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Implementing Financial Management and Governance in  
Transitional States: Reflections on introducing Western normative  
models of Public Internal Financial Control in the new Republic of  
Kosovo

A Context Paper submitted in partial fulfilment of the  
requirements for an award of Doctor of Professional Studies by  
Public Works by Middlesex University, London.

Institute for Work Based Learning, Middlesex University

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## ABSTRACT

After an early career in accountancy, corporate management and consulting in England, Bermuda and Canada an opportunity presented itself to embark on a new career in international development consultancy. A series of public finance reform assignments in the Caribbean, South America, Eastern Europe, South East Asia and Southern Africa provided the foundation for my work in the Republic of Kosovo which is the source of the public works that are submitted with this paper.

Over a period of four years I was engaged in three projects to introduce the European Union's Public Internal Financial Control financial governance model to Kosovo, a poor, corrupt new country hoping to gain admittance to the EU. This work involved applying international best practices to developing financial management policy, laws and regulations supported by strategic plans, multi-level capacity building initiatives and a change management strategy to drive future interventions. Taken together these projects represent a uniquely integrated intervention that touched all levels of government and has been independently evaluated as having had considerable positive impact on the development of Kosovo.

Despite the positive outcomes, an examination of the limitations of the best practices model encountered in my work and in the observations of various professional and academic commentators, suggests a more effective way forward: developing country-specific, principles-based interventions rather than imposing western normative models, with the involvement of a broader set of actors that includes civil society and informal actors.

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## INTRODUCTION

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This Context Statement presents a body of work to support my candidacy for a Doctorate in Professional Studies based on public works that were produced over four years between 2007 and 2011 relating to the implementation of Public Internal Financial Control in the Government of the Republic of Kosovo. The context is presented in five sections with the works themselves, which are listed in Annex 1, being presented separately.

The first section presents my professional background in accountancy and consulting, highlighting the significance of on-the-job learning and formal training to my professional development. The next section explains my entry into international development consultancy, which provided the platform for the public works that I am presenting.

The third section presents my experiences over four years during which I was engaged in three projects to introduce the European Union's financial governance model (called Public Internal Financial Control) to Kosovo, a poor, corrupt new country hoping to gain admittance to the EU. This section introduces each of the public works I have submitted.

The impact of this work in developing financial management policy, laws and regulations supported by strategic plans, multi-level capacity building and a change management strategy to drive future interventions is then evaluated in Section four to demonstrate its value to Kosovo, to the European Union, to the profession and to my ongoing development.

The final section discusses how my recent experience has led me to re-consider current development practices and presents ideas from academic sources that I would like to promote in practice as I enter the next phase of my career. In particular these suggest (a) a new approach based on using non-negotiable principles to develop country-specific solutions, rather than the present practice of imposing western normative models, and (b) involving a broader set of actors that includes civil society and informal actors.

Many thanks to Dr. Peter Critten for his invaluable guidance and encouragement throughout the preparation of this document and to Dr. Richard Jones for his thorough review of my final draft, and to both for their suggestions for improvements.

## 1. PROFESSIONAL FOUNDATIONS 1977-2001

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After leaving grammar school in 1974 I decided on a career in accountancy on the basis that a profession that was not tied to any particular industry would give me geographical mobility. This proved to be a good decision and after finishing college in Derby I progressed well in my first jobs as Management Accountant in York, England from 1977 to 1981 and in Bermuda from 1981 to 1984.

The professional training that started me off in the working world shaped my values with its emphasis on professional competence and integrity. The seven years I spent working as a management accountant provided me with the financial skills that would underpin the rest of my career, and my experience in Bermuda gave me my first taste of working overseas, broadening my horizons significantly.

After a few years I became restless with the repetitive accounting cycle so in 1984 I decided to try a new professional direction. Having travelled to various places in eastern Canada and the USA I thought I would try my luck over there.

Feeling that management consultancy would give me the variety of a project-based environment I joined The Laurier Group, a small consultancy start-up in Ottawa, Canada, as a junior consultant. I had assumed that consultancy would involve similar work to management accountancy, advising businesses on profit-maximising strategies. However, this turned out not to be the case, since, being based in Canada's capital, most of our work involved reforms in the Federal government.

Entering this new field, I had to learn the methodology and lexicon of consultancy, and also how to deal with a totally new class of problems, throwing away private sector models and learning the context of big government. (For example: money saved in the private sector goes straight to the bottom line and is a positive event; in the public sector money left unspent is a major failure). My value to the firm was in the financial systems experience I had gained as an accountant, since this was a period of first-time automation of systems across government. However I had little exposure to the then-current system analysis techniques, so after reading Gane and Sarsen's book<sup>1</sup> on functional decomposition I took some courses and earned a Certified Systems Professional (CSP) designation from the Chicago-based Institute for the Certification of Computer Professionals. This was a poor substitute for the computer science degrees that most of my colleagues had but gave me enough understanding of the system development life cycle and contemporary issues in automation to hold my own.

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<sup>1</sup>C. Gane and T. Sarsen, 1978 Structured System Analysis: Tools and Techniques, McDonnell Douglas Information, USA

The three partners in The Laurier Group (John Harris, Ed Smith and Martin Lax) were unselfish with their time and advice, helping me to develop as a consultant and encouraging me through rapid promotions to Senior Consultant, Project Manager and eventually Principal Consultant. It was an exciting time as the business was expanding fuelled by the wave of reforms sweeping the public sector, and I enjoyed the sense of accomplishment that came with being an integral part of this success. It seemed likely that I would remain in Canada for some time, so I enrolled in the Canadian Association of Certified General Accountants' training programme and after a couple of years emerged with the Certified General Accountant (CGA) designation.

In due course The Laurier Group was acquired by Deloitte and Touche Management Consultants bringing access to bigger, higher profile assignments, and better professional development and career opportunities. Through Deloitte's I received formal training in Professional Selling and Developing Strategic Plans, and attended many informal learning sessions on a variety of topical issues. I felt very fortunate to be part of such a quality firm. However, Deloitte's was very structured and a far cry from the ad-hoc, laissez-faire atmosphere that prevailed in the smaller firm so I was receptive when a new challenge in a small organisation came along. It followed an assignment I had done for the Comptroller General of Canada evaluating all the financial management systems then in use in the Canadian government. I had been impressed by a new product from a small consulting firm called Linktek Corporation and they liked me from my work in the review process. When they approached me to join them as General Manager to help them transition to focusing on implementing financial systems in the federal government, I was excited by the idea of building a business more or less from the beginning.

As a result, 1989 found me once again in a small organisation, competing with large US software firms with only a small team and the money we could generate from sales. This meant hands-on involvement in most aspects of the business from developing marketing plans and sales campaigns to building and running a sales team, a group of functional and technical implementation specialists, and a training centre.

To expand my understanding of the federal government financial management environment and establish myself in the community that was my market, I joined the Financial Management Institute of Canada (FMI), which represented them. This led to my serving two years on the Board of the Capital Chapter, with responsibility for developing a new sponsorship programme. The FMI has prospered and grown over the years and I remain a member in good standing.

Over the following years we captured around a third of the Canadian government market and expanded into the US; a significant achievement for a small privately-held organisation. I thrived on the excitement of building an entrepreneurial business, implementing internal processes to support our growth, and managing ever-larger projects. I matured as a manager, directing various functional teams and, once we became big enough to need one, serving on the senior management committee. Kevin Higgins, one of the two founders of Linktek was a big influence during this time, giving me free rein to manage my business and eventually promoting me to be the company's first non-founding Vice-President.

One of the constraints facing small organisations is the limited resources for staff development, especially at the management level. My early days at Linktek were characterised by a mix of trial and error and reading contemporary business books. Four key books I remember well are "Guerrilla Marketing"<sup>2</sup>, "Marketing Warfare" and "Bottom-up Marketing"<sup>3</sup> which showed how to build market share without a sophisticated marketing operation, and "Reinventing Government"<sup>4</sup> which promoted a philosophy of doing government better with which we wanted to associate ourselves.

To match my increasing responsibilities with a more integrated skill set I enrolled in the MBA programme at the University of Ottawa. About half way through the programme extensive business travel made it impossible for me to continue attending classes. At the time, the CGA was promoting the Edinburgh Business School distance learning MBA programme at Heriot-Watt University so I enrolled, transferring some credits and graduating a couple of years later.

After about eight years with FreeBalance I was getting stale. The software business in Ottawa was booming and I took advantage of offers of executive positions with two other local software firms between 1997 and 2001.

The first was Jetform Inc., a local software success story that is now part of the global Adobe Systems organisation. My mission was to start a new division to develop automated workflow-based administrative systems for large organisations in the public sector (including Statistics Canada and NASA Jet Propulsion Systems) and the private

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<sup>2</sup>Levinson, Jay Conrad, 1983, Guerrilla Marketing, Houghton Mifflin, USA

<sup>3</sup>Ries, A and Trout, J., 1986, Marketing Warfare, Penguin Books Ltd., Harmondsworth, UK

and Ries, A and Trout, J., 1989, Bottom-up Marketing, Penguin Books Ltd., Harmondsworth, UK

<sup>4</sup>Osborne, D. & Gaebler, T., 1993, Penguin Group, USA



sector (such as Royal Dutch Shell Petroleum and Prudential Insurance). For this I needed a technical understanding of workflow automation, so in addition to in-house seminars, two books helped me understand this new, technology-enabled approach to business process reengineering: Fischer's "New Tools for the Times: the Workflow Paradigm"<sup>5</sup> and Koulopolous' "The workflow imperative: building real world business solutions"<sup>6</sup>.

After two years with Jetform, I was approached by a former colleague to join a rapidly-growing software company, Eftia OSS Solutions Inc., to head up the new Professional Services Division, and I was once again thrust into the entrepreneurial chaos that comes with exponential growth.

At Eftia I was responsible for building a consulting division to deliver high-value systems to support the new telephone companies that emerged after deregulation. Although my responsibilities remained in familiar project management territory, the telecom industry was completely new to me. This was a challenge, especially as I was supervising technical specialists with extensive experience in publicly-owned phone systems, so I attended classes to acquire a new technical base, this time in telecommunications technology (packet switching and so forth)<sup>7</sup>, and to hone my leadership skills.<sup>8</sup>

Our business did extremely well, very quickly. At one point the board turned down an offer of half a billion dollars from a major multinational but sadly hubris, immature products and the sudden collapse of the telecom market saw the company dissolve into oblivion (see The Ottawa Citizen, January 10, 2006 "The long slow demise of Eftia OSS Solutions"<sup>9</sup>). The rapid growth and subsequent failure of the company provided many learning opportunities, both on the way up and the way down.

An important client in my earlier days at Linktek Corporation had been Bruce Lazenby from the Canadian Department of National Defence. Once Linktek was established in the Canadian market, I was assigned to lead the company's expansion into the American

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<sup>5</sup> Fischer L. editor, 1995, New Tools for the Times: the Workflow Paradigm, Second Edition, Future Strategies Inc., Lighthouse Point FL, USA

<sup>6</sup> Koulopolous, Thomas M, 1995, The workflow imperative: building real world business solutions, Van Nostrand Reinhold, New York, NY, USA

<sup>7</sup> Telecom Fundamentals I and II, rev 2.1 1998, Global Knowledge Network, Cary, SC, USA

<sup>8</sup> Gordon, Thomas, 1977, Leader Effectiveness Training, L.E.T., Wyden Books, New York, NY, USA

<sup>9</sup> Available at [http://www.canada.com/story\\_print.html?id=3a80ff58-f6cb-4828-a710-4a7a2d8e367d](http://www.canada.com/story_print.html?id=3a80ff58-f6cb-4828-a710-4a7a2d8e367d)

state and municipal sector and Bruce was persuaded to leave the military to take over my operation. Subsequently Bruce's natural leadership won him the CEO role. He was always very generous in giving me credit for leaving him with a solid organisation, and as Eftia was beginning to wind down he recruited me back to sort out some issues in the professional services team. I was happy to work with him again, hoping to absorb some of his leadership qualities.

While contributing to Linktek (now renamed "FreeBalance Inc." after its product line) a second time was interesting in itself, one particular task was negotiating contracts to supply Treasury systems to Kosovo to help with its reconstruction after the 1998/99 conflict with Serbia and to Timor Leste after its own internal conflict. As our first foray beyond North America this was a complete departure from our normal business and the opening of a new and still fruitful market for FreeBalance. It was later to prove pivotal in opening a new career direction for me.

By early 2001, the software industry had contracted following the "dot com" crash and I wasn't enjoying the more technical IT content of my recent work so I decided to return to management consultancy where I could concentrate on work which I found more interesting. On reviewing the options I was pleased to discover a segment of the consultancy profession that focuses on projects in the developing world, providing the opportunity to combine work with international travel. Happily, financial management, which is my core skill, is a significant focus of technical aid to the developing world. As the Chartered Institute of Public Finance and Accountancy (CIPFA) blog notes: "Countries with low standards of living need ... better and more efficient systems to keep track of the money that flows into their exchequers. This is to ensure value-for-money for their population. Well-trained public sector accountants and improved financial management systems can ensure effective administration of public money and aid"<sup>10</sup>.

This looked like an interesting opportunity to apply my financial management skills along the road less travelled. Although my CV didn't reflect a traditional aid background, my qualifications and experience managing consulting organisations, coupled with my limited exposure to developing countries through my work in Bermuda, Timor Leste and Kosovo, was enough to secure a position with Cowater International, a well-established Canadian international development consulting firm. With this, an exciting new chapter in my personal and professional life was opened.

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<sup>10</sup> Mawhood, Caroline 2011 Aid, adversity and accountants, posted in CIPFA Public Finance blog, 14 March 2011

Looking back at this period I was very lucky to work with some wonderful people and dynamic companies, to be involved in a range of business activities and to be presented with a constant flow of new learning opportunities which prepared me for the next, very exciting chapter in my career.

## 2. INTERNATIONAL DEVELOPMENT CONSULTANCY 2001- 2007

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The move into development consultancy as Vice-President of the Cowater Accountability Group found me with responsibility for a number of projects in the South East Asia and Asia Pacific regions. Two in particular were important in establishing my development credentials, positioning me for my later work in Kosovo which is the source of the public works that I am presenting with this paper.

The first of these two projects was to modernise the Bangladesh Ministry of Water Resources' financial management capability. This project was a good fit with my background, refreshing my earlier connection with internal audit. Its objective was to improve financial decision-making and accountability for financial resources, while removing opportunities for corruption and rent-seeking by government officials. This experience opened my eyes to the extent of corruption that exists in developing countries. For example, one of my objectives was to streamline and automate the process that cleared employees to receive their retirement benefits, thereby disintermediating the officials who used their position to demand unauthorised fees to expedite the necessary approvals.

I also discovered that, unlike my clients in North America, the beneficiaries I was supposed to be helping did not necessarily welcome the well-meaning interference of foreign consultants. It was humbling to discover that, far from being considered a valued source of useful wisdom, we are often a nuisance to be tolerated as the price of aid packages from the International Monetary Fund (IMF) and World Bank and for the personal benefits we can provide. I was surprised by the fractious relationship between the beneficiary and my local project team, although I discovered this is not unusual in development work since donor and beneficiary (especially at the working level) may have different agendas that the consultant has to somehow reconcile, often to no-one's complete satisfaction. I learnt to use discretionary funds at my disposal to dispense developmental "gifts" that, while legitimate development expenditures, provided encouragement to local counterparts to collaborate with us. For example, personal computers and air conditioners are desirable status symbols, and "study tours" to foreign institutions provide a welcome opportunity for travel abroad and, more importantly, hard currency in the form of daily expense allowances.

As a newcomer to the development business it seemed that reverence for age and precedent hindered the innovation needed to progress. Not the kind of innovation that requires major technology breakthroughs, though: much of Cowater's work involved simple initiatives like bringing water to villages, and digging holes for toilets. These projects were not beyond local capability, just beyond their imagination. This is

compounded by an approach to problems that focuses on finding and punishing a guilty party, as opposed to a western “engineering” approach which looks for causes so problems can be rectified and avoided. This started me thinking beyond the technical methods that I was hired to dispense, to consider what causes poverty, and the effectiveness of development aid.

There are different perspectives on this issue, and probably the reasons are as complex and diverse as human societies. Around this time, Jared Diamond’s book, *Guns, Germs and Steel: the Fates of Human Societies*<sup>11</sup> was popular (although not new). He argues that environmental differences enable the development of gaps in power and technology which create self-sustaining advantages, with his main point being that wealth and power are the result of opportunity and necessity and not any special genetic endowments. His book is of limited relevance to more recent history (say the last 2-300 years) and he seems to dismiss ingenuity as a source of advancement, but provides much food for thought.

The other assignment that helped establish me as a development consultant was a World Bank project to introduce modern audit techniques in the Office of the Auditor General of Pakistan in Islamabad (as conditionality for substantial financial assistance). This project had been underway for about a year before my arrival, during which the consulting team had consumed the majority of the project budget developing outputs that the beneficiary wouldn’t accept. Upon investigation, it became clear that the consultants, previously auditors in the Canadian Audit Office, had been delivering material that reflected good Canadian practice but which the Auditor General of Pakistan could not apply in the local environment. This introduced me to the limitations of exporting so-called “best practices” from the West into dissimilar environments, and the futility of trying to force-fit culturally inappropriate solutions.

