

**THE IMPACT OF FISCAL PROBITY ON PUBLIC FINANCIAL
MANAGEMENT IN LIBERIA**

BY

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DECLARATION

I declare that this research project is my original work and has never been submitted to any other University for assessment or award of a degree.

Signature..... Date.....

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D61/60919/2011

This research project has been submitted for examination with my approval as the University Supervisor.

Signature..... Date

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DEDICATION

This work is dedicated to my son, Darius A. W. Kragbe, my fiancée, Ms. Trafina T. Legway, my parents Mr. & Mrs. Benedict D. Kragbe, Sr., and my church, Saint Anthony Parish.

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ABSTRACT

This study was conducted to establish the impact of fiscal probity on public financial management in Liberia. A self-administered questionnaire was used as a sole means of collecting data from a targeted sample of forty four line ministries and agencies in Monrovia. However, the data was collected from thirty respondents giving a response rate of seventy one percent. Qualitative data was analyzed using quantitative analysis. Budget variance was used as the dependent variable for the study. Ethics, Legality, and Transparency were used as the independent variables. The researcher predicted there was a strong positive relationship between fiscal probity and public financial management in Liberia. A regression analysis was performed to establish the impact of ethics, legality and transparency on budget variance.

The study also sought trend analysis on the budget variance of line ministries and agencies over the period of five years, and this showed a positive trend of the budget variance for most of the period.

The study concluded that fiscal probity has a strong positive impact on public financial management in Liberia. Line Ministries and Agencies in Monrovia utilize fiscal probity to enhance public financial management. The study also established that the utilization of fiscal probity by line ministries and agencies has brought about economic growth and development, reduce unemployment and poverty.

Most of the line ministries and agencies in Monrovia do not exercise transparency. Notwithstanding, transparency enables line ministries and agencies to execute their objectives well thus, resulting in a positive impact on public financial management.

The regression analysis conducted established that the independent variables have a positive strong correlation with the dependent variable. Each of the independent variables: ethics, legality and transparency contribute positively to budget variance. It is also evident from the study that without the utilization of fiscal probity by government most line ministries and agencies would struggle with their objectives of fiscal discipline or eventually collapse.

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LIST OF ACRONYMS

Acronym	Meaning
ANAO	Australian National Audit Office
APS	Australian Public Sector
AU	African Union
EC	Economic Commission
ECOWAS	Economic Community of West African States
EU	European Union
GDP	Gross Domestic Product
GEMAP	Governance and Economic Management Assistance Programme
GOL	Government of Liberia
IEG	Independent Evaluation Group
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standard
LCS	Liberia Civil Service
MOF	Ministry of Finance
MTEF	Medium Term Expenditure Framework
NTGL	National Transitional Government of Liberia
OECD	Organization for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
SPSS	Statistical Package for Social Sciences
UN	United Nations
USA	United States of America

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The importance of sound public finance management of financial resources had been recognized as a pre-requisite for the efficient utilization of these resources for post conflict recovery and the fight against poverty. This recognition had been the case at all of the international and regional levels. Recovery from conflict in the form of reconstruction and development posed challenges that were further aggravated in light of the lower than expected post-peace donor flows. In addition, the co-existence of higher poverty levels both urban and rural rendered the issue of sound management of public financial resources an urgent priority that is increasingly becoming a major concern for the general public (the general population and the taxpayers). Improving economic governance and fostering fiscal responsibility in emerging economies required strengthening transparency and accountability in the management of public finances. Promoting greater external oversight of public finances necessarily entails enhancing the systems of checks and balances governing the budgetary process. There is indeed heightened awareness of the weaknesses of the mechanisms of fiscal control and financial integrity, especially in presidential systems, and the consequent need to enhance the institutions of ‘horizontal accountability’ (O’Donnell and Guillermo 1994, 1998, 1999, 2003; Mainwaring and Welna 2003).

Governments in sub-Saharan Africa are facing serious financial constraints in their attempts to provide basic services to their people. The causes of this problem have been attributed to poor economic performance of African economies and very high population growth rates (Mwabu, 1990). It was important to also argue that in some instances, the problem of financing may not necessarily be the quantum or amount of funds available to the public sector but rather the management of the funds available. That was how the public finance management system through the budgetary process allocated resources.

Sound public sector management and government spending help determine the course of economic development and social equity, especially for the poor and other disadvantaged groups, such as women and the elderly. Many developing countries, however, continue to suffer from unsatisfactory and often dysfunctional governance systems that include rent seeking and malfeasance, inappropriate allocation of resources, inefficient revenue systems, and weak delivery of vital public services. Such poor governance leads to unwelcome outcomes for access to public services by the poor and other disadvantaged members of society, such as women, children, and minorities (Shah, 2007).

1.1.1 Fiscal probity

In the context of a financial environment, fiscal probity is about the ethical, lawful, prudent, effective and transparent conduct of financial transactions and of processes that ensure that all such transactions and procedures are supported as appropriate by a robust risk management strategy.

Fiscal probity was of much value for the effective management of public resources. A report by the United Nations (2000) indicated that scandals involving public officials had captured world attention these days. Precipitated by shady privatization deals, the diversion of aid, widespread public sector patronage, crony capitalism, and campaign financing abuses, people were debating outright corruption and unprofessional behavior in government. The report further indicated that with the advent of the modern state, government officials had been and were seen as stewards of public resources and guardians of a special trust that citizens had placed in them. In return for this confidence, they were expected to put public interest above self-interest. The public service, made up of those employees of the state who were covered by national and subnational civil service laws, played an indispensable role in the sustainable development and good governance of a nation. It was an integral part of democracy because it served as the neutral administrative structure which carried out the decisions of elected representatives of the people. It not only served as the backbone of the State in implementing a strategy for economic growth of a nation but also ran the programmes that function as the safety

net for the most vulnerable segments of a society. Given these crucial roles, a country expected its public service to demonstrate high standards of professionalism and ethics.

A well-functioning public sector that delivered quality public services consistent with citizen preferences and that fostered private market-led growth while managing fiscal resources prudently was considered critical. According to Shah (2007), transparent and prudent financial management has come to be recognized as critical to the integrity of the public sector and for gaining and retaining the trust of citizens. Such integrity and trust are sometimes lacking in some governments in developing countries, especially in the African region.

1.1.2 Financial Management in the Public Sector

Public financial management was defined by the Chartered Institute of Public Finance and Accountancy (CIPFA) as “the system by which financial management resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals.” CIPFA describes public financial management in terms of a “whole system approach. International Federation of Accountants (IFAC) supports a whole system approach to public sector financial management, and recognizes the critical importance of the foundation of the system- stakeholder consultation, the demand for services and projects and governance-which, along with the key process element, aims to deliver public, community, and individual value as part of the overall objective sustainable social benefit (IFAC, 2012).

Ordinarily, management of the resources of any economy should lead to poverty reduction, improvement in the standard of living of its citizens, mitigation of inequalities in income distribution and improve the general well being and economic development of the economy. However, inspite of the visible attempts by the various governments of sub-saharan Africa to manage their vast financial and other resources, there existed what had been referred to as “the paradox of plenty”. Indeed, there had been rather a co-existence of abundant resources and wealth and extreme poverty in these economies unlike their developed counterparts. For example, a recent World Bank report estimated that 80

percent of oil revenues in Nigeria benefits only 1 percent of the population (World Bank 2004). The country which ranked sixth in World oil output is ranked 151 out of 171 countries in human capital development (UNDP Index 2004). About 60 percent of the population live in abject poverty (CBN 2006). Before the debt forgiveness of 2006 the country was listed among the heavily indebted nations of world with the external debt stock standing at a whopping \$37.5 billion (Okonjo –Iweala 2006). About 60 percent of the population live on less than US\$1 per day. Other African countries in the sub-sahara have the same pathetic stories about their economic growth and development (Nwezeaku, 2010).

Government must implement the necessary institutional arrangement required to enhance public sector financial management transparency and accountability. An integral and essential part of these arrangements was the use of accrual-based accounting-through the adoption and implementation of International Public Sector Accounting Standards (IPSASs)- which promoted greater transparency and accountability in public sector finances and allowed for enhanced monitoring of government debt and liabilities for their true economic implications. However, without robust, transparent, and accountable arrangements for financial reporting and financial management, it was not possible to reliably assess whether decision making by governments has been in the public interest. Furthermore, it was unlikely that governments had been able to adequately discharge their accountability, and provide the standard of information required by investors, without being able to publicly report and disclose high-quality financial information. It was, itself, a major public interest concern that financial reporting and financial management arrangements are not in place in many countries around the world.

The Australian government's financial framework was firmly based on an accrual based outcome and outputs model. It was designed to allow the parliament to ascertain the real cost of delivering benefits to the Australian community (outcomes) and agency goods and services (outputs). The ANAO has observed that the key components of effective financial management include: access to relevant information; use of that information to enhance management standards; and assurance that the information is accurate, relevant and secure. Clearly, a fundamental pre-condition for the effective use of financial

information is reliable and timely data. In that respect, the APS financial environment continues to require a high level focus on the control structures that facilitate Chief Executive Officers (CEOs) meeting their responsibilities under the Financial Management and Accountability Act 1997.

1.1.2.1 Financial Management in the Public Sector in Liberia

Low literacy, poor health, corruption, the absence of basic infrastructure are massive obstacles that the current president has been trying to overcome since she arrived in office in January 2006. In fact, half of the adult population is illiterate, about 35% is continuously malnourished. In addition, 68% of the population is living below the poverty line (less than 1.25 dollars PPP per day), life expectancy is low (about 59 years) and only 25% of the population has access to drinking water. Therefore, Liberia has a long way to go. More than most countries, it needs to maintain its good public financial management to move on with its reform agenda and will continue to need substantial levels of development assistance in the years to come. Another weakness of Liberia is its current accounts. Liberia imports more than it exports. Economic growth has been strong since 2005, with a yearly average economic growth reaching 6.8 % from 2006 to 2010. Even so, not all is well in Liberia. The country still has one of the lowest GDP per capita on earth, of 260 dollars (less than 1% of the US per capita, currently at \$48, 666 US). Also, it has very high unemployment rates (with latest estimates pointing out to impressive rates of more than 80%) along with extremely high external account deficits, lack of basic infrastructures and high illiteracy. It should be acknowledged that most of the economy is left out of what we can classify as “formal economy” and, therefore, one should question the reliability of certain indicators, such as the unemployment rate. Even so, it is very clear that poverty, illiteracy and unemployment continue to represent big threats to the development of this African nation. Despite all constraints, President Sirleaf has had a major role in the recent success history of her country. One of the main achievements that have resulted from her policy reforms was having Western countries and major financial institutions such as the IMF or the World Bank persuaded to waive the country’s public and external debts. As a result of this, Liberia moved from a nation

with an unsustainable public debt of over 500% of its GDP in 2005 to a much more symbolic 31% in 2011 (a very low level even compared with the debt levels of its donors). As a result of this, Liberia can now invest the resources it would have been forced to commit to the payment of debt interests on its own reconstruction, education and other unemployment and poverty reduction policies by properly managing its public finances (Lipari 2011).

