. But in the end there is little follow-up on COCA's annual report recommendations. This is due to the fact the ruling party, because of its majority, is able to control the agenda and schedule of the assembly.

**Fifth, external scrutiny of macroeconomic models and assumptions is not encouraged.** The MOF prepares macroeconomic projections based on an economic model. No publicly available documents describe the details of this model or the projections, and no mechanisms are in place to ensure independent scrutiny of the model and its assumptions. The MOF uses the macroeconomic projections as a basis for budget estimates. No other government or non-government institutions prepare macroeconomic projections. There is limited discussion of the projections and their implications within the government and little public discussion of this topic. There is no systematic, publicly available, tracking, and comparison of macroeconomic projections against actual results.

In sum, the preceding weaknesses and gaps at the individual, organizational and institutional levels of the Ministry constrain its capacity to become more effective. In key areas, they reflect the overall governance and operating environment of the country, where social networks driven by tribal interests, military connections, and business elite that permeate the government combine to stunt the Ministry's organizational development. In this context, it is naturally difficult to advance and execute reforms due to resistance and opposition from these social networks, as members of the donor community have found over the years. In the following section, we discuss a number of donor-supported reforms, analyzing some the setbacks as well as some of the promising areas for reforms.

[35] Based on PEFA performance indicator 28, Legislative scrutiny of external audit reports.

# A REVIEW OF PAST AND ONGOING REFORMS

## Background of Reforms

Yemen's longer-term economic reform agenda is dominated by the declining role of oil in the economy. Oil output currently accounts for approximately one-third of GDP. However, stocks are predicted to be depleted within 20 years and oil revenue is expected to decline steadily until then. As a result, fiscal issues have been high on the reform agenda, with efforts to reduce the budget deficit to a sustainable level figuring prominently. At the same time, widespread poverty has made the mobilization of domestic resources to finance poverty-reducing spending and improvements in public financial management (PFM) important policy objectives. Consistent with these policy priorities, many donors focused their technical assistance on budget management, customs administration, and tax and policy administration.

A notable assessment of Yemen's track record in implementing technical assistance for the Finance Ministry was a TA report on Yemen's budget process.[36] One of the primary objectives of this report was to review the status of reforms implemented under the second phase of the UNDP/IMF/DFID *Strengthening Economic and Financial Management* (SEFM) II project. SEFM II, which ran from 1997 to 2000, was intended to create a unit within the MOF capable of preparing medium-term macro-fiscal projections and to establish a modern system of budget formulation, cash management, and expenditure control. This included the establishment of a comprehensive computerized accounting and financial information system (AFMIS), which was sponsored by the World Bank. The Report endorsed the findings of earlier IMF and UNDP reviews, notably the fact that while there had been some progress in improving budget processes (budget classification and supporting public accounting systems in particular), overall progress had been disappointing. For example, the review noted that, while the macro-fiscal unit envisaged in the initial SEFM project had been established in 2000, the unit was producing *targets* rather than *forecasts* and that these targets were not formulated within a multi-sector economic framework. Moreover, appropriate indicators were not being used by the High Budget Council to formulate revenue or expenditure estimates. The report also noted that much of the public services and social benefits continued to be provided outside the formal budget.

Indicative of a lack of progress in implementing reforms was the evolution of the non-oil fiscal balance, which was a major concern underlying IMF-supported programs for Yemen since the late 1990s. It illustrates the *virtual stagnation of non-oil revenue over the same period, despite large amounts of technical assistance to enhance tax policy and administration and in customs administration*.

In 2006, the Yemen government started an ambitious and comprehensive two-year public financial management reform program. This program has been developed with assistance from a group of donors. It aims to strengthen spending control, including establishing a single treasury account, and to improve budget preparation, execution and reporting. In this regard, starting with the preparations for the 2008 budget, the authorities will cast their annual budget within an explicit medium-term macro framework and a three-year rolling Medium-Term Expenditure Framework. [37]

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[36] J. Craig, P. Desai, A. Macdonald, and M. Thabet, "Further Reform of the Budget Process," (2002).

[37] PFM TA is provided by UNDP (with support from UK DfID and the Dutch Embassy) in the area of commitment controls and capacity building; the IMF in the area of treasury operations, statistics and tax policy and administration; and the World Bank in the area of medium term expenditure framework and subnational finance.

## Assessment of Past Technical Assistance

Given the widely-held perception that Yemen's track record in implementing recommendations from past TA was poor in relation to the large amount of TA funds provided to the country, Yemen probably received considerably more TA than it could absorb politically and institutionally. This reinforced a track record of weak implementation that generated skepticism about the utility of reforms. The net result is that some donors may now be reluctant to provide significant additional TA. Fewer, but better designed and supported TA activities, might have been more successful and would have represented a more effective and efficient use of scarce TA resources. This need not have resulted in an overall reduction in TA resources committed to Yemen if more resources had been devoted to early and intensive dialogue with the authorities on the design and scope of programs, including obtaining a clearer sense of the extent of the authorities' policy commitment; more systematic monitoring and evaluation of performance, and more determined efforts to disseminate the results of individual TA activities.

The availability of significant external financing to support technical assistance in Yemen, in recognition of the country's genuine developmental needs, appears to have been a major reason for the sustained high level of TA to Yemen. However, there may not have been adequate assessments on whether or not TA to Yemen was effective. At times it appears that commitments to provide significant amounts of TA were made well in advance of a comprehensive evaluation of performance under earlier TA, the results of which could have significantly influenced the amount and nature of TA provided to the country.

In addition, we think there is basis for the view that lack of government ownership of donor-funded reform agenda undermined the impact of a number of prior TA delivered in Yemen. Given the nature of Yemen society where vested interests would resist meaningful reforms that would upset the status quo, it is not surprising that previous reforms have been undermined in the process of implementation. The lack of ownership was reinforced by bureaucratic and institutional impediments. These include poor communications, language difficulties, weak coordination between TA and training activities, inadequate dissemination and appreciation of lessons from past TA efforts, insufficient understanding of political and administrative absorptive capacity, inadequate coordination among key providers, and a lack of timely and systematic feedback to improve allocation decisions and operations.

We have examined a wide range of reform recommendations from various programs that have been made to the Finance Ministry to improve its capacity and effectiveness. In our view, there are two major areas that need to be improved in future programming. The first is the question of design of TA and training activities. In our view, there is a need to ensure greater involvement of counterparts in key aspects of the design and delivery of technical assistance. The second concerns the delivery of technical assistance and training. The experience of Yemen suggests that fewer and more focused TA activities, with greater resources devoted to each effort, may lead to a more effective and sustainable outcomes.,

**In terms of improving the design of TA and training activities for the MOF, we would like to take note of two particular weaknesses: the drafting of terms of references, and the selection of providers.**

With regard to terms of reference, we observed that sufficient time and effort may not have been devoted upfront in the preparation of detailed TORs. In our view, key actors in the government should be engaged in their preparation, particularly by investing more of their own time and resources in the detailed identification of needs and strategies and making clear, upfront, commitments to support the implementation of TA. Donors should support these efforts but should by no means seek to replace active involvement by the authorities, even if this results in a delay in TA delivery. While this might result in fewer requests for TA, it is likely that those requests will better reflect genuine needs and conform to more strongly owned policies.

