

The **PFM Flash Report** offers information about activities under, or relevant for, the PFM Support Programme of the Netherlands Ministry of Foreign Affairs.¹

Special issue:

Public Expenditure and Financial Accountability (PEFA)

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PEFA IN POLICY OF DGIS

The Netherlands were not one of the initiators of PEFA. But DGIS subscribed to it, notably in the aftermath of the High Level Forum on Aid Effectiveness in Paris in 2005, as a way of implementing the Paris Declaration commitments, both on policy-alignment, increasing ownership in reforms and on stimulating joint diagnostic work. The Embassy Support Programme on PFM was used to disseminate the PEFA-methodology as from 2007, based on a new PEFA-module. PEFA was also integrated in the introductory PFM-training at the same time.

Once the approach had been used in a few partner countries, a successful effort was made to base decision

¹ The Public Finance Management (PFM) Support Programme aims at strengthening the internal PFM capacity of employees of the Netherlands Ministry of Foreign Affairs. The goals are to improve internal decision-making, the quality of the policy dialogue and enabling Embassies to get involved in PFM-work including supporting PFM-reform. Participating RNEs in partner countries are coached and trained during several years by an external PFM expert, while capacity building of the Ministry will be provided via the PFM Introduction Course and dissemination activities. For comments or questions related to the PFM Support Programme, please contact Henk van Trigt (henk-van.trigt@minbuza.nl), Mirco Goudriaan (mirco.goudriaan@minbuza.nl), or Lianne Houben (lianne.houben@minbuza.nl). For comments or questions related to the PFM Flash Report please contact Laura Thissen (laura.thissen@ecorys.com).

making on PEFA as the most integrated and comprehensive assessment of PFM performance in a country. DGIS bases policy decisions on aid modalities –balancing developmental benefits of alignment with risks thereof- and on Strategic Planning on the so-called Track Record. A first pilot to use PEFA in the Track Record was done at the end of 2006. It involved a somewhat complicated use of the PEFA-indicators. The findings in the pilot militated for using PEFA-information as presented in its entirety, without deriving new indicators or constructing indexes.

The revised approach was adopted for use in the Track Record at the end of 2007. This –full- Track Record was also the basis of the new Multi-Annual Strategic Plans 2008-2011 of our Embassies. Thus Embassies were stimulated, if still necessary, to be involved in PEFA. In partner countries in which PEFA was not yet being used, Embassies used the older approach to PFM-assessment based on MTEFs, PERs, CFAA and reports of the national SAI.

This PFM-flash provides some feedback from five Embassies on this approach and the role of PEFA in development co-operation in practice. PEFA is being used and appreciated. The Netherlands/DGIS feels PEFA can still be improved by focusing more on the role of PFM in public service delivery for poverty alleviation. This notably by giving more emphasis to sectoral aspects of PFM, fiscal decentralisation and taxation aspects. DGIS is considering using the PEFA approach also –if necessary slightly modified- for fiduciary risks assessment jointly with other donor organisations.

But this does not mean that DGIS feels that all other PFM-instruments are redundant once PEFA is adopted. Other instruments should however be used in a planned and conscious way in order to underpin certain aspects of the PFM-assessment and PFM-reform activities, if and when necessary for developmental reasons; not routinely imposed by donors.

Definitely PEFA is considered to be a success by DGIS, in spite of the fact that one of its original aims, reducing the number of PFM-assessment instruments used by the different donor-organisations in development co-operation in order to reduce transaction costs, has not –yet- been achieved.

