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Organisation de Coopération et de Développement Économiques
Organisation for Economic Co-operation and Development

30-Jul-2008

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**DEVELOPMENT CO-OPERATION DIRECTORATE
Development Assistance Committee**

**DCD/DAC/EFF/M(2008)9/PROV
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Working Party on Aid Effectiveness

**DRAFT SUMMARY OF THE ELEVENTH MEETING OF THE JOINT VENTURE ON PUBLIC
FINANCIAL MANAGEMENT**

Held on 28 May 2008 at the South African Treasury in Pretoria

This draft summary is submitted FOR APPROVAL at the next meeting of the Joint Venture on Public Financial Management.

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JT03249339

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DRAFT SUMMARY OF THE ELEVENTH MEETING OF THE JOINT VENTURE ON PUBLIC FINANCIAL MANAGEMENT

Item 1: Adoption of the Agenda and Summary of the last meeting

1. The Co-Chairs, Anthony Hegarty (World Bank) and Riccardo Maggi (European Commission) welcomed participants to the eleventh meeting of the Joint Venture on Public Financial Management and thanked Neil Cole (South African Treasury) for hosting the meeting at the Treasury in South Africa.

2. The agenda and summary of the last meeting of the Joint Venture [DCD/DAC/EFF/M(2008)2/PROV] were adopted.

Item 2: Joint Venture on PFM meeting (27th of May): Key Messages

3. The Co-Chairs introduced the revised draft of the Report on the Use of Country PFM Systems. They noted that this draft benefited from peer reviewer comments and thanked them for their contributions. The co-Chairs outlined the key messages from a broader consultation meeting in the context of the upcoming Accra High Level Forum on the use of country systems. The meeting, held on the 27th of May in Pretoria, was jointly organised by the Joint Venture on PFM and CABRI, and brought together 14 partner countries from Africa and Asia. A number of positive messages were outlined during this consultation including:

- The strengthening of PFM systems and reforms undertaken in partner countries which suggested a real move from diagnosis to implementation.
- Common tools are being used to assess the quality of PFM systems and in particular through the Public Expenditure & Financial Accountability initiative.
- Donors are increasing their use of country PFM systems.

4. Despite progress, however, challenges remain in the use of country PFM systems. In particular:

- PFM reform at country level is still tentative in many cases and is a long-term endeavour;
- Capacity building becomes even more important as the move from diagnosis to implementation is concretised;
- The 2008 Survey results show that the use of country PFM systems has not increased significantly; and
- Challenges for PEFA remain including the planning of the diagnostic at the country level.

5. The main conclusions from the consultation meeting held on the 27th of May 2008 were that the remaining challenges needed to be met head-on at the international level, donor headquarter level and at

the country level. The latter will prove to be the most important to ensure that the work on increasing the use of country systems is operationalised within the local aid architecture.

6. Building on the discussions held at the consultative meeting, the key messages for the report on the Use of Country PFM Systems were outlined as follows:

- ***Improved reliance on emerging lessons from partners and donors in the use of country PFM systems.*** This would include multi-year PFM diagnostics; support for South-South learning on PFM reform; and proposing a role for the OECD-DAC Joint Venture in disseminating those lessons.
- ***Enhanced role for Partner Countries in ensuring the use of country PFM systems.*** This would include strengthening alignment as a function of leadership provided by partner countries with credible reform strategies; the importance of aid management strategies; and broadening the debate beyond technical issues to good governance.
- ***Donors need to better equip themselves for the implementation of the use of country PFM systems.*** This includes better guidance and knowledge about partner countries' PFM systems; shifting the onus of proof, for example, so that donors must justify the non-use of country PFM systems; and balancing the risks and benefits of using those systems through better risk management. Moreover, there should be increased use of those modalities that facilitate the use of country systems, reduce the number of project implementation units, and ensure the timely provision of information to partners.
- ***The demand for the implementation of the Paris Commitments needs to be strengthened both within donors and partner countries.*** This includes not only within partner countries, but also accountability bodies in donor countries.
- ***The need for better communication amongst donors and partner countries as well as a broader set of stakeholders on the benefits of using country PFM systems.*** There is an overriding need for better communication at all levels to ensure expectations are managed in the use of countries' systems. Whilst noting the risks, positive experiences should be highlighted in the use of country PFM systems.

