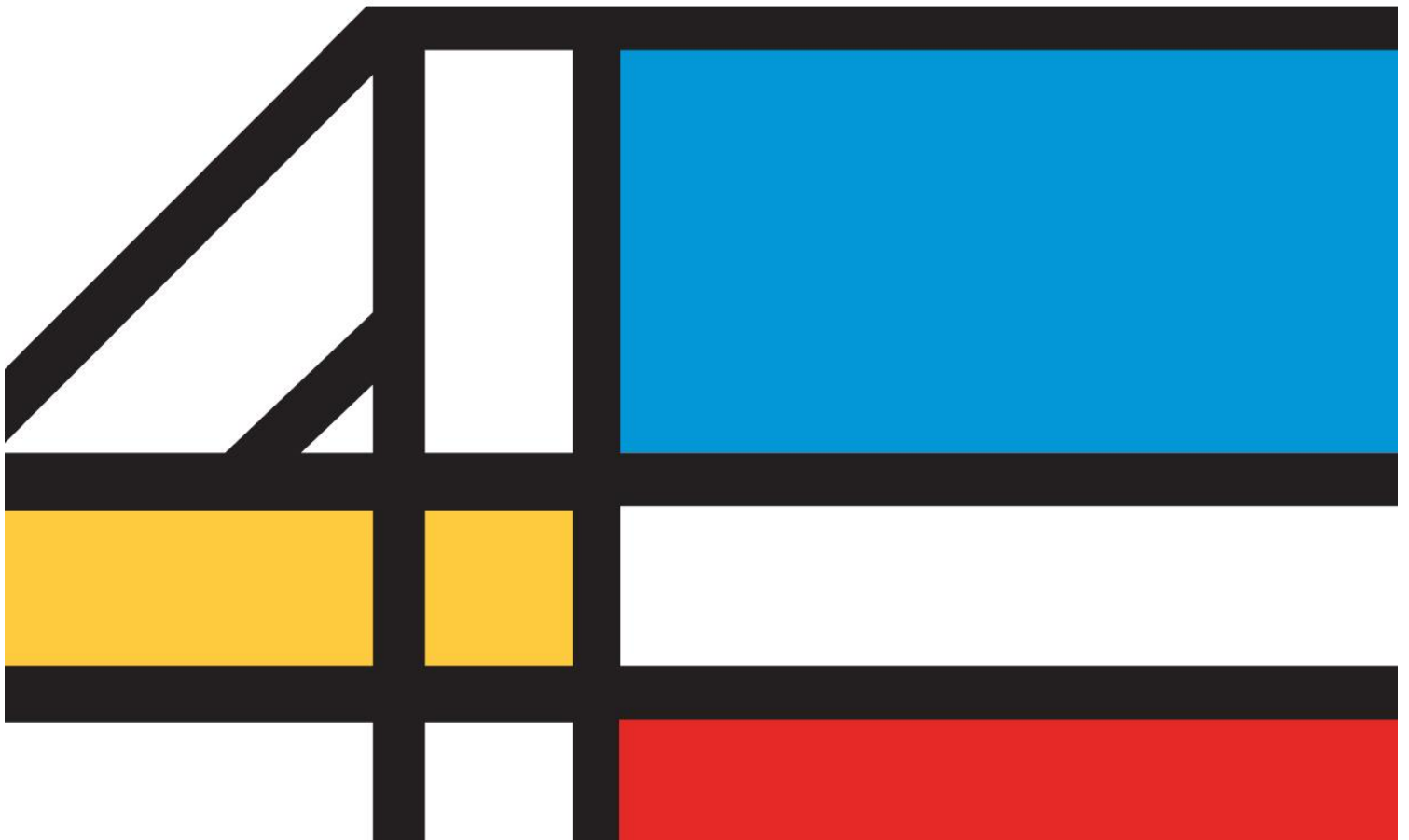


# Stocktaking Study of PFM Diagnostic Instruments

## Volume I – Main Report



부산 세계개발원조총회  
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## Contents

<b>Abbreviations</b> .....	<b>5</b>
<b>Foreword</b> .....	Error! Bookmark not defined.
<b>Acknowledgments</b> .....	<b>7</b>
<b>Executive Summary</b> .....	<b>8</b>
Background .....	8
Developments since the Last Mapping Exercise .....	8
PFM Diagnostic Typology and Findings.....	9
Conclusion and Main Recommendations .....	12
<b>1. Introduction</b> .....	<b>15</b>
Background .....	15
Study objective.....	15
Scope and process .....	15
Challenges and Approach .....	16
<b>2. Context – International Commitments on Country Analytical Work and Findings of the 2004 Assessment Mapping Report</b> .....	<b>17</b>
Introduction .....	17
The Paris Declaration commitments for Country Analytical Work.....	17
Baseline figures for Country Analytical Work .....	17
2004 Assessment Mapping Report - Assessing and Reforming Public Financial Management .....	19
Streamlining Coverage .....	19
Enhancing Collaboration .....	20
Evaluating Fiduciary Risk and Contributing to Development Goals .....	20
Increasing the Development Impact of Assessments and Reforms .....	21
<b>3. PFM Assessment Tools and Typology</b> .....	<b>22</b>
Introduction .....	22
Scope and Coverage of the Study .....	22
PFM Diagnostic Typology .....	22
<b>4. Broad diagnostic or analytical tools covering the whole of the PFM system</b> .....	<b>25</b>
Background .....	25
Trends and New Tools since the Last Mapping Exercise (2004) .....	25
Basic Typology.....	26
Objectives and Nature of the Diagnostics .....	29
Frequency and Cost of Application .....	33

User Support and Quality Assurance .....	35
Possible Gaps as Related to Specific Need.....	37
A. Applying the PEFA Methodology at a Sector Level.....	37
B. Coverage of Institutional and Governance Issues .....	37
C. Diagnostic on the Credibility of PFM Reforms.....	38
D. Improved Repository of PFM Guidelines and Diagnostics .....	38
Update on Gaps Identified in the 2004 Assessment Mapping Report .....	39
<b>5. Technical Coverage of Instruments.....</b>	<b>40</b>
Introduction .....	40
The PEFA Framework .....	41
Comparison of the Technical Coverage of PEFA Framework and the Fiscal ROSC.....	41
The Commonwealth PFM Self-Assessment Tool .....	41
Comparison of PEFA Assessment of CPM-SAT .....	42
The Open Budget Index .....	42
The OECD Budget Practices and Procedures Database .....	43
Summary Table and Conclusions .....	43
<b>6. Tools which Focus on Specific PFM Elements or Institutions .....</b>	<b>45</b>
Introduction .....	45
Background and Broad Trends.....	45
Description and Commentary.....	46
A. Tax Administration.....	47
B. Debt Management.....	49
C. Procurement .....	49
D. Internal Audit.....	51
E. Public Expenditure Tracking.....	52
F. Public Sector Audit .....	53
G. Records Management .....	55
H. Others .....	55
I. Frameworks and Toolkits under Preparation .....	56
Summary of Tools .....	56
<b>7. Donors' Use of PFM Diagnostics .....</b>	<b>59</b>
Introduction .....	59
Overview - How Donors are Using PFM Diagnostics .....	59

How PFM Diagnostics are used in Assessing Fiduciary Risk and Decision on the Use Country Systems .....	61
Commentary .....	62
Conclusion.....	64
<b>8. Alignment and Harmonisation of PFM Diagnostics .....</b>	<b>65</b>
Introduction .....	65
Background .....	65
PFM Monitoring and Impact Studies .....	65
Government Participation/Ownership .....	68
Number of PFM Analytical Studies and Overlapping Assessments .....	69
Conclusion and Recommendations .....	71
<b>9. Issues and next steps.....</b>	<b>72</b>
<b>References.....</b>	<b>74</b>
<b>Annex A: List of Persons Consulted for the Study .....</b>	<b>77</b>
<b>Annex B Findings of 2004 Assessment Mapping Report and Commentary on Developments.....</b>	<b>78</b>
<b>Annex C Technical mapping of assessment instruments .....</b>	<b>82</b>

## Abbreviations

AfDB	African Development Bank
AsDB	Asian Development Bank
BLI	Baseline Indicators
CAS	Country Assistance Strategy
CFAA	Country Financial Accountability Assessment
CIFA	Country Integrated Fiduciary Assessment
CIPFA	Chartered Institute of Public Finance and Accountancy
CPFM-SAT	Commonwealth PFM Self Assessment Tool
CPAR	Country Procurement Assessment Report
CPI	Compliance/Performance Indicators
DAC	Development Assistance Committee
DeMPA	Debt Management Performance Assessment
DFID	Department for International Development
ESW	Economic and Sector Work
EC	European Commission
ECFIN	European Commission Economic and Financial Affairs
EU	European Union
FRA	Fiduciary Risk Assessment
GBS	General Budget Support
GPN	Good Practice Note
HIPC AAP	Action Plans for Heavily Indebted Poor Countries
IA-CM	Internal Audit – Capability Model
IaDB	Inter-American Development Bank
IBP	International Budget Partnership
ICT	Information and Communication Technologies
IDI	INTOSAI Development Initiative
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IRMT	International Records Management Trust
MAPS	Methodology for Assessment of National Procurement Systems
MDB	Multilateral Development Bank
MOU	Memorandum of Understanding
NGO	Non-Governmental Organization
OBI	Open Budget Index
OECD	Organization for Economic Co-operation and Development
PD	Paris Declaration
PETS	Public Expenditure Tracking Survey
PEFA	Public Expenditure and Financial Accountability
PEFA PR	PEFA Performance Report
PEMFAR	Public Expenditure Management and Financial Accountability Review
PER	Public Expenditure Review
PEIR	Public Expenditure and Institutional Review

PFM	Public Financial Management
PRS	Poverty Reduction Strategy
ROSC	Report on the Observance of Standards and Codes
SIGMA	Support for Improvement in Governance and Management
SNG	Sub-National Government
SOE	State Owned Enterprise
TA	Technical Assistance
UCS	Use of Country Systems
WB	World Bank

## Acknowledgments

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The author is grateful to all members of the Advisory Panel (including SIDA and DANIDA), interviewees listed in Annex A to the Study and those who provided technical input, comments and advice on specific instruments. Special thanks are due to Frans Ronsholt of the PEFA Secretariat whose advice, comments, general support and encouragement was invaluable at all stages of the Study, and Sara Fyson of the OECD who provided constructive comments and case study examples which enriched the final draft.

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<sup>1</sup> The PEFA Program is a multi-donor partnership between the World Bank, the European Commission, and the UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, and the Royal Norwegian Ministry of Foreign Affairs, and the International Monetary Fund.

## Executive Summary

### Background

1. The last comprehensive PFM diagnostic mapping exercise was conducted in 2004. It concluded that a wide variety of assessment instruments had evolved in an uncoordinated way. It flagged issues of gaps and duplication in coverage and noted that in most cases diagnostics did not provide users with a simple and objective way of measuring progress in addressing PFM system weaknesses. The Study also noted that diagnostics lacked country ownership, reflected by a multitude of externally driven action plans.
2. The Paris Declaration on Aid Effectiveness (2005) committed donors to align their analytic support with government's capacity development objectives and strategies and make use of existing capacities through joint assessments where feasible. Donors also committed to harmonise analytical work through (a) implementing common arrangements to evaluate country systems, and (b) collaborating to reduce the number of separate, duplicative diagnostic reviews and procedures, in line with commitments already made in the Rome Declaration on Harmonisation (2003).
3. This follow-up Study examines both progress made against the Paris Declaration commitments and an update on PFM analytical/diagnostic tools currently in use, or in an advanced stage of development. It is both descriptive (providing an overview of the tools and how they are applied) and analytical (identifying knowledge gaps and areas where custodians of assessment tools could improve collaboration and reduce transaction costs).

### Developments since the Last Mapping Exercise

4. There have been a number of notable developments with regard to PFM assessment tools and their application since 2004:
  - The introduction of the PEFA Framework; as a multi-stakeholder instrument in response to the international call for enhanced harmonisation; with a standard reporting structure and set of high level indicators, providing core information on the performance of the PFM system over time.
  - The use of more modular and integrated PFM diagnostics using elements of "traditional" diagnostics (e.g. Public Expenditure Reviews (PER), Country Financial Accountability Assessments (CFAA) and Country Procurement Assessment Reports (CPAR); often built around, or in coordination with the PEFA Framework).
  - Gradual introduction of approaches to PFM diagnosis in which diagnostic/assessment reports separately analyse (1) current PFM performance, (2) recommendations for PFM reforms or action plans, and (3) fiduciary risk assessments and/or assessments on the use/non use of country systems.



- The introduction of a number of new diagnostic tools covering the whole of the PFM system; including (a) a broad based diagnostic tool (the Commonwealth Secretariat PFM –Self Assessment Tool); (b) a biennial budget survey (the Open Budget Survey) and; (c) a database of institutional arrangements and budget practices (the OECD Budget Practices and Procedures Database).
- A significant number of new diagnostic tools that focus on specific PFM elements (so-called drill-down tools) and/or address selected institutional and capacity issues.

### PFM Diagnostic Typology and Findings

5. The Study separates PFM Diagnostics into three categories; (A) Broad diagnostic or analytical tools covering the whole of the PFM system, (B) Tools which focus in greater detail on individual PFM elements or institutions, and (C) Tools used by donors in order to assess fiduciary risk and/or the use of country systems (see Table below). The full analytical framework is presented as a separate volume to the main report.

Type	General Description	Diagnostic Tools
A. Broad PFM Diagnostics	Broad diagnostic or analytical tools covering the whole of the PFM system	<ul style="list-style-type: none"> <li>• PEFA Framework</li> <li>• PER/PEIR (WB)</li> <li>• CFAA (WB)</li> <li>• WB Integrated Assessments (CIFA, PEMFAR) which incorporate elements of PER, CFAA or CPAR.</li> <li>• IMF Fiscal ROSC</li> <li>• EC Assessment Reports on Public Expenditure Management, Public Procurement, Public Internal Financial Control and External Audit</li> <li>• ECFIN Operational Assessment</li> <li>• Commonwealth Secretariat PFM Self Assessment Toolkit</li> <li>• IBP Open Budget Survey</li> <li>• OECD Budget Practices and Procedures Database</li> </ul>
B. Diagnostics which focus on individual PFM Elements, Institutions or Sub-systems	Tools which focus in greater detail on individual PFM elements.	<ul style="list-style-type: none"> <li>• OECD Comparative Information Series (Tax Administration)</li> <li>• Collecting Taxes Database (USAID)</li> <li>• EC Tax Administration Blueprints</li> <li>• Hand book for Tax Simplification (WB )</li> <li>• Diagnostic for Revenue Administration (WB)</li> <li>• Debt Management Performance Assessment (DeMPPA) – (WB)</li> <li>• WB Country Procurement Assessment Report (CPAR)</li> <li>• OECD-DAC Methodology for Assessment of National Procurement Systems (MAPS)</li> <li>• IIA Internal Audit Capability Model (IA-CM)</li> <li>• Accounting and Auditing ROSC (WB)</li> <li>• Gap Analysis Framework for Comparing Public Sector Accounting and Auditing to International Standards (WB)</li> <li>• Public Expenditure Tracking Surveys (WB)</li> <li>• IDI Capacity Building Needs Assessment Toolkit for SAIs &amp; AFROSAI-E Strategic Capability Model</li> <li>• Integrating Records Management in ICT – Good Practice Indicators (IRMT)</li> <li>• CIPFA FM Model</li> </ul>
C. Tools which Donors use to make decisions on fiduciary risk and/or the use of country systems	Used to assess fiduciary risk and/or use/non-use of country systems.	<p>Including (however; not necessarily exhaustive):</p> <ul style="list-style-type: none"> <li>• DFID Fiduciary Risk Assessment (FRA)</li> <li>• AsDB Guidelines for Implementing Second Governance and Anti-Corruption Action Plan</li> <li>• World Bank Assessment of the Use of Country FM Systems in Bank Financed Investment Projects</li> <li>• laDB Guidelines to Determine the Use of the Public Financial Management System (GUS)</li> <li>• KfW Structured Analysis of the Fiduciary Risks on Budget Support (PFM Annex)</li> <li>• French Ministry of Foreign Affairs Directives for managing fiduciary risk associated with Budget Support in foreign states.</li> </ul>

### *A. Broad PFM diagnostics*

6. PFM Performance is increasingly measured using the PEFA Framework, which may have reduced some but not all transaction costs associated with PFM diagnostic work. Guidelines to apply the Framework at a sub-national government level have been issued and have been extensively applied. The Framework does not address the performance of PFM systems at a sector or investment project level; nor does it address fiduciary risk or the operational decisions of donors in relation to the use/non-use of country systems.
7. CFAAs and CPARs are no longer mandated WB Diagnostics, and are rarely conducted as standalone products. Instead the content is often incorporated into more integrated tools, often incorporating a PEFA Framework. Demand for the PER/PEIR has remained steady; perhaps because of its unique focus on budget and fiscal policy issues.
8. Collaboration on assessments between the World Bank and IMF has improved since the introduction of PEFA Framework; there has been a reduced number of Fiscal ROSCs and the IMF is acting as lead agency on several PEFA Assessments. Nevertheless, substantial overlaps between the PEFA Framework and the Fiscal ROSC exist, and further harmonisation of the two instruments is desirable.
9. The recently developed Commonwealth Secretariat PFM-Self Assessment Toolkit (CPFM-SAT) dataset promotes standards which are the pre-requisites of a basic PFM system and others which are longer term challenges. CPFM-SAT also has significant overlaps with other broad diagnostics and particularly with the PEFA Framework. The distinguishing role of each instrument needs to be clarified.
10. The European Commission conducts annual PFM assessments and periodic Operational Assessments of EU candidate and potential candidate countries for accession to the European Union. There are significant overlaps between these two instruments; and with other broad based PFM diagnostics.
11. The Open Budget Index (OBI) provides a biennial evaluation of public access to budget information at a national level. There is a substantial overlap in the technical coverage of the OBI, the Fiscal ROSC and, to a lesser extent the PEFA Framework. Nevertheless, the OBI provides an independent, country by country comparison of fiscal transparency with credible quality control procedures and minimal transaction costs.
12. The OECD Budget Practices and Procedures Database is a database capturing current budget practices and institutional arrangements, rather than a PFM performance assessment tool. It provides users with the most detailed coverage of the legal and constitutional framework of expenditure management; although it provides less coverage of some core PFM systems and processes (budget coverage, expenditure

analysis, budget execution and accounting). The database is prepared by government officials, which may also affect its impartiality.

13. No generic tool has been developed to assess PFM systems at a sector level. Given the demand for sector support operations the development of such a tool may be worth pursuing if its scope can be clearly defined.

#### ***B. Tools which Focus on Specific PFM Elements and/or Institutions***

14. The Study addresses a diverse range of tools which focus on a specific PFM element or institution. These include:
  - Drill-down diagnostics which broadly follow the PEFA methodology by applying high-level performance indicators to a specific PFM element (e.g. the Debt Management Performance Assessment and the Methodology for Assessment of National Procurement Systems).
  - PFM Diagnostics which are *descriptive*; providing a full report of current practices; *diagnostic* indicating where deficiencies lie, and *prescriptive*, suggesting a possible set of reforms (e.g. the Country Procurement Assessment Report and World Bank Gap Analysis Framework for Comparing Public Sector Accounting and Auditing to International Standards).
  - Toolkits which have a more institutional focus (e.g. The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Model and the World Bank Toolkit for Improving State Enterprise Corporate Governance) or incorporate elements of diagnostic work into broader capacity building needs assessment (e.g. the Institute of Internal Auditors Capability Model).
15. Several of the toolkits have been developed by professional associations and NGOs (the Institute of Internal Auditors (IIA), the International Organization of Supreme Audit Institutions (INTOSAI) and the International Records Management Trust (IRMT)); others have been designed primarily as internal toolkits for use in the advisory work provided by International Financial Institutions.
16. The majority of these tools have been developed since the last mapping exercise in 2004. The reasons for the increased use of these instruments may include:
  - Codification of “best” practice through the development of international standards and codes (e.g. development of IPSAS and INTOSAI standards).
  - Demand from government experts in developing countries to benchmark their PFM systems against accepted international practice while addressing capacity constraints.
  - Demand from development agencies to provide their staff with toolkits to enable them to provide consistent advice which is benchmarked to accepted international practice.

- A greater focus on institutional development and capacity building issues in implementing PFM reform programs.
- International commitments in the Paris Declaration and in the Accra Agenda for Action on increasing the use of country PFM systems.

### *C. Donors' Use of PFM Diagnostics – Alignment and Harmonisation Issues*

17. The Study addresses a number of donor instruments used to make judgements on the use of country systems and other operational decisions. The PEFA Framework is almost universally used as a starting point for these assessments; however donors have developed different assessment tools reflecting the aid modalities offered, risk appetite and the requirements of internal stakeholders. This has resulted in a significant amount of supplemental work, often conducted by individual donors that create the potential for high transaction costs and inefficiencies.

### **Conclusion and Main Recommendations**

18. In conclusion, this Study provides some interesting insights into alignment and harmonization of PFM assessment work. On the one hand there are some positive signs of greater government/leadership, more joint assessments and increased government/donor collaboration in diagnostic work. However there is also evidence of increased numbers of broad based and drill down assessment tools; which have been developed to fill a perceived need by their respective institutional owners but which are poorly coordinated by development partners, international agencies and professional bodies. In addition, large numbers of uncoordinated fiduciary assessments are being conducted; driven by donors' operational requirements rather than development need. It is clear that the demand by donors for PFM and fiduciary diagnosis is increasing. The crucial unanswered question is whether this thirst for knowledge is matched by a demand from government counterparts, or whether this growth in assessment activity results in high transaction costs with few tangible benefits.

19. The Study's main recommendations are split into two categories. The first set of proposals focus on streamlining coverage; addressing overlaps and seeking to clarify the role of specific instruments. The second set of proposals are broader in nature and, if enacted would improve collaboration (a) between donors in the development and streamlining of PFM diagnostics; and (b) at a country level by reducing duplicative processes, building government capacity and reducing transaction costs.