In addition, there is a perceived need to ensure that the TORs are better coordinated with the efforts of other TA providers. While this did not require a donor necessarily to involve other providers in the preparation of its TORs, it does require improved communication among TA providers on the details of specific TA activities as well as longer-term TA plans. Finally, a number of government officials expressed concern that they were not adequately involved in drafting TORs, indicating that this had resulted in the provision of TA in areas in which advice was not needed, leading to little or inadequate ownership of TA recommendations. Part of the problem appears to be that consultation on the drafting of the TORs was concentrated almost exclusively in the External Relations Department of the MOF, with, at times only minimal or no involvement from the direct recipients of TA in other MOF agencies. As a result, officials within these agencies felt that the TORs did not adequately reflect their needs or priorities.

Concerning the choice of implementers (international and local firms and consultants), we heard from officials about issues between those who seek to work as "partners" as opposed to those who act as "task masters". It was suggested that those with managerial experience (in addition to technical expertise) are more likely to be effective in providing TA because they are likely, by their experience and skills, more able to identify institutional and organizational problems that hamper the implementation of reforms.

Arguably, the above issues are not unique to Yemen's Ministry of Finance or for that matter to other Yemen ministries. They are similar to developmental issues encountered in other countries. What makes them notable is that they appear to be recurrent issues, and can and should be addressed squarely in ongoing or prospective development assistance. There are approaches that can and have been utilized to ensure convergence between donors and government counterparts, to match as it were supply of and demand for assistance, such as joint consultative meetings, strategic planning workshops, and organizational assessments.

**Regarding the improvement of the delivery of TA and training activities for the MOF, we discussed a number of issues with government officials and donor representatives. Several issues were raised.**

**There was a concern about the appropriateness of models for reforms.** A number of MOF officials and some donor representatives argued that donors and experts should make greater efforts to recommend *sequenced* reforms, with simpler systems taking the lead. They argued that more advanced systems were frequently not sustainable in a country where skills are lacking and incentives for communication and coordination within the public sector are distorted. This means that "first generation" reforms, such as budget preparation, expenditure and revenue classification, accounting and fiscal reporting, cash management, treasury systems, and internal control and audit, should ***precede*** more complex "second generation" reforms, such as medium-term expenditure frameworks, performance budgeting, accrual accounting and fiscal risk assessments. In general, this seems to be a prescription that in some instances may already overtaken by events. For example, the MOF is already seeking to establish medium-term expenditure frameworks even as it has not adequately addressed "first generation" issues.

**The need for improved coordination and communication among different implementers was also noted.** Some officials suggested there should be emphasis on promoting effective communication between donors and implementers working in related areas, on an operational basis and not just on broad arrangements such as donor consultative meetings. It was noted that the government should be routinely and promptly informed of upcoming visits of experts and informed of the mandate of specific missions. The potential benefits from greater openness on the part of donors are significant, regardless of whether they are matched by similar openness on the part of other partners.

**There was also a suggestion to improve the flow of information concerning the content of technical assistance and the availability of TA reports.** The limited circulation of technical assistance reports was a particular concern given the importance of leveraging scarce TA through coordination with other implementers and the increased attention within the donor community to ensuring an efficient division of labor among TA providers. It was suggested that donors, in providing technical assistance, should ensure that the lessons and recommendations of TA activities be directly to the immediate recipients of TA as the effectiveness of TA may be undermined by a very poor flow of information between and within agencies and ministries. The current policy of treating some or all TA reports as confidential and limiting their distribution, both within governments and among partner agencies providing assistance in similar areas, is said to be antiquated and should be replaced. This does not mean that there should be a policy of presumed publication, but that there should be upfront agreement with the authorities that direct beneficiaries of TA and major partners should be provided with TA reports upon completion, unless there is a compelling reason to maintain strict confidentiality.

**A number of officials also noted that implementers of donor projects should spend more time interacting with officials in country as they formulate recommendations and draft reports**. These officials suggested that it would be valuable for experts to work collaboratively with counterparts as recommendations were being formulated. This would provide the authorities with the opportunity to discuss and consider options with experts before recommendations are finalized and therefore have greater ownership of the results. This would also enable the authorities to acquaint experts more fully with the local context. Finally, there was a general interest among government officials in having experts provide more than a single option when making recommendations. Not only would this give the authorities a chance to adapt advice better to country conditions, but it would help foster ownership of the approach taken.

**Finally, some donor representatives noted that there are potential synergies between technical assistance and training activities among donors that are not being exploited.** It was suggested that efforts should be made to seek agreement between the authorities and donors on a coordinated strategy that targets opportunities to enhance more broadly the effectiveness of TA and capacity building. This would involve a review of the selection process for attendance at donor-sponsored courses as a number of donor representatives considered that training opportunities outside the country were often used by the authorities to reward selected staff or to compensate for low salaries rather than to improve capacity building. For example, a number of the individuals selected to participate in Public Financial Management (PFM) courses and seminars may not be the most appropriate and, indeed, may not be even have working in the relevant area.

From the preceding discussion of issues in past and ongoing technical assistance to the MOF, it is imperative that prospective development assistance to strengthen the effectiveness of the Ministry should take into account these issues. In the concluding section below, we outline some recommendations for programming considerations.

# CONCLUSION AND RECOMMENDATIONS

The Ministry of Finance has made notable progress in recent years toward greater effectiveness in carrying out its mandate. Specifically, it has initiated a number of reforms funded by multilateral agencies that are likely to have major implications for effectiveness when they are successfully implemented, as follows:

- An operational medium-term budget framework that should enhance the consistency and comprehensiveness of medium-term planning, and facilitate improvements in the quality and transparency of the budget documents.

- An expanded economic and functional budget classification that will provide a better basis for allocation of government funds, make it easier to track budgetary developments, and strengthen the accountability of autonomous agencies and special funds. The expanded budget classification will also facilitate effective accounting, control, reconciliation, and auditing of the budget.

- A commitment control system to limit expenditure to available resources, and to further support matching of expenditures to revenues for line ministries.

- A functioning treasury management unit that will improve the transparency in management of government financial resources, and strengthen the mechanisms for budget control, reconciliation, cash, and debt management.

While there are strides being made in the above areas, there are a number of important gaps as discussed in this report. This report has emphasized some of the major ones, as summarized below.

**In key areas, the Finance Ministry falls short in meeting fundamental requirements to becoming a more effective organization.** In these areas, a broad and sustained effort will be required to approach the levels needed to carry out the MOF's objectives. As outlined blow, in the short term, the Ministry should focus on completion of ongoing reform efforts, as well as on additional measures that can give high pay-offs at a relatively low cost. In the medium term, the authorities need to pursue a range of more challenging reforms.

**In general, the legislative basis for fiscal management in Yemen is fairly comprehensive, and the legislation in itself meets or is close to meeting basic requirements.** However, in key areas, there are weaknesses in ***enforcement***, and actual practices often lag behind legislative statutes. While the structure of government, and the role of different government bodies, are clearly defined in law, the definition of government is not fully consistent with Government Finance Statistics. It excludes many important government activities such as quasi-fiscal activities, tax expenditures and contingent liabilities. These activities are extensive and detailed information on them is limited.

**The framework for budget preparation, execution and reporting has improved in recent years, but does not yet meet the requirements in most areas.** The budget documents are quite comprehensive, but they are not drafted within a macroeconomic framework, and do not include identification of new policies or important fiscal risks. Procurement and employment regulations are clear but enforcement is spotty at best. There are shortcomings in budget classification, as well as in budget execution and reporting.

**Finally, fiscal data are often available within the government, but are not systematically compiled and disseminated to the public.** Mechanisms for ensuring fiscal data quality need to be improved because arrangements for external scrutiny of the budget process are mixed. Budget estimates are not reliable, and accounting standards and reconciliation methods are inadequate.

