

Tales of the unexpected: PFM reform in difficult environments

14 – 15 November 2007

Overseas Development Institute, London, UK



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Session 2

What do we mean by successful PFM
outcomes and performance?

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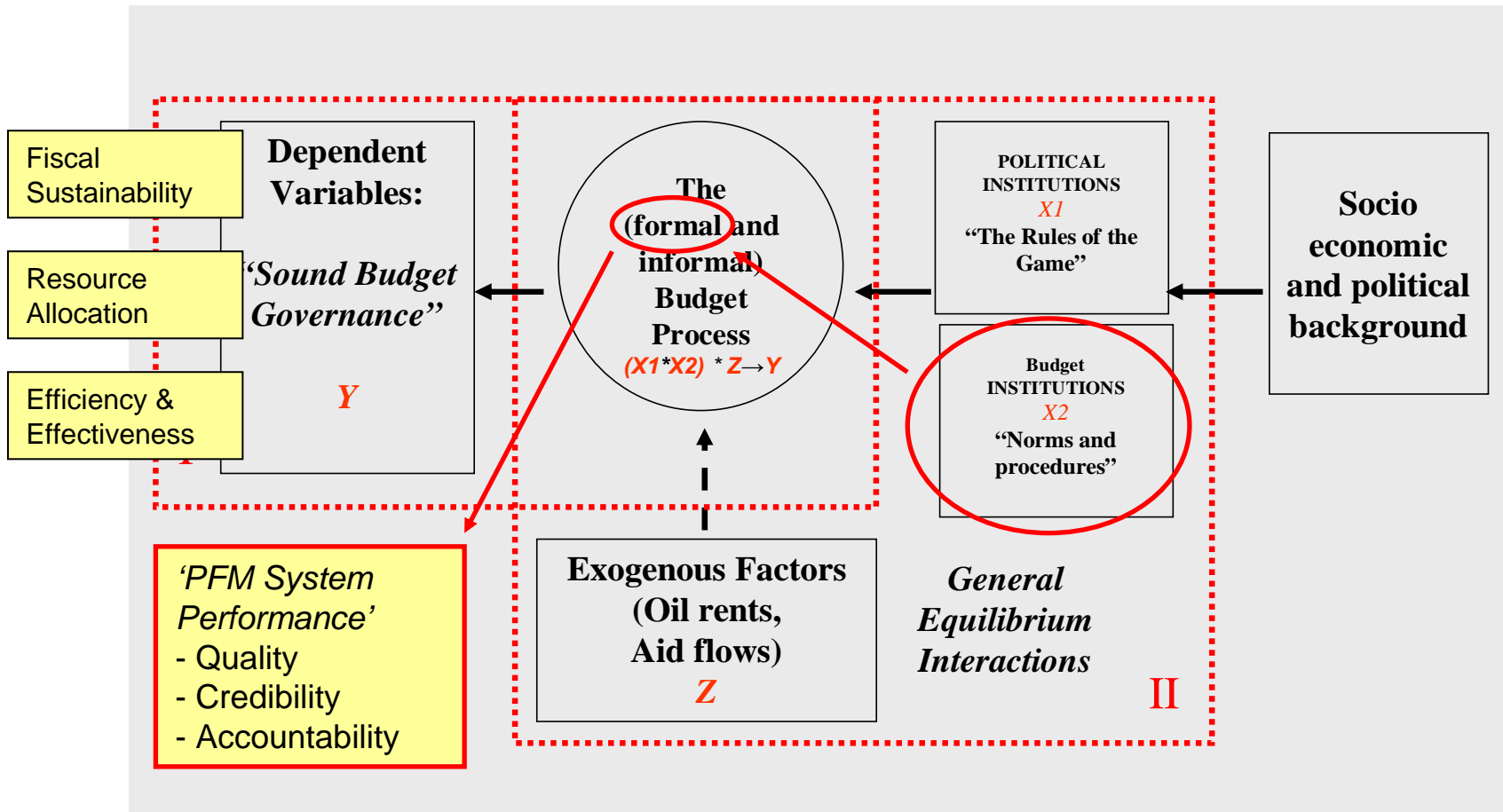
MEASURING PROGRESS IN BUDGET OUTCOMES AND REFORMS

Paolo de Renzio

University of Oxford and ODI

14 November 2007

BUDGET GOVERNANCE FRAMEWORK



Source: Mejia (2007)

WHAT BUDGET INDICATORS?

