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DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

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Working Party on Aid Effectiveness and Donor Practices

DRAFT SUMMARY OF THE SIXTH MEETING OF THE JOINT VENTURE ON PUBLIC FINANCIAL MANAGEMENT

Held in Paris on 29-30 June 2006

This draft summary is submitted FOR APPROVAL at the next meeting of the Joint Venture on Public Financial Management on 18-19 December 2006.

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JOINT VENTURE ON PUBLIC FINANCIAL MANAGEMENT

Item 1: Adoption of the agenda

1. The Co-Chairs (Gilles Hervio and Omowunmi Ladipo) welcomed participants to the sixth meeting of the Joint Venture on Public Financial Management and observed a strong participation from partner countries (Afghanistan, Bangladesh, Burkina Faso, Madagascar, Nigeria & South Africa).
2. The Director of the OECD Development Cooperation Directorate (Michael Roeskau) thanked the outgoing chairs (Gilles Hervio and Omowunmi Ladipo) for their outstanding achievements. He also welcomed the two new co-chairs of the Joint Venture; **Anthony Hegarty** is to replace Omowunmi Ladipo as the co-chair for the World Bank, and **Riccardo Maggi** is to replace Gilles Hervio as the co-chair for the European Commission. Members adopted the agenda of the current meeting.

Item 2: Adoption of the summary record

3. The summary of the last meeting of the Joint Venture [DCD/DAC/EFF/M(2006)4/PROV] was adopted.

Item 3: PEFA performance measurement framework

4. The PEFA¹ Secretariat (Frans Ronsholt) provided information on the training that the PEFA Secretariat had provided to members of the Joint Venture on the previous day (28 June 2006). This was followed by a presentation on the early experience from application of the PFM performance measurement framework in more than 23 countries (an additional 17 countries are currently underway).
5. Members expressed broad support for the on-going process, but they also flagged the following issues:
 - The importance of meeting one of PEFA's objectives: reducing the volume of duplicative diagnostic work in the area of PFM.
 - The value of greater dissemination, especially with regard to partner country governments, as a way of ensuring a greater impact.
 - The need to have convenient access to the country PFM reports and a list of consultants with appropriate expertise to undertake PFM performance measurements.
6. In concluding this agenda item it was agreed that further attention was needed to making the PEFA framework **credible as a tool for measuring performance in PFM and providing a sound basis for country-led reforms**.

Item 4: General budget support evaluation

7. **Stephen Lister** (Consultant) presented members with a summary of the key findings of the OECD-DAC Evaluation of General Budget Support. The main focus of the presentation was on the

¹ Public Expenditure and Financial Accountability Programme (PEFA).

implications of the evaluation on the Good Practice Paper on budget support that was developed by the Joint Venture. The evaluation broadly endorsed the Good Practice Paper and recommended following its general principles and good practices. However, it also highlighted a number of areas where additional work might be required. This included addressing in more depth the following key issues:

- Long-term predictability of aid flows.
- Effective management of governance issues when providing budget support.
- Potential confusion between modalities for providing budget support at the sector level and the macro level.
- Additional attention to supporting PFM reforms.

8. Members welcomed the broad support of the Good Practice Paper provided by the evaluation. In concluding this agenda item the co-chair also noted that out of the 4 issues flagged by the evaluation only the last one — supporting PFM reforms — fell clearly within the remit of the Joint Venture and is already being addressed (agenda item 6).

Item 5: Benchmarking country procurement systems

9. **The World Bank** (Pamela Bigart) and the **OECD Secretariat** (Micheal Lawrance) updated members on work underway in the Joint Venture on Procurement on establishing a framework for benchmarking country procurement systems.

10. Members welcomed the efforts made by the Joint Venture on Procurement in this area and noted the need to ensure consistency between the PFM performance measurement framework and the Procurement benchmarking framework. The following concerns were raised by members with regard to the proposed benchmarking methodology:

- Severity of scoring and complexity of the assessment methodology (55 Indicators).
- Consistency with areas that overlap with financial management.
- Concerns around the validation of scoring and how it could be conciliated with self-assessments.
- Potential confusion around conflicting objectives: setting sound procurement standards on one hand, and measuring performance on the other hand.

11. It was agreed that the JV-PFM and the JV-Proc. would continue actively working together through regular exchanges of information, joint meetings of the chairs and cross participation in meetings. The Joint Venture also asked to be directly involved at the technical level for discussions concerning those procurement indicators which touch upon more general aspects of a PFM system (such as, for instance, internal control). The fundamental aim should be to ensure technical coherence in monitoring frameworks and in the Joint Venture's contributions to the indicators of progress for the monitoring of the Paris Declaration.

Item 6: Good Practice in PFM reforms

12. The **United Kingdom** (Stephen Sharples) introduced this agenda item with a frank presentation of its experience in supporting 5 PFM reform processes undertaken in Ghana since 1993. Key lessons and findings were confronted with the good practices on capacity development in PFM drafted by the Joint Venture. This highlighted the importance but also the difficulties of some basic tenets such as country ownership, proper sequencing, a holistic approach and the need to match solution to country specific circumstances. The presentation also identified the following four areas that might warrant additional attention:

- Integrated Financial Management Information Systems (IFMIS) and more generally the introduction of IT systems.
- Addressing incentives issues at domestic levels (ministries, departments, individual) and within donor agencies.
- Addressing challenges brought about by ‘projectisation’ of PFM reforms (e.g. salary supplements to incentivise staff).
- Need to look at PFM reform more from a business case perspective by making, for example, better use of cost/benefit analyses.