#### ***A. Streamlining coverage***

- The PEFA Program and the IMF should strengthen collaboration between the PEFA Framework and the Fiscal ROSC on the delivery of country assessments and address overlaps between the two instruments.

- The PEFA Program and Commonwealth Secretariat should clarify the distinguishing roles of, and address overlaps between the PEFA Framework and the Commonwealth Secretariat PFM Self Assessment Tool (CPFM-SAT).
- The Commonwealth Secretariat should clarify which elements of the CPFM-SAT data set should be regarded as pre-requisites of a member country's PFM system; and which might be regarded as longer term goals or aspirations.
- The European Commission should clarify the distinguishing roles of EC Annual PFM Assessments, EC Economic and Financial Affairs (ECFIN) Operational Assessments and the PEFA Framework to government counterparts.
- The PEFA Program should develop guidance on the application of the PEFA methodology at a sector level.
- Development agencies (through the auspices of the PEFA Program) should develop a comprehensive, evidence based tax administration tool; based on the principles which governed the development of the PEFA Framework.
- The World Bank and UNDP should provide guidance on the linkages between the CPAR and the Methodology for Assessment of National Procurement Systems (MAPs), and the UN Procurement Capacity Assessment. The World Bank should focus the CPAR as a development tool to be used in partnership with governments and development partners.
- The Institute of Internal Auditors should evaluate the Internal Audit Capability Model's (IA/CM) applicability as a useful model when applied to developing countries.
- The International Organization of Supreme Audit Institutions (INTOSAI) should develop a single methodology to assess public sector external audit institutions which could be used both by SAIs and the donor community. INTOSAI should also coordinate with the World Bank to address overlaps between its diagnostic tools and the Public Sector Accounting and Auditing Gap Analysis.

### ***B. Enhancing collaboration***

- Development agencies, through the OECD-DAC Task Force on PFM should develop a single user friendly portal to give access to donor instruments, completed diagnostic and fiduciary assessments, guides and toolkits to donors, professional bodies and government counterparts.
- At a country level, governments should have a coherent, integrated medium term strategy of diagnostic instruments; supported by its development partners. These should indicate the expected time commitments required by donors and government officials, and incorporate fiduciary instruments required by individual donors. This strategy should identify how the program of diagnostic work will strengthen government capacity to participate in, or undertake assessment work. The OECD DAC Task Force on PFM should provide examples of existing best practice

and provide guidance on their use and how these are linked to the PFM reform agenda.

- Development agencies - through the OECD-DAC Task Force on PFM - should develop ways of collaborating on fiduciary reviews and risk assessments in terms of shared typology and identification of common information requirements as well as coordination of data gathering and assessment findings through joint assessment missions.
- The OECD-DAC Secretariat should develop a more systematic and PFM specific monitoring and evaluation tool to track trends in aligning and harmonizing assessment activities in accordance with Paris Declaration principles.

## 1. Introduction

### Background

1.1 In 2003, the PEFA programme commissioned a study which identified a number of problems with the objectives and scope of PFM diagnostic reviews used in developing countries at that time (Allen *et al* 2004). The report showed that a wide variety of assessment instruments had evolved in an uncoordinated way. It flagged up issues of gaps and duplication in coverage and noted that in most cases diagnostics did not provide users with a simple and objective way of measuring progress in addressing PFM system weaknesses. The Report also noted that diagnostics lacked country ownership, reflected by a multitude of externally driven action plans.

1.2 This Study looks at progress since 2003 and updates that mapping exercise based on currently available diagnostics. The assignment was commissioned by the PEFA Secretariat on behalf of the Global Partnership on Strengthening and Using Country Systems Task Force on Public Financial Management.

### Study objective

1.3 The broad objective of this study is to identify PFM analytical/diagnostic tools currently in use or in an advanced stage of development. For each tool the report provides:

- A description (purpose, nature, background, coverage and management);
- How the diagnostic is applied (users, frequency, coverage, funding)
- An analysis of the application in theory and practice (user support, gaps and complementarities and uses made by governments and donors).
- The potential for harmonization, coordination and reduction of transaction costs in the development and use of the tools.

1.4 The specific objectives of this Report are to:

- Provide an update of the 2004 PEFA report entitled: 'Assessing and Reforming Public Financial Management: A New Approach';
- Map current, internationally used, diagnostics tools for PFM systems; and
- Based on interviews, determine the extent to which these are duplicative, cover essential knowledge gaps, and (where this information is available) are used by governments in their reform efforts, and by donors in their decision making process for decisions on the use of country systems.

### Scope and process

1.5 The stock take analysed PFM Diagnostics of multi-laterals, bi-laterals, NGOs and professional associations. The terms of reference provided an indicative list of diagnostics to be addressed which was refined while developing the typology.

1.6 The study process was to populate a pro-forma analytical framework through an initial desk study of diagnostic guidelines, reports and websites and completed through face to

face/telephone interviews and/or email correspondence with donor representatives. Their input to the Study is gratefully acknowledged (see Annex A).

## Challenges and Approach

1.7 The remainder of the Study is organized as follows:

- Chapter 2 provides a context for the rest of the Study by (1) reviewing the role of international commitments in the alignment and harmonisation of assessment tools, and (2) summarising the main findings of the 2004 PEFA “Assessing and Reforming Public Financial Management” (hereafter referred to as the Assessment Mapping Report). The chapter also includes a summary of the main developments since 2004; using the findings of that Report as a baseline.
- Chapter 3 outlines the methodological framework for the rest of the Study; it provides a typology of PFM assessment diagnostics and an analytical framework which allows complex frameworks to be examined in a systematic way.
- Chapter 4 describes broad diagnostic and assessment tools covering the whole of the PFM system.
- Chapter 5 provides a detailed technical analysis of five instruments which implicitly or explicitly promote a set of PFM standards or codes (i.e. The Fiscal ROSC, PEFA Framework, Open Budget Survey, CPFMSAT and OECD Budget Practices and Procedures Database).
- Chapter 6 describes tools which focus in greater detail on specific PFM elements or institutions.
- Chapter 7 examines tools used by donors in order to assess fiduciary risk and/or the use of country systems.
- Chapter 8 highlights some PFM assessment monitoring and impact studies; notes their conclusions, some of their limitations, and suggests some follow-up work in assessing how useful these have been as a spur to government reforms.
- Chapter 9 suggests other lessons and follow up work to this Study.



## **2. Context – International Commitments on Country Analytical Work and Findings of the 2004 Assessment Mapping Report**

### **Introduction**

2.1 This chapter

- Highlights relevant Paris Declaration commitments in relation to country analytical work.
- Addresses the main conclusions and recommendations of the 2004 Assessment Mapping Report; noting developments since its publication.

### **The Paris Declaration commitments for Country Analytical Work**

2.2 The Paris Declaration on Aid Effectiveness (2005) (PD) notes that “diagnostic reviews are an important – and growing - source of information to governments and donors on the state of country systems in partner countries. Partner countries and donors have a shared interest in being able to monitor progress over time in improving country systems. They are assisted by performance assessment frameworks and an associated set of reform measures that build on the information set out in diagnostic reviews and related analytical work”<sup>2</sup>.

2.3 The PD commits donors to align their analytic support with government’s capacity development objectives and strategies and make use of existing capacities through joint assessments where feasible. The PD principle of harmonisation committed donors to:

- Implement, where feasible common arrangements for evaluating country systems.
- Work together to reduce the number of separate, duplicative diagnostic reviews and procedures.

### **Baseline figures for Country Analytical Work**

2.4 The PD includes indicators and targets for their implementation. Indicator number 10 monitors the percent of country analytical work which is carried out jointly and sets a target of 66 percent for 2010. The 2008 Survey of Monitoring the PD showed that only 44 percent of donors coordinate their country studies. The data collected incorporates all country analytical work and does not separately analyse the performance of donors with regard to PFM diagnostics. For fuller extracts of the PD as they pertain to country analytical work see Box 1 below.

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<sup>2</sup> Paris Declaration (2005) para 18.

## **Box 1: Paris Declaration commitments on alignment and harmonisation (extracts)**

### **Ownership, Harmonisation, Alignment, Results and Mutual Accountability**

#### **Scale up more effective aid**

3. (iv.) Eliminating duplication of efforts and rationalising donor activities to make them as cost effective as possible.

(vi) Defining measures and standards of performance and accountability of partner country systems in public financial management, procurement, fiduciary safeguards....., in line with broadly accepted good practices and their quick and widespread application.

#### **Donors use strengthened country systems**

18. Diagnostic reviews are an important – and growing - source of information to governments and donors on the state of country systems in partner countries. Partner countries and donors have a shared interest in being able to monitor progress over time in improving country systems. They are assisted by performance assessment frameworks, and an associated set of reform measures; that build on the information set out in diagnostic reviews and related analytical work.

19. Partner countries and donors jointly commit to integrate diagnostic reviews and performance assessment frameworks within country-led strategies for capacity development.

20. Partner countries commit to carry out diagnostic reviews that provide reliable assessments of country systems and procedures.

24. Donors commit to align their analytic and financial support with partners' capacity development objectives and strategies, make effective use of existing capacities and harmonise support for capacity development accordingly.

#### **Strengthen public financial management capacity**

27. Partner countries and donors jointly commit to implement harmonised diagnostic reviews and performance assessment frameworks in public financial management.

#### **Strengthen national procurement systems**

28. Partner countries and donors jointly commit to use mutually agreed standards and processes to carry out diagnostics, develop sustainable reforms and monitor implementation.

#### **Donors implement common arrangements and simplify procedures**

32. Donors commit to work together to reduce the number of separate, duplicative, missions to the field and diagnostic reviews; and promote joint training to share lessons learnt and build a community of practice.

## 2004 Assessment Mapping Report - Assessing and Reforming Public Financial Management

2.5 In 2003, the PEFA programme commissioned a study which identified a number of problems with the objectives and scope of PFM diagnostic reviews used in developing countries at that time (Allen *et al* 2004). The Report predates the PD and was prepared as a basis for the development of the PEFA Performance Measurement Framework (PEFA Framework). It concluded that a wide variety of assessment instruments had evolved in an uncoordinated way. It flagged up issues of gaps and duplication in coverage and noted that in most cases diagnostics did not provide users with a simple and objective way of measuring progress in addressing PFM system weaknesses. The Report also noted that diagnostics lacked country ownership, reflected by a multitude of externally driven action plans.

2.6 The Report provided 21 recommendations to improve the scope and application of PFM diagnostics instruments in existence at the time of preparing the Report<sup>3</sup>. These were divided in 4 themes:

1. Streamlining coverage of assessment instruments (to avoid unnecessary duplication);
2. Enhancing collaboration between donors, governments and other stakeholders
3. Evaluating fiduciary risk and contributing to development goals; and
4. Increasing the development impact of assessments and reforms

A brief summary of developments since 2004 has been incorporated under each theme below. A full list of recommendations with comments is attached in Annex B to this Report.

### Streamlining Coverage

2.7 At the time of publication the World Bank (WB) offered three standardised PFM diagnostic instruments (i.e. the PER, CFAA and CPAR) delivered by separate work-streams in the Bank. The Report recommended that the Bank streamlined its work programmes and operational practices for planning and conducting assessments. Development agencies should adjust their instruments to reduce unnecessary overlaps. The WB and the IMF should strengthen collaboration between the CFAA and Fiscal ROSC. Finally, it was proposed that the European Commission (EC) should integrate its compliance audits into other diagnostic tools in use at that time.

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<sup>3</sup> The study focused on the PER, CFAA, CPAR, Fiscal ROSC, HIPC AAP, EC audits of public expenditure management systems and DFID FRAs.

Key Developments Since 2004	<ul style="list-style-type: none"> <li>• Development of PEFA Framework under the multi-agency partnership program sponsored by the WB, IMF, EC, UK, France, Norway, Switzerland and the Strategic Partnership with Africa.</li> <li>• WB, in partnership with other donors increasingly offer tailored and more integrated PFM diagnostics using elements of “traditional” diagnostics (i.e. PER, CFAA and CPAR); often built around PEFA Framework.</li> <li>• EC Guidelines emphasize the use of PEFA as the assessment tool of choice and no longer conduct compliance tests (discussed further in Chapter 4).</li> </ul>
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### Enhancing Collaboration

2.8 The Report recommended that donors cooperate, coordinate and collaborate on PFM diagnostics; particularly between the IMF and the WB. It was proposed that assessments should standardise the format of key information to facilitate analysis, dissemination and sharing of information between agencies, governments, and other stakeholders. Finally, donors should seek to develop common definitions and terminology in conducting assessment work.

Key Developments Since 2004	<ul style="list-style-type: none"> <li>• PEFA Framework has a standardised structure and set of high level indicators which provides core information and enables monitoring of PFM performance over time.</li> <li>• Common framework based around three budgetary outcomes and six critical dimensions of performance of an open and orderly PFM system are well understood and mainstreamed through the PEFA Framework.</li> <li>• Dissemination and sharing of information is partially addressed through the PEFA website, which has comprehensive links of all published reports which include PEFA assessment. Further progress could be made through developing a central database of staff guidelines and PFM diagnostics.</li> </ul>
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### Evaluating Fiduciary Risk and Contributing to Development Goals

2.9 The Report proposed splitting development and fiduciary aspects of assessments into separate processes and creating a more independent process for assessing risk. It argued that donors and governments should also agree on a common definition of fiduciary risk.

<p>Key Developments Since 2004</p>	<ul style="list-style-type: none"> <li>• The approach to diagnosis increasingly separates (1) current PFM performance, (2) recommendations for reforms or action plans, and (3) fiduciary risk assessments and assessment of the use/non use of country systems.</li> <li>• There is still no universal definition of fiduciary risk. Some donors see fiduciary risk as being limited to the misuse of funds (or other assets); other donors use fiduciary risk to cover all financial risks, including the risk of corruption.</li> <li>• Donors have different assessment tools reflecting internal stakeholder needs, risk appetite and procedures. There is a danger that high transaction costs and inefficiencies will result from the number of separate and often uncoordinated risk assessments now being undertaken (Chapter 7).</li> </ul>
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### **Increasing the Development Impact of Assessments and Reforms**

2.10 The Report recommended that more attention should be paid to how recommendations and action plans are followed up, and how changes in public expenditure management are monitored and evaluated. The Report also recommended better guidance on how governance, corruption, cultural and institutional factors should be integrated into future assessments. The Report also noted that the views of government and other local stakeholders should be fully incorporated into assessments.

<p>Key Developments Since 2004</p>	<ul style="list-style-type: none"> <li>• The PEFA PFM Performance Measurement Framework incorporates a PFM performance report, and a set of high level indicators which draw on the HIPC expenditure tracking benchmarks, the IMF Fiscal Transparency Code and other international standards.</li> <li>• Some evidence of improved coordination of donors providing country support and advice based on comparative advantage.</li> <li>• The WB provides a more flexible approach to PFM diagnostics which is based on country needs, rather than staff work streams.</li> <li>• Existing national/sub-national level diagnostic tools focus mostly on performance of systems; although in the future there may be room for a broad index which looks more deeply at the performance of budget institutions.</li> <li>• Development of a number of capacity building toolkits which address specific institutional needs (see Chapter 6).</li> <li>• Lack of evidence available on country ownership and the extent to which diagnostics are having an impact on PFM reform programmes.</li> </ul>
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### 3. PFM Assessment Tools and Typology

#### Introduction

3.1 This chapter outlines the methodological framework for the rest of the Study; it provides a typology of PFM assessment diagnostics and a framework which allows the various analytical products to be examined in a systematic way.

#### Scope and Coverage of the Study

3.2 Diagnostic reviews in public financial management are a source of information to both governments and donors. They reflect the state of public financial management systems, the risks and constraints that these pose to the implementation of development programmes and the use of donor resources. The definition in Box 2 (below) provides a useful starting point in clarifying the boundaries of instruments covered by this Study.

#### Box 2: What is a PFM diagnostic review?

A diagnostic review examines a partner country's public financial management system and practices. Diagnostic reviews are generally not audits and do not track individual items of expenditure. Nor do they provide a pass or fail assessment of a country's public financial management system in terms of its adequacy for managing external funds. Rather, they can provide governments and donors with information on:

- The strengths and weaknesses of public financial management systems.
- The risks to which funds channelled through governments' systems may be exposed.
- The government programmes aimed at improving these systems.

PFM diagnostics can have some or all of the following elements:

- Descriptive – providing a description of the PFM systems and/or institutional arrangements.
- Diagnostic – providing an analysis of the strengths and weaknesses of the PFM system.
- Prescriptive – proposing remedies for identified weaknesses.

#### PFM Diagnostic Typology

3.4 Table 1 provides an analytical framework which allows PFM diagnostics to be classified and compared in a meaningful way. It serves as the basis for a more detailed discussion which follows in subsequent chapters. The typology was a simple way of categorising the various PFM diagnostic instruments; a research tool to allow PFM diagnostics to be mapped in order to compare similarities, differences and trends. It is not, however a proposal for a standard way of organizing PFM diagnostics<sup>4</sup>.

3.5 The scope of the Study precludes a broader discussion of underlying international, standards and codes (e.g. Fiscal Transparency Code, IFRS, ISA); however these are referred

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<sup>4</sup> There are, inevitably overlaps between the different types of diagnostic tool shown. For example the CPAR was originally developed an assessment tool designed to complement the CFAA with implementation by parallel WB staff networks. However it can also be seen as a drill down in relation to the PEFA Framework.

to when they form the basis, or a substantial basis for the indicator set contained in a particular instrument.

**Table 1 PFM Diagnostic Typology**

Type	General Description	Diagnostic Tools
A. Broad PFM Diagnostics (Chapters 4 and 5)	Broad diagnostic or analytical tools covering the whole of the PFM system	<ul style="list-style-type: none"> <li>• PEFA Framework</li> <li>• PER/PEIR (WB)</li> <li>• CFAA (WB)</li> <li>• WB Integrated Assessments (CIFA, PEMFAR) which incorporate elements of PER, CFAA or CPAR.</li> <li>• IMF Fiscal ROSC</li> <li>• EC Assessment Reports on Public Expenditure Management, Public Procurement, Public Internal Financial Control and External Audit</li> <li>• ECFIN Operational Assessment</li> <li>• Commonwealth Secretariat PFM Self Assessment Toolkit</li> <li>• IBP Open Budget Survey</li> <li>• OECD Budget Practices and Procedures Database</li> </ul>
B. Diagnostics which focus on individual PFM Elements, Institutions or Sub-systems (Chapter 6)	Tools which focus in greater detail on individual PFM elements.	<ul style="list-style-type: none"> <li>• OECD Comparative Information Series (Tax Administration)</li> <li>• Collecting Taxes Database (USAID)</li> <li>• EC Tax Administration Blueprints</li> <li>• Hand book for Tax Simplification (WB) )</li> <li>• Diagnostic for Revenue Administration (WB)</li> <li>• Debt Management Performance Assessment (DeMPA) – (WB)</li> <li>• Country Procurement Assessment Report (CPAR) – (WB)</li> <li>• OECD-DAC Methodology for Assessment of National Procurement Systems (MAPS)</li> <li>• IIA Internal Audit Capability Model (IA-CM)</li> <li>• Accounting and Auditing ROSC (WB)</li> <li>• Gap Analysis Framework for Comparing Public Sector Accounting and Auditing to International Standards (WB)</li> <li>• Public Expenditure Tracking Surveys (WB)</li> <li>• IDI Capacity Building Needs Assessment Toolkit for SAIs &amp; AFROSAI-E Strategic Capability Model</li> <li>• Integrating Records Management in ICT – Good Practice Indicators (IRMT)</li> <li>• CIPFA FM Model</li> </ul>
C. Tools which Donors use to make decisions on fiduciary risk and/or the use of country systems (Chapter 7)	Used to assess fiduciary risk and/or use/non-use of country systems.	<p>Including (however; not necessarily exhaustive):</p> <ul style="list-style-type: none"> <li>• DFID Fiduciary Risk Assessment</li> <li>• AsDB Guidelines for Implementing Second Governance and Anti-Corruption Action Plan</li> <li>• World Bank Assessment of the Use of Country FM Systems in Bank Financed Investment Projects</li> <li>• laDB Guidelines to Determine the Use of the Public Financial Management System (GUS)</li> <li>• KfW Structured Analysis of the Fiduciary Risks on Budget Support (PFM Annex)</li> <li>• French Ministry of Foreign Affairs Directives for managing fiduciary risk associated with Budget Support in foreign states.</li> </ul>

3.6 Volume II of the Study provides a more detailed breakdown of broad and specific diagnostic tools, based on the following 18 dimensions:

- Objectives
- Uses by (a) Government and (b) Donors
- Content
- Support Tools and Services
- Transparency
- Consistency with Best PFM Practices
- Topic Coverage
- Institutional Coverage
- History and Stage of Development
- Management of the Assessment
- PFM Capacity Building
- Donor Harmonisation and Alignment
- Methodology
- Quality Assurance
- Tracking of Changes
- Applications to Date
- Frequency
- Cost

3.7 Applying the analytical framework to donor risk assessment tools was less straightforward. While they share some of the characteristics of diagnostic tools, their main function is to provide donor staff with a framework to make operational decisions (e.g. on the use of country systems or aid modalities). In addition many donor guidelines go beyond PFM issues in the context of other considerations they need to address in making decisions on, for example general budget support (for example, governance and political risks). Notwithstanding, the analytical framework was applied for five frameworks which contain a comprehensive PFM element:

- DFID Fiduciary Risk Assessment
- AsDB Guidelines for Implementing a Second Governance and Anti-Corruption Action Plan
- World Bank Assessment of the Use of Country Financial Management Systems in Bank Financed Investment Projects
- laDB Guidelines to Determine the Use of the Public Financial Management System (GUS)
- KfW Structured Analysis of the Fiduciary Risks on Budget Support (PFM Annex)



## 4. Broad diagnostic or analytical tools covering the whole of the PFM system

### Background

4.1 This chapter addresses diagnostic and analytical tool covering the whole of the PFM system. The chapter is structured as follows:

- Provides a summary typology of tools and a discussion of trends since the last mapping exercise;
- Discusses the objectives and nature of each instrument;
- Reviews how the tools are applied (i.e. frequency of use, applications to date, user support, quality assurance and costs); and
- Identifies possible gaps related to specific needs.

