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FOR POLICY AND METHODOLOGY

Position Paper

Public Financial Management



Foreword

This position paper is based on the final report by Sida on programme support , including its annex on programme support and financial management¹ and the decision by the Director General² that Sida shall make a special effort to raise the organisation's level of activity and competence in public financial management. The position paper contains Sida's policy and guidelines regarding PFM, i.e. assessment of systems and capacity for PFM in partner countries, the assessment process and use of diagnostic tools, support for strengthening of systems and capacity for PFM in partner countries, and Sida's engagement in international work to develop norms and methods. PFM is defined as comprising the planning and budgeting process, the payment system, the accounting system, procurement, internal and external audit, and the taxation/ revenue system.

The report by Sida's project team on programme support and financial management provides the background to the position paper and the latter should be used together with the report. The position paper should also be used together with the working paper: "PEFA Public Financial Management Performance Measurement Framework".

¹ Slutrapport från Programstödsgruppen, dated September 2003 and its annex "Programme support and public financial management", dated 2004-10-18

² Gd 69/03 and 29/04

This position paper should be seen as preliminary and will be deepened, broadened and specified after having been used for some time. The Department for Policy and Methodology (POM) and the Division for Democratic Governance (DESO/DESA) are planning to issue a revised version in about a year. A manual to accompany the position paper will be prepared during 2005. POM and DESO/DESA expect departments, embassies and field offices to report their experiences of the application of the position paper and forward proposals for its improvement as well as proposals on the content of the manual.

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1. Introduction

Efficient, transparent, accountable and predictable PFM in partner countries is a necessary prerequisite for long term and sustainable reduction of poverty and effective use of scarce financial resources. The systems for PFM aim at securing budget planning and budget discipline compatible with macro-economic stability, resource allocation according to the policies (poverty reduction strategy) of a country, and efficient execution and follow up of the budget. The vision and process of striving towards achieving the millennium development goals and implementing national poverty reduction strategies places strong demands on PFM as it is through the PFM systems national policies are transformed into practice. PFM is directly linked to opportunities for democratic governance, possibilities to fight corruption and provides the opportunity for effective development cooperation.

The draft new guidelines for cooperation strategies³ place stronger demands on assessment of systems and capacity for PFM in partner countries. This is also the case in “Sida at Work”. It is therefore important to have a policy, guidelines and methods on how to make such assessments and engage in dialogue to develop and improve systems and capacity. It is especially important that financial resources of a partner country are used for intended purposes and accounted for in a transparent way when programme support (budget support

³ Guidelines for preparation of cooperation strategies with developing and transitional countries

and sector programme support) is being prepared. Policies are also necessary to clarify Sida's view on roles to be played by a partner country and its development partners in assessing PFM, and in development of programmes to improve and strengthen PFM.

2. Dialogue and assessment of systems and capacity for PFM in partner countries

a) Dialogue

Sida shall actively advocate and raise the following policies and issues at all levels in the dialogue with partner countries and development partners regarding assessment of PFM:

- Diagnoses, assessments and dialogue about PFM of a partner country shall be done in a coordinated way between the development partners and the partner country. Harmonisation between development partners and partner countries is of special importance.
- The partner country shall actively participate in the analysis of its own systems and capacity for PFM, and preferably lead this work in order to facilitate the development of a joint assessment of PFM, a joint view on reform needs, and any required action programme.
- The dialogue should focus on the relative trends in the development of PFM and not only on absolute levels. As regards the relative trend it is important to assess: 1) the actual development of PFM over time, and 2) if there is a credible reform programme which is owned and led by the partner country.
- Preparation of a reform programme and/or action plan for development of systems and capacity for PFM shall be based

on the assessments made and ‘owned’ by the partner country. Parallel, donor driven action programmes shall be avoided. The reform programmes shall primarily focus on bringing order to the basic functions of PFM. The introduction of too much sophistication in systems shall normally be avoided. Reforms implemented step by step and taking into account available capacity shall be recommended.

- Special emphasis should be put on the democratic and governance dimensions of PFM (openness, publicity, transparency, accountability, participation and control).
- A pro-poor perspective of PFM should be secured in designing reform programmes e.g. by encouraging a sector perspective and taking into account the requirements for continuous improvement of the delivery of public services.
- The PFM systems should be integrated with systems for result-based management, i.e. planning and follow up of results.

b) Assessment process and tools

Sida must have relevant, accurate and timely knowledge in order to assess PFM.