PEFA IN GENERAL:

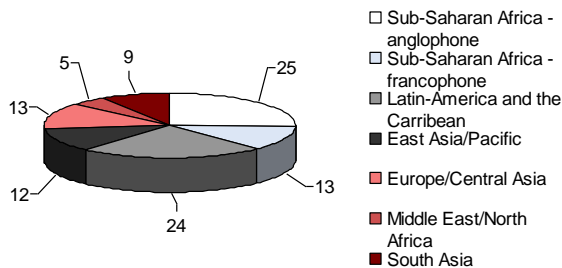
Countries covered

PEFA assessments are used particularly in Sub-Saharan Africa (38%) and Latin America and the Caribbean (24%). Two thirds of all PEFA's conducted in the latter region concern islands with small populations. 12-13% of PEFA assessments were carried out in East Asia/Pacific and Europe/Central Asia, respectively. During the past two years, PEFA's carried out in



francophone Sub-Saharan Africa caught up and now 38% of Sub-Saharan Africa PEFA's relate to francophone Africa (see picture).

Number of PEFA's per region ²



The outlook for the end of 2008 is that 90 countries will be covered and 10 repeat assessments will be carried out.

PEFA's at subnational level

Increasingly, the Framework is being used at sub-national government level (12% of all assessments). Two assessments (Uganda 2005 and Tanzania 2006) have measured performance both at central and sub-national level simultaneously.

PEFA's in fragile states

Thirty-one percent of fragile states have already conducted PEFA assessments. Completion of the assessments has proved difficult in some states, however. It will be no surprise that performance of fragile states is generally poorer than that of non-fragile states.

Results over time

A study that was conducted by De Renzio and Dorotinsky in the fall of 2007 tried to capture progress in PFM-reform by comparing the scoring of HIPC indicators (in 2001 and 2004) with PEFA indicators (in 2006 and 2007) in 15 countries³. Since only limited overlap exists between HIPC and PEFA indicators, covering the entire budget cycle was not possible. The 11 indicators included in the analysis primarily cover budget formulation and execution, with only one indicator covering budget reporting, and no coverage of procurement issues.

Nonetheless, interesting conclusions on trends could be drawn from the comparison. Looking at the whole period from 2001 to 2006, the overall picture hides significant variation across countries. Burkina Faso, Ghana, Guyana, Tanzania, and Zambia have made most

progress during 2001-2006. The group of better performers remains similar but expands over time. Poor performers include Benin, Guinea, Malawi and São Tomé & Príncipe. Changes across areas and indicators also reveal interesting patterns. In terms of phases of the budget cycle, improvements are evident, for example, in budget classification, budget reliability and external audit. However, areas where weaknesses are still common include internal controls, the inclusion of donor funds in the budget and expenditure arrears.

The results highlight the need to better understand the dynamics leading to changes in PFM system performance. An initial attempt to explore dynamics suggests that initial PFM system condition and government commitment (measured through the implementation of action plans) are the best predictors of future improvements in assessed performance.⁴

What are formulae for success?

As the PEFA PFM Performance Measurement Framework is rolled out in a growing number of countries, both consultants and the countries themselves are gaining increased experience in applying the Framework. Because of standardisation, consultants gain more experience in the technical aspects of carrying out a PEFA. As a consequence, PEFA Assessments improve. Moreover, consultants receive training, although on a voluntary basis, further improving their knowledge of the Framework. countries themselves also gain experience with the instrument: in about ten countries repeat assessments are now carried out.

What are formulae for failure?

The successful roll-out of the instrument also has its disadvantages. Since partner countries are getting familiar with the instrument and PEFA is sometimes used as conditionality for aid disbursements, there is a risk that the countries will strive for fulfilment of the donor requirements to reach a higher score without improving the whole picture. The use of PEFA indicators as a condition for providing aid (for example in Performance Assessment Frameworks) is therefore strongly advised against by the PEFA secretariat.

One of the underlying reasons to introduce the PEFA PFM Performance Measurement Framework was to coordinate donor initiatives in partner countries. In spite of the attempts by donors to improve harmonisation and the subsequent roll-out of the PEFA instrument, many partner countries still experience the burden of many other PFM-related studies and assessments. Most of these are carried out on a sectoral level, since PEFA

² Source: PFM Performance Measurement Framework Monitoring Report 2007 - Part I: Roll-out and Quality, adapted.

