



Joint Venture on Public Financial Management

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ROOM DOCUMENT 1

First Draft Report on Use of Country Systems in Public Financial Management

The Report on the Use of Country Systems in Public Financial Management is the Joint Venture's main contribution to the Accra High Level Forum on Aid Effectiveness. It is intended to review progress in the implementation of the commitments of the Paris Declaration; draw lessons from practical experiences in using country PFM systems; and identify opportunities for donors and partner countries to make better use of country PFM systems.

This document outlines a first draft of the report on the Use of Country Systems in PFM. It includes:

- **Executive Summary**
- **Chapter One: Background, Objectives, and Scope of the Report**
- **Chapter Two: Aid Effectiveness and the Use of Country PFM Systems: Rationale and Findings**
- **Chapter Three: Strengthening Country PFM Systems**
- **Chapter Four: Donor Practices in the Use of Country PFM Systems: Guidance, Determinants, and Risk Management**
- **Chapter Five: Measuring the Performance of Country PFM Systems**

EXECUTIVE SUMMARY AND KEY MESSAGES FOR THE ACCRA HIGH LEVEL FORUM

Successful development depends in large part on the efficiency, integrity, and effectiveness with which the State raises, manages, and expends public resources at its disposal. Therefore, improving the formal and informal rules and institutions that govern these activities and strengthening the related human and technological capacities should be a major component of any development approach. In addition to other important commitments, the 2005 Paris Declaration committed partner countries to strengthen national PFM systems and donors to use such systems to the maximum extent possible. Such mutual commitments are rooted in the acknowledgement that "effective Public Financial Management (PFM) is crucial to countries making progress in reducing poverty. It is fundamental to both government performance and to successful aid delivery."¹ Accordingly, "donors have both a developmental and a fiduciary interest in the quality of their partners' PFM."²

This report reviews the progress toward those commitments and provides analysis and recommendations that are intended to feed into the discussions at the Accra High Level Forum (HLF) in September 2008 and facilitate increasing implementation of the Paris Declaration commitments in the remaining period until 2010. While many of the findings and recommendations may also apply to procurement issues, this report does not explicitly deal with procurement; it is covered by the work carried out under the OECD-DAC Working Party on Aid Effectiveness Joint Venture (JV) on Procurement

Rationale for the use of country PFM systems. The benefits of using country systems for implementing donor financed operations/interventions are many. It enhances country's sense of ownership of its development path and process, reflects respect by donors for country's institutions and traditions, and facilitates alignment of donor programs with country's priorities leading to better sustainability of results. Such alignment also helps enhance country's institutional capacity. Moreover, using countries' PFM systems rather than creating parallel structures frees scarce country resources.

Progress and Practice in the use of country PFM systems. Since the signing of the Paris Declaration, significant achievements have been made in a number of areas. For example, the multi-donor led Public Expenditure and Financial Accountability (PEFA) initiative has facilitated creation of a robust PFM performance measurement tool, which is increasingly used and relied upon by several donors reducing duplication and costs of PFM diagnostics. Agreement on the strengthened approach has enhanced cooperation amongst donors in supporting country-led programs. Notwithstanding this progress, the 2008 survey indicates that a lot more remains to be done for accelerating and deepening further use of country PFM systems in donor financed operations.

¹ *Insert bibliographical reference (same quote as in one of the main chapters)*

² *Ibid.*

[Placeholder for brief discussion of the 2008 survey results]

[In addition, this [X] figure masks significant variations in practice among donors. Donor agencies may use only some components of the country PFM system while placing no reliance on other components. Country systems have different dimensions and the partial use of country systems is an option. The use of country systems is thus a matter of design of specific instruments as well as choice of an aid modality. Budget support uses all dimensions of a country system and donors generally have well-established guidance on when they can rely on such a modality. For most other modalities, instead, guidance on use of country systems, its risks and its expected benefits, is usually less specific if not completely absent.]

Strengthening country PFM systems. The focus has clearly shifted away from the diagnosis of weaknesses to trying to address them on a sustainable basis. In a number of countries, donors are starting to support these reform efforts in an increasingly harmonised manner. However, an analysis of Heavily-indebted Poor Country (HIPC) and PEFA data indicates mixed progress by partner countries in strengthening country PFM systems. Although modest progress has been made by some countries in upstream budget formulation area, enhanced efforts by partner countries and increased support by donors are required in the more difficult areas of budget execution, monitoring, and audit. Research, including experience of JV members shared at the JV meetings, indicates that the most important drivers of successful PFM reform are: a country-led PFM reform strategy and action plan, and a coordinated multiyear program of donor support aligned with that strategy and action plan. Since most countries have limited capacity to implement many wide-ranging reforms all at the same time, it is essential for the government and donors to work together on establishing priorities and appropriate sequence for the reforms. A successful reform program must consider country's current circumstances and capacities. Implementing high technology solutions to address basic problems or attempt to transplant international or western models are likely to fail. Furthermore, "South-South" knowledge sharing is increasingly proving useful in addressing the similar problems faced by countries at similar stages of development. Networks such as Collective Africa Budget Reform Initiative (CABRI) and Public Expenditure Management Peer Assisted Learning (PEMPAL) are good examples of such efforts. Experience also suggests that major consideration needs to be given to the political economy factors, while highlighting an important role for the politicians to provide leadership in reforming PFM systems.

It is also critical to engage line ministries and build their capacity to implement reforms for deepening reforms beyond ministries of finance. Reform efforts without adequate measures to strengthen country capacity are likely to fail. While donors have been supporting capacity building measures in partner countries, it is important to remember that capacity development is a task for partner country governments, not a donor activity; but donors must be prepared to support countries in carrying out this task. Such efforts must also include institutions such as Supreme Audit Institution (SAI) and parliamentary committee, which play an important role in strengthening accountability framework in a country.

Strengthening country systems and developing capacities needed to operate them effectively is a long term gradual process. There are neither silver bullets nor established recipes for success. While do's and don'ts can be identified, putting them together successfully in a specific country context is a difficult process. Preserving a positive dynamic, while managing expectations and allowing patience, is a necessary condition for continued successful engagement between donors and partner countries.

Management of risks in the use of country systems. Apart from a credible PFM reform program in a partner country coupled with measurable progress in reforming systems and institutions, the other most important factor having significant impact on the use of country systems is the appetite of donors to accept risks. There is increasing domestic pressure on donors to ensure that donor funds are used by partner countries efficiently, effectively, and for the purposes intended. At the same time, the governance and corruption environment in many partner countries presents challenges. All development cooperation involves risks and these need to be managed with a view to achieve the greatest development impact. It will be incorrect to assume that use of country systems poses no PFM risks to donors. It is equally incorrect to assume that ring-fenced arrangements for donor financed initiatives in the past have led to sustainable results and broad development impact. While in the short term any donor agency's appetite for risk is a given, over the longer term donors can influence this parameter through a variety of actions including better communication with external accountability bodies regarding benefits of use of country systems, identifying and addressing internal institutional constraints for accelerating and deepening use of country systems, and devising appropriate incentives and staff training for accelerating the use of country systems.

Strengthening country's PFM systems is of course the best risk mitigation strategy but is a long term endeavour. In the meantime, therefore, reaping the benefits of use of country PFM systems will require management of the current risks. In deciding how much risk to take on and what safeguards to apply, donors should strive to harmonise as much as needed, precisely communicate the factors underlying their decisions and design short-term safeguards in a balanced and proportionate way that fits with the country's medium to long-term reform programmes

Questions for Accra. Looking towards the forthcoming Accra High Level Forum, these results pose a few key questions. How could progress be accelerated in strengthening PFM systems in partner countries? How could donors enhance and better harmonize support to partner countries in strengthening country PFM systems? How could donors equip themselves better for making a greater use of country PFM systems?

Recommendations. This report offers a number of useful recommendations to address the above questions. These could be grouped under the following main headings:

- **Country ownership.** It is countries' responsibility to take leadership in their development processes: assessing their PFM system, planning and sequencing reforms, creating a structure to manage the reform, involving a wide range of stakeholders and drawing links between their aid effectiveness strategies and their PFM reform plans. Donors are responsible for supporting partner countries in

strengthening country PFM systems: aligning their interventions with the country's priorities and not attempting to impose reforms; coordinating their approaches to provide maximum impact and avoid conflicting advice and duplicative activities; and supporting country-led capacity building programs in the government and other institutions. An enhanced role by political leadership in guiding and leading PFM reforms would facilitate its implementation.

- **Incentives and internal guidance within donor organizations.** Although donors have committed to use country PFM systems to the maximum extent possible, there is still scope for the donors to translate this strategic choice into operating procedure as a normal way of doing business. Donors need to provide their staff with tools and incentives to implement the Paris Declaration commitments. One recommendation is to adopt the use of country PFM systems in donor funded initiatives as a default approach as has already been done by some donors. Donors also need to provide better guidance and enhanced training to their staff in using country PFM systems with different aid modalities. Donors also need to amplify their guidance to the staff in assessing and monitoring risks and benefits of use of country systems. The objective of this recommendation is not to force donors to take on excessive risks but rather to make them consider the possibility of using country PFM systems in a manner that facilitates the implementation of the Paris Declaration by focussing attention on the issue, by breaking administrative inertia, and by a more transparent identification of PFM weaknesses the partner country needs to address for accelerating and deepening use of country PFM systems.
- **Strengthening Accountability Institutions.** Donors are increasingly under domestic pressure to ensure that donor funds are used by partner countries efficiently, effectively, and for the purposes intended. Improvements in the technical capacity of institutions within government are unlikely to be sustained if there is no demand for better governance and increased accountability from outside government, including parliament and civil society. Strong SAIs are more likely than weak SAIs to help minimize wastage and misuse of public resources thus minimizing fiduciary risks for the donors. Given the challenging governance and corruption environment in partner countries, strengthening institutions of accountability such as SAIs, parliamentary committees, and civil society organizations should therefore receive a priority in order to balance the demand side of the accountability equation.
- **Assessment of PFM Performance.** It is recommended that all signatories to the Paris Declaration officially adopt the PEFA Framework as the core tool for measuring and monitoring PFM performance. Use of a single tool—which has already been widely adopted—will facilitate measuring progress at the individual and aggregate levels and will also provide the shared body of information needed by donors while deciding about the use of country systems. In addition to the PEFA Performance Measurement Framework, donors should work together to develop a more harmonised approach to assessing risks in the use of country PFM systems.

- **Communication and transparency.** Donors and partner countries alike can win greater support for the use of country PFM systems by communicating better with their internal and external stakeholders regarding the rationale and benefits of the use of country systems, sharing information and diagnostics, and publishing the results of assessments.
- *[Depending upon the results of the 2008 Survey for the relevant indicators, possible insertion of a main message on the importance of the **timely provision** of the **information** on aid plans, commitments and disbursements that are required for recipients' sound budgeting and financial management. Donors and partners should seek to ensure that all government-to-government aid is on plan and reflected in the budget.]*

There is no easy road to strengthening and using country PFM systems. Systems are as varied as their countries' histories, cultures, and institutions; and donors bring various mandates, histories, and procedures to the effort. However, there have been some notable successes in recent years, as partner countries and donors strive to achieve their respective Paris Declaration commitments. It is hoped that the analysis and recommendations provided in this report would facilitate moving the agenda forward in the coming months and years.

CHAPTER ONE

BACKGROUND, OBJECTIVES, AND SCOPE OF THE REPORT

I. Background

1. Successful development depends in large part on the efficiency, integrity, and effectiveness with which the State raises, manages, and expends the public resources at its disposal. Therefore, improving the formal and informal rules and institutions that govern these activities and strengthening the related human and technological capacities should be a major component of any development approach.

2. In addition to other important commitments, the 2005 Paris Declaration (see box 1) committed partner countries to strengthen national PFM systems and donors to use such systems to the maximum extent possible (see Box 1). Such mutual commitments are rooted in the acknowledgement that "effective PFM is crucial to countries making progress in reducing poverty. It is fundamental to both government performance and to successful aid delivery."³ Accordingly, "donors have both a developmental and a fiduciary interest in the quality of their partners' PFM."⁴

II. Objectives

3. The Paris Declaration made strengthening country PFM systems and making use of those strengthened country PFM systems for delivering aid as the principal focus of respective partner country and donor responsibilities. Now, as the international community prepares for the Third High-Level Forum on Aid Effectiveness (to be held in Accra, Ghana, in September 2008), this paper reports on progress toward those commitments and provides analysis and recommendations that are intended to feed into the discussions in Accra and facilitate increasing implementation of the Paris Declaration commitments in the remaining period until 2010.

4. Based on lessons emerging from the first three years of implementation of the Paris Declaration, this report provides further insights into the use and strengthening of country PFM systems. Although this report draws upon a variety of sources, it mainly reflects the work carried out under the auspices of the OECD DAC Joint Venture on Public Financial Management since the signature of the Paris Declaration.⁵

³ OECD (2006), *Harmonising Donor Practices for Effective Aid Delivery, Vol.2*, DAC Guidelines and Reference Series, OECD, Paris, page 19.