## A PROPOSED PROGRAM TO ENHANCE MOF EFFECTIVENESS

To address the above problems in a coherent manner and in ways that would strengthen the effectiveness of the Finance Ministry, we recommend the establishment of a **Financial Information Records and Statistical Transparency Project.** The principal objective would be to assist the Finance Ministry in producing comprehensive, systematic and accessible financial information that would allow it to more effectively establish fiscal discipline, ensure strategic allocation of resources, and support public service delivery. The project will have four major tasks:

**1. Provide technical assistance and training to the MOF to enhance availability and accessibility of Information .**

As discussed above, there is a risk that the Finance Ministry is taking on “second generation” reforms even though “first generation” reforms have yet to be completed and consolidated. Without an appropriate foundation, second generation reforms will not be sustainable. In our view, there are a number of simple measures that can be easily implemented and provide quick wins for the government. These measures can be derived by using information that already is available in different parts of the government, but which is not compiled, consolidated, and presented to the public in a systematic manner.

In this regard, the following steps could be relatively easily implemented that can have important positive multiplier effects:

- Establish clear budget procedures and timetables, which are consistent from year to year, and ensure that changes in the budget process are announced well ahead.
- Provide clearer comparison and analysis of budget estimates compared to budget outcomes in the annual budget document.
- Establish a firm publication calendar for the MOF’s monthly bulletin.
- Provide explicit statements of accounting policies in the annual final accounts, and strengthen macro-level reconciliation between fiscal and monetary data.
- Fully document the MOF macroeconomic model, and make this publicly available. Regularly publish estimates and analysis based on the model, and encourage academic and financial institutions to participate in public debate of these estimates.

**2. Provide technical assistance that will rationalize the boundaries of the public sector from the rest of the economy to ensure appropriate accountability in the design and implementation of fiscal policy.** The tasks to be tackled in this regard are as follows:

- Review the activities of autonomous agencies, extra-budgetary funds and off budgetary accounts with the objective of incorporating agencies undertaking mainly governmental activities in the definition of government, and classifying mainly commercial entities as non-financial public enterprises;
- Conduct an inventory of quasi-fiscal activities carried out through public financial and non-financial institutions with the objective of quantifying and disclosing the fiscal costs of these activities in budget documents; and
- Establish a complete register of government and public entities holdings, including holdings by government and public institutions of private companies.

**3. Provide technical assistance and training on the management of fiscal policy to facilitate legislative and public debate on fiscal policy objectives.** The tasks to be undertaken would be as follows:

- Widen the focus of fiscal policy and budget coverage from a partial definition of general government to a GFS 2001 definition of consolidated general government. This action implies that the budgets for autonomous agencies and extra-budgetary funds carrying out governmental activities would be submitted to parliament with the general annual budget for approval, or preferably be integrated into the budget;
- Eliminate the practice of cabinet approval of mid-year or ex-post budget increases without subsequent parliamentary scrutiny and endorsement; and

- Disclose all cabinet's fiscal policy decisions made outside the budget law, including the award of government guarantees and the approval of tax concessions and sales/donations of government properties. A publicly-available register with the cabinet's individual decisions could facilitate this task. A measure to introduce even more transparency in the cabinet's fiscal policy decisions would be to establish clear boundaries for them as part of the annual budget process.

**4. Provide technical assistance and training to the MOF to put in place mechanisms to provide assurances about the integrity of fiscal information.** This could include the following:

- Concentrate the management of the budget execution process in the MOF, giving to the MOF the responsibility for the management of capital and foreign-financed projects; and

- Adopt comprehensive government accounting standards based on International Public Sector Accounting Standards (IPSAS); and further consolidating the general government account to include external grants and loans.

To implement the above activities, this project will require the deployment of a long-term **Senior Public Financial Management Specialist** with extensive experience in with Finance Ministries at high levels in development country settings. He or she must have demonstrated capacity in advancing policy reforms in challenging settings. The person must have regional experience and can speak Arabic. He or she will lead the implementation of project activities and manage the engagement of international and local short-term specialists. From a sustainable standpoint, the project should be linked and lodged with a specifically designated unit in the Finance Ministry. This could be the External Relations Department, which is the principal interface of the Ministry with multilateral and bilateral donors. Its familiarity with international standards and practices of international development organizations makes it a most suitable unit.

The training activities of the project will be delivered mainly in-country. However, **international study visits** will be arranged as learning vehicles as well as incentives for key MOF officials. We propose two international visits both to Washington DC and to a regional country that is pushing public sector financial modernization, such as Morocco. The visit to the Washington DC will be arranged with the assistance of USAID and the U.S. Treasury Office of Technical Assistance to enable visiting Yemenis to see the information processes and products that are developed and delivered in advanced economy. The visit to a regional model like Morocco is to show that the strides being taken by governments in Islamic countries to modernize their public financial system.

Implementation of this project will be coordinated with the multilateral institutions (notably the World Bank and the International Monetary Fund) and bilateral development agencies to ensure complementarities and synergies. Ideally, the training activities would be conducted with joint donor funding both in terms of sponsoring participants and engaging consultants.

The project's training program will tackle the following topics:[38]

**1) Training on Budget and Finance**

This training will teach public officials that a country's budget is one of the most powerful tools used by a government and the most important policy vehicle that reflects a country's economic and social priorities in the context of limited resources available to a government for public expenditure.

[38] This list of training topics and descriptions are adapted from the list of offerings of the Center for Excellence in Finance at www.cef-see.org. The CEF can serve as consultants in the design and delivery of the training program.

The training on finance will deal with the efficient implementation of budgets and good management of financial resources, namely assets and liabilities. In addition to these two basic functions, the training will also deal with other activities to be managed, such as, cash management, management of government bank accounts, financial planning and forecasting of cash flows, etc.

**2) Training on Accounting and Auditing**

This training will teach accounting and auditing as the key elements of the budget execution system. The focus on accounting systems will emphasize how it contributes to budget management, accountability, and policy decision making. The sessions on auditing, together with internal control, will discuss processes and mechanisms that are designed to ensure that planning, budgeting, and use of public resources conform to a country's laws and pursue the objectives defined by regulators.

**3) Training on General Public Finance**

This training will seek to strengthen general knowledge and skills of public officials in public finance. It will be delivered in two modules. The first part will introduce participants to the main elements of macroeconomic forecasting and public revenue projections for preparing and coordinating budgets. The second part will present the key issues and analytic tools in implementing reform programs with special attention on the impact of future demographic and development trends (i.e. rapidly declining oil reserves) that are not reflected in current deficit and debt figures.

**4) Training on Introductory Public Financial Management**

The training will be designed and delivered for newly employed or junior public finance officials to give them a broad overview of public finance management and basic roles of each key player in the public finance system.

**Expected Outputs of the Project**

The expected outputs of this project are as follows:

1. Senior officials of Finance Ministry and other key economic officials from Central Bank of Yemen and Ministry of Planning and International Cooperation trained overseas on international standards and best practices in public financial management.

2. Senior officials of Finance Ministry and other key agencies trained in basic to advance level topics in public financial management.

3. More streamlined budget procedures and timetables that are scheduled and announced in advance.

4. Annual budget documents provide analysis of budget estimates compared to budget outcomes.

5. MOF monthly bulletin has a set publication calendar.

6. Annual final accounts provide explicit statements of accounting policies with macro-level reconciliation between fiscal and monetary data.

7. Regularly published estimates and analysis based on a clear macroeconomic model.

8. Review and revision of scope of government in government financial activities, taking into account autonomous agencies, extra-budgetary funds and off budgetary accounts.

9. Inventory of quasi-fiscal activities carried out through public financial and non-financial institutions.

10. Public register of government and public entities holdings, including holdings by government and public institutions of private companies.