### Trends and New Tools since the Last Mapping Exercise (2004)

4.2 The 2004 Mapping Exercise identified six institution specific diagnostic instruments to assess public expenditure, financial management and procurement: WB Public Expenditure Reviews (PERs), Country Financial Accountability Assessments (CFAAs), and Country Procurement Assessment Reports (CPARs), IMF Reports on the Observance of Standards and Codes (Fiscal ROSCs), Action Plans for Heavily Indebted Poor Countries (HIPC AAPS), and EC audits. Since 2004 there have been significant changes both in the number of PFM tools and the use government and development partners make of them.

4.3 *PFM performance is increasingly measured using the PEFA Framework.* This incorporates a PFM Performance Report and a set of high level indicators which draws on HIPC expenditure tracking benchmarks, the IMF Fiscal Transparency Code and other international standards. In parallel with, and in part as a result of the introduction of the PEFA Framework, donors have changed the way they provide PFM advice to partner countries. This has resulted in changes in the way governments and donors are using existing tools. For example, the demand for the IMF Fiscal Transparency ROSC has fallen and the EC<sup>5</sup> use the PEFA Framework as their assessment tool of choice; they no longer conduct compliance tests or require an annual audit.

4.4 *Donors separate PFM performance measurement from fiduciary and other developmental issues.* Most donors' now approach PFM diagnostics work by separating the processes and reporting of (1) current PFM performance (using the PEFA Framework), (2) recommendations for reforms or action plans, and (3) fiduciary risk assessments and assessments of the use/non use of country systems (discussed in depth in Chapter 7). Fiduciary and development aspects are increasingly treated as separate processes with different reporting requirements. Donors are using PEFA and other developmental PFM diagnostics as inputs into operational decisions affecting aid modalities and the use of

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<sup>5</sup> The EC are a co-sponsor of the PEFA Program.

country systems. These are internally focused assessment tools which, it is argued reflect internal stakeholder needs, risk appetite and operational requirements. The trend is towards so-called “light touch” assessments supplemented by primary work, only if remaining gaps exist.

4.5 *New integrated and flexible PFM “products” have been developed.* The WB (often in partnership with other donors) increasingly offer integrated products (e.g. the Public Expenditure and Financial Accountability Review - PEMFAR) which use elements of the traditional PER, CFAA and CPAR; often including or built around a PEFA assessment (see an example in Box 2 below). It is argued these are more flexible and tailored to country needs. The CFAA and CPAR are no longer mandated PFM Diagnostics, and are rarely conducted as standalone products. Instead they are incorporated into these more integrated tools.

**Box -2 Extracted from Lesotho  
Public Expenditure and Financial Accountability Review (PEMFAR) June 2007**

**This report is centred on three areas of analysis:** (i) macroeconomic and fiscal performance and prospects; (ii) inter and intra-sector allocation of resources; and (iii) public expenditure and financial management. A PFM assessment report prepared using the PEFA framework is included as an Appendix to the main report. It has been prepared in close consultation with the PERTT. It builds on the existing and ongoing reports prepared by the World Bank (Country Economic Memorandum, Education Country Strategy Report), African Development Bank (Lesotho: Country Governance Profile) and the Government with the support from European Union (EU), and Department for International Development (DFID). Successive PERs are expected to examine more deeply issues related to operational efficiency and service delivery (through PETS or other service delivery survey instruments). This will provide an important input into the PRS Annual Progress Reports.

4.6 *Other comprehensive tools have been established by inter-governmental and non-governmental organizations.* These include (a) the IBP<sup>6</sup> Open Budget Survey; (b) the Commonwealth Secretariat PFM Self Assessment Toolkit (CPFM-SAT); and (c) the OECD Budget Practices and Procedures Database.

## Basic Typology

4.7 The general purpose of the diverse set of PFM Tools covering the whole of national PFM systems is summarised in Table 2 below. As a basic classification system the Table subdivides these instruments into:

- Institution specific “standalone” PFM tools of the WB, EC and IMF (the PER, CFAA, CPAR, EC Assessment Reports, ECFIN Operational Assessments and IMF ROSC).
- A “Collective<sup>7</sup> standalone” tool: PEFA Performance Report (PEFA PR).

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<sup>6</sup> The International Budget Partnership (IBP) was formed in 1997 within the Centre on Budget and Policy Priorities to collaborate with civil society to undertake budget analysis and advocacy in order to improve governance and reduce poverty.

<sup>7</sup> Collective in the sense that the instrument is sponsored by a number of donor institutions.

- Integrated products (generally led by the WB) which include a combination of the PER, CFAA and CPAR; often including a PEFA PR (e.g. CIFA, PEFAR and ERPFM)
- An independent<sup>8</sup> survey - The International Budget Partnership (IBP) Open Budget Survey is an independent survey used to measure the overall commitment of the countries surveyed to budget transparency and public access to budget information.
- Other inter-governmental tools and databases (the Commonwealth Secretariat PFM Self Assessment Toolkit and OECD Budget Practices and Procedures Database).

**Table 2 – Summary of Broad PFM Diagnostic Tools**

Product	Brief Description
<b>Institution-specific Standalone Tools</b>	
Public Expenditure Review (WB)	<ul style="list-style-type: none"> <li>• Aims to strengthen budgetary analysis to achieve a better focus on growth and poverty reduction.</li> <li>• Assesses a country's public expenditure program, to meet accountability requirements and provide government with an external view of its budget.</li> </ul>
Country Financial Accountability Assessment (WB)	<ul style="list-style-type: none"> <li>• Was the standard diagnostic tool for analyzing the strengths and weaknesses of client country's public financial management systems by the WB.</li> <li>• Supported both the WB's fiduciary responsibilities (i.e. identifying areas of risk of Bank funds) and development objectives, including capacity building.</li> <li>• No longer mandated, and content usually integrated into broader assessment tools; typically combined with a PEFA PR.</li> </ul>
Fiscal Transparency ROSC – (IMF)	<ul style="list-style-type: none"> <li>• The Code of Good Practices on Fiscal Transparency sets out the principles and practices that government should follow.</li> <li>• The code is based on four key principles: <ul style="list-style-type: none"> <li>○ Clarity of roles and objectives</li> <li>○ Public availability of information</li> <li>○ Open budget preparation, execution and reporting</li> <li>○ Independent assurances of integrity</li> </ul> </li> <li>• The ROSC is an independent assessment of where the country stands in relation to the Code.</li> <li>• Reduced in frequency of use over the last three years.</li> </ul>
EC Assessment Reports on Public Expenditure Management, Public Internal Financial Control and External Audit	<ul style="list-style-type: none"> <li>• Short annual reports assessing reform progress and identifying priorities against baselines set by good European practice and existing EU legislation (<i>acquis communautaire</i>).</li> <li>• 8 "Sectors" including Public Expenditure Management, Public Internal Financial Control and External Audit – annual Assessment Report for each sector prepared as a contribution to its annual Progress Reports on EU candidates and potential candidates and to its programming of technical assistance.</li> <li>• Annual sector assessments in 2008 and 2009 for following EU candidates and potential candidates (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Kosovo, Montenegro, Serbia and Turkey).</li> </ul>
ECFIN Operational Assessments	<ul style="list-style-type: none"> <li>• Assessment providing an analysis of the operation of various administrative bodies (central banks, ministries of finance, auditing bodies) and underlying processes involved in managing EC funds in the</li> </ul>

<sup>8</sup> Independent of government and donor agencies.

Product	Brief Description
	<p>countries receiving macro-economic aid in its various forms (budgetary support and macro-financial assistance from the Commission).</p> <ul style="list-style-type: none"> <li>• Assessment identifies weaknesses and provides recommendations for improving the financial management system (including proposed deadlines for correcting these shortcomings).</li> <li>• Conducted principally for countries eligible for macro-financial assistance i.e. candidate countries and potential candidate countries for accession to the European Union.</li> </ul>
<b>Collective Standalone Tools</b>	
PEFA Framework	<ul style="list-style-type: none"> <li>• Integrative, narrative report based on the indicators and assessing performance; based on observable, empirical evidence.</li> <li>• Updated periodically, depending on country circumstances and operational needs.</li> <li>• Can be produced in less time than traditional or integrated diagnostic which will have in-depth review with reform recommendations.</li> <li>• Contributing to coordinated government/donor PFM assessments.</li> <li>• Since 2005, 206 substantially completed PEFA assessments have been undertaken in 119 countries; a rate of 35-40 assessments per year<sup>9</sup>. This includes 45 repeat assessments and 47 assessments at a SNG level.</li> </ul>
<b>Integrated Products<sup>10</sup></b>	
<ul style="list-style-type: none"> <li>• Country Integrated Fiduciary Assessment (CIFA)</li> <li>• Public Expenditure and Financial Accountability Review (PEFAR)</li> <li>• External Review of Public Financial Management (ERPFM)</li> </ul>	<ul style="list-style-type: none"> <li>• Integrated products using elements of the traditional PER, CPAR and CFAA; often including, built around or in coordination with a PEFA assessment.</li> <li>• Nature and scope to be decided by each country.</li> <li>• Can be modular (e.g. Tanzania covered the entire public sector in three year period 2005 – Central Government, 2006 Local Government, 2007 – Parastatals and SOEs).</li> </ul>
<b>Independent Survey</b>	
Open Budget Survey (IBP)	<ul style="list-style-type: none"> <li>• Independent analysis and survey of transparency in the budget process at a national level.</li> <li>• Used to measure the overall commitment of the countries surveyed to budget transparency and public access to budget information, allows comparisons between countries, and as a tool for civil society to advocate for greater budget transparency and accountability.</li> <li>• Bi-annual Survey commenced in 2006. 2010 Survey covers 94 countries.</li> <li>• Some evidence that it is used by donors as part of broader governance indicators.</li> </ul>
<b>Inter-Governmental Tools and Database</b>	
Commonwealth Secretariat PFM Self Assessment Toolkit	<ul style="list-style-type: none"> <li>• Self assessment tool for governments that aim to internalise and strengthen country financial management assessment without external inputs.</li> </ul>

<sup>9</sup> Data as at October 2010.

<sup>10</sup> The actual title of diagnostic varies from Region to Region. Other regions of the World Bank have issued diagnostic entitled the Integrated Fiduciary Assessment (IFA) and Fiduciary Assessment Update.

Product	Brief Description
	<ul style="list-style-type: none"> <li>Identifies country strengths and weaknesses in the reform process and helps to provide a road map for strengthened reform, technical assistance and capacity building needs.</li> <li>In 2009 (first assessment round), 21 out of 53 Commonwealth countries completed self-assessments which were submitted online to Com-Sec.</li> <li>Individual country results are not published.</li> </ul>
OECD Budget Practices and Procedures Database	<ul style="list-style-type: none"> <li>Introduced in 2003, a database providing budget practitioners, academics and civil society with a means of comparing and contrasting national budgeting and financial management practices from across the globe.</li> <li>Captures current practices and institutional arrangements rather than an assessment tool to measure PFM Performance, although multiple choice options are often presented in sequence of progressive sophistication similar to a rating scale. Database functions allow analysis by users.</li> <li>2007/08 Information on budget institutions from 97 countries is available, including the 31 OECD member countries and 66 non-members from the Middle East, Africa, Eastern Europe, Asia, Latin America and the Caribbean.</li> </ul>

## Objectives and Nature of the Diagnostics

4.8 The objectives and nature of each instrument are summarised in Table 3 (below).

**Table 3: Objective and Nature of Diagnostics**

Tool	Objective	Description
PER	Firstly, to strengthen budget analysis and processes to achieve a better focus on growth and poverty reduction. Secondly, to assess public expenditure policies and programs and to provide governments with an external review of their policies. Finally PERs may address the incentives and institutions needed to improve the efficacy of public spending in major sectors such as health and education, or issues such as civil service reform, fiscal decentralization, and service delivery.	Extremely flexible – no standardized methodology - there are three determinants of the content of PER which are identified in collaboration between the World Bank and government: (1) the most pressing public sector issues in the country; (2) amount of resources – own and from other donors – available to the Bank’s country team and (3) coverage in past Reports.
CFAA	Supports the Bank’s development objectives by identifying strengths and weaknesses in country PFM systems. It helps to identify priorities and informs the design and implementation of capacity building programs. Describes and analyzes downstream financial management and expenditure controls, including expenditure monitoring, accounting and financial reporting, internal controls, internal and external auditing, and ex-post legislative review.	The CFAA is both a development and fiduciary tool. As well as an analysis of the PFM system the CFAA should include; (1) an analysis of the strengths and weaknesses of the PFM arrangements; (2) an assessment of the financial management risk that PFM arrangements may pose to World Bank funds; and; (3) actions agreed to address identified weaknesses and details of any agreed action plan.
EC Assessment Reports	Assessing reform progress and identifying priorities against baselines set by good European practice and existing EU legislation ( <i>acquis communautaire</i> ).	Assessment Reports are prepared by SIGMA, at the request of the European Commission as a contribution to its annual Progress Reports on EU candidates and potential candidates and to its programming of technical assistance. They also aim to provide partners with inputs into their own reform activities.
ECFIN	Assessment providing a detailed analysis of the	Analysis provides an assessment of the

Operational Assessment	operation of various administrative bodies (central banks, ministries of finance, auditing bodies) involved in managing Community funds in the countries receiving macro-economic aid in its various forms (budgetary support and macro-financial assistance from the EC).	administrative procedures and financial circuits involved in macro-financial assistance (MFA) in order to ensure that the beneficiary countries of MFA maintain a framework for sound financial management. Identifies weaknesses and provides recommendations for improving the financial management system (including proposed deadlines for correcting these shortcomings).
Fiscal ROSC	To encourage widespread adoption of transparent fiscal management practices, financial market and public finance risks. Closely linked to the IMF's role of surveillance; i.e. its dialogue with member countries on macroeconomic policy.	Takes stock of observance of good practices (codified in the Code of Good Practices in Fiscal Transparency) and recent achievements in fiscal transparency; identifies and prioritises reforms necessary to enhance the openness of accountability of public institutions; and in resource rich countries, assesses and advises on revenue transparency issues.
PEFA	The 'third leg' of the Strengthened Approach to PFM reform; it provides a pool of standardized information on current PFM performance (and progress between assessments) to all stakeholders	Framework document contains 74 <i>dimensions</i> to 31 high-level PFM performance <i>indicators</i> , grouped (but not aggregated) into six <i>core dimensions</i> of PFM performance, and an outline performance report.
CPFM-SAT	Aims to internalise and strengthen country financial management assessment without external inputs. It also aims to enhance the process of identifying country strengths and weaknesses in the reform process and helps to provide a road map for strengthened reform, technical assistance and capacity building needs.	Self-assessment tool for government to assess PFM performance against criteria set out in 5 <i>building blocks</i> (Legal and Operating Structure of PFM, Accountability and Stewardship, Planning and Resource Allocation, Measurement and Performance and Value Creation).
Open Budget Survey	Evaluates whether governments give the public access to budget information and opportunities to participate in the budget process at a national level.	Independent analysis and survey which measures overall commitment of countries to transparency and allow allows comparisons between countries. Survey covering availability and content of publicly available budget reports addressing (1) budget formulation, (2) legislative approval, (3) budget implementation and (4) year-end report and the role of the supreme audit institution.
OECD Budget Practices and Procedures Database	Provides budget practitioners, academics and civil society with a database to compare and contrast national budgeting and financial management practices from across the globe.	Data base - 89 questions covering the entire budget cycle: preparation, approval, execution, accounting and audit, performance information, and aid management within developing countries.

4.9 While these are all instruments covering the whole of the PFM system their *focus varies considerably*. The PER has a particular focus on upstream PFM elements and is the only tool which provides an external review of public expenditure policies. In contrast, the CFAA focuses more on PFM systems with a particular emphasis on downstream PFM elements. Both the Fiscal ROSC and the Open Budget Survey focus primarily on fiscal transparency; the ROSC addressing transparency and accountability issues related to PFM systems and institutions, while the OBI focuses the quality and public availability of budget documentation.

4.10 EC Assessment Reports are annual assessments of reform progress and identifying priorities against baselines set by good European practice and existing EU legislation (*acquis communautaire*). ECFIN Operational Assessment have a more institutional focus; assessing

the administrative procedures and financial circuits of government institutions managing EC funds. Both these assessment tools are used in EU candidate countries and potential candidate countries for accession to the European Union. *There are significant overlaps between these two instruments; and with other broad based PFM Diagnostics.*

4.11 *Some tools by their nature implicitly or explicitly promote a set of PFM standards or codes of what is good or best practice.* The PEFA Framework, Fiscal ROSC, CPFM-SAT, Open Budget Index and the OECD Database promote a specific set of standards of good or best PFM practice<sup>11</sup>. The coverage and methodology of each indicator set is significantly different. This raises the possibility of conflicting or duplicating indicator sets (discussed in detail in the analysis of the technical coverage below).

4.12 *There are significant differences in the role of each instrument as comparative tools.* The PEFA Framework, CPFM-SAT and Open Budget Index include a set of high level quantifiable indicators, which can measure changes in the performance of PFM systems over time by means of a rating system. By contrast, the Fiscal ROSC, the EC Assessment Reports and the ECFIN Operational Assessments are essentially qualitative documents.<sup>12</sup> A key role of the PEFA Framework is to track changes in the performance of an individual country's PFM systems over time. While comparisons between countries are possible this is not the primary goal of the PEFA Framework. By contrast, the Open Budget Index and CPFM-SAT are conducted biennially to track changes in country performance and provide a comparison between countries covered in each assessment through aggregation of indicator ratings. The OECD database allows users to compare budgeting and financial management practices between countries.

4.13 *The scope and structure of each instrument is different.* The PEFA assessment is descriptive and diagnostic. It includes a narrative that explains the scoring under each indicator. It is not prescriptive, i.e. does not include recommendations for addressing weaknesses in the areas assessed, nor does it propose a PFM reform agenda. The PER, CFAA, CPAR, EC Assessment Reports, ECFIN Operational Assessments and IMF Fiscal ROSC tools are descriptive; to provide a full report of current practices, diagnostic to indicate where deficiencies lie, and prescriptive, to suggest a possible set of reforms. The PEFA PR and Fiscal ROSC also follow a standard reporting structure which makes the reports more consistent and arguably easier to compare.

4.14 *The process of preparing the tools is different, often in line with their scope and objectives.* The OECD database is prepared by government officials. Its primary function is to document budget practices and institutional arrangements rather than to act as a diagnostic

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<sup>11</sup> Discussed in depth in Chapter 5.

<sup>12</sup> Although the information generated from the Fiscal ROSCs has been used to create quantitative indicators of compliance with the good practice (Fiscal ROSCs and PEFA Assessments: A Comparison of Approaches p2).

tool; however multiple choice questions are often presented in sequence of progressive sophistication similar to a rating scale. CPFM-SAT is also prepared by government officials; its primary function is to provide governments with a self assessment tool to score their systems and processes which are considered to be benchmarks of good PFM. Unlike the other diagnostic tools individual country scores are not published. The Open Budget Survey is a diagnostic survey prepared by a non-governmental organization; the International Budget Partnership; using a network of independent researchers. The World Bank and IMF diagnostics are completed by IFI staff, and EC Assessment Reports are completed by SIGMA<sup>13</sup> staff; the degree and nature of collaboration with government counterparts and development partners varies from country to country.

4.15 A summary table showing some of the key features and objectives of the various instruments is provided in Table 4 below.

**Table 4 – Some of the Distinctive Features of Each Instrument**

	PER	CFAA	Fiscal ROSC	EC ASS. REPORTS	ECFIN OA	PEFA	CPFM- SAT	OBI	OECD DB
Review of public expenditure policies & political incentives	X								
Review of fiscal transparency	P	P	X	P		P		X	
Promotion of data set of standards of good/best practice						X	X	X	P
Track progress over time			P	P		X	X	X	
Identification of PFM strengths/weaknesses	X	X	X	X	X	X	X	X	
Analysis of capacity issues	X	X	X	X			X		
Recommendations for reform	X	X	X	X	X				
Completed by	G/D	G/D	G/D	G/D	D	G/D	G	N <sup>14</sup>	G
International comparison across a range of countries.							X	X	X

P= Partially Covered G = Completed by Governments alone. G/D = Completed in collaboration between governments and donors N = Completed by non-government entities

<sup>13</sup> SIGMA is a joint initiative of the OECD and the European Union, principally financed by the European Union.

<sup>14</sup> Although the Government is invited to comment and these comments are recorded against individual indicators.