Sida's position is that the build up of knowledge through analysis and diagnostic work should be done in cooperation with, and preferably together with, all major development partners (harmonisation). The partner country shall lead and actively participate in the process. The analysis and the diagnostic work should preferably be based on what is already known and documented.

Sida's view on the assessment process is furthermore that it should:

- normally include all relevant parts of the PFM system and view the system in its context, usually as part of a wider administrative system. How broad an assessment should be in a specific situation has, however, to be determined on the basis of the needs and purposes of the assessment in the particular case,
- be characterised by openness,
- result in a diagnosis as well as a proposal for how the system and the capacity for PFM could be developed and/or strengthened.

There are a number of different tools for analysis and/or diagnosis of PFM, some of which are being further developed (see Annex 2). Sida has commissioned a study which provides an overview of some of the tools, their areas of applicability and the process of using them⁴. The choice of diagnostic tool depends on how broad an analysis is required in a specific situation. Until now the CFAA (Country Financial Accountability Assessment), in combination with the PER (Public Expenditure Review) and the CPAR (Country Procurement Assessment Review) have primarily been used for analysis and diagnosis.

Within the framework of the PEFA⁵ programme, as well as within OECD/DAC,⁶ work is going on to develop a comprehensive approach to support reforms in PFM. As a part of this work a new analytical tool, a Framework for Measurement of Performance in Public Financial Management (FMPPFM), has been developed and this is now being tested in several partner countries. This tool is based on the principles of national ownership and leadership, harmonised and joint analytical/diagnostic work, and a dynamic development-oriented view of assessment of PFM and capacity development. The World Bank has already decided no longer to require CFAAs, PERs and CPARs and instead use the new tool.

Sida should actively support and advocate the approach for analysis and diagnosis on which the FMPPFM is based. It will, however, take time before this tool replaces the other existing tools. Meanwhile, Sida should primarily use CFAA, PER and CPAR.

c) Sida's assessment

Sida shall make a comprehensive assessment of PFM at national level, normally as part of the cooperation strategy process. Guidelines for this assessment are provided in the new policy for cooperation strategies⁷. As part of preparing annual

⁴ Crown Agents' "Financial Management Issues for Program Support Methodologies" – Working paper no 3 of the document series of the project team on programme support

⁵ Supporting better country PFM systems – Towards a strengthened approach to supporting PFM reform, (www.pefa.org)

⁶ See Annex 1

⁷ Guidelines for budget support. Annex to Guidelines for Cooperation Strategies

country plans and when preparing programme and project support, the assessment of systems and capacity for PFM should be updated. An updated assessment made in one preparatory process may be used in another preparatory process. This requires good internal coordination when the assessment is made.

Analysis and diagnosis of the system and capacity for PFM of a partner country may be made by others but the *final assessment* – which may imply that Sida shares the assessment made by another development partner – *must always be done by Sida itself*.

The assessment should be the result of a balanced weighing of the actual status of PFM and the relative development trend of systems and capacity for PFM.

Sida's assessment of the *actual status* of PFM should essentially be directed towards the areas listed in Annex 3. Additional guidance is provided in the working paper "PEFA Public Financial Management Performance Measurement Framework" which describes the draft framework for assessment that has been developed by the PEFA programme⁸.

The *relative trend* is assessed on the basis of the actual development over time and whether or not there is an action plan or a reform programme that is credible, relevant and sustainable, owned and led by the partner country, enjoying political support, that includes capacitybuilding and that generates tangible results.

An analysis of corruption risks shall always be included in Sida's assessment. In assessing the risks of corruption existing analyses, studies and data should be used. Such information is available in Anti-corruption Surveys and Institutional and Governance Reviews made by the World Bank and in reports by Transparency International. CPAR, CFAA and PER may also provide information for assessing corruption and corruption risks. Sida's manual on applying the anti-corruption rule provides guidance for assessing corruption risks⁹. Additional guidance can be found on the homepage of the U4 Utstein Anti-corruption Resource Centre¹⁰.

⁸ www.pefa.org and working paper "PEFA Public Financial Management Performance Measurement Framework"

⁹ See "Manual on Sida's Anti-corruption rule, December, 2004"

¹⁰ <http://partner.u4.no>

In addition, an assessment of the institutional capacity (human resources, competence, willingness to change, organisation, institutions etc.) shall always be included in the overall assessment of the five areas listed in annex 3. The assessment shall furthermore be characterised by a rights approach and a pro-poor perspective. In this context it is important to consider how the design of the PFM systems meets the needs at sector level and/or local level to enable sectors and/or local levels to perform their service functions effectively for the benefit of the poor; and to facilitate democratic governance through participation, openness, transparency and control. The assessment should be made at national as well as at regional and local levels.

d) Channelling of Sida funds through the PFM system of partner countries

The basic principle for channelling funds to projects and programmes is that the PFM system of the partner country should be used as far as possible, as this in itself contributes to the strengthening of the system. As a minimum Sida funds shall always be integrated with, and be reflected in, the planning and budgeting process of the partner country (on-planning and on-budget).