³ Benin, Burkina Faso, Ghana, Guinea, Guyana, Honduras, Madagascar, Malawi, Mali, Mozambique, Nicaragua, São Tomé and Príncipe, Tanzania, Uganda and Zambia.

⁴ Source: De Renzio and Dorotinsky, 2007, Tracking Progress in the Quality of PFM Systems in HIPCs - An update on past assessments using PEFA data.



primarily focuses on the central government level. Zambia illustrates this: besides the second PEFA Assessment being carried out, separate studies on procurement, a Public Expenditure Review, and Public Expenditure Tracking Surveys in the health and education sectors are being carried out within the same year.

This is also related to the set-up of the instrument. Since PEFA is mainly interested in the basics, demand for analysis by tools with a detailed focus has not ceased to exist. Examples of detailed tools are the Medium Term Expenditure Framework, activity-based budgeting, accrual accounting and the social accounting matrix.

How important is fact-finding in a PEFA mission?

The PEFA Manual points to line ministries of service delivery levels at about 13 of the 28 indicators. In spite of this guidance, the assessments are seldomly judged based on analyses on that level. Most information originates from the Ministries of Finance, without a veracity check on the level of the line ministries. This implies that the PEFA Assessment is carried out from a centralistic viewpoint.

How important are government commitment and ownership in the PEFA exercise?

Partner countries take more initiative and are more closely involved in the PEFA. Although this is a good thing from the perspective of increasing ownership, a tradeoff may exist between ownership and the evidence-based nature of PEFA Assessments. Clearly, Ministries of Finance that are closely involved in the process of conducting the PEFA Assessment judge themselves using the legislation of the Standard Operational Procedures. This implies that there could be a tendency to base your judgment on how the situation ought to be, rather than how the situation is in practice.

The PEFA Framework does not have an instrument to quantitatively measure progress in the reform process; the progress remains descriptive in the Assessment Report. It does not directly reflect or give insight into the sequencing of the reforms, but identifies areas for (quick and long term) improvement. However, as a consequence, donors urge to introduce control mechanisms (internal control, audit). However, control mechanisms can only be functional when the data are reliable.

PEFA IN PRACTICE: EXPERIENCES AT THE EMBASSIES

Further to a request to embassies to share their experiences with PEFA, we received a number of contributions from our embassies in Zambia, Mozambique, Tanzania, Burkina Faso and Benin, which are hereby gratefully acknowledged. This feedback will

help in evaluating our approach and provide information to interested organisations either working with PEFA or not –yet- doing so.

Below you find summaries of the views of the embassies based on the responses we received to our questions. We have added a few tentative conclusions based on the information provided.

Brief description of the outcomes of the exercise and its appreciation

Mozambique:

The second PEFA-study concludes that there have been many improvements in Public Finance Management systems and processes (such as revenue collection and procurement) but also showed that performance should be improved in other areas such as external scrutiny and audit. The PEFA-methodology is highly appreciated by stakeholders in Mozambique. The scoring is felt as being objective and evidence-based. Government institutions have been involved positively; ownership of PEFA is now better. The donors consider PEFA to be a useful instrument to focus PFM-reform.

Tanzania:

In Tanzania, PEFA exercises have been done consecutively since 2004 either as independent assessments or as part of the wider Public Expenditure and Financial Accountability Reviews (PEFAR). Overall, the findings of the PEFA initiatives over the years have been mixed, with some indicators showing significant progress (external audit, revenue mobilization and procurement) while others have shown stagnation (budget classification, budget execution, monitoring and effective oversight). The PEFAR 2006 had an update of the PEFA indicators at central government level and a fiduciary assessment of local government. Update of the PEFA indicators in 2007 was also done as part of PEFAR 2007. Both PEFAR 2006 and 2007 have not yet been officially published because they have not been cleared by the government. Keeping the limitations of the instrument in mind i.e. inability to provide analysis on issues such as effectiveness of the budget implementation, PEFA is widely accepted and appreciated as a tool that has contributed to a harmonized approach for assessments and reforms.