## Frequency and Cost of Application

4.16 The frequency and cost of application of the various instruments is summarised in Table 5 below.

**Table 5 – Frequency and Indicative Cost of Applying Instruments**

Tool	Description
PER	There has been a steady demand for PERs over the last twelve years <sup>15</sup> . Completed PER's increased from 68 (17 per year) in 1999-2002 to 93 (over 23 annually) in 2003-2005. More recent data shows 25 in 2007; 14 in 2008; and 18 in 2009. The frequency of preparing a country's PER is agreed between the WB and government; typically every four to five years. The cost of PERs varies considerably depending on the scope; the average cost for the WB was c\$250k in FY 08 and c\$285k in FY09; although costs varied between less than \$100k to over \$600k.
CFAA	CFAA's increased from 33 (8 per year) from 1999-2002 to 72 (18 per year) in 2003-2005; during the period when it was a mandatory WB diagnostic. The WBs PFM diagnostic work is now more focused on the PEFA assessment. As a result few standalone CFAA's are now prepared. According to the 2003 Guidelines "there is no standard cost for a CFAA; experience suggests that the average cost of a CFAA in a medium sized country would be about \$125k, and it is generally not possible to carry out a CFAA of adequate quality for less than \$50k".
Fiscal ROSC	As of March 2010, 92 countries from all regions and levels of economic development had fiscal transparency ROSCs posted on the IMF's Standards and Codes web page. As of March 2010, 26 countries had undertaken updates or complete reassessments. ROSCs can be undertaken at any time at the request of the authorities. Countries can also opt for a full ROSC reassessment after 5 years, and more limited updates can take place during Fund Article IV missions. Since the introduction of the PEFA Framework in 2005 demand for the ROSC has fallen significantly and is currently between 5 and six per year. The typical cost of the ROSC ranges from \$120k-\$180k.
EC Assessment Reports	Separate annual assessments for the following EU candidates and potential candidates (Albania, Bosnia and Herzegovina, Croatia, Macedonia, Kosovo, Montenegro, Serbia and Turkey). Assessments for Bulgaria and Romania were conducted until entry into EU (2007). No data on the cost of these assessments were available.
ECFIN Operational Assessment	Programme envisages 4 assessments per year for (1) EU candidates, (2) potential candidates and (3) other potential recipients of macro-financial assistance. The cost of an Operational Assessment is cira.EUR 80,000.
PEFA Framework	PEFA Assessments can be initiated at country level by any stakeholder (it is often required by a donor or group of donors providing TA in PFM and/or budget support). Good Practice Notes issued by the PEFA Secretariat recommend that repeat assessments should not be conducted more often than every three years, due to the length of time PFM reforms typically take to achieve improved performance. The cost of a PEFA varies considerably depending on the scope and size of country; costs have ranged from \$50-\$280k, excluding time spent by government officials. Since 2005, 206 substantially completed PEFA assessments have been undertaken in 119 countries; a rate of 35-40 assessments per year. This includes 45 repeat

<sup>15</sup> The period for which records were available for this Report.

Tool	Description
	assessments and 47 assessments at a Sub-National Government (SNG) level.
Open Budget Survey	The Open Budget Survey is conducted biannually. The process is managed by the IBP in Washington; it works with research organizations in 94 countries that collect data for the Survey. A score is assigned to each country based on budget information available to the public. The IBP estimate the cost of the survey averages 15k to 20k per country.
CPFM-SAT	The first CPFM-SAT was completed in 2009 and the self assessment is planned as a bi-annual process. The cost of the CPFM-SAT is low and is incurred mainly by participating governments, who complete the self assessments.
OECD Budget Practices and Procedures Database	Information on budget institutions from 97 countries is available and 67 non-members from the Middle East, Africa, Eastern Europe, Asia, Latin America and the Caribbean. The second edition of the survey contains three parts: the 2007 OECD survey (also including Argentina, Brazil, Chile, Costa Rica, Israel, Peru, Slovenia and Venezuela), the 2008 World Bank/OECD survey and the 2008 CABRI/OECD survey. The cost of developing and maintaining the database is not disclosed.

4.17 *Initiating an assessment:* The Open Budget Survey and the CPFM-SAT are biennial surveys used to compare countries PFM systems. The OECD database is updated, and has been extended periodically; the last update was in 2008. The WB/IMF instruments focus at the country level and can be initiated by the institution (in partnership with/request of the Government). EC Assessment Reports are prepared annually for the European Commission as a contribution to its Annual Progress Reports on EU candidates and potential candidates. The decision to undertake a PEFA Assessment is also taken at the country level, by the government, usually in collaboration with IFIs and other development partners.

4.18 *Frequency of use:* As noted at the start of this Chapter there have significant changes to the types and volumes of assessments undertaken since the 2004 stock take. Demand for the ROSC has fallen significantly since the introduction of the PEFA Framework. The CFAA is now very rarely used as a separate development/fiduciary instrument; its technical content is now incorporated into integrated products with fiduciary issues managed through WB internal processes and procedures<sup>16</sup>. Demand for the PER/PEIR has remained steady; its unique role of providing an external review of fiscal policies seems to be valued by stakeholders. Since the introduction of the Strengthened Approach in 2005 PEFA Assessments have continued at a rate of 35-40 assessments per year; stakeholders are now undertaking repeat assessments to track PFM system performance over time.

4.19 *Cost of conducting an assessment:* The cost of assessments varies considerably depending on the instrument, the scope of the assessment and size of country. Indicative costs provided by respondents to the Stock take are highlighted in the Table above.

<sup>16</sup> Discussed in Chapter 5.

## User Support and Quality Assurance

4.20 User support and quality assurance arrangements for each of the Instruments is summarised in Table 6 (below):

**Table 6 - User Support and Quality Assurance Arrangements**

Tool	Description
PER, CFAA, integrated WB assessments and the Fiscal ROSC	<p>Fiscal ROSC - Guidance comes from the Code of Good Practices in Fiscal Transparency and its accompanying Manual on Fiscal Transparency; and Guide to Resource Revenue Transparency. Applied firstly through the application of a focused, standardised questionnaire.</p> <p>PER – In addition to World Bank Guidelines the Bank conducts training courses for Bank staff.</p> <p>Quality Assurance - The PER, CFAA, integrated WB assessments and the Fiscal ROSC are managed according to rigorous WB or IMF quality assurance procedures. Task managers are appointed by their respective institutions and concept memorandum and draft reports are subject to internal control procedures and peer reviews from individuals with technical and country expertise. In addition Bank and IMF staff receive regular internal training on managing, or being a member of the technical team on assessments.</p>
EC Assessment Reports	<p>Baseline questionnaires (separate for each sector) guide both the coverage and scope of the report. Assessments are team led by experienced member of SIGMA staff with technical skills and country knowledge supported by consultant/practitioners.</p>
EC Operational Assessment	<p>Work program drawn up in advance by staff of the DG ECFIN. Selection of consultants and management of the process, including reviewing draft reports is conducted by DG ECFIN staff.</p>
PEFA Framework	<p>In addition to the published framework, the PEFA Secretariat issues guidance on gathering evidence, good practices note, and training materials, plus email advice on request concerning draft terms of reference, reviews of performance reports, and interpretation of indicator scoring requirements. Recent PEFA monitoring reports show positive trend in the compliance index which the PEFA Secretariat uses to monitor that scores have been correctly assigned on the basis of adequate evidence, and according to the methodology. This appears to demonstrate that the methodology is widely understood and correctly applied despite the decentralized implementation of assessments<sup>17</sup>.</p>
Open Budget Survey	<p>The IBP provides a Guide to the Open Budget Questionnaire which outlines the research method to be used in answering each question. IBP provide researchers in participating research institutions with training prior to conducting the OBI and technical support throughout the assessment process. All completed questionnaires are available on IBP website. Exchanges and debates between researchers and peer reviewers are published in the final questionnaire. Governments are also invited to comment on the questionnaire and their comments are also published on the website. Finally the results of the Survey are correlated with other governance indicators and a “unanimity” score (between researchers and peer reviewers)</p>

<sup>17</sup> The PEFA Secretariat has also conducted a significant outreach programme to train PFM consultants and donor representatives in the methodology and conducted a “training for trainers” programme to equip consultants with the knowledge to conduct training for government representatives and donor representatives.

Tool	Description
	calculated to check the reliability and robustness of the data.
CPFM-SAT	The CPM-SAT is designed as an automated self assessment tool which claims to create a collaborative platform for learning and sharing. Management and coordination in each country is undertaken by the finance ministry. Com-Sec provides users with a Manual and scoring is automated with no moderation or peer review process. Com-Sec acknowledges variability due to differing levels of PFM understanding among respondents, varying scoring stance (tough/soft), and human error <sup>18</sup> .
OECD Budget Practices and Procedures Database	Prepared by government officials which may influence impartiality. No quality assurance mechanisms indicated on website.

4.21 *IFI and EC diagnostics are managed centrally by staff according to rigorous quality assurance procedures.* Although implementation of the PEFA Framework is decentralised the PEFA Secretariat offers an extensive range of training and user support tools to ensure the Framework is consistently applied between countries. In addition PEFAs are often (>50% of assessments) managed by WB or IMF and thus subject to the internal quality assurance systems of those organizations.

4.22 *CPFM-SAT assessments are not subject to any moderation or peer review and are therefore likely to result in inflated scores.* Several of the indicator activities are very wide-ranging, and there is no clear calibration that separates the scores. There is no guidance on interpretation, and changes in scores from one assessment to the next, unless made by the same person, are unlikely to be a reliable indicator of change. The actual quality of SAT assessments and the consistency of their findings with other assessments are impossible to judge as none of the country assessments are accessible other than to the participating government and the Commonwealth Secretariat.

4.23 *More consistent disclosure of the approach and quality assurance arrangements for the PEFA Framework would be valued by stakeholders:* While most respondents to this Study seemed relatively satisfied with the technical content of the PEFA Framework others did express concerns regarding the quality of some individual country assessments. DFID's December 2009 revision to their Fiduciary Risk Assessment (FRA) "How To" Note includes a requirement to state whether the PEFA assessment used to inform the FRA has been quality assured by the Secretariat, together with a recommendation that all PEFA assessments should also be quality assured in country by informed independent stakeholders who have an informed understanding of the national PFM systems. It would be helpful if this guidance was followed by all sponsors of PEFA Assessments to encourage the disclosure of, (a) the

<sup>18</sup> Com-Sec presentation to Finance Ministers in 2009.

overall approach to the assessment (self assessment, moderated self assessment etc.) and, (b) the quality assurance arrangements prominently in the PEFA PR.

### **Possible Gaps as Related to Specific Need**

4.24 Desk research and interviews conducted during the Study revealed some important perceived gaps in existing instruments – both in the formal guidelines and in how those guidelines are interpreted when assessment reports are produced.

#### **A. Applying the PEFA Methodology at a Sector Level.**

4.25 Donors providing sector budget support and earmarked financial aid for sector-specific programmes are interested in having tools which provide a more structured assessment of sector level PFM systems. There are a number of examples where the PEFA methodology has been adapted to a specific sector<sup>19</sup> and a number of donors have developed guidance on preparing PFM assessments at a sector level<sup>20</sup>.

4.26 Adapting the PEFA methodology to a sector level would be a challenging exercise. Each sector has its own peculiarities and it would be extremely difficult to develop definite list of sector PFM indicators which could be applied to say, health, education and roads. In addition to difficulties of a technical nature, there would be the significant challenge of coordinating and ensuring the quality of multiple assessments across many different sectors and layers of government. The PEFA Steering Committee does, however plan to develop guidance on how far it is prudent to incorporate elements of a sector assessment into a standard PEFA assessment, without significantly expanding the work of an assessment or the length of the Report. For example, evidence from line ministries and agencies should be available from the evidence gathered on PEFA PI's addressing budgeting, payroll, procurement, internal control and accounting systems<sup>21</sup>.

#### **B. Coverage of Institutional and Governance Issues**

4.27 The 2004 Assessment Mapping Report noted that, with the possible exception of the broad constitutional and legal descriptions in PERs and Fiscal ROSCs, PFM diagnostics provide little more than limited coverage of administrative and financial management capacity (personnel quality, capacity, and management). In addition diagnostics have struggled to adequately address how the governance environment and incentives contribute to performance and the application and enforcement of formal laws, rules and procedures for public expenditure management.

4.28 Chapter 6 examines a number of institutional models designed to address the capacity needs of public sector institutions. However these are mostly self assessment tools which focus on specific PFM elements or functions, and which are unlikely to give a broad picture

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<sup>19</sup> See, for example the Assessment of Public Finance Management & Procurement Systems in the Mozambique Health Sector Interim Report -February 2009.

<sup>20</sup> DFID FRA How To Note page 23 and EC Support for Sector Programmes page 95.

<sup>21</sup> However the extent to which this happens in practice, and is disclosed in PEFA reports varies.

of institutional and governance issues in the public sector. A recent IMF Working Paper argued that present PFM indices do not address the performance of budget institutions<sup>22</sup> and instead focus on the technical functioning of budget process, practices and rules. The Paper constructed an index using information on budgetary practice and performance, legal regulations, numerical and procedural rules, questions on transparency and the comprehensiveness of fiscal information<sup>23</sup>, supplemented by a survey of IMF country teams and fiscal economists. The Team noted that, due to the limitations of present data sources the index falls short of the ideal index to measure institutional capacity<sup>24</sup>.

4.29 Notwithstanding these methodological challenges, the overall direction of this working paper adds an interesting new dimension to PFM diagnostic work and is worthy of further consideration. Conceptual thinking on this issue has still not fully evolved; for example any new model should be built around a consensus on the objectives of PFM<sup>25</sup>. There is also further scope to develop guidelines on how existing assessment instruments address institutional and governance matters.

#### **C. Diagnostic on the Credibility of PFM Reforms**

4.30 Existing assessment tools provide insights into the strengths and weaknesses of the PFM system and provide advice on reform priorities. They do not assess the credibility of the reforms either in respect of how likely they are to mitigate risk and over what timescale. DFIDs FRA Guidelines identify the general features of a credible programme of improvement and provide a set of related questions to help assess the extent to which these features exist<sup>26</sup>. This approach points in the direction of a framework which could promote a consistent approach amongst donors and a tool which helps to identify weaknesses in reform programs.

#### **D. Improved Repository of PFM Guidelines and Diagnostics**

4.31 The 2004 Assessment Mapping Report recommended that donors and governments should be given complete access to staff guidelines, assessment work plans, schedules, and reports. Dissemination and sharing of information is partially addressed through PEFA website, which has comprehensive links of all reports which include PEFA assessment. However further improvements could be achieved through the development of a central database of staff guidelines and PFM diagnostics from all international institutions.

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<sup>22</sup> Defined as the “structures, formal and informal rules, and procedures governing budget planning, approval and implementation”. The authors argue the term PFM is used in a narrow technical sense and that their definition of “institutions” incorporates the political economy and social influences on the budget.

<sup>23</sup> The index combined data from the PEFA, OECD database, IBP Open Budget Index and the IMF Fiscal Transparency ROSC.

<sup>24</sup> The Paper notes limited data to measure institutional performance of core public services, the tracking of poverty related spending or revenue administration.

<sup>25</sup> Another evolving topic - (see for example Parry (2010) and Pretorius (2009)).

<sup>26</sup> Page 19 and Annex 10 of the FRA How to Guide.

## Update on Gaps Identified in the 2004 Assessment Mapping Report

4.32 The following technical gaps raised in the 2004 Report are discussed in Table 8 (below) with a brief commentary on developments since its publication.

**Table 8 – Technical Gaps and Developments since 2004**

Issue in Report	Developments Since 2004
None of the instruments provides broad, substantial coverage of the forecasting, collection, and administration of taxes and other government revenue, though many PERs address some of these issues and the recently updated CFAA guidelines include accounting and control aspects of tax administration. This oversight is surprising given that accurate revenue forecasts and efficient tax collection are crucial to sound public expenditure management.	PEFA high level indicators cover revenue issues (PI-3, PI-13 – PI-15). A number of tax administration databases and diagnostics have been developed (See Chapter 6).
Although asset management is included in the CFAA guidelines, no CFAA has covered this issue—which also requires a wider perspective than financial management alone, including sound understanding of accounting, economic, and procurement issues.	Asset management is covered in depth in the CPFMSAT and by the WB Diagnostic for Assessing Public Investment Management.
Debt and aid management are covered in PERs and CFAAs but, as with revenue forecasting, not systematically or comprehensively.	Debt management addressed in PEFA (PI-12(ii) & PI-17(i)) and more comprehensively in DeMPA (see Chapter 6). Aid practices addressed in PEFA (PI-7(i) & D-1 to D-3).
Effective management of public records is an important element of public expenditure management but is hardly covered by the assessment instruments. Consideration should be given to combining the records management component with the main instruments, particularly CFAAs and CPARs.	International Records Management Trust (IRMT) has developed Good Practice Indicators for Integrating Records Management in ICT Systems (2009) – discussed in chapter 6.
The instruments—particularly CFAAs and to a lesser extent PERs and CPARs—tend to focus on central government systems for public expenditure management. But while more attention is being paid to fiscal issues involving SNG, SOEs, and agencies not funded directly by national budgets, it is often insufficient given the shift toward fiscal decentralization in many countries and recognizing that these can be areas of high fiscal risk.	The PEFA Secretariat issued guidelines to apply indicators at a Sub-national Government (SNG) level (March 2008) and these have been extensively applied <sup>27</sup> . No guidelines have been prepared for a City/Municipality Level <sup>28</sup> . The Open Budget Survey's focus is on budget documents prepared by central government however is presently piloting an approach to applying the Open Budget Survey to SNG's. The PER, CFAA and integrated products are also applied at a SNG level.  PEFA and Fiscal Transparency ROSC cover state enterprises and agencies through the lens of budget comprehensiveness and fiscal risk. WB is developing a Toolkit for State Owned Enterprises (discussed in Chapter 6).

<sup>27</sup> By March 2011 62 Assessments had been prepared at a SNG level.

<sup>28</sup> UN Habitat prepared an early draft Financial Performance Indicators for Municipalities in 2008. The author understands that these indicators were not developed further however was unable to confirm this directly was representatives from UN Habitat.

## 5. Technical Coverage of Instruments

### Introduction

5.1 This chapter provides a detailed technical analysis of the five instruments which implicitly or explicitly promote a set of PFM standards or codes (The Fiscal ROSC, PEFA PR, Open Budget Survey, CPM-SAT and OECD Budget Practices and Procedures Database). This chapter maps each instrument's coverage of the various elements of the PFM system in order to identify differences and possible conflicts between standards applied by countries at the same general level of development.

5.2 The five instruments described below have been mapped according to the extent of their coverage of the 107 subcomponents of the PFM cycle. Annex C provides the full mapping exercise, together with explanatory notes. A summary, covering the 16 major components, is provided in Table 9 below, which shows the extent to which each instrument covers the PFM components.

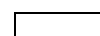
**Table 9: Assessment instruments' coverage of the main components of public financial management**

Component	PEFA	Fiscal ROSC	CPFM-SAT	IBP OBI	OECD BD
Legal framework for expenditure management	29				
Intergovernmental fiscal relations					
Relations between government and non-government entities					
Budget coverage					
Expenditure analysis					
Fiscal framework and expenditure programming					
Budget preparation					
Revenue Management and Tax Administration					
Treasury systems, cash management, and expenditure monitoring					
Public procurement and management of physical assets					
Internal control and audit					
Accounting, measurement, reporting, and records management					
Debt and aid management					
External audit					
Performance Information					
Personnel quality, capacity, incentives, and management					

Key to coverage:

 = Complete or Substantial

 = Partial or Moderate

 = Little or None

<sup>29</sup> Addressed in sub-section 2.3. of the PFM Performance Report ( Description of the legal and institutional framework for PFM).



## **The PEFA Framework**

5.3 The *PEFA Framework* provides a detailed coverage of all major elements of the PFM system with scores linked to generally acceptable budgetary outcomes. The Performance Report also includes a narrative with country related information necessary to understand the indicator led and overall assessment of PFM performance. It addresses the basic qualities of a well functioning PFM system, based on good international practices, rather than setting standards based on the latest PFM innovations. While the indicator set can be applied to any PFM system, PEFA has a strong development element and this lends itself particularly well to low and middle income countries, where the majority of PEFA Assessments have been applied.

## **Comparison of the Technical Coverage of PEFA Framework and the Fiscal ROSC**

5.4 There is a considerable overlap between the coverage of the PEFA Framework and the *Fiscal ROSC*. A recent Note prepared by the IMF Fiscal Affairs Department<sup>30</sup> concluded that more than sixty percent of the good practices assessed in the fiscal ROSC are reported fully or partially in a PEFA assessment and three-quarters of the indicators in a PEFA assessment could be derived from material assembled for a fiscal ROSC. Despite overlapping coverage, the Note argued that each instrument has its own purpose and responds to specific needs. Specifically the primary focus of the fiscal ROSC is on transparency and accountability while the PEFA assessment has a broader coverage; and considers transparency and accountability as two amongst a number of crosscutting indicators of PFM performance. In keeping with the IMF's mandate the ROSC has been completed for countries at all stages of economic development.

5.5 The Note concludes that there is a potential for better exploitation of common ground between the two diagnostics. However the IMF argues that this would require the PEFA assessment to include more accountability and transparency indicators; a more comprehensive revision of the PEFA indicators than is presently by envisaged. On an operational level, sixteen countries have undertaken both a PEFA assessment and fiscal ROSC independently of each other between 2005 and mid-2009<sup>31</sup>; often with a short period of time between them. As the number of ROSCs has reduced considerably over the last year or two, future coordination, planning and implementation of ROSCs and PEFAs can probably best be managed on a country by country basis.

## **The Commonwealth PFM Self-Assessment Tool**

5.6 The *CPFM-SAT* was developed through a consultative process with inputs from senior budget and finance officials drawn from developed and developing countries. The SAT identifies a range of standards, best practices and benchmarks; some of which are not yet recognized as best practice (e.g. pre-election audit by the SAI, tax exemptions funded by the applicant MDAs). In some areas, the CPFM-SAT promotes standards which may be overly

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<sup>30</sup> Presented as an attachment in the IMF Blog posted by Mario Pessoa (IMF FAD) on May 25 2010.

<sup>31</sup> Fiscal ROSCs and PEFA Assessments: A comparison of approaches Table 3.

ambitious for low income countries (movement from cash to accrual accounting, performance and value for money audits). While transferring of knowledge between developed and developing members of the Commonwealth is an explicit goal of the CPFMSAT, the tool could provide more clarity on which standards should be regarded as prerequisites of a PFM system and those standards which might be looked at as longer term challenges.

### **Comparison of PEFA Assessment of CPFMSAT**

5.7 The PEFA Assessment covers six elements of the PFM systems in more detail than the *CPFMSAT* (including core elements such as budget coverage, expenditure analysis, the fiscal framework, budget preparation, internal audit and accounting and external reporting). The *CPFMSAT* covers two elements, performance information and technical/human capacity, as well as some sub-elements (procurement, asset management) in greater detail than the PEFA Framework. This finding correlates with a detailed comparison of the *CPFMSAT* and the PEFA Assessment prepared by the PEFA Secretariat<sup>32</sup>. That analysis noted that both assessments are intended to provide a snap shot of national level PFM and provide input to the dialogue on PFM reforms. While the *CPFMSAT* has a similar institutional coverage to the PEFA assessment, it only covers fifty four percent of the PEFA Framework (excluding budget credibility, unreported government operations, transparency of inter-government relations, taxpayer registration, and payroll and donor indicators). The SAT covers a number of topics which are excluded from the PEFA assessment (integrated financial/non-financial performance management, legislative and institutional framework<sup>33</sup>, HR management and capacity building, stakeholder participation, declaration of assets by public officers, large taxpayer unit, asset management and the independence of external audit).