Based on the analysis (discussed above) an assessment shall be made whether or not Sida can /shall use the national systems for:

- Procurement,
- Payments, and if not, still use the systems for,
- Accounting,
- Control (internal and external audit),
- Reporting and monitoring.

As a first step in this assessment Sida shall make an assessment of fiduciary risks from a Sida perspective (Sida's control responsibility) of channelling funds through the PFM system of the partner country. Risk assessments made by other development partners may very well be used. The risk assessment should be based on the results of the analysis of the actual status of the PFM system and the relative development trend of the system (see 2.c above). Sida's control responsibility implies that Sida should make sure that Swedish funds do not

disappear, that the funds become revenue for the partner country, that the funds are used for the right purpose, contribute to desired results and are clearly accounted for.

In the next step of the assessment, the fiduciary risks, including Sida's control responsibility, should be weighed against the potential development outcomes. Development outcomes are the positive results that are expected to be achieved when Sida integrates and channels its funds through the PFM systems of the partner country. These outcomes may appear as increased national ownership, improved possibilities for dialogue, improved donor harmonisation, improved democratic accountability, improved implementation of poverty reduction strategies and improvement/reform of the PFM system.

The fiduciary risks should primarily be handled by including measures to minimise risks in the specific support programme and by follow up of critical risk areas.

The comprehensive assessment may lead to the conclusion that the fiduciary risks are too big in spite of on-going improvements in PFM and in spite of the potential positive development outcomes of utilising the PFM system of the partner country. *The prerequisites for budget support are hardly met in such a case. The consequence for sector programme and project support is that Sida should administer such support completely or partly outside the PFM systems of the partner country.*

It is *important* to note that in most cases it is not a question of “all or nothing” when conclusions are drawn concerning whether or not to use the national PFM system. It is, for example, quite possible, regardless of aid modality, to integrate Sida funds in the national planning and budgeting system, or to use the national procurement system without channelling funds through the national payment system.

It is also important to note that fiduciary risks are not necessarily eliminated by not choosing the national PFM system. Such risks also exist when various project-specific bypass solutions are used. Experience shows that the use of separate systems usually improves the possibilities for control and risk reduction in the short term, but that the use of such systems does not improve and may even undermine control and risk management in the long term.

3. Support for strengthening PFM systems and capacity of partner countries

The PFM systems and capacity of partner countries are placed in focus for reasons mentioned in the previous two sections. Their quality and development trends are, together with other factors, critical for the possibility of partner countries to effectively implement their poverty reduction strategies and also for the possibility of obtaining programme support. As a consequence, an increasing number of countries will ask for support in this area and more development partners, including the World Bank and the IMF, will be prepared and willing to provide support in order to strengthen systems and capacity in partner countries. Donor coordination, harmonisation and cooperation with the World Bank and the IMF are therefore very important.

Sida's support for, and activities concerning systems and capacity development should increase over time, both in terms of volume and number of support activities. A programmatic approach in the form of broadly designed support (together with other development partners) should be advocated by Sida. Countries where Sida is engaged in programme support or where such support is planned should have priority. The basic principles and guidelines for capacity development are explained in Sida's own policy and guidelines for capacity development¹¹, in OECD/DAC's new guidelines¹² and in the Norwe-

¹¹ Sida's Policy for Capacity Development (Sida intranet)

¹² OECD/DAC Good Practice Paper on Capacity Development in PFM and Good Practice Paper on Procurement Capacity Development (www.oecd.org)

gian/Swedish study of capacity development in PFM¹³. An important principle is to try to hold back the development of systems that may be too sophisticated in relation to the capacity of the partner countries. Step by step improvements should be supported. The focus should be on attempts to bring order into basic PFM functions. National ownership and leadership are fundamental.