I needed to ensure our outputs would be accepted so that Cowater would receive much-needed revenues (about a million dollars was outstanding). The fact that much of the budget had been spent was a complicating factor, and I had no option but to get personally involved, despite having no background in Supreme Audit Institutions<sup>12</sup>.

The support of two colleagues who had relevant expertise and an excellent local counterpart, Dr. Akmal Minallah, were essential to re-developing the project outputs to the satisfaction of the Auditor General. Dr. Akmal in particular was critical to the

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<sup>11</sup>Diamond, J. 1997, *Guns, Germs and Steel: the Fates of Human Societies*, Norton, USA

<sup>12</sup>The generic title for national audit offices.

success of this project, being highly motivated and sufficiently senior to get things done: the prototypical change agent. He also made sure I understood the local “ground realities”.

Shuttling back and forth to Ottawa, I benefited greatly from the counsel of Dr. Mike McGarry at Cowater. Mike had lived in Pakistan, in a remote rural area, working on a programme to introduce education for females. He and his family had left following death threats in the aftermath of the 9/11 attacks. Now, in 2003, things seemed calmer, especially in the capital, and he provided valuable contacts that made my life a lot easier.

Taking an ACCA course to earn a Certificate in International Auditing also helped to update my knowledge of modern audit standards, which had evolved over the 25 years since I had last had any audit training.

On a personal level, I thoroughly enjoyed my two years in and out of Pakistan. A high point was bringing my wife out for a visit at the end of the project, to tour the picturesque Swat valley (sadly, subsequently devastated by an earthquake) to the Karakorum Mountains, followed by a trip up the Khyber Pass. Dr. Akmal had used his contacts in the military to arrange an armed escort through the North West Frontier Province and up the historic Khyber Pass all the way to the border with Afghanistan. Passing into the tribal areas where the government has no authority and foreigners are not allowed was quite a thrill, as was our visit to bazaars where you could buy anything from stolen US Army supplies to machine guns and RPGs<sup>13</sup>. With hindsight, this trip may not have been well-advised, but it was a view of life on the Pak-Afghan border that not many westerners will get.

Because I was new to the international development business I had to develop a new network. The local chapter of the Rome-based Society for International Development (SID) was very helpful in this. It was going through a period of renewal so I had an opportunity to join its new Board, contributing to its strategic plan and helping to implement its lecture programme, providing me with additional contacts and insight into development issues.

In the course of my networking, I came into contact with Dr. Jim Armstrong, President of The Governance Network. My experience with the development world was that development consultants are hired and paid by donors as “experts” to come with the solutions ready in the guise of “best practice”. However, western best practice is not

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<sup>13</sup>Rocket propelled grenades

always a good fit in other environments as I had discovered in my recent experience with “ground realities” in Pakistan. Jim had a more considered approach to development, looking for opportunities to apply a holistic approach incorporating real local collaboration to generate sustainable results rather than focusing on narrow project objectives. This resonated with me after my experience in Pakistan and we had many conversations exploring the conceptual and practical implications for development work.

Jim’s perspective is neatly summarised in an article he contributed to Canadian Government Executive magazine<sup>14</sup>. In it, he notes that the majority of global public administration reform projects fall short of their objectives and fail to sustain benefits after the project is complete, blaming the approach of transplanting best practice in foreign soil. He suggests that different donor nations have their own views as to what constitutes best practice, and also that the passive importation of foreign practices prevents development of indigenous solutions.

Partly this is the result of the ethnocentrism of the donors and their experts, with our appreciation of other cultures being limited by our established mental frames, so we push best practices without paying attention to local values, history or context. Cosmetic modifications might be made but we don’t try to build on a country’s strengths, respect its traditions or allow the autonomy to grow smart leaders and organisations.

He notes that foreign “best practices rarely improve the relationship between governors and governed”, and promote a simplistic technical view of very complex problems which really require “involvement of whole systems and engagement of a full range of stakeholders”. Instead he believes that technical interventions must be accompanied by engagement at the political, stakeholder and citizen level and by cultural change in order to be successful and self-sustaining, involving honest collaboration between “participants who share a purpose, goals and action strategies and respects and builds upon the unique strengths of the indigenous context, condition, history and values”.

This issue continues to preoccupy me. In my field experts are often retired public servants, arriving in a new country equipped with 20 or 25 years of experience as, say, an auditor or budget manager. The problem is that this type of background is often less

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<sup>14</sup> Armstrong, Jim, 2010, From best to smart practice: a global perspective, Canadian Government Executive, February 2010, Volume 16, no. 2, Ottawa

20 years' experience as much as it is one year's experience repeated 20 times. Worse is when the expert's experience is all gained in a single ministry. In which case not only do they only know one set of practices, but they only know them as implemented in one organisation in one country. This sort of one-dimensional experience is an inadequate preparation for work in countries with very different historical, cultural and educational contexts.

I developed some differences with Cowater's president so after completing the projects to everyone's satisfaction, I decided to move on. Happily Dr. Armstrong invited me to join his team in 2005/6 to work on two transformative projects in the Caribbean (Suriname and Trinidad & Tobago) that had been designed to apply the collaborative approach he had described to me.

The first of these was a Study of Issues and Policy Options for Public Sector Reform for the Government of the Republic of Trinidad & Tobago. This was a true government-wide initiative to develop a strategy to enable the Government of Trinidad & Tobago to achieve its ambitious development goals. Because of my financial management background I was appointed to lead the component concerned with the institutional framework for governance and accountability. This was a welcome opportunity to apply my skills in the context of a new approach and gain exposure to some new public sector governance issues.

In Suriname I worked with Dr. Armstrong on a "Roadmap for a Public Sector Reform Programme" to achieve national development objectives and improve public sector performance and accountability. This work, which was championed by the Ministry of Finance, included reviewing the capacity of nine major government ministries, working with stakeholders to map programmes with policy objectives, and articulating a strategy for rationalizing government operations. Important for me was experiencing at first hand Dr. Armstrong's approach to building collaboration through workshops with ministers, elected officials and leaders from the private sector and civil society which he applied to developing a shared national vision, defining the values and principles that should guide reform and identifying indicators to monitor government's execution of the reform strategy.

Jim has been a huge influence on how I understand and try to practice public sector reform in a development context, and I adopt his collaborative techniques in my work where possible. Unfortunately, demand for this type of national-level strategic reform is limited so I had to look for new horizons. My next opportunity came from an unexpected direction: Europe. The break-up of Yugoslavia at the end of the twentieth century had created a set of newly independent states needing post-war reconstruction,



including the establishment of modern public administrations, and which were anxious to take the steps necessary to join the European Union. This, together with the dissolution of the USSR, created a surge of demand for international development consultants in all sectors and I found myself involved in the work of rebuilding transitional (i.e. post-communist) and post-conflict states.

My early work in this field was a series of missions to Sarajevo in post-conflict Bosnia & Herzegovina (Bosnia), one of the breakaway states from Yugoslavia. En route I delivered a couple of seminars on public sector financial management and auditing principles for a Vienna-based development consultancy that was positioning itself for governance assignments in south and east Europe.

The assignment in Bosnia (which commenced in early 2007) provided a number of learning opportunities. The matter at hand was not the familiar reporting of financial data from an accounting system, but rather obtaining macro-economic information from different state actors to feed the statistical system that supported fiscal decision-making, especially the thorny issue of determining what share of indirect tax revenues each state actor gets. Complications arose due to the extraordinary constitutional framework in Bosnia, which although legally a single country, operates through multiple distinct, mutually distrusting governments at federal, entity, canton and municipality levels. Each layer in this complicated scenario has its own fiscal authority and jealously guards its autonomy to ensure that its own interests are not undermined.

The technical challenge of this assignment was nothing compared to manoeuvring around the open distrust between these layers of government. With no education in comparative politics it was only from living in different countries that I had any notion of the different constitutional bases for unitary and federal governments. Being dropped into one of the most complex and problematic political environments (a legacy of the Dayton accord that froze the tragic ethnic violence in this part of Yugoslavia) was a massive new learning.

There was also an opportunity to learn something of the history of Yugoslavia and especially the conflict between the Serbs and the Bosniaks, and later the Croats, which led to the current situation. Spending time with a local historian who guided my wife and me to various sites around Sarajevo that had played a role in the siege of Sarajevo was instructive. (I repaid him by editing his English-language marketing material). It was incredible to consider a brutal siege occurring in modern times in the middle of continental Europe, but the pock marks left by artillery shrapnel on many buildings in the town centre were clear evidence of the violence perpetrated against a defenceless population. I became interested in learning more about the Balkans and its history,

which I pursued in part by taking a correspondence course on Peacekeeping in the Former Yugoslavia<sup>15</sup> provided by the UN. Noel Malcolm's Kosovo: A Short History<sup>16</sup>, despite lacking shortness at 492 pages, was a helpful primer on another troubled part of ex-Yugoslavia.

Before looking at the specific works presented with this paper, this is a good point to reflect on my career trajectory. My start in accountancy and subsequent career in management consultancy/professional services prepared me well for the international development work I do now, through:

- a technical focus on financial and administrative management;
- a commitment to learning and integrity;
- reforming public sector clients;
- the strategic nature of the assignments;
- a strong international dimension;
- developing "situational fluency" to adjust to different circumstances; and
- implementing transformational change.

Although I have always worked in the private sector, circumstances involved me working mostly with public sector clients. This accidental focus has given me a strong appreciation for the broad and diverse role that the public sector has in society and its profound influence on the quality of citizens' lives. Development consultancy provides the chance to apply my experience to improving the effectiveness of government organisations in the developing world where the impact of even modest improvements can be substantial.

There is also an opportunity to have a positive impact on an individual level. One way is to demonstrate by example effective work habits. These are basic considerations such as being punctual, respecting women, doing what you say you will do, and being environmentally aware. In addition I take steps to promote personal integrity and ethical behaviour, but it's easy for a foreign consultant to condemn corrupt practices and much harder for our local counterparts to avoid them. Often the best one can hope for is to plant a desire and encourage small improvements that will eventually lead to positive changes.

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<sup>15</sup>Peacekeeping in The Former Yugoslavia: From the Dayton Accord to Kosovo 1999, The United Nations Institute for Training and Research, Course Authors: Mr. Sunil Ram, Dr. Shreesh Juyal

<sup>16</sup>Malcolm, N. 1998, Kosovo: A Short History, Pan Macmillan, London

Another way is to contribute to the professional development of the local people I meet. As a strong believer in the importance of education, in Namibia I mentored a business school student and in Kosovo I was a guest lecturer for a World University Service business programme. I have also encouraged several promising locals in Kosovo to pursue professional qualifications, which has led to several people completing business, accountancy or audit studies, opening the door to more fulfilling careers.

For myself, working in desperately poor countries like Bangladesh and Suriname, and in countries that are emerging from violent internal conflict like Bosnia or Kosovo, has had a profound effect on me. The poor physical circumstances and lack of opportunity faced by so many people in the world can be overwhelming.

Of course conditions in the developing world aren't all bleak and I get a lot of satisfaction from feeling I contribute to some real collective benefits by reforming public institutions to serve citizens better.

The experience of living and working in different cultures and moving in a community of widely-travelled development professionals has been very educational. I have certainly developed a greater appreciation for cultural differences. In particular, circumstances found me working mostly in Muslim countries in close contact with people in societies which, following the New York City terrorist attack on the World Trade Center and other attacks, are now looked upon with trepidation by many westerners. The genuine hospitality of Pakistani people from all strata of society, from senior government officials to peasant farmers, was in stark contrast to the permanent state of anti-western anger that is portrayed by the news media. It's clear that the great majority of people in most countries have similar aspirations – peace, stability and good prospects for their kids.

On the other hand, I am now very conscious of the many freedoms we westerners enjoy so carelessly: freedom of thought, political affiliation, religious belief, sexual practice and social and physical mobility. Freedoms we accept as basic but which are denied in other cultures.

Overall, I have experienced personal growth that I can't imagine I would have had otherwise.

The next section describes my recent experiences over the course of three interconnected projects which, together, gave me the chance to take a leading role in introducing a totally new financial governance regime to Kosovo, an emerging new state with no history of self-government. This was a unique opportunity to position Kosovo to receive much needed financial assistance, transform the mechanisms that protect

citizens financial interests in the public domain, contribute to the development of the practice of financial reform more generally and establish myself as a recognised authority in introducing public financial management reforms to post-conflict, transitional states.

### 3. THE KOSOVO PROJECTS 2007 - 2012

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I arrived in Pristina, the capital of Kosovo, from Sarajevo in Bosnia after a day-long car journey through a typically mountainous Balkan landscape. Entering Kosovo through burnt-out villages and military checkpoints was unsettling but although Pristina was a grim post-communist town blighted with bombed out buildings and bristling with NATO and UN troops, it was not particularly dangerous for foreigners.

The country, which was administered by the United Nations Mission in Kosovo (UNMIK), was in a poor state. Following severe economic distress during the breakup of the Yugoslavian federation and with the economy essentially decimated by the subsequent war (Tang 2010)<sup>17</sup>, Kosovo is rated by the World Bank as “one of the poorest countries in Europe”<sup>18</sup>.

There were (and still are) many inconveniences. Poor bill collection means the state power company frequently runs out of electricity despite owning huge deposits of brown lignite with which to fuel the generation plant. Leaky pipes require the water supply to be turned off every night. Piles of garbage fester everywhere and packs of wild dogs roam the streets. But I soon got used to stepping around the rubbish and being lulled to sleep by the chuffing of diesel generators and the howling of the dogs. Less immediately obvious was the rampant corruption<sup>19</sup> that exists, with many state institutions being captured by private interests and a flourishing illegal trade based on trafficking people (and allegedly their organs) as well as smuggling weapons and drugs.

My assignment was to be the first of three related projects to bring Financial Management in the GoK in line with EU norms. The overall liberal democratic standards by which new EU members are expected to function are established by the “Copenhagen criteria”, a set of rules laid down at the June 1993 European Council in Copenhagen that determine whether a country is eligible to join the European Union. The criteria require that a candidate country has achieved stability of institutions

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<sup>17</sup>Tang, Stephanie 2010 Balance of Power: Kosovo Topic B: Economic Development in Kosovo, Northwestern University. <http://www.numun.org/pdfs/2010/BOP%20Kosovo%20Topic%20B.pdf>:

<sup>18</sup>World Bank (2009) Interim Strategy Note for the Republic of Kosovo for the period FY10-FY11 [http://siteresources.worldbank.org/KOSOVOEXTN/Resources/297769-1266424306995/Kosovo\\_full\\_report.pdf](http://siteresources.worldbank.org/KOSOVOEXTN/Resources/297769-1266424306995/Kosovo_full_report.pdf):

<sup>19</sup>Transparency International 2010 Corruption Perception Index scored Kosovo as the most seemingly corrupt state in the Balkans, 110<sup>th</sup> worldwide.

guaranteeing democracy, the rule of law, human rights, respect for and protection of minorities, a functioning market economy and the general capacity to cope with competitive pressure and market forces within the Union.

There is a further requirement that all prospective members must enact legislation to bring their laws into line with the *acquis communautaire*, which is the body of European legislation that has built up over the history of the Union. In preparing for admission prospective member states must satisfy the requirements of each individual chapter of the *acquis*. Currently the *acquis* is divided into 35 chapters, each covering a with different policy area, with Chapter 32 addressing Financial Management.

My role was “Key Expert” on an 18-month EU-funded project to “Support Public Internal Financial Control (PIFC) in Kosovo”. PIFC embodies the EC’s vision for financial governance in aspiring new EU member states<sup>20</sup>, within the framework of Chapter 32 of the *acquis*. It comprises two functional elements - “financial management and control” and “internal audit” - together with institutional support and oversight of these two functions. The institutional support is provided by “Central Harmonisation Units” established within the Ministry of Finance, with external oversight imposed by an independent Supreme Audit Institution (i.e. a national audit office)<sup>21</sup>. PIFC is realised through a legislative framework that comprises government policies which are enacted in different levels of legislation, and implemented through functional and institutional strategic plans by means of technical methods and procedures that are themselves supported by practical tools.

The emphasis of this assignment was on the internal audit component, reflecting donors’ fears that development funds and other public resources were not being used as intended due to poor management and corruption. I was one of a team of four, each of us bringing a particular skill to a joint endeavour to replace the traditional communist practice of centralised inspection with modern internal audit.

Inspection is a control exerted by a central authority (generally the Ministry of Finance) to check individual transactions entered into by government officials to ensure they comply with legal provisions, usually regarding proper coding and approvals. The objective is to identify transactions that are in legal error so the perpetrator can be identified and sanctioned. Internal audit, by contrast, identifies areas of the business which represent the greatest risks and tests control systems, not primarily to find

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<sup>20</sup> Hill R., *Welcome to the World of PIFC* (2006) European Commission Directorate for Budget

<sup>21</sup> de Koning, R 2007 *Public Internal Financial Control*, self-published 2007

transactions that are in error, but to identify controls that are not working, with a view to correcting systemic errors. In a sense, whereas an inspector is like a policeman looking for illegal behaviour, an internal auditor is like a physician, looking for signs of ailments which need to be treated. Another key point is that the internal auditor works for the management of the enterprise, rather than for an external authority. Introducing this concept is a key aspect of PIFC.

