



## PEM PAL BUDGET COMMUNITY OF PRACTICE MEMBERS EXPERIENCE

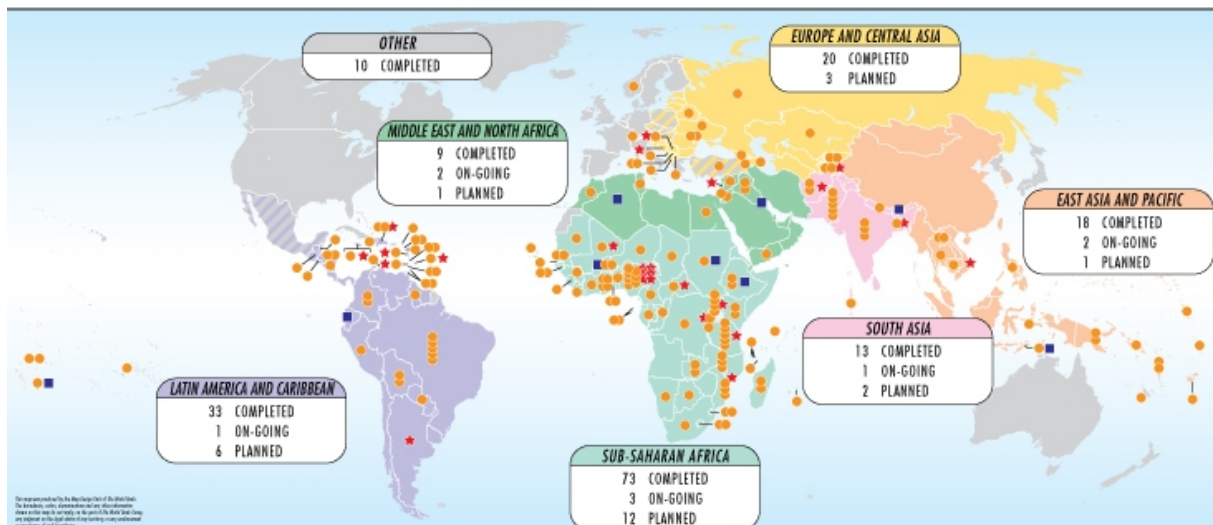
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PEFA Working Group  
August 2008 – April 2009



### PFM ASSESSMENT BASED ON PEFA FRAMEWORK STATUS APRIL 15, 2010

- 176 SUBSTANTIALLY COMPLETED
- 9 ON-GOING BUT REPORT NOT YET RECEIVED
- ★ 25 PLANNED



### 1. Background

The Public Expenditure and Financial Accountability (PEFA) assessment was created by a consortium of international organizations for purposes of evaluating country public financial management systems and monitoring progress in improving those systems over time. The consortium includes the World Bank, the European Commission, UK's Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign

Affairs, and the International Monetary Fund. The framework consists of 28 performance indicators in the following areas:

- Credibility of the budget.
- Comprehensiveness and transparency.
- Policy-based budgeting
- Predictability and control in budget execution
- Accounting, recording, and reporting
- External scrutiny and audit.

The framework is designed to allow its use for conducting both self-assessment either using selected and all of the indicators as well as for conducting formal comprehensive assessments with the involvement of external expert consultants. Once a base line assessment is completed, it is expected that that repeated application of the assessment over time will provide information on the extent to which country PFM performance is improving or not.

## **2. About the PEFA working group**

As part of its 2008-2009 action plan, the PEM PAL Budget Community of Practice formed a Working Group (WG) consisting of a sub-group of its members for purposes of sharing their experience in using PEFA. The group was formed in August 2008 and held meetings through April of 2009 to complete its work. The purpose of the WG was to “examine how Ministries of Finance use PEFA to make improvements to financial management systems and to monitor incremental change” and to share this information with the BCoP members.

