Helpdesk Research Report: Governance/anti-corruption indicators in budget support

Date: 10.03.2011

**Query:** What specific governance indicators/benchmarks (particularly in relation to anti-corruption) have been used in budget support programmes to act as incentives for reform (within the overall framework/objective of achieving fiscal sustainability)? (If available, please include any information on which indicators have been successful and unsuccessful as an incentive and why).

**Enquirer:** DFID

**Contents**

1. Overview
2. General literature on budget support indicators
3. Country documents and indicator matrices
4. Additional information

1. Overview

Budget support is untied aid channelled directly to a country’s budget in support of a national development strategy (or in the case of sector support, in support of a particular sector or purpose). It is often assumed that budget support is more vulnerable to corruption, particularly where recipient countries have weaknesses in their public finance management (PFM) systems. Such aid, however, is seen as a way to encourage improvements in PFM and other aspects of governance and to facilitate and strengthen policy dialogue between recipient countries and donors (and among donors in the case of multi-donor budget support). Performance Assessment Frameworks (PAFs), adopted as part of many budget support programmes, consist of jointly agreed objectives, indicators and targets. These set out areas for action and allow for assessment of the effectiveness of budget support. Some donors link increases in budget support to the level of performance against indicators and targets in order to create an incentive for reform.

While there is literature that discusses the design and effectiveness of governance indicators generally, there is very little documentation specifically on the effectiveness of budget support indicators, and even less that focuses on governance and anti-corruption indicators. This helpdesk research report thus relies on more general literature on indicators used in budget support and on expert comments. It also presents specific PFM (and in some cases anti-corruption) indicators that have been used in budget support programmes (primarily from PAF matrices), although there is little information on which indicators have been successful and unsuccessful as an incentive.

**Examples of specific governance indicators in budget support programmes**

The following are a sampling of the objectives and corresponding indicators/benchmarks that have been used in budget support in the areas of public finance management and anti-corruption:
<table>
<thead>
<tr>
<th>Objective</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improved payroll management</td>
<td>➢ Production of at least 5 monthly audit trail records by December 2009&lt;br&gt;➢ Production of a report on actions taken in ministries where ghost workers were identified&lt;br&gt;➢ Development and implementation of an electronic payroll data transfer</td>
</tr>
<tr>
<td>Corruption: Anti-corruption bureau (ACB) performance</td>
<td>➢ 70% of authorized cases investigated by the end of 2009&lt;br&gt;➢ Number of cases in court for longer than 2 years reduced to 7 by end of 2009&lt;br&gt;➢ 15 institutional inquiries/audits completed during 2009 and 70% of 2007 recommendations implemented</td>
</tr>
<tr>
<td>Corruption: broad progress</td>
<td>➢ The Governance and Corruption Survey implemented&lt;br&gt;➢ 10 functional Institutional Integrity Committees (IICs) in place with Anti-corruption plans for their organisations</td>
</tr>
</tbody>
</table>

Malawi (African Development Bank et al., 2010):

| PFM and anti-corruption | ➢ Implementation of procurement legislation approved<br>➢ Proportion of Recommendations in the Auditor General’s Report acted on<br>➢ Proportion of audit queries acted upon<br>➢ National Anti Corruption Strategy Developed and Implemented |

Zambia (African Development Fund, 2010):

| Comprehensiveness and Transparency | ➢ Classification of the budget<br>➢ Comprehensiveness of information included in budget documentation<br>➢ Extent of unreported government operations<br>➢ Transparency of Inter-Governmental Fiscal Relations<br>➢ Oversight of aggregate fiscal risk from other public sector entities<br>➢ Public Access to key fiscal information |

Zambia (Reite and Disch, 2010):

| Improved accountability and internal control systems: | ➢ Financial Management Information System-generated budget execution reports<br>➢ Internal audit reports issued regularly by at least 10 Internal Audit Departments to the management of the ministry, with copies to the Ministry of Economy and Finance and the National Audit Authority |

Cambodia (Miovic et al., 2010):

In addition to the development of specific tailored indicators, it is also possible to use publicly-available indicators as a benchmark. Although not a programme of budget support, the Millennium Development Corporation ties eligibility for assistance directly to performance benchmarking, based on The World Bank’s Control of Corruption index in order to promote anti-corruption efforts. To receive MCC compact funding, countries must perform above the median within their peer group (Millennium Challenge Corporation n.d.). In Zambia, the result-based logical framework in its budget
support programme links the objective of ‘Reduced perceived corruption as a result of the Government’s comprehensive and coordinated actions against corruption’ to Transparency International’s Corruption Perception Index (African Development Fund, 2010).

**General evaluation of indicators as incentives**

Various reports on budget support programmes have noted progress against indicators and targets. In the case of Malawi, for example, the donor report notes that the anti-corruption bureau has made good progress in countering corruption and has either met or surpassed set targets (African Development Bank et al., 2010).