5.8 There is an opportunity to further clarify the distinguishing roles and overlapping standards of the PEFA Assessment and *CPFMSAT* to government counterparts. Also, because the *CPFMSAT* is not published or subject to peer-review/moderation, correlating these scores with other governance and PFM indices would be useful for governments to corroborate the reliability of their self assessed scores.

### **The Open Budget Index**

5.9 The distinctive feature of the OBI is that it provides an external (i.e. independent) perspective on the transparency of the government's budget information. The good practice criteria are similar to many elements of the IMF Code of Fiscal Transparency and the INTOSAI Lima Declaration of Guidelines on Auditing Precepts. However the OBI has an element of advocacy in that it includes other indicators which, OBI argues, ensure that budgeting is responsive and accountable to the public e.g. the preparation of a Citizen's

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<sup>32</sup> PEFA Secretariat November 30 2009. Initial comments on the note were provided by the Commonwealth Secretariat during the preparation of this Report.

<sup>33</sup> Covered in the PEFA PR but not scored.

Budget which is not (or not yet) generally accepted practice. The OBI is applied to a range of low, medium and high income countries.

### The OECD Budget Practices and Procedures Database

5.10 The Database covers the entire budget cycle, including the preparation, approval, execution, accounting and audit and performance information. Its main function is as a database to capture current practices and institutional arrangements rather than an assessment tool to measure PFM Performance. 93 OECD, low and middle income countries completed the last Survey. Some elements of the Survey might be regarded as advanced for lower income countries; particularly Part VI which has 19 questions on the availability and use of performance information.

### Summary Table and Conclusions

5.11 Table 9 (below) summarises issues relating to the technical coverage of each instrument by:

- Providing a brief summary of the instruments consistency with “best” PFM Practices
- Highlighting the stage of development of countries applying the instrument
- Focusing on key areas of technical coverage and “gaps” compared to the components and sub-components of the PFM cycle.
- Specifically highlighting advanced components that may create challenges for developing countries.

**Table 9 – Summary of Broad PFM Tools**

	<b>Consistency with best PFM Practices</b>	<b>Application</b>	<b>Focus and “Gaps”</b>	<b>“Advanced”/ Outlying Topics</b>
<b>PEFA Framework</b>	The indicator set focuses on the basic qualities of a well functioning PFM system, based on good international practices, rather than setting a standard based on the latest PFM innovations.	While the indicator set can be applied to any PFM system this focus lends itself particularly well to low and middle income countries, where the majority of PEFA Assessments have been applied.	Detailed coverage of all elements of PFM system. No coverage of relations between government and non-government entities; performance Information; personnel quality, capacity, incentives and management.	None
<b>Fiscal ROSC</b>	The indicator set focuses on the basic qualities of a well functioning PFM system, based on good international practices of fiscal transparency, rather than setting a standard based on the latest PFM innovations.	The ROSC has been applied to a range of low, medium and high income countries.	Detailed coverage of all elements of public expenditure system. No coverage of revenue management and tax administration, performance Information; personnel quality, capacity, incentives and management.	None
<b>CPFM-SAT</b>	Developed through a consultative process with inputs from senior budget and finance officials drawn from developed and developing countries. Through workshop programmes officials focused on what constituted good PFM; and	In 2009, 21 out of 53 CW countries completed self assessments including high income (Australia and New Zealand), EU countries (Malta and Cyprus) and SSA countries.	Detailed coverage of public procurement, asset management, external audit, performance measurement and elements of human and technical capacity. Partial coverage of core areas such as budget comprehensiveness, fiscal	Some topics not regarded as best practice (e.g. pre-election audit by the SAI, tax exemptions funded by the applicant MDAs). Some of the indicators promote standards which may be overly ambitious and may not have universal applicability to countries

	<b>Consistency with best PFM Practices</b>	<b>Application</b>	<b>Focus and “Gaps”</b>	<b>“Advanced” / Outlying Topics</b>
	identified a range of standards, best practices and benchmarks.		framework, budget framework and accounting. No coverage of internal audit or external reporting.	with differing income levels (movement from cash to accrual accounting, performance and value for money audits).
<b>IBP OBI</b>	Many of the criteria are similar to other good practice criteria for PFM such as the IMF Code of Fiscal Transparency and the INTOSAI Lima declaration of Guidelines on Auditing Precepts. However the OBI has an element of advocacy in including other indicators which, it is argued ensure that budgeting is responsive and accountable to the public.	The OBI is applied to a range of low, medium and high income countries.	OBI is an external view of transparency – not systems and processes. Index is strong on budget coverage, expenditure analysis, budget preparation, external audit and performance information. Coverage of debt and external reporting. No coverage of accounting revenue management, budget execution and accounting. No coverage of capacity issues, incentives and management.	OBI includes additional topics of importance to civil society and includes a Citizen’s Budget as a document which should be released by governments.
<b>OECD Budget Practices and Procedures Database</b>	Database to capture current practices and institutional arrangements rather than an assessment tool to measure PFM Performance.	93 OECD, low and middle income countries completed the last Survey.	Detailed coverage of legal /constitutional framework, fiscal framework, external audit and the availability and use of performance information. Only partial coverage of core PFM systems and processes such as budget coverage, expenditure analysis, budget execution, internal controls/audit and accounting.	Some elements of the Survey might be regarded as advanced for lower income countries; particularly Part VI which has 19 questions on the availability and use of performance information.

## 6. Tools which Focus on Specific PFM Elements or Institutions

### Introduction

6.1 This chapter;

- Identifies PFM analytical/diagnostic tools which focus on a specific PFM element or institution;
- Provides a description and the application of each tool; and
- Identifies opportunities for harmonisation and better coordination of these assessment tools.

### Background and Broad Trends

6.2 This Chapter addresses the diverse range of tools which focus on a specific PFM element or institution<sup>34</sup>. These include:

- Drill-down diagnostics which broadly follow the PEFA methodology by applying relatively high-level performance indicators to a specific PFM element (e.g. the Debt Management Performance Assessment and the Methodology for Assessment of National Procurement Systems).
- PFM Diagnostics which are *descriptive*; providing a full report of current practices; *diagnostic* indicating where deficiencies lie, and *prescriptive*; to suggesting a possible set of reforms (e.g. the Country Procurement Assessment Report and the World Bank Gap Analysis Framework for Comparing Public Sector Accounting and Auditing to International Standards).
- Toolkits which provide a more institutional dimension to the assessment (e.g. the CIPFA FM Model and the World Bank Toolkit for Improving State Enterprise Corporate Governance) or incorporate elements of diagnostic work into broader capacity building needs assessment (e.g. the Institute of Internal Auditors Capability Model).

6.3 Several of the toolkits have been developed by professional associations and NGOs (the Institute of Internal Auditors (IIA), the International Organization of Supreme Audit Institutions (INTOSAI) and the International Records Management Trust (IRMT)); others have been designed primarily as internal toolkits primarily for use by IFI staff to advise their country counterparts.

6.4 There has been a significant increase in the number of new toolkits over the last few years: only two of these diagnostics (the CPAR and PETS) were in use when the last mapping exercise was conducted in 2004. The reasons for the increased use of these tools may include:

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<sup>34</sup> All of these tools aim to provide stakeholders with a systematic approach to benchmarking performance against codes and/or professional standards which are deemed to be best or good international practice (e.g. IPSAS, ISA, IIA Standards, INTOSAI Standards, COSO, PIFC). While these are referred to in the text, the Study does not explicitly address these except in the context of the diagnostic tools.

- Codification of “best” practice through the development of international standards and codes (e.g. development of IPSAS and INTOSAI standards).
- Demand from government experts in developing countries to benchmark their PFM systems against accepted international practice while addressing capacity constraints.
- Demand from development agencies to provide their staff with toolkits to enable them to provide consistent advice which is benchmarked to accepted international practice.
- Development of best practice guides by professional bodies and associations
- A greater focus on institutional development and capacity building issues in implementing PFM reform programs.
- International commitments in the Paris Declaration and in the Accra Agenda for Action on increasing the use of country PFM systems.

### Description and Commentary

6.5 Because of the wide-ranging nature of the tools this Chapter follows a slightly different structure from Chapter 4. Assessment tools have been grouped under specific PFM elements or functions as follows:

- A. Tax Administration
- B. Debt Management
- C. Procurement
- D. Internal Audit
- E. Public Expenditure Tracking
- F. External Audit
- G. Records Management
- H. Others
- I. Toolkits and Frameworks under Preparation

A brief description of each tool is provided. An additional commentary on complementarities and opportunities is also provided where appropriate.

## A. Tax Administration

*Comparative Series Database (OECD)*

*Collecting Taxes Database (USAID)*

*Tax Administration Blueprints (EC)*

*Handbook for Tax Simplification (WB)*

*Diagnostic Framework for Revenue Administration (WB)*

6.6 This section draws extensively on a Study prepared by Crandell (2011)<sup>35</sup> which included a detailed description of existing tools for assessing the performance of tax administration systems. Tax administration is a broad topic; the tools cover *inter alia* (a) the tax administration framework and systems, (b) compliance and risk (education, service and enforcement, and (c) management, organization and accountability issues. Existing tools can be divided into two groups: (i) databases; and (ii) frameworks for making individual country assessments.

6.7 The OECD's *Comparative Information Series* for OECD and selected non OECD countries is updated every two years and provides comprehensive coverage of all aspects of tax administration, with extensive footnotes and explanations. It only deals with OECD countries (30) and selected non-OECD countries (14); very few of these are developing countries.

6.8 The USAID's *Collecting Taxes Database* provides global coverage on 31 different indicators covering 200+ countries. It gives a country-level view as well as regional, income group and international benchmarks against which to assess a country's tax system. The data produced can be useful for performance analysis; however it does not provide a comprehensive picture of each country's tax administration system. Data is collected by third parties and some information is presently unavailable on the database.

6.9 The EC *Tax Administration Blueprints* are designed to be used as a self-assessment tool; providing an overall framework and benchmarks related to the technical and organizational aspects of a tax administration. They are intended as a tool for both EU candidate and "neighbourhood" countries. The blueprints are organized in five groups that comprise 14 separate blueprint chapters. Altogether, there are more than 75 strategic objectives, each of which is given a score out of 100. Many of the key indicators are quite general and lack specifics on which to base scores. On the whole, the blueprints result in a comprehensive assessment, but are unwieldy and are not sufficiently evidence-based in all cases.

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<sup>35</sup> Crandell, William (2011) *Feasibility Study - Developing a Tool to Assess Tax Administration Performance*. Public Expenditure and Financial Accountability (PEFA) Secretariat (May 2011)

6.10 The *World Bank Handbook for Tax Simplification* is intended for policy makers as the basis to assess the entire tax system, measure its various parameters, how it is administered and codifies best practice for tax administration and tax policy. Topics range from policy considerations to templates for implementing policy and measuring the effectiveness of reforms. The handbook constitutes comprehensive reference for materials on tax policy and tax administration. It contains useful information for practitioners and others; however, it is not a specific tool for assessing tax administration performance for individual countries<sup>36</sup>.

6.11 The *World Bank Diagnostic Framework for Revenue Administration*, covering both tax and customs administration, was developed more than 10 years ago but has not been widely used. The framework consists of various indicators, using a congruence model of effective organization, and a detailed list of organizational, management and technical tasks. The indicators and tasks are then assessed against the environment of the revenue administration, and its resources, history, strategy, and outputs. The insights derived from these processes are converted into a reform strategy. As a diagnostic instrument, the framework is comprehensive; however it is complex and unwieldy, which may partially account for its lack of take-up.

6.12 In addition to the above databases and tools the *PEFA* indicators PI-3, PI-13, PI-14 and PI-15 address tax administration issues. However these indicators are not designed to cover all important areas of tax administration. For example they do not address the full breath of tax administration issues such as registration, taxpayer services and education, returns, filing and payment, audit or institutional and organizational arrangements.

6.13 Crandell's study analyses the characteristics of the above tax administration tools. From this analysis he concludes that there are very few existing diagnostics which are focused on assessing the performance of a country's tax administration system, and there are wide variations in the nature of the tools. In addition, some tools are more directed towards assessing tax policy or tax policy outcomes than on tax administration issues. The author makes a number of observations regarding existing tools:

- The tools are reasonably comprehensive with the exception of the PEFA tax administration tools;
- Oversight is evident for the PEFA Framework and the two databases but the other tools are not so strongly supported;
- PEFA is the only tool which offers explicit benchmarks or targets, or requires evidence based assessments; although targets may also be a part of the EU blueprints.
- None of the existing tools provide all the key characteristics that are inherent in the PEFA PFM tool.

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<sup>36</sup> It is however addressed in Crandell's Report and included here for the sake of completeness.



<b>Opportunity</b>	➤ Development of a comprehensive, evidence based tax administration tool; based on the principles which governed the development of the PEFA Framework.
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## B. Debt Management

### *Debt Management Performance Assessment (DeMPA)*

6.14 The methodology of the Debt Management Performance Assessment (DeMPA) closely follows the PEFA Framework and is a drill-down of PI-12(ii) and PI-17 (i). It is used (i) as an input by the government on debt management performance, (ii) as an input to the design of action plans to build and augment capacity and (iii) to facilitate monitoring over time. Assessments are made by scoring each dimension on a 4-point scale representing stages in development, with an A score if an international sound practice is fully achieved. Like PEFA the DeM performance report does not, contain specific recommendations or make assumptions as to the potential effect of ongoing reforms on government DeM performance. Assessments are generally conducted by experts from the WB and the process is managed centrally from Washington. Few countries (only 7 out of 45 assessments) have chosen to publish their assessments; mostly due to sensitivities over disclosure of their sovereign debt management arrangements.

## C. Procurement

### *The Methodology for Assessment of National Procurement Systems (MAPS)*

#### *UN Procurement Capacity Assessment*

#### *World Bank Country Procurement Assessment Report (CPAR)*

6.15 The Methodology for Assessment of National Procurement Systems (MAPS) provides a common tool which developing countries and donors can use to assess the quality and effectiveness of national procurement systems. There are two types of indicators, the Base Line Indicators (BLIs) and the Compliance/Performance Indicators (CPIs). The BLIs present a “snapshot” comparison of the actual system against four pillars: (1) the existing legal framework that regulates procurement in the country, (2) the institutional architecture of the system, (3) the operation of the system and competitiveness of the national market, and (4) the integrity of the procurement system. Scoring is according to defined criteria for each indicator and changes in successive assessments should therefore provide a fairly reliable measure of progress. The CPIs deal with compliance with regulations and the prevailing procurement practices in the country.

6.16 Approximately sixty assessments have been completed since the MAPS was introduced in 2006; it is estimated that over half have been done in conjunction with a CPAR (see below). The MAPS assessment is also used as an input into the UN Procurement Capacity

Assessment<sup>37</sup>, which provides governments with a structured approach towards conducting a procurement capacity assessment and defining capacity development strategy options that address areas where local capacities could be strengthened.

6.17 The primary objectives of the WB CPAR are to: (a) provide a comprehensive analysis of the country's procurement system; (b) undertake a risk assessment of the country's procurement practices which are acceptable for use on Bank-financed projects; (c) develop a prioritised action plan to improve the institutional arrangements and (d) assess the competitiveness and performance of local private industry, and the adequacy of commercial practices that relate to public procurement. The content of the CPAR is flexible but generally covers the following procurement issues (a) legal framework, (b) organizational framework, (c) capacity building, (d) procurement procedures/tools, (e) decision making and controls, (f) anti-corruption initiatives and programs, (g) private sector participation in procurement system, (h) contract administration and management and (i) the system for addressing complaints.

6.18 The analysis in the CPAR is increasingly informed by a MAPS assessment which provides a benchmark of the performance of the current system against best international procurement practices.

6.19 The MAPS creates an easily understood system for assessing the strengths and weaknesses of procurement systems, which is particularly appropriate of low income countries. The BLIs are relatively easy to assess although data and information for the CPIs may not be available. As a result, the extent of application of the CPIs is decided at the country level between the government and development partners, rather than consistently applying all of the indicators and noting data gaps. Notwithstanding some methodological concerns, MAPS appears to be gaining acceptance as a common tool to assess the quality and effectiveness of national procurement systems and inform a reform plan and address capacity weaknesses.

6.20 The World Bank's 2008 independent evaluation of the fiduciary diagnostics noted that CPARs had contributed only modestly to development outcomes and only in a limited fashion to the achievement of the Bank's fiduciary objectives. The evaluation added that while sixty four percent of CPARs were of satisfactory quality; in only twenty percent did the government team undertake the diagnosis and take leadership over the subsequent reform effort.

6.21 The WB Procurement Unit is presently revising the CPAR Guidelines to emphasise the importance of a participatory and collaborative approach involving government and

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<sup>37</sup> Not analysed in this Study. We were informed that a revised Guide was completed in early 2010 however the comments are based on a draft dated in 2006.

development partners. The CPAR is also increasingly being integrated into broader PFM diagnostics however further work and guidelines could address how work on procurement issues can be better integrated into the country’s PFM reform plans.

<p><b>Opportunity</b></p>	<ul style="list-style-type: none"> <li>➤ WB could focus the CPAR as a development tool to be used in partnership with governments and development partners.</li> <li>➤ Consistent application of the CPIs to all indicators, noting data gaps.</li> <li>➤ Guidelines could address how work on procurement issues can be better integrated into the country’s PFM reform plans.</li> <li>➤ Donors could improve the availability of procurement guidance, country diagnostics and capacity assessments on one user friendly website.</li> </ul>
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## D. Internal Audit

### *The Institute of Internal Auditors<sup>38</sup> Internal Audit Capability Model (IIA-CM)*

6.22 The Internal Audit Capability Model is used as a basis for implementing and institutionalising effective IA in the public sector. It is used; (1) as a continuous improvement model for IA activities in the public sector; (2) by senior managers and legislators to evaluate the need for, and type of IA activity appropriate to their organization or jurisdiction; and (3) as a benchmarking tool to report on the extent a given IA activity has reached maturity in terms of governance, policy and practices, framework, organizational structure, resources and services. It was developed by the IIA Research Foundation with financial and technical support from the World Bank, and internal audit experts. The methodology has been tested and refined through onsite global validations in over 20 countries, including USA, Croatia, UK, Kenya, Uganda, Malaysia and Australia.

6.23 The IA-CM seems to have been delivered through facilitated self assessment and it is not clear whether the process and methodology have yet been successfully embedded into internal audit activities in developing countries. Currently, there is no data on how the Model is being applied, however the IIA notes that there have been 1200 downloads of the overview, and 400 downloads of the IA-CM Application Guide<sup>39</sup> since the Model was launched in 2009.

<sup>38</sup> Established in 1941, The Institute of Internal Auditors (IIA) is an international professional association of more than 170,000 members. Throughout the world, The IIA is recognized as the internal audit profession’s leader in certification, education, research, and technical guidance.

<sup>39</sup> Overview of Capability Model may be downloaded free of charge at [www.theiia.org](http://www.theiia.org). Application guide is available in print or download for US\$35-40, but special arrangements can be made for use by large number of organizations.

6.24 The IIA Toolkit is a relatively new product with the goal of supporting the development of IA activities. It is based on a platform approach which *prima facie* seems to offer a model which could be applied to countries at various stages of development.

<b>Opportunities</b>	<ul style="list-style-type: none"> <li>➤ IIA, governments and donors could evaluate the IA/CM applicability as a useful model when applied to countries at various stages of development.</li> <li>➤ Donors could examine better ways of integrating existing PFM diagnostics which cover IA into broader capacity building models.</li> </ul>
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## E. Public Expenditure Tracking

### *Public Expenditure Tracking Survey (PETS)*

6.25 PETS provide a diagnostic aimed at identifying actual flows of public funds in a program or a sector, and establishing the extent to which public funds and other resources reach service providers. They are often linked to explanations as to why leakage has occurred and variations between different parts of administrative structure and different service providers. At its core, PETS measures budget credibility at a micro level and addresses budget implementation deficit issues. PETS vary greatly in content as to (a) type of expenditure tracked, (b) the number of levels of public administration studied, (c) the sectors analysed and, (d) the degree to which explanations are sought for the observed patterns in resource flows.

6.26 85 percent of PETS have been conducted in the health and education sectors, although there are examples in the water and sanitation and agriculture sectors. 49 PETS have been conducted since 1996 in 32 countries covering 73 sectors. Four tracking surveys were completed in 2008, one in 2009 and more than seven are currently in progress<sup>40</sup>. A recent Bank evaluation noted that the cost and time demands of PETS has limited its more universal application.

6.27 The study found it extremely difficult to get basic information on the PETS and is grateful for the support of WB staff in providing a range of materials on which to complete this section of the Report. The WB is developing detailed guidance and good practice principles on how to implement PETS. These will be available on a new website which will also provide datasets, survey instruments and manuals, sampling notes and published reports, TORs etc. from PETS.

<b>Opportunity</b>	WB could improve availability of guidance notes and good practice principles, as well as past reports, manuals etc. on its website (work on this is progress).
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<sup>40</sup> As at June 2010

## F. Public Sector Audit

### *World Bank Gap Analysis Framework for Comparing Public Sector Accounting and Auditing to International Standards (PSAA Gap Analysis)*

#### *INTOSAI Development Initiative (IDI) Capacity Building Needs Assessment (CBNA)*

#### *The AFROSAI-E Capability Model*

6.28 The specific objectives of the PSAA Gap Analysis are: (a) to provide the country's accounting and audit authorities and other interested stakeholders with a common well-founded knowledge as to where local practices stand in accordance with the internationally developed standards of public sector financial reporting and audit; (b) to assess variances between national and international standards; (c) to provide a roadmap to reduce these variances; and (d) to provide a continuing basis for measuring improvements.

