On 25-26 November the Working Party on Aid Effectiveness convened to discuss the future mandate and working modalities of the Working Party and its subsidiary bodies. It was agreed during the meeting that the Working Party should be organised around four clusters (Ownership and Accountability, Country Systems; Transparent and Responsible Aid; and Assessing Progress). The work on PFM will be undertaken under the remit of the Country Systems cluster.

The purpose of this note is to inform and guide the team preparing the proposal for the Country Systems cluster (§ DCD/DAC/EFF(2008)37) by providing them some deliverables relating to public financial management. Members’ comments are invited on:

• The scope and relevance of the PFM-related outcomes and outputs in supporting the implementation of the relevant Accra Agenda for Action commitments; and

• The key messages and draft recommendations to the Country Systems Cluster scoping exercise team on the work programme and working modalities.

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A. PURPOSE AND STRUCTURE OF THE PAPER

1. The Working Party on Aid Effectiveness convened on November 25-26 to discuss the future mandate and working modalities of the Working Party and its subsidiary bodies with a view to implementing the commitments set out in the AAA by 2010. It was agreed during the meeting that the Working Party should be organized around four main clusters (Ownership and Accountability; Country Systems; Transparent and Responsible Aid; and Assessing Progress). PFM-related outputs will fall under the remit of the Country Systems cluster. The purpose of this paper is to inform and support the discussions in the Country Systems Cluster on issues related to aid and country public financial management (PFM) systems.

2. In order to do so, the paper recalls the objectives and achievements of the Joint Venture on PFM (JV PFM). Without prejudging the decisions of the Country Systems cluster, this paper outlines areas where further work may be required and offers suggestions on the most suitable organisational arrangements. The paper reflects the views of the Co-chairs of the Joint Venture on Public Financial Management, takes into account a first set of comments received from Joint Venture members in November 2008, and was drafted in consultation with the DAC Secretariat.

B. JV PFM: OBJECTIVES

3. The JV PFM was established in 2001 reflecting the importance of emerging international consensus on strengthening partner country PFM systems and their use by donors for channelling aid. Based on the commitments made at the High Level Forums in Rome and Paris, the JV PFM has aimed at: (i) fostering implementation of such commitments; and (ii) sharing PFM knowledge and experiences among donors and partner countries.

4. Since then, and in very simplified terms, JV PFM work has focussed on three core areas:
   A. Measuring the performance of PFM systems.
   B. Strengthening country PFM systems.
   C. Using PFM systems.

5. The JV PFM has done so complementing and drawing on other international processes and country and donor specific activities. Thus, the key role of the JV PFM has been to provide an international platform for dialogue between donors and recipients. For each core area, work has progressively advanced through three separate stages:
   i. Seeking a common understanding of the problem.
   ii. Analysing existing donor practices and country experiences.
   iii. Sharing knowledge and supporting implementation of identified solutions/good practices.
C. JV PFM: ACHIEVEMENTS TO DATE

6. Looking at PFM, the Progress Report on Implementing the Paris Declaration finds that "there have been some notable successes in recent years, as partner countries and donors strive to achieve their Paris Declaration commitments; and many important elements have been put in place on which to build in the coming months and years". The JV PFM has contributed to this progress by providing a forum for donors and partner countries to exchange good practices, lessons learned and innovative ideas in the use and strengthening of country PFM systems.

7. The JV PFM has led, or contributed to, the drafting of three main publications: Harmonising Donor Practices for Effective Aid Delivery, Vol. 1 and 2, and the Report on the Use of Country Systems in Public Financial Management. These publications contain the main results of the work of the JV PFM. This has encouraged progress in a number of key and strategic areas. In particular:

- **Promoting increased use of country systems.** In line with the goals set out in the Paris Declaration, the JV PFM has worked to facilitate the use of strengthened country PFM systems. Activities first focused on agreeing good practices for two particularly relevant aid modalities (Budget Support and Sector-wide Approaches – OECD 2006). Subsequently, in an effort to better communicate the rationale for use of country systems, better understand the reasons behind donors' choices and identify any scope for increased use for a given level of system's quality, the JV prepared a Report on the Use of Country Systems in Public Financial Management (OECD 2008) whose main recommendations were reflected in the Accra Agenda for Action. The Report also looked at issues of risk management in the use of country systems, building upon a DFID-financed report prepared under the auspices of the JV on how donors use performance measurement frameworks to assess risk in using country systems (Mokoro and CIPFA 2008). The JV also welcomed and discussed a report on Putting Aid on Budget commissioned by the Collaborative Africa Budget Reform Initiative (CABRI) in collaboration with the Strategic Partnership for Africa (SPA).