1.1.3 The Relationship or Impact of Fiscal Probity on Public Financial Management

Fiscal probity which is about the ethical, lawful, prudent, effective and transparent conduct of financial transactions and processes that ensure that all such transactions and procedures are supported as appropriate by a robust risk management strategy impacts public finance management by functioning as a safety net for the most vulnerable segments of a country's budget process including strategic planning, medium term expenditure framework, annual budgeting, revenue management, procurement, control, accounting, reporting, monitoring, evaluation, audit and oversight in order to enhance economic growth and development, reduce poverty, unemployment, etc. within a society.

According to Shah (2007), transparent and prudent financial management has come to be recognized as critical to the integrity of the public sector and for gaining and retaining the trust of citizens.

The relationship between fiscal probity and public financial management is said to be either positive or negative based on the derived outcome from such connection; for example, a well-functioning public sector that delivers quality public services consistent with citizen preferences and that fosters private market-led growth while managing fiscal resources prudently with transparency and accountability shows a positive relationship between fiscal probity and public financial management while the reverse is true for a negative relationship between the two.

Having sound financial management and reporting in the public sector is an important contributor in achieving greater transparency, accountability, fiscal responsibility and, hence, improved governance (Pretorius 2008).

1.2 Statement of the problem

Reputations have been tarnished, formerly respected organizations and seemingly untouchable individuals in high-offices have suddenly lost their sheen due to lack of proper fiscal probity in the management of public finance. According to the Civil Service Reform Strategy of Liberia (2007), the desire to stay on one job as a means of survival and exercise full potential in terms of accumulating wealth through fraudulent acts like: embezzling funds needed for the growth and development of the State, engaging into forgery to obtain State resources, misusing public resources thereby creating waste and abuse, etc. all in the name of low salary has crumbled the Liberian economy for decades. Odeh Onyeche Vivian (2010) contends that public sector accounting in a corrupt society is a very big problem to the economy of the nation. This is because the financial records do not reflect the true and fair view of the accounting records. There are lots of collaborations in the utilization of public funds to the extent that funds allocated through the budget are not properly utilized to enhance economic growth and development. Many developing countries, however, continue to suffer from unsatisfactory and often dysfunctional governance systems that include inappropriate allocation of resources, inefficient revenue systems, and weak delivery of vital public services. Such poor governance leads to unwelcome outcomes for access to public services by the poor and other disadvantaged members of society, such as women, children, and minorities (Anwar Shah, 2007).

The importance of sound public finance management of financial resources has been recognized as a pre-requisite for the efficient utilization of public resources for post conflict recovery and the fight against poverty. Having sound financial management and reporting in the public sector is an important contributor in achieving greater transparency, accountability, fiscal responsibility and, hence, improved governance. Such

sound Public financial management supports aggregate control, prioritization, accountability and efficiency in the management of public resources and delivery of services, which are critical to the achievement of public policy objectives such as long-term economic success and the Millennium Development Goals (Pretorius 2008).

Economic Commission for Africa (2007), Development Information Services Division, study noted that countries such as Tanzania, Uganda and Zambia have managed “*controlled budget deficits*” by accumulating arrears on salaries and other major government expenditures and then excluding these arrears from fiscal statistics. Van de Walle (2001) concludes that “*successive attempts at reforms have been undermined by rent-seeking behaviour*” and that political leaders benefiting from “*the current unchanged policy mix*” are not likely to give in to pressure for reforms. Boex and Muga (2001) carried out a study to establish what determines the quality of local financial management in Tanzania. Their findings reveal that local political conditions and other local circumstances such as the poverty level and the urbanization rate also play an important role in determining local financial management performance. They concluded that for the public sector to deliver public services and achieve its policy objectives, it is critical that public finances are managed well. Hughes (2003) stated that theories on public sector management stress the need to pursue policies for balancing public budget, the demand for a growing quantity and quality of services supplied, and the demand for public participation are some of the signals of the need to find accounting tools suitable for adequately answering these needs. However, the absence of a clear cut study considering the impact of fiscal probity on public financial management suggests a research gap which this study seeks to make a contribution towards fulfilling by advancing the following research questions: what efforts are being made by Liberia to ensure that fiscal probity impacts public financial management. If at all fiscal probity has an impact on public financial management, to what extent is this impact?

1.3 Research Objective

The objective of the study is to establish the impact of fiscal probity on public financial management in Liberia

1.4 Significance of the study

This study seeks to contribute to the following: the Government of Liberia policy makers' reform efforts by helping them improve on public finance management in Liberia, academicians carrying on further research in this area by providing insights into their study and professionals practicing fiscal probity in the management of public finance to become knowledgeable in this area. The findings of the study will be of benefit to the government of Liberia in understanding the impact of fiscal probity on the management of public finance. The findings of this study will be of much benefit to academicians especially those who will be conducting further research in this area. The research will also be beneficial to some other agencies such as the government of Liberia's development partners who may want to understand the progress the country has made in terms of the impact of fiscal probity on public financial management.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews various studies among the issues discussed include the empirical studies as well as several different studies all of which to a larger extent speak to issues of the impact of fiscal probity on public financial management. The following literatures include a global fiscal probity trends, public financial management trend; the Liberian Ministry of Finance Fiscal Outturn Report (2009). All of these studies as will be seen in the following paragraphs speak to matters of Fiscal Probity over Public Financial Management.

2.1.1 Global fiscal probity trends

Thompson (1992) asserts that professionalism in the public service is an overarching value that determines how its activities will be carried out. It encompasses all other values that guide the public service such as loyalty, neutrality, transparency, diligence, punctuality, effectiveness, impartiality, and other values that may be specific to individual countries. Ethics in the public service are broad norms that delineate how public servants should exercise judgment and discretion in carrying out their official duties. These values and norms are better reinforced if there is a system of administrative policies, management practices, and oversight agents that provide incentives and penalties to encourage public servants to professionally carry out their duties and observe high standards of conduct. With the advent of the modern state, government officials have been and are seen as stewards of public resources and guardians of a special trust that the citizenry has placed in them. In return for this public confidence, they are expected to put the public interest above self-interest. It has been noted that government ethics provide the preconditions for the making of good public policy. In this sense, it is more important than any single policy, because all policies depend on it.

Experience has shown that the costs of poor performance and corruption in the public service are too great to bear. This is true not only for the public service but also for the entire public sector, political leadership, and other strata of society. Financially, public officials' diversion of funds into their own pockets means less money for the development of nations and peoples. Politically, the erosion of public confidence in and cynicism toward government can break down fragile peace and order in a society. Economically, lack of predictable public institutions and a sense of fair regulations will deter investment and trade. "Empirical evidence based on cross-country comparisons does indeed suggest that corruption has large, adverse effects on private investment and economic growth." Socially, all these factors will lead to a general deterioration of trust among citizens. These effects take a toll on countries, many of which are already straining to grow under severe resource constraints and weak institutions (Mauro, 1988).

Public service professionalism embraces the notion that those people who join the public service need to be inculcated with shared values and trained in basic skills to professionally carry out their official duties. Complementary to this process is a need to set up management structures to ensure that a public service ethos and competence are achieved. Public service members should exercise judgment and discretion in carrying out their official duties. A public service committed to professionalism and ethics is more likely to attain its goals if it has in place an ethics infrastructure a national integrity system (OECD, 1996).

These concepts represent, in a sense, a system of rules, activities, and agents that provide incentives and penalties for public officials to professionally carry out their duties and engage in proper conduct. Initiatives to promote professionalism can begin simply with the existence of sound public management systems and practices. To start with, a career system based on the merit principle, which fairly and impartially recruits and promotes public servants, must be in place. This structure should be underpinned by a clear civil service law that outlines the legal rights and responsibilities of public servants. Furthermore, well-articulated and fair human resource policies on appropriate

remuneration, training opportunities, disciplinary procedures and the like should be implemented and enforced. More importantly, a culture of professionalism and pride needs to be nurtured through the recognition of good work and correction of poor performance (World Bank, 1997).

Ministry of Finance Report (2009) as a framework for revenue and expenditure, the Government's fiscal policy objectives are to put the country on an irreversible path toward rapid, inclusive and sustainable growth and development. In support of this the Government's fiscal policy objective is to achieve macroeconomic stability and to ensure that the benefits of growth are widely shared by allocating spending to PRS priorities. As part of this effort, the Government is pursuing a rapid and fundamental agenda of reform to improve processes, increase transparency and accountability, bring increased efficiency and effectiveness to public spending, and maintain fiscal stability in the face of an evolving macroeconomic environment. Chief among these is the implementation of the Public Financial Management law, passed by the Legislature in August. This law clearly articulates the roles and responsibilities of different institutions and individuals involved in public financial management, and mandates processes and procedures to be followed in order to ensure the government's finances are managed to the highest standard. The new processes included in this law are currently being put in place, and are being supported by several automation projects including for internal revenue, customs revenue, and accounting procedures. The improvements to systems and the increased transparency of transactions will mean it will be much more difficult to abuse the system, safeguarding Liberia's revenue so that it can be spent on vital poverty – reducing programs under the PRS. (Ministry of Finance Report 2009)

2.1.2 Public Financial Management trend

A review of the literature on Public financial management shows that there is no universally agreed definition of Public financial management. According to the Organization for Economic Cooperation and Development (OECD 2009), Public financial management, as it is generally understood, includes all components of a country's budget process both upstream (including strategic planning, medium-term expenditure framework, annual budgeting) and downstream (including revenue

management, procurement, control, accounting, reporting, monitoring and evaluation, audit and oversight). An alternative definition describes Public financial management as the taxing, spending and debt management of government, which influences resource allocation and income distribution. The spending portion covers the budget cycle, including budget preparation, internal controls, accounting, internal and external audit, procurement, and monitoring and reporting arrangements (Rosen 2002). Witt and Müller (2006) include oversight and control as well as intergovernmental fiscal relations. Public financial management thus, underlies all government activity. It encompasses the mobilization of revenue; the allocation of these funds to various activities; expenditure; and accounting for spent funds.

Ensuring sound management of public finances and efficacious oversight of the budget performance process are key dimensions of good governance, which, according to the standard WB definition, captures ‘the manner in which power is exercised in the management of a country’s economic and social resources for development’ (World Bank 1992). Sound Public financial management supports aggregate control, prioritization, accountability and efficiency in the management of public resources and delivery of services, which are critical to the achievement of public policy objectives such as long-term economic success and the Millennium Development Goals. Activities range from the preparation and fulfillment of the budget cycle, budget oversight and control, taxing and debt management and procurement, to resource allocation and income distribution, and are increasingly seen as a set of inter-related sub-systems (and organizational and political cultures), rather than a stand-alone activity (Pretorius and Pretorius, 2008).

