



Schweizerische Eidgenossenschaft
Confédération suisse
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State Secretariat for Economic Affairs SECO

Swiss Confederation

Diagnostic and Monitoring of PFM Performance – The Swiss Experience

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SECO's Strategic Orientation

Economic Cooperation Goal

Integration of Partner Countries in the Global Economy and Strengthening of Sustainable Growth

WEMU Areas of Intervention

Macro-economic and Financial Framework Conditions

Operational Focus und Action Lines

Stable and sustainable public finances

Sound financial infrastructure

Economic & fiscal policy reform. Support to growth-oriented and fiscally sustainable development strategies

Achievement of long-term fiscal stability through effective debt management, debt relief and better tax administration

Strengthening of the financial sector infrastructure and preservation of a stable monetary environment

Cross-cutting Topic: economic governance

- **Instruments:** Technical assistance and capacity building projects, programmatic support (general and sector budget support)
- **Partners:** IFI's (IMF, Worldbank, regional development banks), Swiss academic institutions (IHEID, HSG, HSLU), Swiss Administration

Action Lines I: *Economic and Fiscal Policy Reforms*

1. Macroeconomic Management and Growth-Oriented Policies

Goal: Stable macroeconomic conditions and development policies that contribute to private sector development and sustainable integration of countries into the global economy

2. Public Financial Management Reform

Goal: Effective and transparent management of public finances that supports better economic governance and efficient public expenditures

3. From Debt Relief to Debt Management

Goal: Building capacities in institutions responsible for debt management and achieving a more effective and sustainable debt relief

4. Strengthening Tax Administrations

Goal: adequate and transparent mobilization of national resources, investment friendly tax system and strengthened fiscal federalism

Action Lines II: *Financial Sector Infrastructure & Monetary Framework*

1. Capacity Building for Central Banks

Goal: Monetary policy that supports the development of the banking sector and facilitates anti-cyclical fiscal policy. Efficient and effective regulatory framework conditions and supervisory regimes

2. Development of Financial Sector Infrastructure

Goal: Well functioning payments, securities clearing settlement and training systems, which support financial sector widening and deepening

Why General Budget Support ?

- Evolution of macroeconomic / programmatic support
- The drive to scale up results and the MDG challenge
- Address fungibility – « big picture »
- General budget support and aid effectiveness
 - Focus on results
 - Ownership
 - Alignment
 - Harmonization
 - Mutual accountability (incl. predictability)

How does General Budget Support work ?

- [Pre-conditions](#)
- Policy dialogue and conditionality
- Disbursement mechanisms
- Accompanying technical assistance and institutional strengthening

Current Swiss GBS Programs

Country	Cycle	Total amount (3 years)	# donors / share CH	Chairmanship
Burkina Faso	2008-10	CHF 24 m	9 / 3%	2006
Mozambique	2007-9	CHF 27 m	19 / 2.4%	2005
Tanzania	2007-9	CHF 18 m	14 / 1.0%	2006
Nicaragua	2008-10	CHF 18.5 m	9 / 7.7%	2005 / 2009?
Ghana	2009-11	CHF 27 m	10 / 3.0%	2009
Bénin	2007-9	CHF 4.9 m	7 / 1.0%	---
Vietnam	2009-11	CHF 12 m	8 / 1.7%	---

SECO's involvement in PEFA

- **PEFA partnership:** SC Member overseeing the program (since 2002), secondment to the Secretariat
- **Pilot** PEFA framework (before 2005): Kyrgyzstan
- Supporting the **roll out of the PEFA approach** in selected countries:
 - Leading assessments (Azerbaijan, Tajikistan, Kyrgyzstan 09)
 - Applying PEFA in OECD environment (PEFA assessment of Canton Lucerne)
 - Participating in PEFA Reference Groups at the country level (Benin, Burkina Faso, Ghana, Nicaragua, Mozambique, Tanzania, Peru)
 - Facilitating PEFA training for government/donors (Mozambique, Tanzania)
 - Supporting the use PEFA as a benchmarking instrument through regional/global initiatives (PEM-PAL, [SAFE](#))

Rationale for Engaging in PEFA

- **Sustainable and effective finances** a core SECO mandate: one of the pillars contributing to framework conditions for growth and economic integration
- **Living up to the Paris commitments:** Country ownership and donor coordination as priorities
- **Less is more:** too many diagnostics and too less *marge de manoeuvre* for partner governments to decide on priorities
- **Standardization and evidence-based:** progress can be tracked over time and scorings can be pretty straight forward, if good quality information is available
- **Fiduciary and developmental accountability:** input for fiduciary risk assessment of GBS operations and entry point for TA projects

PEFA can change the [way of doing business in PFM](#) for government & donors

The Assessment and Beyond

- **Planning the assessment:** coordination, Reference Group, TORs, government, role, publication, PEFA Secretariat, team selection, training?.
- **Conducting the assessment:** data collection, information sharing, quality control, review PEFA Secretariat, expectations management?
- **Post-assessment work:** dissemination, discussion of findings, reform priorities, reform design, monitoring & evaluation, division of labor, donor alignment and coordination?
- **Repeating the assessment:** absorption capacity, time lag, government ownership, building capacity, training again, tracking progress?



