

Moving PFM reforms forward:

A Strengthened Approach

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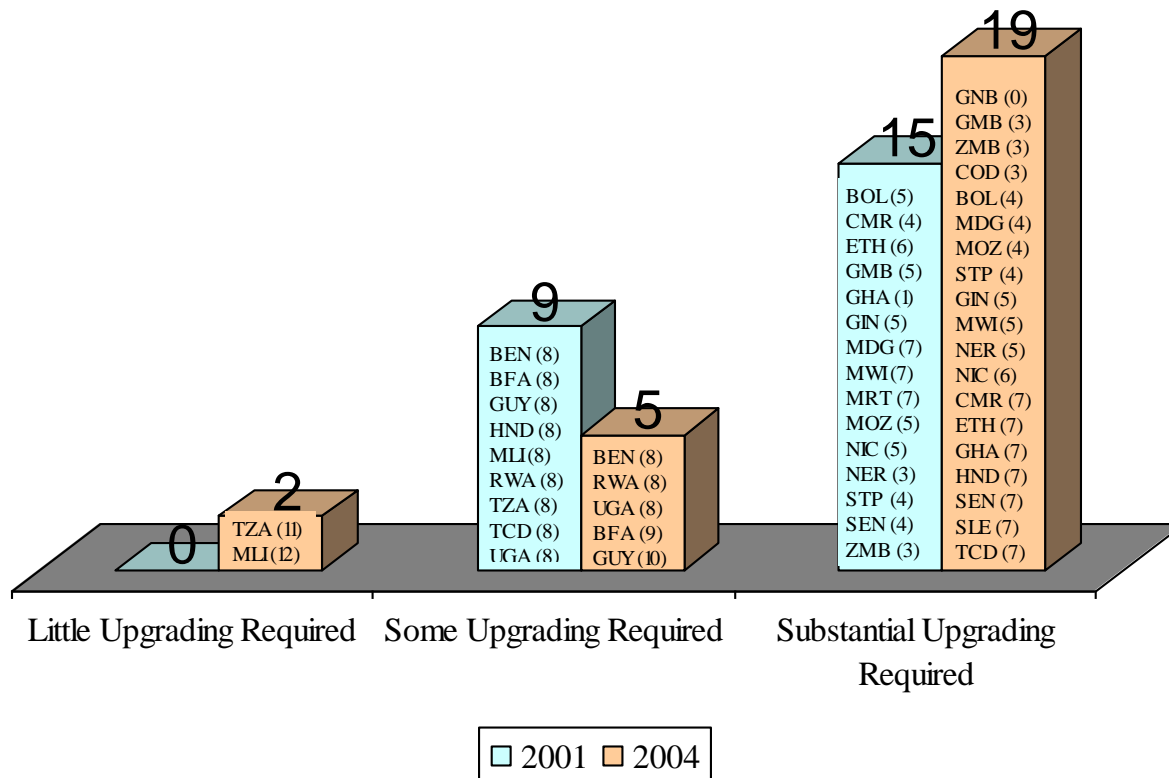
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Comparison of HIPC Expenditure Tracking Assessment Outcomes of 2001 & 2004

Some improvement in HIPC PEM systems performance since 2001, however a majority still require substantial upgrading.

Relative Need for Upgrading PEM Systems

(Number in Paranthese indicate total of benchmarks met)



Broad Lessons from PFM assessment work to date

A large amount of PFM assessment has been undertaken, mostly by development agencies and a good deal of knowledge generated.

Limitations :

- In some cases, the duplication and lack of coordination in the work has led to a **heavy burden** on partner governments
- More focus on diagnostics, less on supporting **implementation of reform of country systems**
- With the exception of the HIPC benchmarks, it has been difficult to determine the extent of **improvement** in a country's PFM performance over time.

***Bottom-line:* country systems generally weak**



Why hasn't there been more progress?

Unhelpful donor practices

Inadequate sequencing of reforms, due to donor pressure or difficulties for government to determine the path of reforms

Fragmented approach to reforms and limited leadership in government

-- PRSP and PEM reforms separate

Limited monitoring of progress, mainly concentrated on inputs -> did not allow lessons learning and did not encourage focus on results on the ground

Capacity constraints

Technical reform versus systemic/institutional change

BUT realism important on achievable pace of change



The Way Forward: A Strengthened Approach


1. **A country-led agenda** – including a PFM reform strategy and action plan
2. **A donor coordinated program of support** – coordinated, coherent, multi-year program of PFM work that supports and is aligned with the government's PFM strategy
3. **A shared information pool** – a common framework and information set for measuring and monitoring results over time

See www1.worldbank.org/publicsector/pe/StrengthenedApproach/



1. A country-led PFM reform strategy and action plan

The government-led reform program

- 
- ◆ Planning and undertaking diagnostic work over time.
 - ◆ Designing a prioritized and sequenced reform program.
 - ◆ Implementing reforms
 - ◆ Monitoring of progress over time.

