

U4 Expert Answer



Post-Soviet countries: Literature review on corruption and public financial management

Query

Can you provide a literature review on public financial management in post-Soviet countries? We are especially looking for studies, reports, strategies and work plans which address the issue of corruption within the public finance management system of post-Soviet countries with a focus on budget planning and execution. Any literature on corruption and the public financial management system of Ukraine in particular would also be highly welcome.

Purpose

The agency is currently preparing a workshop and training on anti-corruption measures in the field of public finance management.

Content

1. Corruption and public financial management in post-Soviet countries
2. Corruption and public financial management in Ukraine

Summary

This answer provides a list of resources on public financial management in post-Soviet countries. It focuses particularly on reports and studies discussing the challenges and recent reforms in the areas of budget planning and execution that directly or indirectly have an impact on control of corruption. The second section focuses on studies discussing the case of Ukraine in particular.

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U4 is a web-based resource centre for development practitioners who wish to effectively address corruption challenges in their work. Expert Answers are produced by the U4 Helpdesk – operated by Transparency International – as quick responses to operational and policy questions from U4 Partner Agency staff.

1. Corruption and public financial management in post-Soviet countries

Overview

Public financial management is one of the areas in the public administration considered most prone to corruption due to the large amounts of money and discretion involved. It includes the mechanisms through which public resources are collected, allocated, spent and accounted for, and can generally be divided into three main phases: (i) budget process, including budget planning and execution; (ii) revenue collection, including tax administration and customs; and (iii) external oversight, including external audit, legislative review and civil society participation.¹

The nature and levels of corruption risks vary across the different stages of the public financial management cycle. They can range from favouritism in the planning and allocation of resources to embezzlement in the execution of projects, and to the payment of bribes to tax officials.

The dissolution of the Soviet Union saw many of its former states go through a difficult period of transition which included economic and political instability. Many of the former Soviet Union's policies and practices continued in these newly created states. In the area of public financial management in particular, post-Soviet countries inherited the non-transparent nature of budgets of the Soviet Union, in addition to several internal auditing mechanisms that focused on formalities rather than investigation of fraud and malfeasance of fiscal resources.

Fighting corruption in public financial management in post-Soviet countries requires the adoption of measures and reforms aimed at increasing transparency in budget planning and in the allocation of public resources, limiting the discretion of public officials, enhancing efficiency, and strengthening accountability and oversight. This answer focuses particularly on reports and studies discussing the challenges

¹ U4 Website, *Public Financial Management*. <http://www.u4.no/themes/public-financial-management-and-procurement/>

and recent reforms in the areas of budget planning and execution in post-Soviet countries that directly or indirectly have an impact on control of corruption. The second section focuses on studies discussing the case of Ukraine, where reforms have aimed at making the budget process more open and transparent.

The recent literature on public financial management in post-Soviet countries is very scarce and does not focus on corruption in particular. Rather it provides an overview of the reforms and challenges faced by these countries with regard to establishing an efficient public financial management system with the objectives of achieving fiscal discipline, allocating resources according to policy priorities, and promoting the efficient delivery of public services. Nevertheless, as achieving these objectives is also instrumental to curbing corruption within public financial management; these studies are relevant to this answer.

Corruption and the budget process in post-Soviet countries

The budgetary process is composed of planning, programming, formulation and adoption stages. In order to reduce opportunities for corruption and ensure that the allocation of resources happens in accordance with the country's strategic goals and plans, it is fundamental that countries establish a clear legal framework that spells out how decisions must be made in each of these stages, and determines clear roles and responsibilities for the different actors involved.²

In particular, to ensure integrity throughout the budget process, it is instrumental that these decisions – from budget planning to adoption – are taken in an open and transparent manner. The planned budget should be presented for Parliamentary scrutiny, and civil society participation should be encouraged from the beginning and at each stage of the budgetary process. In addition, budget information should be presented to the public in a clear and accessible manner.

² Isaksen, J., 2005. *The budget process and corruption*. U4 Anti-Corruption Resource Centre. <http://www.cmi.no/publications/file/2559-the-budget-process-and-corruption.pdf>

Post-Soviet countries have adopted a series of reforms to effectively manage government expenditure according to international standards. However, the inheritance from the previous regime, where budget planning and allocation was carried out according to the party's priorities and in a top-down manner, without participation from the legislative or civil society, still hampers the proper implementation of reforms and offers opportunities for corruption.³

Resources on budget planning and execution

Open Budget Survey 2013

International Budget Partnership, 2014
<http://survey.internationalbudget.org/>.