Good Practice Note issued by PEFA an imperative lecture, not only for PEFA partners!

As a Matter of Example

- **Peru:**
 - MIC environment
 - few donors, incipient coordination
 - Government starting to take the lead
- **Vietnam:**
 - to-be-MIC
 - Many donors, too much coordination?
 - Government with reservations about PEFA (reputation risk?)
- **Kyrgyzstan:**
 - LIC, relatively high aid dependency
 - many donors, recent coordination
 - Repeated assessment just finished, progress?

Assessment Canton of Lucerne: PEFA in OECD Environment (I)

Methodology: First application of revised guidelines of PEFA PMF at subnational level.





Scope: External assessment of 28 plus one (HLG-1) Performance indicators.
Reference period: 2005 – 2007

Lucerne: one out of 26 cantons, high degree of fiscal autonomy, Inter governmental finance system with clear division of responsibilities, horizontal and vertical equalization transfers

Results: Budget credibility: 3A, 1B+
Comprehensiveness and transparency: 2A, 3B, 1C+
Policy-based budgeting: 1A, +B
Predictability and control in budget execution: 3A, 2B, 1B+, 2C+
Accounting, recording and reporting: 1A, 1B, 1C+, 1D+
External scrutiny: 1A, 1B+

Assessment Canton of Lucerne: PEFA in OECD Environment (II)

Lessons learned:

-  PEFA methodology for the sub-national level well applicable in a federal state like Switzerland
-  Some of the unfavourable ratings are due more to the high level of decentralized governance than on poor performance
-  Highly decentralised PFM systems put emphasis on self-control and self reliance (NPM), more attention given to results than to centralized micro management
-  Top down control is less pronounced, but balanced by more transparency on output and outcome results



PEFA methodology may need in the future to take into account models with strong fiscal decentralisation and NPM approach

To Conclude

- PEFA is Switzerland's preferred tool for diagnostic and monitoring in PFM
- Switzerland is committed to follow the good practices in the application of the tool
- All development partners are encouraged to support PEFA and engage at the country level in related discussions
- Main challenges:
 - the day after PEFA
 - repeated assessments, repeated results?



Thank you for your attention!





Pre-conditions for GBS

- Commitment towards reforms - quality strategy (process and content)
- Sound macroeconomic policies with sufficient track record
- Allocation of public resources aligned with PRS priorities
- Reform program features public finance management reforms ([PEFA program](#))
- Fundamental underlying principles (rule of law, human rights, democratic rights, fight against corruption, free and fair elections, etc.)