Indicators have been seen as valuable in acting as useful ‘signposts’ or milestones of the reform actions and timings necessary within a process of reform agreed to by the Government: “There is some evidence of such triggers/conditions helping to ensure a consistent and timely implementation of reforms” (expert comments). The indicators in the budget support programme in Cambodia were considered plausible and helped to focus attention on achieving the agreed targets (Miovic et al., 2010). In Sierra Leone, the agreement by the Government to an annual benchmark measurement for records management (linked to other multi-donor benchmarks for budget support) gave it a “higher profile in public financial management and in public sector reform than it had had previously” (International Records Management Trust, 2008, p. 13). Improved records management was necessary to counter corruption and inefficiencies in government, and Records Team members worked hard to achieve the best possible target.

It has also been argued, on the other hand, that indicators do not provide much of an incentive for reform. The European Court of Auditors, in its evaluation of EC general budget support programmes, found that the conditions attached to disbursement of GBS are not working in practice and unlikely to achieve their incentive affect. They attributed this in part to:

- Insufficiently challenging or overly ambitious targets
- The unavailability of reliable statistical data to establish clear baselines and to provide information on past trends
- Not setting targets until well into the year for which performance was being measured
- Difficulty in determining whether or not conditions have been met, as they are often vaguely defined, for example, based on ‘satisfactory’ performance without specific milestones or outputs to establish what constitutes ‘satisfactory’ (European Court of Auditors, 2011)

A study by Lawson et al. found the following limitations of Performance Assessment Frameworks:

- The expansion in scope and complexity of the PAF resulted in unclear frameworks for disbursement that could not be well interpreted and serve as a coherent set of incentives
- The variable tranches are small in relation to overall disbursements – and where there is a wide range of disbursement conditions – the tranches fail to act as effective incentives. In such cases, the use of indicators and outcome targets could be used more generally in the overall assessment of progress toward reform objectives, rather than for variable tranche disbursements (Lawson et al, 2005).

One commentator finds that in the case of Ghana, it did not seem that indicators were effective as incentives for better governance: “There have been a few cases where government has not achieved the trigger conditions, but the vast majority have been met, mainly because the conditions have been agreed consensually in advance, and are generally rather unambitious. Even where the triggers are missed the financial penalty is very small (a few % of the total budget support allocation) (expert comments)

A development worker, who worked on the budget support programme in Cambodia, finds it unlikely that indicators can act as incentives for reform: “the best we can do is identify reformers in the government, listen to their plans, and back them up with budget support. This is how the budget-support operation in Cambodia was designed” (expert comments).
Evaluation of specific governance indicators

The following are examples of limitations of specific indicators:

- Targets for the number of prosecutions to be undertaken by the Ombudsman Commission (as in the case of the multi-donor budget support programme in Ghana): such targets "simply encouraged the Government to speed up prosecution of its political opponents, which of course only served to undermine the independence and reputation of the Ombudsman Commission” (expert comments).

- Specific percentage targets for the number of government contracts that should be awarded by open tender rather than by direct award, as well as other conditions based on target prices for key goods procured by the public sector: “all such conditions/ indicators are open to easy manipulation and are also subject to multiple influences which have nothing to do with a decline (or improvement) in efficiency/ transparency” (expert comments).

- External scrutiny and audit indicators, such as legislative scrutiny of external audit reports (as in the case of Zambia): this looks at “whether audits are reviewed by a legislative committee in a timely and thorough fashion, and actions recommended by the legislature; it does not capture whether adequate sanctions are in fact imposed, or whether the legislature has the power to enforce them” (Reite and Disch, 2010).

- Anti-corruption bureau targets for countering corruption, such as progress in reducing the ‘number of cases in court for longer than 2 years’ (as in the case of Malawi): progress here is dependent on other departments, such as the judiciary, and this needs to be taken into consideration in developing targets (African Development Bank et al., 2010)

Guidance and recommendations

The following are some guidance and recommendations on indicators drawn from the literature and expert comments:

- Indicators should be imposed, but should be drawn from the national policy and strategy (AIDCO DEV RELEX, 2007). One commentator stresses, “there is no evidence of any GBS trigger conditions or indicators ever having been successful as incentives to reforms which governments were not already committed to” (expert comments).

- Indicators should be clear and unambiguous with little room for interpretation (AIDCO DEV RELEX, 2007).

- The partner country should have the capacity to measure performance criteria and indicators used for disbursement purposes (AIDCO DEV RELEX, 2007).

- Donor benchmarks in relation to pay and personnel information must be realistic in relation to record management realities (past and present); and donors must take action if a benchmark is found to not be achievable. In the case of Sierra Leone, unrealistic benchmarks were not altered, which was demoralizing for those working to achieve the targets (International Records Management Trust, 2008).

- Disclosure of information is important. One commentator notes “it is a good idea to try to persuade the government to agree to specific commitments on the disclosure of information and the publication of budgetary and fiscal reports” (expert comments).