- *PEFA and its predecessors (HIPC Assessments)*
- *CPIA (Indicator 13)*
- *Open Budget Index (transparency)*
- *Global Integrity Index (accountability)*
 - ⇒ *Different dimensions/samples/methodologies*
 - ⇒ *No time series (exc. CPIA, ICRG and part. HIPC)*
 - ⇒ *Other data in various reports, but scattered and 'uncoded'*

HIPC-PEFA 2001-2006

Country	HIPC Indicator (2001, 2004, 2006)																																	
	1			2			3			4			5			7			8			9			10			11			15			
Benin	B	B	B	A	A	C	B	B	B	B	B	B	B	B	B	A	B	A	B	C	B	B	B	B	B	C	A	A	A	C	C	C		
Burkina Faso	B	B	A	A	A	A	B	B	B	C	C	B	B	B	A	A	A	B	A	A	B	B	B	A	A	B	A	A	A	C	C	C		
Ghana	C	B	B	B	B	A	C	C	B	B	B	B	C	B	B	B	B	C	A	A	C	B	B	B	B	B	C	A	A	C	C	B		
Guinea	C	A	B	B	B	B	B	C	B	A	B	B	B	B	B	C	B	B	B	C	C	C	B	C	C	C	C	A	A	A	C	B	C	
Guyana	A	B	A	B	A	A	B	B	B	A	A	A	C	B	B	B	B	A	A	A	B	B	B	C	C	B	C	C	B	B	B	C		
Honduras	B	B	B	A	A	A	B	C	B	A	B	B	A	B	B	B	B	A	A	B	B	B	B	C	C	C	C	C	A	C	C	B		
Madagascar	B	B	B	A	A	A	B	C	B	A	B	B	B	A	A	C	A	B	C	B	B	B	B	B	B	B	B	C	A	B	B	C	C	C
Malawi	C	C	C	A	A	A	C	C	B	B	B	B	A	B	B	B	B	B	A	B	C	B	B	B	A	B	C	B	B	B	C	C	C	
Mali	B	A	A	A	B	B	B	B	A	B	B	B	B	A	A	B	A	A	A	A	B	A	B	B	B	B	B	A	A	A	C	C	C	
Mozambique	B	A	A	C	C	B	B	B	A	B	B	B	B	C	C	B	B	B	A	A	A	A	B	B	C	C	C	B	C	C	C	C	B	
Nicaragua	C	A	B	C	C	B	B	B	B	A	A	B	B	B	B	C	C	B	B	B	A	B	B	B	C	C	B	A	B	B	C	C	C	
S. Tome & Principe	B	B	B	B	A	B	C	C	C	A	A	B	C	C	C	C	C	C	A	B	C	C	C	C	C	C	C	C	B	B	C	C	C	C
Tanzania	B	B	B	A	A	A	B	B	B	B	B	B	C	B	B	A	A	A	A	A	A	B	B	A	B	B	B	A	A	A	C	C	B	
Uganda	B	B	B	B	B	B	B	C	B	A	B	B	A	B	B	A	A	A	B	C	C	B	A	B	B	B	B	B	A	A	B	B	B	
Zambia	C	C	C	B	B	B	C	C	B	A	B	B	C	C	C	C	B	B	C	C	C	B	B	B	C	C	B	A	A	A	C	B	B	
<i>Benchmark</i>	A			A			B			A			B			A			A			A			B			A			B			

Source: de Renzio and Dorotinsky (forthcoming)