⁴ *Ibid.*

⁵ In doing so, the report complements OECD (2006), a first publication of the Joint Venture on PFM which looked at how donors should support, rather than substitute for, national development efforts to strengthen PFM systems. Arguing that the delivery of aid through partner PFM systems should be at the core of donor support strategies, that volume provided a set of good practices for two particularly relevant aid modalities (budget support and support to sector-wide approaches) as well as guidance on how best support capacity development for PFM.

Box 1 – The Paris Declaration and the Use of Country PFM Systems

The High Level Forum, comprising ministers of developed and developing countries and heads of multilateral and bilateral development institutions, resolved at the meeting in Paris in March 2005 to take far-reaching and monitorable actions to reform the ways aid is delivered and managed. This resolution is now known as the Paris Declaration. In the Paris Declaration, partner countries committed to carry out diagnostic reviews that provide reliable assessments of country systems and procedures and undertake reforms that are necessary to ensure national systems, institutions and procedures for managing development resources are effective, accountable and transparent; while the donors committed to use country systems and procedures to the maximum extent possible. In order to ensure that such commitments are taken seriously, the Paris Declaration included a set of performance indicators to measure the progress made in implementing the commitments. The Paris Declaration sets the following targets to be achieved by 2010:

- Halve the proportion of aid flows to government sector not reported on government's budget(s) (with at least 85% reported on budget) (Indicator 3).
- All donors use country PFM systems for partner countries with a score of 5+ on the PFM/CPIA and 90% of donors use country PFM systems for partner countries with a score of 3.5 to 4.5 on the PFM/CPIA (Indicator 5a).
- A two-thirds reduction in the % of aid to the public sector not using partner countries' PFM systems for partner countries scoring 5+ on the PFM/CPIA and a one-third reduction in the % of aid to the public sector not using partner countries' PFM systems where partner countries score between 3.5 and 4.5 on the PFM/CPIA (Indicator 5a).

III. Definition of “Use of Country PFM Systems”

5. Before examining progress on the Paris commitments, it is helpful to define what it means to “use country PFM systems.”

6. *The budget cycle and country systems.* Table 1 sets out a useful reference framework that identifies eight different stages of the budget cycle, each corresponding to a specific component (or function) of country systems for the management and expenditure of public resources.

Table 1: Different dimensions of country budget systems

Term	Definition
On plan	Program and project aid spending is integrated into spending agencies' strategic planning and supporting documentation for policy intentions behind the budget submissions.
On budget	External financing, including program and project financing, and its intended use are reported in the budget documentation.
On parliament	External financing is included in the revenue and appropriations approved by parliament.
On treasury	External financing is disbursed into the main revenue funds of government and managed through government's systems.
On procurement ⁶	Externally-financed procurement follows the government's standard procurement procedures
On accounting	External financing is recorded and accounted for in the government's accounting system, in line with the government's classification system.
On audit	External financing is audited by the government's auditing system.
On report	External financing is included in ex post reports by government. (These ex-post reports include: government's annual financial statements and associated reports as well as program reports which summarize spend on programs (and projects)).

Source: CABRI Aid on Budget Study

7. Country systems therefore have different dimensions and the partial use of country systems is an option. The use of country systems is thus a matter of design of specific instruments as well as choice of an aid modality. Budget support uses all dimensions of a country system. The multi-dimensional and complex nature of country systems raises a number of issues which are addressed throughout the report starting from how to measure and define such use in a succinct manner.

8. **Paris Declaration.** For the purpose of this report, the key reference point for the the operational definition of use of country PFM system is that provided by the Paris Declaration on Aid Effectiveness. This sets out the broad parameters of country PFM systems as follows: "Country systems and procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring" (para. 17). The guidance for the 2006 and 2008 Surveys on Monitoring the Paris Declaration outlines the definition for using a country's PFM system in more detail: using "national systems for the management of funds...established in the general legislation (and related regulations) of the country and implemented by the line management functions of the government." Indicator 5a in particular sets out three main components relating to a donor's use of a country PFM system:

- **Budget execution.** The funds donors provide are managed according to the national budgeting procedures established in the general legislation and implemented by the government; programmes supported by donors are subject to normal procedures for authorisation, approval, and payment.

- **National financial reporting.** Donors do not impose additional requirements on governments: in particular, they do not require the maintenance of a separate accounting system to satisfy their reporting requirements or the creation of a separate chart of accounts to record their funds.

- **National auditing requirements.** Donors do not make additional requirements on government for auditing (except for exceptional audits) but rely instead on the audit opinions

issued by the country's supreme audit institution and on the government's normal financial reports and statements.

9. Although the guidance provided for Indicator 5a does not explicitly refer to budget formulation, indicator 3, for instance, explicitly measures how much aid is "on budget". Similarly, other progress indicators in the Paris Declaration refer indirectly to the use of a country's PFM system. For example, indicator 5b refers to using procurement systems, and indicator 9 highlights the percentage of aid flows that are counted as programme-based approaches (many of which imply the use of country systems).

10. ***Donor-Specific Typologies.*** Donors may include additional components of a country's PFM system in their own typologies for the use of country systems (see chapter 4). Thus, when assessing progress on the Paris commitments, it is important to bear in mind that donors can construe the use of country PFM systems in somewhat different ways and thus while interpreting the survey data such differences would need to be factored in.

IV. Scope of the Report

11. This report looks at these issues as they relate to country PFM systems as defined in the Paris Declaration which explicitly distinguishes between PFM and procurement systems. While many of the findings and recommendations may also apply to procurement issues, this report does not explicitly deal with procurement; it is covered by the work carried out under the OECD-DAC Working Party on Aid Effectiveness Joint Venture on Procurement.

12. Within the framework set by this distinction and the choice of monitoring indicators made in Paris, this report looks at the use of country PFM systems in a holistic fashion without distinguishing between either upstream (e.g. planning) or downstream (e.g. treasury or accounting) budget management systems as the issues surrounding the use of country PFM systems are generally common although donor perceived risks in the use of upstream and downstream country PFM systems may differ for the same country.

V. Structure of the Report

13. The report is structured as follows: This chapter provides the background and define the term "use of country system". Chapter two while explaining the rationale and benefits of the use of country systems, reviews the progress in meeting the Paris Declaration targets reviewed by the 2008 Monitoring Survey of the Paris Declaration, and discusses factors beyond the quality of country PFM systems that are likely to influence its actual use. Chapter three reviews the landscape of PFM reforms in partner countries and examines drivers of successful PFM reforms. Chapter four examines the factors donors take into account, focusing on the risks that may constrain their use of a country's PFM system and on risk assessment and risk management. Chapter five describes the PEFA assessment, which provides information on the quality of a country's PFM system. Finally, Chapter six presents conclusions and recommendations for continuing and accelerating progress going forward.

CHAPTER TWO

AID EFFECTIVENESS AND THE USE OF COUNTRY PFM SYSTEMS: RATIONALE AND FINDINGS

I. Introduction

1. Successful development depends in large part on the efficiency, integrity, and effectiveness with which the State raises, manages, and expends public resources at its disposal. Therefore, improving formal and informal rules and institutions that govern these activities and strengthening the related human and technological capacities should be a major component of any development effort. While working towards these goals is primarily the responsibility of partner countries, it is the donors' job to support these efforts in an effective manner.

2. Donors also have a responsibility to ensure that the resources they provide are used for the intended purposes. To fulfil that responsibility, they have often insulated their projects from partner countries' weak PFM systems by imposing their own financial management requirements and systems. The result was that, even if a project was implemented efficiently, country's PFM system did not benefit and was in no better position to deal with all other resources available to the country. So development, in its larger sense, was not well served.

3. Strengthening and using country systems, therefore, are important determinants of aid, and more generally, development effectiveness. This has been widely acknowledged over the last decade when the international community has come to understand that, like muscles, country PFM systems must be exercised if they are to grow stronger. It is this realization that led to the commitments in Paris to strengthen and use country PFM systems recalled in the previous chapter.

4. Building upon the latter's definitional discussions, this chapter first identifies main benefits expected to arise from the use of country PFM systems. It then recalls the main findings on the actual use of country PFM systems as contained in the 2008 Survey on Monitoring the Paris Declaration⁶. It concludes by identifying a wide range of factors that determine the use of country PFM systems by donors.

II. Rationale for Using Country PFM Systems

5. When donors use country's own systems, they enhance the country's sense of ownership of its development path and process, and they reflect their own respect for the country's institutions and traditions. In addition, using country PFM systems can bring a range of other benefits:

- **Increasing alignment.** By using country's PFM system, donors are better able to align their programs with the country's priorities and with its policymaking and policy implementation processes. This increases the sustainability and long term effectiveness of donors funded initiatives.

⁶ [Insert bibliographical reference when available]

- ***Focussing on common goals***, Using country PFM systems aligns donor's incentives with those of a partner country. In particular, fiduciary concerns about donor resources are no longer addressed principally by establishing ring-fenced mechanisms but rather by strengthening the country PFM systems being used. Thus both the partner country and the donor have a reason to focus on the appropriateness of the partner country's PFM practices, the need to ensure successful reform, strengthening country capacity to implement improved practices and, ultimately, to design and implement effective policies.⁷ This increased alignment in incentives therefore can form the basis of programs to enhance the partner country's institutional capacity and close the gap between policy and actual practice, thus helping ensuring sustainable development impact.
- ***Supporting sound budgeting and financial management***.⁸ For sound budgeting and financial management, budgets must be based on as broad as possible a set of information and must be comprehensive and transparent. If aid is not on budget, the budget cannot be comprehensive, information cannot be fully transparent, and decision-makers cannot be held fully to account for the entire development resources. Failure to capture aid yields only a partial view of the resource picture, affects the efficiency with which domestic resources are allocated, and can lead to unsustainable patterns of expenditures. Donors and partner countries, therefore, have a shared interest in combining aid effectively with domestic resources.
- ***Enhancing the sustainability of results***. To ensure the efficiency, quality, and timeliness of aid interventions, donors often set up project implementation units (PIUs), which may even be outside the control of the relevant government ministry⁹. Thus the work of the PIU does nothing to strengthen the ministry; and when the project is complete and the PIU is disbanded, the project results may not be sustained. Many donors have concluded that their aid interventions could have a broader impact, well beyond the activities they fund directly, if they more systematically strengthened the country's systems and practices for use for all government expenditures.
- ***Reducing costs***. Donor-specific requirements can place overwhelming demands on partner countries' scarce human and technological resources. Partner countries can realize substantial savings if donors use country systems instead of requiring countries to build and maintain parallel structures to satisfy donors' own requirements. Use of country systems frees valuable country resources for operating (and potentially improving) country PFM processes. In addition, by using countries' PFM systems rather than designing and contributing to the operation of parallel structures, donors, too, may save resources.
- ***Facilitating harmonization***. Donors, understanding that by imposing different system requirements they risk overwhelming the capacity of partner countries, are working to

⁷ Conversely, the use of donor-specific channels of delivery undermines the strengthening of country PFM systems by focusing all parties' attention on the effectiveness, integrity, and efficiency of the use of the donor's resources rather than the use of all resources that are available for development.

⁸ This discussion draws on CABRI-SPA (2008), *Putting Aid on Budget*, [insert appropriate bibliographical reference]

⁹ [Insert bibliographical reference to relevant section of the 2008 Survey on Monitoring of the Paris declaration when available]

harmonise their requirements. (Strengthened) country PFM systems constitute a solid basis for such harmonisation.¹⁰

6. As the above makes clear, therefore, while using country PFM systems can contribute to their strengthening, the potential benefits can go beyond PFM issues per se. Increased alignment to country policies, easier harmonisation, improved allocation of public resources and more sustainable results are example of this. In addition, it should be underlined that reaping the full set of potential benefits outlined above requires efforts by both donors and partners. Strengthening country PFM systems often take a long time before such benefits could be realized. Chapter three explains various factors affecting successful implementation of PFM reforms in a country. Chapter four focuses on some of the issues that determine donors' capacity to use country PFM systems.¹¹

7. It is also important to underline that as there is more than one way to use country PFM systems¹², different "uses" of country PFM systems offer different prospects in terms of the various benefits identified above. Thus, for instance, the degree of alignment granted will vary (typically by the extent to which aid is on plan, on budget and on treasury). Also, certain basket funds arrangements may provide considerable benefits in terms of harmonisation but fewer benefits in terms of changed incentives and sustainability of results. Finally, even budget support – i.e. the aid modality that by definition makes the fullest use of country PFM systems – is not necessarily fully aligned to the country budgeting process. This is, for instance, when disbursement decisions are communicated too late to be factored into the budgeting process (or when volatility in disbursements and/or relatively short committed horizons limit the integration of budget support into medium term policy frameworks).

8. More generally, it is important to stress the relevance of timely and accurate information from donors concerning aid flows. Regardless of the actual use of downstream country PFM systems, timely and accurate information is required for the sound working of upstream PFM systems, i.e. planning and budgeting. From the point of view of the partner country, therefore, the lack of reliable and timely information constitutes a serious risk for bringing aid on budget.

9. Finally, it is important to understand that aid instruments and use of country PFM system are closely related topic but not the same. Aid instruments characteristics have a strong influence on the extent to which aid can more readily use country PFM systems but all aid modalities can use (parts of or in entirety) country PFM systems. Aid instruments, however, remain distinct in terms of their direct aims and the degree of discretion granted to partners on the use of the resources provided. Thus, for instance, budget support immediate aim is to finance the overall budget leaving full discretion to the partner country with respect to the use of resources provided. Project aid, instead, finances identified activities with identified resources in order to achieve identified results.