According to the Public Expenditure and Financial Management Handbook by Macroeconomic and Financial Management Institute of Eastern Africa (2008), public financial management is a cycle that has 6 Steps and emphasizes the fact that Step1 in the process should be informed by the results of Step 6, and that each step should follow on from the previous step.

The first step includes a review of macroeconomic and sectoral policies and programmes. This involves the Ministry of Finance and line ministries reviewing existing policies to assess whether they are still appropriate given the experience of implementing these policies in the previous year and the results of the evaluations in the final step in the cycle. The second step involves an update of the macroeconomic and fiscal frameworks by the Ministry of Finance. The macroeconomic projections are updated to assess the likely availability of funds (both domestic and donor) over the forthcoming budget period (usually 3 years under a Medium Term Expenditure Framework and decisions are made about how to allocate these resources among ministries' spending programmes based on government priorities. This is a major part of the medium term expenditure framework process. The third step is preparation of ministry budget for both revenue and expenditure. The fourth step includes the authority by ministry of finance to line ministries to spend the funds. The fifth step is the provision of reports on revenue and expenditures while the last step consists of preparation of financial year reports for submission to parliament.

Ehtisham, Maria, and Raju (2005) point out that in order to realize good governance of public resources and meet the requirement of providing accurate and timely information to policy makers, the legislature and the broader public, there is increasing emphasis in having good budgeting laws that should comply with the principles of comprehensiveness, unity, and internal consistency. The principle of *comprehensiveness* requires that the budget cover all government agencies and institutions undertaking government operations, so that the budget presents a consolidated and complete view of these operations and is voted on, as a whole, by the body vested with national legislative authority. The principle of *unity* requires that the budget includes all revenues and expenditures of all government agencies undertaking government operations. This principle is important to ensure that the budget is an effective instrument to impose a constraint on total and sectoral government expenditure, and promote higher efficiency in the allocation of resources. The principle of *internal consistency* between different

components of the budget requires, in particular, that current expenditure needed for the maintenance and operation of past investments be fully reflected in the budget.

Ministry of Finance Report (2009) on Public Financial Management (PFM) Reforms Efforts: The primary objective of the ongoing Financial Reforms in Liberia is to improve the efficiency and effectiveness of Public Finance Management processes, with the objective of enhancing the quality of public service delivery in Government, and to strengthen the financial management processes and systems in order to provide timely, transparent and accurate financial and accounting information across Government. Several reforms measures have been undertaken by the Ministry of Finance despite the constraints and challenges which had been major hindrances in the sustained and timely implementation of GOL Poverty Reduction Strategy.

In preparation for the Medium-Term Expenditure Framework (MTEF) and as part of wider efforts to ensure effectiveness and transparency of government spending, the GoL will carry out capacity-building in ministries and agencies to improve budgeting, planning and programming expertise. The reforms to Public Financial Management throughout government will ensure transparency, accountability of processes and effective and efficient service delivery.

In view of the PFM law and the need to increase automation of fiscal processes, it is clear that the existing government accounting and reporting processes are characterized by a number of loopholes and weaknesses; such as the lack of timely and relevant financial information for informed decision making; the use of manual or partially automated routine business processes, compilation and aggregating budget estimates. With these current weaknesses with the system, the Integrated Financial Management Information System (IFMIS) has been incorporated to enhance the reform processes. (Ministry of Finance Report 2009)

2.2 Review of Theories on Public Sector Financial Management

During the past decades, public administration (Pas) has undergone a profound restructuring process in order to renew organizational, managerial and accounting

aspects. This has been an international phenomenon, as the reflection on rationalization and evaluation of public intervention has regarded, and still today continues to involve, many of the so-called western countries. Certainly, in western countries, the necessity for reform of the “public machine” was particularly felt in consideration of the persistent lack of efficiency and effectiveness that characterized its activity and by the strong impulse induced by some changes in the socio-economic environment. The crisis of the model of the welfare state, the need to pursue policies for balancing public budget, the demand for a growing quantity and quality of services supplied, and the demand for public participation are some of the signals of the need to find accounting tools suitable for adequately answering these needs. Nevertheless, public financial management systems of western countries are still characterized by a significant heterogeneity. This can be verified even though Pas have been involved in important reform processes oriented by homogenous principles, that can generally be traced back to the so-called New public management (Bozeman, 1979; Hughes, 2003; Barzelay, 1992-2001; Hood, 1995; Pollitt and Bouckaert, 2000; Osborne and Gaebler, 1992; Jones and Schedler, 1997).

2.2.1 Financial management theory in the public sector

Transaction cost theory contends that transaction costs are determined by the attributes of contractors and of financial transactions. Coordination costs will be higher in situations where opportunism is prevalent, risk preferences of contractors differ, asset specificity exists, financial transactions are complex and uncertain, financial transactions are connected, and when information distribution is asymmetric. Nevertheless, sometimes coordination costs are institutionally determined. For example, in a system of multiple principals where checks and balances and separation of power exist, financial management may be in the hands of many independent fiscal officials (Mckinney, 1995, p.9). This will increase transaction costs of coordination . As Milgrom and Robert (1992), argue there are also transaction costs of maladaptation when communication is beset with information impactedness, and the decision makers have insufficient or inaccurate information (p.29). This also exists in public financial management; for example, in expenditure plan with insufficient or inaccurate financial information, transaction costs of

maladaptation will occur when there is a need for transfers and reprogramming of authorities. Principal – agent theory rests on transaction cost and questions of information asymmetry. The focus is to effectuate an efficient contract relationship between the principal and the agent as a way to avoid opportunistic behavior. Lawrence L. Martin applies this theoretical approach to service delivery contracting in general, and performance-based contracts in particular.

2.2.2 Social Capital Theory and Administrative Reform: Maintaining Fiscal Probity in Public Service.

Over the past decade or so, major public-sector reforms have been implemented in many western democracies. Most of these changes have been driven by the perceived need to shift from traditional, bureaucratic, rules-oriented approaches to a results-centered model. In the United States they have been embodied in the so-called reinventing government movement (Kamensky, 1996), and more widely in the model known as new public management (Hood, 1990, 1991). Both approaches have sought to make the public sector more "efficient" and "accountable."

In New Zealand, this remodeling has been more radical than in most other countries and has attracted considerable international attention. As Schick (1996, 2) observes, "In its emphasis on managerial discretion and accountability, New Zealand's approach resembles reforms introduced in Australia, the United Kingdom, Sweden, and several other OECD countries. But the more closely one examines New Zealand's progress, the more it becomes evident that it has ventured far beyond what has been tried elsewhere." These reforms have been one element in a program of wide-ranging social and economic policy changes, driven by a market-liberal political agenda based on the theoretical frameworks of neoclassical economics (Easton, 1997; Kelsey, 1995; Rudd and Roper, 1997). As part of this package changes in the New Zealand state sector were directly informed by ideas drawn from management theory, new institutional economics (namely, agency theory and transactions costs analysis), and from public choice explanations of political and bureaucratic behavior (Boston, Martin, Pallot, and Walsh, 1996; Schick, 1996).

These "economistic" approaches have been designed to make the public sector look more like the business sector. But they have not addressed the ethical dimensions of public service in anything like the rigorous way that they have concentrated on instrumental issues of efficiency and "productivity." As Caiden (1994, 128) says in regard to American public administration, the reformers "want to show the long-suffering public just how much better government can perform if [it is] allowed to ... [but] ... whatever happened to the virtues of public interest, guardianship, integrity, merit, accountability, responsibility, and truth?" Perhaps partly because of reformist tunnel vision a forum held by the Organization of Economic Cooperation and Development (OECD) as expressed concern about what it perceives to be declining confidence in government. Although the two types of corruption are interrelated, the present discussion mainly concerns behavior that might be labeled personal as distinct from political corruption. Personal corruption constitutes malfeasance driven by an individual's calculation of personal gain or benefit in ways that offend the rules and regulations binding his or her official work.(1) Political corruption relates to those forms of behavior, such as the surreptitious leaking of official documents, which are commonly understood to constitute unethical behavior on the part of public servants. The term "ethical probity," as used here, refers to personal corruption.(2) Not only have the reforms not focused on issues relating to ethical probity, to the extent that they are based largely on the assumption that governmental officials cannot be trusted to act in the public interest, they may also tend to diminish standards of ethical probity in public service, to subvert an ethos of public service as public trust. The New Zealand experience suggests that reinventing government and new public management nostrums need to be balanced by more thought about their impacts on the ethical dimensions of public service. This plea is by no means novel, and American scholars have acutely pointed out the inherent contradictions and problems that stem from a narrow managerialist focus (for example, Kettl, 1993; Moe, 1994; Wilson, 1994; Frederickson, 1996; Peters and Savoie, 1996), and have forcefully reaffirmed the distinctive principles of public administration (Moe and Gilmour, 1995). The present article, however, suggests that a fuller understanding of ethical problems in public service may be gained by drawing from concepts forged in other fields of sociopolitical inquiry.

To this end it considers Robert Putnam's (1993, 1995, 1996) ideas about the relationship between social capital and effective democratic governance.

2.2.3 The progressive state theory: Smith (1923) asserted that the progressive state is one which is in reality the cheerful and hearty state to all the different orders (groups) of the society or country. Smith saw prudent management of public finance as a progressive state of maintaining high standard of living for people and high per capita income over time.

2.2.4 David Ricardo's Theory of differences: This theory is predicated on the belief that if the receipts of the government (production) are comparatively greater than aggregate spending (consumption), the standard of living of the society will improve and there will be steady growth of Gross Domestic Product (GDP) and a sustainable per-capita income which culminates in economic growth and development. (Ricardo 1783).

2.2.5 The Rostow Stage Theory: This theory posits that it is possible to classify societies into five categories based on their level of economic development namely the traditional society, the preconditions for take-off, the take-off into self sustaining growth, the drive to maturity and the age of high mass consumption. Here economic growth and development is assumed to be affected by policy formulation, policy planning, budgeting, fiscal discipline and institutional reforms all of which must be an integral part of public sector financial management. (Rostow, 1960)

2.3 Empirical review

Sutherland (2001) conducted a study on the biggest scandal on Canadian History. The study focused on year-long political and media uproar that followed on the release in January, 2000 of a qualitative or soft "audit" of management control in the federal government department, Human Resources Development Canada. The study argued that the auditors' examination of project files for programs delivered by grants and contributions was so abstract and poorly executed that nothing whatever could be

concluded from the work. The study established that the factors that favored the “scandal” interpretation include across-government New Public Management reforms where accountability has not been re-theorized for Canada’s Westminster system of government; Canada’s electoral volatility that starves the country of experienced politicians and spurs the tradition of political compensation for electoral support; and the political role of the Office of the Auditor General.