- Home-grown, country specific agenda.
- Good practices suggest (i) sequence and priorities of reform activities and measures, (ii) holistic view of the PFM system, institutions and processes.
- Informed by policy dialogue with donors.



2. Donor coordination around the PFM reform agenda of the government

Regardless of the number of donors involved in PFM reforms in a country, donor coordination remains important:

- ✦ Coordinated policy dialogue between government and donors would facilitate sequencing and prioritization of reforms.
- ✦ The limited available external resources for analytical support, technical assistance, capacity-building and financing should be allocated to the reform priorities of the government.
- ✦ Multiple requirements of donors and competition between donors should not burden the limited capacities of government.
- ✦ Coordination may facilitate in the medium-term the development of aid modalities that are more supportive of government processes and institutions, e.g. multi-donor trust funds to support reform implementation, use of national procedures, SWAPs, etc.



3. Monitoring of progress of PFM reforms

Monitoring of progress enables **decision-makers** in government and donor agencies to assess the success and difficulties of the reform process and make decisions accordingly.

Depending of the purpose and interest, **different approaches for monitoring progress:**

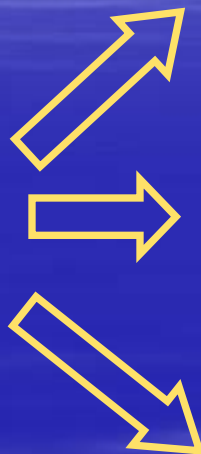
1. **Reform measures/activities** (training, new law, etc.).
2. Implemented **institutional and system changes** (IFMS, new budget calendar, etc.).
3. Changes in **the performance of the PFM system** over the years.
 - > requires a framework that ensures:
 - ◆ Consistency over time;
 - ◆ More precise, objective measurement of progress;
 - ◆ Systematic coverage of the budget cycle.



The Performance Measurement Framework

A standard set of high level indicators

- Widely accepted but limited in number
- Broad measures of performance relative to key PFM system characteristics
- Enabling credible monitoring of performance and progress over time.



A PFM Performance Report

- Integrative, narrative report based on the indicators and assessing performance; based on observable, empirical evidence.
- Updated periodically, depending on country circumstances and operational needs
- Contributing to coordinated assessment
- Feeds into government-donor policy dialogue

An explicit performance measurement framework focuses on capacity-building and results on the ground.



PEFA Indicator Coverage

- 11. Orderliness in annual budget process
- 12. Multi-year perspective

Budget Formulation

Budget Execution

- 13. Transparency of taxpayer obligations and liabilities
- 14. Effectiveness of taxpayer registration and assessment
- 15. Effectiveness of tax collection
- 16. Predictability of funds for commitment
- 17. Recording/management of cash, debt and guarantees
- 18. Effectiveness of payroll controls
- 19. Competition, value for money and controls in procurement
- 20. Effectiveness of internal controls
- 21. Effectiveness of internal audit

- 26. External audit
- 27. Legislative scrutiny of budget
- 28. Legislative scrutiny of external audit reports

External Audit and Oversight

Accounting and Reporting

- 22. Accounts reconciliation
- 23. Resources received by service delivery units
- 24. Quality and timeliness of in-year budget reports
- 25. Quality and timeliness of annual financial statements