The Open Budget Survey offers an index of budget transparency and openness of 100 countries by surveying civil society organisations. It is compiled by the International Budget Partnership which deals with topics related to budget openness. The index can be used to compare states across years, and has several features that display the different areas of budget openness measured by the survey. While the survey sample does not feature every former Soviet country, it includes Russia, Ukraine, Kazakhstan, the Kyrgyz Republic, Tajikistan, Azerbaijan and Georgia, so can be used to compare data of post-Soviet countries. The performance of these countries varied in terms of quality; with the exception of Russia, the general trend according to the survey is towards less budget openness. Kazakhstan was one of the few countries in the sample which has incorporated participatory "citizen budgets" into its budgetary process.

The Budget Process in Caspian Countries: The Experience of Kazakhstan and Azerbaijan Makhmutova, M., 2007. Problems of Economic Transition 50(4)

This article presents an assessment of budget transparency undertaken in 2006 in Kazakhstan

and Azerbaijan. The methodology is based on approaches developed by the International Budget Project of the Center for Budget and Policy Priorities (Washington, DC) in evaluating budget processes using the International Monetary Fund (IMF) Code of Good Practices in Fiscal Transparency and the document of the Organization for Economic Cooperation and Development (OECD), Best Practices for Budget Transparency. It reviews all stages of budget formulation, including planning, monitoring and evaluating execution, with an emphasis on the role of Parliament in formulating the budget. The article reaches three main conclusions regarding the state of budget transparency in both countries. First, in terms of budget preparation, both tend to withhold the budget until its presentation, although Azerbaijan presents a draft budget to the media in advance. Second, budget implementation is the most open stage of the process in Kazakhstan, while Azerbaijan rarely makes budgetary statistics available. Third, neither country publishes up-to-date information regarding the national debt.

Use of Business Planning Methods to Monitor Global Health Budgets in Turkmenistan

Ensor, T., and Amannyazova, B., 2000. Bulletin of the World Health Organization 78(8)

The article outlines how the implementation of business planning methods increased accountability in the health system in an *etrap* (district) in Turkmenistan. It discusses Turkmenistan's health care system which, unlike other post-Soviet health care systems, is enacting new policies to control and monitor how budgets are spent. The authors provide a case study of Tejen *etrap* in Turkmenistan where prospective business plans, which link planned objectives and activities with financial allocations, provide a framework for setting and monitoring budget expenditure. They note that this strategy combines increased monitoring from the higher levels of government with rigorous bottom-up planning, and that it could be replicated by other sectors of government.

General resources on public financial management systems

Implementation of the European Neighbourhood Policy in Armenia: Progress in 2013 and recommendations for action European Commission, 2014

³ Allen & Tommasi, 2001. *Managing Public Expenditures: A reference book for transition economies*. OECD SIGMA
<http://www.sigmaxweb.org/publicationsdocuments/35066562.pdf>

http://eeas.europa.eu/enp/pdf/2014/country-reports/armenia_en.pdf

This document reports on progress made in the implementation of the EU-Armenia European Neighbourhood Policy (ENP) Action Plan in 2013. The report stresses that, in general, political power and economic interests tend to be closely intertwined in Armenian society, which leads to a high degree of opacity in decision-making. With regard to public financial management systems a series of reforms were undertaken in 2013, including the adoption of a new Law on Budget Systems and training of internal audit staff. Nevertheless, reforms in the field of external audit have shown no substantial progress despite support from the EU and other donors. Further accountability and transparency progress requires involvement of non-state actors in the budgeting process. Progress reports for other EU Neighbourhood countries, including Azerbaijan, Belarus, Georgia, and Moldova are available [here](#).

Istanbul Anti-corruption Action Plan

Anti-Corruption Network for Eastern Europe and Central Asia, OECD

<http://www.oecd.org/corruption/acn/istanbulactionplan/>

The Istanbul Anti-corruption Action Plan is a sub-regional peer review programme launched in 2003 within the framework of the Anti-Corruption Network. It supports anti-corruption reforms through country reviews and continuous monitoring of implementation of recommendations which promote the UN Convention against Corruption (UNCAC) and other international standards and best practice. Participating countries are: Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Ukraine and Uzbekistan. With regard to public financial management, improvements in the areas of public finances, audit and public procurement are assessed. Country reports are available [here](#).

PEFA Assessment Portal Data

Public Expenditure and Financial Accountability Program, 26 June 2014

https://www.pefa.org/en/assessment_search

This database, formulated as part of the Public Expenditure and Financial Accountability (PEFA) Program, includes several annual assessments of public financial management systems for 145 countries, including 125 assessments for sub-national governments. The PEFA Program was founded in 2001 as a multi-donor partnership between seven donor agencies and international

financial institutions to assess the condition of country public expenditure, procurement and financial accountability systems and to develop a practical sequence for reform and capacity-building actions.