In cases when a partner country asks for specific Swedish experience and competence it should be noted that Sida has a long and broad experience of support, especially for improving the budget process, accounting, auditing (internal and external) and taxation. In these areas a professional and experienced Swedish resource base is available. These areas should therefore be given priority, especially as regards interventions that aim at capacity-, organisational- and management development, and development of “rules-of-the-game”. It is important to advocate increased support in the field of taxation as a growing inflow of financial resources through programme support may lead to a weaker engagement by the partner countries for internal resource mobilisation. This in turn may increase aid dependence.

Interventions should be planned and implemented in a way that strengthens publicity, democratic participation and control. This can be done by emphasising transparency and the principle of freedom of, and access to information, and by supporting the link to parliamentary work. It can also be done by building knowledge and capacity in non governmental organisations and media that facilitates scrutiny of and open dialogue about such matters as the state budget, accounting reports, annual accounts and audit reports.

With a poverty perspective in development cooperation it is particularly important that interventions are planned and implemented from the point of view of sectors and the production of welfare services. In developing PFM systems the needs of sector and local institutions should be taken into account so that the systems facilitate their ability to fulfil their service obligations.

It is important that Sida in supporting capacity development in the PFM field carefully observes the consequences of the HIV/Aids epidemic.

¹³ Best Practice in Capacity Building in Public Financial Management in Africa – Experiences of Norad and Sida (2002)

The support to regional and professional organisations/ networks and training institutions as well as the support to non-governmental organisations active in the PFM field should increase.

Together with like-minded development partners Sida should attempt to influence multi-donor support programmes for PFM reform along the lines drawn up in Sida's policy for capacity development, OECD/DAC's guidelines and the conclusions drawn by the Norwegian/Swedish study.

Interventions may be directed at the central state level concerning the national systems, but may also be directed towards regional/provincial and local levels. Regardless of the level chosen, the linkages between the levels have to be clarified.

Support for PFM may also be provided to sectors. In such cases such support is usually a component of a larger sector support programme. It is important to relate the work at sector level to the development at national level (Ministry of Finance) in order to achieve necessary coordination and to avoid situations where sectors develop their own systems incompatible with the systems at national level.

4. Development of international norms and methods and cooperation with others in PFM

A large number of international initiatives have been taken to develop norms and methods for reform and strengthening of PFM, primarily linked to programme support. There are many opportunities to influence the development and to cooperate with others in this work. Sida should work according to the following policy guidelines:

Sida should

- Actively participate in and influence the work to develop norms and methods that is going on within the framework of OECD/DAC's "Working Party on Aid Effectiveness and Donor Practices", especially the working groups on harmonisation adjustment, PFM, procurement and measuring of results (influence and learning).
- Strengthen its cooperation with the PEFA partnership (Public Expenditure and Financial Accountability, PEFA) that aims to develop diagnostic tools for PFM as well as a new approach to capacity development (support, influence and learning¹⁴).
- Cooperate closely with the World Bank and the special working group which the multilateral banks have created for "Financial Management and Accountability" (cooperation, learning and influence).

¹⁴ The partners are the World Bank, IMF, SPA, DFID, Norway, France and Switzerland.

- Start a closer collaboration – primarily with the Nordic countries, the Netherlands, the United Kingdom and the European Commission to jointly influence international policy and methods development, and to deal with issues concerning capacity development, education and guidelines/methods. The collaboration should take place between headquarters as well as in partner countries (collaboration, influence and learning).

It is important for Sida to strengthen its internal learning and its exchange with other actors who participate in related international initiatives and activities. SPA, the Strategic Partnership for Africa (budget support and sector programme support), the Nordic+ group (harmonisation, anti-corruption, capacity building) and Utstein 4 (anti-corruption) may be mentioned as examples.

Assessment of PFM and support to capacity development in this field is, and will increasingly be, provided in a coordinated way by the development partners. Sida shall actively participate in this work, both internationally and at country level. Sida is increasingly invited to participate in different country-specific diagnostic studies such as “Public Expenditure Reviews” (PER), “Country Financial Accountability Assessments” (CFAA), “Public Expenditure Tracking Surveys” (PETS) and PEFA assessments, which are normally led by the World Bank. It is important to participate, locally and/or centrally, in these missions in order on the one hand, to learn about the PFM of these countries (and the application of the analytical tools), and on the other hand, to seek to influence the conditions that are set for the partner countries as a result of diagnostic work and assessments.