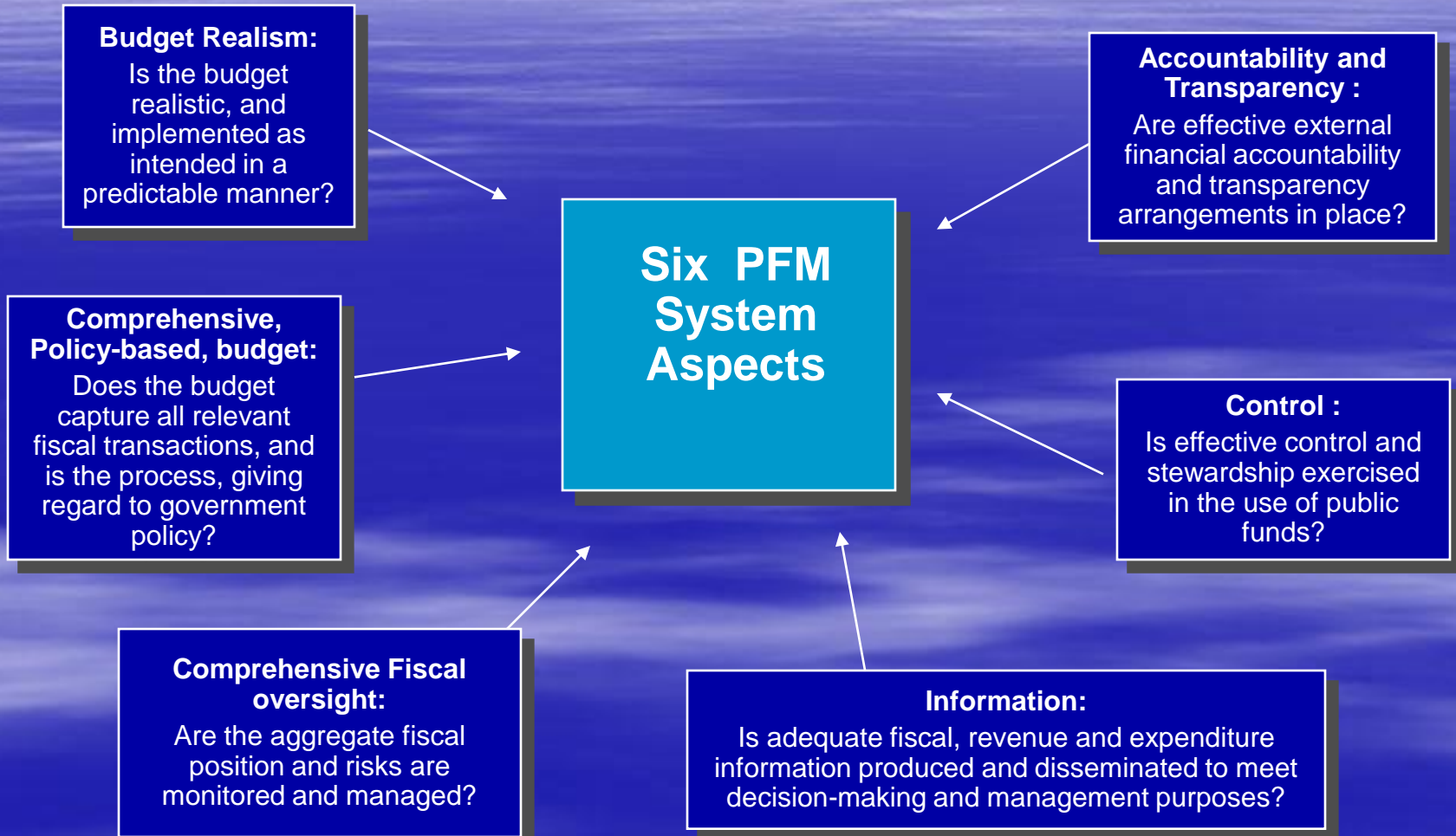
Cross-cutting Indicators

- | | |
|--|--|
| 1. Aggregate expenditure out-turn | 6. Comprehensiveness of information |
| 2. Composition of expenditure out-turn | 7. unreported government operations |
| 3. Aggregate revenue out-turn | 8. Transparency of inter-governmental fiscal relations |
| 4. Payment arrears | 9. Oversight of aggregate fiscal risk |
| 5. Classification of the budget | 10. Public access to key fiscal information |