- 15 out of 26 countries
- 11 out of 16 indicators

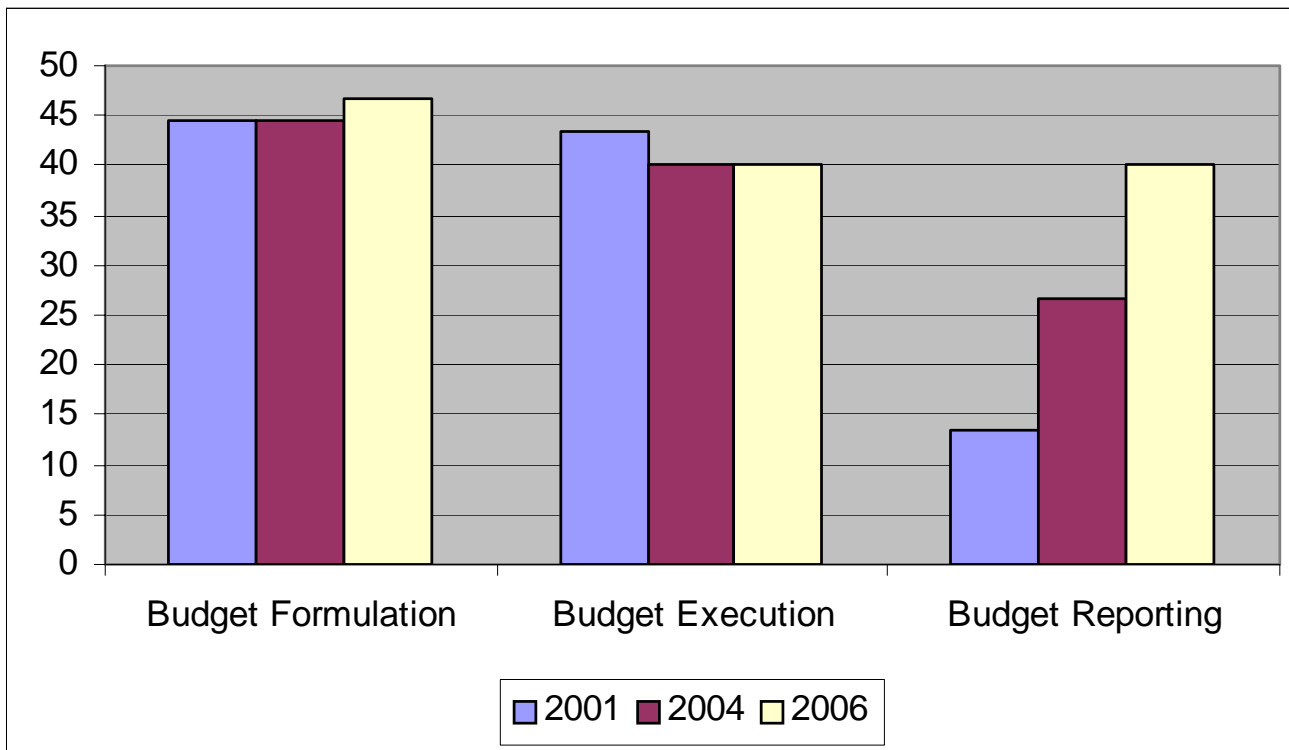
HIPC-PEFA 2001-2006

Benchmarks met by Country (2001-2006)

	HIPC 2001	HIPC 2004	PEFA		
			2005	2006	2007
Benin	6	6			3
Burkina Faso	6	7			8
Ghana	1	4		7	
Guinea	4	4		3	
Guyana	5	6			7
Honduras	5	3		5	
Madagascar	6	4		3	
Malawi	4	3		3	
Mali	7	7		6	
Mozambique	4	3	4		
Nicaragua	4	4		4	
S. Tome & Principe	2	2		0	
Tanzania	6	7		9	
Uganda	6	6	6		
Zambia	2	2	4		
Total	68	68	72		

HIPC-PEFA 2001-2006

% of Benchmarks met by Budget Phase (2001-2006)



HIPC-PEFA 2001-2006

- **93 percent of countries were able to limit the discrepancies between budget allocations and budget outturns (indicator 3), compared to 73 percent in 2001 and 47 percent in 2004;**
- **Less than 10 percent of countries could fully reflect donor funds in their budget documents (indicator 4), down from more than 50 percent in 2001;**
- **Improvements in budget classification were sustained from 2004 (indicator 5), with 80 percent of countries meeting the benchmark;**
- **There was a recent decline in the quality and integration of medium-term projections in budget processes (indicator 7);**
- **Effectiveness of internal controls (indicator 9) and budget coverage (indicator 1) remain problematic.**