The guiding references for our work were:

- an official publication from the European Commission (EC) in Brussels<sup>22</sup>;
- an unofficial practice guide self-published by Robert de Koning, a member of the EC DG Budget team<sup>23</sup>; and
- the International Standards for the Professional Practice of Internal Auditing published by the US-based Institute of Internal Auditors (IIA).

I was one of four “Key Experts” assigned to this project. We all had experience with internal audit, and each of us brought a complementary speciality. One had previous experience in Kosovo; one had expertise in organising training; I brought strategic planning along with some rather stale operational experience; and our fourth colleague was an internal audit practitioner, seconded from the Bulgarian government, a new EU member state which established its own internal audit structures as a condition of membership. This last member, Ms. Dobrinka Mihaylova, deserves special mention as having considerable impact on both the project and my own professional development. Together with her regional experience she brought extensive technical knowledge and a burning professional enthusiasm<sup>24</sup> that infected us all.

Our objectives on this project were to:

1. develop a change strategy to move from central inspections to decentralized Internal Audit;

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<sup>22</sup> Hill, R. 2006 Welcome to the world of PIFC, European Communities, Brussels

<sup>23</sup> de Koning, R 2007 Public Internal Financial Control, self-published

<sup>24</sup> Following her return to the Bulgarian government when its credibility for financial governance was damaged by cases of corruption and misappropriation of EU development funds, Dobrinka’s integrity, determination and rigorous professionalism have been rewarded with a new post of Executive Director of Audit of EU Funds and membership on the Bulgarian Council for Coordination in the Fight against Infringements Affecting European Union Financial Interests.

2. review the Internal Audit Law and subsidiary levels of legislation for compliance with best practice;
3. develop internal auditing skills; and
4. build an institutional capacity to nurture and guide the profession.

While my colleagues made a start on the legal review and training needs assessment I set out to develop the overall strategy by which the new internal audit model was to be implemented and the “policemen” turned into “physicians”. As this was the critical starting point for the government-wide reform of the internal audit function I was delighted to be assigned responsibility for this task, giving me a chance to apply the collaborative approach espoused by Jim Armstrong. The resulting strategy, which I drafted in 2007, is the first of the public works I am presenting with this context paper.

Public Work #1: Strategy for the Internal Audit Function in the Provisional Institutions of Self-Government in Kosovo – May 2007

This document<sup>25</sup> is a plan for establishing the legislative and institutional framework that identifies stakeholder responsibilities for implementing a decentralised, risk-based, system-oriented internal audit function to replace centralised transaction-based inspection. This is expected to generate better value from public expenditure.

As a cross-government initiative, there is a long list of stakeholders:

- the people of Kosovo;
- the Assembly (i.e. the national parliament);
- the Auditor General;
- the donor community;
- the Ministry of Economy and Finance;
- the Treasury;
- Chief Administrative Officers in budget organisations (i.e. Permanent Secretaries and Mayors);
- senior managers in budget organisations (i.e. organisations funded by the Kosovo budget);
- the internal audit community;
- the UNMIK Fraud Investigations Unit; and
- local training organisations.

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<sup>25</sup>Available at <http://mef-rks.org/en/central-harmonization-unit-of-internal-audit/strategy-for-the-function-of-internal-audit>



Each has a role in implementing and sustaining the new internal audit regime and had to be brought into the change process. I applied Dr. Armstrong's approach of using working groups to generate buy-in and ownership from these stakeholders. For background research I reviewed documents produced by other development projects in Kosovo, past and present<sup>26</sup>, UNMIK Regulations and Laws promulgated by the Provisional Instruments of Self Government (PISG) in Kosovo, and by conducting many personal interviews. Models of good practice were provided by the Australian National Audit Office<sup>27</sup>, the Treasury Board of Canada<sup>28</sup> and the US government<sup>29</sup>.

As part of the strategic planning process we reviewed the legal basis for internal audit to ensure it supported the future vision. A draft Law on Internal Audit had been developed with the assistance of the United States Agency for International Development (USAID) and the European Agency for Reconstruction (EAR) and passed by the Assembly of Kosovo on November 2006. As required it then went for final approval by the UN's Special Representative of the Secretary General (SRSG), who had ultimate constitutional authority in pre-independence Kosovo. We were able to intercept the law before its final approval and identified a number of major departures from good practice. We discussed these with the Legal Advisor in the SRSG's Office and offered 19 suggestions for amendments. Because the SRSG did not want to make amendments to the law that would be so substantial as to require its return into the over-burdened legislative calendar, we settled on changes that rectified some but not all of the problems we identified. I had another chance to introduce more comprehensive changes to the law two years later on a subsequent project.

The final strategy includes the new legislative proposals, a plan for institutional capacity building and a redefinition of the roles of stakeholders, all articulated in a detailed transition plan. The plan is accompanied by "success indicators" to provide a yardstick against which achievements can be compared, together with a risk assessment and a budget estimate for implementing the associated organisational change.

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<sup>26</sup> E.g. United States Agency for International Development (USAID) 2006 Economic Reconstruction Project: Development Alternatives [http://fiscalreform.net/pdfs/kosovo\\_tax\\_and\\_expenditure\\_2006.pdf](http://fiscalreform.net/pdfs/kosovo_tax_and_expenditure_2006.pdf); Brajshori, B. 2007 Achievements and Challenges in the Management of Public Finances in Kosovo, International Consortium on Governmental Financial Management

<sup>27</sup> Commonwealth of Australia 1998, New directions for internal audit: a Guide for Public Sector Managers

<sup>28</sup> Treasury Board of Canada Secretariat, 2003 Risk-based Audit Framework and many other related guides

<sup>29</sup> 1999 US Government Auditing Standards

On completion, I presented and defended the strategy to the Minister of Economy and Finance who then submitted it to the government for ratification. As the project sponsor and overall authority on PIFC, the EC DG Budget office in Brussels also had to accept that the strategy was a legitimate embodiment of its objectives. After formal adoption, the government delegated the implementation of the strategy to the Ministry of Economy and Finance to accomplish through our project. The Internal Audit Strategy was now the blueprint for developing a strengthened internal audit function organised in decentralized Internal Audit Units across government under the leadership of a new central body called the Central Harmonisation Unit for Internal Audit (CHU-IA), in line with the PIFC guidance. The impact of this strategy was noted in a number of subsequent reviews:

A "Horizontal Review of the Internal Audit Function" commissioned by the EC under the FRIDOM (Functional Review and Institutional Design of Ministries) project two years later (Autumn 2009) commented: "...the 2007 Strategy, which represents a solid and well-structured approach to the further development of the IA function over a five-year period" (page 2).

A practical indication of the success of the strategy (and our subsequent work supporting its implementation) can be seen in the Annual Report by the CHU-IA 2010 which traces progress against key indicators, amongst which:

- From a completely centralised internal audit/inspection group in 2008, by the end of 2010 there were Internal Audit Units (IAUs) in 59 budget organisations with plans to implement more (this has since increased to 64, covering 80% of budget organisations, according to the GoK's 3<sup>rd</sup> Public Financial Management Reform Action Plan of June 2011);
- Of the 59 IAUs in 2010, 56 followed the required audit planning approach;
- The number of audits carried out and the number of recommendations generated continue to steadily increase.

Four years later a SIGMA<sup>30</sup> assessment commented on the results of implementing the Strategic Plan<sup>31</sup>: "The Law on Internal Audit provides a solid basis for setting up the internal audit units in Kosovo. Ongoing training programmes are part of a systematic

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<sup>30</sup> Support for Improvement in Governance and Management; a joint initiative of the EU and the Organisation for Economic Co-operation and Development (OECD)

<sup>31</sup> Public Expenditure Management and Control, Draft SIGMA Assessment May 2011

approach that is supported by the current TA<sup>32</sup> project. The number of internal auditors in budget organisations is still small but has been steadily increasing. The CHU for IA has also been relatively active and has been able to communicate and co-operate not only with internal auditors in budget organisations but also with managers. This co-operation provides a good basis for further development in the area”.

Public Work #2: Internal Audit Manual - December 2008

With the legal basis for creating Internal Audit Units across government in place, subsidiary legislation in the form of procedures manuals and Administrative Instructions was needed to implement the law, (a) to promote good practice by the auditors, and (b) to establish an institutional framework.

An Internal Audit Manual which promotes good practice by providing the methods by which auditors do their work according to international standards is a key element of the subordinate legislation. The Internal Audit Manual, which was the result of a joint effort by three of us team members, is the second public work I am presenting.

Internal audit manuals normally focus on audit cycle activities. This follows the assumption that higher level issues such as the responsibilities, principles, policies and audit techniques would be covered by academic reference books used during initial training. However, we determined that there are (or were in 2008 when we produced the Manual) no Albanian-language text books addressing modern system-based audit. Consequently the manual has a wider scope than normal, providing more theoretical and discursive content, to make up for this deficiency. To avoid the manual becoming uninvitingly large, we produced it in three volumes that, while forming an integrated whole, could be bound separately for reference by different users.

The 3 volumes are:

Volume 1: Management of Internal Audit Activities

- which is directed towards senior internal audit managers, and those who aspire to be.

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<sup>32</sup>i.e. technical assistance

## Volume 2: The Audit Process

- which is aimed at auditors, describing audit team activities through the audit cycle supplemented with a comprehensive set of working paper templates to help auditors work in compliance with the standards.

## Volume 3: Tools and Techniques for Internal Audit

- which discusses the techniques that auditors use to identify, collect and process information as evidence of system performance and describes how to manage and record that information in audit files and working papers.

We involved a Working Group of auditors in developing the manual to ensure its relevance and usability. On its completion, we received formal endorsement from the Minister responsible to authorise distribution to internal auditors across the Government of Kosovo (GoK).

The impact of the Manual on the internal audit community is significant because it:

- (a) removes the association of internal audit with the old concept of central inspection;
- (b) establishes the auditor as a partner of management, not an adversary; and
- (c) provides practical assistance to supplement the theoretical content.

Outside Kosovo our Manual has been presented at various regional conferences by our Kosovo beneficiary as a model for the broader PIFC community. Recent requests (in 2011) to consider the manual for local adoption have been received from the Ministry of Finance in Iceland and a PIFC consultant working in Georgia. This has enhanced Kosovo's reputation in the region as being able to contribute to professional discourse and regional development.

Again the FRIDOM review comments positively:

"... a very comprehensive Internal Audit manual is in place. It follows the IIA standards on internal auditing and guides IAU Directors and Internal Auditors through all necessary procedures for planning audit work ..." (Page 4).

".. engagement planning has proved to be already quite satisfactory. The IA Manual is of a big help in this (sic), as it is very comprehensive. All audits are properly planned... In almost all cases, a detailed programme of work is developed for each engagement." (Page 5).

Public Work #3:           Administrative Instruction on Establishing Audit Committees  
Developed October 2007, approved and issued August 2010

While the Internal Audit Manual is needed to guide the work of internal auditors, secondary legislation to clarify the institutional framework is also required. I worked with the Central Harmonisation Unit that had been created by the primary Law on various pieces of secondary legislation which are known as Administrative Instructions.

One specific requirement of the Law on Internal Audit is the establishment of Audit Committees, as part of a supportive institutional framework. These committees protect the integrity of the relationship between the internal audit function and the management they serve, shielding auditors from management interference and encouraging management to respond properly to auditors' findings and recommendations. Since the Kosovo government had no prior experience of them, I developed an Administrative Instruction on Establishing Audit Committees. This document is presented as my next public work, as an example of the various pieces of secondary legislation that I worked on.

This work presents: the principles governing the purpose and role of the Audit Committee; its relationship with Ministers and municipal authorities, the Internal Audit Unit and the Office of the Auditor General; membership; and meetings. It also presents samples of an indicative Charter, job descriptions and terms of reference for the Audit Committee.

I originally developed this material in October 2007 using guidance from the UK Treasury<sup>33</sup>, the Chartered Institute of Public Finance and Accountancy (UK)<sup>34</sup>, and the Institute of Internal Auditors (USA)<sup>35</sup> as the basis for an approach that would be relevant in transitional countries. When the government decided to issue this guidance as an Administrative Instruction in 2010 I also referred to commentary provided by Noel Hepworth (December 2009) a respected international authority on public sector governance.

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<sup>33</sup> Audit Committee Handbook (2007), HM Treasury, Controller of Her Majesty's Stationery Office, London

<sup>34</sup> Audit Committees (2005) The Chartered Institute of Public Finance and Accountancy, London

<sup>35</sup> The Audit Committee: Internal Audit Oversight (undated) Institute of Internal Auditors, Altamonte Springs, Florida, USA

Since Audit Committees are a new concept in Kosovo this paper has significant impact on all government organizations that are now required to establish them, and on the individuals selected to serve on them. From 2009, when no Audit Committees were in place, to the end of 2010, thirty six budget organisations are reported to have established functioning Audit Committees<sup>36</sup>. Since Audit Committees are a new concept for all aspiring EU candidate countries this work is an innovation that will hopefully have utility beyond Kosovo. There is no means of tracking the distribution of this work beyond Kosovo, but I am aware that it was requested as a model for use by a consultant in Macedonia.

Our project was also responsible for a major capacity building programme, developing a training programme that would impart knowledge and skills to the newly-minted internal auditors. This was done through a series of seminars covering all aspects of the audit cycle documented in the manual presented above, supplemented by a series of 25 pilot audits, each led by one of us project team experts, to provide a hands-on introduction to the application of the audit concepts.

Our experience in the pilot audits gave us an appreciation of the constraints in the capacity of the new internal auditors to apply the standards that we were introducing. As noted by USAID in 2006<sup>37</sup> "The Albanian-speaking majority who remained in Kosovo after the war did not include an experienced cadre of technical, professional and management specialists ready to take up key positions".

In our project, this manifested itself in the lack of planning or analytical skills among the auditors with whom we worked. Our methods promote a significant planning element in each audit to ensure that effort is expended where it is most likely to generate results. This contrasted with the contemporary Kosovar practice in which planning involved not much more than arranging the date to appear at the audit site (hence the comments in the earlier FRIDOM review noting the positive impact of the Internal Audit Manual on planning).

As much as the front end (i.e. planning phase) of audit assignments was poor, so was the back end. Every audit should terminate in a report which relates observed conditions to expected criteria, with the cause and effect of significant gaps being documented as a finding from which a recommendation is drawn. This is the more

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<sup>36</sup>CHU-IA Annual Report to the Assembly 2010, Pristina, Kosovo

<sup>37</sup> United States Agency for International Development (2006) Kosovo Economic Reconstruction project: Development Alternatives, [http://fiscalreform.net/pdfs/kosovo\\_tax\\_and\\_expenditure\\_2006.pdf](http://fiscalreform.net/pdfs/kosovo_tax_and_expenditure_2006.pdf)

interesting part of internal auditing where evidence is analysed and implementable recommendations are developed to address weaknesses. Unfortunately, while the GoK auditors can follow the prescribed format, weak analysis leads to poor audit findings which don't indicate how serious identified failures are in the context of the overall operation, what systemic weaknesses allowed the failures to occur, or what practical remedial action should be taken.

The consensus amongst my peers in Kosovo, corroborated by conversations with local people, is that this weakness in analysis and report-writing reflects the rote learning that is characteristic of the Kosovo education system. This is a serious handicap to the development of the nation in all sectors. I have met with representatives of academia, the Ministry of Education and leaders of projects dealing with education reform to express this concern. There is a recognition of the problem, but improvements will be slow and results a long way in the future.

These weaknesses constrained the overall effectiveness of this intervention and of the projects that followed. We addressed this by providing courses on analytical thinking and communication skills, but a more fundamental reform of the education system is required – an undertaking that is far beyond the scope of our project.

Another significant challenge is that many project stakeholders are not familiar with the English language. There is a considerable body of technical knowledge on internal audit, but none in the local majority language, Albanian, so considerable time was spent translating documents from various international sources for local use. In addition, the project generated a substantial volume of working documentation and formal deliverables all of which had also to be translated from English. Similarly, oral communications during training seminars, workshops, pilot audits and discussions with stakeholders almost always required an interpreter. This slowed progress and imposed significant costs.

Although my work on this project, and addressing its various challenges, kept me busy, I had downtime to be filled. The presence of hundreds of other internationals in Pristina provides for a rich social life. It's great to spend time in the company of people who have a first-hand world view on important issues. However, being away from home for long periods of time, there is a danger of becoming a nightly fixture in the expat drinking holes, so I looked for more productive ways to spend my time.

Wanting to develop a wider perspective and to extend my consulting skills I looked for online courses that address financial governance issues in the developing world. First I came across a course in Citizen Driven Performance Measurement (CDPM) which

focused on performance issues in developing country public sectors<sup>38</sup>. After I had completed that I discovered that the University of London, School of Oriental and African Studies' Centre for Financial Management Studies offers a number of public sector policy and management courses specially developed to integrate western and developing country perspectives and issues. This was a good fit with my needs and, selecting courses of immediate relevance, I enrolled in the distance-learning classes relating to Planning & Performance<sup>39</sup> and Reporting & Audit<sup>40</sup>. Both courses were extremely valuable in synthesising my understanding of public sector best practices and how I think about applying them in developing country contexts, and were immediately applicable in my project work.