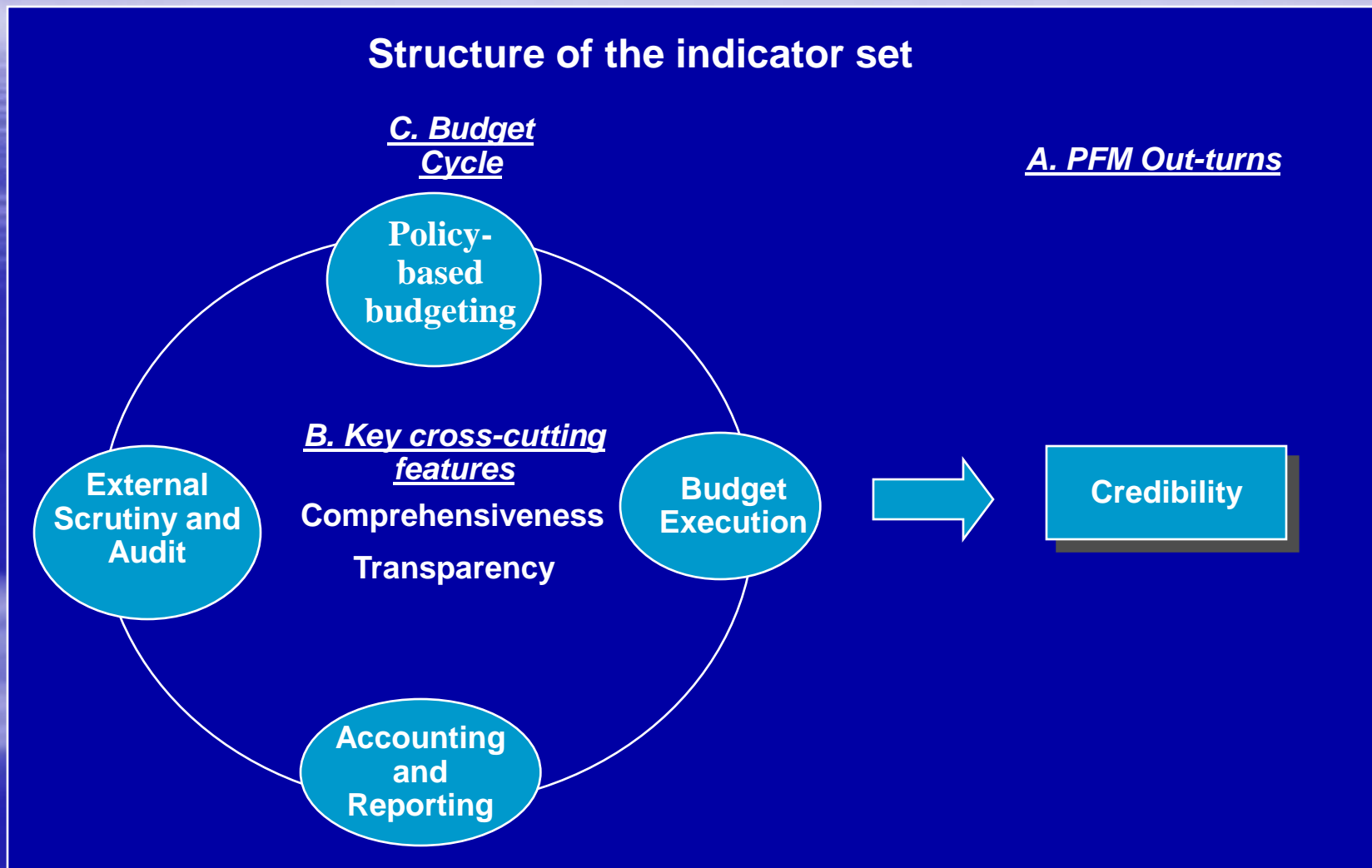


MEASURING WHAT PERFORMANCE ?

The questions the PFM performance indicators seek to answer



STRUCTURE AND CONTENT OF THE INDICATORS



THE CURRENT STANDARD SET OF HIGH-LEVEL INDICATORS

A. PFM OUT-TURNS

PI-1 Aggregate expenditure out-turn compared to original approved budget

PI-2 Composition of expenditure out-turn compared to original approved budget

PI-3 Aggregate revenue out-turn compared to original approved budget

PI-4 Stock and monitoring of expenditure payment arrears



THE CURRENT STANDARD SET OF HIGH-LEVEL INDICATORS

B. KEY CROSS-CUTTING FEATURES : COMPREHENSIVENESS AND TRANSPARENCY

PI-5 **Classification of the budget**

PI-6 **Comprehensiveness of information included in budget documentation**

PI-7 **Extent of unreported government operations**

PI-8 **Transparency of inter-governmental fiscal relations**

PI-9 **Oversight of aggregate fiscal risk from other public sector entities**

PI-10 **Public access to key fiscal information**



THE CURRENT STANDARD SET OF HIGH-LEVEL INDICATORS

C. BUDGET CYCLE

i. Policy-Based Budgeting

PI-11 Orderliness and participation in the annual budget process

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting



THE CURRENT STANDARD SET OF HIGH-LEVEL INDICATORS

C. BUDGET CYCLE

ii. Predictability and Control in Budget Execution

- PI-13** Transparency of taxpayer obligations and liabilities
- PI-14** Effectiveness of measures for taxpayer registration and tax assessment
- PI-15** Effectiveness in collection of tax payments
- PI-16** Predictability in the availability of funds for commitment of expenditures
- PI-17** Recording and management of cash balances, debt and guarantees
- PI-18** Effectiveness of payroll controls
- PI-19** Competition, value for money and controls in procurement
- PI-20** Effectiveness of internal controls for non-salary expenditure and assets management
- PI-21** Effectiveness of internal audit