Zambia:

Zambia coordinated the PEFA 2005 assessment with help of consultants. A new PEFA assessment is scheduled for 2008. Outcomes were a total of 9 D-scores mainly for transparency and control in budget execution but there were also D-scores on the donor-side. Zambia has embarked on an ambitious public finance management reform program (PEMFA program). The outcomes of PEFA were integrated in the



PEMFA work plans for 2006 and 2007. The program (and donors) became more focussed towards the areas that had a D-score. That is why donors put pressure on the government of Zambia to approve the new procurement law, which fits in this priority setting.

Burkina Faso:

The donors put PEFA on the PFM agenda in Burkina. The government initially saw it as another tool imposed by donors, but after some lobbying ended up by taking ownership of the exercise. The first PEFA assessment in Burkina was conducted in 2007 and was taken very seriously by government, donors and the consultant's team alike. The findings are widely accepted by stakeholders, and the report has provided a basis for all parties involved to build on for their diagnostics, policy and monitoring efforts. PEFA has probably also fulfilled its function as an instrument for harmonisation and reduction of transaction cost for both government and donors: the World Bank no longer pushes for an additional CFAA.

Benin:

The PEFA exercise in 2007 was important for understanding the main weaknesses and constraints in the PFM system. The analysis was conducted in a spirit of partnership but was still more or less imposed by the donors. Although more ownership from the government would have been welcomed, all partners accepted that the outcomes must now be translated into an action plan for the improvement of the PFM system in Benin. This action plan will be the basis for new donor support activities for PFM improvement, if possible through a basket funding mechanism.

Conclusion:

PEFA assessments are accepted and used by most stakeholders. They help to focus on the weaknesses and constraints in the PFM system and the outcomes are translated in action plans or reform programmes. PEFA not only shows the weaknesses of the local PFM system but also the shortcomings of donors that do not live up to their promises. Ownership of the government is very important and usually increases after a first PEFA. PEFA is an instrument for harmonisation and helps to reduce transaction costs.

2. How important is PEFA for own internal decision making and dialogue?

Mozambique:

The PFM part of the Track Record (TR) is now fully in line with PEFA. When the Embassy had to write its TR 2008, only the previous PEFA, which covered a period ending in 2004, was available. To cover this time gap, the Embassy has made an analysis based upon Joint Review documentation. A positive trend was noted in the TR, which has been confirmed by the latest PEFA.

Now that the TR will only be written once every four years, synchronisation of PEFA and Track Record becomes even more important.

Tanzania:

PEFA results in Tanzania are widely used by donors as the basis of dialogue with the government on issues around Public Financial Management. The Performance Assessment Frameworks (PAF) for poverty reduction budget support has been drawing significant inputs from the outcomes of the PEFA Instruments over the years. The embassy does not exclusively use the outcomes of PEFA to determine the aid modality mix. PEFA assessments have provided useful inputs to the embassy in understanding the trends and situation of the PFM systems in Tanzania.

Zambia:

For most donors in Zambia a PEFA assessment every two to four years is important in their assessment of fiduciary risks for their country programs in Zambia. A number of PFM indicators have been included in the performance assessment framework (PAF) for general budget support and are therefore assessed annually. The same counts for the newly developed PEMFA PAF. Donors will increase the level of sector and general budget support to the country if scores improve. Results as evidenced by the PEFA assessment are key in the mutual accountability dialogue with the government of Zambia. Transparency International, Civil Society for Poverty Reduction, an NGO umbrella organization and Zambia Business Forum have been engaged in the dialogue to improve public finance in Zambia.

Burkina Faso:

The report's summary proved very useful as a basis for the Track Record assessment on PFM. Only small corrections were necessary, making the use of PEFA efficient. This is even more so given the role of the Track Record for multi-year general budget support and sectoral budget support for the PFM Action Plan, both to be prepared in 2008.