The assessments included in the database are executed by various donor country agencies using the PEFA Assessment Framework. These assessments evaluate numerous characteristics of national and sub-national financial management systems, including budget planning, execution monitoring and auditing capacity of the respective governments. The assessments tend to focus on planning and execution of budgets more than budget openness and transparency. While PEFA is not designed to capture corruption issues per se, many of the PEFA dimensions such as procurement, internal audit and control, and external audit have a direct impact on the likelihood of corruption arising. This information may be used to access past PEFA Assessments regarding post-Soviet countries. In the past two years, Armenia, Belarus, Georgia, Tajikistan and Uzbekistan have undertaken national assessments using the PEFA framework. A complete list of assessments, including sub-national assessments for Yerevan City (Armenia) and Tbilisi (Georgia), is available [HERE](#).

Fiscal Transparency and Accountability – Why Did so Many Countries Meet in Moscow Recently to Discuss It?

Nikulina, E., and Aubrey, D., 2014. Public Financial Management Blog, 18 July 2014

<http://internationalbudget.org/wp-content/uploads/A-Taste-of-Success-Examples-of-the-Budget-Work-of-NGOs.pdf>

This is a blog post that offers the key points of a CROSS-COP Plenary Meeting with members of the Public Expenditure Management Peer Assisted Learning (PEMPAL) network held in Moscow. The PEMPAL network consists of central finance agencies from 22 of the 30 World Bank classified Europe and Central Asia countries. The article includes documents regarding topics covered at the meeting, which focused on issues related to public financial management in the network region, and highlights key information shared at the meeting. For example, Kazakhstan, the Russian Federation and Tajikistan were among the four countries in the PEMPAL network region to establish citizen budgets. Russia, Kyrgyzstan and Kazakhstan were showcased as having made significant improvements in fiscal transparency. In terms of

publishing fiscal data, PEMPAL recognised Russia as having highly visible open-budget data, while Azerbaijan, Belarus, Kazakhstan, Tajikistan and Uzbekistan had limited visibility in terms of their open-budget data.

Public Financial Management Reforms in Post-Conflict Countries: Synthesis Report

Fritz, V., Fialho Lopes, A., Hedger, E., Tavakoli, H., and Krause, P., 2012. World Bank Report 69964 http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/06/15/000356161_20120615033527/Rendered/PDF/699640WP0P1206070023B0PFM0Web0Final.pdf

This report outlines the challenges of public financial management reforms in post-conflict countries, and includes case studies on Tajikistan and Afghanistan. It concludes that all of the countries studied made some improvements in budget execution, albeit with many weaknesses remaining in the countries' monitoring capacity. Budget accountability mechanisms failed to take hold in most cases. The report also notes that current public service resources are not sufficient to maintain sustainable reform efforts without exterior funding. The process of public financial management reform in Tajikistan is showcased in the appendix. Tajikistan saw limited improvement in its budget execution monitoring and auditing capacity.

External oversight and corruption in public financial management

External oversight, through audit systems and broader accountability mechanisms that involve Parliaments and civil society are essential to fighting corruption in public financial management. Reforms in this area usually aim to strengthen the functions and capacities of supreme audit institutions as well as of Parliament oversight committees.

In post-Soviet countries this is an area that still requires further improvements. Reports have highlighted that in these countries the traditional audit bodies focus on relatively minor irregularities, while more serious cases of corruption are not investigated and remain unpunished.⁴ In some countries, such as Armenia,

⁴ Allen & Tommasi, 2001. *Managing Public Expenditures: A reference book for transition*

the independence and technical capacity of the Control Chamber is seen as an impediment to effective control of public resources.⁵

Role of SAO in PFM systems reform in Georgia

State Audit Office of Georgia, 2012 http://www.eurosai.org/handle404?exporturi=/export/sites/eurosai/.content/documents/conferences/VII-conference-eurosai-olacefs/S2_GEORGIA_ENG.pdf

This presentation discusses the role of the Georgian Audit Office (SAO) in the country's public financial management (PFM) system reform process. Among other things, the new strategy of the Audit Office (2013-2016) aims to enhance the budget monitoring function and increase the office's impact by the systematic conduct of financial, compliance and performance audits. The presentation also provides an overview of the main public financial management reform components in Georgia, including the adoption of policy-based budgeting and measures to enhance budget comprehensiveness, transparency and accountability.