- **Harmonising frameworks for measuring performance in PFM.** As one of the key commitments for donors and partner countries in the Paris Declaration (§20 and 27), the JV’s activities supported progress in the adoption of harmonised measurement frameworks. This led it to work closely with the Public Expenditure and Financial Accountability (PEFA) Secretariat, offering critical and representative feedback on the design and implementation of the PEFA PFM Performance Monitoring Framework. In this context, the JV PFM also acted as a centralised conduit for the sharing of information among donors and partners about planned PFM diagnostics. Published materials include: Measuring Performance in Public Financial Management (OECD 2003), Consultative Draft – PFM performance Indicators (OECD 2006) and Measuring the Performance of Country PFM Systems (OECD 2008).


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1 All published by the OECD in 2003, 2006 and 2008 respectively.
• **Supporting the monitoring of the Paris Declaration.** The JV has been offering technical support to the JV on Monitoring the Paris Declaration for the areas and indicators with PFM relevance. JV PFM guidance and ad hoc support has covered the design of targets and the interpretation of the information collected through the monitoring surveys.

• **Improving transparency of information on aid flows.** Increasing transparency of information on aid flows is a critical objective for improving the effective use of aid as outlined in the Paris Declaration (§25-26). Working with the International Public Sector Accounting Standards Board (IPSASB), the JV supported the development of an accounting standard for the disclosure of external assistance, *Disclosure Requirements for Recipients of External Assistance (Financial Reporting under the Cash Basis of Accounting)*. The Exposure Draft of this standard – ED 32 – was approved in November 2007.

• **Fostering global and regional partnerships on PFM.** The JV has engaged in dialogue with a number of relevant professional networks including INTOSAI, CIPFA, IFAC, and regional bodies (CABRI, ESAAG and SPA) on strengthening PFM as well as increasing the use of country systems in PFM. Two JV PFM events were held in collaboration with ESAAG (April 2007) and CABRI (May 2008). These events supported wider partner country consultation around JV PFM outputs.

8. **Future directions of PFM activities.** The JV has identified a set of priorities for future work. More generally, reflections on future PFM related activities under the auspices of the Working Party should duly consider *where do we stand, where do we aim to go and how do we get there*. Each is treated in turn in sections D, E and F.

D. **PFM ISSUES AND AID EFFECTIVENESS AGENDA: WHERE DO WE STAND?**

9. There are two dimensions to this question. The first concerns the progress achieved by partners and donors towards the relevant Paris Declaration targets. The second concerns the progress made by the JV PFM towards achieving its own goals as outlined in the previous section. An analysis of these two dimensions suggests the following general conclusions:

• Although some progress has been made, there is a need to systematically accelerate efforts to use and strengthen country systems, including those relating to PFM.2

• Although the JV PFM has made significant progress in all three core areas and across all three stages, substantially more needs to be done and in particular at the country level.3

• In the case of all country systems, work will likely address the same core areas (measuring/strengthening/using) and go through the same stages (jointly understanding/analysing/solving) as for the PFM work recalled above.4 In particular, cross-cutting issues present themselves in relation to system performance measurement and fiduciary risk considerations. Despite parallelisms in format, however, work around different country systems5 differs in substance,

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3 As implicitly reflect in the relevant text of the AAA (§ 15). Harmonised performance assessment frameworks have just begun being rolled out, PFM systems still needs strengthening and measures can still be taken to facilitate their use by donors.

4 This is indeed already shown quite clearly by the parallelisms in the format of the work programmes of the JV PFM and the JV Procurement.