11. Budgets for autonomous agencies and extra-budgetary funds carrying out governmental activities submitted to parliament under the general annual budget.

12. Public register of fiscal policy decisions made outside the budget law, including the award of government guarantees and the approval of tax concessions and sales/donations of government properties.

13. Issuance of policy for a phased-in adoption of International Public Sector Accounting Standards (IPSAS).

We envision this project to be implemented over a two-year period. The specific tasks will necessarily be discussed with the Finance Ministry to determine the priority and feasible areas. Discussions of strategy and sequencing will also be conducted as part of the preparation of a work plan. Some items may be excluded or modified, or other items may be added to the above list, depending on the preferences of the Finance Ministry. The challenge is to be able to advance these reforms and winning over adherents while avoiding being overcome by status quo and vested interests that operate within and outside the Ministry.

There is no doubt that the above proposed activities will face an uphill struggle, both because of the poor governance context of Yemen as well as the low capacity of the Ministry itself and other key institutions to implement reforms. However, in part because of the presence of a group of reform-oriented officials in government and their commitment to the country's modernization, the propose agenda is arguably feasible. In our view, it is worth the investment of donors and the Yemen government. Plainly put, if Yemen is to advance as a democratic society and prosperous economy, it needs to be a polity and economy that treats public financial information as a vital public good.

# ANNEX 1:

# PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA) INDICATOR TABLES

## TABLE A. YEMEN: SUMMARY PEFA INDICATORS

| A. PFM-OUT-TURNS: Credibility of the budget | | Description |
|---|---|---|
| PI-1 | Aggregate expenditure out-turn compared to original approved budget | There is significant deviations between actual expenditure and programmed expenditure at the aggregate and line ministry level |
| PI-2 | Composition of expenditure out-turn compared to original approved budget | There is significant deviations between the composition of actual expenditure and programmed expenditure at the aggregate and line ministry level |
| PI-3 | Aggregate revenue out-turn compared to original approved budget | There is modest deviation between actual and programmed revenues |
| PI-4 | Stock and monitoring of expenditure payment arrears | The basic accounting and internal control procedures in place are not sufficient to maintain an adequate control of government spending and arrears. |
| **B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency** | | |
| PI-5 | Classification of the budget | The GFS coverage of general government in the budget process is limited. The coverage of functional classification is limited to institutional classification. |
| PI-6 | Comprehensiveness of information included in budget documentation | Budget documents present a partial coverage of GG fiscal activities. |
| PI-7 | Extent of unreported government operations | Extrabudgetary funds and donor funded projects are partially covered in budget documents |
| PI-8 | Transparency of inter-governmental fiscal relations | |
| PI-9 | Oversight of aggregate fiscal risk from other public sector entities. | No statement of contingent liabilities is included in the budget documents. |
| PI-10 | Public access to key fiscal information | Public access of fiscal information is partial. |
| **C. BUDGET CYCLE** | | |
| C(ii) Predictability and Control in Budget Execution | | |
| PI-13 | Transparency of taxpayer obligations and liabilities | Transparency of tax obligations limited by complex legislation |
| PI-14 | Effectiveness of measures for taxpayer registration and tax assessment | Self assessment limited by incomplete observance of accounting rules |
| PI-15 | Effectiveness in collection of tax payments | Collection of tax payments limited by complex legislation and lack of enforcement of existing regulations |
| PI-16 | Predictability in the availability of funds for commitment of expenditures | Predictability of funds limited by extensive use of unprogrammed expenditures. |
| PI-17 | Recording and management of cash balances, debt and guarantees | Cash and debt management is fragmented. |
| PI-18 | Effectiveness of payroll controls | Inadequate controls over the civil service payroll have contributed to over-employment. |
| PI-19 | Competition, value for money and controls in procurement | Procurement is clear but enforcement is limited. |
| PI-20 | Effectiveness of internal controls for non-salary expenditure | The basic accounting and internal control procedures in place are not sufficient to maintain an adequate control of government spending and arrears. |
| PI-21 | Effectiveness of internal audit | Internal audit is not operational |

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| **C(iii) Accounting, Recording and Reporting** | | |
| PI-22 | Timeliness and regularity of accounts reconciliation | The processes of accounts reconciliation are only partly effective |
| PI-23 | Availability of information on resources received by service delivery units | Information on resources received by service delivery units is partial |
| PI-24 | Quality and timeliness of in-year budget reports | Fiscal information is not timely. |
| PI-25 | Quality and timeliness of annual financial statements | Final audited accounts are made available within twelve months of the close of  the fiscal year |
| **C(iv) External Scrutiny and Audit** | | |
| PI-26 | Scope, nature and follow-up of external audit | External audit is not yet fully independent of the executive branch, and its mandate covers all CG activities |
| PI-27 | Legislative scrutiny of the annual budget law | The legislative scrutiny of the annual budget law is limited. |
| PI-28 | Legislative scrutiny of external audit reports | The legislature discusses external audit reports, but does not systematically follow up on audit findings |

# TABLE B. YEMEN: DETAILED PEFA INDICATORS

| Indicator | Guidance |
|---|---|
| 1. **Aggregate expenditure out-turn compared to original approved budget** | The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).<br>A. In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure.<br>B. In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 10 % of budgeted expenditure.<br>C. In no more than one of the last three years has the actual expenditure deviated from budgeted expenditure by more than an amount equivalent to 15% of budgeted expenditure.<br>D. In two or all of the last three years did the actual expenditure deviate from budgeted expenditure by an amount equivalent to more than 15% of budgeted expenditure. |
| 2. **Composition of expenditure out-turn compared to original approved budget** | (i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years.<br>A. Variance in expenditure composition exceeded overall deviation in primary expenditure by no more than 5 percentage points in any of the last three years.<br>B. Variance in expenditure composition exceeded overall deviation in primary expenditure by 5 percentage points in no more than one of the last three years.<br>C. Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in no more than one of the last three years.<br>D. Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years. |
| 3. **Aggregate revenue out-turn compared to original approved budget** | Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget.<br>A. Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.<br>B. Actual domestic revenue collection was below 94% of budgeted domestic revenue estimates in no more than one of the last three years.<br>C. Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in no more than one of the last three years.<br>D. Actual domestic revenue collection was below 92% of budgeted domestic revenue estimates in two or all of the last three years. |
| **Stock and monitoring of expenditure payment arrears** | (i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.<br>(ii) Availability of data for monitoring the stock of expenditure payment arrears.<br>A. (i) The stock of arrears is low (i.e. is below 2% of total expenditure) (ii) Reliable and complete data on the stock of arrears is generated through routine procedures at least at the end of each fiscal year (and includes an age profile).<br>B. (i) The stock of arrears constitutes 2-10% of total expenditure; and there is evidence that it has been reduced significantly (i.e. more than 25%) in the last two years. (ii) Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.<br>C. (i) The stock of arrears constitutes 2-10% of total expenditure; and there is no evidence that it has been reduced significantly in the last two years. (ii) Data on the stock of arrears has been generated by at least one comprehensive ad hoc exercise within the last two years.<br>D. (i) The stock of arrears exceeds 10% of total expenditure. (ii) There is no reliable data on the stock of arrears from the last two years. |