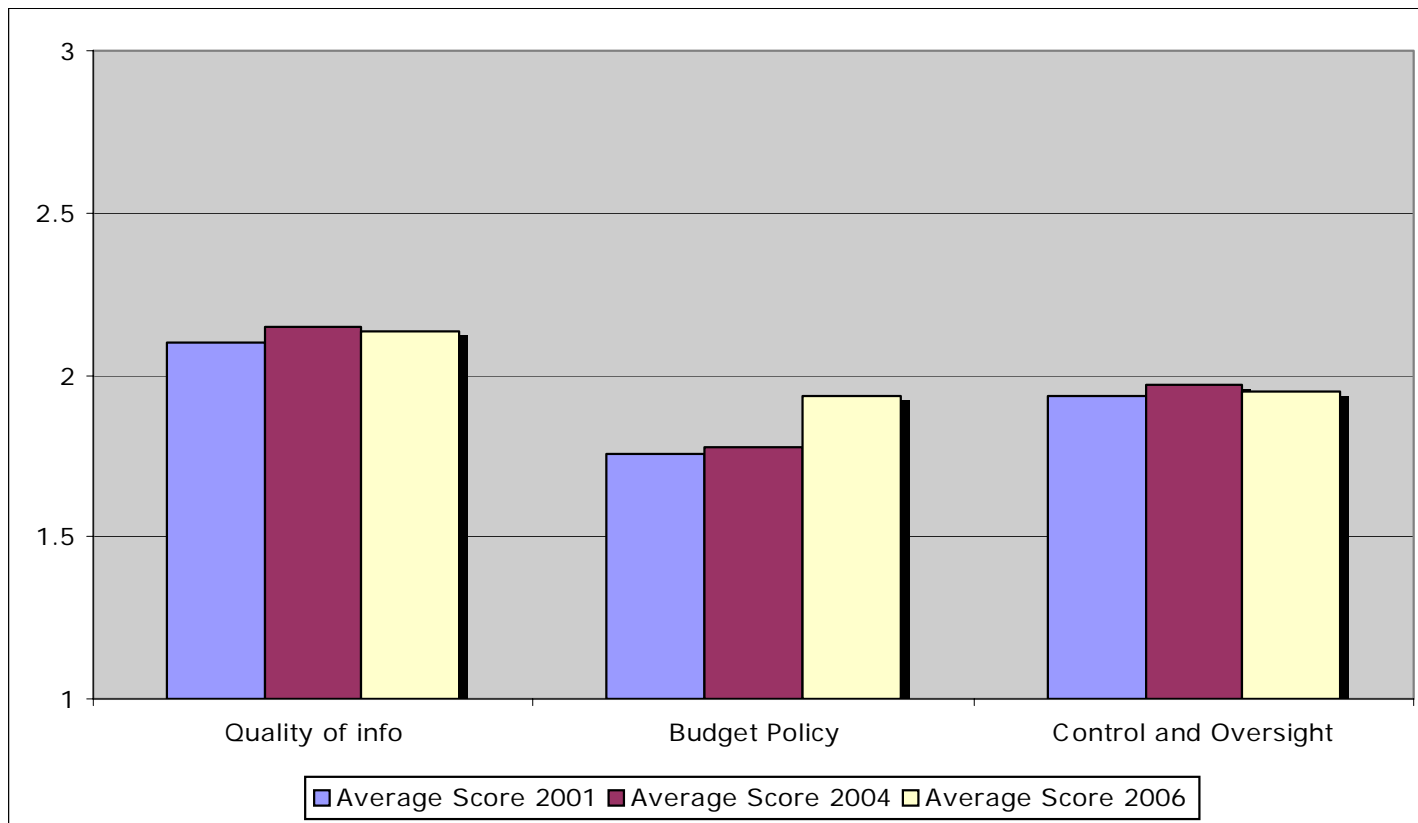
HIPC-PEFA 2001-2006

Overall progress by Country (2001-2006)

	HIPC 2001	HIPC 2004	PEFA		
			2005	2006	2007
Benin	24	24			19
Burkina Faso	24	25			26
Ghana	15	22		25	
Guinea	19	21		19	
Guyana	22	23			25
Honduras	23	20		23	
Madagascar	22	23		22	
Malawi	23	20		19	
Mali	25	26		26	
Mozambique	21	19	22		
Nicaragua	19	20		22	
S. Tome & Principe	18	18		14	
Tanzania	24	25		27	
Uganda	25	23	23		
Zambia	17	18	20		
Total	321	327	332		

HIPC-PEFA 2001-2006

Overall progress by Budget dimension (2001-2006)



HIPC-PEFA 2001-2006

Overall progress by Budget dimension (2001-2006)