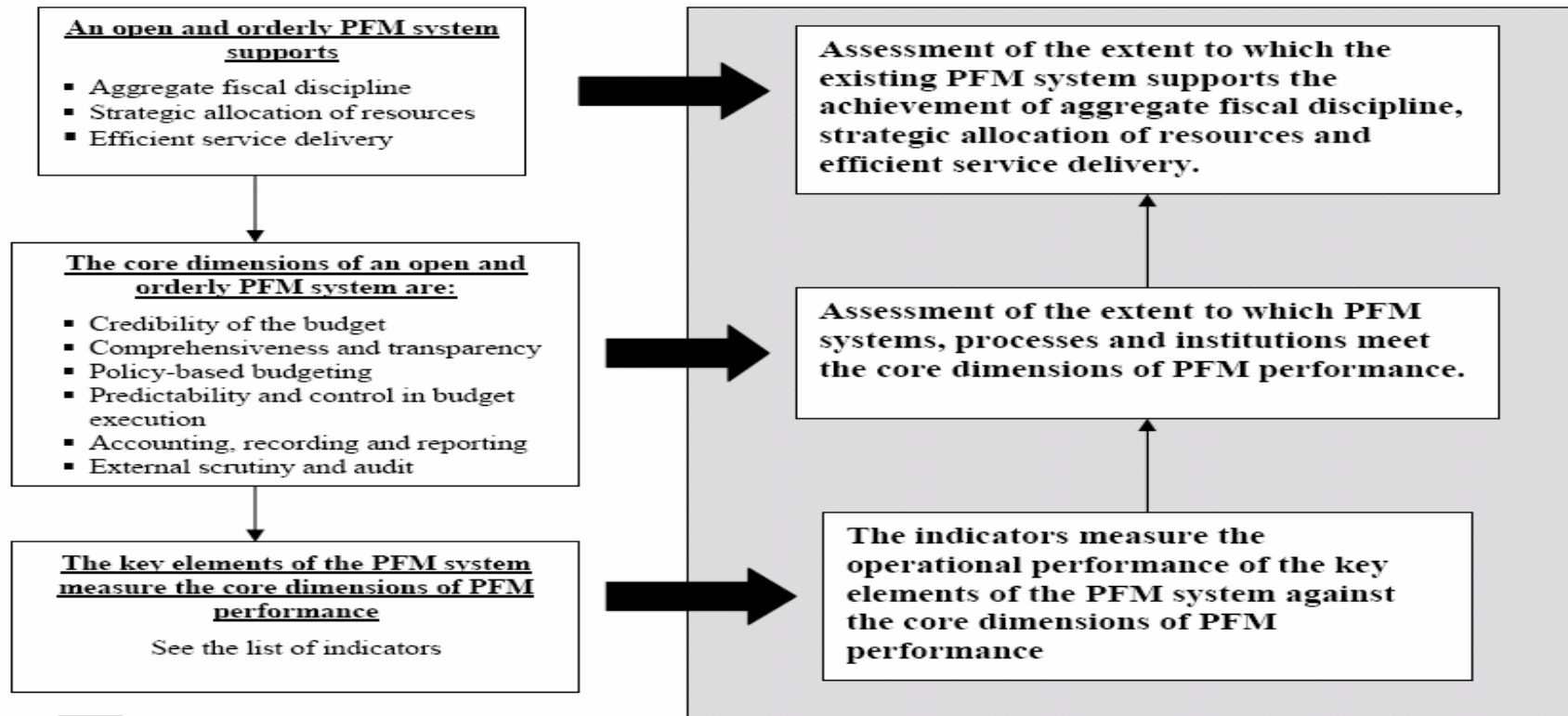




PEFA: Public Expenditure and Fiduciary Assessment

Analytical Framework underpinning the Performance Measurement Framework

The assessment provided by the Performance Measurement Framework



What are the challenges and risks of Budget Support (1) ?

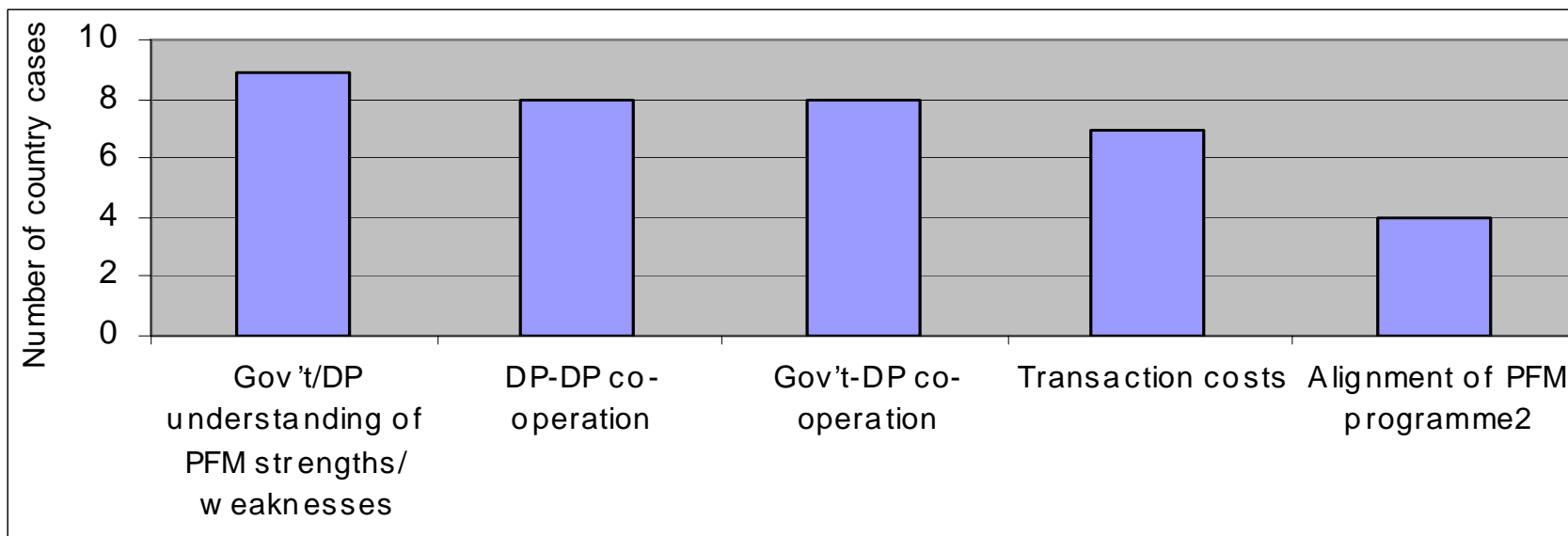
- Aid microeconomics: principal-agent issues and getting the incentives right
- Aid macroeconomics
 - Dutch disease
 - Tax performance / moral hazard
 - Crowding out private investment

What are the challenges and risks of Budget Support (2) ?

- Corruption and fiduciary risk
- Conditionality
- Decentralization
- Accountability: domestic and external
- Methodological challenge of measuring impact:
 - Results on impact : attribution issue
 - Results on outcomes : stronger evidence needed (service delivery



PEFA Impact on Government and Development Partners



Source: Assessing the Impact of the PEFA Framework, Synthesis Report, June 2008





SAFE: Strengthen Accountability and Fiduciary Environment in PFM (ECA)