Annex 1

References:

OECD/DAC Guidelines on Harmonising Donor Practices and Effective Aid Delivery (www.oecd.org)

OECD/DAC Good Practice Paper on Measuring Performance in Financial Management (www.oecd.org)

OECD/DAC Good Practice Paper on Financial Reporting and Audits (www.oecd.org)

OECD/DAC Good Practice Paper on Monitoring and Reporting on non-Financial Aspects (www.oecd.org)

Supporting better country PFM systems – Towards a strengthened approach to supporting PFM reform (www.pefa.org)

www.worldbank.org

www.imf.org

www.partner.u4.no

Financial Management Issues for Programme Support Methodologies, Crown Agents (Sida Intranet)

Sida's Policy for Capacity Development (Sida Intranet)

Best Practice in Building Capacity in Public Financial Management in Africa, The experiences of Norad and Sida (Sida Intranet)

Slutrapport från Programstödsgruppen (Sida Intranet)

Sida's Policy for Sector Programme Support (Sida Intranet)

Rapport om Programstöd och finansiell styrning (Sida Intranet)

Programme Support and Public Financial Management – A new Role for Bilateral Donors (Sida Intranet)

Accountability and Risk Management under Programme-Based Approaches (Sida Intranet)

Manual to Sida's Anticorruption Regulation, December 2004, Sida/POM (Sida Intranet)

Annex 2

Diagnostic and other instruments

Country Financial Accountability Assessment, CFAA (World Bank)

CFAAs are a diagnostic tool designed to enhance knowledge of public financial management and accountability arrangements in client countries and to identify strengths and weaknesses in country PFM systems. It is designed to facilitate a common understanding of the performance of the institutions responsible for managing the country's public finances. It helps to identify priorities for action and capacity building. It is mainly a fiduciary risk diagnostic. It covers the areas of budget formulation, budget execution, monitoring and reporting, and audit and oversight.

Public Expenditure Review, PER (World Bank)

A PER is used as a major vehicle for analyzing public sector issues in general and public expenditure issues in particular. It is potentially broad in scope. Macro PERs analyse the recipient country's fiscal position, its expenditure policies – in particular the extent to which they are pro-poor – and its public expenditure management systems. They normally cover the areas of policy and expenditure analysis, budget formulation, budget execution and monitoring and reporting. Topics include analysis and projection of revenue, determination of the level and composition of public spending, inter- and intra-sectoral

analysis, financial and non-financial public sector enterprises, structure of governance, and the functioning and efficacy of public institutions. Sector PERs analyze the country's development problems, existing policies, expenditure priorities and management and public institutions.

Country Procurement Assessment Review, CPAR (World Bank)

The primary purposes of CPARs are to (i) provide a comprehensive analysis of the country's public sector procurement system, including the existing legal framework, organizational responsibilities and control and oversight capabilities, present procedures and practices, and how well these work in practice; (ii) undertake a general assessment of the institutional, organizational and other risks associated with the procurement process, including identification of procurement practices unacceptable for use in Bank-financed projects; (iii) develop a prioritized action plan to bring about institutional improvements, and (iv) assess the competitiveness and performance of local private industry with regard to participation in public procurement, and the adequacy of commercial practices that relate to public procurement..

HIPC Expenditure Tracking Assessments (World Bank and IMF)

These assess the ability of the public financial management systems in highly indebted poor countries (HIPC)s to track poverty-reducing expenditures, using fifteen core public financial management indicators, each with a set of benchmarks. They look at the entire public expenditure management system and identify core elements that need to be in place to assure the system can reasonably plan, execute and report on public spending. They normally cover the areas of budget formulation, budget execution, monitoring and reporting and audit and oversight.

Reports on Observance of Standards and Codes, ROSC (World Bank and IMF)

The Review of Accounting and Auditing Standards and Practices is a module of the ROSC with the objectives of (i) assess the comparability of national accounting and auditing standards with international accounting standards (IAS) and international standards on auditing (ISA), respectively; and the degree to

which public interest entities comply with established standards in the country, and (ii) assist the country in developing and implementing a country action plan for improving the institutional framework, which underpins corporate financial reporting regime in the country. The World Bank has taken the lead for this module. *The Fiscal Transparency Review* is a module of the Reports on Observance of Standards and Codes (ROSC). It uses the Code of Good Practices on Fiscal Transparency adopted by the IMF in 2001 to review the quality of fiscal transparency (IMF).

Diagnostic Study of Accounting and Auditing (Asian Development Bank)

These examine financial management and governance practices in the public and private sectors of borrower countries.

EC Public Financial Management Audit and Assessment

Consists of (i) a desk review of the existing public financial management work, (ii) a compliance test to provide empirical evidence of the PFM performance, (iii) a review of existing government and donor action plans for strengthening PFM and (iv) establishment of performance. It covers the areas of budget execution, monitoring and reporting, audit and oversight and compliance test.