Change 2001-2006	Quality of Info	Budget Policy	Control & oversight	TOTAL
>=5	-	-	Ghana	Ghana
3/4	Ghana	Zambia	-	Guyana, Nicaragua, Tanzania, Zambia
1/2	Burkina Faso, Guyana, Mali, Mozambique, Nicaragua, Tanzania	Ghana, Guinea, Guyana, Mali, Mozambique, Nicaragua	Burkina Faso, Honduras, Tanzania, Zambia	Burkina Faso, Mali
0	Guinea, Madagascar	Honduras, Madagascar, São Tomé and Príncipe, Tanzania, Uganda	Guyana, Madagascar, Nicaragua, Uganda	Guinea, Honduras, Madagascar, Mozambique
-1/2	Benin, Honduras, Malawi, São Tomé and Príncipe, Uganda, Zambia	Benin, Burkina Faso, Malawi	Benin, Guinea, Malawi, Mali, Mozambique	Uganda
-3/4	-	-	São Tomé and Príncipe	Malawi, São Tomé and Príncipe
<=-5	-	-	-	Benin

HIPC-PEFA 2001-2006

CPIA Indicator 13 (Quality of Budget and Financial Management)	
Countries improving 2005-6	Countries worsening 2005-6
Burundi	Benin
Cambodia	Chad
Ethiopia	Comoros
Georgia	Guinea
Ghana	Kiribati
Grenada	Mali
Haiti	Samoa
Lao PDR	Sao Tome and Principe
Mauritania	Solomon Islands
Nicaragua	St Lucia
Rwanda	Sudan
Zambia	Zimbabwe

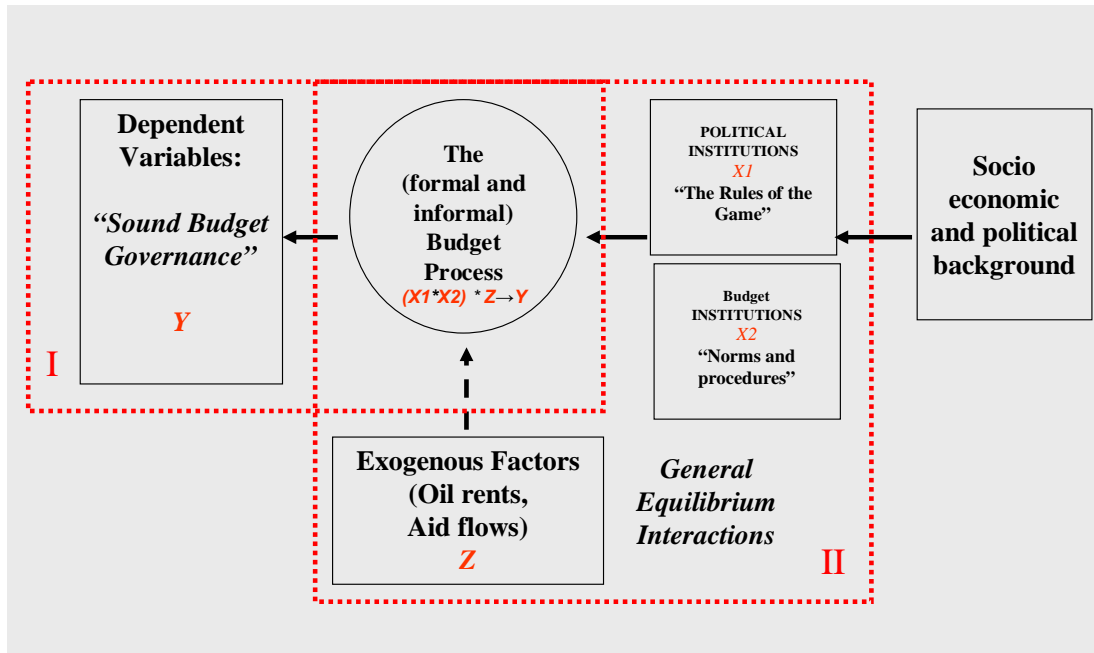
HIPC-PEFA 2001-2006

Donor Support for PFM Reforms (2000-2005)