2. General literature on budget support indicators

http://eca.europa.eu/portal/pls/portal/docs/1/70790728.PDF
The report is based on an audit carried out by the European Court of Auditors to assess whether the European Commission manages its general budget support (GBS) programmes effectively. Conditions are attached to the disbursement of GBS. They comprise general conditions that have to be met in order to be eligible for budget support and specific conditions (linked to the variable tranche mechanism), which are connected to the achievement of performance indicator targets. The amount disbursed from the variable tranche depends on the extent to which indicator targets are meant – and are designed to act as an incentive to achieve specified objectives.

The audit finds that conditions attached to disbursement of GBS are performance oriented and generally relevant to the country’s objectives of macroeconomic stability and progress toward sound public financial management (PFM) and poverty reduction. It finds, however, that the conditions are not working in practice and unlikely to achieve their incentive affect (see paragraphs 58-67). It states: “It was often difficult to set appropriate targets for the performance indicators. Targets that are insufficiently challenging or targets that are overly ambitious can reduce the incentive effect. Moreover, reliable statistical data to establish clear baselines and to provide information on past trends are often not available. Furthermore, the Commission’s documentation did not demonstrate that there had been sufficient analysis during the target-setting process of what reforms and additional budgetary resources would be necessary and feasible in order to achieve the targets. Since proposals for targets increasingly come from the country itself, the Commission has to hold in-depth dialogue with the national authorities to ensure that targets are not set deliberately low or unrealistically high […]. In addition, occasionally targets were not set until well into the year for which performance was being measured” (paragraphs 61-62). The audit states additionally that it is difficult to determine whether or not conditions have been met, as they are often vaguely defined, for example, based on ‘satisfactory’ performance without specific milestones or outputs to establish what constitutes ‘satisfactory’.

The report discusses the example of Benin, where PFM indicators did not address the main needs of the PFM reform process, which had been identified as improvements in areas of external control, financial accountability and tax collection. There were no conditions concerning the fiscal collection rate and only one on external control for the variable tranche of 2009, which was not kept for the rest of the programme.

The European Court of Auditors offers the following recommendations for strengthening the Commission’s management of performance-related conditions. The Commission should:

- “make a formalised appraisal of the appropriate proportion of fixed and variable tranches in view of the country’s specific circumstances as well as the objectives and design of the GBS programme;”
- as regards general eligibility conditions, set out in each financing agreement a clear assessment framework that defines the conditions, timetable, source of evidence, as well as criteria against which satisfactory progress has to be assessed;
- as regards specific conditions for the disbursement of variable tranches:
  - set out clear indicators, targets, calculation methods and verification sources;
  - set out challenging but realistic targets using baselines, past trends and adequate assessment of the expected impacts of the actions and budgets planned to achieve these targets;
- support disbursement decisions with a more structured and formalised demonstration of satisfactory progress during the period concerned by clearly setting the criteria against which progress was to be assessed, the progress made and the reasons why progress may not have been according to plan” (p. 52).


The study is based on the experience of three countries that have adopted harmonised Performance Assessment Frameworks (PAFs) – Ghana, Mozambique, and Tanzania, and two that are moving in
this direction – Benin and Nicaragua. All of the PAFs had policy ‘triggers’ (actions defined as necessary ‘prior actions’ to permit disbursements) and performance indicators. It finds that all of the PAFs had weaknesses in terms of providing a clear framework for disbursement that could be well interpreted and serve as a coherent set of incentives. It argues that this was in part due to the expansion in scope and complexity of the PAF. Although the indicators, targets and policy actions had been carefully considered, taken together, they were too numerous and complex. The study also finds that where variable tranches are small in relation to overall disbursements – and where there are a wide range of disbursement conditions being assessed – the tranches fail to act as effective incentives. In such cases, the use of indicators and outcome targets could be used more generally in the overall assessment of progress toward reform objectives, rather than for variable tranche disbursements.


These guidelines are a revised version of a guide prepared by the European Commission in 2002. They aim to contribute to improving the quality of EC budget support programmes. They include a section on ‘Performance monitoring and criteria for disbursement’ (see pp. 62-67). This comprises the ‘conditions’ part of budget support and also relates to dialogue on the reasons for underperformance and/or the ambition of possible targets. It is also important that the partner country has the capacity to measure performance criteria and indicators used for disbursement purposes.

The following steps are identified for making a prior diagnosis and choosing performance indicators (p. 64):

- identification of the areas for which specific conditions for disbursement of individual tranches will be defined;
- identification of the performance indicators to be used - in general it is recommended that the number of performance indicators is limited – a maximum of six per sector or area in a tranche is suggested;
- choice of the performance targets for each indicator. The performance targets would normally be established on an annual basis for each year of the programme, for a period of at least three years.

In making the choice of indicators and their targets, attention should be paid to avoiding the following common problems (p. 64):

- the absence of precise and unambiguous definitions;
- lack of coherence between the calendar of the Financing Agreement (for assessment of performance) and that of national processes (including availability of data) which may result in delayed disbursement as compared with the planned agenda;
- lack of comparability of the indicators from one year to the next.

