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SESSION 2 PAPER

*A ROADMAP FOR STRENGTHENING PUBLIC FINANCE
MANAGEMENT IN FICS*

This briefing paper, compiled by the Forum Secretariat and the Pacific Financial Technical Assistance Centre, draws from the attached report titled *A Roadmap for Strengthening Public Finance Management in FICs*. For discussion.

BRIEFING PAPER

A ROADMAP FOR STRENGTHENING PUBLIC FINANCE MANAGEMENT IN FICS

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Purpose

This briefing paper draws from the attached report titled *A Roadmap for Strengthening Public Finance Management in FICs*, and is tabled for Ministerial discussion and consideration.

Background

2. At the 2009 Forum Economic Ministers' Meeting, Ministers endorsed the need to urgently develop a Roadmap, aimed at progressive strengthening of Forum Island Countries public finance management. The Roadmap is expected to cover expenditure management, revenue, procurement, accountability and monitoring systems, in order to raise the effectiveness of these mechanisms to enhance the delivery of development resources.

3. Ministers directed the Secretariat to work with relevant development partners, particularly the Pacific Financial Technical Assistance Centre (PFTAC), to develop the roadmap in consultation with Forum Island Countries and development partners. A regional workshop on the Cairns Compact on Strengthening Development Coordination in the Pacific, held in November 2009, provided guidance on the scope of key deliverables to be captured in the Roadmap. Further work was undertaken by the Secretariat and PFTAC to improve the Roadmap and subsequently, at the PIC/ Development Partners meeting held in Nadi in June, 2010, delegates discussed progress to-date.

Issues

4. Forum Island Countries (FICs) need to improve their public financial management to encourage growth and reduce poverty. An effective public financial management (PFM) system is essential to the functioning of government. It covers planning, collection, spending, reporting and audit of public monies and involves systems and staff in every agency of government. Governments need a strong PFM system to deliver the macroeconomic stability vital for sustainable growth and to enable efficient and effective service delivery.

5. PFM reforms will allow increased and better quality development partner support. Development partner financial support is more effective when delivered through sound government systems, as recognised by the Cairns Compact, Pacific Principles on Aid Effectiveness, and Paris/Accra Declarations. Improved PFM systems provide development partners the confidence to increasingly channel their assistance through the budget while maintaining accountability to those who provide their funding.

6. Successful PFM reform is a complex, long-term process. It requires ongoing commitment by government, at both political and technical levels, and the application of significant financial, capacity building, and human resources over an extended period of time. There is no one size fits all solution. Reform plans need to be developed executed and monitored at country level taking into account local priorities and constraints. Government leadership is essential and should include commitment to communicating reform objectives, and subsequent outcomes, to the public.

7. FICs should focus on establishing a well-functioning, basic PFM system. It is important to get the basics right across the PFM system before moving too far on advanced reforms in isolated areas. However, it is equally important not to unduly restrain progress where opportunities and political support do exist.

8. A broadly common PFM reform process could improve outcomes and enhance development partner support. The proposed roadmap is a simple focused set of principles and practices applicable across the region. It aims to help countries and partners jointly understand the strengths and weaknesses of PFM systems (the starting point), develop appropriate reform objectives (the destination) and to ensure development partner support is coordinated behind government priorities (the journey).

The starting point: PEFA Assessments every 3-4 years

9. Regular assessments should form the core of FICs reform processes. Periodic - every 3 to 4 years—assessments of the PFM system allow progress against reform objectives to be tracked and priorities to be reassessed. They also provide a basis for productive dialogue with development partners.

10. PEFA assessments require careful implementation and interpretation. The Public Expenditure and Financial Accountability (PEFA) framework is the most widely accepted assessment tool, but it is not comprehensive or infallible. International experience suggests that it is important for the assessment process to be transparent and have strong government ownership and participation. Success is more likely if the assessment and its results are not linked to fulfilling a specific development partner requirement. PEFA assessments do not, however, provide a comprehensive analysis of the PFM system and should be supplemented with other tools and processes as appropriate. In particular, public expenditure reviews, procurement assessments and analytical work undertaken as part of reform projects can enhance PEFA assessments.

The destination: Practical, shared action plans derived from PEFA Assessments.

11. PEFA assessments should be accompanied by an update of governments' PFM reform strategies. An assessment can only contribute to improvements in PFM if the reform process takes account of its findings and development partner support adapts to any resulting changes in priorities. A strategic assessment of reform priorities should therefore be explicitly linked to the PEFA process and updated action plans developed. The assessment needs to be government led, taking into account political and institutional dimensions. Action plans could include explicit targets relating to the anticipated change in PEFA markings, with additional actions that would be designed to enable this objective to be reached. The conclusions also need to be shared by development partners who are supporting the reforms with financial and technical support.

The journey: Dedicated regional PEFA resources and coordinated donor support.

12. Regional support should be made available for regular PEFA assessments. The current ad-hoc process for PEFA assessment could be strengthened by establishing a central point for supporting the PEFA assessment process in the Pacific probably based in the Pacific Financial Technical Assistance Centre (PFTAC). That resource would build and disseminate good practice in Pacific PEFA assessments, coordinate and help execute assessments, including through participation, review and assistance in the development of PFM reform strategies.

13. Regional experience should be utilised wherever possible. In addition to regular discussion at FEMM meetings, regional associations and initiatives could be valuable for sharing lessons learned.

14. Development partners should make every effort to work within countries' reform structures. Action plans should clearly articulate the development partner support and capacity building that is required to achieve their objectives. Development partners should ensure that they can make changes to existing projects to align with new priorities. Development partners should not require or undertake separate monitoring of PFM reform progress. The progress reports that a PFM reform process generates should form the core of joint monitoring. These reports could be presented and discussed amongst peers at the FEMM and annual meetings of the Pacific Islands Financial Managers Association (PIFMA), where relevant alongside other Cairns Compact initiatives.

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