The Role of Internal Audit in Government Financial Management: An International Perspective

Diamond, J., 2006. International Monetary Fund Working Paper WP/02/94 <http://www.imf.org/external/pubs/ft/wp/2002/wp0294.pdf>

The paper reviews international standards on internal auditing, noting that most of these standards would not be met by the systems of several countries. The author describes internal auditing trends in former Soviet countries, noting that these were based on Ministry of Finance investigations rather than on preventative actions taken by auditing and monitoring bodies. The paper then discusses the main issues to be addressed in developing internal auditing

economies. OECD SIGMA <http://www.sigmaweb.org/publicationsdocuments/35066562.pdf>

⁵ OECD, 2014. Armenia Progress Update Istanbul Action Plan. <http://www.oecd.org/corruption/acn/ArmeniaProgressUpdateApril2014ENG.pdf>

capacities in these countries and offers a framework for introducing reforms in this area.

A Taste of Success: Examples of the Budget Work of NGOs

The International Budget Project, 2000.
International Budget Project Publication
<http://internationalbudget.org/wp-content/uploads/A-Taste-of-Success-Examples-of-the-Budget-Work-of-NGOs.pdf>

This report documents the successes of various NGOs working on issues of public financial management. In particular, it showcases two Russian NGOs, one operating in St Petersburg and one operating in the Volgo-Vyatsky Economic Area. The St Petersburg Strategy Centre is involved in a project called “City Residents and Authorities Setting the Course for Cooperation: A Budget People Can Understand and Influence,” which promotes the involvement of local NGOs and local officials in the formation of the city’s budget. The group “Volgo-Vyatsky Potential” worked with different sectors of the Russian government to increase the accountability of taxation laws. The NGO specifically targeted loopholes that allowed firms to pay their taxes by providing services, previously an important source of corruption and malfeasance. The group provided technical and legal assistance to the government and was successful in reforming the law. The report claims that the Volgo-Vyatsky Potential formulated a series of legal tools that may serve those involved in reform at all levels of government within the Russian Federation.

2. Public financial management in Ukraine

Ukraine has undertaken a series of reforms to improve its public financial management system. Reports have highlighted that the country has particularly improved transparency in the budget cycle. With the exception of the citizens’ budget (none is produced) and mid-year review reports, all other documents considered key by the International Budget Partnership are available to the public. In comparison to other countries in the region, Ukraine has an average score on budget transparency, but it certainly needs to make further improvements to ensure that citizens have access to clear and relevant information on public finances.

In particular, the World Bank underscores that improvements in budget planning are still

necessary to guarantee that allocation of resources reflect policy priorities. Moreover, external oversight is still very weak. The Supreme Audit Body has a limited mandate and the role of Parliament and civil society organisation in providing external scrutiny is also very limited.⁶

Resources on budget planning and execution

Budgeting in Ukraine

Morgner, M., Van Tuinen, J., Von Trapp, L., Kostyleva, V., and Kraan, D., 2013. OECD Journal on Budgeting 12(2)

This article reviews current Ukrainian budgetary processes and outlines several reforms that have been undertaken in the past two decades. It covers most aspects of public financial management, including budgetary planning processes, budget execution, revenue sources for the government, the auditing capacity of the country and some basic facts about procurement in Ukraine. The article also features information boxes within the text that provide insight into how specific policies are executed in OECD countries, enabling comparison of how Ukraine is. This paper is part of a larger academic article series published by the OECD that describes national budgetary processes in detail, including those of many former Soviet countries (see, for example, the assessment on [Georgia](#)).

Ukraine Public Financial Management Performance Report

World Bank, 2012. World Bank Report 70799
http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2012/07/03/000333038_20120703030932/Rendered/PDF/707990ESW00Off070053B0PFMPReportENG.pdf

This report presents an assessment of Ukraine’s public financial management systems undertaken by the World Bank in 2011. The assessment

⁶ The World Bank, 2012. *Ukraine’s Public Financial Management Systems Needs Further Improvements*.
<http://www.worldbank.org/en/news/press-release/2012/07/09/ukraine-public-finance-management-systems-needs-further-improvements>

measures the performance of Ukraine's public financial system in terms of budget credibility, transparency, execution, reporting, and external scrutiny based on 2010 data. The report highlights various improvements in procurement norms since 2005 as well as improvements in tax law, due to the consolidation of tax norms into a single law. Ukraine performs well on predictability and budget execution control, as well as on accounting and reporting. The system's particular strength is the existence of a functional treasury system with a single treasury account and commitment control in place. Ukraine also scores well on transparency, as most of the information on budget planning and execution is publicly available both online and in print. Despite this, Ukraine does not perform well on state-enterprise oversight or on scrutiny and auditing.