The choice of indicators and targets should therefore pay attention to the following factors (pp. 64-65):

**Link between indicators and national policies**

- **Indicators should be drawn from the national policy and strategy.** Indicators should not be imposed. If however it is agreed that indicators not present in the national policy and strategy should be used, they should at a later stage be incorporated into the national policy and strategy;
- **Indicators chosen for disbursement purposes should be coherent with the analysis in the country context.** In the section on country context there is likely to be discussion of problems faced – notably in the area of public financial management. The choice of performance indicators used for disbursement should be coherent with this analysis and address the problems identified;
The technical characteristics of the indicators

- **Clear and unambiguous definition** of the indicators so as to avoid errors and misunderstandings in interpretation at a later date;
- **Source of indicators should be clearly identified** and as much as possible be drawn from the data produced by the National Statistical System, avoiding ad hoc or project related indicators;
- **Methodology used to calculate the indicator should be clearly described**, including that of metadata so that the reliability of the indicators from one year to the next are comparable; (p. 64)
- **Sensitivity of the indicator to policy changes** should be assessed given that annual monitoring of indicators will take place;
- **Timing of the availability of the indicators should be known** so as to ensure consistency with the planned disbursement calendar;

Choosing targets for the indicators

- **Targets should be set so as to get the balance right** between being over-ambitious or excessively prudent. The targets should be drawn from national and/or sectoral strategies; should be coherent with international objectives, notably the MDGs; should be set for each year of the programme; should take account of previous performance as well as the resources available in the relevant area to meet the agreed targets. In this respect there needs to be a clear baseline.
- **Choose indicators and targets with the maximum transparency** both in consultations with government, other donors, and with non-state actors. This transparency is a tool also for establishing the suitability and reliability of the chosen indicators and their targets.


The Millennium Challenge Corporation (MCC) adopts an approach of providing positive incentives for reform. It offers large grants through the Millennium Challenge Account (MCA) to developing countries that are willing to implement tough anticorruption reforms, such as passing stronger anticorruption laws, strengthening oversight institutions, opening up the public policy-making process to greater public scrutiny, and stepping up corruption-related investigations and prosecutions. The approach has been documented as effective in getting countries to become and remain committed to policy changes and reforms.

The MCC ties eligibility for assistance directly to performance benchmarking, based on a publicly-available indicator of anti-corruption commitment produced by a third party: The World Bank’s Control of Corruption index. To receive MCC compact funding, countries must perform above the median within their peer group. By measuring relative performance, it is possible to identify and support reform champions even in countries where performance may not be high in absolute terms. Countries that have already become eligible for grant assistance are required to maintain or improve their performance on the Control of Corruption index.

3. Country documents and indicator matrices

**Ghana**

Lawson, A. et al., 2007, ‘Joint Evaluation of Multi-Donor Budget Support to Ghana based on OECD-DAC methodology’, Final Report, Overseas Development Institute and Ghana Centre for Democratic Development

General Budget Support in Ghana has been provided since 2003 through a harmonised Multi-Donor Budget Support (MDBS) arrangement. In order to create incentives for implementation of reforms,
Policy triggers are established that link disbursement of the performance payment closely to their achievement. The Performance Assessment Framework (PAF) is adopted to implement MDBS conditionality. The evaluation team makes various recommendations regarding the PAF and the accompanying systems for performance monitoring in order to improve the functioning of conditionality. These include (pp. 139-140):

- The annual decision on the eligibility for continued disbursement should be based upon a holistic assessment of whether the base conditions of the budget support partnership have been maintained. This should rely upon an assessment of the adherence by the Government to eight ‘due process’ requirements. It should not hinge on adherence to a list of highly-specified action or outcome indicators, although these might be used to track results over the medium term.

- There should be a shift away from exclusive reliance on the PAF towards greater use of existing budget monitoring processes and structures that most governments would commonly use to track progress in the implementation of reforms and the execution of public spending. The PAF itself would retain its importance as the basis for the MDBS partners to judge adherence to ‘due process conditions’, to assess progress in key policy areas and to monitor the outputs and outcomes of budget spending. However, most of the information necessary to do this would be generated by domestic processes and not necessarily through the MDBS annual review.

- PAF conditions should not have quantitative targets associated with them should include some specification of minimum quality standards where necessary. There may also be policy targets and results indicators, which would be drawn from the Ghana Poverty Reduction Strategy and from the related sectoral target-setting and review processes. It might be useful to continue to distinguish between high priority policy targets and lower priority policy targets, but it is advisable to discontinue use of the phrase “policy triggers”. It is intended that these should be Government targets, over which there would be dialogue but no conditionality.

- Within this framework, the need for negotiation would be very considerably reduced, and possibly altogether eliminated. Policy targets and results indicators would be chosen by Government and would not condition annual disbursements. The evaluation found that dialogue on the trigger indicators in the annual policy matrix is prone to disagreements in that the Government is prone to desire unambitious goals and targets to ensure that they can be met while the MDBS partners will aim for more demanding performance criteria to promote value for money.