¹⁰ Donors' use of country systems may also be a signal to private investors with regard to the quality of such systems, thus facilitating capital flows to the countries, states, or municipalities concerned. This might be particularly relevant for middle-income countries that have greater access to international capital markets.

¹¹ See also CABRI-SPA (2008), *Putting Aid on Budget*, [insert appropriate bibliographical reference] for a list of complementary actions that donors and partners could take broken down by PFM system sub-component.

¹² See previous chapter.

III. Findings on the use of country PFM systems [To be completed]

This section will draw upon the results of the 2008 Survey on Monitoring the Paris Declaration integrating them as successive versions become available. Since this is not yet the case, no text can be presented for discussion at this stage of drafting. In order to solicit comments, however, the following presents a detailed annotated outline of the text to be written.

10. General reminder of the multi-dimensional nature of country PFM systems and caveat stressing that the monitoring carried out through the Paris Declaration survey only focuses on some components. Reminder that procurement is not discussed in the report (but measured through indicator 5b)

11. Summary presentation of results for indicator 2a – strengthening of PFM systems. Text as much as possible identical to Survey summary statements. Provide data on change relative to previous monitoring report. Give flavour of results for indicator 2b (procurement) in footnote. Key question: has there been progress in the quality of PFM systems? Yes/no/mixed. Results most likely to point to lengthy and complex nature of PFM reforms and need to continue effort. Refer to chapter 2

12. Summary presentation of results for indicator 3 – Aid on budget. Text as much as possible identical to Survey summary statements. Provide data on change relative to previous monitoring report. Key question: has there been progress in putting aid on budget? Yes/no/mixed. Results most likely to point to need for further advances in provision of timely reliable information by donors, reduced volatility of aid and strengthen incentives for budget authorities to capture aid flows appropriately.

13. Summary presentation of results for indicator 5a – Use of country PFM systems. Text as much as possible identical to Survey summary statements. Provide data on change relative to previous monitoring report. Break down by component. Give flavour of results for indicator 5b (procurement) in footnote. Key question: has there been progress in using country PFM systems? Yes/no/mixed. According to results ask question of whether donors have reformed their procedures in a way that reflects the Paris declaration commitments. Refer to chapter 3.

14. Draw on results for indicator 9 to gauge to what extent recorded changes in the use of country PFM systems reflect changes in PBAs and/or budget support flows. Draw observation on extent to which donors appear to be able to use country systems for non-budget support modalities. Refer to chapter 3 for findings on current guidance.

15. Present graph on quality of PFM systems and their use [akin to chart 1.7 in 2005 Survey]. Confirm (?) finding that there seems to be little correlation between the assessment of country PFM systems quality and donors decisions to use that system. (If confirmed) this would suggest that there are other factors at play beside system quality to explain the aggregate use of country PFM systems. This implies that while increasing quality of PFM systems is obviously crucial (for partners even more than for donors), there are other levers to increase the use of country systems. Refer to chapter two and following section in the same chapter.

IV. Use of Country PFM Systems: Basic Determinants

16. Aggregate figures on the use of country PFM systems are the results of discrete decisions by different donors on the opportunity of using country PFM systems for individual

interventions in specific sectors. As such,, aggregate figures reflect the influence of a mixed array of factors, which vary from country to country (and to a more limited extent from donor to donor) may well mirror elements which are not directly related to PFM factors, or indeed an individual donor – or partner country - stance with respect to the use of country PFM systems¹³.

17. Apart from the above qualification, there are other factors beyond the quality of country PFM systems that are likely to influence its actual use. These include the following:

- ***The ambitiousness and credibility of the country' PFM reform programme.*** Paris Indicators 2 and 5 recognise (but do not operationalise) the possibility of using weak country PFM systems when there is a credible and ambitious programme of reform. Several donors include this principle in their guidance.
- ***Partner country position.*** Partner countries are not necessarily ready or willing to allow an indiscriminate use of their country PFM systems for the provision of aid. This may reflect current country practices and legislation or authorities preferences. With respect to the former, it should be noted that local legislation may well require a differential treatment for donors funds reflecting the legacy of donors' past insistence at this regard. With respect to the latter, countries differ either because they hold different views or because they are at different stages in developing aid management policies that pro-actively seek to maximize the use of country PFM systems.¹⁴ Different position across countries may be the result of several factors. In some cases, for instance, sectoral ministries may actively seek to keep aid off budget and even off plan to maximize resource flows to the sector by avoiding offsetting budgetary allocations.¹⁵ In others, localized interests in preserving PIUs may successfully resist a move toward greater use of country PFM systems. Partner countries also engage in risk management. Thus, the Ministry of Finance may deliberately seek to limit the use of the country's PFM system, for instance because of doubts about the benefits that would accrue from small changes in the use of the country system, or because of concerns about the system's capacity to properly execute expenditures, or because of the risk of non-disbursement under (historically relatively volatile) budget support. Some partner countries, in other words, may form a risk-return judgement over different uses of their country PFM systems and decide accordingly.
- ***Donors' own preferences.*** Donors' preferences are not simply determined by the quality of the country PFM systems. Individual donors stances will be influenced (and

¹³ The specific sectoral distribution of total aid flows to any given country, for instance, may have an influence to the extent that sectoral specificities influence the choice of aid modality and, hence, the likely use of country systems. For instance, large infrastructure works are generally financed through project aid while supporting the hiring of teachers by contributing to financing their salaries is more readily achieved through sector budget support that uses the country's PFM system. Therefore, in a country where aid priorities focus on the building of infrastructure (or facilitating private sector development or civil society growth) donors are likely to use the PFM system less than in a PRSP country that needs macroeconomic support

¹⁴ Some countries, for instance, have a policy to put as much aid on budget as possible, whatever the modality while others regard budget support as the sole aid flow worth putting on budget. For examples and underlying reasons see See also CABRI-SPA (2008), *Putting Aid on Budget – case studies [insert appropriate bibliographical reference]*

¹⁵ To the extent possible, of course, the sectoral minister then offsets donors' targeted interventions by changing intrasectoral budget allocations.

vary across countries even for the same donor) depending on donors' different objectives for aid and political mandates, their different understandings of the benefits of specific aid modalities and of the use of country systems, their different appreciation of, and appetite for, the perceived risks in using PFM systems. Chapter four looks at some of these issues in closer detail.

- ***Perception of corruption.*** Regardless of the specific quality of a country PFM systems, perceptions of high corruption in both the public or in the private sector typically create disincentives of the use of country PFM systems

V. Conclusion

To be drafted once the results of the monitoring exercise will be known. While this will set the exact tone of the conclusions, it is suggested that the conclusions will mark that: although some progress has been made (reflecting the survey results), more needs to be done if the development community and partner countries were to achieve full benefits of the use of country systems. This will require:

- *continued efforts by partner countries in strengthening their PFM systems within their more general progress towards stronger governance*
- *continued efforts by donors to address domestic and administrative obstacles for greater use of country systems when warranted*

The following two chapters provide some useful insights on each of these requirements.

CHAPTER THREE

STRENGTHENING COUNTRY PFM SYSTEMS

I. Introduction

1. The Paris Declaration commits partner countries to carry out diagnostic reviews that provide reliable assessments of country systems and procedures and undertake reforms that are necessary to ensure national systems, institutions and procedures for managing development resources are effective, accountable and transparent. Donors commit to use strengthened country systems to the maximum extent possible and to establish additional safeguards and measures that strengthen rather than undermine country systems whenever their use is not feasible. This chapter reviews the trajectory of PFM reforms in partner countries and examines lessons learned over the past decade in implementing PFM reforms. These are drawn upon the case studies discussed by the OECD DAC Joint Venture on PFM as well as various other study reports including the recent World Bank's Independent Evaluation Group's report "Public Sector Reform Evaluation". Conducting a detailed research study to collect and analyse evidence for factors determining the success or failure of PFM reforms is beyond the remit of this report. In this respect, this report complements good practices in capacity development previously identified by the Joint Venture.¹⁶ Going forward, the Joint Venture may consider commissioning separate studies to conduct further research in documenting the impact of various factors in the success or failure of implementing PFM reforms in several countries.

II. Trajectory of PFM Reforms in Partner Countries

2. Until the introduction of the Heavily Indebted Poor Country (HIPC) indicators and, more recently, the PEFA indicators, there was no way to objectively and consistently measure partner countries' progress in PFM performance. The PEFA indicators, though more robust and objective than the HIPC indicators, have been in use for under three years; thus there is not yet a critical mass of repeat assessments on which to base a trend analysis in PFM performance in a broad spectrum of countries. While this underlines the importance of ensuring widespread and repeat application of the PEFA monitoring framework in the years to come, this section briefly presents information currently available.

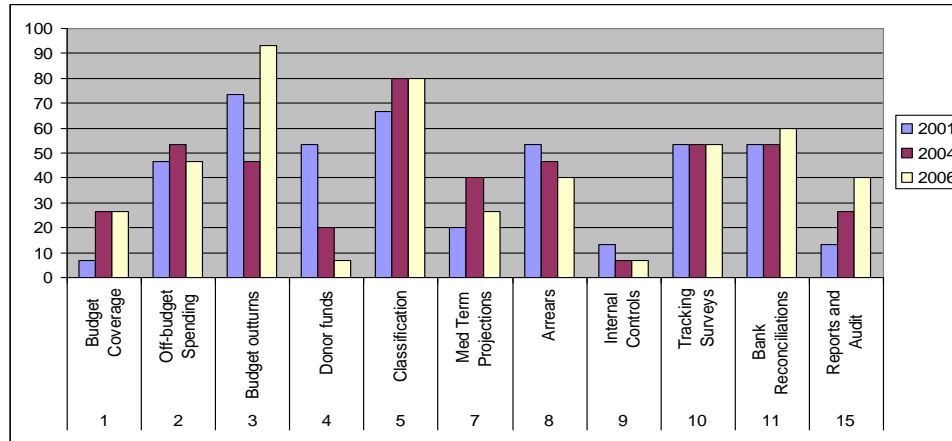
3. ***Trend in HIPC Countries.*** The only objective data that measure PFM performance over a period of time are from the HIPC indicator assessments. As this data covers only HIPC countries, it would be inappropriate to draw generalized conclusions from them. In 2005 a World Bank-IMF paper¹⁷ reported that over the period 2001-2004, the total number of benchmarks met by the entire sample of 23 HIPC countries increased by 10 percent—from 137 to 150—while the average number of benchmarks met per country increased marginally. In 2004, four countries met nine or more benchmarks, compared to only one country in 2001. However, analysis of data over a longer time horizon (2001 – 2006) but with a smaller sample size of 15 countries reveals limited

¹⁶ OECD DAC Guidelines and Reference Series "Harmonizing Donor Practices for Effective Aid Delivery" Volume 2 (2006)

¹⁷ *Update on the Assessments and Implementation of Action Plans to Strengthen Capacity of HIPCs to Track Poverty-Reducing Public Spending*, World Bank and IMF, April 2005.

progress in PFM performance (see Figure 4).¹⁸ Moreover, the average masks uneven progress among the countries: some countries (e.g., Burkina Faso, Ghana, Guyana, Tanzania, and Zambia) made more progress than others (e.g., Mali, Benin, and São Tomé and Príncipe). The results of HIPC Assessments indicate that many countries achieved better results in the area of budget formulation than in the more difficult areas of budget execution, monitoring, and audit.

Figure 4. Percentage of Benchmarks met by HIPC Indicators (2001-06)

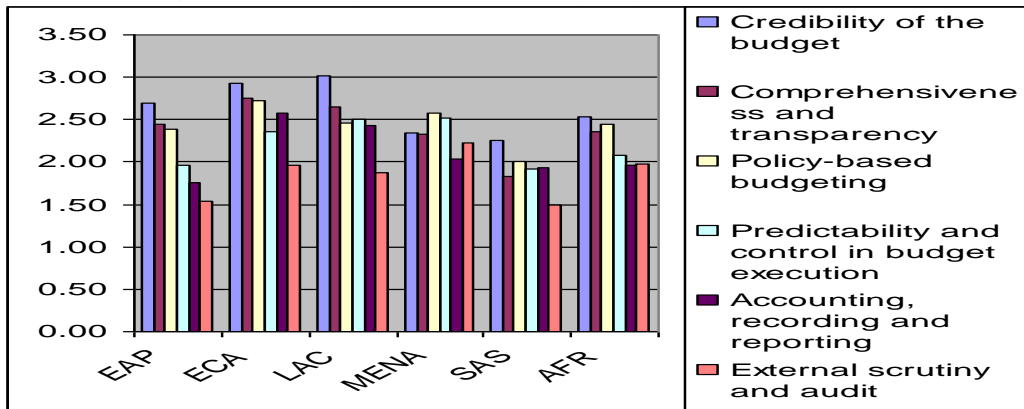


4. Regional Comparison Based on PEFA Scores. A comparison of PEFA scores¹⁹ for a number of countries reveals that Eastern European and Latin American countries have, in general, better PFM performance (see Figure 5). Differences among different budget dimensions are highest for Eastern Europe and Latin American countries, while they are lower in the Middle East and North Africa—where, in fact, the dimensions of *policy-based budgeting* and *predictability and control in budget execution* receive the highest scores. In respect of the *External scrutiny and audit* dimension, Africa region scores better than other regions (except MENA).