	2000	2001	2002	2003	2004	2005	Total	
Tanzania	1.8	3.0	3.3	9.1	7.9	13.3	38.4	
Mozambique	1.0	4.1	5.0	9.0	5.1	7.4	31.5	
Uganda	0.3	7.3	2.7	6.2	5.7	6.3	28.5	
Zambia	0.0	0.3	0.8	2.5	6.1	10.9	20.6	
Benin	0.8	3.8	0.6	1.5	6.5	4.3	17.6	
Nicaragua	0.0	0.7	0.4	3.8	3.9	5.3	14.1	
Mali	2.6	2.5	1.8	1.6	2.3	2.5	13.3	
Malawi	0.8	1.7	1.3	1.3	1.2	2.1	8.5	
Ghana	0.6	1.0	2.9	1.4	1.1	1.3	8.4	
Madagascar	0.1	0.2	0.1	0.2	0.9	5.3	6.8	
Burkina Faso	0.6	0.5	0.7	1.3	1.9	1.8	6.7	
Guinea	0.9	0.5	0.8	1.0	1.0	1.7	5.9	
Honduras	0.2	0.5	0.6	0.6	0.6	1.1	3.4	
Sao Tome & Principe	0.1	0.6	0.2	0.4	0.6	0.3	2.2	
Guyana	0.0						0.0	
Total	9.8	26.7	21.3	39.8	44.9	63.5	206.1	

Source: OECD/DAC CRS database

BACK TO THE FRAMEWORK...



- *Need to look at broader picture*
- *Combine x-country and case study research*
- *Need for more and better data*
- *Need for more transparency and dissemination*

THANK YOU!

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14 – 15 November 2007

Overseas Development Institute, London, UK

Good practices in PFM reform – WB study

ODI - Cape Conference
14th November 2007
Carole Pretorius

Assignment Purpose

- The main purpose of the exercise is to identify examples of success in strengthening different aspects of public financial management from developing/middle income countries.
- To share information between pfm personnel in Bank, with governments and other development partners.

Missing

- No submissions received for the following areas
 - Payroll
 - Revenue administration
 - Public access to financial information
 - Fiscal decentralisation
- *Procurement now being covered by separate exercise*

Good practices in PFM reform ?

- During initial discussions/ review of submissions realised that term “good practices” could be misleading or misinterpreted as a model to be universally applied.
- Pursuit of perfection.
- Need for local context lost.

Definition of success?

- Measurable progress in one indicator or dimension in the PEFA set of indicators
- Others - cost savings, reduction of audit queries or more timely reporting (if it results in other changes)
- Cross cutting issues e.g. management of reform or capacity development more subjective

Success is a journey, not a destination.

- In some cases – declaring success too early may be damaging and support/effort may be reduced or real “drivers” of sustained success not recognised.
- Unintended consequences e.g. central payments office may lead to greater efficiency but also to >er potential for corrupt practices.
- Sophisticated system/process may achieve some success but what is the opportunity cost.

Whose success?

- Emphasis on success of government/country NOT donor intervention
- Relevance to stakeholders @ central level and/or frontline (street level bureaucrats)
- Relevance to “customer” and/or “taxpayer”.

Challenges in the verification process

- Lack of baseline data.
- Inter relationship of many aspects of pfm (**and public service reform**) often make the attribution of success to a particular aspect of pfm difficult.
- Unclear use of generic terms e.g. MTEF/IFMS widely used, but precisely what had been done often unclear.

Challenges in the verification process

- Conflict in budgetary outcomes – success in one may lead to poorer results in another
- Interpretation of conditionalities
 - Conditionality – Develop and Implement new budget execution procedures.
 - Conditionality achieved – Budget manual issued ???
- Multi million dollar investments with no basic costing or analysis of alternative options/ methodologies

Approach adopted

- Correspondence/Discussion with TTLs new and old + FM practitioners
- Old and new diagnostics reviewed
- Published documents/ websites etc
- Clarification with governments/ other donors/consultants
- No field research

Contradictions

- **PER 2005**
 - “with important progress made in the realism of tax revenue projections”.
- **CPIA - 2006**
 - “led to increasing realism of revenue targets”.
- **IEG 2007**
 - “persistent overestimation of revenue”

Case studies

- Background
- Show what has been achieved and why
- **Be honest** about what remains to be done
- Identify critical success factors
- Lessons to be shared

First “tentative” group

- This is not the final list but it is likely to include some or all of the following
 - Kenya (internal audit)
 - Chile (results based budgeting)
 - Mongolia (GFMIS)
 - South Africa (capacity development)
 - Mexico (internal audit)
 - Tanzania (IFMS)
 - Cambodia (reform management)
 - Uganda (legislative scrutiny)
 - Senegal (external audit)
 - Karnataka (external audit – follow up)
 - Sri Lanka (financial reporting)

Initial observations

- Critical success factors were almost entirely “people” related rather than technical.
- In many cases, success was achieved by adapting conventional wisdom to local circumstances.
- Small steps rather than giant leaps

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