5 Apart from PFM, procurement, monitoring and evaluation, statistics and social and environmental assessment.
presents specific challenges and is at different stages of development. Any future organisational arrangement should duly take this into account.

E. PFM ISSUES AND AID EFFECTIVENESS AGENDA: WHERE DO WE AIM TO GO?

10. Both the Accra Agenda for Action (AAA) and monitoring results underpinning it clearly point to areas where further PFM work is needed in order to accelerate and deepen the use of country systems:

- The 2008 Survey on Monitoring the Paris Declaration clearly shows that more work is needed. The results from the most recent Survey show that since 2005, 36% of countries have improved their score for the quality of their PFM system. The Survey notes that: ‘This is a remarkable change, which fits favourably with the Paris Declaration target that half of countries move up half a point over the five years from 2005 to 2010’. And yet, despite the increase in quality, the use of those systems by donors has not increased substantially. In 2007, the use of country systems in PFM was 45% -- falling well short of the 80% target set in Paris for 2010.

- The AAA reiterates and deepens the commitments made by the Paris Declaration on Aid Effectiveness. It includes strong commitments directly related to the strengthening and use of country systems (§15 – see Box 1). It also underscores the need to improve PFM to meet other commitments (for instance, improving budget planning processes for better managing domestic and external resources - §26, and facilitating parliamentary oversight and enhancing transparency to achieve greater accountability - §24).

Box 1. Accra Agenda for Action – Commitments on Country Systems

In the AAA, donors and partners commit to strengthen and use developing country systems to the maximum extent possible. Paragraph 15 explains the underlying rationale and lists a set of actions:

"15. Successful development depends to a large extent on a government’s capacity to implement its policies and manage public resources through its own institutions and systems. In the Paris Declaration, developing countries committed to strengthen their systems and donors committed to use those systems to the maximum extent possible. Evidence shows, however, that developing countries and donors are not on track to meet these commitments. Progress in improving the quality of country systems varies considerably among countries; and even when there are good-quality country systems, donors often do not use them. Yet it is recognised that using country systems promotes their development. To strengthen and increase the use of country systems, we will take the following actions:

a) Donors agree to use country systems as the first option for aid programmes in support of activities managed by the public sector.

b) Should donors choose to use another option and rely on aid delivery mechanisms outside country systems (including parallel project implementation units), they will transparently state the rationale for this and will review their positions at regular intervals. Where use of country systems is not feasible, donors will establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures.

c) Developing countries and donors will jointly assess the quality of country systems in a country-led process using mutually agreed diagnostic tools. Where country systems require further strengthening, developing countries will lead in defining reform programmes and priorities. Donors will support these reforms and provide capacity development assistance.

D) Donors will immediately start working on and sharing transparent plans for undertaking their Paris commitments on using country systems in all forms of development assistance; provide staff guidance on how these systems can be used; and ensure that internal incentives encourage their use. They will finalise these plans as a matter of urgency.

e) Donors recollect and reaffirm their Paris Declaration commitment to provide 66% of aid as programme-based approaches. In addition, donors will aim to channel 50% or more of government-to-government assistance through country fiduciary systems, including by increasing the percentage of assistance provided through programme based approaches."
The JV PFM Report on the Use of Country Systems in PFM includes a list of detailed recommendations on how best to strengthen country systems in PFM and increase their use by donors (see Box 2 for a summary).


The Report sets out the following five key recommendations on how best to strengthen and increase the use of country systems in PFM:

- **Partner countries should take an enhanced role in work on country PFM systems** which includes countries taking the lead in strengthening PFM systems, developing a credible strategy for PFM reform, and creating an enabling environment for reform to take place.

- **Donors should better equip themselves to carry out their commitments related to using country PFM systems.** This entails donors adopting internal measures and incentives to enhance their ability to fulfil their Paris Declaration commitments.

- **Partner countries and donors need to work together to operationalise this agenda at the country level.** This means encouraging country and donor staff to work together in partnership to promote sound budgeting and an integrated approach, and showing that they are delivering on their commitments.