Zambia


This report assesses the fiduciary risk environment for providing Poverty Reduction Budget Support (PRBS) to Zambia from 2011 onwards. As part of this, it outlines a process for monitoring performance, taking into consideration the existing and evolving monitoring framework under the current and planned PRBS. The report discusses the PEFA (Public Expenditure and Financial Accountability) and outlines in Table 3.2 (pp. 18-19) the key areas, indicators used to determine performance, changes in performance from 2005-2008, and risk level. Extracted below is the list of indicators:

Table 3.2: Performance According to PEFA Indicators and Assessed Risk Level

<table>
<thead>
<tr>
<th>PFM Performance Indicator</th>
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<tbody>
<tr>
<td><strong>Credibility of the Budget</strong></td>
<td>✔️ Aggregate expenditure out-turn compared to original approved budget</td>
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<tr>
<td></td>
<td>✔️ Composition of expenditure out-turn compared to original approved budget</td>
</tr>
<tr>
<td></td>
<td>✔️ Aggregate revenue out-turn compared to original approved budget</td>
</tr>
<tr>
<td>Category</td>
<td>Indicators</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Stock and monitoring of expenditure payment arrears</td>
<td>Classification of the budget</td>
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<tr>
<td></td>
<td>Comprehensiveness of information included in budget documentation</td>
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<td></td>
<td>Extent of unreported government operations</td>
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<td></td>
<td>Transparency of Inter-Governmental Fiscal Relations</td>
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<td>Oversight of aggregate fiscal risk from other public sector entities</td>
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<td>Public Access to key fiscal information</td>
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<tr>
<td>Comprehensiveness and Transparency</td>
<td>Orderliness and participation in the annual budget process</td>
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<td></td>
<td>Multi-year perspective in fiscal planning, expenditure policy and budgeting</td>
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<tr>
<td>Policy-Based Budgeting</td>
<td>Transparency of taxpayer obligations and liabilities</td>
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<td></td>
<td>Effectiveness of measures for taxpayer registration and tax assessment</td>
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<td></td>
<td>Effectiveness in collection of tax payments</td>
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<td></td>
<td>Predictability in the availability of funds for commitment of expenditures</td>
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<tr>
<td></td>
<td>Recording and management of cash balances, debt and guarantees</td>
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<td></td>
<td>Effectiveness of payroll controls</td>
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<tr>
<td></td>
<td>Competition, value for money and controls in procurement</td>
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<td></td>
<td>Effectiveness of internal controls for non-salary expenditure</td>
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<td></td>
<td>Effectiveness of internal audit</td>
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<tr>
<td>Predictability and Control in Budget Execution</td>
<td>Timeliness and regularity of accounts reconciliation</td>
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<td></td>
<td>Availability of information on resources received by service delivery units</td>
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<td></td>
<td>Quality and timeliness of in-year budget reports</td>
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<td></td>
<td>Quality and timeliness of annual financial statements</td>
</tr>
<tr>
<td>Accounting, Recording and Reporting</td>
<td>Scope, nature and follow-up of external audit</td>
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<td></td>
<td>Legislative scrutiny of the annual budget law</td>
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<td>Legislative scrutiny of external audit reports</td>
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</table>

The report notes some limitations to the indicators under **External Scrutiny and Audit**. It stresses that the PEFA focuses on the indicator: Legislative scrutiny of the annual budget law; however this “reflects only whether the budget bill is rigorously debated, with sufficient scope, good procedures, and sufficient review time, it does not say whether the legislature has any power to amend the bill. […] Limited opportunities to influence the budget has been perceived a challenge by members of Parliament and civil society and has motivated the redesign of the budgeting process and the changes in the Constitution” (pp. 16-17).

In addition, the following indicator: Legislative scrutiny of external audit reports – looks at “whether audits are reviewed by a legislative committee in a timely and thorough fashion, and actions recommended by the legislature; it does not capture whether adequate sanctions are in fact imposed, or whether the legislature has the power to enforce them. In the Zambian case, the Legislature, Auditor General’s Office and the Executive (Ministry of Finance) sit in what is called a committee of officials to review follow up progress and agree on what has been fully addressed in the audit reports. Despite reports from this committee being public, their dissemination is low and stakeholder interest is generally low. More awareness and public attention to these reports could promote enforcement” (p.17).


The overall goal of this programme is to improve financial governance through efficient public financial management and fight corruption and enhancing business environment by simplifying business
licenses and shortening time for trade across borders. The programme has two components, namely (i.) Improving financial governance and (ii.) Enhancing business environment.

The result-based logical framework outlines the following in relation to improving financial governance:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Outcomes</th>
<th>Outcome Indicators</th>
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<tbody>
<tr>
<td>Improve financial governance through efficient public financial management and the fight against corruption</td>
<td>➢ Enhanced public financial management through credible budget management. ➢ Reduced perceived corruption as a result of the Government’s comprehensive and coordinated actions against corruption</td>
<td>➢ Percentage of Expenditure variance (Source: PEFA reports and GRZ documents) ➢ Corruption Perception Index (Source: Transparency International) ➢ Governance Indicator (Source: Bank CPIA)</td>
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</tbody>
</table>

In order to assess performance under the Poverty Reduction Budget Support programme, a Performance Assessment Framework has been developed. It provides the basis for discussions on a bi-annual basis.