Public Work #4: Draft Strategic Development Plan for the Office of the Auditor General – May 2009

As the project drew to a close in August 2008 I bumped into a team of consultants who were commencing another EU project at the Office of the Auditor General (OAG). We got talking about my experience with the Auditor-General of Pakistan and the planning work I had been doing with the internal auditors in Kosovo and this led to an assignment with their project, initially focusing on audit planning in the OAG.

For this assignment I headed a team of 4 young consultants each of whom had a financial or audit background but little experience of public sector audit.

With coaching from me we worked on improving the quality of the OAG's audit planning, and I delivered:

- i. risk-based planning methodologies consistent with INTOSAI and EU Implementation Guidelines, supported by comprehensive working paper templates;
- ii. a series of workshops to promote good audit planning; and
- iii. an Annual Plan and an Engagement Plan for each of the 5 OAG Audit Departments using the new methods.

My work on these outputs coincided with the appointment of a new Auditor General, Mr. Lage Olofsson, by the International Civilian Office (ICO). Lage is a highly motivated,

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<sup>38</sup>National Center for Public Productivity, Rutgers University, New Jersey, USA

<sup>39</sup> See <http://www.cefims.ac.uk/cgi-bin/programmes.cgi?func=course&id=44>

<sup>40</sup> See <http://www.cefims.ac.uk/cgi-bin/programmes.cgi?func=course&id=250>



intelligent professional with extensive international experience. He and I quickly developed a rapport and when the requirement to work on a Strategic Development Plan for his organisation came up, I was given the job.

Presented here is the final draft of a Strategic Development Plan (SDP) on which I worked closely with the Auditor General. It was designed to set the agenda for the development of the Office of the Auditor General (OAG) during his term of office over the 5 year period 2009 – 2013. Its objective was to establish a national audit office in the Anglo-Saxon tradition to provide a sustainable platform that enables the Auditor General to deliver oversight objectives foreseen under PIFC and be recognised as a high-performance Supreme Audit Institution (SAI).

Other models were considered, specifically the quasi-judicial Court of Audit approach that characterises public law countries in transitional nations in central and eastern Europe, including the former Yugoslavia<sup>41</sup> and the risk-based inspection implemented in Albania. Adopting the national audit office model was a considered decision by the Auditor General recognising that this approach is better at implementing INTOSAI principles, in particular: operational and financial independence; reporting to the public rather than behind closed doors; a scope of audit activities with broader concerns than legality and regularity; and concern with control systems. The draft SDP is a significant document since it was developed at a turning point in what had been an ineffective organization, to provide direction under the new leadership.

The Auditor General reflected on the value of the SDP in an interview two years later (April 2011), making the following points:

- The overall corporate thrust remains appropriate and the strategic approach is 100% applicable.
- The underlying Anglo-Saxon audit office model has proved to be effective and consistent with the overall governance model, based on separation of powers and checks and balances on government, which is underpinning Kosovo's development. The advantage of this model has been that it is flexible, encouraging of innovation, and performance-oriented.
- As an overall steering document the SDP has had a major impact internally and externally, as a consistent point of reference.

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<sup>41</sup> Cohen, A-G., 2005, *Controle interne et audit publics – Le PIFC – pour une nouvelle gestion publique*, Les Editions Juridique Associees, Paris

- Externally, it provides an important means to guide the work of donor partners, avoiding the temptation for international partners to push other models that aren't as appropriate to local circumstances. The SDP also helps parliamentary stakeholders understand the mission which in turn has helped secure increased funding and other resources. In addition, the focus that the SDP has brought to auditors has been evident to stakeholders in day-to-day interactions regarding the principles they stand for and the value they add to the conduct of public business. This has enhanced their credibility.
- Internally it helped shape new job descriptions, policies and directors' mandates and has guided the organisation's growth from 65 professional staff in 2008 to 98 in 2011 with a further planned increase to 130 professionals by 2013. The additional staff has conducted more audits, covering more of the national budget and improved the quality, relevance and timeliness of their work.
- As a result, the new Republic of Kosovo is benefiting from:
  - stronger external oversight;
  - a partner in the fight against the fraud and corruption which is hampering Kosovo's development;
  - accountability and integrity in financial management and responsibility in spending budget funds;
  - the OAG's contribution to the Good Governance element of the EU Stabilisation & Association process which embodies the criteria for EU membership; and
  - improved information with which the Assembly's Budget and Finance Committee can scrutinise public spending.

Mr. Olofsson and I worked closely for several months on this project, developing a lasting professional and personal relationship. Later when I was no longer working on a project for the OAG, I provided him with a sounding board for some of the institutional challenges he faces. He served on the steering committee for my next PIFC project in Kosovo, and we have collaborated on various initiatives to strengthen the capacity of internal and external auditors.

We talk a lot about the challenges and limitations of working in the developing world context and about maintaining personal motivation in an environment which does not always reward effort with results. We agree it is essential to remain curious and interested, and that when cynicism kicks in (as it can when consultants see little progress) it will be time to quit.

Through Lage I have come to see public financial management as more than the technical exercise foreseen in the CIPFA blog that kindled my initial interest in this business; rather it's a cultural and political project leading towards public accountability which is an essential condition for a flourishing democracy. He notes that "accountability is linked to improved democracy, preventing abuse of power and increasing citizen participation". This provides a sense of mission about what we do, beyond simply propagating financial standards.

My work for the Auditor General in Kosovo also led to an opportunity to offer my thoughts to an influential think tank in Greece. I was pleased to be invited in May 2008 to make a presentation to a symposium at the Institute for Strategic Policy and Research in Athens about good SAI practices, as their concern was that the Greek Court of Audit was not effective in monitoring public expenditure. It was a well-attended event with a boisterous panel discussion, during which I presented the benefits of the Anglo-Saxon approach.

During this period I continued to explore Niall Ferguson's political and economic histories<sup>42</sup> to get a better perspective on why different countries are in different states of development, which I complemented with a course on comparative political systems at the University of London<sup>43</sup>. When this contract expired, I joined my wife who was living in Berlin at the time before spending a few months reviewing the financial management systems at the Southern Africa Customs Union Secretariat in Namibia, another post-conflict state. Then, because of my track record in Kosovo, I was recruited to return for a two year project commencing in September 2009 to continue work on the PIFC framework; the source of the remaining public works that I wish to present.

This time Kosovo was a familiar destination and I had the benefit of good professional and personal relationships in Pristina. Both were subsequently invaluable in helping me continue the project after I suffered damage to my balance organs resulting from an infection I contracted halfway through the project.

There is still an undercurrent of political intrigue and random violence to liven things up. Once, my apartment was rattled by a nearby grenade attack on the house of a senior civil servant. On another occasion, an EC office building was bombed, apparently by

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<sup>42</sup> Ferguson, N., (2006) *The War of the World: twentieth century conflict and the descent of the West*, Penguin Books Ltd., London, and Ferguson, N., (2008) *The Ascent of Money: a financial history of the world* Penguin Books Ltd., London

<sup>43</sup> See <http://www.cefims.ac.uk/cgi-bin/programmes.cgi?func=course&id=43>

foreign intelligence agents for purposes unknown. At the time of writing unrest along the border with Serbia has resulted in the death of a Kosovo special forces officer and the burning of a border post at the hands of Serbian mobs, and the Minister for Education was shot dead in his office as a consequence of awarding an important job to the “wrong” person. This is a reminder that, as in Bosnia, the conflict is frozen rather than ended. Once again NATO forces are in control of border security.

Physically, Pristina was less scruffy than when I first arrived 30 months previously and was changing rapidly as high-rise developments and new-ish German automobiles reflected the amount of cash that was now circulating. Sadly, this is less a reflection of legitimate economic development than of the growth of the black economy. The level of corruption in Kosovo is astonishing. I quote below several studies to provide a flavour of the situation.

The International Crisis Group<sup>44</sup> reports:

“More than two years after declaring independence, Kosovo struggles with uneven rule of law and a weak justice system ... The police, public prosecutors and courts are erratic performers, prone to political interference and abuse of office. Organised crime and corruption are widespread and growing”.

“... the judicial system is weak. Court procedures suffer from widespread distrust, fearful or unwilling witnesses and shoddy work by prosecutors. Kosovo lags far behind other former Yugoslav states in the rule of law. Serbian misrule and oppression in the 1990s, benevolent but poorly managed and feckless UN administration until 2008, a cacophony of advice from well-meaning foreign advisers and donors pushing incompatible agendas, deep poverty, entrenched suspicion of formal institutions and procedures and a leadership with very little experience of government have all played a role”.

“... virtually none of Crisis Group’s interlocutors in the judiciary, police and associated institutions and among EULEX and other international officials believe the government fully supports the rule of law. Many expressed the opposite belief, that the government prefers a weak judiciary. An unregulated society and economy is an ideal environment for corruption: businessmen with connections thrive, while other investment is choked off. Some observers also believe that

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<sup>44</sup> International Crisis Group, Europe Report No. 204 19 May 2010, THE RULE OF LAW IN INDEPENDENT KOSOVO Pristina/Brussels

the Kosovo elite is hostile to foreign investment, because it endangers their local monopolies, and that foreign companies cannot rely on the justice system”.

The November 2009 progress report of the European Commission (EC) assessed the justice system as “weak, vulnerable to political interference and inefficient” and noted “an incomplete legal framework, corruption, weak rule of law, high level of informal activities... continued to impair the efficiency of market mechanisms”. It added that government performance had actually become worse in some areas, notably in managing lucrative public procurement:

“High-level corruption is a more serious problem. In 2009 the Kosovo Anti-Corruption Agency (KAA) received 34 complaints about government officials, seventeen of which were referred to prosecutors. Public procurement contracts account for much of this. Senior officials must disclose their income and property to the KAA, but many contracts are signed by junior officials not subject to scrutiny, who accept bribes – 10 to 20 per cent of the tender price is apparently common – on behalf of their superiors. Ministries have occasionally refused payment for completed work so as to extort additional bribes”.

“Kosovo’s justice institutions have yet to indict, let alone convict, a single senior government official. As in the other former Yugoslav states, independence has been followed by a period of high-level impunity and apparent enrichment”.

This is echoed by the World Bank, which reports:

“... patronage, nepotism and politicization remain serious problems in the Kosovo civil service at all levels of government”<sup>45</sup>, and

“High level corruption, particularly affecting large procurement contracts, privatizations and concessions remains a concern in Kosovo. Protection for organized crime activities related to people trafficking and smuggling is also a likely source of grand corruption. ... so far there have not been any convictions”<sup>46</sup>.

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<sup>45</sup> World Bank Country Worksheet 2010 15 (c):

<sup>46</sup> World Bank Country Worksheet 2010 16 (c)

Pristina Insight, the local English-language newspaper, runs regular articles exposing the extent of local corruption:

“Corrupt Judiciary”: A monitoring project by BIRN (Balkan Investigative Reporting Network) revealed nepotism and corruption among judges and prosecutors<sup>47</sup>.

“Doctors Sell Fake Health Certificates”: BIRN revealed that doctors in Kosovo are selling certificates of good health (demonstrating physical and mental capacity for privileges like drivers’ licenses) to applicants without even seeing them<sup>48</sup>.

“Pristina Pays 30 times Too Much for Fire Engine”: Only four firms bid, all of which were registered with the Business Registration Agency on the same day, all of whose owners were related, three located in the same office, bidding between 300,000 and 379,000 euro to supply a fire engine. The winning bidder supplied a 10 year old vehicle that was accepted by the Municipality of Pristina for 300,000 euro despite its estimated value of euro 11,000. Fire-fighters refuse to use the vehicle because they consider it unsafe<sup>49</sup>.

“Kosovo Agency Accused of Manipulating Land Sale”: the Auditor General says the Privatisation Agency manipulated the auction of a publicly owned industrial estate giving the successful bidder a 20% windfall<sup>50</sup>.

“Political Interference Damaging Kosovo Public Firms”: Experts say the ruling parties are directing the selection of boards of directors in public enterprises, preferring party loyalists. Shpendi Ahmeti, director of public policy think tank GAP said political parties were keen to control management of companies providing key services. Haki Shatri, former Minister of Economy and Finance said most appointees do not meet the criteria set out in the application process. Board members meet twice a month receiving between 700 and 850 euros a month when the average wage in Kosovo was 200 euros a month<sup>51</sup>.

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<sup>47</sup>Pristina Insight October 15-28, 2010, Issue no. 49 Pristina, Kosovo p22

<sup>48</sup> Pristina Insight April 8 – 21 2011, Issue no. 61 Pristina, Kosovo p5

<sup>49</sup> ibid January 14 - 27 2011, Issue no. 55 Pristina, Kosovo p1

<sup>50</sup> ibid January 28 – February 10 2011, Issue no. 56 Pristina, Kosovo p1

<sup>51</sup> ibid October 30 – November 12, 2009, Issue no. 26 Pristina, Kosovo p5

Even US Ambassador Christopher Dell, widely regarded as the puppet-master behind the government, expresses dismay over the poor rule of law:

“Corruption, violence and abuse go without redress. The vulnerable lack effective recourse, while the powerful manipulate laws and people to retain power and accumulate wealth”<sup>52</sup>.

As a consequence, people who don't benefit from state connections turn to their own clans/families for social security, relying substantially on foreign remittances from related diaspora. These kinship networks are strong and very real – a practical expression of mutual support – and serve to disconnect citizens from their government and weaken the state.

Current donor thinking is that strong institutions are important in fragile states. As noted by the International Crisis Group report quoted earlier:

“Prevention is as important as prosecution; international pressure should also focus on restricting the opportunities for corruption by changing “the system that allows for corruption” instead of attacking corruption as a sort of abstract, endemic problem. The best way to do this is to complete the legislative and regulatory framework and to strengthen the capacity...”

My new project was intended to address this through further capacity building for internal audit and establishing the regulatory and institutional framework for the third element of PIFC, known as “Financial Management and Control”, or FMC.

FMC is a bit of a misnomer, since it encompasses all aspects of management control, not just the financial element. INTOSAI<sup>53</sup> identifies these broader controls as: the control environment, risk assessment, control activities, information and communication, and monitoring. As a side note, the fact that I was being tasked with introducing FMC after internal audit was problematic. As the EC's DG Budget, Mr. Robert Gielisse noted in a speech in 2008: “internal audit cannot perform properly ... if FMC systems are not in place ... what would an auditor actually audit?”

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<sup>52</sup>ibid February 12 - 25 2011, Issue no. 33 Pristina, Kosovo p13 “Dell on Rule of Law”

<sup>53</sup> INTOSAI, 2004, Guidelines for Internal Control Standards for the Public Sector

This is partly explained by governance authority Mr. Noel Hepworth<sup>54</sup> who says “Developing internal audit is relatively easy. Establishing FMC is much harder ... So usually CHU focus is on internal audit and yet internal audit will not be effective unless managerial accountability and robust financial systems exist. ... implementing FMC ought to come first, that is before introducing internal audit”.

For this project I was both a Key Expert and the Team Leader (i.e. project manager) adding another dimension to my responsibilities. The EC expects projects to be tightly defined and rigorously managed. Project objectives, along with a fixed budget for professional fees and for out-of-pocket (“incidental”) expenses, are established by a project specification developed by or on behalf of the EC. Success depends on various stakeholders and the Team Leader cannot independently ensure success.

Broadly speaking, the general thrust of development projects is sketched out some time before the project is initiated, and may no longer be appropriate by the time work begins 12 – 18 months later. Also it would have been negotiated between donor and beneficiary at a much higher level (often involving the head of state) than it would be implemented. The design agreed between the donor and beneficiary is then repackaged in Terms of Reference for a proposed project. This is done by a consultant hired for the purpose who cannot subsequently be involved in the project’s execution and therefore has no stake in the viability of the Terms of Reference s/he produces. My challenge as Team Leader coming in at the end of this process was to define the project to address these Terms of Reference to the satisfaction of a Project Steering Committee comprising key stakeholders who may have very different concerns or interests from the officials who conceived the project, and from each other.

This situation can present difficulties for the Team Leader who may be accountable for achieving a set of objectives that not all parties support, using a predetermined approach that may not be effective. This is in addition to the normal project management challenges of scope creep and budget management. Fortunately I was familiar with all the stakeholders and I had had some influence on the direction of this project while finalising its predecessor.

Public Work #5: Project Inception Report – November 2009

The document that presents my detailed project plan is called an Inception Report. This provides the basis for monitoring progress via observable indicators presented in the

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<sup>54</sup> Presentation to the Regional Conference for Public Internal Financial Control for Candidate and Potential; Candidate Countries, 27-29 October 2010, Hotel Regent Esplanade, Zagreb, Croatia



prescribed Logical Framework Analysis format, and ultimately determining whether the project was successful.

In it I position the project in the context of stakeholder objectives and progress towards PIFC achieved to date. I address various issues such as the capacity of the beneficiary to absorb the consultancy outputs (a major limiting factor), coordination with other projects and donors, and sustainability of results (which can be jeopardised when the beneficiary is not committed to or capable of continuing the processes established by the project) (see section 7, page 27).

I reflected these issues in a detailed Action Plan to guide project activities and provide the basis for performance reporting and evaluation, committing to deliver the outputs specified by the Terms of Reference over 24 months using 1,100 consultant days (provided by a team of more than 20 consultants) and a budget of Euro 1.8 million, including expenses (section 5, page 26).