- **The development community should develop a multiyear program of PFM diagnostics and increase its reliance on the emerging lessons.** This includes encouraging and promoting South-South learning mechanisms; and for the OECD-DAC Joint Venture on Public Financial Management to identify and disseminate lessons learned from work on country PFM systems.

- **There is a need for better communication at all levels.** The report notes that partner countries and donors should work internally and within their external accountability bodies to strengthen the demand for implementation of the Paris Declaration.

F. PFM ISSUES AND AID EFFECTIVENESS AGENDA: HOW DO WE GET THERE?

11. The above suggests that work on aid effectiveness and use of country PFM systems has now clearly entered the implementation stage. This makes the country level the key locus of activity going forward. Specifically, it is at the country level that partner and donors must come together in order to operationalise the Paris Declaration and the Accra Agenda. In doing so, they will be able to rely on the common understandings, lessons learned and good practices identified through the JV PFM work.

12. Judging by its achievements, the JV-PFM has worked well as an international platform for dialogue around PFM issues between donors and partners. The need for such a platform to carry out a work programme complementary to country level implementation efforts continues to be high given that:

- **There remains a need to monitor and offer guidance on related international processes** – a key example of this is the role of the JV PFM vis-à-vis the PEFA programme. The signatories to the Paris Declaration are the most representative group focusing on PFM issues with wide coverage of partner countries which the PEFA Framework primarily try to reach. PEFA has led the definition and rolling out of harmonised assessments of PFM systems and will continue to need an anchor point like the JV PFM to ensure that such work continues to reflect the concerns of the broader donor and partner community (and is therefore used widely and ultimately successful).

- **Emerging issues still require going through the three stages of work highlighted above** – Examples include work on: practical ways to use country systems under different aid modalities, defining and managing the attached risks, identifying the best safeguards, developing multi-year programmes of PFM diagnostics etc.
• It is opportune to facilitate the sharing of country-level experiences – the fact that operationalisation is largely a country-specific issue does not mean that lessons of broader relevance cannot be learned and disseminated by the analysis of specific cases. Such activities can take place through modalities which are by now well-established in the JV PFM or by piloting more pro-active efforts (for instance offering on a voluntary basis the possibility of JV-PFM sponsored peer-review country missions analysing the state of play for PFM-related issues in the local aid effectiveness architecture).

• An international platform can support the growth and emergence of South-South and triangular cooperation and networks. Thus, for instance, activities already carried out with CABRI and ESAAG can be deepened and/or expanded to other networks across Africa and other regions and including with Middle Income Countries (e.g. the Center for Tax Policy and Administration and SIGMA\(^6\)).

13. Building on the success of the current JV PFM structure offers the best assurance of being able to frame the work programme within a coherent agenda, drive it forward effectively and act as an anchor point for other relevant processes and bodies. However, its work programme and working methods require adaptation to the priorities post-Accra. In that regard, our recommendations for the Joint Venture on Public Financial Management (irrespective of its future exact classification) are:

   I. It should complement implementation efforts at the country-level by advancing work in the core areas identified above, as well as by adding new core areas to reflect the evolving priorities of the aid effectiveness agenda. The latter would point towards the need for more attention to communication issues, greater inclusiveness, a larger role for South-South cooperation and experts' networks/communities and more in-depth consideration of the issues and lessons for middle-income countries and fragile states. Annex I presents a proposed work programme for such a platform.

   II. The working methods and membership of the JV on PFM should be revised to better reflect the challenges of the new work plan. While meetings between experts in Paris would probably continue, members of the new structure should meet more regularly in partner countries, increase its interactions/joint events with other relevant bodies and arrange regular joint meetings with other structures dealing with country systems under the Working Party (to address cross-cutting issues, notably with procurement). Membership could be expanded on either a regular or ad hoc basis to include representatives from relevant institutions in donor and partner countries (for instance, parliaments and supreme auditing institutions), other international groups working in the PFM field and civil society. Greater representation from middle-income countries should also be actively sought.

   III. With a view to ensuring better coordination between the various workstreams and to enhance its accountability, the JV on PFM should prepare and submit to the Working Party an annual report highlighting achievements during the year and a work plan for the following year.

