MOVING FORWARD: STORIES FROM THE FIELD

LEVERAGING OTHER DONORS' FINANCIAL ASSESSMENTS

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"USAID could see the progress of our development investment through the public financial management reform strategy's contribution to the ultimate goal of effective and accountable use of public resources as a basis for economic development and poverty eradication."

From June through December 2010, I was assigned to the Government of Rwanda (GOR) under a secondment to participate on a host country assessment team using the Public Expenditure and Financial Accountability (PEFA) framework. The goals of the Public Expenditure and Financial Accountability (PEFA) Program are to strengthen the ability of partner countries and donor agencies to:

1) Assess the condition of a country's public expenditure (how government spends money), procurement (how government buys goods and services) and financial accountability systems; and
2) Develop a practical sequence of reform and capacity-building actions.

The PEFA assessment is used by bilateral and multilateral donors such as the World Bank to assess the financial viability of a government system before partnering with them. USAID uses PEFA results as part of our own thorough risk assessments conducted before we decide to partner with a government. For this reason, USAID Rwanda assigned a direct hire USAID officer to the team of international and local consultants funded by the World Bank and KFW (a German government-owned development bank). As that officer, I found myself at the cusp of the USAID Forward agenda to transform the Agency and reach its full potential to achieve high-impact development.

As part of the Agency's global initiative on Implementation and Procurement Reform – an objective of the USAID *FORWARD* reform agenda, USAID/Rwanda was contemplating the use of host country systems and institutions. This would include capacity building guidance and advice for government ministries. In order for USAID to increase the use of the GOR's financial systems and institutions, we needed to understand more about their capabilities to manage funds directly. Integral to this initiative was an evaluation of Rwanda's public financial management (PFM) system using a PEFA assessment to obtain diagnostic information and knowledge on its quality. The PEFA assessment consists of a set of 28 indicators, broken into six thematic groups that measure the performance of national PFM systems and 3 indicators that measure donor performance. Considered the global assessment standard for public financial management, it's conducted according to an internationally standardized methodology set by the PEFA Secretariat housed in the World Bank in Washington, DC. These indicators focus on transparency, anti-corruption, improved service delivery and the overall condition of government activity. The data are used to inform development support decisions for donors and identify other areas of reform for the Government of Rwanda (GOR).

As a follow-up to the first assessment that took place in Rwanda in 2007, the 2010 assessment provided the GOR and development partners with valuable information on the progress of implementing the reform strategy for the PFM systems across all government institutions. For example, the 2010 assessment showed marked improvement from D to B+ and B respectively in external audit and legislative scrutiny of audit reports. (Audit coverage of the Central Government improved from 50% in the 2007 PEFA to 100% in 2010). Controls in procurement, salary and non-salary expenditure also improved from the 2007 assessment.

FINDINGS FROM THE ASSESSMENT

Aside from its comprehensiveness, the PEFA framework is sophisticated in identifying critical linkages between development assistance and planning – critical for any government to successfully serve its public. The indicators are linked in many ways that enable one to analyze whether specific results are consistent with activities realistically taking place in the field. For example, the PEFA measured how budget allocations were being matched against expenditures related to Rwanda's Economic Development and Poverty Reduction Strategy (EDPRS). This assessment helped us understand the relevant strengths and weaknesses related to the credibility of the budget, its comprehensiveness and transparency, and the budget cycle. The strengths identified include the total expenditure compared to the original approved budget; revenue mobilization; comprehensiveness and predictability in the availability of commited funds; and percentage of central government entities audited by the Supreme Audit Institute. Some weaknesses uncovered were the lack of unreported government operations and the timeliness of in-year reporting. Without consistent official reports, we cannot properly measure real achievements related to development projects. However, there are some reports produced by the Government which did not qualify as official under the framework. Nonetheless, the recent PFM reform strategy continues to address these weaknesses including a focus on planning and budgeting, budget execution, and financial reporting with coordination between the GOR and donors.

At another level, the PEFA assessment enabled us to analyze a sector specific strategy, such as education, and determine linkages between capital expenditures and recurrent expenditures. This practice of mapping funds to where they are spent is critical because it brings to light potential weaknesses in planning. Without these critical linkages, our development efforts could result in building schools without teachers or the disintegration of roads built with no maintenance plans. For Rwanda, the latest PEFA assessment showed that although there is still work to be be done across sectors, for the Ministries of Health and Education, recurrent expenditures included correct estimations of new wages and salary demands and therefore can be properly considered by the Rwanda National Budget Unit (NBU), and later budgeted for. That means that there is assurance that the Rwandan government can support teachers for new schools and doctors for new hospitals when they are built. Integrating data like this into development planning is critical so that trade-offs in public expenditure between capital and recurrent spending are made simultaneously and proactively rather than sequentially as a reactive response to financial obstacles encountered in the development process.

QUICK FACT

To avoid duplicating efforts and wasting tax payer dollars, USAID uses the PEFA assessment results as part of our own thorough risk assessments to determine whether we should partner with a government.

Overall, the 2010 PEFA results indicated a solid move forward over the 2007 PEFA results and reflected the positive efforts that the Government of Rwanda has made in its public financial management reform strategy. Both the government and partners such as USAID could see the progress of our development investment through the public financial management reform strategy's contribution to the ultimate goal of effective and accountable use of public resources as a basis for economic development and poverty eradication.

This story is an example of how USAID is working with host country systems as part of the USAID Forward reform agenda. Forward aims to change the way the Agency does business with new partnerships, an emphasis on innovation and focus on results.