6.29 The assessment covers six areas: (a) the public sector accounting environment; (b) the public sector accounting practices (benchmarked against either cash or accrual accounting); (c) the public sector audit environment; (d) Public sector auditing practices and (e) accounting and audit practices for state owned enterprises. The Gap Analysis broadly follows the methodology of the Accounting and Auditing ROSC<sup>41</sup> which focuses on enterprise financial reporting and auditing. Introduced by the WB's South Asia Region, assessments have been carried out in Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, and the accounting module only has been prepared for Azerbaijan. In 2009 the methodology was adopted by the World Bank's Financial Management Sector Board and the methodology adopted for WB wide use.

6.30 The IDI CBNA is a Framework which supports an individual SAI in the process of preparing a needs assessment. The Framework enables SAI's to identify areas of their operations that need to be strengthened, and the reasons for gaps in their current performance. The tool provides a basis for designing appropriate interventions to address identified gaps through a Strategic Development Plan. The tool covers seven domains: (1) Independence and legal framework, (2) human resources, (3) audit methodology and standards, (4) leadership and internal governance, (5) administrative support, (6) external stakeholder relations and (7) results (service delivery). The needs assessment will usually be delivered as a facilitated self assessment using IDI trained trainers; following the methodology set out in the Guide. The domains identified in the Capacity Needs Assessment link into IDI Guidance on the development of SAI Strategic Development Plan which was also published in 2009. IDI maintains copyright over using the materials which are available to all SAIs.

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<sup>41</sup> While the main focus of this tool is private sector financial reporting the A and A ROSC would also cover the financial reporting and auditing regime which applies to SOE's.

6.31 The SAI Capability Model was developed by the AFROSAI-E Secretariat; working with the Swedish Audit Office. This Model was developed in 2001 and has gone through a number of revisions. The current model provides AFROSAI-E members with a tool to develop a needs assessment which forms the basis for the development of a Strategic Development Plan. The Model has five domains: (1) Independence and Legal Framework, (2) Organization and Management, (3) Human Resources, (4) Audit Standards and Methodology and (5) Communication and Stakeholder Management. The Model is primarily a self assessment tool giving SAIs the opportunity of measuring their performance against a series of levels, based on norms or objectives. The Model is presently under-going further development to provide guidelines on the conditions which should be in place to reach a given Level.

6.32 There is a considerable overlap between the CBNA and the SAI Capability Model although there are variations in content and terminology. It is argued that the Capability Model is AFROSAI-E specific and it provides a tool to measure (1) the performance of individual SAIs, and (2) provides a common purpose in driving SAIs in the Region forward. The Capability Model became the basis of the AFROSAI-E Corporate Plan 2007-2010; one of its goals was that the majority of SAIs should reach Level 3 of the Model by the end of the planning period.

6.33 INTOSAI and the Donor Community signed a Memorandum of Understanding (MOU) on October 20, 2009. Amongst the core principles<sup>42</sup>:

- SAIs committed to endeavour to develop individual country led strategic plans and development action plans that are comprehensive, realistic and prioritised; and
- The donor community declared its commitment...to deliver any financial or other support for audit capacity building programs on external government auditing in a harmonized and coordinated manner to avoid unintended duplicative capacity building efforts.

6.34 In the context of the above diagnostics and the MOU commitments, there are a number of opportunities both for INTOSAI; its regional bodies and development partners.

<b>Possible Overlaps</b>	<ul style="list-style-type: none"> <li>➤ There is considerable overlap between the various SAI capacity building models.</li> <li>➤ Elements of WB PSAA Gap Analysis overlap with the IDI Capacity Building Needs Analysis.</li> </ul>
<b>Opportunities</b>	<ul style="list-style-type: none"> <li>➤ INTOSAI could examine the scope for developing a common methodology for assessing the capacity needs of SAIs that would be recognised by SAIs and the donor community alike.</li> <li>➤ The WB could examine ways of better integrating the auditing modules of the PSAA Gap Analysis as an input into capacity building models; which have a broader capacity building objective.</li> </ul>

<sup>42</sup> Para 15.

## **G. Records Management**

### ***Integrating Records Management in ICT – Good Practice Indicators (IRMT)***

6.35 This toolkit (published in 2009) has been designed to help governments determine whether or not records management requirements have been integrated in ICT systems. The specific purposes of the tool are: (a) to provide a high-level guide to integrating record management in ICT systems, (b) to define good practices for managing records created and held in ICT systems, and (c) to provide selective indicators that can be used to determine whether records management policies and practices are integrated in ICT systems.

6.36 The toolkit covers 17 high level RM performance indicators with 50 sub-dimensions, grouped (and aggregated) into three dimensions of RM performance: (a) records management framework, (b) integrating records management in the systems development life cycle, and (c) integrating records management functionality in ICT Systems. The toolkit is freely available for download on the IRMT website. No data is available on frequency of download or the extent to which the toolkit is being used in practice.

## **H. Others**

### ***The Chartered Institute of Public Finance and Accountancy (CIPFA) FM Model***

6.37 This is a self assessment tool which allows public service organizations to test the effectiveness of their financial management arrangements in supporting their business objectives, and to consider whether the style of and contribution to financial management supports or conflicts with their organization’s strategic direction. The model can be applied at level of a public service institution, or business unit therein.

6.38 The Model is presented as a Best Practice Matrix comprised of three styles of financial management (securing stewardship, supporting performance and enabling transformation) and four management dimensions (leadership, people, processes and stakeholders). Evidence is gathered to determine organizational scores against 37 statements of best practice which form the Matrix. The Model, launched in 2004 has predominantly been used in UK public service organizations; although there have been limited overseas applications.

### ***A Diagnostic Framework for Assessing Public Investment Management (World Bank)***

6.39 This tool is designed for governments to undertake self assessment (or moderated self assessment) of public investment efficiency and design reforms to improve government systems. The framework provides a schematic description of the “must-have” features of the public investment system. It then proposes some diagnostic questions and indicators that would help assess the existing system. According to the Framework document the approach is based on a clearly defined institutional framework and recognition of the role of institutions, capacity, and incentives. Like the PEFA framework, the diagnostic makes use of

well-defined symptomatic indicators which can be objectively assessed and which provide information that can be used to identify problem areas.

## I. Frameworks and Toolkits under Preparation

### *Toolkit for Improving State Enterprise Corporate Governance (World Bank) (Under Preparation)*

6.40 The objective of this toolkit is to help address SOE governance problems particularly conflicting objectives, politicized boards, weak financial management, lack of transparency and poor stakeholder management. The primary audience is World Bank staff, in particular country, sector and project teams. The Toolkit will consist of five main chapters or modules that will be preceded by an introduction on the use of the Toolkit. The five modules are: (1) rationale, context, and framework for SOE corporate governance reform; (2) setting the policy environment for SOEs; (3) strengthening the role of the state as owner, and ensuring that any public policy objectives are made transparent; (4) improving corporate governance practices at the company level; and (5) managing the corporate governance reform process. Each module will provide a brief introduction of why the particular governance aspect is important and how it helps improve SOE performance; a review of key issues and good practices with tables, charts, boxes; and practical tools and materials for providing policy advice and implementation support. The present draft does not envisage the toolkit incorporating a rating system<sup>43</sup>.

### Summary of Tools

6.41 Tools covering specific PFM Elements or institutions are summarised in Table 10 below. A fuller description of each tool is to be found in Volume II to the Report:

**Table 10 – Tools which Focus on Specific PFM Elements or Institutions**

Product	Brief Description
OECD Comparative Information Series (Tax Administration)	<ul style="list-style-type: none"> <li>Comprehensive database covering all aspects of tax administration (i.e. institutional and organizational arrangements, administrative powers and practices as well as comparison of tax burdens and mix of major taxes in total revenue collection).</li> <li>Databases updated every two years – addresses OECD countries (30) and selected non-OECD countries (14).</li> </ul>
Collecting Taxes Database (USAID)	<ul style="list-style-type: none"> <li>Database providing global coverage on 31 indicators covering (a) tax revenue performance, (b) tax structure, (c) tax administration structure, (d) economic structure and (e) major tax revenues.</li> <li>Designed to provide a country-level view as well as regional, income group and international benchmarks against which to assess a country's tax system.</li> </ul>
EC Tax Administration Blueprints	<ul style="list-style-type: none"> <li>Self-assessment tool that provides an overall framework and benchmarks for technical and organizational aspects of tax administration.</li> <li>Developed as a tool for candidate countries for accession to the EU,</li> </ul>

<sup>43</sup> Write Up based on World Bank Draft Concept Note dated March 29, 2010



Product	Brief Description
	<p>they have been extended to EU “neighbourhood countries”.</p> <ul style="list-style-type: none"> <li>• Blueprints organized in five groups comprising 14 chapters. There are more 75 strategic objectives, each of which is given a score out of 100.</li> </ul>
Handbook for Tax Simplification (WB)	<ul style="list-style-type: none"> <li>• Handbook is intended to assess the entire tax system, measure its various parameters, how it is administered and defines best practice for tax administration and tax policy.</li> <li>• Contains useful information for policy makers, practitioners and others although not a tool for assessing the performance of individual countries.</li> </ul>
Diagnostic for Revenue Administration (WB)	<ul style="list-style-type: none"> <li>• Framework covering both tax and customs administration.</li> <li>• Assesses key indicators and tasks against economic factors, fiscal policy, legal framework and resources. Insights from these processes are converted into a reform strategy.</li> <li>• Developed more than 10 years ago; not widely used.</li> </ul>
Debt Management Performance Assessment (WB)	<ul style="list-style-type: none"> <li>• Provides a benchmarking tool for assessing government debt management performance which can be used to form the basis for a sequenced capacity building plan.</li> <li>• Monitors country’s debt management arrangements over time.</li> <li>• Promotes donor harmonisation through a common understanding of priorities.</li> <li>• Drill down of PEFA PI-12(ii) and PI-17 (broadly consistent with PEFA methodology)</li> </ul>
Methodology for Assessment of National Procurement Systems (OECD-DAC)	<ul style="list-style-type: none"> <li>• Common tool which developing countries and donors can use to assess the quality and effectiveness of national procurement systems.</li> <li>• Identifies the strengths and weaknesses of the national procurement system in developing countries and enables performance tracking over time.</li> <li>• Used as an input to CPAR and/or a UNDP Procurement Capacity Assessment.</li> </ul>
Country Procurement Assessment Report (WB)	<ul style="list-style-type: none"> <li>• Aims to provide a comprehensive analysis of the country’s procurement system; with a prioritised action plan to improve the institutional arrangements.</li> <li>• Increasingly integrated with MAPS and other PFM diagnostics.</li> <li>• CPAR Guidelines currently being updated.</li> </ul>
IIA Internal Audit Capability Model (IA-CM) (The Institute of Internal Auditors)	<ul style="list-style-type: none"> <li>• Basis for implementing and institutionalising effective IA in the public sector.</li> <li>• IIA Framework identifies five progressive levels (or platforms) which IA activities go through to strengthen or enhance its capability. At each level these are mapped against six essential elements for an IA activity which relate both to its management and practices; its relationship with the organization it supports, and the internal and external environment.</li> <li>• Primarily designed as a self assessment tool but can be applied as a benchmarking tool, establishing whether an IA activity has reached a given maturity level.</li> </ul>
Public Expenditure Tracking Surveys (WB)	<ul style="list-style-type: none"> <li>• To track the flow of public funds and material resources from the central government level, through the administrative hierarchy, and out to frontline service providers.</li> <li>• Examines budget credibility at micro level.</li> <li>• Coverage and approach vary – applied at sector level (85 percent of WB PETS have been conducted in health and education sector).</li> </ul>
Gap Analysis Framework for Comparing Public Sector Accounting and Auditing to International Standards (WB)	<ul style="list-style-type: none"> <li>• WB diagnostic which provides the country’s accounting and audit authorities with tool to compare local practices with internationally developed standards of financial reporting and audit</li> <li>• Provides paths/action plan to reduce the variances.</li> </ul>

Product	Brief Description
	<ul style="list-style-type: none"> <li>Developed by FM group in South Asia – now adopted as Bank wide product.</li> </ul>
INTOSAI Development Initiative (IDI) Capacity Building Needs Assessment & AFROSAI-E Strategic Capability Model	<ul style="list-style-type: none"> <li>IDI framework which can be used as a self assessment to enable SAIs to identify areas of its operations which need to be strengthened, and the reasons for those gaps.</li> <li>Provides a basis for designing appropriate interventions to address the gaps through a Strategic Development Plan.</li> <li>Focus is on SAI but also covers the enabling environment and institutional impact.</li> <li>AFROSAI-E Model closely linked to a regional Corporate Plan with the goal of improving the capacity of member bodies.</li> </ul>
Integrating Records Management in ICT – Good Practice Indicators (International Records Management Trust)	<ul style="list-style-type: none"> <li>Designed to help governments determine whether records management policies and practices are integrated in ICT systems.</li> <li>High level indicators which are aligned to international standards and records management requirements.</li> <li>Based on design principles of the DeMPA. The format and methodology were adapted to provide a performance assessment that could be applied in a shorter timeframe by non-specialists.</li> </ul>
The CIPFA FM Model	<ul style="list-style-type: none"> <li>Self assessment tool designed to provide management with a holistic picture of the effectiveness of the effectiveness of financial management from a corporate and business perspective.</li> <li>Focus is on public service organizations but can be applied at the business unit level.</li> <li>Used to determine whether there are relevant groundwork policies and practices in place, whether they are deployed consistently and effectively, whether they influence or impact the organization’s behaviour and results, and whether they deliver the required outcome.</li> <li>Almost exclusively applied in the United Kingdom at present.</li> </ul>
Toolkit for Improving State Enterprise Corporate Governance (WB) (under development)	<ul style="list-style-type: none"> <li>Toolkit with the goal of improving SOE governance.</li> <li>The primary audience is WBG staff, in particular country, sector and project teams; to support their role in advising Bank clients.</li> <li>Broad ranging diagnostic covering both policy, the role of the state as a shareholder/stakeholder and internal corporate governance at a company level.</li> </ul>
Public Investment Efficiency: Analytical Framework (WB)(under development)	<ul style="list-style-type: none"> <li>Tool designed for governments to undertake self assessment (or moderated self assessment) of public investment efficiency and design reforms to improve government systems.</li> <li>The draft framework provides; (a) a schematic description of the “must-have” features of the public investment system, (b) some diagnostic questions and indicators that assess the existing system, and (c) next steps to implementing this indicator-based approach with client countries.</li> <li>Draft diagnostic makes use of well-defined symptomatic indicators which can be objectively assessed and provides information that can be used to identify problematic areas.</li> </ul>

## 7. Donors' Use of PFM Diagnostics

### Introduction

7.1 This Chapter reviews the various how donors use PFM diagnostics and, in particular how they are used in assessing fiduciary risk and decisions on the use of government systems. The Study notes that while there is some evidence of donors collaborating on broad based PFM diagnostics there is still the potential for high transactions costs and inefficiencies due to the large number of separate and often uncoordinated donor fiduciary and governance assessments.

### Overview - How Donors are Using PFM Diagnostics

7.2 Table 11 (below) summarises the uses a sample of donors' make of PFM diagnostics. A commentary on the Table follows thereafter:

**Table 11 Uses made of PFM Diagnostics**

Bi-laterals	
France	<ul style="list-style-type: none"> <li>- To access the degree and areas of risk in each country.</li> <li>- Tracking progress over time and credibility of Government's reform programme.</li> <li>- To assess eligibility and modalities of budget support.</li> <li>- To help identify areas of possible capacity building support.</li> </ul>
Germany	<ul style="list-style-type: none"> <li>- Assessing fiduciary risk associated with country system use</li> <li>- Assess credibility of PFM reform agenda</li> </ul>
Netherlands	<ul style="list-style-type: none"> <li>- Assessing mix of aid modalities</li> <li>- Assessing fiduciary risk associated with country system use</li> <li>- Assess credibility of PFM reform agenda</li> </ul>
Norway	<ul style="list-style-type: none"> <li>- Appraisals for General Budget Support</li> <li>- Appraisals of joint donor PFM Programs and bilateral support</li> <li>- Support to specific PFM areas</li> <li>- Assessment of sustainability elements/key risk factors in sector programmes</li> </ul>
Sweden	<ul style="list-style-type: none"> <li>- PFM analysis as part of new Swedish cooperation strategy, and specifically the evaluation of the possibility of the use of country PFM systems.</li> </ul>
Switzerland	<ul style="list-style-type: none"> <li>- Assessing fiduciary risk as part of making GBS decisions</li> </ul>
United Kingdom	<ul style="list-style-type: none"> <li>- Primary use of PFM Diagnostic – Fiduciary Risk Assessment</li> <li>- Secondary – Country Governance Analysis (CGA), country planning including UCS, budget support submissions and performance assessment frameworks. On occasion PEFA may form part of a performance tranche.</li> </ul>
Multi-laterals	
EC	<ul style="list-style-type: none"> <li>- To assess budget support eligibility related to PFM.</li> <li>- To monitor progress of partner's PFM reforms.</li> <li>- To help design partner country PFM reform programme.</li> </ul>
IMF	<ul style="list-style-type: none"> <li>- Assess the Debt Limits in Fund Supported Programs</li> <li>- Informing decisions on the focus of Fund's Technical Assistance</li> <li>- Inform research leading to the production of published working papers.</li> </ul>
World Bank	<ul style="list-style-type: none"> <li>- CPIA Ratings</li> <li>- Assessment of the Fiduciary Risk in Bank financed investment projects</li> <li>- Country Assistance/Partnership Strategies and Interim Strategy Note</li> <li>- Development Policy Loans/Operations (DPL/DPO)</li> </ul>

7.3 Most of the above donors apply PFM diagnostics in order to make fiduciary risk assessments in the context of decisions regarding the use of country systems. In general donors point in the same direction however, there are subtle differences in terminology used (i.e. definitions of fiduciary risk) and some significant differences in donor assessment tools.

7.4 Differences in donor assessment tools partly reflect choice of aid modalities applied by individual donors. For example a number of bilateral donors have tools which provide input to decisions regarding the provision of General Budget Support (GBS). The World Bank and IDB have specific assessment tools to evaluate fiduciary risk in the context of the use of country systems in their investment projects.

7.5 The IMF and the World Bank make specific use of tools which are related to their broader mandates as International Financial Institutions, e.g. the use of PEFA indicators in the Country Policy and Institutional Arrangements (CPIA) and DeMPA indicators in assessing the Debt Limits in Fund Supported Programs.

7.6 Donors are also using data from diagnostics to summarise progress in strategic documents. For example the World Bank Review of Financial Management Issues in Country Assistance Strategies (CAS) (FY06-07), November 2008, stated that, “increasingly CASs refer to the results of the Public Expenditure and Financial Accountability (PEFA) assessment to measure progress on the PFM agenda and reflect harmonization among donors.” While many donors attempt to link the preparation of risk assessments to high level strategic processes (typically a three to four year time horizon) PFM diagnostics are also seen to have a role in more frequent monitoring of progress over time (e.g. DFID’s Annual Statement of Progress and similar annual PFM progress reports for the EC).

7.7 Many donors make use of PEFA assessments to inform decisions that have implications for country operations. Such implications will have financial consequences for partner governments and create incentives both for improving systems performance and for influencing PEFA assessment results. Those consequences will largely be indirect because partners mainly use PEFA assessment results through qualitative processes; combining them with information from a range of other sources before reaching decisions. However, more explicitly, PEFA outcomes have been put forward as target outcome indicators in PFM projects. (See Box 3 below).

**Box 3 - Outcome Monitoring – PEFA**

To monitor whether the reforms are implemented successfully, the PEFA methodology will be used. Quantitative targets of the PFM Strategy, defined based on the PEFA indicators, are presented below. Monitoring of achievement of quantitative targets will be conducted every four years with the use of a renewed PEFA assessment. First monitoring will be conducted in 2011 (in four years after the assessment of 2007), and then respectively in 2015, 2019.

*Extract from Tajikistan Public Financial Management Modernisation Project – Adaptable Program Loan April 2009*

## How PFM Diagnostics are used in Assessing Fiduciary Risk and Decision on the Use Country Systems

7.8 A broad analysis of a country's PFM systems is typically undertaken both to help the client strengthen its system (i.e. a development objective) and, to assess the risk that an individual donor's funds may not be used for the intended purpose (i.e. a fiduciary objective). In principle, these two objectives are aligned, in that improvements in PFM systems will reduce risk and address fiduciary concerns. The objectives of the World Bank CFAA and CPAR aimed to address both goals through each diagnostic tool. However, the 2004 mapping exercise argued that assessment tools which had a range of different objectives (e.g. gauging fiduciary risk, supporting development goals, defining action plans and monitoring progress) often inhibited clear, coherent assessment work<sup>44</sup>. A WB evaluation of the CFAA's and CPAR's conducted between 1999 and 2004 noted that while they had had a significant influence on the Bank's assistance to developing countries (i.e. supporting development goals) they had been less effective in influencing the choice of aid modalities or sectors for assistance (fiduciary objectives).

7.9 These findings partly explain why donors now increasingly separate: (1) current PFM performance, (2) recommendations for reforms or action plans, and (3) fiduciary risk assessments (assessments to make decisions on the use of country systems and other operational decisions). There are a number of observations worth making on relation to this broad categorisation:

- The PEFA Framework is almost universally used by donors as an input into operational decisions affecting aid modalities, fiduciary risk and the use/non-use of country systems.
- In addition to the PEFA Framework, donors encourage the use of complementary sources (e.g. CFAA, CPAR, PER and PEMFAR, Fiscal ROSCs and IMF Technical Assistance reports) where up to date and available. Donors also inform their programs using country documents, technical assessments and discussions with the country authorities.
- PFM diagnostic tools (e.g. PEFA, PER, CFAA etc.) have different objectives than the internal tools donors use to assess risk and the use of country systems<sup>45</sup>. The performance of PFM systems is typically seen as one factor to be addressed in assessing fiduciary risk. For example, many donors emphasise the importance of understanding factors outside the PFM system and processes (for example,

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<sup>44</sup> See Allen et.al. (2004) page xiii.