¹⁸ “Tracking Progress in the Quality of PFM Systems in HIPC’s - An update on Past Assessments using PEFA data,” by Paolo de Renzio and Bill Dorotinsky, PEFA.

¹⁹ PEFA scores are non-numeric and aggregation of PEFA scores is not directly possible and generally discouraged because of loss of information and various methodological issues. However, for the purposes of detecting broad indicative trends, some aggregation is used in this report. PEFA Framework assigns ratings of A to D for each of the performance indicator. In order to prepare a graphical representation of PEFA scores, the authors of reports cited in this chapter converted alphabetic scores into numbers. For example: score A represents 4 while score B represents 3 and so on.

Figure 5. Average PEFA Scores by Region and Dimension²⁰



5. ***PFM Reforms in the Regional Context.*** The Central and Eastern European countries joining the European Union (EU) undertook major PFM reforms—including in the areas of internal controls and internal and external audit—to meet the requirements of the EU *acquis communautaire*. Similarly, countries forming West African Economic and Monetary Union (WAEMU) are spearheading efforts to establish a customs union, harmonize public financial management procedures, and monitor such key macroeconomic convergence criteria as fiscal deficits, inflation, public sector wages, and government arrears.

6. ***PFM Reforms in Response to Pressures.*** Over the past decade, internal crisis and outside pulls have been a major impetus for countries’ overall improvement of policies. For example, the 1998 financial crisis, the EU accession requirements for the Central and Eastern European countries, and the HIPC initiative presented significant opportunities for commencing major policy reforms in the public sector.

III. Key Drivers of Successful PFM Reforms

7. Although we do not yet have a sufficient mass of objective and consistent data that would allow us to quantify in-country and cross-country improvements in countries’ PFM environments, past experience including case studies presented at the JV meetings have pointed to a number of factors that are key to successful PFM reform.

8. ***Country-led Strategy, Coordinated Donor Support.*** The Strengthened Approach developed as part of the PEFA Framework²¹ and incorporated in the OECD/DAC Guidelines on Harmonizing Donor Practices for Effective Aid Delivery embodies two of the most important drivers of successful PFM reforms—a country-led PFM reform strategy and action plan, and a coordinated multiyear program of donor support aligned with that strategy and action plan.

²⁰ EAP stands for East Asia Pacific, ECA for Europe and Central Asia, LAC for Latin America and Caribbean, MENA for Middle East and North Africa, SAS for South Asia.

²¹ [http://www.pefa.org/PEFA%20Website%20--%20CURRENT%204-9-03/www.pefa.org%20WEBSITE/Revised%20Consultative%20Draft%20\(June%2005\).pdf](http://www.pefa.org/PEFA%20Website%20--%20CURRENT%204-9-03/www.pefa.org%20WEBSITE/Revised%20Consultative%20Draft%20(June%2005).pdf)

- **Country ownership.** Country ownership and leadership are critical to success.²² Even when external pressures or internal crisis are the main triggers PFM reforms, the starting point for real reform must be a country-owned response to such pressure in the form of a program of reform and a country-owned structure for managing the reform process. The literature on PFM is replete with stories of failed reforms that were driven by donors rather than led by the country; such reforms may initially appear to be successful, but they are unlikely to be sustained and, in the worst cases, may be reversed after the withdrawal of donor support. (Box 9 illustrates Ghana’s experience.)

Box 9. Lessons from Ghana

An *Integrated Financial Management Information System* (IFMIS), launched in 1997 to upgrade the aging Integrated Payroll and Personnel Database system, was overambitious and overly reliant on external consultants, with little commitment beyond the Ministry of Finance. It was managed by a unit outside the normal Ministry structure, which lacked institutional clout. Internal resistance to reform and project management shortcomings led to repeated failure.

Despite government commitment, high-caliber senior management, and good technical assistance, the *introduction of VAT* ended in riots, withdrawal of the tax, and resignation of the Finance Minister. Insufficient attention had been paid to the politics: not enough time was allowed for passage of the legislation through Parliament, introduction coincided with the “lean” season, and there was not enough public education. These problems were compounded by the selection of a high VAT rate. VAT became a focal point for opposition.

- **Coordinated donor support.** While donor support (technical assistance and financial resources) has played a crucial role in PFM reforms in many partner countries, country authorities often complain about receiving conflicting advice from different donors on the same subject, or having too many donors financing the same program and starving other programs of much-needed assistance. Collaboration among donors avoids duplication and fragmentation in donor assistance and ensures consistency in the advice they offer. It is not uncommon to have a country authority ask multiple donors for the same technical assistance or a specific diagnostic, as they do not know which can deliver and on what time frame --- in the end, 2-3 donors respond, duplicating work. An effective donor coordination arrangement should streamline the dialogue between government and donors and facilitate donor support to the government’s PFM reform action plan. Guaranteed multiyear support helps ensure sufficient attention to really carry out the longer-term reforms. The 2007 SPA Budget Support Survey offers interesting evidence about current practices in the case of 13 African countries which receive general budget support. It finds that while in no country there is a formal multi-year calendar of diagnostics agreed between the local authorities and donors, in more than half, a decision has been taken to use repeat PEFA assessments as a central monitoring framework. In seven countries, technical cooperation for PFM is governed by a single action plan with other countries progressing towards this arrangement. Finally, in five countries donors have agreed to common financial arrangement for

²² See 2003 *Annual Review of Development Effectiveness—The Effectiveness of Bank Support for Policy Reform*, Operations Evaluation Department, World Bank, 2003.

supporting PFM (and in four, progress is on-going). For a country specific case, Box 10 describes Mozambique's experience.

Box 10. Donor Coordination in Mozambique

At first, donor support for Mozambique's PFM reforms was mostly through isolated programs. In 2002 five major donors (EC, Sweden, Norway, Denmark, UK, later also joined by Belgium) agreed to pool their support and channel it through a Common Fund, which was also cofinanced by the Government of Mozambique (GoM). The Common Fund provided predictability of funding over the medium term. The original timeframe for the funding (2002-05) has been renewed once (2006-09), and a further extension is being considered. The GoM is responsible for the execution, which is managed through a dedicated implementation unit within the MoF.

Recently a number of other Common Funds have been set up to coordinate donor support in some specific sub-areas of PFM (e.g., revenue collection and audit). This was necessary because the focus of the earlier Common Fund was too narrow to accommodate these areas. These new common funds pose a challenge for the overall coordination of the PFM Reform; care will need to be taken to prioritize among different components of the PFM Reform.

9. *Prioritizing and Sequencing.* Most countries have limited capacity to implement many wide-ranging reforms all at the same time; therefore, it is essential for the government and donors to work together on establishing priorities and appropriate sequence for the reforms. Unfortunately, no one can say with certainty what is the "right" sequence of reforms that would guarantee success: complex variables (such as demand for reforms, stakeholder interests) and country-specific factors make it impossible to establish a sequence that would be universally applicable across different situations and a broad spectrum of countries. More is known about what does not work than what does. However, a few lessons emerge from the history of PFM reforms:

- Introducing a medium-term budget formulation tool or performance budgeting in an environment of poor budget execution is not likely to be effective.
- Introducing an accrual accounting system is not likely to succeed where basic cash-based financial statements are prepared after much delay and/or with several unreconciled items.
- Attempting performance audit without agreed performance benchmarks and proper systems to record and track performance is unlikely to be effective.
- Implementing a sophisticated Integrated Financial Management Information System (IFMIS) without first strengthening treasury practices and control systems is likely to increase the risks of fraud and misuse.
- Abolishing control and inspection agencies/departments without first establishing a modern internal audit function is likely to increase the risks of fraud and misuse.

- It is crucial to establish effective internal controls before giving managers broad discretion over choice of inputs and/or outputs.

10. The platform approach to sequencing,²³ piloted in Cambodia, aims to implement a package of measures or activities designed to achieve increasing levels (“platforms”) of PFM competence over a manageable timeframe (see Box 11). The approach is based on the premise that a certain level of PFM competence is required before further progress can take place. Each platform is defined in terms of improved outcomes (e.g., delivering a credible annual budget) rather than just focusing on the completion of individual short-term measures or activities (e.g., implementing a new chart of accounts); and therefore each platform establishes a clear basis for launching to the next. The World Bank’s IEG Report on Public Sector Reform Evaluation also concludes that modest and selected entry points can have partial success and lay the basis for later progress.

Box 11. A High-Impact Approach: Cambodia’s Experience

In December 2004, after previous reform attempts ended in failure, Cambodia’s Prime Minister launched the Public Financial Management Reform Programme, adopting a “platform approach” to reforming Cambodia’s PFM system. Over its first three years of implementation, the programme has made major achievements: budget execution procedures have been significantly streamlined; program budgeting has been introduced, and a new chart of accounts adopted; the amount of customs revenue collected through the banking system has increased (from zero in 2004 to nearly one-third in 2006); more than three-quarters of all Tax Department revenue is now collected through the banking system; about three-quarters of Treasury payments to suppliers in Phnom Penh and Sihanoukville are now made by check instead of cash; the stock of old expenditure arrears has been reduced by over 40 percent; the procurement process has been streamlined, tightened, and made more competitive; internal audit departments have been established in a dozen line ministries; and a pilot program has been launched to pay civil servants through commercial banks instead of by cash. Cambodia attributes its success to such factors as joint ownership between the government and donors, development of a sequenced and prioritized action plan, design and implementation of a strategy for organizational change and capacity building; and a formal coordination mechanism.

11. PFM Reforms as Part of Overall Public Sector Reforms. Budgetary institutions cannot be reformed in isolation. Experience indicates that successful PFM reforms can be better achieved and sustained if they are introduced in conjunction with broader public sector reforms. Although this may appear to contradict the earlier observations about the risk of attempting to implement several large-scale reforms simultaneously, experience shows that some public sector reforms are necessary for certain PFM reforms to succeed. For example, it has been observed that civil service reform and pay incentives are complementary and have a positive effect on PFM

²³ The platform approach was first conceptualized in a study report commissioned by PEFA: “Study of measures used to address weaknesses in Public Financial Management systems in the context of policy-based support,” PEFA, 2003.

reforms: in Cambodia, for example, pay and employment reform raised wages for Finance Ministry staff and linked their performance to the success of the reform programme.

12. ***Demand for Reform.*** Improvements in the technical capacity of institutions within government are unlikely to be sustained if there is no demand for better governance and increased accountability from outside government, including parliament and civil society. Such external institutions can exert considerable pressure upon the executive to initiate and persist with reform. For example, reforms in external audit are unlikely to have a sustained impact unless parliamentary committees, such as Public Accounts Committees, are able to provide effective legislative scrutiny of audit reports. While civil society could play an important role in exerting pressure on the government to reform public sector, it is equally true that certain special focus groups could increase spending pressures on the government that can be difficult to resist.

13. ***Customized Solutions.*** Reforms that attempt to transplant international or western models are likely to fail if they do not take into account the enabling environment that makes them work. For example, attempting to implement New Zealand-type reforms is likely to fail in developing countries, which often lack the strong formal public sector needed for management contracts to succeed.²⁴ A successful reform program must consider the country's current circumstances and capacities. Implementing high technology solutions to address basic problems have failed in several countries – a case in point is implementation of state of the art IFMIS solutions to address weaknesses in accounting have failed in many countries. “South-South” knowledge sharing is increasingly proving useful in addressing the similar problems faced by countries at similar stages of development. The Public Expenditure Management - Peer Assisted Learning (PEMPAL) initiative launched in the Europe and Central Asia Region in 2006 has created a network of public expenditure management professionals in various countries in the ECA region. This has enabled these professionals to compare their countries' PEM systems and to exchange success stories and best practices while simultaneously pursuing “peer learning.” Similarly, Collaborative Africa Budget Reform Initiative (CABRI) is a professional and autonomous network of senior government officials in ministries of finance and planning in Africa, which was established with the aim of sharing experience on reform programmes pursued in terms of what works, why and when.

14. ***Consultations and Stakeholder Involvement.*** Reforms are reversible. After the initial euphoria cools down, old practices may return or newly enacted laws may be rescinded or amended. A new government may reverse reforms and initiate new ones. Pro-reform coalitions are not static. At the same time, as observed in some countries, well meaning reform initiatives may be scuttled in trying to ensure wider consultation. In some cases, particularly in countries with coalition governments, it might be important to engage with a wide range of stakeholders during the design of a reform strategy to help ensure broad-based support for continuing implementation of the strategy.

15. ***Deepening PFM Reforms.*** It has often been observed that reform processes run out of steam by the time they reach line ministries. For example, in many countries that have attempted to introduce a medium-term expenditure framework (MTEF), expertise has been concentrated in the Ministry of Finance, while line ministries continue to prepare their internal budgets on input and incremental bases. It is therefore also critical to engage line ministries and build their capacity to implement the reforms. Reform design and sequencing should take such considerations into account.

²⁴ “Why Most Developing Countries Should not Try New Zealand's Reforms,” Schick, 1998.