### *a. WG objectives and methodology*

At its initial meeting the WG established the following objectives:

- Document the experience of BCoP countries in using PEFA
- Identify the formal and informal ways to use PEFA in implementing and measuring public finance improvements

To accomplish these outcomes the WG agreed to complete the following tasks:

- Country presentations to the WG on experience with PEFA
- Completing case studies on the use of PEFA
- Conduct a survey of BCoP participants on the use of PEFA
- Collaborate with the PEFA Secretariat

The WG held four videoconference meetings to accomplish this task, one of which originated from the Center of Excellence in Finance Ljubljana, Slovenia in conjunction with the annual meeting of the BCoP.

### *b. WG participants*

The following countries participated in the deliberations:

- Kosovo
- Georgia

- Belarus
- Moldova
- Armenia
- Montenegro
- Kyrgyzstan
- Ukraine
- Tajikistan

Members of the BCoP Steering Committee and the PEFA Secretariat also participated in the Ljubljana video conference. The working group was chaired by Ms Liana Skhirtladze of the Georgian Ministry of Finance. Activities of the working group were supported by the CEF and US Treasury staff. Video conference facilities and systems were provided by the World Bank.

### c. Survey

As part of its approach, the WG developed a survey which was sent to all BCoP participating countries. Seven responses were received to the survey. The following findings were derived from the survey:

- The responders represented the full range of experience with PEFA. Some responses were from countries that were involved in completing their first baseline assessment while one responding country was completing its second assessment. Most had used PEFA both for conducting self-assessments as well as formal assessments.
- By far the majority of respondents rated their experience with PEFA as good.
- In all but one case, respondents indicated that some type of team was established to manage the assessment. These teams ranged from those including representative from all involved governmental organizations to those including only members of the Ministry of Finance.
- Based upon the responses it appears that in most cases the formal PEFA Assessments are used to formulate and/or update Public Expenditure Reform Plans.
- Most countries make the PEFA Assessment available to the public.
- PEFA is used as a tool for monitoring progress in implementing reforms and as a benchmark for comparing to the practices of other countries.

Responders considered a weakness of PEFA was that it did not sufficiently recognize the reforms that were already underway at the time the assessment was conducted.

### **3. Working group web page**

All information connected with this activity is published on PEM PAL web page:

<http://www.pempal.org/news/read/9/>

### **4. Moldovan experience**

Throughout the working group activities three countries presented detailed case studies based on their experience with PEFA. The following is a summary of Moldovan case study.

Ms. Ivanciucova from the Moldovan Ministry of Finance presented an accounting of their experience in completing a PEFA assessment. Moldova completed its baseline assessment in 2006 and its second assessment in 2008. Both of the assessments were coordinated by the Ministry of Finance. Having completed two assessments Moldova was able to evaluate progress in making reforms. Overall ten indicators improved in score in the second assessment while two received lower scores.

Moldova noted the following advantages of PEFA:

- PEFA provides complex background information on the condition of public financial management systems
- Identifies issues that need to be addressed by the government
- Tracks progress on reforms
- Forms the basis for recommendations for maintaining and improving systems

Disadvantages of PEFA noted by Moldova included the following:

- Some of the scoring methodologies led to confusing findings, with PI 2 and 25 specifically noted
- Countries with IMF programs may be at a disadvantage because forecasts and budget estimates may be more conservative
- There is little flexibility in resolving issues when there is a disagreement about scores
- Although indicators D1 –D3 are for donors, they still affect the overall image of the country

Moldova noted the following improvements in financial systems as a result of using PEFA:

- Budget formulation was improved through revisions to the budget calendar and circular
- Improved consistency between the budget and the medium-term plans
- Improved internal auditing systems
- Improved chart of accounts and budget classifications
- Establishment of a single treasury account
- Improved treasury operations

Moldova concluded that their experience with PEFA has proved to be:

- A good tool for assessing performance
- A good response to the question of whether or not reforms are being implemented in accordance with established plans
- Create a desire to know more about the sustainability of PFM systems
- Improvement in supporting donor requirements and in attracting donor funds
- They also concluded that there is room for improving the methodology