Boex and Muga (2001) carried out a study to establish what determines the quality of local financial management in Tanzania. Their analysis used data for local government authorities in Tanzania in order to explore the relationship between local financial management performance on one hand, and local management practices, local governance, and other local characteristics on the other hand. From their study, they found out that while the exact local management

practices that matter for the quality of local financial management in Tanzania vary depending on how financial management performance is measured, it appears that councils with better financial management practices (e.g., stronger internal audits), better planning and budget processes, and better project implementation practices achieve better local financial management outcomes. In addition, the empirical analysis reveals that local political conditions and other local circumstances such as the poverty level and the urbanization rate also play an important role in determining local financial management performance. They concluded that for the public sector to deliver public services and achieve its policy objectives, it is critical that public finances are managed well.

The studies by Andrews, De Renzio and Mills (2011) on donor support to public financial management are useful for shedding some initial light on the factors that may influence the quality of public financial management systems across countries. Donor public financial management support is positively and significantly associated with quality of public financial management systems. On average, countries that received more public financial management -related technical assistance have better public financial management systems. However, the association is very weak. These results

remained consistent through a number of robustness checks and model changes. They also found out that different aspects of donor support differ in their relationship with more specific public financial management processes. According to them, a longer period of donor engagement, for example, is associated with better performance in upstream and concentrated processes. This may owe to donors' historical tendency to pay more attention to these simpler reform areas, but could also reflect the fact that downstream, and de-concentrated processes take longer to improve. They concluded that aid modalities, and not just direct support to public financial management reforms, contribute to explaining differences in the quality of public financial management systems in some of the poorer countries where most donor efforts are concentrated.

XiaoHu and Montgomery (2007) researched on citizen participation and governance in public administration. The study empirically assesses the argument that public participation enhances public trust. A model was constructed to include five intermediate factors that might link participation and trust: consensus building, ethical behaviors, accountability practices, service competence, and managerial competence. As expected, participation does explain a significant amount of public trust. However, using path analysis, only two intermediate factors ethical behaviors and service competence were found to significantly contribute to trust. Even successful consensus-building activities are not likely to enhance trust unless administrative performance improves. These results indicate that if increasing public trust is the primary goal, then the primary focus should be on administrative integrity and performance results.

Kioko et al. (2011) carried out a research to determine why public financial management matters. They pointed out that financial resources are the lifeblood of public organizations. They argued that public financial management research brings a variety of conceptual, analytical, and empirical insights to bear on some of public administration and management's timeless questions. To illustrate this claim, they synthesize their findings from a variety of research across the public financial management subfield.

Havrylyshyn 2001; Campos and Coricell 2002; World Bank 2002 did studies that draw from both cross-sectional studies and panel data analyses and concluded that the following matter significantly impact economic growth: (i) macroeconomic stabilization; (ii) market liberalization and structural reforms; and (iii) initial conditions. The specific measures and indexes of macroeconomic stabilization (fiscal balance, inflation, or some other measure), reform, and initial conditions have tended to vary from one study to another, but the broad findings have tended to be robust. (Taras Pushak, Erwin R. Tiongson, and Aristomene Varoudakis, World Bank, 2004)

Andrews (2008) uses data from PEFA assessments to analyse the correlations between PFM performance and five selected variables. These variables represent key country characteristics: a) level of income and income growth; b) degree of country stability or fragility; c) nature of, and fiscal dependence on, major revenue source; d) length of uninterrupted national reform period; e) type of colonial legacy. By organising a group of 31 African countries into five separate PFM ‘performance leagues’ according to their average PEFA scores, Andrews investigates the influence of each contextual variable upon PFM system strength. His findings reveal some apparent trends.

The economic growth rate, and especially *per capita* economic growth, has a stronger association with higher quality PFM than the absolute level of income. In fact, some low-income, but relatively fast-growing, African countries feature in the highest PFM performance league.

Country stability appears conducive to PFM progress. Fragile states – identified using an IMF classification – dominate the lowest league of PFM performance, displaying particular weaknesses in strategic budgeting, budget transparency, budget execution and internal control.

‘Rentier states’ (i.e. those which accrue most revenue from external sources, including natural resources, trade taxes and donor funding) tend to have weaker PFM systems compared with ‘fiscal states’ (i.e. those which collect a majority of their revenues from domestic citizens).

Countries with a PRSP for more than three years achieve higher Public Expenditure Financial Accountability (PEFA) scores in almost all Public Financial Management (PFM) process areas. The presence of a Poverty Reduction Strategy Paper (PRSP) is used as a proxy measure for broad reform commitment as it may lock in pro-developmental policy choices and reform programmes (Edward Hedger and Paolo de Renzio, 2010)

The evidence for whether Anglophone or Francophone countries in Africa exhibit stronger PFM systems is ambiguous, except that Francophone countries tend to score lower against the PEFA indicators for downstream external accountability dimensions. A comparative study by Lienert (2003) suggests Francophone budget execution and government accounting systems have some potential advantages, but these have not typically led to stronger PFM performance in practice.

From his analysis, Andrews (2008) observes commonalities among the contextual variables for each distinct performance league. His findings suggest several factors, working in combination, are likely to facilitate PFM reform in a country and consequently to boost PFM performance. These factors are: a) a high economic growth rate; b) social and political stability; c) a 'fiscal state' reliant on domestic tax revenues; d) sustained government policy commitments; and e) non-Francophone heritage. However, these do not alone explain the emergence of the PFM reform space necessary for performance-enhancing reforms. That may have more to do with the intrinsic features of the reform process and its management than the country context.

There is a growing body of evidence in several countries that public services must be made more effective. Reform processes in countries such as Australia, the UK, New Zealand and the US started early in order to react to global competition and economic downturns. For the most part, these reform processes were comprised of a combination of privatization and changes in managerial structure that were brought about by implementing management systems and processes used in the private sector (Teo 2002; Davis 2003; Pollitt and Bouckaert 2000)

Empirical studies show that, all else being equal, direct democracy leads to lower levels of government expenditures and taxes, lower levels of government debt, an increase in local versus state spending, and a tendency to finance government expenditures with charges rather than broad-based taxes (Pommerehne 1978, 1990; Matsusaka 1995; Feld and Kirchgässner 1999; Kirchgässner, Feld, and Savioz 1999).

Other empirical studies suggest that government spending and debt increase with the intensity of conflict among the principals, measured by the severity of ideological or ethnic divisions within a society (Roubini and Sachs 1989; Alesina von Hagen and Perotti 1995; Alesina, Baqir, and Easterly 1997) or by ethnolinguistic and religious fractionalization (Annett 2000).

Empirical studies show that this leads to excessive levels of spending, deficits, and debt (von Hagen 1992; von Hagen and Harden 1994a; Strauch 1998; Kontopoulos and Perotti 1999).

As Annett (2000) points out, empirical evidence showing that ethnic and other types of social fractionalization induce higher public spending is also consistent with the common pool argument of excessive public spending, as fractionalization leads the representatives of one group in society to disregard the costs of public spending borne by other groups.

Ezirim and Muoghalu (2006) investigated the extent to which factors like population growth, urbanization effects and taxation affect the size of public expenditure in less developed countries like Nigeria; and concluded that inflation constituted the most important factor that accounted for changes in government financial management.

Offurum (2005) in an extensive study investigated the impact of public expenditure on economic growth. He made a comparative analysis of selected countries and concluded that significant relationship exists between some macroeconomic variables and changes in public expenditure. However most of these works have concentrated on the size of public expenditure and its determinants without giving much consideration to the effects

of these public financial management activities on the growth and development of the economies under study.

Northcote – Trevelyan laid down the foundations of the modern civil service in the mid-nineteenth century, a concern with establishing the ground rules for public servants and ensuring that they conform with a core set of standards in their everyday behavior has been a perennial theme in public administration (Pratchett,1999). As observed by Sakr Ashour (2004), a consensus has developed world – wide over the importance of reforming public sector institutions to strengthen ethics, integrity, transparency, accountability and professionalism and to prevent and combat corruption. Such reforms are crucial to protecting public resources, enhancing public sector performance, and strengthening the government’s role in orchestrating development and providing basic services, indeed there is a greater awareness of the need for ethics, accountability, transparency, integrity and professionalism in public life today.

Wagner (1883), on the basis of empirical findings, came up with a view that there was a long-run tendency for states activities to grow relative to the growth in national income. The conventional interpretation of Wagner’s law implies a continuous relative expansion of public spending as the consequence of the development process. Wagner explained that as a society becomes industrialized, a set of social, commercial and legal relationships within it become more complex. Government would be called upon to play a more prominent role in setting up and running institutions to control this complexity. This regulatory and protective function of the state would cause an enlargement in the size of public budget. Wagner reasoned that many public outputs are income elastic so that as development progresses and per capita income increases demand for these public outputs increases by a larger percentage. As the public sector responds to increasing demand for its goods and services, the budgetary outlays which accompany them increase and consequently, the relative size of the public expenditure expands. Since Wagner never indicated whether his findings were in absolute or relative terms, Musgrave (1969) chose to interpret Wagner’s law in relative terms as an expression of the growth of

relative size of the public sector. This suggests that as per capita income in the economy grows, the public sector size would also grow in tandem. Suffice to note that though Wagner (1883) did not mention the magnitude of this relationship, his analysis suggests that political and economic factors were the major determining forces that explained the persistent and upward movement in the ratio of public expenditure. Specifically, some of the reasons adduced for growth overtime are: inflation, public debt, tax revenue and the population. These factors are discussed hereunder. Inflation can be defined as a sharp and persistent rise in the price of goods and services characterized by prevalent increases in the prices generally and not just a temporary fluctuation (Patience and Augustine, 2008). Inflation is one of the most crucial macro economic problems facing most countries of the world especially the underdeveloped and the developing countries. Some the adverse effects include decreasing purchasing power of the country's currency, unemployment and uneven distribution of income. The extent to which inflation affects the size of public expenditure in less developed countries such as Nigeria was observed and investigated by Ezirim and Ofurum (2003). The result indicated that inflation was a notable factor found to be significant. Based on their findings, the authors took liberty to postulate that inflation as the most important factor of interest that accounts for changes in government expenditure in developing countries.

An empirical study conducted by Anyanwu (1997) reviews that the act of borrowing increases debt. Debt therefore refers to resources of money in use in an organization which is not contributed by its owner and does not in any way belongs to them (Oyejide et al., 1985). It is a liability represented by a financial instrument or other formal equivalent. Public debt on its own is not the problem but servicing this debt is what poses a challenge and increase government expenditure over time. When government incurs larger and larger debt through continual net borrowing, the interest charges on the public debt naturally grow provided that the interest rate is not falling. This leads to subsequent increase in public expenditure.

Kopits and Craig (1998), observed "*Transparency in government operations is an important precondition for macroeconomic fiscal sustainability, good governance, and*

overall fiscal rectitude.” In a complementary study, Alt and Lassen (2003) confirmed that fiscal transparency is indeed associated with lower public debt and deficits, even taking into account other explanations for public debts and deficits. Simply illustrated, voters want competent politicians in office as they provide more public goods for given levels of taxation and private consumption. However, this creates incentives for incumbents to try to “*appear competent*” by issuing debt, providing more public goods by “*buying now and paying later.*” A higher degree of fiscal or budget transparency determines when and how far voters can observe debt, and the extent to which an incumbent can use debt to appear competent. A higher degree of transparency further increases the probability that ‘*creative accounting*’ practices will be revealed. In this regard, transparency energizes the oversight activities of Parliaments, CSOs and the international community over government’s management of public resources.