| Indicator | Guidance |
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| 5. **Classification of the budget** | (i) The classification system used for formulation, execution and reporting of the central government's budget.<br>A. The budget formulation and execution is based on administrative, economic and sub-functional classification, using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards. (Program classification may substitute for sub-functional classification, if it is applied with a level of detail at least corresponding to sub-functional.)<br>B. The budget formulation and execution is based on administrative, economic and functional classification (using at least the 10 main COFOG functions), using GFS/COFOG standards or a standard that can produce consistent documentation according to those standards.<br>C. The budget formulation and execution is based on administrative and economic classification using GFS standards or a standard that can produce consistent documentation according to those standards.<br>D. The budget formulation and execution is based on a different classification (e.g. not GFS compatible or with administrative break-down only). |
| 6. **Comprehensiveness of information included in budget documentation** | Essential elements of budget documentation include:<br>1. Macro-economic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.<br>2. Fiscal deficit, defined according to GFS or other internationally recognized standard.<br>3. Deficit financing, describing anticipated composition.<br>4. Debt stock, including details at least for the beginning of the current year.<br>5. Financial Assets, including details at least for the beginning of the current year.<br>6. Prior year's budget outturn, presented in the same format as the budget proposal.<br>7. Current year's budget (either the revised budget or the estimated outturn), presented in the same format as the budget proposal.<br>8. Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (ref. PI-5), including data for the current and previous year.<br>9. Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.<br>A. recent budget documentation fulfils 7-9 of the 9 information benchmarks<br>B. recent budget documentation fulfils 5-6 of the 9 information benchmarks<br>C. recent budget documentation fulfils 3-4 of the 9 information benchmarks<br>D. recent budget documentation fulfils 2 or less of the 9 information benchmarks |
| 7. **Extent of unreported government operations** | (i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.<br>(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.<br>A. (i) The level of unreported extra-budgetary expenditure (other than donor funded projects) is insignificant (below 1% of total expenditure).<br>(ii) Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in-kind OR donor funded project expenditure is insignificant (below 1% of total expenditure).<br>B. (i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5% of total expenditure.<br>(ii) Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects.<br>C. (i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 5-10% of total expenditure.<br>(ii) Complete income/expenditure information for all loan financed projects is included in fiscal reports.<br>D. (i) The level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes more than 10% of total expenditure.<br>(ii) Information on donor financed projects included in fiscal reports is seriously deficient and does not even cover all loan financed operations. |

| Indicator | Guidance |
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| 8. **Transparency of Inter-Governmental Fiscal Relations** | (i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations);<br>(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year;<br>(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.<br>Transparency and objectivity in the horizontal allocation among SN governments<br>**Score = A**: The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems<br>**Score = B**: The horizontal allocation of most transfers from central government (at least 50% of transfers) is determined by transparent and rules based systems.<br>**Score = C**: The horizontal allocation of only a small part of transfers from central government (10-50%) is determined by transparent and rules based systems.<br>**Score = D**: No or hardly any part of the horizontal allocation of transfers from central government is determined by transparent and rules based systems.<br>Timeliness of reliable information to SN governments on their allocations<br>**Score = A**: SN governments are provided reliable information on the allocations to be transferred to them before the start of their detailed budgeting processes.<br>**Score = B**: SN governments are provided reliable information on the allocations to be transferred to them ahead of completing their budget proposals, so that significant changes to the proposals are still possible.<br>**Score = C**: Reliable information to SN governments is issued before the start of the SN fiscal year, but too late for significant budget changes to be made.<br>**Score = D**: Reliable estimates on transfers are issued after SN government budgets have been finalized, or earlier issued estimates are not reliable.<br>Extent of consolidation of fiscal data for general government according to sectoral categories<br>**Score = A**: Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for 90% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year.<br>**Score = B**: Fiscal information (ex-ante and ex-post) that is consistent with central government fiscal reporting is collected for at least 75% (by value) of SN government expenditure and consolidated into annual reports within 18 months of the end of the fiscal year.<br>**Score = C**: Fiscal information (at least ex-post) that is consistent with central government fiscal reporting is collected for at least 60% (by value) of SN government expenditure and consolidated into annual reports within 24 months of the end of the fiscal year.<br>**Score = D**: Fiscal information that is consistent with central government fiscal reporting is collected and consolidated for less than 60% (by value) of SN government expenditure OR if a higher proportion is covered, consolidation into annual reports takes place with more than 24 months delay, if at all. |

| Indicator | Guidance |
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| 9. **Oversight of aggregate fiscal risk from other public sector entities** | (i) Extent of central government monitoring of AGAs and PEs.<br>(ii) Extent of central government monitoring of SN governments' fiscal position.<br>A. (i) All major AGAs/PEs submit fiscal reports to central government at least six-monthly, as well as annual audited accounts, and central government consolidates fiscal risk issues into a report at least annually. (ii) SN government cannot generate fiscal liabilities for central government OR the net fiscal position is monitored at least annually for all levels of SN government and central government consolidates overall fiscal risk into annual (or more frequent) reports.<br>B. (i) All major AGAs/PEs submit fiscal reports including audited accounts to central governments at least annually, and central government consolidates overall fiscal risk issues into a report. (ii) The net fiscal position is monitored at least annually for the most important level of SN government, and central government consolidates overall fiscal risk into a report.<br>C. (i) Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete. (ii) The net fiscal position is monitored at least annually for the most important level of SN government, but a consolidated overview is missing or significantly incomplete.<br>D. (i) No annual monitoring of AGAs and PEs takes place, or it is significantly incomplete. (ii) No annual monitoring of SN governments' fiscal position takes place or it is significantly incomplete. |
| 10. **Public Access to key fiscal information** | Elements of information to which public access is essential include:<br>i) Annual budget documentation: A complete9 set of documents can be obtained by the public through appropriate means when it is submitted to the legislature.<br>(ii) In-year budget execution reports: The reports are routinely made available to the public through appropriate means within one month of their completion.<br>(iii) Year-end financial statements: The statements are made available to the public through appropriate means within six months of completed audit.<br>(iv) External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months of completed audit.<br>(v) Contract awards: Award of all contracts with value above approx. USD 100,000 equiv. are published at least quarterly through appropriate means.<br>(vi) Resources available to primary service units: Information is publicized through appropriate means at least annually, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).<br>A. (i) the government makes available to the public 5-6 of the 6 listed types of information<br>B. (i) the government makes available to the public 3-4 of the 6 listed types of information<br>C. (i) the government makes available to the public 1-2 of the 6 listed types of information<br>D. (i) the government makes available to the public none of the 6 listed types of information |

| Indicator | Guidance |
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| **11. Orderliness and participation in the annual budget process.** | (i) Existence of and adherence to a fixed budget calendar<br>**Score = A**: A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.<br>**Score = B**: A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time,<br>**Score = C**: An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely.<br>**Score = D**: A budget calendar is not prepared OR it is generally not adhered to OR the time allowed for MDAs' budget preparation is clearly insufficient to make meaningful submissions.<br>(ii) Guidance on the preparation of budget submissions<br>**Score = A**: A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular's distribution to MDAs.<br>**Score = B**: A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission.<br>**Score = C**: A budget circular is issued to MDAs, including ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Cabinet only after they have been completed in all details by MDAs, thus seriously constraining Cabinet's ability to make adjustments.<br>**Score = D**: A budget circular is not issued to MDAs OR the quality of the circular is very poor OR Cabinet is involved in approving the allocations only immediately before submission of detailed estimates to the legislature, thus having no opportunities for adjustment.<br>(iii) Timely budget approval by the legislature<br>**Score = A**: The legislature has, during the last three years, approved the budget before the start of the fiscal year.<br>**Score = B**: The legislature approves the budget before the start of the fiscal year, but a delay of up to two months has happened in one of the last three years.<br>**Score = C**: The legislature has, in two of the last three years, approved the budget within two months of the start of the fiscal year.<br>**Score = D**: The budget has been approved with more than two months delay in two of the last three years. |