<sup>45</sup> See, for example the DFID "How To" note which explains with reference to their Fiduciary Risk Assessment; "A PEFA Framework evaluation cannot replace the FRA. A FRA remains necessary for DFID's own decision making and accountability purposes. The PEFA Framework is an indicator-based evaluation which provides information about the current strengths and weaknesses of the national public financial management and accountability system; the FRA uses this information, amongst others, to inform judgements about the levels of risk in national PFM systems and how risks are being managed" (DFID 2009 page 11).

institutional and governance issues) in order to have an effective understanding of overall fiduciary risk.

- Donors have developed different assessment tools reflecting internal stakeholder needs, aid modalities offered, risk appetite and the requirements of internal stakeholders (e.g. national management, Executive Boards, SAIs and legislatures).
- While donors are cooperating on PEFA Assessments there is little evidence of cooperation in the development of fiduciary assessment tools that relate to fiduciary risk, corruption, and other governance issues.

## Commentary

7.10 The PEFA framework may partially reduce transaction costs incurred in conducting PFM assessment work. However, while it is useful in addressing broad national or sub-national PFM systems it does not address the state of PFM systems at a sector level or investment project level. Donors' are therefore demanding additional information on PFM systems at these lower levels – which are different and often carry risks not addressed by the PEFA and broader PFM assessment tools.

7.11 Generally, internal assessment tools and guidance notes encourage the use of existing PFM diagnostics, and see their assessment tools as light-touch assessments primarily for fiduciary purposes. World Bank interim guidance notes (2009) are typical in stating that “in conducting this assessment the cost is likely to be a fraction of the cost of a PEFA assessment or similar PFM diagnostic; for example, in Uganda, the cost of the fiduciary risk assessment was less than one-quarter the cost of the simultaneous PEFA assessment”<sup>46</sup>.

7.12 Donors are developing ways to avoid duplicating work undertaken at the country level to more efficiently and effectively manage fiduciary risks at the sector and project level (see Box 12 below). These include:

- WB recent guidance on the use of country FM systems in Bank financed projects in which a single country (or sub-national) FM system assessment is used to identify those elements of the overall PFM system which can be used in investment projects. As a result it is argued that project level FM assessments can be completed more efficiently and effectively; focusing principally on those residual project/program activities implemented outside the assessed country FM systems.
- AsDB guidelines emphasise a “cascade” approach to risk assessments and risk mitigation plans in which national assessments of PFM, Procurement and Corruption inform sector assessments and project risk assessment are informed by national/sub-national/sector risk assessments.

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<sup>46</sup> World Bank: *Assessment of Fiduciary Risks in the Use of Country FM Systems in Bank-Financed Investment Projects* (Page 6).

**Table 12: Some Donor Approaches to assessing fiduciary risks at sector and project level and making decisions on the use of country systems**

UK	<p>How To Note required tailored approach to sector PFM performance and risk assessment. Recommended approach draws on Country Level FRA and PEFA assessment plus existing sector diagnostics.</p> <p>PFM indicators can be drawn in part from the PEFA assessment or specifically adapted to the sector context (e.g. comparisons of budget to actual expenditure at the sector level). Specific sector risks not addressed by PEFA may need to be added and assessed in more depth.</p>
AsDB	<p>ADB guidelines emphasis cascade approach to risk assessments and risk mitigation Plans in which national assessments of PFM, Procurement and Corruption inform sector assessments and project risk assessment are informed by national/sub-national/sector risk assessments.</p> <p>For PFM and Procurement the evidence for assessing risk for country systems comes mainly from secondary sources. The Guidelines encourage the use of recent CFAA, PER or PEFA assessment.</p>
WB	<p>World Bank Guidelines on risk emphasis that using country systems is the default approach for Financial Management (FM) arrangements. Bank prepares a Country (or sub-national) FM system assessment as input to the Assistance Strategy which notes which elements of the system are used without additional risk mitigation measures. For World Bank-financed activities FM staff will only assess activities outside the country FM system, or those for which difficult or enhanced procedures are necessary to ensure that the FM arrangements are acceptable.</p> <p>Based on two “principles”: (1) Use of existing diagnostics (CFAA, PEFA, PER, IMF Fiscal Transparency ROSC) and (2) Assessment should be risk based; focusing on in each component of the PFM system (a) Budgeting; (b) Accounting and Reporting; (c) Treasury and Funds Flow; (d) Internal Control and Internal Audit and (e) External Audit.</p> <p>The Guidelines propose a number of risks under each PFM component and suggest indicators and other sources of information which would inform the assessment of each risk.</p>
EC	<p>EC Guidelines note that assessments in the area of sector PFM will not be as structured and clear-cut as in the assessment of the overall PFM system because of the absence of specific tools in this area. However, steps could be taken to make use of (i) specific audit reports produced by national audit authorities who have examined sector performance; (ii) some PEFA indicators that might be applicable at the sectoral level; (iii) any sector based examination of public expenditure such as public expenditure reviews, public expenditure tracking studies, or examination of procurement practices within the sector. The guidelines highlight specific examples of how the PEFA methodology might be adapted for sector level diagnostics.</p>
IDB	<p>GUS identifies five pillars (or sub-systems) of a PFM system (1) Budget; (2) Treasury; (3) Accounting; (4) Internal Control and (5) External Control. These are divided into indicators and sub-indicators which need to be present in order for an indicator to be acceptable. Based on scoring criteria decisions judgements can be made on reliance on all or part of the PFM System. The approach is intended to be a light touch exercise predominantly using recent PFM diagnostics.</p>

7.13 Notwithstanding efforts by donors to place reliance on PEFA Assessments in conducting fiduciary assessments, the volume of fiduciary assessments has become an issue. An OECD-DAC study on donor approaches to risk (2008) concluded that the different ways in which donors are drawing on PEFA reports and other secondary sources creates a

potential for high transaction costs and inefficiencies due to the profusion of separate, and often uncoordinated donor fiduciary and governance assessments. The study also concluded that there is a risk of bypassing country stakeholders in conducting these assessments. The study concluded that there is scope for more collaboration in standardizing terminology and developing joint assessment methodologies and tools concerning fiduciary risks, corruption, and other governance issues. The findings of this Study complement those findings.

### Conclusion

7.14 The PEFA framework is a significant step in harmonising PFM diagnostics and encouraging donors to collaborate in the process of strengthening PFM systems. On the other hand, there is a danger that demands on PEFA itself as an element in risk analysis may undermine some of its core functions: (a) through allowing too little time between assessments, and (b) linking PEFA scores directly to benchmarks and conditions which create pressures to distort the scores recorded.

7.15 There is also a significant amount of supplemental assessment work being conducted by donors individually to address fiduciary concerns which creates the potential for high transaction costs and inefficiencies undermining the benefits of instruments such as the PEFA which were expected to reduce duplicative and fragmented PFM analytical work at a country level.

Opportunities	Development agencies - through the OECD DAC PFM Task Force - should develop ways of collaborating on fiduciary reviews and risk assessments in terms of shared typology and identification of common information requirements as well as coordination of data gathering and assessment findings through joint assessment missions.
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## 8. Alignment and Harmonisation of PFM Diagnostics

### Introduction

#### 8.1 This Chapter:

- Provides a brief overview of the principles of alignment and harmonization as they are set out in the Paris Declaration
- Looks at evidence of these principles being applied in practice through a review of recent PFM monitoring and impact studies.
- Explains the uses governments make of PFM Diagnostics and the extent to which they have been used as a spur to reform.

### Background

8.2 The Paris Declaration (PD) notes that diagnostic reviews “are an important – and growing – source of information to governments and donors on the state of country systems in partner countries”<sup>47</sup>. The PD adds that to be useful diagnostics should provide governments and their development partners with information to enable them to monitor progress over time in improving these systems. Diagnostic reviews are therefore tools which are used as an input into performance assessment frameworks and an associated set of country led reform measures undertaken to improve the performance of the country’s PFM systems.

8.3 Two commitments underpinned proposals to improve the functionality of PFM diagnostics to governments and their development partners in the PD. First donors committed to **align** their analytic support with government’s capacity development objectives and make use of existing assessments where feasible. Second donors committed to **harmonise** their diagnostic work through: (a) implementing, where feasible common arrangements for evaluating country systems; and (b) collaborating to reduce the number of separate, duplicative reviews and procedures.

### PFM Monitoring and Impact Studies

8.4 This section of the Study examines at number of recent surveys and impact studies to look for evidence of progress on the alignment and harmonisation principles which underpin the PD commitments with regard to PFM diagnostics.

8.5 *Paris Declaration indicator 10 (b)* monitors the percent of country analytical work, including diagnostic reviews which are carried out jointly by donors, however as noted earlier<sup>48</sup> this indicator covers all country analytical work and does not provide any specific information on PFM or fiduciary diagnostics.

8.6 From 2003 to 2009 *the Strategic Partnership for Africa (SPA): Survey of Budget Support* gathered information on PFM diagnostics as part of broader systematic survey of progress

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<sup>47</sup> Paris Declaration (2005) para 18.

<sup>48</sup> Chapter 2.4.

made by eighteen budget support donors in aligning and harmonising their activities in eleven African countries. The last survey was conducted in period July 2008 to March 2009 (published in September 2009). The Survey covered information on:

- The average number of PFM reviews conducted in the period.
- Trends in the use of individual PFM diagnostic instruments.
- Donor collaboration on PFM assessments.
- The extent to which countries adopted a multi-year plan of PFM diagnostics.
- Country counterparts' rating of the usefulness of PFM diagnostic tools.

8.7 The key findings are summarised in Box 4 below. The survey covers a broad range of budget support issues; including a small section on PFM diagnostics. Because of the limited coverage, the Survey does not provide the reader with a nuanced view of the trends; in particular, it is difficult to draw firm conclusions on the overall usefulness of the various PFM diagnostic tools.

#### **Box 4 - Strategic Partnership with Africa: Survey of Budget Support**

The aim of this exercise was to obtain information on progress made by 18 budget support donors in aligning and harmonising their activities in 11 Poverty Reduction Strategy (PRS) countries in Africa. Surveys have been conducted capturing data since 2003 and the latest 2008 report (published September 2009) covered the period from July 2008 – March 2009. The main findings of the survey were:

- The average number of PFM reviews remained broadly stable over the survey period.
- PEFA Assessment have been replacing former World Bank and IMF instruments but the proportion of “other” instruments (including PETS) remains high and may be rising (note – while not expressly stated integrated PFM diagnostics may be included in the “other” category).
- Donors are increasingly collaborating on assessments – from 58 per cent in 2006 to 70 percent in 2008.
- Six out of the eleven countries indicated that they had a multi-annual plan of PFM diagnostics in place.
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#### **Rating the Usefulness of PFM Diagnostic Tools.**

The survey also asked respondents to rate the usefulness of PFM diagnostic tools. The 2008 PEFA Performance Reports received the highest average, while, unsurprisingly audits financed by donors for donors received below average marks.

8.8 *PEFA Impact Studies in 2007 and 2010*<sup>49</sup> provided an analysis of the impact of the PEFA Framework on governments and development partners. These were based on analysing the experiences of thirteen country cases through a series of structured telephone interviews. The Study analyzed the government's view (perception and experience) of the PEFA assessment. Specifically the study examined (a) the quality of the results, (b) the process and the product, and (c) the government's view of its own involvement in, and management of, the exercise. The key findings are summarised in Box 5 below.

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<sup>49</sup> Betley (2008) and Mackie (Interim Report – November 2010). An independent evaluation of the PEFA Programme was also under preparation at the time of drafting the Final Report (May 2011).

### **Box 5 Key Findings – PEFA Impact Studies (2007 and 2010)**

#### *Use of PEFA Assessments*

Respondents noted a number of different motivations for preparing a PEFA Assessment. These included:

- Donor demands for an up-to-date, internationally recognised PFM assessment as part of its decision making process on the provision of budget support.
- Evaluating progress in PFM reforms and informing a joint review of the PFM programme by the Government and its development partners.
- PEFA assessments instigated as part of a regular programme of PFM diagnostics institutionalised between the government and development partners.

#### *Government Participation/Ownership*

- Government participation/ownership of the process of preparing the diagnostic is the most critical factor in the PEFA assessment being credible and being used as part of the dialogue on PFM reforms.
- Well designed assessment processes ensure that there is both sufficient government involvement and appropriate checks and balances to provide assurance as to the credibility of the final assessment.
- When the assessment is seen purely as an externally focused exercise it is less likely to secure government involvement or to have a positive impact on PFM reforms.
- Increasing attention is being paid to the design of the process of conducting PEFA assessments, capacity building, ensuring active government participation, joint participation by DONORs, advance planning and stakeholder participation.
- Assessments were generally completed in a timely fashion, aided by a trend towards stand-alone rather than integrated assessments.

#### *Number of PFM Analytical Studies and Overlapping Assessments*

- Despite the PEFA Framework being used as a common pool of information, the Study found some evidence of duplicative broad based diagnostic work, sometimes with missions conducted shortly before or after PEFA fact finding missions.
- Some government officials noted that donors are conducting a considerable amount of uncoordinated PFM assessments to inform their own operational decision making that places an additional burden on government time.
- None of the countries among the case studies had a detailed, comprehensive, multi-year strategy describing how diagnostic instruments inform their development needs and the fiduciary requirements of their development partners.

*Mackie and Caprio – Assessing the Impact of the PEFA Framework – A Study for the PEFA Steering Committee (May 2011)*

8.9 The Report only addresses the impact of the PEFA Framework and was limited to a desk Study and telephone interviews with government officials and development partners. Notwithstanding these methodological limitations the Report is a useful contribution in providing a better understanding of the impact of the PEFA Framework on governments and their donors<sup>50</sup>.

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<sup>50</sup> A broader independent evaluation of the PEFA Programme, which incorporated country visits was under way at the time of completing this Study (May 2011).

## Government Participation/Ownership

8.9 The PEFA Impact Study (above) reinforces the view that the more involvement of Government officials in the process of preparing the Assessment, the more likely officials are to act on the findings (see Box 6 below which uses the example of Uganda to show the link between the quality of the diagnostic process and the usefulness of the results).

### **Box 6 - Government Leadership and Ownership – PEFA Assessments in Uganda**

Uganda has conducted two comprehensive PEFA Assessments; in 2005 and 2008. In addition in 2007 the Office of the Auditor General (OAG) prepared an *Appraisal of the Financial Management Performance in Uganda* using the PEFA methodology (PEFA “Lite”) which was published in the OAG website. The 2005 benchmark assessment was a learning exercise for government officials; development partners (DPs) and assessors alike. In retrospect the process set out in the terms of reference allowed too little time for a comprehensive analysis by the assessment team. In addition government officials lacked a detailed understanding of the Framework leading to a lack of government ownership of the process and of the resultant Report.

#### *The 2008 PEFA Assessment Process*

The main objective of the 2008 PEFA Assessment was to have an independent update of the performance of the PFM system which could be used as the basis of dialogue between the government and its development partners; which would feed into the Annual Review of PFM Performance. In 2008 the Government made a considerable effort to ensure the active participation of officials throughout the process. The Government; (through the Financial Management and Accountability Programme (FINMAP) Secretariat issued terms of reference and coordinated all elements of the Assessment. The Government and DPs arranged a 2 day introductory training course for key stakeholders prior to the start of the Assessment. This was chaired by the Deputy Secretary to the Treasury and attended by senior officials from the Ministry of Finance, Planning and Economic Development, the Uganda Revenue Authority, the Office of the Auditor General, Public Procurement Disposal of Public Assets Authority, Parliament and key line ministries.

The training course ensured that a critical mass of civil servants in the Government team had a thorough understanding of the PEFA methodology. There was a good mix of management and working level staff involved in introductory and working level meetings; in addition government officials joined the assessment team (led by the World Bank and funded by KfW, DFID and the World Bank) wherever possible. A review team (mainly civil servants at Assistant Commissioner grade) were appointed by the Government and participated in interviews, and read the draft report. Officials were generally satisfied that they had an adequate opportunity to address factual inaccuracies and query scoring through both verbal and written exchanges. Following a final review seminar the FINMAP Secretariat consolidated Government comments which were prepared and submitted to the assessment team. The Report noted that “any differences in opinion, which remained after discussions, are stated explicitly in the final report”.

Senior management in Government indicated that the 2008 PEFA Report was useful both in highlighting areas of focus in PFM reform; and legitimising actions to address weaknesses. They added that while there were no surprises in the issues raised in the Report, the process and reporting was a catalyst for consensus and addressing issues faster than might otherwise have been the case. Once the Report was completed it was not referred to in day to day operations. That is not to say the Assessment was not useful – rather that the Government used the process to internalise the key issues and then take action to address them.

8.10 While the above example is PEFA specific there are lessons for all international organizations and institutions conducting PFM diagnosis in developing countries. Specifically;

- Quality of process is as important as the overall technical quality of the final assessment.
- Policy makers should have a clear understanding of the benefits of the diagnosis and its linkage to other government processes (e.g. overall government development strategy, PFM reform agenda and performance assessment framework). At a minimum sponsors should develop strategies which strengthen government capacity to: (a) understand the assessment process, (b) contribute to a debate regarding preliminary findings and (c) to use the results. These may include *inter alia* translations of manuals and guidelines into local language, country workshops and peer learning events.
- Sponsors should consider approaches which build government officials capacity to undertake the assessment or participate as members of the externally led assessment team.
- Sponsors of diagnostics should develop processes which encourage government leadership/ownership in the exercise. Evidence from the PEFA Impact Study shows how this achievement may vary depending on a country's capacity and availability of resources.

### **Number of PFM Analytical Studies and Overlapping Assessments**

8.11 The above studies provide some interesting but sometimes contradictory messages with regard to harmonization and alignment issues.

- Despite the PEFA Framework being used as a common pool of information, there continues to be some evidence of duplicative broad based diagnostic work (see the case of Moldova in Box 7 below).
- Some government respondents to the PEFA Impact Study noted that donors are conducting a considerable amount of uncoordinated PFM assessments to inform their own operational decision making that places an additional burden on government time (discussed in more detail in Chapter 7).
- None of the PEFA Impact Study countries had a detailed, comprehensive, multi-year strategy describing how diagnostic instruments inform both their development needs and the fiduciary requirements of their development partners.

### **Box 7 - Donor Collaboration and Harmonization in Broad Diagnostic Tools – The Case of Moldova**

The main instrument to support the Moldovan government PFM reform program was a World Bank public finance project launched in early 2006. The first PEFA assessment was also conducted in 2006 and financed by a number of development partners (EC, SIDA and UNDP) with others involved throughout. The first repeat assessment was conducted in 2008, with the objective of (a) identifying progress since the 2006 assessment and (b) providing input into the Mid Term Review of the Government's PFM Reform Project. While the core assessment team for the repeat assessment team was the same, in 2008 the key procedural difference was that the government (broadly the same team of officials) in 2008 prepared a self-assessment prior to the assessors' visit. As a result the Government led the PEFA process; with the consulting team (led by the WB and financed by WB and DFID) moderating and stress-testing the draft self assessment scores. A third PEFA Assessment (led by the EC) is planned in 2011. The following issues were observed during the Impact Study:

- Despite good cooperation between the government and donors on PFM issues there is no multi-year diagnostic program in place.
- PEFA assessments may have resulted in more efficient execution of fiduciary diagnostics.
- Drill-down procurement (MAPs) and debt management (DeMPA) diagnostic tools were carried out.
- In addition to the PEFA Assessments two other broad based assessments were conducted in 2010 (an OECD Review of Budget Processes and EC DG-FIN Operational Assessment).

In conclusion, despite efficiencies in using the PEFA Assessments as a common information pool there is some evidence of multiple and overlapping broad assessment tools which may have resulted in duplicative processes and additional transaction costs for the Government.

8.12 The case of Timor Leste provide an interesting example of a more collaborative and strategic approach to assessment work which has the potential to create a stronger country dialogue on how to make donor assistance and decisions on the use of country systems more transparent. The case of Ghana illustrates a number of actions taken by the donors (including sharing assessments) which resulted in them being able to place greater reliance on the Governments state audit system (both countries are discussed in Box 8 below).

### **Box 8 – A Strategic Approach to PFM Assessment Work – The Cases of Timor Leste and Ghana**

**Timor Leste** As part of the consultations on the implementation of the fragile states principles in Timor with donors, CSO and Government representatives a number of priorities were identified, including the need for a stronger country dialogue on how to make donor assistance more transparent and use country systems. Sharing and undertaking joint assessments was highlighted as a necessary condition to enable more transparency in decisions to use country systems. Donors agreed to work to; (a) determine opportunities for joint assessments in specific areas (sectors, fiduciary systems, etc); (b) task a lead donor with mapping current assessments planned for 2011-2013; and (c) task a lead donor to assemble recent assessments on aspects of country systems and institutional capacity building and to identify 2-3 areas where joint fiduciary assessments can be undertaken by a number of donors.

**Ghana** The Government of Ghana defined a number of priorities to implement the commitments in the Accra Agenda for Action on strengthening and using country systems. One of these priorities was the need to share assessments to identify those that meet the requirements of each donor (for example: sharing the terms of reference for the EU's five pillar assessment or USAID's "pre-award surveys" or the OECD-DAC's assessment for procurement as a basis for testing the use of country systems in selected areas). As a result of defining these priorities, the Government and donors identified specific actions which would lead to increased use of Ghana's audit systems, including sharing assessments. A coordinating body was created and started work in 2010 to harmonise audit language and terminology; harmonise donor audit requirements on the Government audit systems to reduce the burden on Ghana's Audit Service (GAS); co-ordinate donor support to GAS; and coordinate the policy dialogue. The quality of leadership from the Auditor-General has significantly improved as a result. The Auditor General and donors meet regularly in the Audit Working Group. Parliament (Public Accounts Committee) has also strengthened its performance.