Alesina and Perotti (1996), observe that the “*results on transparency probably say more about the difficulty of measuring it, than about its effect on fiscal discipline.*” This paper adopts the view that the ultimate measurement of the success of fiscal transparency is to look at the budget from the viewpoint of the ordinary citizens or their nongovernment representatives and ask what information a person will need to engage meaningfully with budget and other decisions about public resources. In this regard, the forthcoming ECA *African Governance Report (AGR)* is instructive in that it seeks to gauge ordinary people’s perception of economic governance in their respective countries. It has been found that the extent to which people and/or their representative organizations are able to express informed views about economic management determines their access to information and the clarity thereof.

A number of empirical studies have directly or indirectly attempted to gauge where Africa stands on budget transparency and accountability. Broadly, these studies fall under two categories: those that find that the general economic governance situation is improving, including fiscal transparency, and those that conclude that economic governance is actually deteriorating on the continent. Perhaps the leading study falling

under the former category is the ECA *African Governance Report*. In so far as economic governance goes, that study discerned a pattern of improvement in the overall economic management of the continent, while highlighting challenges, most of which are economic. The study highlights tremendous advances made in Botswana, Mauritius, Namibia, Tunisia and South Africa in “improving the transparency *and* accountability of their fiscal systems.” Other studies under this general optimistic perception include Grindle (1996), and Fieldhouse (1982).

In addition, the ECA study noted that, with new democratically elected political leaders, Africa now possesses the will and the zeal to implement the needed reforms, but that a speedier reform process could benefit from enhanced donor assistance. Other studies draw different conclusions. For example, van de Walle (2001) found that, since the 1980s, African leadership has, at best, shown lukewarm commitment to reforms. He argues that African countries have manipulated data to project an effigy of improved economic management when the truth is otherwise. To keep adjustment programmes officially on track, for example, those related to budget deficits, some oil exporters, including Cameroon and Congo, have sold oil forward several years into the future despite this practice being forbidden. Also, countries such as Tanzania, Uganda and Zambia have managed “*controlled budget deficits*” by accumulating arrears on salaries and other major government expenditures and then excluding these arrears from fiscal statistics. Van de Walle concludes that “*successive attempts at reforms have been undermined by rent-seeking behaviour*” and that political leaders benefiting from “*the current unchanged policy mix*” are not likely to give in to pressure for reforms.

A fast-growing literature starting with von Hagen (1992) has presented empirical evidence supporting the hypothesis that centralization of the budgeting process leads to smaller government deficits and debts. Von Hagen (1992) provides evidence from 12 EU countries showing a significant negative association between the centralization of the budgeting process and general government deficits and debts relative to GDP. Von Hagen and Harden

(1994b) extend and broaden the analysis and confirm the hypothesis that centralization is associated with smaller deficits and debts. De Haan and Sturm (1994) again work with EU data and show that the hypothesis holds up empirically, even when a number of political factors such as the composition and stability of governments is controlled for. Hallerberg and von Hagen (1998, 1999) use panel data analysis for 15 EU countries to show that centralization goes along with smaller annual budget deficits, even when one controls for a number of economic determinants of the budget deficit and other political variables.

Turning to other geographical areas, Stein, Grisanti, and Talvi (1999) use panel data analysis from Latin American countries to show that centralization goes along with lower central government deficits. Jones, Sanguinetti, and Tommasi (1999) analyze a panel of annual budget deficits of Argentine provinces and confirm the same hypothesis. Lao-Araya (1997) provides similar results for 11 Asian countries. Strauch (1998) uses data from the 50 U.S. state governments to show that centralization significantly reduces annual budget deficits. Taking a different methodological approach, the country studies of Strauch and von Hagen (1999), Molander (2000), and Stienlet (2000) point to the importance of centralization in achieving (or in the case of Germany losing) fiscal discipline.

Accordingly, various recent studies on Malawi's PFM system conclude that the legal and institutional framework for PFM in Malawi is relatively well designed. In principle, it provides a good starting point for a sound management of public finances (c.f. Rakner et al. 2004, 14–15, 18). For example, the World Bank's 2003 Country Financial Accountability Assessment for Malawi states: "*When compared to most developing countries, Malawi has a good legal and institutional framework for public sector financial management and accountability.*" (World Bank 2003, v). Therefore, one could expect that the formal legal and institutional PFM framework in Malawi should provide in principle for effective fiscal and expenditure planning, budget preparation, execution, and control in line with the priorities set in the Malawi Poverty Reduction Strategy Paper

(MPRSP). At the same time, however, many assessments judge the budget process in Malawi to be extremely weak. The main reason for this is that formal institutions and procedures bear little relevance for PFM practice in Malawi. As a recent study on Malawi's formal and informal PFM institutions commissioned by DFID states: *"The budget process is a theatre that masks the real distribution and spending. All the actors, from civil society, government, and donors seem aware that many of their statements and actions have little bearing on the actual distribution of resources"* (Rakner et al. 2004, iv).

The cited studies of Malawi's PFM tend to focus on central government. However, the findings of the field study conducted for this research in 2005 confirm that their assessment is also valid for local government in Malawi. It found ample evidence that Malawi's local PFM-system is characterised even more by informal procedures and ad-hoc behaviour by virtually all relevant stakeholders in the PFM process (Stefan Leiderer et al. 56 German Development Institute).

This observed gap between the formal framework for PFM and actual PFM practice in Malawi has a wide range of causes. In order to provide a clearer picture of these discrepancies and their relevance for PRSP implementation in Malawi, the following sections contrast the 'theory' and 'practice' of PFM in more detail goes on to examine the underlying determinants of informal PFM practices in Malawi.

Development agencies also changed their views over this period, increasingly realizing that deficient PFM systems can undermine their development assistance. They observed that even though aid projects may have good financial controls, they could result in government resources being freed up to fund other things; if PFM systems were deficient, the development results from these resources were likely to be less than desired. Donors became increasingly aware that the distinction between development and recurrent spending was less important than once thought: teachers salaries were just as important as school construction for achieving education. They realized that project-centered aid could not succeed with poor macroeconomic and fiscal policies, and that economic

development required not only physical investment, but also good public sector management (Allen et al, 2004:4-5).

2.4 Summary of Literature Review

The extensive literature review conducted shows the way a government should manage its public sector to enhance growth and development as well as alleviates poverty. Thompson (1992) asserts that professionalism in the public service is an overarching value that determines how its activities will be carried out. It encompasses all other values that guide the public service such as loyalty, neutrality, transparency, diligence, punctuality, effectiveness, impartiality, and other values that may be specific to individual countries. Ethics in the public service are broad norms that delineate how public servants should exercise judgment and discretion in carrying out their official duties. These values and norms are better reinforced if there is a system of administrative policies, management practices, and oversight agents that provide incentives and penalties to encourage public servants to professionally carry out their duties and observe high standards of conduct. A few studies have been conducted in the Liberian context touching on public financial management. However, no study has been conducted to establish the relation between ethics, transparency, accountability, fiscal probity and public financial management in Liberia. Public Financial Management practices may vary from one country to another depending on the legislation. Measures must be attuned to the relevant cultural and social circumstances.

According to the Auditor General's Fiscal Outturn Report (2009) on Public Sector Management in Liberia, it is also important to note that significant steps are being taken by the Minister of Finance to improve public sector financial management in Liberia. The improvements noted include the migration from legacy system to an Integrated Financial Management System (IFMIS), the introduction of a chart of accounts, the preparation of financial statements based on cash basis International Public Sector Accounting Standards (IPSAS), the development of an internal audit strategy and the establishment of an Internal Audit Oversight Board which will provide oversight in the implementation of

the Internal Audit Strategy, among others which are quite significant because of their impact on public financial management.

According to the Ministry of Finance Report (2009) the Government is pursuing a rapid and fundamental agenda of reform to improve processes, increase transparency and accountability, bring increased efficiency and effectiveness to public spending, and maintain fiscal stability in the face of an evolving macroeconomic environment. Chief among these is the implementation of the Public Financial Management law, passed by the Legislature in August. This law clearly articulates the roles and responsibilities of different institutions and individuals involved in public financial management, and mandates processes and procedures to be followed in order to ensure the government's finances are managed to the highest standard. The new processes included in this law are currently being put in place, and are being supported by several automation projects including for internal revenue, customs revenue, and accounting procedures. The improvements to systems and the increased transparency of transactions will mean it will be much more difficult to abuse the system, safeguarding Liberia's revenue so that it can be spent on vital poverty – reducing programs under the PRS.

Hughes (2003) stated that theories on public sector management stress the need to pursue policies for balancing public budget, the demand for a growing quantity and quality of services supplied, and the demand for public participation are some of the signals of the need to find accounting tools suitable for adequately answering these needs. However, the absence of a clear cut study considering the impact of fiscal probity on public financial management suggests a research gap which this study seeks to make a contribution towards fulfilling.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focused on the methodology that was used in conducting the study. The issues that were discussed included the research design, the target population, the sampling design and the sample size, the data collection methods as well as the data analysis and presentation methods.

3.2 Research Design

According to Yin R. K. (1984), a research design was a choice of research strategy, a decision to use experimentation, survey methods, archival analysis, histories or case studies. There were various types of research design depending on the classification of the study. The examples included: descriptive, analytical, predictive and exploratory research designs. This study had applied descriptive research design in studying the impact of fiscal probity on public financial management in Liberia. Descriptive design was appropriate since it had enabled the researcher to study the elements in their natural environment without necessarily manipulating them.

3.3 Population of the Study

The population of the study in this research had been the thirty five thousand (35,000) employees who had been involved in public financial management within the forty four line ministries and agencies of the government of Liberia. According to the Independent Evaluation Group (IEG) World Bank Report (2011), there had been thirty five thousand (35,000) employees comprising civil servants of Liberia.

3.4 Sample size and sampling procedure

Since the population in the government ministries and agencies was considered as being heterogeneous, the researcher had selected minister and director from each of the forty four line ministries and agencies of the government of Liberia to participate in the study which covered the period 2006 to 2011.

3.5 Data collection methods and procedure

The study had made use of both primary and secondary data. For the primary data, a closed ended questionnaire was constructed and administered to the respondents. The secondary data was centered on the annual reports of the line ministries and agencies from 2006 to 2011. The data was collected by use of a questionnaire which was more convenient to administer and collect data to achieve the objective of the study.

3.6 Data validity and reliability

Reliability meant that the measurement was consistent from individual to individual surveyed across settings and at different times. It enhanced accuracy, clarity and adequacy of the instrument, (Bennet, 1999). To test reliability a researcher had used the test-retest method. This had involved administering the same instrument twice to the respondents in a lapse of one week, and then the results was checked if it correlated using correlation coefficient. The higher the correlation co-efficient the higher the test-retest reliability. This had been achieved by collecting the same set of data from all the respondents.