Benin:

A PEFA process with ownership of the government is important for the dialogue between government and donors and for internal priority setting. The PEFA outcome has been very helpful in preparing the TR. It has not made the decision process easier since this process is very much influenced by expectations about changes in the future and how these changes can best be influenced. PEFA is explicitly mentioned in the protocol for common general budget support as a first tool to be used for monitoring/evaluating government performance in the domain of PFM. It is not yet clear how PEFA indicators will be incorporated in the PAF.

Conclusion:



PEFA is the main instrument used by the embassies to fill out the PFM part of the Track Record, which underscores internal decision making (choice of aid Modality and multi-annual strategic plan). If necessary, other instruments are also used to get a complete and up-to-date picture of PFM. Synchronisation of the TR with PEFA-assessments would be welcomed by embassies. PEFA-material is widely used in the dialogue and PEFA-indicators as input for PAFs.

3. Did PEFA play a role in the wider PFM reform in the country?

Mozambique:

PEFA helped Government to get a clear view of strengths and weaknesses and of the crucial reforms that were needed. But PEFA is just part of the overall discussion on PFM reform, also because the first PEFA did not lead to a full-fledged action plan. It is expected that the second report will play a bigger role, because the methodology is now more firmly based in Government, with more institutions participating. Donors are basing their efforts more and more along the lines of the PEFA report, a big change from a recent past in which they were based on different reports containing hundreds of -sometimes conflicting- recommendations.

Tanzania:

The PFM reform programs have benefited from the PEFA work. However, the second phase of the PFMRP had limited response to diagnostic studies such as PEFA due to, among others; poor coordination and limited strategic focus of the program. The recently adopted phase three of the program is designed to respond better to diagnostic studies and findings of the National External Audits. As for the development process, PEFA findings have catalysed discussions on important issues such as the link between the budget and the national policies, budget execution at various levels and predictability of resources. They led to notable improvements in these areas.

Zambia:

PEFA –and the recently held OECD-DAC procurement assessment- played a crucial role in setting the agenda for reforms in Zambia. Not only did donors and government better understand where the problems were situated in the complex field of PFM, they also agreed to institute a dialogue on them during the semi-annual meetings of the PEMFA reform program and budget support. This dialogue with government on the reform agenda became harder when results in PEMFA reforms turned out to be slow in coming.

Burkina Faso:

The newly adopted PFM reform strategy and action plan reflect PEFA outcomes in the priorities set for the

years to come. As part of the strategy's monitoring mechanism, a set of result indicators for annual monitoring was developed, which includes 9 out of the 31 PEFA indicators alongside others.

Benin:

Including the results of the PEFA into the action plan is on the agenda. It is too early to comment thereon.

Conclusion:

PEFA does indeed play an important role in the wider PFM reform in the country. Weaknesses and constraints are revealed and action or reform plans are drawn up with the aim to improve the PFM situation. PEFA provides insights to both donors and government, which can be used in the PFM dialogue. It is expected that outcomes of future PEFAs will be more accepted and therefore more effective since governments become more familiar with the system, which increases ownership.

4. Points of interest for the future

Mozambique:

The first PEFA coincided with a ROSC, performed by the IMF. There is a lot of overlap in issues and players involved in both studies, and duplication should be avoided. Another issue is the frequency: basically PEFA assessments are carried out once every three years. General budget support donors consider this a long time span because they want to keep track of developments in the crucial PFM area. Solutions need to be found for the years in-between. This could include good coordination of, and alignment with, other studies and assessments such as PER, PETS and Value for Money audits. Finally, the idea to develop sector and provincial PEFAs is well worth elaborating.