14. The following table in Annex I outlines a proposed work programme on PFM-related activities related to the implementation of the Paris Declaration and Accra Agenda for Action commitments by 2010.

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\(^6\) Support for Improvement in Governance and Management in Central and Eastern European Countries (SIGMA)
Donors and Partner countries work together to (i) foster the implementation of commitments made in the Paris Declaration and the Accra Agenda for Action, and (ii) share PFM knowledge and experiences among donors and partner countries.

### Main Outcomes & Outputs

#### Task A: Using Country Systems (§15 in the Accra Agenda for Action)

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<th>Expected Outcomes</th>
<th>Outputs: 2009-2011</th>
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| ► The adoption of AAA commitments on the use of country systems are effectively monitored through well-designed indicators.  
► Partnerships at the international and country level to implement the AAA commitments on the use of country systems are strengthened.  
► High quality donor plans and staff guidance on use of country PFM systems are produced. | ► Case studies on the appropriate use of country systems across various aid modalities and country circumstances, including on risk management.  
► Demand-driven monitoring of donor practices and incentives at the country level including through joint missions.  
► A review of implementation of headquarter donor plans and guidance on the use of country systems. |

#### Task B: Strengthening Capacity in PFM (§15, 24 and 26 in the Accra Agenda for Action)

<table>
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<tr>
<th>Expected Outcomes</th>
<th>Outputs: 2009-2011</th>
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| ► Stronger links established between better PFM and improved service delivery.  
► Knowledge transfer, 'learning by doing', and south-south cooperation lead to increased capacity across countries and regions by drawing on professional PFM networks (CABRI, ESAAG), and discussions at regional level on strengthening capacity in PFM.  
► The capacity of PFM systems and the buy-in from national stakeholders is strengthened through demand-driven reviews of budget planning processes at country level.  
► Good practice on sequencing of reforms in PFM including capacity development is elaborated and disseminated so that reforms are more sustainable. | ► Report on strengthening linkages between strong PFM and improved service delivery.  
► Establishing global partnerships to assist in PFM reforms and promote South-South cooperation (joint meetings hosted by regional organisations).  
► Elaborating case studies on good practice in the budget planning process.  
► Case studies on good practice in sequencing of reforms in complex environments and elaborating guidance on the sequencing of reforms. |
### Task C: Greater Transparency in PFM (§24 in the Accra Agenda for Action)

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<th>Expected Outcomes</th>
<th>Outputs: 2008-2011</th>
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| ► The capacity of parliaments and domestic accountability institutions (national auditing institution, public accounts committee) are strengthened in relation to PFM.  
► The capacity of CSOs and Media to understand PFM-related reforms and better track public expenditures is increased.  
► A multi-year program of PFM diagnostics is developed at the country level ensuring greater transparency and effectiveness in the development of PFM-related diagnostics. | ► Review of parliamentary oversight of the budget in 5 countries.  
► Engage CSOs and media outlets in the discussions of the Joint Venture, prepare training guidance in collaboration with organisations currently working in this area (International Budget Project, Publish What you Pay, etc).  
► Pilot countries established to develop a multi-year program of PFM diagnostics. |

### Task D: Communicating the Benefits of Reaching the PFM-related Commitments (Recommendations from the Working Party on Aid Effectiveness, and Report on Use of Country Systems in Public Financial Management)

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<tr>
<th>Expected Outcomes</th>
<th>Outputs: 2008-2011</th>
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| ► The benefits of using country systems across donor and partner authorities are promoted across a broad array of stakeholders leading to better understanding on the reasons for using country systems.  
► An effective communication strategy is established and implemented relating to the work of the Working Party on Aid Effectiveness Group on PFM and its achievements. | ► Presentations by Joint Venture members to parliamentary accountability bodies (both in partner and donor countries) and organisation of workshops for parliamentary bodies and national auditing institutions.  
► Prepare a guide outlining the successes and benefits of using country PFM systems from a donor perspective (bilateral and multilateral) and from partner country perspectives (Middle Income Countries, Fragile States, etc).  
► Regular updates of the PFM website as well as bi-annual newsletter. |