16. **Capacity Development.** Experience has shown that countries need both adequate technical staff and effective management capacity if PFM reforms are to be sustained and move beyond changes in laws and regulations. It is necessary to develop capacities at three levels: the individual level, the level of organization, and the institutional and political level.²⁵ Capacity development is a task for partner country governments, not a donor activity;²⁶ but donors must be prepared to support countries in carrying out this task.

IV. Role of the Political Economy in PFM Reforms

17. Initiating public sector reforms that are not grounded in political reality is not likely to have much effect. Political compulsions often explain why governments may disregard technically sound and rational solutions. There must be active political leadership and support for reforms, particularly in such sensitive areas as procurement. Political will is essential for successful and sustainable reform.

18. **Political versus Technocratic Leadership.** An analysis of political behavior suggests that politicians may be prepared to accept reform, even if they are not strongly persuaded by it, as long as they do not perceive it to be a threat to their own interests.²⁷ This observation does not contradict the desirability of strong political leadership for reforms, but it implies that political blessing may be sufficient for some reforms to succeed. The distinction is significant. If active leadership of reform by politicians is not essential, the initiative shifts to those who can motivate acceptance and sustain the absence of opposition. At times, therefore, reform-minded public officials can initiate and successfully implement technocratic reforms (those not involving policy changes)—for example, automating the treasury/accounting system, as in Bosnia Herzegovina—even without much political backing. Other times, overcoming resistance to change is essential for the reform to succeed. This then suggests a more instrumental and strategic role for technocrats in the area of major policy reforms (Box 12 describes Turkey’s experience).

²⁵ “Developing Capacity through Technical Cooperation,” UNDP, 2002.

²⁶ “Harmonizing Donor Practices for Effective Aid Delivery,” DAC Guidelines and Reference Series, OECD, 2006.

²⁷ “Reforming public financial management when the politics aren’t right: A proposal,” ODI, 2007.

Box 12. Role of Technocratic Leadership in PFM Reforms: Turkey

The story of successful accounting reforms in Turkey illustrates the complementary roles of ministers and public officials. The Minister of Finance in 1998 envisioned accounting reforms and appointed a high energy public official to reform the accounting system. After the departure of the minister in 1999, the incoming minister was skeptical of the reforms that were being implemented. However, the public official displayed great tact and leadership, engaging the new minister in the success of the pilot program and organizing several high-profile media events to raise public awareness. After the successful launch of the pilot, the new minister approved countrywide implementation of the program. Turkey now has a state-of-the-art automated online accounting system, *Say2000i*, which networks more than 1500 national nodes, capturing receipts and payments as they are made.

19. ***Addressing the Politics of Reform.*** Although there is wide agreement on the importance of high-level commitment from politicians in initiating and leading PFM reforms, there is no agreed approach to addressing the politics of reform. The Expected Utility Stakeholder Model offers a comparatively rigorous methodology for analyzing the effects of political incentives on the feasibility and sustainability of policy reforms.²⁸ The World Bank piloted this approach to analyze public sector governance reform issues in two countries in the East Asia and Pacific Region. However, given the complex and sensitive nature of politics of reform, further research is needed to develop an approach for addressing politics of reform.

20. ***Role of Parliament.*** A decade of research has concluded that, unless there is strong demand for accountability, most PFM reforms are unlikely to be sustained in the long run. In some cases parliaments can play a critical role in demanding and providing accountability in public finance management. Legislatures participate in the governance of the budget by approving budget allocations, overseeing budget execution, and controlling budget performance. Effective and responsible parliaments can mitigate the risks of excessive executive budgetary discretion by reinforcing the countervailing mechanisms of government accountability and legislative scrutiny, and can exert pressure on the executive to improve fiscal and budgetary performance. There is thus increasing recognition of the need to work with legislatures to strengthen demand for accountability in public finances and strengthen checks and balances in public budgeting. Several initiatives, some funded by donors, have begun to strengthen the capacity of parliaments and parliamentary committees: for example, Uganda's parliamentary budget office is a model for many countries; the African Parliamentarians Network Against Corruption works to coordinate and strengthen the capacity of African parliamentarians to fight corruption and promote good governance; and the World Bank Institute's Parliamentary Strengthening Program aims to enhance parliaments' capacity to effectively fulfil their legislative and executive oversight responsibilities.

21. ***Role of Supreme Audit Institutions.*** SAIs have a unique role to play in PFM reforms given the vantage point of their place in the government structure. SAIs, through various types of

²⁸ "Operationalizing Political Analysis: The Expected Utility Stakeholder Model and Governance Reforms," PREM Note, World Bank, 2004.

audit reports, could highlight areas in need of reform and by constantly highlighting wastage of public resources exert pressure on the government to strengthen national PFM systems. SAIs could efficiently discharge this responsibility provided they themselves have the necessary skills and capacity. PEFA assessments and other PFM diagnostics have consistently revealed the need for strengthening SAIs in several countries. There is therefore a clear need for coordinated efforts on the part of donors to help support capacity building initiatives of SAIs on a longer term and sustainable basis.

V. Key Recommendations.

22. Once the assessment of a country’s PFM system reveals weaknesses, the development community should support the country in addressing those weaknesses. It is important to understand that a PFM system can rarely be strengthened with a “quick fix”: the process is likely to require enacting laws and regulations, implementing new systems and processes, creating new departments/units, and training staff in new skills—all processes that can take time. Therefore, it is important for the country and its development partners to remain engaged. The following table summarizes key recommendations for donors and partner countries for ensuring successful implementation of PFM reforms in partner countries:

<i>Recommendations for Donors</i>	<i>Recommendations for Partner Countries</i>
Do’s	Do’s
1. Align support with the government’s reform strategy and priorities.	1. Provide political leadership to support PFM reforms.
2. Increase support for capacity building in parliaments, SAIs, and civil society organizations.	2. Take leadership in preparing a PFM Reform Action Plan, ensuring that a wide range of stakeholders are involved and drawing on lessons from experiences of peer partner countries.
3. Promote “South-South” sharing and peer learning among partner countries.	3. Design a package of measures or activities designed to achieve increasing levels (“platforms”) of PFM competence over a manageable timeframe.
4. Remember that capacity development is a not a donor activity, but a task for the partner country government.	4. Undertake periodic PEFA assessments to measure progress in PFM performance.
5. Ensure that capacity building support extends beyond the Ministry of Finance and headquarters offices.	5. Ensure that capacity building efforts extend beyond the Ministry of Finance and headquarters offices.
Don’ts	Don’ts
1. Do not impose a reform action program on partner countries.	1. Do not attempt to implement all PFM reforms at the same time.
2. Do not attempt to transplant international or western models into partner countries.	2. Do not reverse reforms when the government changes.

CHAPTER FOUR

DONOR PRACTICES IN THE USE OF COUNTRY PFM SYSTEMS: GUIDANCE, DETERMINANTS AND RISK MANAGEMENT

I. Introduction

1. Chapter 2 showed that use of country PFM systems varies across partners and donors and across system dimensions. It also highlighted some basic determinants for the recorded use of country systems, including partner countries' preferences, PFM systems quality and strengthening prospects. While the previous chapter focused on the latter, this chapter focuses on donors and draws heavily on the findings of "A Stock Take on Donor Approaches to Managing Risk When Using Country Systems," a DFID-funded study undertaken under the work programme of the Joint Venture on PFM. It begins by analysing the extent to which operational guidance and incentives structures have facilitated progress in achieving Paris Declaration targets. It then focuses more specifically on donors' perceived risks of using such systems and on their assessment and management of such risks.

II. Donors Guidance and Incentives for the Use of Country PFM Systems

2. Reasons for donors varying readiness to use country PFM systems can be found by analysing donors internal guidance and incentives for using country PFM systems. Such an analysis reveals wide variation.

3. Only a few donors such as , for instance, the World Bank, have an explicit general guidance on the use of country PFM systems. Similarly only a few donors have adopted definition of what the use of country PFM system means. In addition, these definitions tend to differ. Thus, for instance, in the World Bank's operational policies, PFM country systems include "budgeting; accounting; internal control; funds flow; financial reporting; and auditing arrangements of the entity or entities responsible for implementing Bank-supported operations." The African Development Bank explicitly includes budget formulation in its typology while other donors, such as the Netherlands, explicitly include procurement as part of the definition of a PFM system. When talking and reporting about use of country PFM systems, therefore, donors may well be using somewhat different definitions. Care, therefore, is needed at the very minimum to avoid misunderstandings and confusions.

4. However, many other donors have no explicit definition of or guidance on the use of country systems. In such cases, guidance can often be found within the scope of guidelines relating to budget support. Under general budget support, funds are channelled directly through the partner country's budgeting system, and their systems are used for reporting and accounting purposes; therefore, using general budget support automatically qualifies as using country systems.

5. Yet, the use of country systems extends beyond the use of budget support: project and technical assistance can also rely on local PFM systems. Some donors, such as Germany, the Netherlands, and the United Kingdom, have guidance that allows them to use country systems for such aid modalities as project support that can be channelled through a government's budget or treasury systems; common funds; and non-budget-support programme-based approaches. The

World Bank has specific guidance for Sector Wide Approaches (SWAp) covering use of country PFM systems, which are treated as investment operations rather than as pure budgetary support operations. EC guidance for SWAps includes detailed provisions for the choice of different financing modalities (and thus related use of country PFM systems).

6. In addition, the onus placed by guidance for justifying the use of country systems differs from donor to donor. Some donors (such as the World Bank, the MDBs, DFID and the Swedish International Development Agency) consider the use of country systems to be the default operational policy, while others (United States) perceive it as an exceptional rather than a routine practice. Three donors (the Netherlands, the United Kingdom, and the European Commission) have expressly stated that general (or sector) budget support is their preferred aid modality. Importantly, in all of these cases, the use of country PFM systems (or budget support as a delivery modality) is envisaged whenever conditions allow it. Setting the use of country systems as a default position, therefore, does not make such use a foregone and automatic decision but forces donors to analyse in detail the reasons why such use may not be opportune. This supports the transparent identification of the areas of strength and weakness in the recipient country PFM systems sub-components thus facilitating partial use as well as the design of safeguard measures and targeting of capacity development and reform efforts.

7. Finally, whether explicit or implicit, whether extensive or referring only to budget support, donors guidance on use of country PFM systems in the end revolves around a comparison between the benefits and the risks of using country PFM systems. This has some important implications:

- As donors may have different objectives when providing aid and different appreciations/experiences of the benefits of using country PFM systems (as identified in chapter two), donors' readiness to use country PFM systems varies regardless of perceived risks.
- High expected benefits in the use of country systems may lead to the use of country PFM systems in situations when these are relatively weak while little perceived benefits may lead to little or no use of country systems even if these are perceived as relatively stronger.²⁹ Thus, for instance, in fragile situations like after a conflict, the urgency of providing funds to ensure a rapid financing of the basic functions of the State to avoid a reversal in economic and political stabilisation may lead to a higher use of country PFM systems than in situations where PFM risks are less severe. Conversely, in a country with relative advanced systems and little aid, there may not be overwhelming benefits in the use of country PFM systems.
- To a certain extent, the case for the use of country systems has been built on the costs observed during the many years when aid used to bypass country-systems. As the experience with the use of country PFM systems is still relatively recent, a more positive case built on strong and substantial evidence of the benefits identified in chapter two can only be tentatively made. In addition, the benefits in using country systems tend to be long-term and diffuse in nature while risks are much more immediate and donor-specific (see section below). These factors may lead to a built-in bias against the use of country systems in practice depending upon the complex interaction a large number of factors, including donors' internal administrative arrangements and incentive structures.

²⁹ [This, of course, helps explaining the lack of a strong correlation between use of country PFM systems and perceived systems quality]

- Facilitating the use of country PFM systems for non-budget support modalities may require a greater unpacking of the specific benefits and the specific risks attached to the use of each sub-component of a PFM system. While this report and, above all, Cabri-SPA (2008) offer some insights at this regard, this is an area which may be worth of further future investigation.

8. Finally, it is important to note that while all of above is relevant from a donor point of view, similar observations could be made from a partner country point of view. This points to the usefulness of looking at the decision to use country PFM systems as a joint decision of both donors and partners.

9. The findings above suggest the following recommendations:

- ***Greater common understanding.*** Together with Partner countries, donors should agree upon a clearer and more precise definition of the use of country PFM systems. No matter if at the international or at the local level, such a common understanding would increase transparency, facilitate rigorous monitoring and provide a joint basis for dialogue among donors and between donors and partners.
- ***Donors should better integrate the use of country systems in their operational guidance.*** Use of country PFM systems should be explicitly dealt with either through stand-alone guidance or by being systematically addressed throughout all aid modalities.
- ***Donors should move toward a default position on the use of country systems.*** Donors should consider making the operational default position the maximum use of country PFM systems whenever opportune, i.e. when this would support development effectiveness. This would not by itself change individual donors' decisions about the use of PFM systems in any specific situation, but it would compel aid managers to identify the reasons why country systems should *not* be used. It would create an incentive to reconsider long-established practices and would provide much greater transparency to donors' decisions. Assessing the development effectiveness of the proposed use of country PFM systems would also force donors towards more joint evaluations with partner countries authorities and stakeholders.
- ***Partner countries should take the lead*** by drawing the necessary links between their aid effectiveness strategies and their strategies for strengthening PFM systems. Partner countries should exercise leadership by developing PFM strategies that will increase the chances that donors will use their PFM systems—for example, developing a planning and budgeting calendar outlining when donor inputs are required, ensuring that the chart of accounts and budget classifications enable sources and uses of funds to be clearly identified.