| Indicator | Guidance |
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| 12. **Multi-year perspective in fiscal planning, expenditure policy and budgeting** | (i) Multi-year fiscal forecasts and functional allocations<br>**Score = A**: Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained<br>**Score = B**: Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least two years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences are explained.<br>**Score = C**: Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.<br>**Score = D**: No forward estimates of fiscal aggregates are undertaken<br>(ii) Scope and frequency of debt sustainability analysis<br>**Score = A**: DSA for external and domestic debt is undertaken annually.<br>**Score = B**: DSA for external and domestic debt is undertaken at least once during the last three years.<br>**Score = C**: A DSA for at least for external debt undertaken once during last three years.<br>**Score = D**: No DSA has been undertaken in the last three years<br>(iii) Existence of costed sector strategies<br>**Score = A**: Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.<br>**Score = B**: Statements of sector strategies exist and are fully costed, broadly consistent with fiscal forecasts, for sectors representing 25-75% of primary expenditure.<br>**Score = C**: Statements of sector strategies exist for several major sectors but are only substantially costed for sectors representing up to 25% of primary expenditure OR costed strategies cover more sectors but are inconsistent with aggregate fiscal forecasts.<br>**Score = D**: Sector strategies may have been prepared for some sectors, but none of them have substantially complete costing of investments and recurrent expenditure.<br>(iv) Linkages between investment budgets and forward expenditure estimates<br>**Score = A**: Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.<br>**Score = B**: The majority of important investments are selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.<br>**Score = C**: Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.<br>**Score = D**: Budgeting for investment and recurrent expenditure are separate processes with no recurrent cost estimates being shared. |

| Indicator | Guidance |
|---|---|
| 13. Transparency of taxpayer obligations and liabilities | (i) Clarity and comprehensiveness of tax liabilities<br>**Score = A**: Legislation and procedures for all major taxes are comprehensive and clear, with strictly limited discretionary powers of the government entities involved.<br>**Score = B**: Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.<br>**Score = C**: Legislation and procedures for some major taxes are comprehensive and clear, but the fairness of the system is questioned due to substantial discretionary powers of the government entities involved.<br>**Score = D**: Legislation and procedures are not comprehensive and clear for large areas of taxation and/or involve important elements of administrative discretion in assessing tax liabilities.<br>(ii) Taxpayers' access to information on tax liabilities and administrative procedures<br>**Score A**: Taxpayers have easy access to comprehensive, user friendly and up-to-date information tax liabilities and administrative procedures for all major taxes, and the RA supplements this with active taxpayer education campaigns.<br>**Score = B**: Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited.<br>**Score = C**: Taxpayers have access to some information on tax liabilities and administrative procedures, but the usefulness of the information is limited due coverage of selected taxes only, lack of comprehensiveness and/or not being up-to-date.<br>**Score = D**: Taxpayer access to up-to-date legislation and procedural guidelines is seriously deficient.<br>(iii) Existence and functioning of a tax appeals mechanism.<br>**Score A**: A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.<br>**Score = B**: A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed..<br>**Score = C**: A tax appeals system of administrative procedures has been established, but needs substantial redesign to be fair, transparent and effective.<br>**Score = D**: No functioning tax appeals system has been established |

| Indicator | Guidance |
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| 14. Effectiveness of measures for taxpayer registration and tax assessment | i) Controls in the taxpayer registration system.<br>**Score = A**: Taxpayers are registered in a complete database system with comprehensive direct linkages to other relevant government registration systems and financial sector regulations.<br>**Score = B**: Taxpayers are registered in a complete database system with some linkages to other relevant government registration systems and financial sector regulations.<br>**Score = C**: Taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked. Linkages to other registration/licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers.<br>**Score = D**: Taxpayer registration is not subject to any effective controls or enforcement systems<br>(ii) Effectiveness of penalties for non-compliance with registration and tax declaration<br>**Score = A**: Penalties for all areas of non-compliance are set sufficiently high to act as deterrence and are consistently administered.<br>**Score = B**: Penalties for non-compliance exist for most relevant areas, but are not always effective due to insufficient scale and/or inconsistent administration.<br>**Score = C**: Penalties for non-compliance generally exist, but substantial changes to their structure, levels or administration are needed to give them a real impact on compliance.<br>**Score = D**: Penalties for non-compliance are generally non-existent or ineffective (i.e. set far too low to have an impact or rarely imposed).<br>(iii) Planning and monitoring of tax audit programs.<br>**Score A**: Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment.<br>**Score = B**: Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one major tax area that applies self-assessment.<br>**Score = C**: There is a continuous program of tax audits and fraud investigations, but audit programs are not based on clear risk assessment criteria.<br>**Score = D**: Tax audits and fraud investigations are undertaken on an ad hoc basis if at all. |

| Indicator | Guidance |
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| 15. Effectiveness in collection of tax payments | (i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).<br>(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.<br>(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.<br>(i) The average debt collection ratio in the two most recent fiscal years was 90% above OR the total amount of tax arrears is insignificant (i.e. less than 2% of total annual collections).<br>(ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.<br>(iii) Complete reconciliation of tax assessments, collections, arrears and transfers Treasury takes place at least monthly within one month of end of month.<br>(i) The average debt collection ratio in the two most recent fiscal years was 75-90% the total amount of tax arrears is significant.<br>(ii) Revenue collections are transferred to the Treasury at least weekly.<br>(iii) Complete reconciliation of tax assessments, collections, arrears and transfers Treasury takes place at least quarterly within six weeks of end of quarter.<br>(i) The average debt collection ratio in the two most recent fiscal years was 60-75% the total amount of tax arrears is significant<br>(ii) Revenue collections are transferred to the Treasury at least monthly.<br>(iii) Complete reconciliation of tax assessments, collections, arrears and transfers Treasury takes place at least annually within 3 months of end of the year.<br>(i) The debt collection ratio in the most recent year was below 60% and the total amount of tax arrears is significant (i.e. more than 2% of total annual collections).<br>(ii) Revenue collections are transferred to the Treasury less regularly than monthly<br>(iii) Complete reconciliation of tax assessments, collections, arrears and transfers Treasury does not take place annually or is done with more than 3 months' delay. |

| Indicator | Guidance |
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| **16. Predictability in the availability of funds for commitment of expenditures** | (i) Extent to which cash flows are forecast and monitored.<br>(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment<br>(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.<br>(i) A cash flow forecast is prepared for the fiscal year, and are updated monthly on the basis of actual cash inflows and outflows.<br>(ii) MDAs' are able to plan and commit expenditure for at least six month in advance in accordance with the budgeted appropriations.<br>(iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way.<br>(i) A cash flow forecast is prepared for the fiscal year and updated at least quarterly, on the basis of actual cash inflows and outflows.<br>(ii) MDAs are provided reliable information on commitment ceilings at least quarterly in advance.<br>(iii) Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way.<br>(i) A cash flow forecast is prepared for the fiscal year, but is not (or only partially and infrequently) updated.<br>(ii) MDAs are provided reliable information for one or two months in advance.<br>(iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency.<br>(i) Cash flow planning and monitoring are not undertaken or of very poor quality.<br>(ii) MDAs are provided commitment ceilings for less than a month OR no reliable indication at all of actual resource availability for commitment.<br>(iii) Significant in-year budget adjustments are frequent and not done in a transparent manner. |