Validity had been the extent to which the survey information was relevant to the conclusion being drawn and was sufficiently accurate and complete to support the conclusion. This had been achieved by ensuring only data relevant for the study was collected and analyzed.

3.7 Data Analysis

The data collected had been in both quantitative and qualitative form. Two methods of data analysis had therefore been adopted to enable the researcher conduct a

comprehensive analysis. The descriptive data had been analyzed through quantitative analysis using the Statistical Packages for Social Sciences (SPSS) - program for analysis. The findings from the quantitative data were presented in graphs and tables. The qualitative data was analyzed using regression correlation analysis and trend analysis.

3.8 Model for the Study

The method of study which sought to measure the relationship between fiscal probity and public financial management by use of a questionnaire followed the modified Klein model where nominated macro-economic variables which were proxies for fiscal probity estimated budget variance as proxy for public financial management such that:

$$Y = B_0 + B_1 * X_1 + B_2 * X_2 + B_3 * X_3 + \xi$$

Where,

Y = Budget Variance

B₀ = constant term which found out the value of Y when the independent variables were equaled to zero

X₁ = Ethics, X₂ = Legality, X₃ = Transparency

B₁, B₂ and B₃ were coefficients which defined the rate of changes in Y with respect to changes in the three variables (X₁, X₂ and X₃)

ξ = Error term which captured other variables relevant but not captured in the study.

This model sought to define what had happened to Budget Variance as changes occur in Ethics, Legality and Transparency within the public sector. These variables were measured or operationalized by use of a questionnaire wherein ordinary citizens who were non government representatives had given their views on how public officials were executing their functions while managing their budgets.

The model had adopted the dependent variable, budget variance as one of the best measures of public financial management of a nation's economy even though there were other measures such as government revenue, government expenditure and public debt. Along with ethics, legality and transparency, it was assumed that they were the best to

serve the purpose of the study. Whatever, the outcome had depended on the analysis of the data for the study.

CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

The objective of the study was to determine the impact of fiscal probity on public financial management in Liberia. The study targeted 44 respondents in collecting primary data with regard to the impact of fiscal probity on public financial management in Liberia. From the study, 30 respondents out of the 44 sample respondents filled-in and returned the questionnaires making a response rate of 71%. This reasonable response rate was achieved after the researcher made personal calls and wrote several emails to remind the respondent to fill-in and return the questionnaires. The secondary data was collected from the website of the Ministry of Finance showing trend analysis on the annual budgetary performance reports of line ministries and agencies from the period 2006 to 2011. Qualitative data was analyzed through quantitative analysis. Tables and Graphs were used to present the data. The findings are presented below.

4.2 Data Presentation

4.2.1 Organizational Response level

This section sought data on the response level of line ministries and agencies in Liberia. The findings tabulated below indicate that majority of the responses are provided by the ministries. They represent 66.7% of the total number of line ministries and agencies that participated in the study.

Table 4.0 Organizational Size

Institution	Frequency	Percent
Ministries	20	66.7
Agencies	10	33.3
Total	30	100

Field Research 2012

4.2.2 The Impact of Fiscal Probity on Public Financial Management

In this section, the researcher sought the views of the respondents on the extent to which they agreed with various degrees to which fiscal probity has been utilized by line ministries and agencies to impact public financial management.

4.2.2.1 The Impact of Ethics on Budget Variance

The respondents were required to state the extent to which they agree that Ethics has an impact on budget variance. It is evident from table 4.1 below that 60% of the respondents agreed that Ethics to a very great extent has a positive strong impact on budget variance.

Table 4.1 Impact of Ethics on Budget Variance

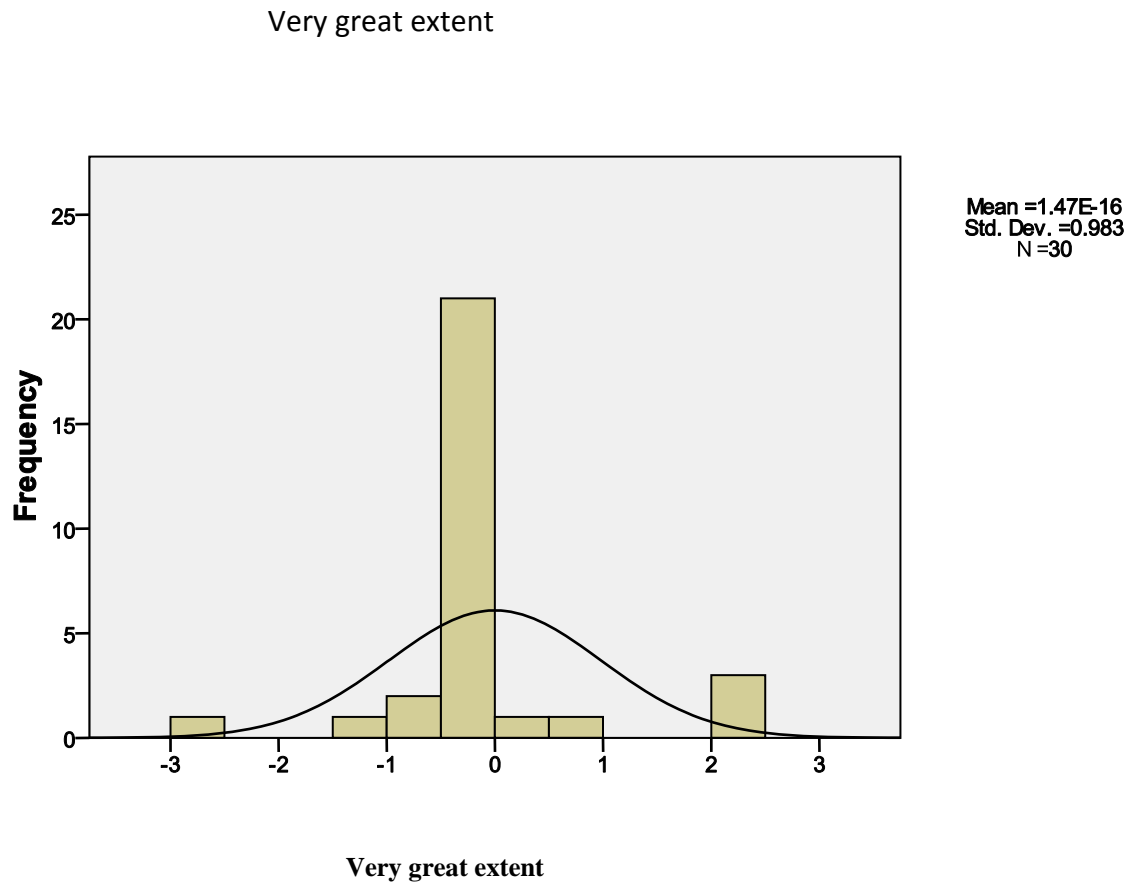
Response	Frequency	Percent
Very great extent	10	33.33
Great extent	8	26.67
Moderate extent	5	16.67
Little extent	6	20.0
No extent	1	3.33
Total	30	100

Field Research 2012

This is an indication that majority of the public institutions exercise ethical standards and values to impact Budget Variance in Liberia as illustrated by the below graphical depiction with a response mean of 1.47E-16.

Figure 4.1 Ethics Impact on Budget variance

Many institutions agree that the impact is to a very great extent from the below graph



4.2.3 The Impact of Legality on Budget Variance

The respondents were required to state the extent to which they agree that Legality impacts budget variance. It is evident from table 4.2 below that 73.3% of the respondents agreed that Legality to a very great extent has a positive strong impact on budget variance.

Table 4.2 Impact of Legality on Budget Variance

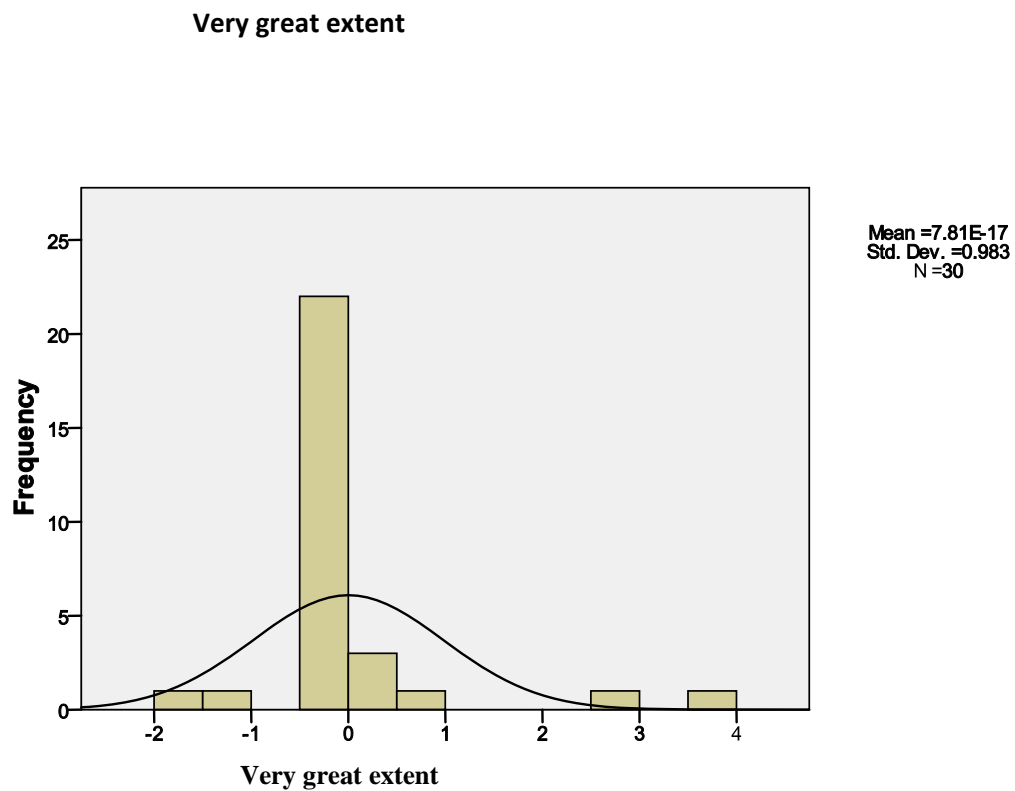
Response	Frequency	Percent
Very great extent	13	43.3
Great extent	9	30.0
Moderate extent	3	10.0
Little extent	3	10.0
No extent	2	6.7
Total	30	100

Field Research 2012

This is an indication that majority of the public institutions abide by rules and regulations governing Budget Variance in Liberia as illustrated by the below graphical depiction with a response mean of 7.81E-17.

Figure 4.2 Impact of Legality on Budget Variance

Many institutions agree that the impact is to a very great extent from the below graph



4.2.4 The Impact of Transparency on Budget Variance

The respondents were required to state the extent to which they agree that Transparency has an impact on budget variance. It is evident from the table below that 43.4% of the respondents agreed that Transparency to a little extent has a positive strong an impact on budget variance.