Tanzania:

The PEFA instrument could be enhanced through an increased ownership and engagement of the government in the assessment exercise. The usefulness of the instrument in the past two assessments i.e. 2006 and 2007 have been dented by delays from the government side to provide feedback and sign-off on findings of the assessments. These two PEFA reports have not been finalised and publicised. The report listed on the PEFA website is part of the draft report of the PEFAR 2006, covering only the fiduciary assessment of local government. The instrument seems to be suitable only for central government systems. Its effectiveness could be enhanced by providing flexibility to adapt the methodology and indicators to other sections/levels of the government i.e. local government authorities and para-stats. The effectiveness of PEFA is limited because it does not provide recommendations and action plans to redress observed shortcomings.



Zambia:

Zambia's reform agenda is most likely too ambitious for the five year-period for which it has been scheduled. Support to strengthen the formal structures requires both a formal and informal dialogue. Emphasis on results therefore means looking behind the facade - have informal chats at all levels in government and with civil society and broaden the basis of discussion on PFM to find out where the real bottlenecks are.

An important lesson learned was that some of the key donors were micro managing the components as projects with help of the task managers of the government. This approach was replaced by a performance assessment framework (PAF) that included process indicators and deliverables for the task managers of the 13 components of the PEMFA program. The dialogue on reforms was turned around and made it very clear that performance was very limited. As a result the management structure was changed – less consultants, more highly qualified government staff to 'own' the reforms. The Macro Economic Group (MEG) has the lead in the PFM reform dialogue with the government. In the MEG also the non-like minded donors are represented. By sharing information bottlenecks were identified and the dialogue with government was strengthened.

Burkina Faso:

All stakeholders should be actively involved in the assessment. Government ownership is equally important. The quality of the team of consultants is a very important factor as well, not just in terms of knowledge and analysis, but especially in terms of their ability to involve all actors and ensure that they agree with the report's findings as reflecting reality in an objective manner. It would be a good thing for donors to agree about the status of PEFA in relation to instruments such as ROSC and CFAA and to plan their use. Monitoring relevant PEFA indicators or sub-indicators in a regular way by the government itself prevents surprises for the next PEFA exercise, but ownership and experience with such indicators must be "internalised" further in the government structures concerned.

Benin:

Use existing possibilities to stimulate progress in PFM-reform; both different instruments and the political dialogue. Assuming that there will be one PEFA every two years only, thought should be given to maintaining the momentum of reform over this period. PEFA seems not to make the more traditional instruments fully redundant.

Conclusion:

Donors need to avoid duplication of PFM studies (increase donor harmonization and dialogue) and think of a solution to fill the considerable gap of two to three

years in which no full PEFA assessment is planned. More attention should be given to government ownership of both the assessment and the outcomes. Until now, PEFAs are usually carried out at central government level. A good PFM dialogue between donors and government is extremely important.

THEMATIC STUDY ON FISCAL DECENTRALISATION

The overall objective of the third thematic PFM study is to review experiences with fiscal decentralisation in relation to financing of social service delivery at the local level in a number of partner countries. The country cases will yield a potential agenda for action for respective Embassies. As the functioning of fiscal decentralisation is very country specific, the comparative part of the thematic study can probably not amount to comparison of country systems, but will focus instead on the role of donor-organisations towards the functioning of fiscal decentralisation for service delivery and set an agenda for action. The thematic study has been piloted in the Ghanaian health sector. RNE Bamako, Kampala and Cairo will follow.

PFM INTRODUCTION COURSE ON 10-11 JULY

On Thursday-Friday 10-11 July, the PFM introduction Course will be given in The Hague. It is part of a blended learning approach, which uses three modules of the DANIDA-hosted E-learning, preceding the actual face-to-face course.

The two-day Course aims at familiarising the audience with concepts and instruments of PFM through presentations, cases, exercises, and a role-play simulating a budget process in a developing country. The basic principles of PFM and the budget cycle are discussed; PEFA, Public Expenditure Review, Medium Term Expenditure Framework will be given special attention. Four places have been reserved for participants from other donor organisations. Please sign up at [HDPO](#) if you want to participate.