THE CURRENT STANDARD SET OF HIGH-LEVEL INDICATORS

C. BUDGET CYCLE

iii. Accounting, Recording and Reporting

PI-22 Timeliness and regularity of accounts reconciliation

PI-23 Availability of information on resources received by service delivery units

PI-24 Quality and timeliness of in-year budget reports

PI-25 Quality and timeliness of annual financial statements

C. BUDGET CYCLE

iv. External accountability, audit and scrutiny

PI-26 Scope, nature and follow-up of external audit

PI-27 Legislative scrutiny of the annual budget law

PI-28 Legislative scrutiny of external audit reports



THE CURRENT STANDARD SET OF HIGH-LEVEL INDICATORS

Indicators of donor practices

D-1 Predictability of Direct Budget Support

D-2 Financial information provided by donors for budgeting and reporting on project and program aid

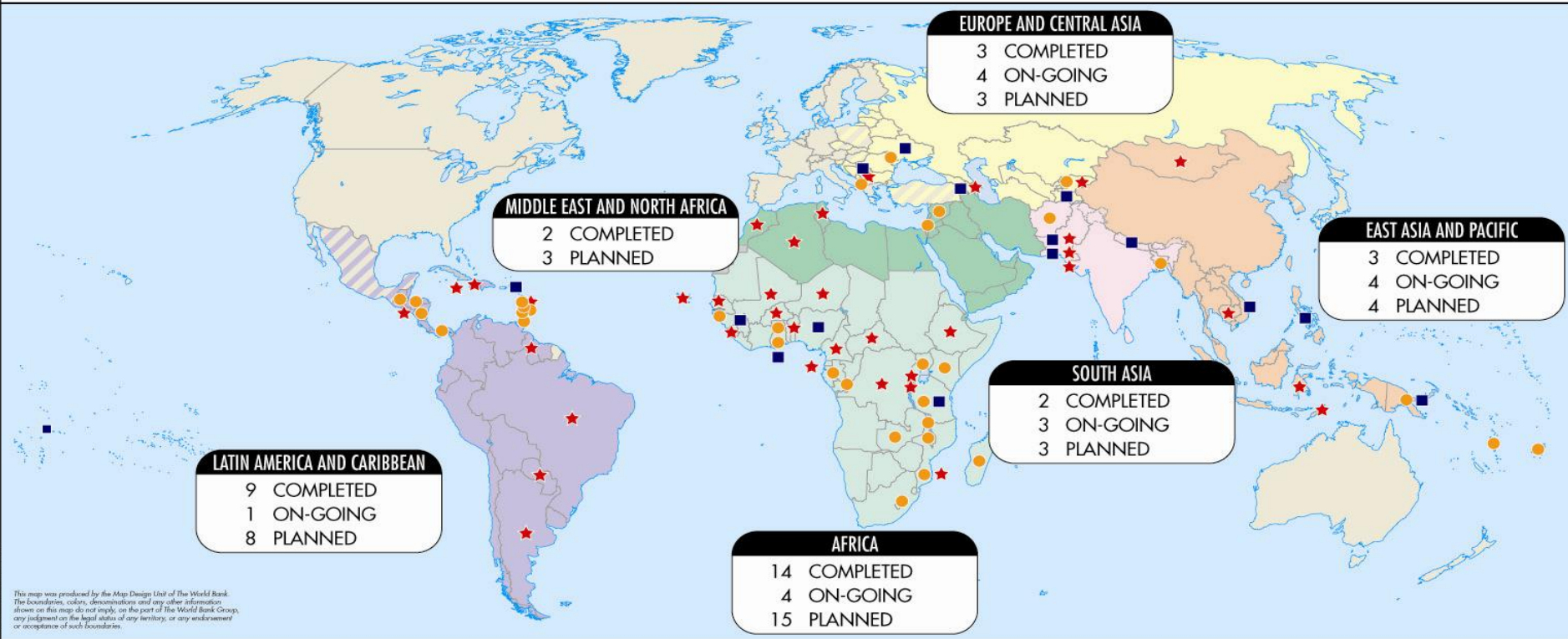
D-3 Proportion of aid that is managed by use of national procedures



Geographical distribution

PFM ASSESSMENT BASED ON PEFA FRAMEWORK STATUS OCTOBER 2006

- 33 SUBSTANTIALLY COMPLETED
- 16 ON-GOING BUT REPORT NOT YET RECEIVED
- ★ 36 PLANNED



NOVEMBER 2006

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Next Steps

- Just undertaking an assessment provides a baseline of current performance
 - After an assessment, what next?
 - How can the assessment and results be used?
 - How might the indicators be used in future?