III. Donors Risks in the Use of Country PFM Systems

10. When deciding whether to use country PFM systems, donors vary in the way they define, assess, manage, and monitor the risks of the approach. This section describes these risks, examines donors' capacity to bear and assess such risks.

11. **Risks to Donors.** A risk is anything that may stand in the way of achieving objectives. From the most general point of view, three main groups of risks can be identified when providing aid:

- ***Fiduciary risk*** Fiduciary risk refers to the possibility that aid money may not be used as intended and/or efficiently and effectively. While all agree to this definition, in practice, donors use of the concept varies depending on the scope of the intended money use, the consideration or not of value for money aspects and the exact boundaries drawn between fiduciary and other risks.
- ***Development risk.*** While fiduciary risk refers to the specific output of an aid intervention, a wider set of risks refers to the danger of missing the ultimate objectives of such an intervention. By its own nature rather disparate, this category is crucial from the point of view of development effectiveness. It comprises the risks posed by an unstable macroeconomic environment, poor design and implementation of policies, lacking results monitoring, weak governance, wanting coordination among donors, limited ownership, non-disbursement of funds etc.
- ***Reputational risk.*** Such risk refers to the possibility that the donor may be impaired in its capacity to provide future support because of events directly or indirectly related to its current aid intervention. This may be linked to the possibility that fiduciary or developmental failure rebound on the donor as a sort of second-round effect.

12. The risks in the use of country PFM systems, therefore, are those that may impair the achievement of the goals set out when deciding to use country systems. Risks related to the use of country PFM systems are not a subset of any of the categories above but rather cut across all of them.³⁰ A weak PFM system obviously increases fiduciary risks, and the more so, the more extensive the definition of the latter. Providing aid through a weak PFM system may also reduce its development impact or, in any case, entail a trade-off between immediate benefits and longer term more systemic gains. In addition, using country procedures is usually perceived to increase reputational risks because it breaks the attribution chain between a donor's input and its outcome and more readily exposes the donor to any negative event undermining the perceived quality of the country economic and political governance.³¹ Finally, different risks are related. Thus, for instance, relying on decentralised levels of governments may be seen as appropriate to foster specific development and governance goals but may well bring about an increase in fiduciary risks given weaker PFM systems at local levels.

13. Looking at sub-systems, relying on the country budget execution system is likely to be regarded as the most risky option. At the same time, however, bringing aid on treasury is the

³⁰ It is worth mentioning that the risk posed by a high corruption environment is also cross-cutting as widespread corruption increase all three types of risk.

³¹ It is worth noting in passing that there are, of course, also risks in not using country PFM systems and that the agenda underpinning the use of country system is, to a large extent, a response to the risks of external assistance provided exclusively through donors' own procedures. Thus, for instance, since funds are fungible, even using separate procedures does not guarantee the development effectiveness of any fiduciary assurance it gives. Indeed, the use of parallel systems implies a development risk because it entails higher transaction costs and undermines the development of the country's own systems. More generally, It should be noted that in environments characterised by high development risk, any aid modality will likely have a limited impact.

option likely to trigger the greatest benefits³². It is not surprising, therefore, to find that donors' views vary the greatest with regard to their readiness to bring funds "on treasury". At the same time, using one particular component of a country PFM-systems may well have risk-induced implications for the use of other components. Thus, for instance, one can imagine that a donor agreeing to use a partner treasury system may want to minimize fiduciary risks by having stronger assurances on the use of aid funds than those provided by the recipient country accounting, reporting and auditing systems.³³ This suggests, once again, the need to weight specific benefits against specific risks when making a partial use of country PFM systems. For any given intervention, different combinations of use can be imagined with their different profile of risks and benefits. Choosing among such alternatives should, to the maximum extent possible, be a process agreed with the partner countries since these also face risks and seek benefits in the use of country system.

14. A clear example of the value added of determining priorities jointly with partner countries as suggested above is provided by the systems for planning and budgeting of aid. From a donor's point of view, providing information in a timely manner from the point of view of partner's planning and budgetary calendars (as opposed to donors' own internal ones) can be challenging. In addition, since providing the information or not has little fiduciary risk attached either way, such an activity may well not be among the most immediate concerns of the donor vis-à-vis its accountability bodies. Similarly, providing the information could have potentially significant development benefits but since the latter are diffuse and not exclusively linked to the donor's action, the failure to provide information is likely to carry little reputational risk. As a result, donors may not be focussed on the importance of ensuring that upstream PFM systems can properly make use of (information about) donors' aid. From the point of view of partners, however, this may be a significant issue as poor information on aid flows carries the risk of severely undermining the planning and budgeting process and thus reducing the development effectiveness of aid as well as domestic resources.

15. **Appetite for PFM Risk.** Donors' different capacities to bear risks result from such factors as the following:

- ***Different legal frameworks and, more generally, external accountability relations.*** This has a direct impact on the assessment of risks but also on the way in which such risks are set against expected benefits.
- ***Different internal incentives.*** Not all donors have reviewed their internal incentives to ensure that they are aligned with the commitments undertaken in the Paris Declaration. To be effective, such a revision of incentives should encompass all relevant intra-agency links (i.e. between headquarters and country offices and among different departments).
- ***Different knowledge.*** Not all donors have the same level of knowledge about country situations and the opportunities for the use of country systems.

³² As identified in Chapter 1.

³³ Although not explicitly treated in this report, it is worth highlighting that similar observations apply to the interaction between the use of PFM and procurement systems since the latter may pose risks for the efficient use of funds even when these are used for the intended purposes.

- ***Different experiences.*** Generally speaking, donors that have a longer (and positive) history of using country systems, or a relative specialisation in sectors that favour the use of country systems, are likely to accept a relatively higher level of risks.

16. While in the short term any donor agency's appetite for risk is a given, over the longer term donors can influence this parameter through the following kinds of actions.

- ***Better communicate the use of country systems agenda to their external accountability bodies.*** There are two pillars to such a strategy: focusing on the seriousness and rigour of the donor's process for assessing and managing risks, and highlighting the benefits of using country systems. To the extent possible, both pillars should be developed in parallel.

Box 6 on a successful communication strategy to offer a good example. The JV members are kindly asked to provide examples.

- ***Analyse donors' legal frameworks and accountability relations*** with a view to transparently identify what are the institutional constraints to greater use of country PFM systems (and aid effectiveness more generally). The identification of such constraints would facilitate a discussions around the opportunity to propose reforms to ensure greater aid effectiveness.
- ***Align internal incentives to political commitments.*** Donor agencies should translate their strategic decisions about the use of country PFM systems into appropriate internal incentives.
- ***Give greater importance to partner countries PFM reform programmes.*** Paris Indicators 2 and 5 recognise (but do not operationalise) the possibility of using weak country PFM systems when there is a credible and ambitious programme of reform. Several donors explicitly include this principle in their guidance. Consideration should be given to how the credibility and ambitiousness of a reform programme can be assessed in a way that fostered greater use of a country PFM systems.
- ***Train staff to identify opportunities to use country systems in different contexts.*** Using country PFM systems implies a significant change in the customary way of doing business, and thus training should be put in place to help staff adapt their mindset and skill set. Procedures to preserve local knowledge about country specificities despite the frequent rotation of donor staff should be put in place.
- ***Share risk with other donors through common diagnostics and common or harmonised disbursement mechanisms.*** Harmonisation should advance the alignment agenda. In some multi-donor arrangements, however, the selective use of country systems accommodates the needs of the more risk-averse donor rather than reflecting a jointly shared assessment of actual PFM risks.³⁴ Such arrangements are, of course, legitimate, and achieving progress across as large a number of donors as possible is an important goal. Here again, therefore, it is partner countries that should play a lead role

³⁴ Insert reference to AFD-Holland SPA study of SBS in practice + Boots study on new aid modality.

in determining if and when increased harmonisation around a common fund arrangement using special procedures is preferable to a less harmonised use of country systems where, however, certain donors may pilot a more extensive use of country systems potentially leading the way.

17. **Risk Assessment.** The overall assessment of risk requires very different types of risks to be taken into account. At present, there are strong similarities in the categories of risks that donors recognise, although there are slight differences in where the boundaries are drawn. Similarly, each donor tends to assess such risks (and compare them with benefits) through somewhat different methodologies. In most cases, however, donors tend to use a combination of publicly available diagnostics and information with only very few donors, notably the Bretton Woods Institutions, undertaking primary research. In many cases, local stakeholders are bypassed by this process of risk assessment with negative consequences in terms of local initiative to address the underlying factors.

Box 7 on different approaches to assessing risk and taking decisions on the use of country systems

DIFID TO PROVIDE SHORT SUMMARY FROM STOCK TAKE on Donor Approaches to Managing Risk

18. By using different approaches to risk assessment and to the decisions that result from it, donors can undermine efforts to improve aid effectiveness and reduce poverty by causing extra transaction costs (for donors and partners) as well as inconsistencies in risk management. Therefore, it would be useful to harmonise their approaches in this area. Besides greater harmonisation on risk categories, two efforts, in particular, could be considered.

- ***An encompassing risk-assessment diagnostic.*** Donors could work together to reach agreement on an integrated and harmonised risk assessment tool for the use of country PFM systems. Such a tool would be comprehensive, would reduce the transaction costs of pursuing separate approaches, and would lower reputational risk by allowing donors to refer to an internationally agreed methodology. However, given the diversity in donors' legal bases, procedures, and traditions, the extent and depth of the harmonisation required to agree upon such a tool should not be underestimated. Such a lengthy effort could also have the negative effect of making the topic of risks, not benefits, dominate discussions around the use of country PFM systems. Finally, it may, by default, respond more to the needs and concerns of the donors with least appetite for risks.
- ***Common pools of information.*** A different approach would avoid focusing on the method for assessing risks itself but would instead aim to generate the information required for donors to make their own assessments. Such a "common pool of information" approach is best exemplified by the PEFA PFM Performance Assessment

framework (presented in Chapter 4),³⁵ which aims to provide reliable information about the performance of key elements of PFM systems that can be used for multiple processes—PFM risk assessments, as well as dialogue around the design and monitoring of reforms.³⁶ Compared to an encompassing risk assessment tool, such an approach would offer greater flexibility in responding to emerging demands for information and would demand less in terms of agreement among parties, although it would appear to offer less potential to reduce transaction costs. However, the fact that donors are increasingly using the PEFA framework as the backbone of their various PFM risk assessment methodologies suggests that they would find this approach useful.

19. The following good practices can help donors improve their assessment of PFM risks:
- ***Use common pools of information.*** In assessing country PFM risks, donors should rely as much as possible on existing “common pool” diagnostics.
 - ***Share diagnostics.*** To maximize the benefits of such common pools, donors (and/or partners) leading work on relevant diagnostics should provide ex ante information on their planned assessments, ensure the widespread credibility of their results, and achieve timely dissemination to the largest possible public. In this context, donors and partners could collaborate at the country level to agree on a multiyear plan of diagnostic works to ensure the regular update of as wide a common pool of information as possible.
 - ***Do not create new diagnostics lightly.*** When proposing specific assessments, donors should first ask whether they are strictly necessary (for instance, by looking at other donors to see how they are able to do without). If new studies are still deemed necessary, they should impose as little burden as possible on the partner countries. If several donors require a certain type of information, it may be appropriate to launch a specific harmonisation initiative.³⁷
 - ***Be transparent.*** Whatever methodology is used to assess PFM risks, it should be clearly set out and shared with other donors, for possible cross-fertilisation and with partners, for transparency in decision-making. The results reached by applying the methodology should also be shared.

20. **Risk Management.** The extent to which any donor relies on country PFM systems depends on its capacity to manage the perceived risks. In the long term, of course, the best risk mitigation strategy is strengthening the country’s PFM systems—that is, providing financial and capacity-development support for the country’s reform efforts, and using the country PFM system to the extent possible.

³⁵ The [insert reference to JV Procurement methodology] is another example of the same concept. IMF economic surveillance also frequently serves the same purpose for the assessment of macroeconomic risks.

³⁶ The PEFA assessment does not attempt to provide all the information any donor could consider relevant; for instance, it does not assess corruption vulnerability, quality of the authorities’ reform plans, human capacities for operating the PFM systems, or value for money. Since many donors consider these to be relevant factors in their decision to use country PFM systems, they could be the object of specific specialised “common pool” diagnostics.

³⁷ It is, however, important to caution against a mushrooming of PEFA-like initiatives given limited resource availability at all relevant levels.