| Indicator | Guidance |
|---|---|
| **17. Recording and management of cash balances, debt and guarantees** | (i) Quality of debt data recording and reporting<br>**Score = A**: Domestic and foreign debt records are complete, updated and reconciled on a monthly basis with data considered of high integrity. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least quarterly<br>**Score = B**: Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually.<br>**Score = C**: Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair, but some gaps and reconciliation problems are recognized. Reports on debt stocks and service are produced only occasionally or with limited content.<br>**Score = D**: Debt data records are incomplete and inaccurate to a significant degree.<br>(ii) Extent of consolidation of the government's cash balances<br>**Score = A**: All cash balances are calculated daily and consolidated.<br>**Score = B**: Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.<br>**Score = C**: Calculation and consolidation of most government cash balances take place at least monthly, but the system used does not allow consolidation of bank balances<br>**Score = D**: Calculation of balances takes place irregularly, if at all, and the system used does not allow consolidation of bank balances.<br>(iii) Systems for contracting loans and issuance of guarantees.<br>**Score = A**: Central government's contracting of loans and issuance of guarantees are made against transparent criteria and fiscal targets, and always approved by a single responsible government entity.<br>**Score = B**: Central government's contracting of loans and issuance of guarantees are made within limits for total debt and total guarantees, and always approved by a single responsible government entity.<br>**Score = C**: Central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.<br>**Score = D**: Central government's contracting of loans and issuance of guarantees are approved by different government entities, without a unified overview mechanism. |

| Indicator | Guidance |
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| 18. **Effectiveness of payroll controls** | (i) Degree of integration and reconciliation between personnel records and payroll data.<br>(ii) Timeliness of changes to personnel records and the payroll<br>(iii) Internal controls of changes to personnel records and the payroll.<br>(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.<br>(i) Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation.<br>(ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare (if reliable data exists, it shows corrections in max. 3% of salary payments).<br>(iii) Authority to change records and payroll is restricted and results in an audit trail.<br>(iv) A strong system of annual payroll audits exists to identify control weaknesses and/or ghost workers.<br><br>(i) Personnel data and payroll data are not directly linked but the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data.<br>(ii) Up to three months' delay occurs in updating of changes to the personnel records and payroll, but affects only a minority of changes. Retroactive adjustments are made occasionally.<br>(iii) Authority and basis for changes to personnel records and the payroll are clear.<br>(iv) A payroll audit covering all central government entities has been conducted at least once in the last three years (whether in stages or as one single exercise).<br><br>(i) A personnel database may not be fully maintained but reconciliation of the payroll with personnel records takes place at least every six months.<br>(ii) Up to three months delay occurs in processing changes to personnel records and payroll for a large part of changes, which leads to frequent retroactive adjustments.<br>(iii) Controls exist, but are not adequate to ensure full integrity of data.<br>(iv) Partial payroll audits or staff surveys have been undertaken within the last 3 years.<br><br>(i) Integrity of the payroll is significantly undermined by lack of complete personnel records and personnel database, or by lacking reconciliation between the three lists.<br>(ii) Delays in processing changes to payroll and nominal roll are often significantly longer than three months and require widespread retroactive adjustments.<br>(iii) Controls of changes to records are deficient and facilitate payment errors.<br>(iv) No payroll audits have been undertaken within the last three years. |

| Indicator | Guidance |
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| 19. **Competition, value for money and controls in procurement** 2006-2004 Law assessed | (i) Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases<br>**Score = A**: Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.<br>**Score = B**: Available data on public contract awards shows that more than 50% but less than 75% of contracts above the threshold are awarded on basis of open competition, but the data may not be accurate.<br>**Score = C**: Available data shows that less than 50% of contracts above the threshold are awarded on an open competitive basis, but the data may not be accurate.<br>**Score = D**: Insufficient data exists to assess the method used to award public contracts OR the available data indicates that use of open competition is limited.<br>(ii) Justification for use of less competitive procurement methods<br>**Score = A**: Other less competitive methods when used are justified in accordance with clear regulatory requirements.<br>**Score = B**: Other less competitive methods when used are justified in accordance with regulatory requirements.<br>**Score = C**: Justification for use of less competitive methods is weak or missing.<br>**Score = D**: Regulatory requirements do not clearly establish open competition as the preferred method of procurement.<br>(iii) Existence and operation of a procurement complaints mechanism<br>**Score = A**: A process (defined by legislation) for submission and timely resolution of procurement process complaints is operative and subject to oversight of an external body with data on resolution of complaints accessible to public scrutiny.<br>**Score = B**: A process (defined by legislation) for submitting and addressing procurement process complaints is operative, but lacks ability to refer resolution of the complaint to an external higher authority.<br>**Score = C**: A process exists for submitting and addressing procurement complaints, but it is designed poorly and does not operate in a manner that provides for timely resolution of complaints.<br>**Score = D**: No process is defined to enable submitting and addressing complaints regarding the implementation of the procurement process. |

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| 20. **Effectiveness of internal controls for non-salary expenditure** | (i) Effectiveness of expenditure commitment controls.<br>(ii) Comprehensiveness, relevance and understanding of other internal control rules/ procedures.<br>(iii) Degree of compliance with rules for processing and recording transactions.<br>A. (i) Comprehensive expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations (as revised).<br>(ii) Other internal control rules and procedures are relevant, and incorporate a comprehensive and generally cost effective set of controls, which are widely understood.<br>(iii) Compliance with rules is very high and any misuse of simplified and emergency procedures is insignificant.<br><br>B. (i) Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with minor areas of exception.<br>(ii) Other internal control rules and procedures incorporate a comprehensive set of controls, which are widely understood, but may in some areas be excessive (e.g. through duplication in approvals) and lead to inefficiency in staff use and unnecessary delays.<br>(iii) Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification.<br>C. (i) Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated.<br>(ii) Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance.<br>(iii) Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern.<br><br>D. (i) Commitment control systems are generally lacking OR they are routinely violated.<br>(ii) Clear, comprehensive control rules/procedures are lacking in other important areas.<br>(iii) The core set of rules are not complied with on a routine and widespread basis due to direct breach of rules or unjustified routine use of simplified/emergency procedures. |

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| 21. **Effectiveness of internal audit** | (i) Coverage and quality of the internal audit function.<br>(ii) Frequency and distribution of reports.<br>(iii) Extent of management response to internal audit findings.<br>A. (i) Internal audit is operational for all central government entities, and generally meet professional standards. It is focused on systemic issues (at least 50% of staff time).<br>(ii) Reports adhere to a fixed schedule and are distributed to the audited entity, ministry of finance and the SAI.<br>(iii) Action by management on internal audit findings is prompt and comprehensive across central government entities.<br><br>B. (i) Internal audit is operational for the majority of central government entities (measured by value of revenue/expenditure), and substantially meet professional standards. It is focused on systemic issues (at least 50% of staff time).<br>(ii) Reports are issued regularly for most audited entities and distributed to the audited entity, the ministry of finance and the SAI.<br>(iii) Prompt and comprehensive action is taken by many (but not all) managers.<br><br>C. (i) The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.<br>(ii) Reports are issued regularly for most government entities, but may not be submitted to the ministry of finance and the SAI.<br>(iii) A fair degree of action taken by many managers on major issues but often with delay<br>D. (i) There is little or no internal audit focused on systems monitoring.<br>(ii) Reports are either non-existent or very irregular.<br>(iii) Internal audit recommendations are usually ignored (with few exceptions). |