Table 4.3 Impact of Transparency on Budget Variance#

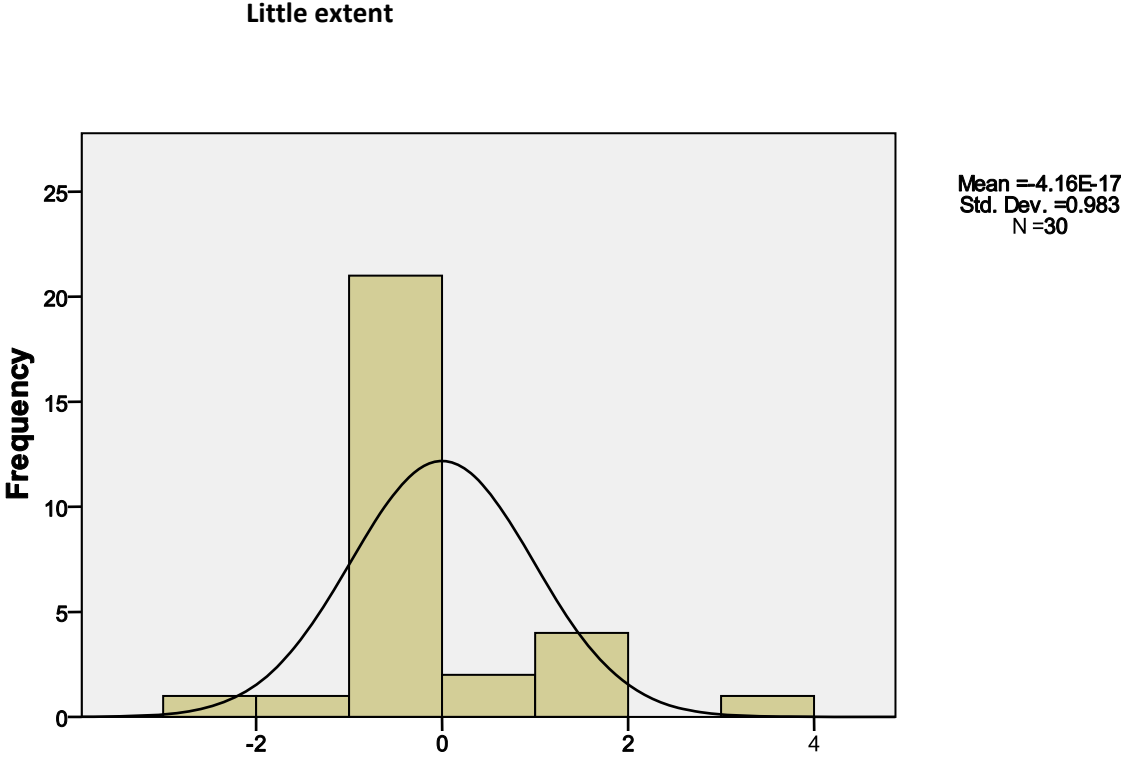
Response	Frequency	Percent
Very great extent	4	13.3
Great extent	3	10.0
Moderate extent	10	33.3
Little extent	11	36.7
No extent	2	6.7
Total	30	100

Field Research 2012

This is an indication that majority of the public officials agreed that transparency to a little extent has a strong positive impact on budget variance as illustrated by the below graphical depiction with a response mean of 4.16E-17.

Figure 4.3 Impact of Transparency on Budget Variance

Many Institutions agree that the impact is to a little extent as indicated by the graph below



4.2.5 Regression Analysis

A regression analysis was also conducted to establish the impact of fiscal probity on public financial management. The table below indicates that all the three independent variables have a positive correlation with the dependent variable. Each of the independent variables: ethics; legality and transparency contribute positively to budget variance. These variables were measured by use of the Statistical Packages for Social Sciences (SPSS) program. It is also evident from the study that without the utilization of fiscal probity by government most line ministries and agencies would struggle with their objectives of fiscal discipline or eventually collapse.

Table 4.4: Coefficients of the regression equation (b)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
R	R ²	B	Std. Error	Beta		
.727 ^a	.529					
1	(Constant) a	.642	.503		1.276	.213
	Ethics (X ₁)	.462	.199	.583	2.317	.029
	Legality (X ₂)	-.044	.131	-.087	-.341	.736
	Transparency (X ₃)	.135	.137	.251	.991	.331

Source: Field Research 2012

Predictors: (Constant), ethics, legality, transparency

Dependent Variable: Budget Variance

The study notes that there is a positive strong impact of Ethics, Legality, and Transparency on Budget Variance. As depicted in table 4.4, the correlation coefficient (R) which is a measure of the strength and direction of the linear relationship of the variables is 0.727 which indicates a positive strong relationship between the variables. The coefficient of determination (R²) which is the prediction of future outcomes on the

basis of the related information is 0.529 implying that of all the variations in budget variance; 0.529 is attributed to the independent variables which show a positive strong impact among the variables while the remaining 0.471 is explained by variables outside this study.

$$Y = .642 + .462X_1 - .044 X_2 + .135 X_3$$

Where

Constant = .642, shows that if ethics, legality, transparency = 0, then increase in the budget variance of ministries and agencies would be .642

.462X₁: shows that one unit change in ethics results in .462 units increase in the budget variance of ministries and agencies.

-.044 X₂: shows that one unit change in legality results in -.044 units increase in the budget variance of ministries and agencies.

.135X₃: shows that one unit change in transparency results in .135 units increase in the budget variance of ministries and agencies.

At 5% level of significance and 95% level of confidence, ethics had a .029 level of significance; legality showed a .736 level of significance, transparency showed a .331 level of significance and hence legality is the most significant factor.

4.2.5.1 Strength of the Model

The correlation coefficient (R) which is a measure of the strength and direction of the linear relationship of the variables is 0.727 which indicates a positive strong relationship between the variables. The coefficient of determination (R²) which is the prediction of future outcomes on the basis of the related information is 0.529 implying that of all the variations in budget variance; 0.529 is attributed to the independent variables which show a positive strong impact among the variables while the remaining 0.471 is explained by

variables outside this study which may include government revenue collection, government expenditure and public debts.

Table 4.5: Model Summary

Model Summary^b

.Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.727 ^a	.529	.474	1.985

^a.Predictors: (Constant), Ethics, Legality and Transparency

^b. Dependent Variable: Budget Variance of M & As

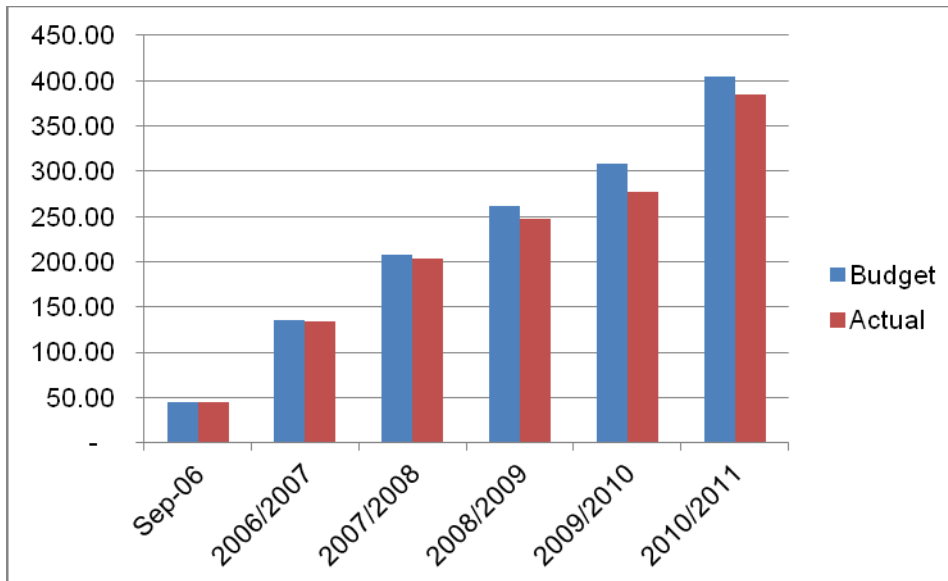
4.2.5.2 Annual Budget Performance

The secondary data analysis below showed a positive trend of the budget variance of line ministries and agencies from the period 2006 to 2011.

Table 4.5 Fiscal Probity in terms of GOL Budgeting, Revenue collection and Expenditure

year	Budget	Actual	Variance
Sep-06	44.10	44.97	(0.87)
2006/2007	134.98	134.65	0.33
2007/2008	207.91	203.38	4.53
2008/2009	261.90	246.80	15.10
2009/2010	308.70	277.62	31.08
2010/2011	405.10	384.70	20.40
Total	1,362.69	1,292.12	70.57

Figure 4.4 Fiscal Probity on GOL Budget, Revenue and Expenditure



Source: Department of Revenue and Expenditure Ministry of Finance

The analysis above shows that the Government of Liberia has been doing well in terms of revenue collection. The last quarter of the fiscal period 2005/2006 specifically September 2006 was allotted US\$44.10 million. Expenditure exceeded projection by 1.97% implying that more revenue was collected than projected. The fiscal year 2006/2007 saw an 89.68% jump in revenue collection. The government budgeted for US\$134.98 million and realized 134.65. The period 2007/2008 witnessed another significant growth in revenue collection. The government budgeted US\$207.91million and realized US\$203.38 million registering a growth of 51% in revenue collection. The total of the budget for the fiscal periods 2008/2009 through 2010/2011 was US\$975.7 million while the actual amount collected from tax payers amounted to 927.12 (95.02%).

The evidence presented by these data is an indication that fiscal probity in terms of government budgeting and revenue collection has to a large extent been good; more so that the government has retained expenditure in its scope of revenue collection. Even though there have been instances of slight budget deficit over time, expenditure has been periodically streamlined to remain in the limits of revenue collection. Besides debt

accrued during the pre-war era, the current administration has never financed its budget through debt whether by external or domestic means.

4.3 Summary and Interpretation of Findings

The findings presented by the researcher are summarized and interpreted below on ethics, legality and transparency as regards their impact on budget variance, and this shows a positive strong relationship between the variables as indicated by the correlation coefficient (R) of 0.727 and the coefficient of determination (R^2) of 0.529

4.3.1 Impact of Ethics on Budget Variance

The correlation coefficient (R) which is a measure of the strength and direction of the linear relationship of the variables is 0.727 which indicates a positive strong relationship between Ethics and Budget Variance. The coefficient of determination (R^2) which is the prediction of future outcomes on the basis of the related information is 0.529 implying that of all the variations in budget variance; 0.529 is attributed to ethics which shows a positive strong impact between the variables while the remaining 0.471 is explained by variables outside this study which may include government revenue collection, government expenditure and public debts.

