Public Financial Management
State Financial Management Project, Mozambique
Evaluation Findings and Lessons

Presentation by Ron McGill of Crown Agents
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Introduction
Purpose and Content

Part 1
Introduction

• Purpose of the presentation
  • Share findings from evaluation
  • Highlight any lessons
  • What worked and why
  • What might be avoided

Content

• Describe project
  • Purpose and scope
  • Approach
  • Phases
• Terms of reference (of evaluation)
• Circumstances at start
• Findings
• Lessons
Context
Project Description, Phases, Approach and Evaluation Terms of Reference

Part 2

Description of Project

- Swedish Sida Funded
- Ministry of Planning and Finance (MPF), Mozambique
- Mid 1988 to December 2003 – 15 years!
- Reform and build capacity in:
  - Budget preparation
  - Accounting and reporting
  - Control expenditure in accordance with the budget
- Support Components:
  - Training
  - Computerisation
SFMP Phases

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Swedish Approach

• Goal or ambition:
  • “opportunity for political allocation of resources…”
  • “management control…”, including
  • “evaluation of effects of activities covered by the state budget…” (i.e. results based)

• Strong adherence to:
  • Partnership between government and donor
  • Government ownership of reform
  • Long-term commitment – 10-15 years
Terms of reference for evaluation

- 10 years (1994-2003)
- Efficiency and effectiveness
- Relevance in addressing weaknesses
- Coherence to reform needs
- Trade off between ownership and results
- Comparison of accounting model
  - SFMP project model; and
  - replacement model
- Lessons

Context – the starting point

- “Disarray”
  - Old fashioned law, regulation
  - Uncertainty about procedures
  - Irregularity
  - Lack of political process
  - No state accounts since 1975
  - Human capacity weaknesses
  - No computers or computer literacy
- Serious weakness - Staff knowledge and discipline
Donor Controversy

- Impatient for improvements
- IMF/WB reports continued to highlight weaknesses
- Questions:
  - What was the project doing?
  - Why was it taking so long?
- IMF installed own adviser
- Replacement project instigated
- MPF withdrew support to project extension

Findings

Achievement, Impact and Conclusions

Part 3
### Project History

1988 ------ 1993
- Civil War
- Market Econ.
- Sweden Accrual Accounts

1993 ------ 1994
- Elections
- 1994 SWF formed

1994 ------ 1996
- Phase 1 Budget Project
- Introduced Computers
- Proposal for Modified Accrual Accounting Rejected
- Training Expert started

1996 ------ 1997
- 1994 Moved to Budget Dept
- Scope Broadened to Budget Accounting Audit 10-15 Year Horizon
- Taken over By Public Accounting Dept
- Accounting Computerised
- Expenditure Management Reform Strategy
- Introduced

1997 ------ 1998
- Computerisation of Accounting (budget execution)
- Salaries & Pensions
- Accounts Presented to Parliament
- R&F Critical State of PFM
- HIPIC Completion
- Reform Coord Unit created

1998 ------ 2000
- Off-budget revenues brought into accounts
- New Model Concept
- Presented but not introduced
- Alternative Model Accepted
- IT tender cancelled
- New Model training given

2000 ------ 2002
- Reforms Coord Becomes PFM
- Development
- Sida and EU Support phase out
- Donors Common Fund Formed

2002 ------ 2003
- Start of Joint Donor Review
- Reform Coord

### Achievement and Impact

- Got a lot right in recognising:
  - Long-term nature of what was being attempted
  - Cautious gradual approach wanted by MPF
  - Need for ownership and close integration
  - Limit of capacity of MPF
Achievement and Impact (2)

- documented public accounting system
- new law for budget and accounts
- training department equipped with strategy, policy and procedure
- major training programme country-wide
- enhanced human capacity
- computerisation of key functions
- presentation of state accounts (1998 - first time since 1975)
- quarterly budget execution reports (from 2000)
- modernised model, chart of accounts and new law in 2002

Achievement and Impact (3)

- We judged the project as providing:
  - Reduction in risk in use of public funds
  - Platform for change and modernisation
  - Positive impact as:
    - Capacity building
    - Improvement over time
- Different measure is needed as a:
  - Modernisation project with
  - Hard outputs
Conclusions - positive

• Swedish support had been:
  • Sustained
  • Patient
  • Committed
  • Integral to MPF
  • Strong on ownership and participative
• Close working relationships and trust
• Built capacity

Conclusions - negative

• Initially - progress slow because:
  • Lack of rigour in planning
  • Caution on part of MPF
  • Lack of institutional capacity
  • Imbalance in incentive structure
• Later phases
  • Breakdown in communication and understanding around
    • Policy objectives
    • Technicalities of model - principally accrual accounting
Lessons

Part 4

Long term commitment – how was this possible?

- Sida approach and philosophy:
  - Partnership
  - Changes will take time
  - Prepared for 10-15 year commitment
- Matched MPF view:
  - Capacity weaknesses
  - Need for gradual, incremental change
  - Avoiding risk and loss of control
  - Building on success
Long term commitment – how was this possible? (2)

- Difficult lesson from Phase 1
  - Swedish consultants advocated radical solution:
    - Accrual, Double-entry
    - Heavily computerised
  - Rejected by MPF
- Both parties accepted:
  - Gradualist approach - reinstate existing system
    - Understand
    - Document
    - Train

Long term commitment – how was this possible? (3)

- Answer to question:
  - Sida’s philosophy and the MPF gradualist approach came together
  - Partnership
- Lesson:
  - Get the basics right first
Who led the design?