21. While a country is working to strengthen its PFM system—generally a long-term endeavour outlasting the lifespan of most donors’ aid instruments—donors usually manage PFM risks in two ways. At level of their country portfolio, they diversify risk by balancing sectors and aid modalities with different risk profiles. At the level of the individual operation, they frequently adopt safeguard measures to reduce their exposure to PFM risk:³⁸

- ***Conditions for the disbursement of funds.*** Conditionality can flag some measures (or outcomes) in the country’s reform programme as being particularly crucial, and sets the minimum conditions necessary for the donor to take on the remaining PFM risk. It can also serve to strengthen the hand of reformers in the partner country.
- ***Use of special procedures.*** At times, conditionality is not regarded as sufficient to provide the necessary safeguards for a complete use of country PFM systems. In such cases, donors can rely on some part of the country’s PFM system but impose the use of some special procedures such as earmarking funding to identifiable expenditures, directly channelling funds to implementing agencies, or providing for additional audit scrutiny or ad hoc auditing mechanisms.

22. For the donor, such measures seem to indicate progress in tackling relevant PFM weaknesses, contributing to increased use of the country’s system while preserving the support of its domestic stakeholders. However, viewed against the ultimate objectives of ownership, alignment to strengthened country systems, and harmonisation, the aggregate impact of such measures is much less clear. Often fragmented and uncoordinated between different donors, such measures can be ineffective and undermine the priorities, sequencing, and implementation capacity of the local authorities. In addition, although these safeguards are meant to be temporary, there are rarely sunset clauses or deadlines for jointly reviewing their continued relevance. In sum, there is the risk that the safeguards and mitigation strategies adopted in conjunction with a greater use of country PFM systems may undermine the very benefits expected from the use of such systems. Rigorous ex post evaluation of specific cases would be needed to assess the extent to which this risk is actually relevant. However, the following good practices could help minimizing such risk ex ante:

- ***Seek better alternatives.*** Before using a safeguard, donors should be sure that it is the best way to address their particular concerns. This requires a clear understanding of the nature of the risks that need to be managed. For instance, little risk is involved in providing the information required for aid to be on plan and at least reflected in budgets. If reputational concerns are important, risk management at the level of the individual aid operation should be accompanied by a more comprehensive effort to tackle the underlying reputational factors.
- ***Clearly communicate the reasons for any safeguard, and its exit strategy.*** Safeguards should remain in place as long as—and only as long as—they are necessary. Accordingly, safeguards should be reviewed regularly and/or designed with a specific

³⁸ This discussion draws from DFID, “How to note: managing fiduciary risk in DFID bilateral aid programmes,” 2008, and PEFA, “Study on measures used to address weaknesses in public financial management systems in the context of policy based support,” 2003. Both studies contain other, more extensive typologies of safeguard measures.

exit strategy.³⁹ Donors should explicitly declare their willingness to move to greater use of country systems if the country addresses their stated specific concerns.

- ***Respect country ownership.*** Safeguards should be designed with country ownership in mind. Thus, conditionality should be drawn from the authorities' reform programme rather than introducing donor-specific requirements.
- ***Ensure that safeguards add up to a coherent whole.*** To be effective, safeguards need to be designed in a balanced and proportionate way – not only in themselves but in terms of how they fit into the overall picture. Careful attention needs to be given to the interaction between short-term safeguards and ongoing medium to long-term reform programmes.⁴⁰ Partner countries can facilitate this task by exerting a strong leadership in the design of credible and well prioritized reform programmes. Donors need to coordinate and, preferably, harmonize. At the minimum, information about required safeguards should be transparently available.
- ***Remain focussed on the final objective.*** Both in designing safeguards and more generally in supporting PFM reforms, donors should not lose sight of the primary aim—to support partner countries in achieving development results rather than simply mitigating their own risks. This requires a considerable effort as donors will assess and manage risks according to their own accountability.

IV. Conclusions

23. This chapter has flagged some of the constraints and challenges in the use of PFM country systems in the provision of development aid. This is a particular difficult issue because country systems are part of the solution as well of the problem. There is therefore a natural tension between the need for short term results and the sustained support required to accompany what are long term processes, between the realisation that the overall impact offered by the use of country systems is what matters and the need to secure some degree of protection from weak financial management systems through ad hoc measures.

24. Strengthening country systems, however, is a joint objective for both partner and donors as vulnerability to corruption, fiduciary, development and reputational risks are relevant for the whole envelope of available resources and not just donors' funds. There should therefore be a commonality of interests on which donors and partners can build upon to move closer to the Paris declaration targets within the parameters set by different accountability relations.

25. Partner countries have an interest in devising clear strategies for enhancing the use of country PFM systems within the framework of a strong and credible programme for PFM reform. Such a programme should build upon the weaknesses and reform priorities identified by a jointly recognized set of diagnostics. A jointly agree monitoring framework would also help buttressing the credibility of the programme.

³⁹ This should be designed within the framework set out by a country's reform programme. Also, this should not be interpreted as additional conditions for disbursement but rather as a transparent indication of the steps necessary to increase the use of country systems.

⁴⁰ DFID, "How to note: managing fiduciary risk in DFID bilateral aid programmes", 2008.

26. Donors should strive to provide more predictable support on the basis of a greater knowledge of countries' PFM systems and a proper set of incentives. In this context, both the risks in partner countries systems and donors ranking of such risks should be deeply understood. Finally more transparent communication and a greater highlighting (and practical exemplification) of the benefits of using partner countries' PFM systems is needed. Joint diagnostics of PFM quality and more effective support to PFM reforms play a key role with respect to several of these recommendations. Accordingly, they are the focus of the next two chapters.

CHAPTER FIVE

MEASURING THE PERFORMANCE OF COUNTRY PFM SYSTEMS

I. Introduction

1. In the Paris Declaration, partner countries and donors committed themselves to (a) work together to establish mutually agreed frameworks that provide reliable assessments of the performance, transparency, and accountability of country systems; (b) implement harmonized diagnostic reviews and performance assessment frameworks in public financial management; and (c) integrate the diagnostic reviews and performance assessment frameworks into country-led strategies for capacity development. In the area of PFM, the PFM Performance Measurement Framework, developed and supported by the Public Expenditure and Financial Accountability Program (PEFA) in consultation with the Joint venture on PFM is a leading example of how these commitments are being met.

2. This chapter describes the PEFA initiative and explores the linkages between PEFA-based assessments and donors' needs for information to inform their decisions on the level and modality of financial support to partner countries. It also identifies a few key measures to better exploit the potential of the PEFA tool.

II. The PEFA Framework

3. During the 1990s, with the support of the international donor community and financial institutions, developing countries undertook very significant work to reform and build the capacity of their PFM systems. However, toward the end of the decade, evaluation work revealed that it was impossible to measure changes in PFM performance over time at the country level and globally; overlapping PFM analytic studies, not coordinated by donors, caused heavy transaction costs; and without country ownership, reforms had little effect.

4. To address this situation, the PEFA Program was established in December 2001 as a multidonor partnership⁴¹ committed to a set of core values linked to a Strengthened Approach to Supporting PFM Reform. This Strengthened Approach⁴² comprises three components:

- a country-led agenda—that is, a government-led reform program for which the analytic work, reform design, implementation, and monitoring reflect country priorities and are integrated into the government's institutional structures;
- a coordinated program of support from donors and international financial institutions including analytic work, financing for reform, and technical support for implementation, as the country requests; and

⁴¹ PEFA is a partnership program of the World Bank, the European Commission, the UK Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Norwegian Ministry of Foreign Affairs, and the International Monetary Fund. It works in close collaboration with the OECD-DAC Joint Venture for PFM and the Strategic Partnership for Africa.

⁴² See *OECD (2006) insert bibliographical reference*

- a shared pool of information on PFM—for example, information on PFM systems and their performance that is commonly accepted by country-level stakeholders.

5. A major result of the PEFA program is the PFM Performance Measurement Framework (the PEFA Framework), which, following two years of development, consultation, and testing, was officially launched in June 2005.⁴³ The PEFA Framework is a high-level analytic instrument that is designed to provide a shared pool of information on PFM that is intended to facilitate dialogue on reform priorities among domestic and external stakeholders. Donors may also use assessments based on the PEFA Framework in relation to their internal aid decision processes, but the PEFA Framework is not a fiduciary assessment tool.

6. The PEFA Framework consists of a set of 31 performance indicators and a supporting PFM Performance Report. It provides an overview of the performance of all parts of a country's PFM systems,⁴⁴ covering all stages of the budget cycle, and embraces international standards and codes in its structure. The indicators are scored on the basis of specific evidence, using transparent and objective rating criteria. Repeat assessments can demonstrate performance changes over time.

7. The Framework focuses on central government, but it may also be used at the subnational government level. PEFA assessments do not immediately result in recommendations for reform actions and capacity-building measures, which need to be identified through further work in the areas selected as reform priorities.

8. While the PEFA Framework directly replaced some earlier PFM analytic tools (e.g., the HIPC indicators), other PFM diagnostic tools are continued to be used in a complementary manner. This is, for example, the case of the World Bank's Public Expenditure Reviews (PERs) and Country Financial and Accountability Assessments (CFAAs) as well as more recent diagnostics specifically designed to drill down into specific dimensions (e.g., the debt management assessment tool, DeMPA, developed by the World Bank in 2007, and the OECD-DAC procurement assessment indicators). To the extent that these diagnostics have different objectives and scope and are implemented within the framework strengthened approach and calendar of diagnostics, including regular PEFA assessments, this is expected to reduce transaction costs and lead to greater effectiveness in the area of PFM.

III. Global Adoption

9. In any country, the government and other potential users (typically international financial institutions and donor agencies) decide whether, when, and how to use the PEFA Framework. Global adoption took off rapidly in 2005, and since then assessments based on the PEFA Framework have rolled out at a steady rate of about three per month. By March 2008 some 83 PFM performance assessments—based entirely on or significantly incorporating the PEFA Framework—had been finalized or substantially completed. These assessments covered 72 countries and also included some repeat assessments for central governments and assessments at the subnational government level. Country coverage has been particularly high in Sub-Saharan

⁴³ Consultations included focus groups comprising PFM practitioners from partner governments, OECD-DAC members, professional associations, and academia, as well as specialist PFM consultants. Testing was undertaken in 25 countries covering all regions.

⁴⁴ The PEFA Framework does not assess a country's fiscal and expenditure *policies*.

Africa and in the Caribbean, where more than 80 percent of countries have carried out PEFA-based assessments, but there has also been significant coverage (40-60% of countries) in Eastern Europe, Asia, the Pacific, and Latin America.

10. Government interest and engagement in the performance assessment work is growing rapidly. While governments provided data and other information for the assessments and reviewed the draft report for virtually all the assessments, government initiative to lead the assessment process or to implement a technical self-assessment was initially sporadic. Today, however, governments are increasingly seeking to obtain thorough training of staff in applying of the PEFA Framework, especially in countries where a repeat assessment is being planned. Zambia was the first country to show strong initiative in leading the performance assessment work (see Box 7), but it has been followed by many other governments: for example, the national governments of Belarus, Bolivia, and Nepal, and the subnational governments of Maharashtra State (India) and Bogota City (Colombia).

Box 7. A Joint Assessment Process Led by the Government

In 2005, Zambia's donor group was planning its biannual evaluation of the government's PFM reform program. Concerned about having another purely external evaluation of the PFM system (given the number of similar exercises that had been undertaken in previous years), the government proposed that the evaluation should be a government-led exercise with external facilitation. The development partners accepted this suggestion on the understanding that the evaluation would conform to the standards and procedures of the PEFA program. It was agreed that the main objective of the exercise should be to establish a baseline for monitoring the progress of the reform program in terms of performance impact—an objective directly in the government's own interest.

The government formed an assessment team of four staff, mostly from the Ministry of Finance and National Planning; and two international consultants, recommended by the development partners, were retained to assist and coach the government team.

A draft report was prepared and sent for review to the donor group, which also solicited the comments of the PEFA Secretariat. Following additional work to incorporate the comments received, the final report was accepted by all parties, issued in December 2005 as a government document, and posted on the internet.

The Zambia government now has trained officials who can contribute to monitoring the impact of PFM reforms, using the PEFA methodology. The government has also shown strong ownership of the assessment, using it as a platform for dialogue about the reform program with the donors and other domestic stakeholders, including Parliament. The monitoring and evaluation unit of the reform program secretariat in the Ministry of Finance is preparing a repeat assessment for 2008 to gauge performance progress since 2005.

11. More than 20 donor agencies and international financial institutions have been active in supporting the use of the PEFA Framework. Two agencies have been particularly instrumental in the roll-out of the PEFA Framework: the World Bank, which led the support to PEFA assessments for about half of the assessments, and the EC, which led for about one-third of the assessments. Donor agencies have generally worked together in collaboration with the government in carrying out the assessment, but in 30 percent of the assessments a single donor has managed implementation without contributions from other donor partners.