Preparing the Inception Report involved extensive research to gather information about the project environment and over 60 interviews with potential stakeholders after which I defended it to the project steering committee and the Minister of Finance who was the beneficiary. This became a critical moment for the project as the Minister, sceptical of future funding for this intervention, demanded complete coverage of all auditors in our proposed international certification training, whereas I had only sufficient budget to train half of them. He used his refusal to sign off the project as leverage which the EC countered with a threat to withdraw the project.

It would have been a blow to me had the project been cancelled so I continued with other activities while working to facilitate a resolution. Three months was lost before this issue was eventually settled in favour of the EC's position and the project received an official go-ahead.

I am presenting this document to demonstrate my ability to plan and manage a complex, multi-disciplinary approach to a change programme. In this regard, the document met its objective as it steered the project towards successful completion, acknowledged by stakeholders to have delivered the planned results.

While I was preparing the Inception Report I conducted some research to provide country context and inform our approach, in the form of four situation assessment papers. These were originally submitted as Public Works, but withdrawn on the basis that their findings are reflected in other public works:

(i) Introducing PIFC to post-communist, post-conflict Kosovo

This paper considers financial management in the Government of Kosovo (GoK) and the impact of various factors on its change trajectory from central communist control to a more modern approach that conforms to EU standards.

(ii) Culture and Politics as Constraints on the Transformation of Financial Management in the Government of Kosovo

This paper expands upon the influence of the “culture” and “politics” components of the informal organization operating within GoK as a potential constraint on our reforms.

(iii) Service Delivery Options for Internal Audit in the Government of Kosovo

Internal audit was an early element of Public Financial Management reform as Kosovo emerged from UN administration and began to establish itself as an autonomous state. This paper considers whether existing mechanisms and structures optimise the effective, efficient and economical delivery of internal audit services across the public sector and explores alternatives.

(iv) Operationalising PIFC in the Government of Kosovo

This paper establishes the elements needed to operationalise the type of comprehensive, integrated system of financial governance envisaged by the European Commission (EC) in its PIFC concept.

With these preparatory activities complete I began work on the first project output which was a PIFC Policy Paper.

Public Work #6: PIFC Policy Paper - April 2011

Public Internal Financial Control (PIFC) was formalised by the EC in 1999 to guide the development of governments’ control systems and is now an established strategy for reforming public management in countries which are candidates for membership of the EU. Each candidate country is required to develop a PIFC Policy Paper that compares the country’s present legal and institutional framework with the PIFC requirements and proposes actions to bring the country’s PIFC environment up to the required standard.

Coming approximately 3 years after the acceptance of the Internal Audit Strategy, the PIFC Policy Paper was an opportunity for me to review the government’s progress in implementing modern internal audit and to establish the status of the other element of PIFC, Financial Management and Control (FMC). The concept of ‘management

accountability' is central to FMC. Like decentralised internal audit, management accountability reflects a fundamental change of emphasis away from centralised controls operated by the Ministry of Finance to delegation of budgets and spending decisions to empowered managers who are accountable for results.

As with the Internal Audit Strategy, I developed the PIFC Policy Paper<sup>55</sup> on behalf of the Ministry of Economy and Finance (in April 2011 re-focused and re-named the "Ministry of Finance") under the auspices of a multi-stakeholder Policy Working Group. It was similarly ratified by the government, before being submitted to the EC Director General, Budget in Brussels (the EC now 'supervising' Kosovo in place of UNMIK) as evidence of progress towards governance targets and a plan to address shortcomings. I chaired the Policy Working Group which comprised representative stakeholders from the Ministry of Finance, budget organisations, the two GoK Central Harmonisation Units, the Auditor General and academia. Its mandate was to review my analysis and endorse my recommendations for adoption by GoK.

The paper specifically notes (page 5) that "By approving this PIFC Policy Paper the Government affirms its commitment to implementing PIFC to address current standards of good practice for internal audit and financial management and control". Consequently, this work has a significant symbolic and practical national impact since, by approving it, the Government makes a commitment to the EU to reach current standards for internal audit and financial management and control.

The PIFC Policy paper incorporates an Action Plan (Annex 3, page 52) which outlines the tasks that will fulfil this commitment, which can be summarised as:

- Developing a new government policy on PIFC;
- Strengthening the capacity of the Central Harmonisation Unit for Internal Audit that was established by the predecessor project;
- Providing training for internal auditors;
- Developing legislation to implement the new Financial Management and Control principles;
- Strengthening the capacity of the Central Harmonisation Unit for FMC that was established as the present project was initiated; and
- Providing training for operational and financial managers at all levels across government in FMC concepts and techniques.

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<sup>55</sup>Available at <http://mef-rks.org/images/stories/pdf/dep-thesarit/Policy%20Paper%20on%20a%20Public%20Internal%20Financial%20Control%20System%20in%20Kosovo.pdf>

This authorised the direction of the project activities which produced the remaining public works.

The PIFC Policy Paper has been well received by the EC and is being circulated as a model for other jurisdictions, the most recent requests being from the EC Serbia desk and the Ministry of Finance in Iceland, since both countries are prospective candidates for EU membership and need to address this key PIFC requirement.

It was evident that the prior PIFC Policy was inadequate, being poorly worded and lacking a statement of purpose, context, objectives or how it was to be applied. Accordingly, with the agreement of the Working Group I developed a simple policy statement which is included as Annex 1 (page 30) to the PIFC Policy Paper. This was submitted by the Minister of Finance for adoption by the government, which happened on 27<sup>th</sup> April, 2011. The commitment embodied in the new policy is an important milestone, giving the EC confidence to continue financial and other support.

With the policy in place I turned to a review of the legislation (broadly defined to include laws, administrative instructions/rules and procedures). As noted previously, the legislation that underpins internal audit that I previously worked on has been assessed as strong, so our objective was to deliver a similarly robust foundation for FMC. The Assembly had already passed a Law on Public Financial Management and Accountability (LPFMA). Reflecting the traditional focus on budget and cash management, this law failed to incorporate broader management authorities and accountabilities so we recommended amendments which were accepted and passed by the now-independent Assembly.

Unlike western laws which generally prohibit undesirable acts, states with a communist history expect laws to require actors to execute tasks. Consequently laws in transitional states tend to accumulate a lot of detail. My preference is to draft laws at a "principle level", leaving operational details to subordinate level legislation (i.e. Administrative Instructions, Treasury Rules, and procedures), which can be changed with Ministerial approval without needing to get into the Parliamentary legislative agenda. Unfortunately when this has been tried in Kosovo some ministers have used their power to create or amend subordinate legislation for personal gain. For example a previous Minister for Trade and Industry is alleged to have amended an Administrative Instruction that cut sulphur levels in petrol to meet EU standards to allow fuel that is 5 times more polluting into the country, presumably for some quid pro quo. Further it is

alleged that the country's sole fuel test laboratory is not properly accredited and is owned by the same Minister's brother<sup>56</sup>.

Consequently I have been forced to follow tradition, and the Laws continue to include details which I would have preferred to leave to Administrative Instructions.

Inconsistencies creep into laws, generally because legislation is promoted by uncoordinated projects, or through uninformed changes introduced in the legislative committee process. Inconsistencies also occur as a result of laws being drafted in English and Albanian, with committee amendments in Albanian that are subsequently retranslated into English which remains an official language while Kosovo is under EU supervision. This can result in some unintended language, an example of which is provided by Article 14 section 2.9 of the Law on Internal Audit<sup>57</sup>. My original draft called for "preserving" audit files for a period of time. The official legislation passed by the Assembly instead enshrines in law the requirement for "marinating" them.

The revised LPFMA was implemented by a Treasury Rule which we rewrote to establish necessary institutional responsibilities. Although the principles we espoused in this instrument would look familiar to any western manager, the Treasury Rule represents a wholesale change to the way government business is conducted in Kosovo. Our guidance introduces critical new concepts, specifically, management accountability, delegation of authority (a pre-requisite for accountability), performance expectations (a consequence of accountability), and management's responsibility to assess risks, establish a control framework to manage those risks, and do periodic self-assessment.

Each of these is a fundamental departure from the existing situation in which some ministers centralise decision-making and run their organisations as personal fiefdoms. The principle of "management accountability" is so new that there is no commonly understood Albanian-language equivalent (in the sense of an individual being sufficiently empowered that they can be held accountable for the results they achieve) and the word is often translated as "responsibility" (indicative of a duty).

Despite the scale of the changes embodied in this Treasury Rule, it was formally approved by the Minister responsible on the 30<sup>th</sup> July 2010, providing another important demonstration to the EC that GoK is developing an appropriate regulatory environment. Operationally, the Treasury Rule establishes the responsibilities of senior

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<sup>56</sup> Pristina Insight March 11- 24 2011, Issue no. 59 Pristina, Kosovo p1 "Former Minister Faces Fuel Import Probe"

<sup>57</sup> <http://kuvendikosoves.org/common/docs/ligjet/2009-128-eng.pdf>

bureaucrats. It is supplemented by a set of operational procedures, which are presented as the next public work.

Public Work #7: Financial Management and Control Procedures Manual – Risk Management – March 2011

The Procedures in this Manual provide guidance on implementing key responsibilities established by the Treasury Rule on Financial Management and Control. As Noel Hepworth (quoted previously) has complained, consultants tend to produce “complex, long and difficult to follow, manuals” of detailed procedures. We considered that approach would overwhelm Kosovar managers, and would likely be consigned, unread, to shelves across government. To avoid this, we decided to focus more on principles than overly-detailed instructions, leaving room for individual government bodies to develop their own responses that reflect their specific circumstances. Further, to make the material easier to assimilate we produced bite-sized procedures, aiming for each to be stand-alone guidance of no more than three pages or so. We developed the procedures in collaboration with the CHU-FMC, subject to review by EC DG Budget in Brussels, and we invited a peer review by Noel Hepworth to validate our approach. We were gratified to receive a positive endorsement and a request from him to use this material himself in future.

In total, we developed 14 individual but mutually reinforcing FMC Procedures covering key control areas:

1. FMC Implementation
2. Delegation of Responsibility
3. Internal Control
4. Risk Management
5. Management of Assets
6. Authorisation and Payments
7. Revenues
8. Financial Planning
9. Managing Budgets
10. Virement (i.e. transfers between budgets)
11. Capital

## 12. FMC Audit Trail

## 13. Self-Assessment

## 14. Management Declaration on FMC

These were published in a small loose-leaf desk-top reference – the FMC Procedures Manual - along with comprehensive self-assessment guidelines to enable organisations to monitor their progress towards PIFC. Both the FMC Procedures Manual and the self-assessment tool are innovations of the project that will be useful in other jurisdictions. They were considered sufficiently significant that they were officially announced (along with the PIFC Policy Paper discussed previously) at a conference of ministers and their senior management jointly by a representative of the EC and the Minister of Finance as a critical plank in GoK's governance structure. The FMC Procedures Manual as a whole is the work of my team. The Procedure presented here in the flagged section, Risk Management, is my personal contribution. It was recently provided to the Ministry of Finance in Iceland on their request, as they don't have a formal approach to risk management and wanted a model.

The FMC procedures legally apply to every financial transaction and to every member of staff throughout each government organization. The impact is therefore significant and will be reflected in better governance and benefits for the public.

Returning to the internal audit component of PIFC, my first project in Kosovo involved setting up the CHU-IA to develop the internal audit function. In the present project I continued that initiative by providing continuing support to the Director of that unit, documenting my advice in a series of 22 Briefing Notes. One obstacle to achieving my goal of a CHU-IA that nurtures the internal audit profession is that they prefer to consider themselves a regulatory body, developing and enforcing instructions, since this is perceived to be a high-status role.

Formal capacity building (i.e. training) of the Kosovo public service is another major component of my technical assistance. The first project focused on introductory training for internal auditors, and the second provided training for external auditors in the Office of the Auditor General. The capacity building effort associated with this third project had the widest scope, giving me responsibility for four complementary elements:

- (i) Introducing international certification training for internal auditors;
- (ii) Training future trainers;
- (iii) Training finance officers relating to FMC; and

(iv) Developing induction training for Ministers, Permanent Secretaries, Mayors and Chief Financial Officers.

Training delivered by consultants is often quite passively received and popular attendance certificates have little validity as indicators of retained knowledge or operational competence. Having taken that approach to training the internal auditors on the previous project we now wanted to go further, professionalizing the internal audit cadre by exposing them to the more rigorous learning and examination regime of an internationally-recognised accountancy body. This would force active participation, and introduce an unaccustomed element of competition and performance-orientation, first to earn a place in the programme and secondly to pass international-level examinations. The resulting certifications would have some credibility, both domestically and internationally, as an indicator of achievement.

Our approach was to sub-contract the preparation of training material and examinations to the UK-based Chartered Institute for Public Finance and Accountancy (CIPFA) which alone amongst the UK accountancy institutes focuses entirely on the public sector. CIPFA in turn delegated delivery of the training to the Centre of Excellence for Finance (CEF) in Slovenia, which has considerable regional experience in this field.

We adopted the basic Foundation level of the CIPFA professional programme as an attainable qualification. This level comprises three "international" modules (fundamentals of accountancy, introduction to internal audit, governance) and a domestic module outlining the national legal environment which was developed especially for the project. Successful completion of invigilated examinations and a case study earns a Certificate in Public Sector Internal Auditing, which, with further study, can be upgraded to Diploma and Professional qualifications.

Budget constraints limited places in the training so we developed a selection process which involved a five-day introductory course followed by a test. Having regard to factors such as years-to-retirement and achieving reasonable balance across ministries and municipalities, the auditors' scores in this test determined who got a place in the programme.

As the certification training progressed, candidates' results in exams for two of the modules were poor. We responded with remedial coaching and additional examination opportunities. Despite this initiative, eligibility for certification remained



disappointingly low. On investigation I determined that the project had introduced several unintended obstacles into two modules as a result of language issues:

- CIPFA develops training material, exams and model questions in English which were translated into Albanian. The translation was unsatisfactory since it did not recognise the Kosovo Albanian dialect. In particular there was difficulty with translations of technical terms and new concepts;
- the trainers delivered training in second-language-level English through simultaneous Albanian interpretation. This real-time filtering by interpreters who are not familiar with the subject matter introduced inconsistencies, exacerbated by the lack of Kosovo-Albanian equivalents of some technical terms and concepts;
- exam papers are hand-written in Albanian then translated into English where they are marked by ESL-level markers with a sample being reviewed by CIPFA.

I oversaw a detailed review of training material, exam questions and marked exam papers which clearly showed students were obstructed by these problems. CIPFA agreed to compensate for this by relaxing the rules concerning pass marks to ensure that no auditor who should have passed was left out. This resulted in a pass rate of around 50% of the candidates. To avoid similar problems in the future, we proposed a number of remedies:

- delivering training by native Albanian speakers will be important, so we selected the more promising internal auditors and trained them to be trainers;
- incorporating a multiple choice element in the exams, while introducing some pedagogical weaknesses, would avoid problems in translating exam questions, model answers and exam scripts;
- developing a Glossary of technical terms in Albanian.

Finally we reviewed the translated texts in detail to identify how the local language training material can be improved for planned future iterations of the course.

It is inevitable that there will be problems in the first iteration of any international programme, but it is important that they are not allowed to undermine the whole intervention. The problems that arose have been dealt with to all parties' satisfaction and we have ensured a continued commitment to this international certification programme (a second phase is currently being planned).

In the absence of a suitable external programme for training financial and operational managers in FMC concepts and practices we had no choice but to develop training within the project, tailored to local circumstances. I supervised a team of consultants in developing nine modules that complement the FMC Procedures Manual (Public Work #7, presented above) and facilitated review sessions with the CHU-FMC to gain their approval:

Module 1: Strategy

Module 2: Leadership

Module 3: Organisational Management Skills

Module 4: Risks

Module 5: Effective Budgeting and Cost Control

Module 6: Budgeting

Module 7: Basic Costing Concepts

Module 8: Finance for Non-Financial Managers

Module 9: Finance for Elected Representatives

Whereas this approach to FMC training is fairly typical of technical assistance projects, my final training initiative was a significant departure from normal practice. At the conclusion of the initial project to establish internal auditing I had pointed out that all our efforts were being directed at the technical level, emphasizing to internal auditors that they needed to see their relationship with management in a new way. However, no effort had been directed towards informing management as the other party to the relationship.

This presents a danger. Elected mayors and ministers in Kosovo are not yet familiar with the limitations on their power that modern governance principles impose. As a result, decentralising internal audit so that auditors report to elected officials could have the unintended consequence of weakening barriers to official malfeasance. This is especially so considering that many ministers and mayors arrive after Kosovo's frequent elections with no previous experience of public office and tend to see their position as one of complete discretionary power over the institutions they manage. Of course there is a raft of legislation to counter this but, as previously noted, implementation of laws is poor and capture of state institutions is rife.

To address this, I recommended training ministers, mayors and permanent secretaries (now retitled General Secretaries) so that they understand their legal obligations to use public resources for public benefit and the limits on their power imposed by FMC. At the same time I want them to see how they can delegate to their staff, work with internal auditors to refine the processes that ensure they meet their objectives, and obtain institutional support from the two CHUs.