13. In line with the critical and focused spirit of the Ghana presentation, the Joint Venture decided that its ambition would be to foster activities that help to **move from good practice papers to good practices**. The Joint Venture would therefore: (i) seek to identify the obstacles that hamper the adoption of good practices and the conditions facilitating their implementation in specific cases, and; (ii) disseminate the lesson learnt through a variety of channels. To achieve this goal the Joint Venture decided to adopt a three pronged approach:

- Case study analyses of PFM reforms in a small set of operational areas (e.g. IFMIS, VAT reforms, donor incentives etc.)
- Fact-finding country missions designed to probe challenges in implementing PFM reform.
- Organisation of a regional workshop addressing challenges in implementing PFM reforms in specific areas yet to be defined. Lessons learnt might then feed into a publication.

14. In order to take this forward, the Co-Chairs invited members to submit proposals by **1 September 2006**. In particular members were asked to identify a small set of operational areas that would help focus discussions at the next meeting of the Joint Venture.

Item 7: IPSAS accounting standards (ED 24)

15. The Co-Chair (Omowunmi Ladipo) briefed members on IPSAS-Board’s decision to develop a revised Exposure Draft on “Financial Reporting Under the Cash Basis of Accounting — Disclosure Requirements for Recipients of External Assistance” (ED 24). The Chair presented an overview of the main changes made to ED 24 and noted that the IPSAS-Board was seeking guidance on the following key issues:

- Q1 Is the suggested list of mandatory disclosure requirements appropriate? Are there any particular items that should be added or removed?

- Q2 Should a separate IPSAS be issued or the cash basis IPSAS amended to include the mandatory and recommended disclosures in connection with External Assistance?
- Q3 Should mandatory disclosures be made on the face of the statement or by note to the financial statements?
- Q4 If the disclosures are to be incorporated into the cash basis IPSAS, should the updated IPSAS be issued now or in 2007 when it is due to be reviewed as part of IPSAS Board's ongoing programme of work?
- Q5 Were the proposals made for field-testing in Namibia appropriate? Or should IPSAS seek to field-test ED 24 in more countries with support from the Joint Venture?

16. Members welcomed the initiative taken by the IPSAS-Board to simplify ED 24 and seek to reduce the cost of compliance for recipients of aid. It was agreed that the Joint Venture would mandate **Anthony Hegarty** — the new Co-Chair of the Joint Venture — to make the following proposals at the next meeting of the **IPSAS-Board on 3 July 2006**:

- Q1 Disclosure of rescheduled or cancelled external assistance debt should be required rather than encouraged (ED 24 para. 50). Subject to conclusive results of field-testing two other disclosure requirements might also be made mandatory: (i) Disclosure of the details of terms and conditions of external assistance loans and grants (ED 24, paras. 26, 27 & 28); (ii) Disclosure of instances of non-compliance (ED 24 para. 36).
- Q2 The Cash basis should be amended to include disclosure requirements and encouragements.
- Q3 Mandatory disclosures should be made by note to the financial statements.
- Q4 Cash Basis IPSAS should be updated for ED 24 disclosures and issued now rather than in 2007.
- Q5 The Joint Venture encourages the IPSAS-Board to field-test the IPSAS in a broader range of countries including francophone countries. **Nigeria** (Mr. Dankwambe) volunteered for the field-testing and two francophone countries (**Burkina Faso & Madagascar**) were currently considering the option — both countries agreed to inform the Chairs of their decision by **1 September 2006**.

Item 8: Survey on Monitoring the Paris Declaration

17. The OECD Secretariat briefed members on on-going work on the aid effectiveness indicators agreed in Paris. It was decided that the Joint Venture was ready to support the elaboration of the report on the *2006 Baseline Survey on Monitoring the Paris Declaration* by providing additional guidance and expertise for the analysis of the Survey results for the relevant indicators.

Item 9: Website on training in PFM

18. The **Netherlands** (Henk van Trigt) introduced the agenda on joint training and sharing information on training. It was noted that the OECD Secretariat had established a dedicated website for the JV-PFM. Members suggested that additional thought was needed on: (i) what use would be made of the website and (ii) what kind of documents should be posted. In the meantime, it was agreed that best use of this website would be made in order to share information on training initiatives and events. To this end,

members of the Joint Venture were invited to send the OECD Secretariat by **1 September 2006** a list of useful hyperlinks that could be included on the current website.

Item 10: Next steps and other business

19. The Co-chairs presented the case for strengthening linkages with three other related processes:

- The *Collaborative African Budget Reform Initiative (CABRI)* — Members also agreed that there would be considerable value for the Joint Venture in engaging closer relationships with CABRI and that other opportunities for closer exchanges with professional networks such as public sector accountants should be sought out in the future.
- The *Development Nations Committee (DNC)* of the IPSAS-Board — It was agreed that the DNC would be invited to attend the next meeting in order to better inform members of its activities
- The *Harmonisation of Overseas Audit Practices (HOAP)* — Members felt that the activities of HOAP did not fall within the remit of the Joint Venture.

20. It was suggested that the next meeting of the Joint Venture would be held before the end of this year.

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