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| 22. **Timeliness and regularity of accounts reconciliation** | (i) Regularity of bank reconciliations<br>**Score = A**: Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period.<br>**Score = B**: Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month.<br>**Score = C**: Bank reconciliation for all Treasury managed bank accounts take place quarterly, usually within 8 weeks of end of quarter.<br>**Score = D**: Bank reconciliation for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months.<br>(ii) Regularity of reconciliation and clearance of suspense accounts and advances<br>**Score = A**: Reconciliation and clearance of suspense accounts and advances take place at least quarterly, within a month from end of period and with few balances brought forward.<br>**Score = B**: Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward.<br>**Score = C**: Reconciliation and clearance of suspense accounts and advances take place annually in general, within two months of end of year, but a significant number of accounts have uncleared balances brought forward.<br>**Score = D**: Reconciliation and clearance of suspense accounts and advances take place either annually with more than two months' delay, OR less frequently. |
| 23. **Availability of information on resources received by service delivery units**<br>. | (i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.<br><br>(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by both primary schools and primary health clinics across the country. The information is compiled into reports at least annually.<br><br>(i) Routine data collection or accounting systems provide reliable information on all types of resources received in cash and in kind by either primary schools or primary health clinics across most of the country with information compiled into reports at least annually; OR special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by both primary schools and primary health clinics across most of the country (including by representative sampling).<br>(i) Special surveys undertaken within the last 3 years have demonstrated the level of resources received in cash and in kind by either primary schools or primary health clinics covering a significant part of the country OR by primary service delivery units at local community level in several other sectors.<br>(i) No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last 3 years. |

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| 24.. **Quality and timeliness of in-year budget reports** | (i) Scope of reports in terms of coverage and compatibility with budget estimates<br>(ii) Timeliness of the issue of reports<br>(iii) Quality of information<br>(i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.<br>(ii) Reports are prepared quarterly or more frequently, and issued within 4 weeks of end of period.<br>(iii) There are no material concerns regarding data accuracy.<br><br>(i) Classification allows comparison to budget but only with some aggregation. Expenditure is covered at both commitment and payment stages.<br>(ii) Reports are prepared quarterly, and issued within 6 weeks of end of quarter.<br>(iii) There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/ usefulness.<br><br>(i) Comparison to budget is possible only for main administrative headings. Expenditure is captured either at commitment or at payment stage (not both).<br>(ii) Reports are prepared quarterly (possibly excluding first quarter), and issued within 8 weeks of end of quarter.<br>(iii) There are some concerns about the accuracy of information, which may not always be highlighted in the reports, but this does not fundamentally undermine their basic usefulness.<br>(i) Comparison to the budget may not be possible across all main administrative headings.<br>(ii) Quarterly reports are either not prepared or often issued with more than 8 weeks delay.<br>(iii) Data is too inaccurate to be of any real use. |

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| 25. **Quality and timeliness of annual financial statements** | (i) Completeness of the financial statements<br>(ii) Timeliness of submission of the financial statements<br>(iii) Accounting standards used<br>(i) A consolidated government statement is prepared annually and includes full information on revenue, expenditure and financial assets/liabilities.<br>(ii) The statement is submitted for external audit within 6 months of the end of the fiscal year.<br>(iii) IPSAS or corresponding national standards are applied for all statements.<br><br>(i) A consolidated government statement is prepared annually. They include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities<br>(ii) The consolidated government statement is submitted for external audit within 10 months of the end of the fiscal year.<br>(iii) IPSAS or corresponding national standards are applied.<br><br>(i) A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant.<br>(ii) The statements are submitted for external audit within 15 months of the end of the fiscal year.<br>(iii) Statements are presented in consistent format over time with some disclosure of accounting standards.<br><br>(i) A consolidated government statement is not prepared annually, OR essential information is missing from the financial statements OR the financial records are too poor to enable audit.<br>(ii) If annual statements are prepared, they are generally not submitted for external audit within 15 months of the end of the fiscal year<br>(iii) Statements are not presented in a consistent format over time or accounting standards are not disclosed. |

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| 26. **Scope, nature and follow-up of external audit** | (i) Scope/nature of audit performed (incl. adherence to auditing standards).<br>(ii) Timeliness of submission of audit reports to legislature.<br>(iii) Evidence of follow up on audit recommendations.<br>(i) All entities of central government are audited annually covering revenue, expenditure and assets/liabilities. A full range of financial audits and some aspects of performance audit are performed and generally adhere to auditing standards, focusing on significant and systemic issues.<br>(ii) Audit reports are submitted to the legislature within 4 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.<br>(iii) There is clear evidence of effective and timely follow up.<br><br>(i) Central government entities representing at least 75% of total expenditures12 are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues.<br>(ii) Audit reports are submitted to the legislature within 8 months of the end of the period covered and in the case of financial statements from their receipt by the audit office.<br>(iii) A formal response is made in a timely manner, but there is little evidence of systematic follow up.<br><br>(i) Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only.<br>(ii) Audit reports are submitted to the legislature within 12 months of the end of the period covered (for audit of financial statements from their receipt by the auditors).<br>(iii) A formal response is made, though delayed or not very thorough, but there is little evidence of any follow up.<br><br>(i) Audits cover central government entities representing less than 50% of total expenditures or audits have higher coverage but do not highlight the significant issues.<br>(ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered (for audit of financial statements from their receipt by the auditors).<br>(iii) There is little evidence of response or follow up. |

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| 27. **Legislative scrutiny of the annual budget law** | (i) Scope of the legislature's scrutiny.<br>(ii) Extent to which the legislature's procedures are well-established and respected.<br>(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).<br>(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.<br>(i) The legislature's review covers fiscal policies, medium term fiscal framework and medium term priorities as well as details of expenditure and revenue.<br>(ii) The legislature's procedures for budget review are firmly established and respected. They include internal organizational arrangements, such as specialized review committees, and negotiation procedures.<br>(iii) The legislature has at least two months to review the budget proposals.<br>(iv) Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected.<br><br>(i) The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue.<br>(ii) Simple procedures exist for the legislature's budget review and are respected.<br>(iii) The legislature has at least one month to review the budget proposals.<br>(iv) Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.<br>(i) The legislature's review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalized.<br>(ii) Some procedures exist for the legislature's budget review, but they are not comprehensive and only partially respected.<br>(iii) The legislature has at least one month to review the budget proposals.<br>(iv) Clear rules exist, but they may not always be respected OR they may allow extensive administrative reallocation as well as expansion of total expenditure.<br>(i) The legislature's review is non-existent or extremely limited, OR there is no functioning legislature.<br>(ii) Procedures for the legislature's review are non-existent or not respected.<br>(iii) The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month).<br>(iv) Rules regarding in-year budget amendments may exist but are either very rudimentary and unclear OR they are usually not respected. |

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| **28. Legislative scrutiny of external audit reports**. | (i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).<br>(ii) Extent of hearings on key findings undertaken by the legislature.<br>(iii) Issuance of recommended actions by the legislature and implementation by the executive.<br>(i) Scrutiny of audit reports is usually completed by the legislature within 3 months from receipt of the reports.<br>(ii) In-depth hearings on key findings take place consistently with responsible officers from all or most audited entities, which receive a qualified or adverse audit opinion.<br>(iii) The legislature usually issues recommendations on action to be implemented by the executive, and evidence exists that they are generally implemented.<br>(i) Scrutiny of audit reports is usually completed by the legislature within 6 months from receipt of the reports.<br>(ii) In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion.<br>(iii) Actions are recommended to the executive, some of which are implemented, according to existing evidence.<br><br>(i) Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports.<br>(ii) In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only.<br>(iii) Actions are recommended, but are rarely acted upon by the executive.<br>(i) Examination of audit reports by the legislature does not take place or usually takes more than 12 months to complete.<br>(ii) No in-depth hearings are conducted by the legislature.<br>(iii) No recommendations are being issued by the legislature. |