A well-known report by Lord Nolan, chairman of the Committee on Standards in Public Life in the UK, noted that “very large changes in the management and structure of the civil service have taken place. Greater delegation and diversity mean that more positive action has to be taken to reduce the risk of impropriety. In particular, political interference in the pay and promotion of individuals must be avoided”. The Nolan report recommended training for ministers and senior civil servants on seven principles of public life (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, and Leadership).

Surprisingly, my research into induction training in different states suggests that, while quite a few states (including Canada, Australia, Czech Republic, Slovakia, Egypt and some African countries) induct new members of parliament to understand their roles and resources, there is little oriented specifically towards ministers. The Rt. Hon. Jacqui Smith, former Home Secretary in the previous UK government, is quoted by the BBC as saying<sup>58</sup>:

“I hope I did a good job, but if I did it was more by luck than by any kind of development of those skills.”

“I think we should have been better trained. I think there should be more induction.”

“I think there should be more emphasis given to supporting ministers generally in terms of developing the skills needed to lead big ministries.”

If a senior UK politician who spent her life immersed in a parliamentary democracy felt the need for induction, imagine the need of a new minister in the Kosovo Assembly, which has only existed for a decade or so. Since there is no standard approach to inducting newly appointed Ministers I convened a Working Group representing the Prime Minister’s Office, civil society, the central government civil service and municipal

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<sup>58</sup>BBC 17 July, 2009: Total Politics Interview: <http://www.totalpolitics.com/articles/2463/in-conversation-with-jacqui-smith.shtml>

government with which I developed an outline for a concise Induction programme that focuses on:

- the core principles of good financial governance and accountability
- the ethical values and standards of integrity that leaders are expected to adhere to
- the importance of financial management and control
- the relationship between Ministers and senior civil servants and internal audit
- the role of COPF (Committee Oversight of Public Finances).

I recruited two consultants to work with me to develop a “Leadership Symposium” (so-called because Ministers will never acknowledge that they need “training”) that addresses leadership, democratic governance, ethics, and the PIFC framework. We then recruited an international governance expert to deliver the material.

I was lucky to get Dr. Tom Frawley CBE, currently Ombudsman for Northern Ireland, to deliver the main symposium content. We developed his speaking material together and he quickly understood the issues and the areas needing emphasis. He has a very engaging manner and connected well with our senior leaders. He brought the credibility of his background in UK government reform and his experiences in Northern Ireland, itself a small jurisdiction with post-conflict reconstruction and governance issues, resonated with the Kosovars. I also recruited the Auditor General, the Chair of the Committee on Public Finances and the Minister of Finance (whose speech I wrote) to deliver additional presentations<sup>59</sup>.

Current thinking is that Induction Programmes are an effective tool for implementing major organizational change. This programme will be significant to the transformational introduction of FMC across GoK, shaping the attitudes and understanding of leaders now and in the future who will then take charge of important FMC implementation initiatives. Ultimately citizens, taxpayers and donors will benefit through better governance.

Public Work #8: Ministerial Handbook – September 2011

As another innovation, I published a Ministers’ Handbook to accompany the induction training, that concisely presents some key governance concepts and their application in GoK under the new PIFC umbrella. To my knowledge, there is no similar document available to governments in less developed countries, and this contribution should serve as a model for other transitional states.

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<sup>59</sup>See details at <http://www.mef-rks.org/en/press-release/320-komunikate-per-media>

In addition to the technical aspects of institutional development and capacity building, I also took a lead role in promoting the new PIFC model when the opportunity arose. I devoted considerable effort to organising three promotional events to attract and sustain public interest in our project as a major step in developing the professionalism of the Kosovo public service.

The first event was the kick-off of the certification training on May 24<sup>th</sup>, 2010 for which I organised a panel of speakers to promote the importance of this capacity building initiative and to motivate the candidates, as well as a question and answer session for the media. The speakers included the Minister of Finance, the Head of Operations of the local EC office, the Head of the CIPFA Education & Training Centre and a representative of the consulting company for whom I was working. The event was well-received and got wide coverage in the local media.

The next event, in May 2011, was organised to announce the new PIFC Policy and the FMC Procedures Manual and Self-Assessment Checklist which support its implementation. This took the form of a half-day conference at which the Minister of Finance, representatives of EC DG Budget in Brussels and the local EC Liaison Office, and the Auditor General addressed an audience of Ministers and their advisors, Permanent Secretaries, Mayors, and Chief Financial Officers.

I worked with my counterparts in the Treasury and EC Liaison Office to organise this important high-profile event. In addition to handling organisational details I drafted the Minister's speech, essentially a "call to action" delivering a strong message that the EC had invested in developing a legal framework and supporting tools and that the challenge now lay with the domestic leadership to implement PIFC. The event garnered attention in the local press and is featured on the Ministry of Finance website<sup>60</sup>. It was considered by the donor to have been very successful.

I held a third promotional event at the completion of the certification training, centred on a Graduation Ceremony for the auditors who had earned CIPFA Public Sector Internal Audit Certificates and those who had completed the training to become future trainers. We also released a new edition of the Internal Audit Manual that I had just completed. As well as organising these official formal public events I also delivered seminars on PIFC to various stakeholders, promoting this new initiative.

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<sup>60</sup> See details at <http://www.mef-rks.org/en/press-release/299-komunikate-per-media>

Reflecting the original project scope, my work focuses on creating the legislative, institutional and technical capacity for PIFC; implementing PIFC is government's responsibility and remains largely a challenge for the future. To help the government understand and plan for this challenge I developed a Change Management Paper that I am presenting as my final public work. It is based on the Situation Assessments described on page 35, supplemented by additional interviews and the experience gained during my work on this project.

In this paper I use the systems model of change management to analyse change forces and recommend an approach that is consistent with the cultural landscape in Kosovo. One innovation that I have included in my recommendations is promoting the development of civil society (currently very weak reflecting the disengagement of citizens from state institutions) as the basis for future monitoring of the government's performance. This reflects the influence on my thinking of my studies with Rutgers U. and the influence of Larry Diamond<sup>61</sup> who suggests that a "free and robust" civil society will help hold the state to account through assessment and by reporting to the public to "monitor and restrain the exercise of power".

Diamond notes that civil society (defined by Frances Fukayama as networks of cooperation that represent a nation's social capital) serves to stimulate participation, promoting the virtues of democracy, fostering skills and knowledge regarding associational life along with obligations and rights for citizens and politicians alike. An active civil society could be instrumental in confronting the "cynicism, indiscipline and alienation from state authority" that he considers " ... was bred by decades of communist rule in Eastern Europe."

I believe this will be an important development for Kosovo because much of the state is run by groups with vested personal interests. The EC tries to restrain abuse, using its power of the purse and the promise of accession, however success to date has been limited.

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<sup>61</sup>Diamond, Larry Jay Towards Democratic Consolidation, *Journal of Democracy*, Volume 5, Number 3, July 1994 pp 4-17, Johns Hopkins University Press

Shanti Kalathil writes<sup>62</sup> “my colleague Sina Odugbemi (author of “Accountability through Public Opinion”, 2011) suggests that in a mature democracy, the elite fears activated public opinion as the only real check on its power ... whereas in many developing countries, a divided citizenry and undemocratic public sphere prevent the formation of activated public opinion, further consolidating the culture of impunity. ... the impact of the public sphere, and public opinion specifically, might help address the issue of elite accountability. It’s a fascinating hypothesis ... that deserves more attention – not as an outlier to good governance practice, but as a central component”.

Because I wanted the Change Management paper to provide a roadmap for future initiatives to continue the development of PIFC in Kosovo, I did not complete it until May 2011. Since it was potentially a contentious document, I submitted it for review to both Capita, the consulting firm for which I worked, and to my contacts at SIGMA before presenting it to the government and the EC.

SIGMA’s response was very positive saying that it: “... corresponds practically to all what we among others are trying to introduce to the EU doctrine(sic)”.

The EC DG Budget official who received it commented: “I really liked your Change Management Paper - and indeed I would like to see elements of it brought out more strongly in future Policy Papers (of other countries)” and asked for additional copies to distribute.

Subsequently, the Change Management paper has had its desired impact and is being used as the basis for the next EU PIFC intervention in Kosovo. I have been recruited by SIGMA to develop the proposal for a follow-on PIFC project, based on my suggestions. The proposed approach has been positively received by both the EU as donor and GoK and I am currently working on a detailed Terms of Reference to guide the next project team.

Following the direction I presented in the Change Management paper, the specification for the next project:

- continues innovations that were introduced in my previous project (i.e. international professional certification training and induction for ministers and senior civil servants);

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<sup>62</sup> Shanti Kalathil, Communication for Governance & Accountability Program (CommGAP) Blog, World Bank, [commgap@worldbank.org](mailto:commgap@worldbank.org)08/04/2011

- advocates a new emphasis on practical support for introducing FMC in line ministries (through on-the-job mentoring by advisors) instead of the traditional legal and regulatory focus of technical assistance projects; and
- introduces a new initiative to begin engagement with civil society.

The civil society engagement component also gave me an opportunity to promote more local involvement in deciding how goals should be achieved, rather than relying on models from foreign advisors. I have done this by designing the civic engagement component to promote a competition amongst Kosovo civil society actors to propose sub-projects that will engage citizens in the public governance process. The two most promising proposals will then be funded by the project, thus allowing a meaningful local involvement in both designing and delivering interventions that will result in locally applicable mechanisms.

These Terms of Reference for a new project will not be in the public domain until they are announced for tender sometime in 2012 so I cannot presently include them as a public work.



## 4. RESULTS AND IMPACTS

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This section considers the results of the three Kosovo projects in the context of the challenges faced and the innovations that were introduced, and the impact they had on various stakeholders.

To recap, over a four-year period between February 2007 and August 2011, in the course of three EU projects - (i) Support to Public Financial Control and Internal Audit, (ii) Support to the Office of the Auditor General of Kosovo, and (iii) Support to Improving Public Management, Control and Accountability in Kosovo - I played a central role in establishing the PIFC environment in the new Republic of Kosovo as it emerged from post-conflict Yugoslavia with no functioning machinery of government following the Serbian withdrawal. In addition, my previous work with FreeBalance Inc. implemented the GoK Treasury system that underpins government financial reporting and budgetary control, and in a subsequent assignment I am defining the next phase of the continuing development of PIFC in Kosovo. Together this series of assignments represents a uniquely integrated involvement in establishing all aspects of public financial governance in a new state, which could provide a model for future initiatives.

My body of work demonstrates this by including all the instruments needed to implement PIFC including policy, laws, strategic development plans, regulations, methods, procedures, and action plans, supplemented by guidance for political leaders. Additional works demonstrate project planning, situation analysis and change management based on disciplined research and analysis.

I have selected project outputs that demonstrate various key facets of these projects, particularly those that represent innovations beyond typical technical assistance. Where multiple project outputs address a particular facet of PIFC I have chosen representative outputs to avoid unnecessary redundancy.

These public works should not be judged just on their technical content as standalone outputs, but on their contribution to the desired outcome, i.e. providing a governance framework that can be implemented in practice. In this respect, my project methods, deliverables and results have been reviewed by: (a) the beneficiary, as being appropriate and practicable in the domestic environment; (b) the European Commission, as addressing the objectives of its underlying policies; and (c) the Auditor General of Kosovo, as advancing domestic public financial management. In addition, various independent third parties (including the FRIDOM project, SIGMA, the IMF and

the World Bank) have validated my work, commenting favourably in their broader reviews of public management in Kosovo.

For example the World Bank, reported that:

“Kosovo has made significant progress in establishing a workable financial management system, including a sound legal framework”<sup>63</sup>.

In its review of Strengthening Public Financial Management in Post-Conflict Countries<sup>64</sup> covering financial reform in eight post-conflict states, the World Bank commented that:

“Achievements in Afghanistan, Kosovo and Sierra Leone have been relatively rapid and substantial. These cases show that reform progress can be made under difficult circumstances – including ... absence of any pre-history of independent statehood (Kosovo)”.

“In Kosovo, the auditing function has been developed under external guidance, and the country achieved the best Public Expenditure and Financial Accountability (PEFA) rating for that category across all cases”.

The Public Expenditure and Financial Accountability Public Financial Management Assessment of Kosovo found that:

“Other strengths are found in the areas of internal audit and control and external audit where the process is in place and capacity is being built up for effective implementation”<sup>65</sup>.

The most comprehensive Assessment of the governance capacity in Kosovo was published by SIGMA dated May 2011<sup>66</sup>. Since it would be based on information gathered six months prior to the completion of my project it does not capture all the progress I achieved. Nevertheless it acknowledges many positive developments. The

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<sup>63</sup>[http://siteresources.worldbank.org/KOSOVOEXTN/Resources/297769-1266424306995/Kosovo\\_full\\_report.pdf](http://siteresources.worldbank.org/KOSOVOEXTN/Resources/297769-1266424306995/Kosovo_full_report.pdf)

<sup>64</sup> Fritz, Hedger & Lopes, Strengthening Public Financial Management in Post-Conflict Countries, Economic Premise, Number 54 April 2011, The World Bank, Washington DC

<sup>65</sup><http://mef-rks.org/en/download/other-publications-and-reports/2032-public-expenditure-and-financial-accountability-pefa-public-financial-management-assessment>

<sup>66</sup><http://www.sigmaweb.org/dataoecd/40/29/48970710.pdf>

following extracts are from pages 17 – 21 of that report, with additional italicised commentary added by me in parentheses:

“The LPFMA (Law on Public Financial Management and Accountability) was amended in the summer of 2010 (following advice from my project) ... With regard to public internal financial control (PIFC), the LPFMA has now been supported by Treasury rules and a full set of instructions for financial management and control, which were partially approved by the Minister of Finance in 2010, although some still only exist as drafts (these are outputs of my project and are now all finalized and approved and have been provided as Public Work #7).

“The introduction of manuals has been accompanied by a series of seminars (conducted by my project). With the help of the ongoing technical assistance (actually this was completely my work – not just my “help”), a PIFC policy paper was prepared and the government approved it in late April 2011. Despite these rules and manuals, the PIFC policy paper is relatively optimistic in light of the actual practices and capacities in the administration (the document is deliberately aspirational, but I believe it is achievable).

“The most significant change in the system of budget execution is related to the ex-ante control procedures of Treasury payments. ... To support the transition to decentralised control over payments, the Treasury has set up a help-desk and Treasury monitoring functions, which essentially should be seen together with the unit that acts as the CHU for financial management and control (FMC) (whose capacity was established by my project). The Central Harmonisation Unit (CHU) for internal audit (IA) focused in 2010 on delivering a systematic training and certification programme to almost half of all internal auditors in government organisations (this work was actually done by my project).

“Regarding external audit, the Office of the Auditor General (OAG) has continued to implement its Corporate Development Strategy (this is the Strategic Development Plan that I worked on). The number of staff has increased, and the 2011 budget now allows for 126 staff, an increase of ten posts compared to 2010. The professional capacities within the OAG have continued to improve, and the role of the OAG has become more meaningful for government organisations.

“The legislation for public expenditure management (PEM) is in place and contains many elements that are required by international standards and good practice (this legislation, including primary law and subordinate Administrative Instructions and procedures manuals, was developed by my projects).

“The financial management information system is well established (this is the FreeBalance Treasury system that I implemented in 2001), but administrative capacity is weak, especially for the analysis of data (as I note in the Change Management paper).

“Public internal financial control (PIFC) is still at an early stage of development. In principle, a coherent and comprehensive statutory base is in place. The general understanding of the concept of managerial accountability as well as ownership within the Ministry of Finance need to be further developed, more significantly in the area of financial management and control (FMC). The PIFC policy paper (that I developed) was recently approved but the level of understanding of technical concepts and requirements and of standards of application generally appears to be low in most budget organisations. Systemic weaknesses also include a lack of qualified staff and a poor overall control environment (these weaknesses are identified in my Change Management paper).

“For FMC, the focus is on the secure and efficient management of the financial management information system. The new rules and instructions (developed by my project) aim to widen the focus to also include good planning and reporting arrangements, but these arrangements are still new to budget organisations and proper links between budgeting and financial controls exist only on paper. The training provided so far to budget organisations is not yet sufficient to guide them equally through the first years of application of the new procedures. The Treasury has also released its current ex ante control, and responsibility over finances has been formally delegated to budget organisations, but it will take years of active coaching and guidance to bring all of these organisations up to the level that is expected by the PIFC concept (this is what I proposed in the Change Management paper and is followed up in the Terms of Reference I am developing for the next project). This development is commendable and some risks have been managed by sequencing the transition, but further risk management seems inadequate, especially as the technical assistance (TA) project that has supported the process so far ends in the summer of 2011 (I am working with SIGMA to address this by providing interim assistance to GoK to

maintain the momentum until the next full technical assistance can be delivered). The CHU for FMC has been established as a unit within the Treasury and has so far been involved mainly in the development of procedures for budget organisations (actually done by my project).

“The Law on Internal Audit (developed in its current form by my projects) provides a solid legal basis for setting up the internal audit units in Kosovo. Ongoing training programmes are part of a systematic approach that is supported by the current TA project (i.e. my project). The number of internal auditors in budget organisations is still small (124 in 2010) but has been steadily increasing. With the support of a TA project (i.e. my project), the CHU for IA has been relatively active and has been able to start regularly communicating with internal auditors in budget organisations. This co-operation provides a good basis for further development in the area. However, real progress depends on the ability to change the wider administrative culture towards basic accountability principles (as noted in my Change Management paper).