The indicators and targets were selected through consultation between the relevant Cooperating Partners and Sector Ministries. Efforts have been made to reduce the size of the PAF, while making the indicators more meaningful with better definitions and less overlap in order to prevent different interpretations during the review process.

Annex II of the report presents the Operation Policy Matrix (extracted from the Performance Assessment Framework – PAF, 2009-2011), outlining indicators, required actions, baseline statistics, and targets for 2009-2011. The PFM indicators are listed below:

**Public Finance Management Indicators – Performance Assessment Framework**

- Percent of MPSAs (Ministries, Provinces, Spending Agencies) whose non-PE releases are between 95% and 105% of the non-PE budget allocation as identified in the Approved Budget
- Percent of heads whose expenditure is between 95% and 105% of the total funding
- % Expenditure Variance between original budget and total expenditure (selected sectors)
- Domestic Arrears at end Period
- Implementation of procurement legislation approved
- Proportion of Recommendations in the Auditor General’s Report acted on
- Proportion of audit queries acted upon
- National Anti Corruption Strategy Developed and Implemented


Annex III of this document presents the programme logical framework for the PEMFA (Public Expenditure Management and Financial Accountability). It presents the outputs, objectively verifiable indicators, means of verification and assumptions. Extracted below are some of the outputs and indicators.

<table>
<thead>
<tr>
<th>Outputs</th>
<th>Indicators</th>
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<tbody>
<tr>
<td>More effective financial management and commitment control</td>
<td>➢ Each MPSA commitment will not be more than 80% of the approved budget in 2007 and annually thereafter.</td>
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| Integrated Financial Management Information System (IFMIS) fully implemented | By end of project:  
- Financial statements produced and submitted for external audit within 6 months of the end of the fiscal year.  
- Monthly Expenditure Returns (MER) online  
- Reconciliation of central Government bank accounts at least monthly and within 4 weeks of end of period.  
- In-year budget reports issued within 4 weeks of end of period |
| A policy-based budgetary process in place in order to facilitate timely, adequate and effective mobilisation, allocation and utilisation of resources and attainment of policy objectives | Model-based macro and sector analytical reports and multi-year budgeting and planning frameworks prepared annually by end December 2009 |
| Strengthened internal controls throughout the public sector for improved public expenditure management and financial accountability | Detection of fraudulent activities increase annually from FY2006  
- Effectiveness of internal control systems indicated by increased detection of wasteful expenditure and revenue shortfalls enhanced by 2009 |
| A consistent and harmonised legal framework put in place to support transparency and accountability in the public sector | Updated financial legal framework meeting criteria 1.2 of The IMF Code of Fiscal Transparency in place by end of 2009 |
| Strengthened external audit through expanded coverage and better HQ and training facilities | Annual audit coverage expands from about 50% to at least 70% by end 2008  
- Piloting of VFM, environmental, IT and forensic audits (2 each) completed by 2008  
- Strategic Five Year Plan 2008-2013 includes routine conduct of wider scope audits |
| Capacity of Parliament developed to play its oversight role in public resource management in order to promote the culture of democratic governance, transparency and accountability | Reduction in the number, value, and age profile of Public Accounts Committee queries unanswered or unsatisfactorily answered from x to y % over PEMFA implementation using the AG’s Report of FYR 2002 (pages 135-151) as the benchmark.  
- For FY2007 and annually thereafter the Medium Term Fiscal Framework, as set out in the Green Paper, debated by the Joint Committee on Estimates (JCE) by end of September  
- Report of JCE on MTEF produced for FY 2008 budget and each year thereafter by end of October  
- Report of JCE on Budget Submission (Yellow Book) for FY 2008 by end January 2008 and annually thereafter |
| Accountancy profession strengthened with effective regulatory services provided in order to promote high professional and ethical standards in the accountancy profession | Increased number of qualified ZICA members working in the Government accountancy and audit cadres and OAG from approximately 40 in 2004 to 120 in 2009.  
- An active Public Sector Committee producing 4 newsletters and 2 technical bulletins per annum by 4th year of PEMFA.  
- Half yearly meetings between ZICA and other key stakeholders (PAC, Estimates Committee and MoFNP) |
| A transparent, accountable and efficient public procurement system promoted and institutionalised in | Confidence of civil society and international community in the public procurement system achieved by 31 December 2008 |
order to improve expenditure management

Sierra Leone

International Records Management Trust, 2008, ‘Sierra Leone Case Study - Fostering Trust and Transparency in Governance: Investigating and Addressing the Requirements for Building Integrity in Public Sector Information Systems in the ICT Environment’, International Records Management Trust
http://www.irmt.org/documents/building_integrity/case_studies/IRMT_Case_Study_Sierra%20Leone.pdf

This case study explores efforts in Sierra Leone to establish employment and payroll controls and a strong records system. The war, as in other countries in Africa, had resulted in the decay of records systems in all areas of government, weak controls and unreliable information – all of which contributed to corruption and inefficiency and hindered the ability of the Government to manage key resources and establish accountability.