IV. Role of PFM Assessments in the Use of Country PFM Systems

12. Undertaking a periodic performance assessment of a country's PFM system is one of the key elements in donors' decision to use that system in the delivery of their aid. The findings from a study of donor approaches to managing risk when using country PFM systems⁴⁵ suggest that the PEFA Framework provides a useful starting point for carrying out a PFM risk assessment and that most donors use it for this purpose. The World Bank, for example, often incorporates PEFA indicator assessments into its CFAA reports or adds PEFA assessments to PER work. In some countries, it undertakes a detailed procurement assessment—through a Country Procurement Assessment Report—as part of the same process

13. Several donor agencies are incorporating the use of PEFA assessments—and particularly of the indicator assessments and ratings—into their internal guidelines, although in different ways. For example, DFID considers PEFA indicator ratings across all indicators to be a key input to the fiduciary risk analyses it conducts to gradually replace its risk benchmarks, while France and Germany have draft guidelines for fiduciary risk assessment that base their analyses on the PEFA ratings for selected PEFA indicators. World Bank guidelines do not specifically refer to PEFA-based PFM assessments, but a number of its country fiduciary assessments in recent years have incorporated a selection of PEFA indicators as part of the assessment, though not always the same selection in all countries. In revising its risk assessment for project and program support, the World Bank is now considering a direct link to a selection of PEFA indicators. The European Commission uses PEFA assessment as its diagnostics of choice for the monitoring of progress in PFM reforms, itself a crucial component for the assessment of countries eligibility for budget support as well as for the design of programmes supporting strengthening of PFM and economic governance.

14. In all cases, however, the PEFA assessment is seen as *a starting point* for the PFM risk assessment. Donors recognize that the PEFA Framework was not designed as a financial risk assessment tool, but rather as an element of the Strengthened Approach, intended to support the strengthening of country PFM systems. While the PEFA performance assessment provides technical information on the functioning of the PFM system, it does not give a value judgment on the risks related to PFM factors—such as funds not being used to finance agreed policies, the level of corruption linked to financial management operations, the existence of a credible PFM reform program, or the effectiveness of budgetary expenditures in terms of their developmental impact. Thus any PFM risk assessment must draw on additional information to cover such risk factors. All donors need a general PFM systems assessment, which can be efficiently provided by a commonly available report. The information they need to complete this risk assessments varies among donors (and, as Chapter 3 mentioned, could be a subject for further harmonization through shared analysis).

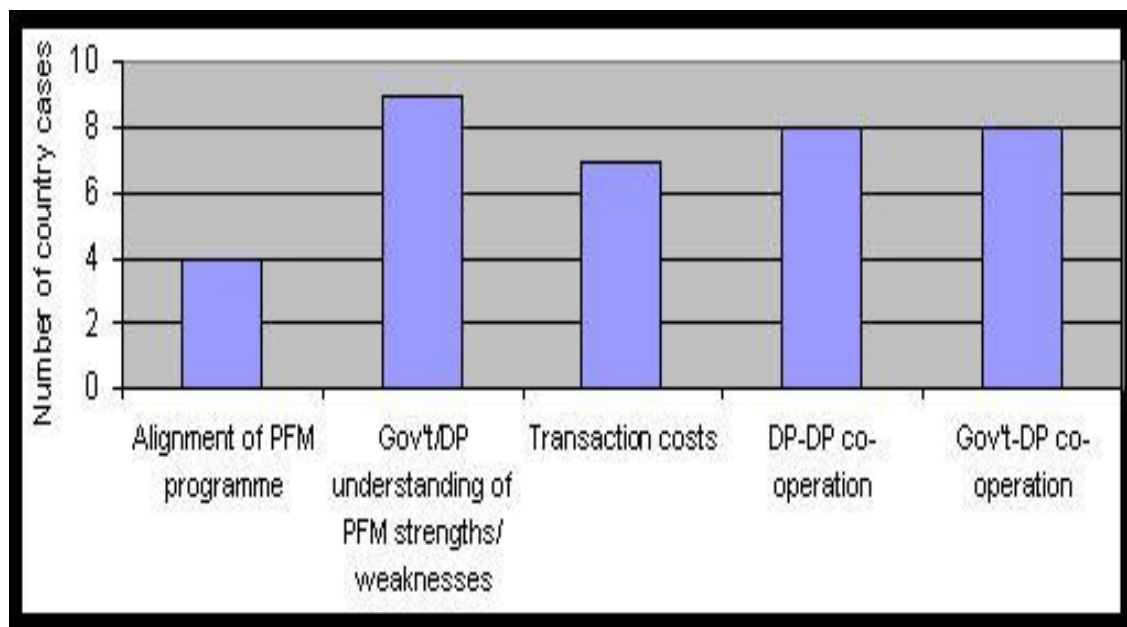
15. Overall, PFM assessments are crucial to donor considerations on use of country systems. Most donor agencies have recognized the PEFA Framework as a core tool to provide the basic input to the internal risk assessment, even if they add some other factors.

⁴⁵ DFID/OECD DAC JV on PFM supported study ‘Stocktake on Donor Approaches to Managing Risk when Using Country Systems’

V. Impact of PEFA-based PFM Assessments

16. In late 2007 a first attempt was made to evaluate the effect of the PEFA Framework on achieving the objectives of the Strengthened Approach.⁴⁶ The study analysed the experiences of 12 countries representing all regions where a substantial number of assessments have been implemented (Figure 3 shows some of the results).

Figure 3. Impact of PEFA Performance Assessments



17. The study found evidence that PEFA assessments have had an effect on both governments and donors, even in the relatively short time since many of the assessments were carried out. In a number of countries the PEFA assessments led to a direct change in governments' PFM reform programmes (Ghana, Madagascar, and Zambia). In these and most other case study countries, PEFA assessments provided governments with a comprehensive view of PFM strengths/weaknesses in a single document, as well as evidence-based perspective on the achievements and challenges of the PFM system. They also allowed governments to share their experiences with peers.

18. Several factors contributed to the positive effects: (a) active government engagement in the assessment (the factor most frequently mentioned); (b) a genuine openness to reform on the part of the government; (c) a perception that the exercise was not a development partner

⁴⁶ Reference needed.

requirement (e.g., for provision or continuation of budget support) but was intended to assist the government; and (d) the quality of the process, including a participatory methodology with active and comprehensive stakeholder preparation of the exercise from the early planning stages.

19. For donors, the most important factors in whether they used the assessment as a common source of information on PFM systems was the strength of the existing cooperation among donors and the extent of an existing joint framework for dialogue with government. In some cases, this joint framework was centred around a PFM programme or project. While joint cooperation on PEFA assessments was also found to be important, it did not necessarily substitute for donor cooperation in implementing PFM reforms. Less important factors were donors' policy on using PEFA assessments in their internal monitoring processes, and donors' management of the process for finalising the PFM Performance Report.

20. However, there were also factors that limited the effect of the assessments—for example, capacity constraints that hindered some governments in undertaking both the performance measurement work and the strategic analysis necessary to translate the lessons of strengths and weakness into an appropriately prioritised and sequenced reform programme (whether new or revised). It must also be remembered that direct attribution of PFM reforms to PEFA assessments is difficult when there are ongoing PFM reform programmes and projects, supported by previous assessments that indicate similar strengths and weaknesses. In addition, institutional decision-making processes can take time; many of the action plans following PEFA assessments have only recently been produced, so the extent of government ownership and sustainability will only be evident over time.

21. The extent to which use of the PEFA Framework had led to reduced transaction costs for government in relation to PFM analytic work may be gleaned from the SPA 2007 Budget Support Survey.⁴⁷ The survey shows that in countries where a PEFA assessment had been concluded or was under way, the average number of PFM diagnostics was slightly lower than for the whole sample. More importantly, in countries undertaking a PEFA assessment in 2006, other PFM analytic work focused on different issues (for example, the PER might focus on policy issues, and audits on compliance in the use of earmarked funds), reducing the extent of duplicative work. Given the short track record of PEFA application, however, these welcome findings should be regarded as tentative and in need of future confirmation.

22. Overall, both governments and development partners appear to value the PEFA instrument for its transparency, its clear criteria for the indicators, its use of international standards, and its applicability across countries. The quality of assessment reports in the initial stages of PEFA roll out did present a challenge given the paucity of knowledgeable experts to conduct PEFA assessments. However, with the increasing pool of experts and enhanced quality review mechanism including peer review by the PEFA Secretariat, the quality of assessments has significantly improved over the recent past.

VI. Challenges for Enhanced Use of the PEFA Tool

23. If the PEFA assessments are to continue producing the benefits that have been identified, country-level stakeholders will need to understand and appreciate the assessments' quality and purposes. To maintain and strengthen the quality of the assessments, the PEFA program continues to address a range of technical quality issues through guidance notes, training

⁴⁷ An annual survey covering 14 countries in Sub-Saharan Africa.

material, assessment report reviews, and ad hoc advice to assessment managers and assessors. In addition, process factors will continue to influence the overall quality of PEFA assessments and their use by all stakeholders.⁴⁸ Further improvements are desirable in the following areas:

- Country-level planning of PFM analytic work—on both on an annual and medium-term basis—to avoid duplication of work and missions. This planning, which needs to involve all stakeholders, should consider not only the frequency and coverage of PEFA assessments but also the use of complementary analytic tools such as drill-down in selected areas to support partner countries in addressing identified PFM reform priorities.
- Active engagement of the government in the assessment process to facilitate government’s ownership of the findings and therefore potential use of the report and willingness to share the report widely.
- Development of government capacity to use and respond to the assessment (Box 8 describes the response by the Norwegian Ministry of Finance to an assessment of Norway’s PFM systems), to use the report for setting reform priorities and sequencing actions, to embed the PFM performance indicators in the monitoring and evaluation frameworks for the government’s reform programs, and to collect and process the relevant data as well as undertake regular reviews of progress.

⁴⁸ Ref. PEFA Monitoring Report 2007 Part I, March 2008.

Box 8. Government Response to a PEFA Assessment

In 2007 Norway used the PEFA Framework to undertake a self-assessment of the performance of its PFM system. The work was coordinated by a PEFA-experienced staff member of Norad in collaboration with officials from the Ministry of Finance, the National Audit Office, and others.

Norway is one of the richest countries in the world (its 2004 GDP per capita was US\$39,000 in 2004), and its standard of governance is perceived as very high. It was therefore expected that the assessment would show generally high ratings across the performance indicators. Thus the results of the assessment were somewhat surprising: although 22 of the indicators were rated at A or B level, 8 indicators or indicator dimensions were rated at C and D level.

The assessment demonstrated that even a high-income, open, and generally transparent country may find that PFM performance in some areas does not meet generally accepted international standards. However, the government's reaction to the report stands out as a particularly important feature. Among the areas obtaining low ratings, the Ministry of Finance judged that some of the areas had received low ratings because primary service provision was decentralised to municipalities, while the assessment had covered the central government only; and others were not considered priorities for improvement. But the Ministry accepted that two specific areas (procurement practices and follow-up to the external audit report findings) were in immediate need of improvement, and it took action to improve performance in these areas..

A government response of this nature is useful as it shows the areas for which the government is ready to initiate reforms. At the same time the publication of the PFM performance report and the response may lay the basis for a domestic debate on the validity of the assumptions regarding the areas that were not considered priorities.

Source: Norway PFM Performance Report, draft May 2007, and Norad presentation to the OECD-DAC Joint Venture on PFM, December 2007.

- Adequate coordination among donors and provision of adequate resources for financing the assessments—particularly for small countries; this may require further training of donor staff at headquarters and country offices.
- Establishment of country-specific quality assurance mechanisms, beginning with the early planning stage, with all main stakeholders involved. This is particularly important where the status of the PEFA assessment within the leading agency is unclear and where internal guidelines do not require the involvement of external actors in the quality assurance process.
- Timely completion of the assessments and sharing of the final reports. Donors need information on PFM system performance for their decisions about using country PFM systems, so it is essential that they have access to recent PEFA assessments. Because most donors need access to the same information, they can best gain the access they need if the assessment reports are posted on a generally accessible website on the Internet. In addition, governments desire access to other countries' assessment reports so that they may compare their performance and learn from developments among more advanced reformers. Important progress in finalizing assessment reports and posting them on the Internet was made during 2007, but further progress is needed.

24. Over time, as more repeat PEFA assessments are conducted, the development community will need to learn how best to use these repeat assessments, comparing ratings to track progress in PFM performance over time. An early study, conducted during 2007,

demonstrates the ability of PEFA assessments to track performance changes by tracking progress in HIPC countries between 2001 and 2006, using former HIPC assessments and recent PEFA reports in 15 countries. It will be important to follow up these early findings with more in-depth work.

VII. Measures to Enhance the Use of PEFA Assessments

25. The PEFA Framework offers a unique opportunity for country governments and their development partners to jointly measure the performance of country PFM systems against transparent and objective criteria. Because the Framework can facilitate key elements of the Paris Declaration and has already been widely adopted, it is recommended that all signatories to the Paris Declaration officially adopt the PEFA Framework as the core tool for measuring and monitoring PFM performance.

26. Effective implementation of this recommendation would require mutual commitment by country government and development partners in at least three areas:

- Country governments and all development partners should establish and implement multiyear country-level plans for PFM analytic work, to ensure effective coverage and sequencing of analytic work and avoid unnecessary transaction costs from duplicative work.
- Country governments' capacity to take a leading role in the assessment work should be strengthened by wide dissemination of information on the PEFA Framework and assistance in carrying out self-assessments—including provision of training opportunities for government staff.
- The quality and the credibility of PEFA assessments should be regularly monitored to ensure that findings are credible and PEFA reports assist country authorities in designing a robust PFM reform program.
- Public access to the periodic PEFA-based PFM assessment reports should be improved by posting the reports on the Internet to make it a truly shared information pool for both internal and external stakeholders.
- PEFA framework should continue be adopted by all donors, while all donors make conscious efforts to minimize separate PFM diagnostics.