“The Ministry of Finance in Kosovo has demonstrated its willingness to continue to develop the system for public finance management. This willingness can be seen in the establishment of rules and instructions for financial management and control (developed by my projects), the increase in capacities to develop internal audit (following training by my projects), and the increased staffing of internal audit units. There are signs of sustainability in the development of the internal audit units (as a result of support by my projects).

“With regard to PIFC, the project that supported the development of internal audit and of financial management and control (this is the third of the Kosovo projects I describe above) will end in the summer of 2011. As the new TA project in this area is still in the early planning stages in the European Commission (I am working on this as described above), there will be a gap in technical assistance for nearly a year (as noted previously, I am also working with SIGMA on providing interim help to maintain the momentum). Breaks between foreign assistance would normally be healthy, but at the moment in Kosovo in the FMC area, where new rules and instructions have just been introduced, such a gap may take away the momentum in budget organisations to implement the new procedures. The CHU for FMC alone does not have the capacity to fulfill the triggering role that is needed (as I note in my Change Management report).

“The Minister of Finance needs to ensure that there is sufficient guidance and support to budget organisations for the implementation of the recently created FMC manual, in particular until mid-2012, when the new TA project (the specification for which I am working on) starts. Proper implementation of the recent FMC instructions will require close guidance for budget organisations. Any future TA planned in the area of FMC needs to focus primarily on the provision of direct coaching to budget organisations (this is based on my recommendation from the Change Management paper and is a key element of the specification that I am developing for the follow-on project).

“The Office of the Auditor General and the CHU for internal audit are both developing their capacities to organise professional training for their auditors by non-governmental and private institutions. It would be worthwhile to seek synergies in the development of permanent training mechanisms for auditors (all the capacity development for the CHU for internal audit and the internal auditors was provided by my project and I have been promoting collaboration with the OAG on training since 2009).”

Finally, the EC in its report on a fact-finding mission to Pristina in May 2011<sup>67</sup> confirms that Kosovo’s policy and legal framework is now broadly in place and provides for a common understanding of:

“... internal control; the policies and procedures that managers are to follow to implement and monitor their internal control structures; as well as reporting arrangements on the adequacy of those structures”.

The above reviews, especially the 2011 SIGMA assessment, clearly recognise the progress that GoK has made in introducing difficult PIFC reforms and the central role that I and my projects have played.

These results have been achieved despite a number of challenges in addition to the normal problems of managing substantial reform projects. These challenges have been outlined in the preceding section of this paper, and can be summarised as:

- Poor physical conditions in Kosovo in which the project teams operated;
- Lack of skilled professional capacity in GoK;
- No prior local exposure to internal audit or modern management and control;

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<sup>67</sup> Hill, R. PIFC: a report of a fact-finding mission to Pristina (May 17-20 2011), European Commission, Budget, Brussels 16 June 2011

- No cultural affinity for the principles underpinning PIFC;
- General acceptance of pervasive corruption;
- Language difficulties, especially in localising a UK-originated professional training and examination programme, but also in drafting laws, regulations, manuals and reports in general;
- Complex relationships between donor, beneficiary and stakeholders that constrained some of our work (such as limiting the legal changes we could get implemented) and even threatening the future of the project (i.e. when the Inception Report was not approved by the Minister responsible);
- Problematic project phasing, addressing internal audit before risk management and controls;
- Limited capacity for absorption of our guidance or for sustaining results after the projects are completed;
- Reluctance of CHUs to nurture rather than regulate;
- Project scope is limited to developing the legal and institutional structure: I had no role in how government agencies implement the guidance I provided; and
- Maintaining the quality of the work of the project team and over 20 other short term consultants who provided input.

I and my project team responded to these challenges with a number of innovations that I believe could be applied elsewhere to advance the practice of implementing PIFC in transition states. These innovations can be summarised as:

- Involving GoK internal auditors in defining requirements for training and audit manual content;
- Developing internal audit manuals that respect the local context;
- Developing comprehensive guidance for establishing and running audit committees;
- Developing simple, adaptable FMC procedures rather than a long complex tome;
- Adapting a UK professional training programme to the local context;
- Training demand-side stakeholders in addition to technical practitioners;
- Developing induction training for political leaders in central government and municipalities;
- Publishing a Ministers' Handbook;
- Developing a comprehensive change strategy to guide subsequent projects;
- Developing a comprehensive technical specification of an internet-based virtual meeting place for sharing PIFC information amongst GoK practitioners;
- Promoting hands-on coaching in government agencies; and

- Involving civil society in promoting civil engagement.

The final item above refers to the concept of “civil society”, which is not generally a consideration in financial management projects. This term is used in its generally accepted sense, referring to non-state actors with an interest in promoting socio-economic development and which can influence, monitor and publicise the results that government achieves by using the public resources with which it has been entrusted. Acknowledging that this sector is still underdeveloped in Kosovo and is often subject to politicisation in a small countries, there are nonetheless examples of independent civil society actors in Kosovo including NGOs (e.g. GAP and KIPRED), voluntary service organisations (such as Rotary International), chambers of commerce, religious institutions and student unions which can be encouraged to play a role. Labour unions are likely to emerge to provide a voice for workers along with special interest groups, and it would be interesting to find a vehicle for including clan leaders as well. In essence, civil society provides the vehicles through which motivated citizens can participate in setting and overseeing national priorities.

In addition to the technical innovations introduced in my projects, various challenges were addressed by monitoring the project’s results and developing remedial measures when things did not go according to plan (as was initially the case with the internal audit training results). I must acknowledge the commitment and effort of all the administrative and technical staff of the projects, as well as good cooperation from the donor office, the beneficiary and other third parties in helping to overcome these difficulties.

Taken together, these projects and the public works they produced have had considerable impact on a number of stakeholders. These impacts are reviewed in the following sections.

#### 1. Strengthening governance in Kosovo

For the Government of Kosovo as the beneficiary, my work establishes a PIFC environment that addresses official domestic objectives and international expectations.

The official domestic objective is to implement effective financial management, to:

- improve infrastructure and the quality of citizens’ lives;
- use money and other resources entrusted for these purposes efficiently;
- comply with Laws and other decisions taken by the Assembly;
- enable public accountability for government performance; and
- reduce opportunities for official corruption.



Achieving these objectives in a new state with no experience of self-administration is a long term initiative and it is premature to declare the process complete. However, a solid foundation has been established, as was demonstrated by the various assessments quoted above.

I was keenly aware of the challenge of sustaining the progress made during this intervention, given the criticism that technical assistance benefits often cease once the sponsoring project is over. To address this we incorporated the following elements into our project approach:

- working closely with our counterparts to help them identify and address PIFC implementation issues without allowing the project to assume operational responsibilities helped develop domestic expertise and confidence and will hopefully reduce future dependency on consultants;
- our intervention creates programmes that are specifically designed to continue after the project has demobilized, specifically:
  - Internationally-recognised certification of internal auditors;
  - FMC training programme for budget organizations;
  - Induction programme for senior leaders.
- a solid relationship has been developed between CIPFA, as the authority that is certifying internal auditors, and the CHU-IA that is responsible for continuing the certification programme for internal auditors;
- I developed a joint proposal with the Auditor General for continued CIPFA certification training, and we have prepared the CHU-IA to take the lead role on managing this future training programme. I also negotiated a costed plan for providing ongoing training support with CIPFA.
- twelve GoK professionals have been prepared to be CIPFA-certified trainers, so they can contribute to local training duties from a position of technical knowledge that they can express in the local language;
- high quality reference manuals have been developed to provide a source of operational guidance:
  - FMC Procedures Manual;
  - FMC Self-assessment Checklist;
  - Revised Internal Audit Manual;
  - Ministers' Handbook.

- policy and implementation guidance has been provided to the government in two important strategic documents which will also help guide the design and implementation of future technical assistance:
  - PIFC Policy Paper; and
  - Change Management Paper.
- a strong legislative framework is in place together with guidance for improving future harmonization.

The PIFC environment is also critical in meeting international expectations so as to enhance Kosovo's access to donor funds and IMF loans, and support its eventual accession to the EU. This has already had an impact, contributing to the improved governance that has enabled Kosovo to be admitted to the IMF and to access substantial funding.<sup>68</sup>

This progress positions Kosovo for continuing project support and the sustained improvement to governance that will result, evidenced by the current negotiations between GoK and the EC for a follow-on project.

The success of these projects in establishing the instruments of PIFC also fulfils the requirements of the EU accession process for the benefit of Kosovo, although the weaknesses of some member states exposed during the current euro-zone crisis are likely to push new admissions further into the future than we anticipated when starting these projects.

## 2. Meeting EC objectives

In the narrow sense of meeting the EC's project objectives my work has been judged a success, verified by the EC's own audits. This means the EC can have greater confidence that its assistance to Kosovo now and in the future will be used appropriately, although much depends upon parallel efforts to strengthen judicial processes.

Taking a broader perspective, the modern vision of effective financial governance is a fundamental departure from the historic centralized control practiced in Yugoslavia (and

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<sup>68</sup>Tanberg, E, Pavesic-Skerlep, M (2009) Advanced Public Financial Management Reforms in South East Europe, International Monetary Fund, <http://imf.org/external/pubs/ft/wp/2009/wp09102.pdf>

Kosovo as one of its provinces). It is critical to the EU that Kosovo is successful in achieving this frame-breaking transformation so that it will fit into the liberal democratic fabric of the community as a peaceful, contributing member state which fulfils the expectations of the Copenhagen criteria outlined in Section 3 above. Ultimately success depends on the able, honest and diligent adherence to laws and application of the technical methods that my projects developed, and a cadre of appropriately skilled and motivated officials to implement PIFC. This will be an ongoing process for at least the next 5 years, for which the momentum has been created and a roadmap for change (the Change management Paper) has been provided that is currently being used in defining the next two years of EU-assisted reform in Kosovo's public governance.

### 3. Impact on the Profession

My objective for these projects was not simply to produce outputs to be implemented in Kosovo, but to produce instruments that would also, with adjustments for local circumstances, help other jurisdictions advance towards EU standards.

From the profession's perspective my work provides a pragmatic model of how PIFC requirements can be effectively addressed by nations with substantial environmental and resourcing constraints. Unfortunately the way that consultants' work is published does not generally allow for author attribution. Conceptually, reforms have to be made by the organs of the sovereign state and each donor wants to ensure that it gets recognition for its enabling financial assistance. Rarely does the consulting firm under whose banner the projects are implemented get any credit and rarer still is an acknowledgement of the individual consultant or project manager. Similarly, there is no protocol for citing the work of other consultants (although documents may be named in a "References" section of a report). Consequently there is no means of tracking the influence my works have had on other projects and in other jurisdictions.

What I do know is that individual consultants have asked me for some of my public works to use as references for projects in other countries; the Internal Audit Manual has been presented by the Director of the CHU for Internal Audit at various regional conferences and I have received requests for it from the EC Georgia desk; EC DG Budget has asked for multiple copies of the PIFC Policy Paper, FMC Procedures Manual, FMC Self-assessment tool and the Change Management paper expressly to distribute around the EC office and noting their applicability in other countries; and the Ministry of Finance in Iceland requested copies of the Internal Audit Manual, the FMC Procedure on Risk Management, and the PIFC Policy paper as a starting point for their own PIFC assessment. The international certification training for internal auditors pioneered in the Kosovo projects is now being implemented in Macedonia. Also, being asked to

present in Greece was an opportunity to advance the discussion about external oversight to policy makers in that country.

I am hopeful that the innovations that I and my team introduced will propagate to other states to help accelerate their progress towards effective financial governance through my contacts at the EC DG Budget, SIGMA and in the profession.

More narrowly, this project has been a success for the consulting firms for which I worked (Austrian Human Dynamics and Ireland-based Capita International Development), contributing to their profile and reputation in Europe. At the time of writing, Capita has indicated its intention to develop a case study of the last of my three projects for submission to the UK Management Consultants Association as an example of a successful international development project.

#### 4. Impact on my development

Working in Kosovo has presented a unique experience, being part of a multi-national initiative to develop an entire state infrastructure essentially from scratch. As a new country with no history of self-government, few administrative skills and no legal or institutional capacity, everything was needed. In the nature of things, not everything goes to plan or is an unqualified success, but being involved in this complex and worthwhile endeavour along with so many top class development professionals from all sectors has been a tremendous growth opportunity for me.

Professionally, this work has had a profound influence on my development in a number of dimensions:

- Deepening my experience working with the EC and my understanding of the constraints under which it operates;
- Integrating the separate technical domains of internal audit, external audit and public financial management within a single governance framework;
- Appreciating the socio-cultural aspects of implementing change beyond the provision of technical assistance;
- Integrating development of human resources, institutional capacity, legal frameworks and operating culture in linked initiatives;
- Consolidating my professional understanding of change management through work at all levels within the national government, encompassing Ministers, ministerial staff, Mayors, permanent secretaries, senior management, and operational staff;
- Exposure to the work and insights of many international experts working concurrently in other aspects of nation-building; and

- Extending my experience of working in transitional (post-communist) and post-conflict environments in the EU periphery.

I have also had to accept the constraints imposed on consultants working on financial management technical assistance contracts. Despite being a titular “expert” the consultant on the ground has little opportunity to stray outside the parameters previously established by each project’s Terms of Reference (TOR), since they generally specify the use of “best practices” meaning that not only the project’s objectives but also the methods (i.e. standards developed in and for western environments) are pre-defined.

It is extremely difficult to obtain approval for substantive changes to the TOR, as this would involve different levels of management in the local donor office and at headquarters, and in the beneficiary organisation, as well as and other stakeholders via the Steering Committee. This constrains a consultant who wishes to address the principles of the Copenhagen criteria, but who does not feel that the normative prescriptions of best practice represent the most effective way forward in the context of local conditions.

However, my experience has been that donors are open to input from consultants at the end of each project to inform the development of the TOR that will underpin the contract for the next one if they can be convinced that the ultimate destination will be in compliance with official expectations. In this respect I was fortunate to have participated in a series of related projects, giving me the opportunity to make recommendations at the end of each project that influenced the direction of subsequent projects for which I was responsible. This opportunity was greatly expanded recently when I was contracted specifically to develop the whole TOR for the next project that will be implemented sometime in late 2012.

Taken together, the result of my experience in Kosovo has been to establish me as a recognised authority and effective practitioner in this area of consultancy. This has a practical advantage since consulting firms now approach me to join them in bidding for financial governance projects, rather than me having to chase down new assignments. Furthermore, the EC has demonstrated its confidence in my domain experience by approaching me to review the PIFC environment in Iceland under its TAIX<sup>69</sup> programme as a precursor to its potential accession to the EU, and SIGMA has contracted me to define the terms of reference for a follow-on project for Kosovo and to provide ongoing advice to the GoK Treasury Department.

More important than my technical development, though, is the intellectual development that I have experienced as a result of these projects. My work in Kosovo

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<sup>69</sup>European Commission Technical Assistance, Information and Exchange programme

and the obstacles I faced, particularly in transposing western models into an environment for which they weren't designed, has caused me to reflect on my work and look for ways in which future interventions could be more effective. My reading on this topic encourages me to believe that there is a growing dissatisfaction with the way things are done (reinforcing the conversations I had with Dr. Armstrong some years ago) and a consensus for a new approach is emerging, at least in academic circles. I am hopeful that having developed some credibility in my domain I will be in a position to help shape future practice. In fact this is already happening in my present work with SIGMA, defining a new approach to implementing PIFC for the next EC initiative in Kosovo. The next section presents key influences on my thinking that hopefully herald a growing momentum for a re-evaluation of our current development models and practices, and which I would like to help propagate amongst practitioners.

## 5. A NEW PARADIGM?

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As noted above, my projects have had a positive impact on governance in Kosovo and satisfied the terms of reference to which I was working. However, considerable work is required before the EC's desired transformation to PIFC in Kosovo is fully achieved. Cultural constraints make this a generational endeavour. The Change Management Paper presented previously identifies the constraints that will hold back the implementation of the PIFC model in this new post-conflict state. Briefly these constraints include:

- Public administration in Kosovo is not yet governed by legal rationality but by social (clan) pressures and self-interest;
- Compliance with new models tends to be ritualistic, with administration being accomplished by personal intervention as much as due process;
- The poor capacity of individuals cannot be adequately addressed through technical training;
- Because civil servants at all levels receive the same technical training at the same time, the internal mentoring that is a normal part of career and capacity development cannot be effective;
- There is no tradition of professionalism;
- There is a strong connection to traditional ways of working based on personal relationships, deference and hierarchy that are unconcerned with performance; and
- Citizens do not engage with the state.

In addition, a basic assumption underpinning the western normative model is that corruption (as we define it) is exceptional. In my experience this is a false assumption: influence peddling, rent-seeking, impunity and favouritism are widespread and exist at all levels. Under these circumstances concepts like the merit principle, personal accountability and performance management are compromised. Also, where collusion amongst related parties is the normal way of doing business, the western concept of internal control, which assumes that more eyes reduce the possibility of malfeasance, is emasculated.

These circumstances don't just apply in Kosovo. In light of this reality I feel that future governance interventions need a different approach. Our "best practices" approach of arriving on the scene saying "we understand your needs and we have the solutions" feels uncomfortably patronising, and unlikely to be successful. This has prompted me to

look for alternative ideas and I have discovered a growing body of research that recognises best practices to be potentially unaffordable, infeasible, and inappropriate for small, uneducated, poor developing countries. Some of the voices arguing against the current approach are reviewed below.