Beginning in the late 1990s, public financial management reform, including payroll verification, became a precondition for approval of a structural adjustment/budget support package that was to be disbursed by the European Commission. The aim was to address weak systems that made it easy to tamper with financial data. In 2005, a Records Management Improvement Project was launched, which aimed to introduce a new methodology for rebuilding paper-based personnel records systems and linking them to the Human Capital Accountability Module of the new Records and the Integrated Financial Information Management System (IFMIS), run on FreeBalance software. IFMIS was designed to provide up-to-date and accurate information, tighten internal financial controls, and strengthen accountability and transparency by enabling financial information to be viewed at many points.

At about the same time that records management improvements were launched, the Government had agreed to an annual benchmark measurement for records management, which was linked to other multi-donor benchmarks for budget support, such as an indicator measuring the completeness of personnel files. The adoption of records management as a benchmark gave it a “higher profile in public financial management and in public sector reform than it had had previously” (p. 13). The benchmark was based on an ideal of good practice: five specified documents had to be made available for all civil servants; and the Government should achieve, in annual increments, increasingly high targets for standards of completeness of personnel files.

In the first two years, the achievement score was low. In 2007, after much work had been done on the personnel files, it was believed that performance would be better against the target. However, “the benchmark did not take account of the history of the way records had been created or the fact that records had been burned or destroyed during the war and afterwards. Complete sets of documents simply did not exist for all staff. Though the score did improve, there was a limit to what was possible” (pp. 15-16). This and various other issues meant that the benchmark as set was unachievable. Despite these evident flaws in the benchmark, no action was taken to revise it. Failing an unachievable benchmark was demoralizing for the Records Team members, who worked hard to achieve the best possible target. They remained committed though to building records integrity. The paper stresses that donor benchmarks in relation to pay and personnel information must be realistic in relation to record management realities (past and present); and donors must take action if a benchmark is found to not be achievable.

Cambodia

Miovic, P. et al., 2010, ‘Implementation Completion and Results Report on a Grant in the Amount of SDR 9.8 million to Cambodia for a Poverty Reduction and Growth Operation (PRGO 1)’, World Bank, Washington, DC
The Poverty Reduction and Growth Operation (PRGO) is a multi-donor budget support instrument led by the World Bank, which ran from 2007-2010. The aim was to support policy reforms necessary for continued growth and poverty reduction and to provide additional financing for the delivery of services to the poor. The PRGO had a policy matrix of “critical benchmarks” plus “milestones” in three areas – public financial management, private sector development and land reform – drawn from the Joint Monitoring Indicators and the National Strategic Development Plan. The matrix had nearly 40 performance indicators, almost all quantified, which allowed the Government, development partners and civil society to track progress over time. They were considered plausible and helped to focus attention on achieving the agreed targets.

The outcomes and indicators for public financial management are presented in Table 6 (p. 18) with related actions and how the government fared over the years discussed on pp. 22-23 and presented in a table on pp. 41-43. Extracted below are some of the outcomes and indicators:

### Table 6: Reform Program Outcomes in Public Financial Management Reform Program

<table>
<thead>
<tr>
<th>Outcomes</th>
<th>Indicators</th>
</tr>
</thead>
</table>
| Ensure budget is realistic and implemented as intended in a predictable manner | ➢ Annual increase in tax revenue: 5% above real GDP growth plus inflation  
➢ Annual increase in non-tax revenue 5% above real GDP growth plus inflation |
| 1. Budget holders commit expenditure in line with budgets and cash flow plans | ➢ Post review carried out of a sample of at least 20% of the total number of contracts subject to post review in at least 50% of all procuring agencies in all provinces by 2009  
➢ 50% of contracts with award information published (above agreed threshold) by 2009  
➢ Quarterly cumulative expenditure commitment profile: Q1 15%, Q2 45%, Q3 67%, Q4 96%  
➢ Execution rate to budget: salaries 98%, goods/services 95%, capital 80%  
➢ Payments to creditors made by check: 85% by 2008  
➢ Payments to civil servants made through the banking system  
➢ General Department of Excise & Customs obligations paid by check/transfer at National Bank of Cambodia  
➢ Ministry of Economy and Finance’s processing time for commitment and payment order approvals for procurement items reduced to an average of 15 working days by 2009 |
| 2. Reduced procurement delays in the context of a more efficient and transparent system | ➢ Number of ministries using programme budgets: 7 in 2007 and 12 in 2009  
➢ Integrated Capital and Recurrent Budget Ceilings adopted for Pilot Ministries |
| 3. Oil revenue management framework, including endorsement of Extractive Industries Transparency Initiative (EITI), put in place | ➢ Financial Management Information System- |
control systems result in strengthened compliance and transparency in the mobilization and use of public resources:

1. More reliable data produced and it is more effectively reported
2. Government budget managers are held accountable for their management of public funds.

generated budget execution reports

- Internal audit reports issued regularly by at least 10 Internal Audit Departments to the management of the ministry, with copies to the Ministry of Economy and Finance and the National Audit Authority

Malawi


The Common Approach to Budget Support (CABS) Group of Development Partners has been providing harmonized general budget support to Malawi since 1999. A Memorandum of Understanding, officially known as the Joint Framework (JF) for Budget Support Cooperation, guides the partnership between the Government of Malawi and the CABS Development Partners.