7. Members welcomed these key messages and noted the significant improvements in the new draft of the report. General comments on the report related to the need to:

- ensure a positive story and linking PFM reforms as necessary for economic growth and effective service delivery;
- be more explicit on what constitutes a good PFM system and that in order to use country systems these need to be acceptable and not just in progress;
- acknowledge the importance of procurement in determining the impact of PFM reforms;
- develop PFM systems that are commensurate with institutional and policy capacities and acknowledge the importance of basics as a foundation for a good PFM system;
- not limit a discussion on the diagnostics of PFM to the PEFA exercise, but to also include the IMF's ROSC and World Bank's CFAA as part of a multi-year diagnostic plan at the country level; and

- acknowledge the impact of non-DAC donors in the quality and success of PFM reform.

8. It was agreed that a balance should be reached between the rationalization of the diagnostics as well as the need to acknowledge that although PEFA coverage is comprehensive, other diagnostics may cover issues not included within PEFA. It was agreed that there was a need to commission further research to ensure case studies could show where country systems have been used and the benefits accrued (and not only for countries receiving budget support).

Item 3: Report on Use of Country Systems: Introduction and Chapter One

9. The co-chair (Riccardo Maggi) presented the first chapter by outlining changes to the structure in response to comments from Joint Venture members during the previous meeting.

10. In the ensuing discussion, members noted the need to:

- Better identify the typologies for defining the use of country systems (including those outlined in the CABRI/SPA study; PEFA and Paris Declaration indicators); and
- The need to flag the implementation of sector wide approaches.

11. The co-chairs noted that despite the challenges inherent to the Paris Declaration indicators, these were strengthened in 2008 compared to 2006. It was agreed that an annex would be included in the report charting the different typologies on the use of country PFM systems (comparing CABRI, PEFA, and the relevant Paris Declaration indicators).

Item 4: Chapter Two: Aid Effectiveness and the use of Country Systems.

12. The co-chair (Riccardo Maggi) summarized the key messages in Chapter Two relating to the rationale for using country PFM systems. The co-chair remarked that the sections relating to the survey results will be included when these are available and integrated in the final version of the document. Following the discussion in the broader consultation on PFM and use of country systems (27th of May), it was noted that this chapter would also flag the importance of broader factors in the effectiveness of PFM reform and the use of country systems including governance, corruption, and the quality of democratic institutions.

13. Members noted the following points in relation to this chapter:

- The need to note that even when PFM systems may be sound, service delivery may not always improve.
- The chapter should recommend that PFM strategies be linked with the broader aid management strategy.
- The report should highlight how PEFA has an impact at country level to spur on reform.

14. It was agreed that the importance of strengthening PFM systems would be placed in a broader context and the report would acknowledge that improving PFM is only one aspect of better governance which lies at the heart of reaching the MDGs.

Issue 5: Chapter Three: Strengthening Country PFM systems

15. The co-chair (Anthony Hegarty) introduced the structure of this chapter focusing on the key drivers of successful PFM reforms. These included the importance of capacity development and the role of political economy in the implementation of reforms.

16. In the subsequent discussion, members focused on the following main points.

- This chapter should focus on capacity development for all components of the PFM system (such as including external financing in revenue and appropriations approved by parliament) and should include references to Volume 2 of the DAC guidelines, and the IMF study on fragile states.
- Capacity development should also apply to donors and their ability to use country PFM systems.
- The inclusion of examples not only from Africa but from Asia as well and the need to flag examples from Middle Income Countries.
- A reference to IFAC standards should be included in the text.
- Further evidence should be drawn from the professionalization of cadres in a PFM context.

17. It was agreed that members would provide examples from Francophone Africa and Asia, and would provide text on Capacity Development and the importance of professionalization of cadres. The World Bank noted that case studies could also be found within its FM solutions series which included 5 PFM cases and which highlight successes and failures in PFM reform. Moreover, further research is needed on the politics of PFM reform and could be undertaken by the Joint Venture.

Issue 6: Chapter Four: Donor Practices in the use of Country PFM Systems

18. The co-chair (Tony Hegarty) introduced the structure of this chapter focusing on the donor practices in the use of Country PFM Systems. The co-Chair thanked DFID for funding the study on donor approaches to managing risk in the use of country systems. The complexity of risks specific to donor interventions was highlighted as was the need to integrate the use of country systems in donor guidance whilst ensuring that partner countries take the lead.