### **Conclusion and Recommendations**

8.13 The above studies provide an interesting insight into alignment and harmonization issues insofar as they relate to PFM diagnosis. There are some signs of greater government/ leadership, more joint assessments and increased government/donor collaboration in diagnostic work. On the other hand, there is still evidence of uncoordinated PFM assessment work which places additional burdens on government time. The demand for PFM and fiduciary diagnosis on the part of the donors is ever growing; the crucial and unanswered question is whether that demand is matched by government counterparts.

8.14 Further action is needed to address the significant transaction costs resulting from duplicated and overlapping assessments. Governments should have a coherent, integrated medium term strategy of diagnostic instruments; supported by donors. This should indicate the expected time commitments required by donors and government officials, and incorporate fiduciary instruments required by individual donors.

8.15 As implied by the analysis in the previous chapter there may be further scope for donors to collaborate in fiduciary reviews and risk assessments through data gathering and the coordination of assessment missions.

8.16 The OECD DAC Secretariat should develop a more systematic and PFM specific monitoring and evaluation tool to track trends in aligning and harmonizing assessment activities in accordance PD principles.

## 9. Issues and next steps

9.1 Throughout the report, observations, in the form of areas of linkages, duplications, gaps and complementarities have been highlighted and these have informed opportunities for donors to increase harmonisation and coordination of efforts to improve PFM diagnostics, reduce transaction costs and encourage the use of country systems.

9.2 This Stocktaking Study has revealed important aspects of the evolution of PFM diagnostics since the publication of the last stocktaking exercise in 2004. It has also provided insights into the way that donors are using assessment tools and how they would like them to evolve in the future. The picture revealed by this Study leaves a number of residual concerns:-

- An increased number of broad based and drill down assessment tools; which have been developed to fill a perceived need by their respective institutional owners but have been poorly coordinated by development partners, international agencies and professional bodies.
- The large number of different, often uncoordinated fiduciary assessments which are being undertaken; often driven by donors' operational requirements rather than development needs.
- Despite some evidence that the PEFA Framework is being used as a common pool of information, this does not appear to be translating into significant net reductions in the amount of PFM diagnostic work being undertaken. Few countries have a multi-year strategy describing how diagnostic instruments inform their development needs and the fiduciary requirements of their development partners.
- A basic need to improve the way that donor instruments, completed assessments, guides and toolkits are shared amongst donors, professional bodies and government counterparts.

9.3 To address each of these concerns the Study concludes with the following main recommendations:

- Assessment tools and fiduciary instruments should be developed in a more collaborative way. Development partners should find ways of encouraging this collaboration on the development of new assessment tools while reducing the level of overlap between existing instruments.
- While recognizing donors have different risk appetites; there is further scope to collaborate on the significant number of fiduciary reviews and risk assessments through sharing findings, data gathering and the coordination of assessment missions.
- At a country level, governments should have a coherent, integrated medium term strategy of diagnostic instruments; supported by its donors. These should indicate the expected time commitments required by donors and government officials, and



incorporate fiduciary instruments required by individual donors. If governments limit interaction with, and support to work incorporated in such a plan, these plans may also help to bring more transparency in the development of new tools.

- Finally there is a basic need to improve awareness of the vast array of existing diagnostic tools and fiduciary instruments. Addressing this issue through the development of a single user friendly portal could be a significant contribution to fostering an environment of collaboration and knowledge sharing amongst international organizations.

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## Annex A: List of Persons Consulted for the Study

<b>Person Consulted</b>		<b>Organization</b>
Martin	Aldcroft	DFID
Richard	Allen	World Bank
Asha	Ayoung	World Bank
Franck	Bessette	IMF
Parminder	Brar	World Bank
Tom	Briggs	USAID
Judy	Burke	The Institute of Internal Auditors
Norberto	Diamanti	Inter American Development Bank
James	Donovan	SIDA
Henri	Fortin	World Bank
Kalayu	Gebre-Selassie	African Development Bank
David	Goldsworthy	National Audit Office (UK)
Einar	Gorriison	INTOSAI Development Initiative (IDI)
Robert	Hyland	DFID
Marah	Kaifala	Commonwealth Secretariat
Warren	Krafchik	International Budget Partnership
Mary		
Arnold	Mohiyuddin	General Accountability Office (GAO)
Samuel	Moon	Overseas Development Institute
Tariq	Niazi	Asian Development Bank
Goran	Olson	AFROSAI-E
David	Osterman	USAID
Mario	Pessoa	IMF
Aba	Prasad	World Bank
Ron	Quist	Idilmat
Zubaidur	Rahman	World Bank
Vivek	Ramkumar	International Budget Partnership
Frans	Ronsholt	PEFA Secretariat
Monica	Rubiolo	SECO
Carlos	Santiso	African Development Bank
Wolfgang	Solzbacher	KfW
Deborah	Sprietzer	Inter-American Development Bank
Sanjay	Vani	World Bank
Marijn	Verhoeven	World Bank
Joop	Vrolijk	SIGMA
Neil	Wallace	Asian Development Bank

## Annex B Findings of 2004 Assessment Mapping Report and Commentary on Developments

Finding	Commentary
<b>A. Streamlining coverage</b>	
1. The Bank, IMF, European Commission, and other development agencies should adjust their instruments to reduce unnecessary overlap.	World Bank, IMF and European Commission (EC) are co-sponsors of PEFA. WB widely leads PEFA assessments. EC Guidelines emphasize the use of PEFA as the assessment tool of choice. IMF has started leading PEFA Framework assessment.
2. Though the measures being considered to strengthen collaboration between CFAAs and Fiscal ROSCs should address the overlap between the two, it would be desirable for the Bank to first provide an authoritative clarification of the boundaries between CFAAs and PERs.	CFAA and PER are no longer mandated PFM diagnostic. Flexible PFM diagnostics are increasingly offered as integrated products using elements of traditional PER, CFAA; often built around PEFA assessment.  Work done on identifying overlaps between PEFA and Fiscal Transparency ROSC.
3. The Bank, IMF, European Commission, and other agencies should consider how to fill the gaps in coverage, whether by supplementing current instruments or developing new questionnaires and toolkits containing specific information.	World Bank, IMF and European Commission (EC) are co-sponsors of PEFA. Profusion of new diagnostic tools addressed throughout this Mapping Exercise which also addresses some gaps in coverage which remain unfilled.
4. The Bank should streamline its internal arrangements and operational practices for planning and conducting assessments, drawing on PEFA's 2002 report on integrating PERs, CFAAs, and CPARs.	See point 2 above.
5. The European Commission should develop its policy and methodology for carrying out compliance tests and annual audits to facilitate the integration of such work with CFAAs, Fiscal ROSCs, HIPC AAPs, and other instruments.	See 1.above EC Guidelines require application of the PEFA framework. There is no longer a requirement to conduct compliance tests and annual audits.
6. Staff guidelines for assessments should be harmonized to facilitate integrated efforts and encourage collaboration.	PEFA guidelines, Q and As, clarifications and monitoring reports are included on websites. Individual donor staff guidelines on fiduciary risk assessments, use of country systems etc. have evolved separately in response to their internal stakeholder needs, risk appetite, processes and procedures.
7. Steps should be taken to make assessment reports more consistent and readable. For example, templates should be developed for PERs and CFAAs.	World Bank ESW is subject to rigorous quality assurance procedures. Approach towards Bank analytical tools emphasizes better measurement and monitoring of PFM performance and progress, using the PFM Performance Measurement Framework. Content of broader PFM analytical tools (PEMPAR) are argued to be programmatic and modular, more geared to country specific requirements.
<b>B. Enhancing collaboration</b>	

Finding	Commentary
8. To increase their collaboration with donors, governments should be given complete access to staff guidelines, assessment work plans, schedules, and reports.	Partially addressed through PEFA website, which has comprehensive links of all reports which include PEFA assessment. Further progress could be made through developing a central database of staff guidelines and PFM diagnostics which do not have a PEFA assessment.
9. Cooperation, coordination, and collaboration between agencies should be enhanced—especially between the Bank and IMF, drawing on their recent joint paper on strengthening collaboration on public expenditure work (World Bank and IMF 2003).	Collaboration in evidence through co-sponsorship of PEFA.
10. Steps should be taken to increase the participation of bilateral donor agencies in discussions with governments on public expenditure management and in follow-up efforts to implement recommendations. Coordination with regional institutions and initiatives—such as regional multilateral development banks, the Strategic Partnership with Africa, and the New Partnership for Africa’s Development—should also be strengthened.	Increased high-level at policy level through OECD/DAC Taskforce on PFM and Procurement and several bi-laterals co-sponsor PEFA. Some evidence of increased donor coordination of PFM issues at a country level although this is not systematically monitored.
11. All assessment reports should include standardized executive summaries, providing core information to facilitate analysis, dissemination, and sharing of information between agencies, governments, and other stakeholders.	PEFA Framework Performance Report has a standardised structure and set of high level indicators which provides core information and enables monitoring of PFM performance over time.
12. Agencies should consider establishing quality assurance procedures for donors participating in multi-donor assessments, perhaps building on the internal procedures used by the World Bank’s Quality Assurance Group.	PEFA draft reports are usually reviewed by PFM and country experts outside the assessment team. Where requested, PEFA Secretariat provides comments on the draft TOR and on compliance of draft reports with the Framework. PEFA Secretariat’s own compliance index has steadily improved indicating that the methodology is widely understood despite decentralised implementation of assessments.
13. Common definitions and terminology should be used in assessment work.	Common framework based around 3 levels of budgetary outcomes and six critical dimensions of performance of an open and orderly PFM system are well understood and mainstreamed through the PEFA Framework.
<b>C. Evaluating fiduciary risk and contributing to development goals</b>	
14. Governments and donors should agree on how to define fiduciary risk.	“There is no universal definition of fiduciary risk. Some donors see fiduciary risk as being limited to the misuse of funds (or other assets); other donors use

Finding	Commentary
	fiduciary risk to cover all financial risks, including the risk of corruption” <sup>51</sup> . The study notes inconsistencies between donors in their respective understanding of what (fiduciary) risk covers and how the risk is expressed for the purpose of carrying out risk assessments. Report concludes that donors’ definitions are not always precise or clearly articulated while broadly pointing in the same direction. Harmonising definitions would reduce confusion and facilitate the greater use of fiduciary risk assessments.
15. The role of assessments in evaluating fiduciary risk and contributing to long-term development goals should be clarified.	Approach to diagnosis increasingly separates (1) current PFM performance, (2) recommendations for reforms or action plans, and (3) fiduciary risk assessments and assessment of the use/non use of country systems.
16. Consideration could be given to splitting the fiduciary and development aspects of assessments into separate processes and reports—and to creating a more independent process for assessing risk, with some element of joint ownership by donors and external quality control and validation.	Fiduciary and development aspects are increasingly separated into separate processes and reports. Donors are using PEFA and other developmental PFM diagnostics as inputs into operational decisions affecting aid modalities and the use of country systems. Trend is towards “light touch” assessments supplemented with a small amount of primary work if gaps exist. Donors have different assessment tools reflecting internal stakeholder needs, risk appetite and procedures. However there is the potential for high transaction costs and inefficiencies in the number of separate and often uncoordinated risk assessments now being undertaken.
<b>D. Increasing the development impact of assessments and reforms</b>	
17. New approaches to assessing and reforming public expenditure management should take full account of the views of governments (and other local stakeholders), because governments play the main role in designing and implementing reform strategies.	Lack of evidence available on country ownership and the extent that PFM diagnostic are having an impact on reform programmes.
18. High-quality analysis and advice on public expenditure, procurement, and financial accountability requires seeing all aspects of public expenditure management as parts of an interrelated whole—not separating such efforts based on the most efficient “division of labor.” Thus, strengthening the substance and quality of analysis requires increasing collaboration within and between agencies.	Some evidence of progress in institutions providing in country support and advice based on comparative advantage. WB provides more flexible approach to PFM diagnostics which is based on need rather than work streams.
19. Because governance, corruption, and cultural and	Existing national/sub-national level diagnostic tools

<sup>51</sup> Cant, Carter and Lister, May 2008 (p25).



<b>Finding</b>	<b>Commentary</b>
institutional factors are often crucial to reforms of public expenditure management, better guidelines are needed on their definition, scope, and importance and on how to integrate them with assessments.	focus mostly on performance of systems; there is still room for a broad index which looks more deeply at the performance of budget institutions. The mapping exercise identifies a range of capacity building toolkits which address specific institutional needs.
20. More attention should be paid to how recommendations and action plans are followed up and how changes in public expenditure management can be monitored and evaluated.	PEFA Scoring is according to defined criteria for each indicator and level. While some are broadly defined in the Framework itself, the criteria have been progressively clarified with experience, to ensure that assessments are objective, backed by evidence, and changes in successive assessments provide a fairly reliable measure of progress.
21. Priority should be given to developing a robust, internationally accepted framework for benchmarking and measuring the performance of public expenditure management, building on the HIPC AAP approach. EC compliance tests might also provide useful data. Such work should be linked to the streamlining of assessment instruments.	The PEFA PFM Performance Measurement Framework incorporates a PFM performance report, and a set of high level indicators which draw on the HIPC expenditure tracking benchmarks, the IMF Fiscal Transparency Code and other international standards.


## Annex C Technical mapping of assessment instruments

### Key

Level of coverage

 = Complete or substantial

 = Partial or moderate

 = Little or None

### Instruments

PEFA Framework = PEFA Performance Measurement Framework

Fiscal ROSC = Fiscal Report on the Observance of Standards and Codes of Fiscal Transparency

CPFM-SAT = Commonwealth Public Financial Management – Self Assessment Toolkit

IBP OBI = International Budget Practices Open Budget Index

OECD BD = OECD Budget Database

Note - the PFM Framework includes 16 components and 107 sub-components. The Framework is derived from the 94 sub-components used in 2004 Study, however the 2010 Study added Revenue Management /Tax Administration and Performance Information as these elements have been given substantial coverage in several of the Tools which have been developed since 2004.

	PEFA	Fiscal ROSC	CPFM-SAT	IBP OBI	OECD BD
<b>Legal framework for expenditure management</b>	<sup>52</sup>				
Constitutional requirements	X	X			X
Legal framework for budget and fiscal policy	X	X	X		X
Fiscal management roles of the executive, legislative, and judicial branches	X	X	X		X
<b>Intergovernmental fiscal relations</b>					
Allocation of responsibilities between different levels of government	X	X	X		X
Expenditure transfers to sub-national governments	X				
Revenue authority and borrowing rights of sub-national governments		X			

<sup>52</sup> Addressed in sub-section 2.3. of the PFM Performance Report ( Description of the legal and institutional framework for PFM).

	PEFA	Fiscal ROSC	CPFM-SAT	IBP OBI	OECD BD
<b>Relations between government and nongovernment entities</b>					
Scope of government fiscal targets and consistency with government finance statistics		X	X		
Central bank independence		X			
Clarity of distinction between government and public enterprises		X			
Clarity of reporting of government equity holdings		X			
Clarity and openness of formal regulation of private sector		X			
<b>Budget coverage</b>					
Budget classification and consistency with government finance statistics	X	X	X	X	
Extra-budgetary funds	X	X	X	X	X
Quasi-fiscal activities	X	X		X	
Contingent liabilities	X	X		X	
Tax expenditures		X		X	
User fees	X	X			X
Donor funding	X	X		X	
Transfers to and from public enterprises		X		X	
<b>Expenditure analysis</b>					
Fiscal sustainability			X		
Composition of expenditures	X			X	
Review of public investment programs					
Inter-sectoral analysis	X		X		
Intra-sectoral analysis	X				
Efficiency and effectiveness of expenditure programs		X			
Expenditure incidence and poverty impact				X	

	PEFA	Fiscal ROSC	CPFM-SAT	IBP OBI	OECD BD
Analysis of deviations of actual from budgeted expenditures	X	X		X	
Assessment of payment arrears	X		X	X	
<b>Fiscal framework and expenditure programming</b>					
Macroeconomic framework and fiscal outlook		X		X	X (in depth)
Revenue projections	X			X	
Donor funding projections					
Fiscal scenarios and sensitivity analysis		X		X	X
Fiscal risks and contingent liabilities	X	X			X
Independent scrutiny of macroeconomic models and assumptions		X			X
Setting of aggregate revenue, spending, and deficit targets	X <sup>53</sup>	X			
<b>Budget preparation</b>					
Cabinet-level setting of policy priorities and expenditure ceilings	X		X		X
Ministry-level setting of priorities and allocation of resources					
Level of detail in budget allocations (flexibility of ministerial spending)		X		X	
Expenditure classification (line-item, program, and so on)	X	X		X	
Forward costs of ongoing programs	X	X			
Cost estimates for proposed programs	X	X		X	
Debt outstanding and interest payments presented in budget documentation				X	
Medium-term expenditure estimates	X	X	X	X	X
Clarity of program objectives				X	

<sup>53</sup> Described in Sub-Section 2.2 of PFM Performance Report – “Description of Budgetary Outcomes”.

	PEFA	Fiscal ROSC	CPFM-SAT	IBP OBI	OECD BD
Consideration of efficiency, effectiveness and economy built into the budgetary process			X		X
Process for preparing the draft budget	X	X	X	X	
Integration of capital and recurrent budgets	X	X			X
Civil society participation in budget preparation		X	X	X	
Preparation of a citizens budget				X	
Feedback from program review and evaluation					
Approval of budget by the legislature	X	X	X	X (in detail)	X (in detail)
<b>Revenue Management and Tax Administration</b>					
Clarity and comprehensiveness of tax liabilities	X	X	X		
Taxpayers access to information on tax liabilities and administrative procedures	X	X	X		
Tax exemptions costs and funded				X	
Existence and functioning of a tax appeals mechanism	X	X	X		
Controls in the taxpayer registration system	X				
Effectiveness of penalties for non-compliance with registration and tax declaration	X		X		
Planning and monitoring of tax audit programs	X				
Effectiveness in collection of tax payments	X		X		
Existence of large taxpayer unit			X		
<b>Treasury systems, cash management, and expenditure monitoring</b>					
Laws and regulations on treasury and cash management	X		X		
Organization of the treasury function			X		
Cash planning and forecasting	X				
Banking and accounting arrangements	X	X	X		

	PEFA	Fiscal ROSC	CPFM-SAT	IBP OBI	OECD BD
Rules and procedures for payments and cash allocations	X				
Flexibility for budget managers (virement rules, carryovers, and so on)	X	X	X		X (in detail)
Commitment control	X	X			
Verification of receipt of goods and services		X			
Monitoring and management of payables and arrears	X	X	X		
Payroll monitoring and management	X	X			
Reconciliation of fiscal and bank information	X	X	X		
<b>Public procurement and management of physical assets</b>					
Procurement laws and regulations		X	X		
Organization of procurement functions within government			X		
Openness of procurement processes and procedures	X			X	
Tendering procedures	X				
Documentation and information systems					
Control and complaint review procedures	X		X		
Donor procurement practices harmonized with country practices			X		
Management of physical assets			X (in depth)		
<b>Internal control and audit</b>					
Internal control regulations, organization, and procedures	X	X	X (in depth)		
Internal audit regulations, organization, and procedures	X	X			X
<b>Accounting, measurement, reporting, and records management</b>					
Accounting policies and standards	X	X	X		X
Accounting processes and responsibilities	X	X			

	PEFA	Fiscal ROSC	CPFM-SAT	IBP OBI	OECD BD
Government financial management information systems			X		
Availability of information on resources received by service delivery units	X			X (Partially through 108)	
Internal reporting	X	X			
Scope and coverage of external financial reports	X	X		X	
Timeliness and quality of external financial reports	X	X		X	
Records management systems					
<b>Debt and aid management</b>					
Organization of debt and aid management			X		
Debt and aid management laws and regulations			X		
Management, control, and reporting of government debt	X	X	X	X (reporting)	
Management, control, and reporting of financial assets	X	X	X		
Management, control, and reporting of aid	X	X			
<b>External audit</b>					
Legal framework for external audit	X	X	X	X	X
Independence of supreme audit institution		X	X	X	X
Jurisdiction of supreme audit institution		X	X		X
Audit standards	X				X (Partially)
Timeliness and quality of audit reports	X	X	X	X	
Sanctions for irregularity	X	X			
Legislative review of audit reports	X	X	X	X	
Follow-up on audit recommendations	X	X		X	
Conducting regular performance audits			X		X
<b>Performance Information</b>					

	PEFA	Fiscal ROSC	CPFM-SAT	IBP OBI	OECD BD
Performance Targets clear, simple and easy to understand			X	X (in detail)	X
Non financial data built into the budgetary process			X	X	X (in depth) <sup>54</sup>
Application of performance information in Government decision making			X		X
<b>Personnel quality, capacity, incentives, and management</b>					
Personnel quality, capacity, incentives, and management			X		

<sup>54</sup> Questions 71 – 82 address types of performance information.



# Stocktaking Study of PFM Diagnostic Instruments

## Volume I – Main Report

The Paris Declaration on Aid Effectiveness (2005) committed donors to align their analytic support with government's capacity development objectives and strategies and make use of existing capacities through joint assessments where feasible. Donors also committed to harmonise analytical work through: (a) implementing common arrangements to evaluate country systems, and (b) collaborating to reduce the number of separate, duplicative diagnostic reviews and procedures. This Stocktaking Study examines both progress made against the Paris Declaration commitments as they relate to Public Financial Management (PFM) and an update of analytical/diagnostic tools currently in use, or in an advanced stage of development.

Volume I of the Stocktaking Study of PFM Diagnostic Instruments identifies PFM analytical/diagnostic tools currently in use or in an advanced stage of development. It is both descriptive (providing an overview of the tools and how they are applied) and analytical (identifying knowledge gaps and areas where custodians of assessment tools could improve collaboration and reduce transaction costs). The Stocktaking Study provides important insights into the way that donors are using assessment tools and how they perceive that they will evolve in the future. The Study sets out a number of recommendations on Assessing PFM Systems and how to improve donor coordination and government leadership in this area.