The Performance Assessment Framework (PAF) consists of jointly agreed indicators and targets for assessing the extent to which general budget support is contributing to the achievement of development objectives outlined in the Malawi’s poverty reduction strategy, the MGDS. The PFM section of the PAF also plays a fiduciary role within the partnership. This report states that there has generally been satisfactory progress against the PAF targets.

Tables 1A and 1B provide a summary of performance against 2010 PAF targets, while tables 2A and 2B provide summary statistics on performance against 2010 PAF indicators and targets. Extracted below are some of the indicators and targets under Public Financial Management and Governance-corruption:

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Financial Management</strong></td>
<td></td>
</tr>
<tr>
<td>Credibility of the budget</td>
<td>In-year expenditure re-allocation between votes for 2008/09 amounting to less than 10% of the total approved budget</td>
</tr>
<tr>
<td>Expenditure on essential public services</td>
<td>Budgeted ORT for 2009/10 no lower as a proportion of primary expenditure than the 2007/08 level</td>
</tr>
<tr>
<td>Improved budget process</td>
<td>National budget structure comprising programmes and sub programmes which are GFS 2001 compliant by March 2010</td>
</tr>
<tr>
<td>Improved payroll management</td>
<td>Production of at least 5 monthly audit trail records by December 2009</td>
</tr>
<tr>
<td></td>
<td>Production of a report on actions taken in ministries where ghost workers were identified</td>
</tr>
<tr>
<td></td>
<td>Development and implementation of an electronic payroll data transfer between HRMIS and IFMIS</td>
</tr>
<tr>
<td>Timeliness of annual financial statements</td>
<td>Roll out of IFMIS to 5 pilot Local Assemblies completed and another 12 District Assemblies computerized and online with IFMIS</td>
</tr>
<tr>
<td>Improved timeliness of external</td>
<td>Submission of 2007/08 and 2008/09 audit reports to</td>
</tr>
</tbody>
</table>
The report notes that the anti-corruption bureau has made good progress in countering corruption and has either met or surpassed set targets. It stresses, however, that progress in reducing the ‘number of cases in court for longer than 2 years’ is dependent on other departments, such as the judiciary, and that this needs to be taken into consideration in future targets. In terms of broad progress in corruption, the implementation of the survey has been delayed due to a late start and insufficient funding. The Bureau has indicated plans to reduce the frequency of surveys from every two years to every four years. It suggested replacing this indicator in the future with one to measure the Bureau’s efforts in raising public awareness on corruption. It was also noted that it would be challenging to agree on an indicator that did go further and aimed to assess the impact of ACB’s sensitisation work.

Mozambique

**Mozambique Performance Assessment Framework, 2007-2009**


This PAF matrix outlines sector areas, objectives, outcome indicators, targets over the years, sources of verification, and achievements. Extracted below are some objectives and indicators in the areas of public financial management and justice, legality and public order:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Financial Management</strong></td>
<td></td>
</tr>
<tr>
<td>Improve the efficiency and effectiveness of public management funds</td>
<td>Aggregate expenditure as a % of the approved Stage Budget, Allocation of the OE in line with the MTFF, Research on the Localization of Public Expenditure (&quot;PETS&quot;) executed on a bi-annual basis, Number of Ministries, State organs and UGEs, Total incomes as a % of GDP</td>
</tr>
<tr>
<td>Make the State goods and services acquisition system transparent and efficient</td>
<td>System of procurement operational</td>
</tr>
</tbody>
</table>
Increase the coverage and efficiency of the internal and external auditing organs

- % of organs at central and provincial levels with operational internal control units [Annual activities report on the internal control sub-system]
- Number of financial audits approved by the TA

Justice, Legality and Public Order

Strengthen the combat against corruption

- Number of corruption cases:
  A) Reported
  B) Under investigation
  C) a- Accused b- Non-accused (awaiting better evidence) c- Filed
  D) Tried

5. Additional information

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Andrew Lawson (Fiscus Limited)
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Ed Mountfield (World Bank)
Carlos Santiso (African Development Bank)
Gareth Williams (Policy Practice)

About helpdesk research reports: This helpdesk report is based on two days of desk-based research. Helpdesk reports are designed to provide a brief overview of the key issues; and a summary of some of the best literature available. Experts are contacted during the course of the research, and those able to provide input within the short time-frame are acknowledged.

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