19. In the ensuing discussion, members focused on the following issues.

- At a minimum, aid should be reflected on budget and on plan given that there is little fiduciary risk for donors of doing so. This would ensure policy ownership by country (on plan); having a comprehensive indication of what is available (on budget); and transparency (on report). It would also reduce the risk of duplicating activities by donors. This should be presented as a positive message.
- The report needs to flag examples of the real benefits of using country PFM systems. Future studies could be undertaken by the Joint Venture in this regard.
- The report should also highlight the risks for donors of NOT using country systems (including jeopardizing the legitimacy of the government).

- The report should also acknowledge the different authorizing environments for the use of country systems as defined by the donor country political leadership.
- It should also be recognised that partner countries may not want donors to use country systems in light of the risks they perceive with the use of those systems.
- The need for explicit guidance on the use of country systems should be a key message in the report alongside the need for staff to justify why they are NOT using country systems or why they are creating parallel PIUs.

20. CABRI presented a proposal relating to the use of country systems as default on plan, on budget, and on report but not necessarily for all PFM components. Members agreed this was an important proposal whilst cautioning against making this too complex for a non-PFM audience by disaggregating the definition of using PFM systems. It was agreed that partner country leadership would be highlighted in the report and as a recommendation all aid should be on plan and on budget and reflected by the budget.

21. It was agreed that a discussion of PIUs would be integrated into this chapter. It was also agreed that reference would be made to IFAC as an acknowledged accounting standard for disclosure of aid flows.

Issue 7: Chapter Five: Measuring the Performance of Country PFM Systems

22. The co-chair (Tony Hegarty) introduced the chapter and outlined its structure and overview. The co-chair highlighted the statistics of global adoption of PEFA – with more than 20 donor agencies and international financial institutions actively involved.

23. In the discussions relating to the chapter and its key messages, members discussed the following issues.

- There was a concern that PEFA was promoted exclusively over other diagnostics which covered areas not-discussed in the PEFA reports.
- It was noted that a multi-year plan for diagnostics should incorporate PEFA repeat assessments to ensure the diagnostic supports PFM reform strategy.
- PEFA should lead to the rationalization of donors' analytic work and should facilitate the coordination between diagnostics from the IMF and World Bank.
- The need to stress that public availability of PEFA is a crucial issue, and depends both on donors and on partner countries.
- The report should stress the need for all stakeholders to engage in the PEFA assessments.
- The report should also highlight that PEFA assessments are relevant to low income countries, middle income countries, and developed countries alike.

24. It was agreed that the example from Norway would refer to its status as a developed country and would provide an example of how PEFA can be applied across country categories. It was also noted that a multi-year component of diagnostics should be a core component and this recommendation would be included in the executive summary.

Issue 8: Executive Summary

25. The co-chairs noted the Executive Summary was the product of a number of iterations following comments from members of the Joint venture. It was also noted that the key messages from the broader consultative meeting held on the 27th of May would be incorporated. The main messages were as follows:

- developing a multi-year program of PFM diagnostics and increase its reliance on the emerging lessons;
- partner countries taking a leading in work on country PFM systems;
- donors better equipping themselves to carry out their commitments related to using country PFM systems;
- partners and donors working together to operationalize the agenda at the country level; and
- the need for better communication at all levels.

26. Members reiterated the need to highlight the partnership between donors and partners for achieving results and to clearly set out responsibilities for both. It was agreed that the authors would redraft the executive summary in line with the broad themes outlined above.

Issue 9: Next Steps & Other business

27. The co-chairs noted that the report will be tabled at the next Working Party on Aid Effectiveness (9-11th of July). The following timetable was agreed at the meeting for the delivery of the report.

Report on the Use of Country PFM Systems	
Dates	Output/Responsibility
6 th June	Examples (text boxes) provided to Authors of the report
11 th of June	The report, revised in light of JV on PFM members, would be sent to JV members
17 th of June	Comments expected from JV on PFM members
25 th of June	Report sent to members of the Working Party on Aid Effectiveness.

28. DFID presented a project brief for a study on strengthening and influencing the international architecture to support the development needs of the public sector, as well as the improvement of an enabling environment for economic growth, which includes improved governance and better public management. A draft will be available in September 2008. DFID would welcome inputs from members of the Joint Venture on the draft study.

29. The World Bank noted that there would be a meeting in Bern on June 20th on support to Supreme Audit institutions.

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28/5/2008

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