



Preface

Over the past 15 years donors seeking to advance development and abate poverty have placed growing emphasis on the need for effective public expenditure management and financial accountability systems. Numerous trends explain this evolution, including the realization that aid resources are fungible, the shift toward policy-based adjustment lending, the need to strengthen the links between policymaking and budget preparation, and the recognition of corruption's destructive effects. As a result many donors have introduced new diagnostic instruments and reports that describe and assess public expenditure and financial accountability laws, systems, and procedures in countries that receive international aid and technical assistance. These diagnostic instruments contain information on the fiduciary risks facing aid donors and recipients, and are often required by donors before aid is provided. Such information is also valuable to a recipient country as a foundation on which it can craft sustainable reforms in public expenditure and budgeting, and build institutional capacity.

Drawing on a technical mapping of current assessment instruments' coverage, a review of staff guidelines and sample assessment reports, and interviews with experts from donor agencies and recipient governments, this study recommends a new approach to assessing and reforming public expenditure management. This approach has several goals:

- Streamlining instruments to avoid unnecessary duplication and fill gaps in coverage.

- Enhancing collaboration and promoting information-sharing between donors, recipient governments, and other stakeholders.
- Providing more complete, accurate, and timely assessments of fiduciary risk.
- Monitoring improvements in public expenditure management using appropriate indicators and benchmarks.
- Increasing the development impact of public expenditure assessments and reforms.
- Developing a standardized assessment—one that synthesizes information using a common format, including key performance indicators—that is accepted by all donors as a basis for measuring and monitoring fiduciary risk when providing budget support.

Some efforts are already under way to strengthen collaboration on public expenditure work between the World Bank and the International Monetary Fund (IMF), among multilateral development banks, between the Bank and IMF and the European Commission, and between multilateral and bilateral donors. These harmonization efforts—recognized in the February 2003 Rome Declaration on Harmonization—are being supported by organizations such as the OECD’s Development Assistance Committee and the Public Expenditure and Financial Accountability (PEFA) program. Boards of directors of donor organizations, the European Parliament, and the European Court of Audit are also exerting considerable influence.

But such initiatives are only just beginning. Considerable effort will be required to sustain and advance them, supported by changes in operational procedures and incentives in the agencies concerned. In addition, recipient governments must take a stronger leadership role in this work—particularly in developing and implementing strategic action plans to build capacity and manage reform. This report is designed to foster and further such developments, drawing on global experiences to strengthen assessment instruments and improve public expenditure management around the world.