Country Assessment in Accountability and Transparency, CONTACT (UNDP)

CONTACT is a toolkit to assist governments and consultants in conducting missions to assess public financial accountability systems. It consists of a set of generic and comprehensive guidelines to assist governments in conducting a self-assessment of the strengths, weaknesses, needs and priorities of their country's total or identifiable components of its financial accountability and integrity improvement systems and processes. It covers the areas of accountability, transparency and integrity in the context of governance, accounting infrastructure, information management, expenditure planning and budgeting, internal control and auditing, financial reporting, external auditing, revenue administration, debt management, project and foreign aid management, procurement and assets management, corruption and public sector cash management.

Institutional Governance Review, IGR (World Bank)

IGRs are a family of diagnostic instruments designed to bring a greater focus on and understanding of governance arrangements in the public sector and their link to public sector performance. Some common characteristics of IGRs is a focus on institutional performance and its governance underpinnings; the use of empirical methods to benchmarks and understand institutional realities in the country concerned; and the application of these findings to help shape feasible and effective programmes of institution building for countries. They relate to the CFAA in its diagnosis of the shortcomings of formal PFM systems that are due to inadequate capacity, incentives and signals. They cover the entire chain of areas, from policy and expenditure analysis, budget formulation to institutional analysis.

PFM Performance Measurement Framework (PEFA, OECD/DAC)

OECD/DAC has developed a basic framework for measurement of PFM performance. This basis framework is currently being expanded and developed by the PEFA programme, hosted at the World Bank. The elaborated framework will provide a country-focused, strategic, collaborative and integrated approach to assessing and reforming countries' public expenditure management systems. It will identify performance indicators to address developmental and fiduciary objectives. It will measure PFM performance incorporating systems of fiscal and debt management, budget formulation, budget execution, internal controls, procurement, accounting and reporting, auditing, transparency and external scrutiny. It will draw upon a number of indicators and benchmarks.

Some bilateral donors have or are in the process of developing their own instruments or guidelines for assessment of public financial management systems and capacity. An example is *DFID's Assessments of Fiduciary Risks*. Its goal is to ascertain whether it is reasonable to expect that DFID resources will be used for their intended purposes, accounted for properly, and represent value for money. The assessment generally relies on World Bank and IMF information, including PERs, CFAAs and other documents. A fiduciary risk assessment must be completed before DFID provides budget support.

Annex 3

Examples of essential areas for Sida's assessment of the actual status of PFM systems and capacity of partner countries¹⁵

The budget process and the budget:

- how the budget process is conducted and the budget formulated, including institutional framework and democratic control, participation and control of the budget process and the budget;
- what is on-budget and off-budget, and how aid is included in the budget;
- classification of revenues and expenditures;
- if the budget clearly reflects poverty related expenditures;
- if and how the budget reflects gender and environmental concerns;
- how revenues are secured through taxes and fees;
- the consistency between the macro-economic framework, overall policies and strategies, especially PRSP and MTEF and the annual budget with its sector allocations;
- how the budget is executed in practice and how responsibility and authority for execution is distributed;
- how transparency, influence, and publicity are secured.

¹⁵ See also www.pefa.org

Payment system and the “treasury function”

- how cash flows between the central bank, ministry of finance and spending agencies;
- on which basis payments are made;
- how reconciliation and internal control of cash flow are done
- if funds are reaching the right user and being used for the right purpose.

Procurement¹⁶

- institutional framework; transparency; openness; capacity; function. According to Sida rules for assessment of the partner country’s capability to procure should be made. Available material from a conducted CPAR should be used.

Accounting

- how revenues and expenditures are reported and published;
- choice of accounting standard, -system and -organisation;
- availability of a complete set of financial and economic data;
- financial reporting based on standards and system;
- accumulated disbursements at year end;
- actuals (revenues and expenditures) compared to budget

Auditing (internal and external)

- organisation for implementation and reporting of audits;
- responsibility for auditing;
- type of audit and quality;
- measures taken as result of audits;
- reporting to parliament, publicity

¹⁶ See Sida Rules on Procurement (intranet) and the following OECD/DAC documents which provide good guidance for assessment and dialogue concerning system and capacity for procurement (www.oecd.org):

- Joint procurement policy
- Mainstreaming and Strengthening Public Procurement
- A Strategic Framework
- Good Practice Paper on Procurement Capacity Building
- Baseline Indicators System (BIS) for Procurement

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



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