This finding is similar to that of Pretorius (2008) who stated having sound financial management and reporting in the public sector is an important contributor in achieving greater transparency, accountability, fiscal responsibility and, hence, improved governance. But contrast that of Anwar Shah (2007) who argued that many developing countries, however, continue to suffer from unsatisfactory and often dysfunctional governance systems that include inappropriate allocation of resources, inefficient revenue systems, and weak delivery of vital public services. Such poor governance leads to unwelcome outcomes for access to public services by the poor and other disadvantaged members of society, such as women, children, and minorities.

4.3.2 Impact of Legality on Budget Variance

The correlation coefficient (R) which is a measure of the strength and direction of the linear relationship of the variables is 0.727 which indicates a positive strong relationship between Legality and Budget Variance. The coefficient of determination (R^2) which is the prediction of future outcomes on the basis of the related information is 0.529 implying that of all the variations in budget variance; 0.529 is attributed to the legality variables which shows a positive strong impact between the variables while the remaining 0.471 is explained by variables outside this study which may include government revenue collection, government expenditure and public debts.

This finding is similar to that of Pritchett (1999) who that stated Northolt – Trevelyan laid down the foundations of the modern civil service in the mid-nineteenth century, a concern with establishing the ground rules for public servants and ensuring that they conform with a core set of standards in their everyday behavior. It also concurs with Wenger (1883) who explained that as a society becomes industrialized, a set of social, commercial and legal relationships within it become more complex. Government would be called upon to play a more prominent role in setting up and running institutions to control this complexity. These regulatory and protective functions of the state would cause an enlargement in the size of public budget.

However, the finding contrasts that of Sutherland (2001) who conducted a study on the biggest scandal on Canadian history and concluded that the auditors' examination of project files for programs delivered by grants and contributions was so abstract and poorly executed that nothing whatever could be concluded from the work.

4.3.3 The Impact of Transparency on Budget Variance

The correlation coefficient (R) which is a measure of the strength and direction of the linear relationship of the variables is 0.727 which indicates a positive strong relationship between Transparency and Budget Variance. The coefficient of determination (R^2) which is the prediction of future outcomes on the basis of the related information is 0.529 implying that of all the variations in budget variance; 0.529 is attributed to transparency which shows a positive strong impact between the variables while the remaining 0.471 is

explained by variables outside this study which may include government revenue collection, government expenditure and public debts.

The finding is similar to that of *Rakner et al* (2004) who stated that the budget process is a theatre that masks the real distribution and spending. All the actors, from civil society, government, and donors seem aware that many of their statements and actions have little bearing on the actual distribution of resources. It also supports that of *Kopits and Craig* (1998), who observed, “*Transparency in government operations is an important precondition for macroeconomic fiscal sustainability, good governance, and overall fiscal rectitude.*”

The evidence presented by these data is an indication that fiscal probity in terms of government budgeting and revenue collection has to a large extent been good; more so that the government has retained expenditure in its scope of revenue collection. Even though there have been instances of slight budget deficit over time, expenditure has been periodically streamlined to remain in the limits of revenue collection.

CHAPTER FIVE: SUMMARY OF CONCLUSION AND RECOMMENDATION

5.1 Summary

The study was carried out to determine the impact of fiscal probity on public financial management in Liberia. According to Ministry of Finance report (2009), fiscal probity in terms of government budgeting and revenue collection has to a large extent been good; more so that the government has retained expenditure in its scope of revenue collection. Even though there have been instances of slight budget deficit over time, expenditure has been periodically streamlined to remain in the limits of revenue collection. Besides debt accrued during the pre-war era, the current administration has never financed its budget through debt whether by external or domestic means.

The study targeted 44 respondents in collecting data with regard to the impact of fiscal probity on public financial management in Liberia. From the study, 30 respondents out of the 44 sample respondents filled-in and returned the questionnaires. Qualitative data was collected and analyzed using quantitative analysis.

It was established from the study that line ministries and agencies' fiscal discipline has a positive strong impact on the budget variance. A significant percent of line ministries and agencies agreed that fiscal probity has a positive strong impact on public financial management thus creating a safe haven for economic growth; sustain productivity, reducing unemployment and poverty within the country. Lastly, most ministries and agencies agreed that transparency to a little extent has a positive strong impact on budget variance.

From the regression conducted specifically as revealed by the coefficient correlation (R), it was established that the independent variables have a positive strong impact on the dependent variable.

5.2 Conclusions

Fiscal probity has a positive strong impact on public financial management in Liberia. Line ministries and agencies in Liberia are properly utilizing ethics, legality, and transparency to improve budget variance in the country for economic growth, sustained productivity, reduced unemployment and poverty. A significant percentage of line ministries and agencies agreed that fiscal probity has a strong positive impact on public financial management. This is due to the fact that close to fifty percent of line ministries and agencies agreed that legality or the laws on fiscal discipline has a positive strong impact budget variance.

Most of the line ministries and agencies in Liberia are exercising positive ethical values or standards which are impacting budget variance and improving economic growth and development. The study also established that line ministries and agencies agreed that Transparency to a little extent has a positive strong impact on Budget Variance.

From the regression statistics revealed by the results of the coefficient correlation (R), ethics, legality and transparency have a positive strong impact on budget variance of line ministries and agencies. This therefore satisfies that there are other factors that contribute to budget variance which may include government revenue collection, government expenditure and public debts.

From the regression conducted it was established that the independent variables have a positive strong impact on the dependent variable. It is clear from the study that without government enforcing fiscal probity on public financial management most line ministries and agencies would struggle and fail in the objectives to ensure fiscal discipline on public finances.

5.3 Policy Recommendations

Transparency is an important factor in ensuring that line ministries and agencies achieve the best out of budget variance. The government of Liberia should ensure that all ministries and agencies exercise transparency in their decisions and operations which will

inspire them in the quest of achieving the objectives of enhancing fiscal discipline as they utilize their approved budgetary allotments.

Ethics is very vital for enhancing prudent public financial management within the State. There is need to continuously institutionalize ethical standards and values in the public sector so as to maintain or improve its current impact on budget variance.

Ministries and agencies should be educated through training, workshop, seminars to understand the need and importance of ethics so as to greatly impact budget variance to bring about economic growth and development, sustainability and improved livelihood for the ordinary people across the country. The Government of Liberia should encourage line ministries and agencies to prioritize and exercise ethical values or standards within their institutions on a regular basis in order to positively impact budget variance.

The study has shown that legality to a very great extent has a positive strong impact on budget variance as such there is need to continuously encourage line ministries and agencies to remain abiding by the rules and regulations on fiscal discipline since it has created a safe haven for economic growth and development across the country. Moreover, fiscal probity as exercised by the Government of Liberia impacts public financial management by functioning as a safety net for the most vulnerable segments of the country's budget process including strategic planning, medium term expenditure framework, revenue management, procurement, control, evaluation, audit and oversight in order to promote growth and development, reduce poverty and unemployment within the State.

5.4 Limitations of the Study

The findings of this study are only directly applicable to Monrovia, Liberia since the study focused only on line ministries and agencies in Monrovia. Attributes of these line ministries and agencies in Monrovia could not be representative of public institutions in the rural parts of Liberia. It therefore means that they cannot be directly applicable to other regions with different backgrounds and situations.

Some of the respondents feared to expose much about their organizational scope of operations. It is possible that some of the responses may not reflect the actual situation on the ground. This therefore means that the findings are subject to some small degree of error as a result of disguised responses from some of the respondents.

Most of the respondents could not fill-in the questionnaires due to their unwillingness and busy schedules. As a result, the researcher could not obtain hundred percent of the sample questionnaires distributed to line ministries and agencies in Liberia.

5.5 Suggestions for further research

The study has established that transparency to a little extent has a positive strong impact on budget variance of line ministries and agencies in Liberia. Therefore, a study should be conducted to enhance and strengthen the impact of transparency on budget variance of line ministries and agencies in Liberia. This will ensure that line ministries and agencies comprehend the significance of transparency and how it helps in hedging against unforeseen future events that could impact negatively on budget variance.

A comparative study should be carried out to examine the similarities and differences between Liberia and other countries where the concept on the impact of fiscal probity on public financial management has been adopted such as South Africa, Malawi, New Zealand and Australia. This will help benchmark some of the best practices in the public sector that can enhance public financial management.

A study should also be carried out to establish the impact of government revenue collection on public financial management in Liberia. This will assist the Government of Liberia to determine if its revenue collection mechanism is reasonable and whether it contributes to the growth of the economy in Liberia.

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APPENDICES

Appendix 1: Questionnaire

This section contains questionnaire on ethics, legality and transparency as regard their impact on public financial management in Liberia. This questionnaire is structured in an effort to assist the government of Liberia, its development partners, as well as academicians to understand the impact of fiscal probity on the management of public finance in Liberia.

The questionnaire is divided into sub sections which cover the following areas: Ethics as it relates to PFM, Legality as it relates to PFM in Liberia and Transparency as it relates to Public Financial Management in Liberia. In this section, use the scale 1-5 where 1 is to a very great extent, 2 is to a great extent, 3 is to a moderate extent, 4 is to a little extent, and 5 is to no extent at all in answering the following questions.

To what extent do you think the following justifies the impact of fiscal probity on public financial management in your organization use the scale by placing the check mark (√) where appropriate. The information on this questionnaire will be treated confidentially, and will be used for any other purpose other than academic.

Fiscal Probity Index

	1	2	3	4	5
A. Ethics					
Employees’ ethical conducts in this entity impact budget variance positively.					
Public service conditions in this entity promote ethical conduct.					
Management has policies, procedures and practices that promote ethical conduct.					
Public officials in this entity demonstrate their knowledge on management policies, procedures and practices that promote ethical conduct.					
Ethical standards for this institution are reflected in the legal framework.					

Ethical standards for employees are well written and communicated to all employees.					
This organization operates by a set of strong ethical values.					
Employees in this organization experience ethical dilemmas on their jobs.					
The organization provides relevant trainings on ethical standards or conduct.					
This organization supports the reporting of unethical behavior by staff on the job.					
B. Legality					
The laws are holding public servants in this entity accountable for their stewardship of public resources.					
The penalties levied for violating the laws in this entity are drastic.					
The laws on taxation of goods and services are effective in this organization.					
Public servants in this organization execute their duties and responsibilities in accordance with the law.					
This organization encourages public officials to conduct their daily operations in line with approved budgetary allotment allocation.					
Public servants in this entity adherence to the laws on fiscal discipline impact budget variance positively.					
This organization allows regulatory agencies to evaluate their works.					
This entity appreciates statutory deductions to enhance social responsibilities.					
Employment is based on merit in this entity.					
Reports are submitted on time in accordance with plans in this organization.					
C. Transparency					
Public officials in this entity are transparent in their operations and decision.					
This entity discloses its annual report and financial statements to the public.					

This organization releases all its documents upon request and on time.					
Public officials in this organization are trustworthy.					
This organization publishes its annual reports in the print media and on the internet.					
Public servants in this organization declare their assets.					
Public servants in this organization expose financial malpractices.					
This organization reward processes are based on merit and transparency.					
This entity provides its budgetary information to the public.					
The organization safeguards all of its assets.					