- Following rejection of phase 1:
  - Left deliberately vague
  - High level statements of purpose
  - “open-ended indication of direction”
- In theory ministry made proposals for continuation
- In practice contracting team prepared in consultation
  - Very integrated project
  - Clear ownership of the ministry
- At least for first half of project!

How was it sustained?

- Virtue of proceeding in a manner that was:
  - Shared and consultative
  - Subject to periodic joint review
- However this led to:
  - Lack of ambition; and
  - slow progress
- Not balancing inherent risks by ensuring
  - Clarity of purpose
  - Clear outputs
  - Time based plan
  - Targets, indicators
Commitment and Ownership

• Critical success factors - extent achieved?
  • We concluded there was commitment
  • Started before external pressure for change
  • Strengthened as external pressure mounted
• But only for the first half of the project
• We Questioned:
  • Ownership for the period 1999 – 2003
  • Full acceptance of new accounting model

Ownership 1999 -2003

• Paradoxical
  • Accepted plan for the period
  • Passed new law in 2002
• Nevertheless, we believe there was
  • Incomplete buy-in to implications
  • Confusion and misunderstanding over technicalities
  • Different emphasis or prioritisation
High Level Goals

• “management control”
• “evaluation of effects of activities covered by the state budget”— i.e. results based

• Team emphasised:
  • Management accounting of spending departments

• MPF concerned with:
  • Centralised control
  • Reporting on use of funds

• Difference led to termination!

Holistic Approach

• Too technically focused
  • Big effort in training
  • Unable to address HR management issues
  • Threatened sustainability

• Projects should be:
  • More holistic
  • Part of an overall development strategy
Organic Structure of MPF

Vacuum

Comprehensive Reform Plan

- **Lesson** – projects should sit within an overall strategy and business plan, addressing
  - technical reform issues
  - as well as institutional/organisational issues such as:
    - business purpose and functions;
    - structure;
    - management;
    - HR management and development.
- **Lesson** – plan based on a comprehensive diagnostic
Context and Country Specific

- Reflect:
  - The law
  - Tradition
  - Capacity
  - Processes
  - Informal rules that apply

### SFMP Phases – Success and Failure

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Unsuitable Model?

- We concluded:
  - Not trying to impose “Swedish” model
  - Model was feasible and operable
  - Chart of accounts - an adaptation of Portuguese system
  - Package IFMIS – plans well thought through
  - Track record in addressing capacity needs
  - Not imposing accrual accounting in short or medium term

Too Much to Accept? - Perceptions

- Undue emphasis on accrual standard
  - As the goal
  - Synonymous with modernisation
  - Consistent with the project objectives
- Add to this
  - Misunderstanding
  - Clash of personalities
  - Some breakdown in donor communication
  - Unprecedented pressure from the IMF
Replacement Model

• “Vision” or “Philosophy” not shared
• Replacement Model
  • Dropped emphasis on
    • Spending department management accounting
    • Decentralised expenditure control
• Reverted to centralised control and reporting
• First priority became – single treasury account

Avoid Technical Solutions

• Lesson – where capacity is weak avoid
  • reliance on the modernizing technical solutions
  • placing undue importance on concepts such as:
    • Accrual accounting
    • Performance budgeting
    • MTEF
  • investing them with “magical” powers of solving all problems
• Lesson - design the solution in the country context
Donor Coordination and Technical Understanding

- Restricted scope for single bilateral donor
- Multi-donor interests must be
  - Better coordinated
  - Disputes avoided
  - Technically informed
- Support should be
  - Placed behind a government owned strategy
  - Support the strategy (with projects or finance)
  - Set up quality assurance arrangements

Conclusion on “Goals”

- “political allocation of resources” and “results based budgeting”
- Weaknesses in management and budgeting capacity a risk to:
  - availability of resources to carry out policy objectives
  - capacity to specify a budget other than along organisational lines
  - links between budget allocations and expected results
  - greater accountability by linking intended results to outputs and outcomes, rather than just inputs.
- Not just a question of:
  - technical capacity and understanding; but
  - management culture
    - Allowing managerial discretion in the use of inputs
    - Delegation and accountability
Migration Path

- For environments lacking
  - technical capacity
  - information necessary
  - required standard of accounting and reporting
  - the ability to attribute costs to activities
- Question:
  - Is performance budgeting appropriate?
  - Is accrual accounting required?

Cash versus Accrual

- Accrual accounting:
  - Do not overstate the case
  - Establish basic controls and compliance with law
  - Recognise risks
  - Only in context of wider public sector management reforms
  - Substantial upgrade in computer and human capacities
  - Accomplish in stages – a very long term option
Performance Targets

- Suggest shorter term path should be:
  - bring discussion of objectives and activities into the debate about expenditure allocations at the time of budget preparation
  - encourage efforts towards improved performance by establishing performance targets
  - provide the basis for the development of performance budgeting, as capacity allows

Conclusion

- Important capacity development project
- Progressed in spirit of partnership
- Delivered slow progress
- Has a list of achievements
- Established a basis for modernisation
- Ultimate objectives:
  - A lot for MPF to accept
  - Not necessarily shared
Conclusion 2

• Project terminated leaving lessons:
  • Get the basics right first
  • Do not over rely on technical solutions
  • Importance of ownership
  • Need for
    • Context and country specific solutions
    • Overall strategy in which project components fit
    • Donor coordination and technical understanding