Paulo Mefalopulos<sup>70</sup> suggests:

“The intrinsic belief behind modernization is that any problem can be solved providing the right method is followed and the ‘right’ (technical) solution is identified and devised. Despite ... resources invested ... top experts ... many innovations ... the results have been less than satisfactory”.

He proposes the most crucial and often neglected factor is “the human factor”:

“Despite the fact that technical solutions have always to be endorsed and adopted by people, they were mostly considered as passive recipients of initiatives (when not a major obstacle to development). The positivist-based assumption that when there is a problem there is always one and only one solution, has been proven wrong over and over again”.

Robert Anderson<sup>71</sup>, a development consultant and former World Bank economist, believes that institutions like the World Bank and the IMF recommend sophisticated policies that governments in poor countries cannot successfully implement. Instead of adopting rich countries’ policies, he recommends an approach that takes into account institutional weaknesses typical of developing countries - corruption, deficient rule of law, cronyism, etc. Simpler policies are more suitable to poor countries’ institutional environments and more likely to produce positive results. He argues that since “rich countries were once poor countries”, reaching into rich countries’ pasts might yield more appropriate models for poor countries today.

Turner and Hulme<sup>72</sup> reviewed the complexities of the economic, social and political environments in developing countries and challenge the uncritical way in which often

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<sup>70</sup>Mefalopulos, P. 2011 Why Sound Technical Solutions are Not Enough: People, Spaces Deliberation, World Bank, Washington DC (<http://blogs.worldbank.org/publicsphere>)

<sup>71</sup>Anderson, Robert E., 2004, Just get out of the way: how government can help business in poor countries, Cato Institute, Washington D.C., USA

<sup>72</sup>Turner M., and Hulme D. 1997, Governance, administration and development: making the state work, Macmillan Press Ltd., Basingstoke, UK



inappropriate institutional arrangements have been imported from Western industrialised countries.

Well-known commentator Frances Fukayama<sup>73</sup> investigated the interconnectedness of economic and cultural life, finding that economies are nestled in societies and cultures and suggesting that successful development should combine traditional culture and modern institutions.

More recently, Noel Hepworth in a 2010 presentation to the Regional Conference for Public Internal Financial Control for Candidate and Potential Candidate Countries<sup>74</sup>, speaking specifically about introducing PIFC in the Balkans, noted:

“What we see in many countries are attempts to introduce sophisticated reforms. ... for such reforms to actually work effective management arrangements are required ... even the most developed of countries have great difficulty with these techniques ...”

He went on to say,

“One of the real implementation problems is that the reforms are regarded as technical not cultural. They require a different style of public management from that found in most Balkans countries. What we see in Balkan countries is a public management that is based on a lack of trust, specifies in detail how activities are to be carried out in rules, regulations and processes which are extremely complex and are open to political manipulation and corruption. These rules usually do not reflect modern circumstances ... or, very importantly, the expectations of citizens.

... And because they are cultural reforms there is much more to their implementation than technical changes and they take much longer to achieve than most timescales allow. The consultant expertise that is demanded by countries and by donor agencies is almost always about technical knowledge of the techniques with no recognition of the need for changes in the culture of management. In summary, introducing managerial accountability (a pillar of the

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<sup>73</sup>Fukayama, F. 1995, Trust: the social virtues and the creation of prosperity, Simon and Schuster, Inc., New York, NY, USA

<sup>74</sup>Noel Hepworth, Presentation to the Regional Conference for Public Internal Financial Control for Candidate and Potential Candidate Countries<sup>74</sup>, 27-29 October 2010, Hotel Regent Esplanade, Zagreb, Croatia

Chapter 32 requirements for the introduction of PIFC) challenges some traditional and in the Balkans, cherished ideas”

In the course of my reading I came across an excellent study from the Institute of Development Studies in Brighton.<sup>75</sup> It proposes a new way of approaching governance challenges that addresses these realities.

The study paints a familiar picture of the development problem:

“governments of poor countries are unable to exercise effective, accountable public authority. They are unable to control their territories and populations, often ceding ground to armed groups and criminal networks. They are unable to deliver basic public goods and services. Where authority does exist, it may be coercive and lack legitimacy. Power is concentrated in relatively few hands. Governments are unresponsive to large populations: poor people, women, and specific regional, ethnic or linguistic groups are politically excluded.

It reviews standard development interventions:

“Evaluations have shown the limitations of programmes designed to strengthen rules-based approaches through civil service reform, anti-corruption measures, rule of law programmes, democracy support, or attempts to improve the investment climate. ... institutional models cannot be transferred into very different social and political environments and be expected to take root and function as they do in OECD countries”.

It then proposes that a key reason for the failure of the current approach is that informal institutions and personalised relationships, characterised by political patronage, rent seeking, and vested interests, are seen as governance problems to be eradicated through reforms that promote accountability, transparency and rules-based behaviour. The research suggests that, instead, they could become part of the solution:

“Programmes to improve the investment climate, strengthen the rule of law, or fight corruption do not fail just for lack of ‘ownership’ or attention to politics. They fail because they make the wrong starting assumption: that progressive change consists in, and can be achieved through, strengthening formal, rules-based institutions that reflect a clear division between public and private spheres

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<sup>75</sup>Institute of Development Studies 2010, An Upside Down View of Governance, University of Sussex, Brighton

of life. The key to making progress in the short-to-medium term may not be direct external intervention to orchestrate and support rules-based reform, but more indirect strategies to shift or influence the incentives and interests of local actors”.

So effective interventions might include supporting constructive bargaining between public and private actors. As an illustration, at the time of Botswana’s independence it was recognised that the indigenous tribes were a locus of influence. Rather than ignoring this reality, its constitution enshrines it by establishing an upper house in which votes are allocated to the tribes, and which must support initiatives from the lower house before they can become law. Indeed, our own notion of participatory democracy was borne of a bargain that gave common people the vote if they allowed the gentry to retain their wealth. In the development context such bargaining could be based on understanding issues such as: “What is shaping the interests of elites? ... What is shaping relations between politicians and investors, and might they have common interests in supporting productive investment? What might stimulate and sustain collective action by social groups to demand better services? What informal local institutions are at work, and how are they shaping development outcomes? Where does government get its revenue from, and how is that shaping its relationships with citizens?”

The report considers how consultancy practitioners’ “default position is to look at the world from the perspective of a ‘developed’ country, aspiring to introduce governance reforms that would align the institutions of poor countries in the South more closely with those of an OECD state”. This mirrors the assertion the “conventional donor approach to governance has been to analyse problems in developing countries in terms of deficiencies when compared to this ideal model”.

This approach persists even though “Western policymakers seem to recognise that improving governance involves far more than transferring formal institutions from rich to poor countries. Yet they find it very hard to discard developed country models”.

The study suggests that:

“a critical underlying cause of state fragility is the lack of elite incentives to create effective public authority. A major reason is that the global environment has provided unprecedented opportunities for elites with transnational connections to profit from weak governance and ongoing conflict. Effective

policy interventions therefore need to focus on ways of shifting these perverse incentives”.

“Where public institutions are already weak, they can be further undermined by high aid inflows. These can reduce incentives for elites to increase economic growth in order to expand public revenue, and weaken the need to bargain with citizen taxpayers. Elites include people with formal power (businessmen, politicians, wealthy professionals or religious leaders) but also people with informal power (as warlords, or leaders of narcotics or other criminal networks). They matter because it is elites – people with high levels of political, bureaucratic, military, financial and economic power – who can make crucial policy choices to support or undermine public authority”.

Accordingly the paper advocates:

“...less of a focus on direct action to build formal institutions, eliminate corruption or supply external sources of security; and much more of a focus on action to address the sources of perverse incentives that undermine elite interests in building effective public authority”.

This suggest strategies that “focus less on the long-term destination of rules-based governance, and more on incremental ways of making progress in the short-to-medium term through coalitions and relationships between key actors”.

The overarching finding is that informal institutions and personalised relationships are pervasive and powerful and should be co-opted to contribute to progressive outcomes in poor countries. Creating formal democratic government and market institutions remains a valid long-term aim. But in the short-to-medium term informal arrangements and relationships can help stimulate investment, improve services, connect citizens to the state and facilitate the transition to more inclusive, rules-based governance.

I have quoted this paper at some length because it resonates with my experience, eloquently making the case for reviewing the standard donor approach to governance reform to address the kinds of obstacles that we face in the field. Taking the conclusions of this study I want to advocate for an approach in my own field that acknowledges and involves informal channels like clans and encourages citizen engagement through civil society. In this, it has to be recognised that clans are not a substitute for formal government: they are too small to implement large scale interventions (it needs a central government to build a road to a sea port, for example)

and, of course, they only represent people who are accepted in the clan. The method of adopting this approach would need to be formulated for each intervention and would not be without difficulty, but the results could repay the upfront investment in an innovative project design many times.

In addition to promoting broader engagement as a method for reform, I also want to advocate a new definition of what we are bringing to the reform process. Current thinking suggests that the notion of a pre-defined normative model is inappropriate. However, it is valid to require compliance with a commonly understood set of standards when joining any sort of club, whether the EU, a trading block or a military alliance. To avoid the well-documented, and worryingly neo-colonial shortcomings of importing ready-made solutions, I propose that instead of defining the standards by the rules that implement them (i.e. our best practices), we agree on the non-negotiable principles that underlie the agreement and negotiate the locally-implemented standard based on those principles, i.e. the “what” is fixed, the “how” is negotiated to reflect the conditions.

In the context of PIFC initiatives like the ones I have been involved with in Kosovo, the EU has defined the non-negotiable principles in the Copenhagen criteria, but then has gone beyond describing what is required to prescribe the specific means (the best practices and the PIFC structures and acquis rules) by which it is to be achieved, without considering the divergent environments in which they would be expected to operate.

A comprehensive study by the UN into Reconstructing Public Administration after Conflict<sup>76</sup> reflects on this. Recognising that “the central cause of violent conflict is weak governance institutions” it acknowledges that “although there is a great emphasis on ... technical and managerial skills, it is equally important to develop trust between leaders of competing factions and among competing factions themselves”. It argues that “establishing formal rules of governance is not enough; their underlying values and belief systems must also be internalised by all actors”. Reflecting previously-referenced commentary, the report goes on to say: “ ... there is no one-size fit all institutional solution to governance challenges. In each country, institutional reforms should be tailored to current needs while taking into account the legacy of pre-existing institutions. Rebuilding the same institutions that led to violent conflict should be avoided, but some traditional practices might be worthy of retaining or creatively adapting”, citing Uganda and Rwanda as examples where this has happened.

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<sup>76</sup>United Nations, Dept. of Economic and Social Affairs, 2010, Reconstructing Public Administration after Conflict: challenges, practices and lessons learned, UN Publications, New York

So, for example, if we reformers defined good governance, and therefore our project outcomes, to be Lord Nolan's Seven Principles of Public Life<sup>77</sup> (Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty, and Leadership) we could work from these with our local counterparts and the sponsoring donor to establish implementing mechanisms that are legitimate and feasible in the local context that are also accepted as addressing the overriding objectives of the club. By bringing principles, not structures, we could work with stakeholders in a truly participative way to help them find their own means of addressing the principles. In short, replacing an approach that prescribes foreign solutions with an approach that negotiates agreements on goals or principles and recognises that governance is about people, not process.

Often the stakeholders are defined so as to exclude ordinary citizens. This ignores the potential contribution of activated public opinion, which Sina Odugbemi and Taeku Lee identify<sup>78</sup> as a critical force in any public political culture in compelling direct accountability. I believe that some means of involving broad public opinion as an actor in the negotiation is important, and would serve as a counterpoint to involving the acquisitive elites.

The challenge is to find a way to involve the public. Historically disengaged from their communist government institutions, it will be necessary to educate citizens concerning their potential role in setting public priorities, monitoring results and holding governments and public institutions to account for their performance in meeting public aspirations. This is difficult to achieve absent a large income tax-paying middle class which can be encouraged to demand some level of value-for-money. In Kosovo, few people pay direct taxes and the tendency is to see official misappropriation as a problem for the donors who support the administration. My approach would be to re-orient their perspective so that citizens see waste and misdirection of public resources as hurting the public benefits that they value, such as health, education, pensions and so on, and thereby encourage a general demand for better stewardship.

An issue is to identify a suitable mechanism that engages non-political unconnected individuals. Rakesh Mohan, Indian economist and reformer, currently Non Resident

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<sup>77</sup>Standards in Public Life: First Report of the Committee on Standards in Public Life (1995), House of Commons

<sup>78</sup>Odugbemi, S and Lee, T, Accountability through Public Opinion: From Inertia to Public Action, 2011, World Bank Publications, Washington, DC

Senior Research Fellow of Stanford Centre for International Development, Stanford University, proposes achieving this through the establishment of Think Tanks<sup>79</sup> that nurture the development of political thought, public engagement and ultimately accountability. This approach is likely to require a fairly long term horizon, and would not be feasible in the context of a financial management technical assistance. As an alternative I have proposed a shorter term initiative for Kosovo, as noted in Section 3 above, to include in the TOR for the next project a civic engagement component that will solicit proposals from civil society actors to engage citizens in the public governance process. By funding the two most promising proposals the project will encourage meaningful local involvement in both designing and delivering interventions to engage citizens.

To gain any traction for the kind of departure from traditional governance interventions these ideas represent, there has to be some lever to force the donors out of their current complacency. I believe this will come as western donors see their influence slipping as the rapidly emerging economic powers (especially China, India and Brazil) increase use of their new wealth to gain economic and political influence amongst countries that traditionally benefit from western aid, at a time when western donors are curtailing their aid<sup>80</sup>. In view of this new competition, The Economist newspaper suggests that the west should focus on its strengths in policy making and good governance (as opposed to infrastructure building). If this is where we are to focus, we need a new approach to make it really count.

There is an ethical dimension to this approach to development assistance that needs to be considered. Are the proposals to tailor solutions to local conditions or to involve possibly unsavoury informal actors a triumph of pragmatism over principle? I would argue that they are not. The underlying notion that non-negotiable principles have to be established as a prelude to future governance initiatives places principle at the core of these proposals. I believe that the test of whether an approach is principled or pragmatic is whether the principles are adhered to even when it is inconvenient, i.e. when they hinder a negotiated settlement. I envision a process whereby the significance of the principles is understood by all parties and where they establish the boundary within which the actors participate and local solutions are developed. This approach can be considered a pragmatic path to successfully achieving the principles we

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<sup>79</sup> <http://m.theglobeandmail.com/commentary/an-unlikely-path-to-aid-paying-to-set-up-think-tanks/article624814/?service=mobile>

<sup>80</sup>The Economist August 13 2011 Official Development Assistance, Aid 2.0

hold dear; the current path towards these principles seems to lack a pragmatic basis and is therefore likely to fail.

I am hoping that attaining doctoral recognition for my work introducing PIFC in Kosovo will give me the credibility to champion a better approach to improving developing country governance; an approach that adopts alternatives to traditional technical assistance-oriented governance projects, for the mutual benefit of donors and a more inclusive set of stakeholders. I want to emphasize that I am not promoting the replacement of an old normative model with a new one; I would like to see the replacement of the idea of a singular normative solution with a process that would engage with developing country stakeholders to identify culturally-specific solutions that would be more likely to achieve strategic governance objectives. Doing this could involve either a top-down or a bottom-up approach (or both).

Addressing this at the top would involve getting a place at the tables where donor policies are constructed and projects designed, to influence donors away from a prescriptive, one-size-fits-all approach to exporting best practices and towards an approach that involves a negotiated, situation-specific outcome. Various institutions, such as the International Consortium for Government Financial Management, would provide fora to advocate for change indirectly, while working with donors like the EC and DfID, would be more direct.

A bottom-up path would involve working with consultants who have field responsibility for implementing change, to encourage a more nuanced, human-focused way of achieving donor goals that acknowledges local sensibilities. This could be achieved through professional associations such as the Society for International Development or the Association of Management Consultants, or by developing an academic post-graduate programme for professionals and other stakeholders that explores the issues from conceptual and practical perspectives.

In either case, the goal would be to encourage policy-makers and practitioners to challenge the way things are done and to be a catalyst for a more conscious process that results in effective, and more professionally satisfying, governance outcomes. Engaging in this DProf and reflecting on the lessons learned from the public works cited encourages me to feel that I could contribute to this.



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## ANNEX 1 LIST OF PUBLIC WORKS

List of Public Works to be read in conjunction with this Context Paper

- |                 |   |
|-----------------|---|
| Public Work #1: | Strategy for the Internal Audit Function in the Provisional Institutions of Self-Government in Kosovo |
| Public Work #2: | Internal Audit Manual   |
| Public Work #3: | Administrative Instruction on Establishing Audit Committees   |
| Public Work #4: | Draft Strategic Development Plan for the Office of the Auditor General                                |
| Public Work #5: | Project Inception Report  |
| Public Work #6: | PIFC Policy Paper   |
| Public Work #7: | Financial Management and Control Procedures Manual – Risk Management                                  |
| Public Work #8: | Ministerial Handbook  |
| Public Work #9: | Change Management Paper   |