Towards Effective Anti-Corruption Strategies in Ukraine: Removing the Cornerstone without Toppling the Building

Dubrovskiy, V., 2006. Centrum Analiz Spoleczeno-Ekonomicznych Publication

This publication offers a model to analyse and address corruption, focusing specifically on Ukraine. It lists the main corruption problems affecting the Ukrainian state and develops a framework for addressing them. It tests the framework on three scenarios, one of which is related to the corruption risks in budget execution and procurement within the country. The author argues that exposing the process of budget execution to wider scrutiny by means of "e-government" could dramatically reduce this kind of corruption. He also recommends that business actors disenfranchised by corrupt procurement practices be brought into anti-corruption reform coalitions in order to increase pressure on the government.

Resources on budget monitoring

2014 Ukraine Budget: Systemic Risks Exceed UAH 188 Bln (USD 24 Bln)

Open Society Foundation, News Post, 14 January 2014
<http://osf.org.ua/en/policy-analysis-parlament/view/88>

Open Society Foundation has various programs to monitor the national and the Kyiv municipal budget. This post features a January 2014 press conference, during which experts on the Laboratory for Legislative Initiatives from the Open Society Foundation made a presentation on

the estimated costs of systemic risks in the draft 2014 Ukraine budget. The experts outlined that both governments had overspent, and blamed this on "kickbacks" and the additional costs of non-transparent practices in procuring public services. The Open Society Foundation estimates that approximately \$US24 billion have been lost to inefficient budgeting practices.

Open Society Foundation Address on the "Anti-Corruption and Budgetary Policy Roadmap for the Kyiv Government"

Open Society Foundation, Public Address 03 Sep. 2014
<http://osf.org.ua/en/public-finance-budget-kyiv/view/313>

A public address formulated by the Open Society Foundation of Ukraine based on a roundtable, "Anti-Corruption and Budgetary Policy Roadmap for the Kyiv Government". Its central message is that the Kyiv government has been slow to keep its promises to reform. The address provides key recommendations to the city that would improve the quality of fiscal management, and makes other policy recommendations aimed at increasing the city's fiscal capacity. In particular, the address recommends the proper implementation of certain requirements of the budget code of Ukraine regarding the timely reporting on budget execution and discussion of the draft budget, the responsibility of officials in determining the amount of unreliable budget costs while planning budget parameters, and for addressing violations of the current budget legislation.

Pilot Project in Ukraine Will Help Citizens Decipher City Budgets

Interviews News Post, 12 May 2014
<https://internews.org/pilot-project-ukraine-will-help-citizens-decipher-city-budgets>

The Open Budget Initiative is a project launched by the Open Society Foundation that aims to make municipal budgets available to citizens of three cities, in order to increase accountability and fight corruption. Citizens from Ivano-Frankivsk, Zhytomyr and Ternopil in western Ukraine participated in workshops to create "e-platforms" to monitor government at the local level. The initiative is supported by the Centre for Innovation and Learning, and could be replicated in other post-Soviet country contexts.

**Monitoring and Evaluation
as Tools for Enhancing Public Expenditure
Management in Ukraine**

Slukhai, S., 2011. Financial Theory and Practice 35(2)

Presents an analysis of the current state of monitoring and evaluation in Ukrainian public expenditure programme management, and offers some solutions for improvement. The author concludes that the budget programme monitoring and evaluation is still in its infancy, claiming that although the legal basis for a monitoring and evaluation system has been established, it is sometimes contradictory and is still vague regarding certain areas. The author recommends that Ukraine increase the capacity and scope of monitoring and evaluation by increasing the independence and capacity of the monitoring body, the KRU. He also recommends differentiating budget items into two different size categories so as to better evaluate larger budget items.

Second Round of Monitoring, Ukraine

OECD Anti-Corruption Network for Eastern Europe and Central Asia, 2010

<http://www.oecd.org/corruption/acn/istanbulactionplan/46832397.pdf>

This report analyses progress made in Ukraine in developing anti-corruption reforms and implementing recommendations received under the Istanbul Anti-corruption Action Plan since the first monitoring round in 2006. The report includes several pages describing the public financial management system in Ukraine, with a focus on monitoring tools and budget follow-up tools employed by the Ukrainian government. It notes that past recommendations were not adhered to and presents a set of short-term goals that the Ministry of Finance should meet in order to improve the effectiveness of its financial inspection element. These goals include focusing on important cases, developing intelligence functions and improving relations with the law enforcement bodies. It also includes information about the state of public procurement in Ukraine as well as recommendations for future actions.