



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

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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

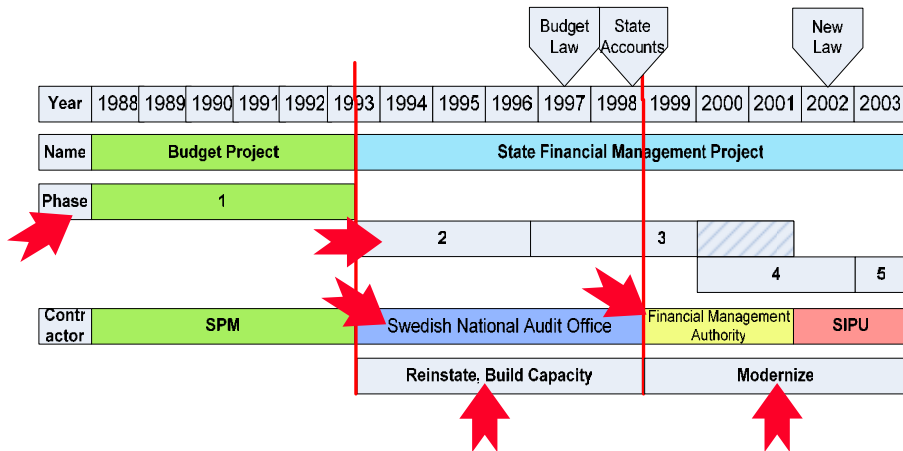


Description of Project

- 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

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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

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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

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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

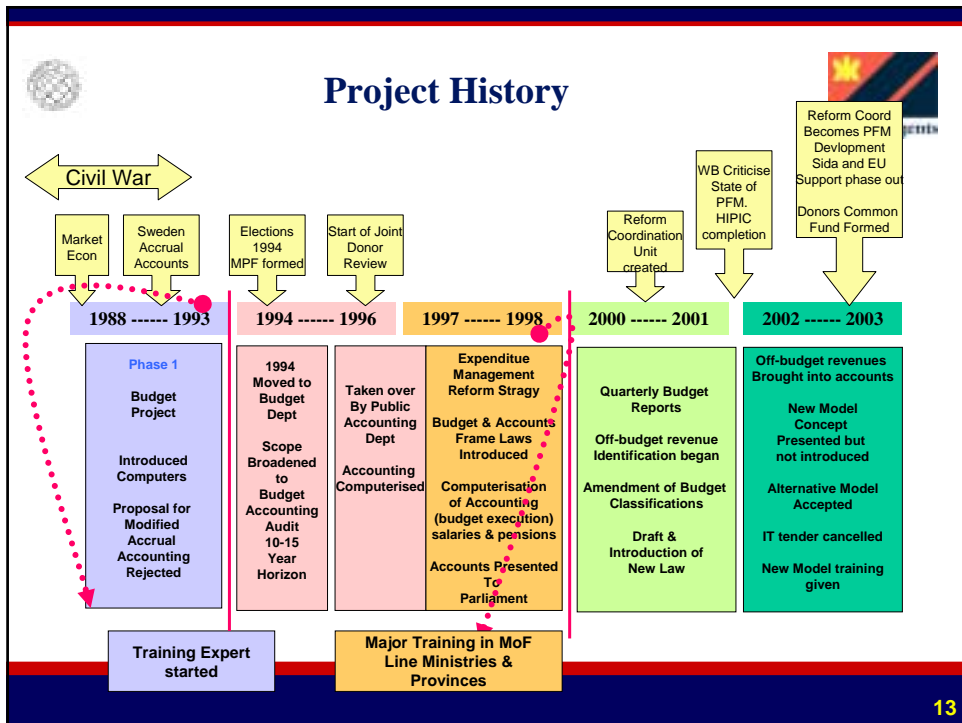
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Findings Achievement, Impact and Conclusions

Part 3





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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

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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

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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

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Conclusions - positive



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

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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

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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

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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

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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!

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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

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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

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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

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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!

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Holistic Approach

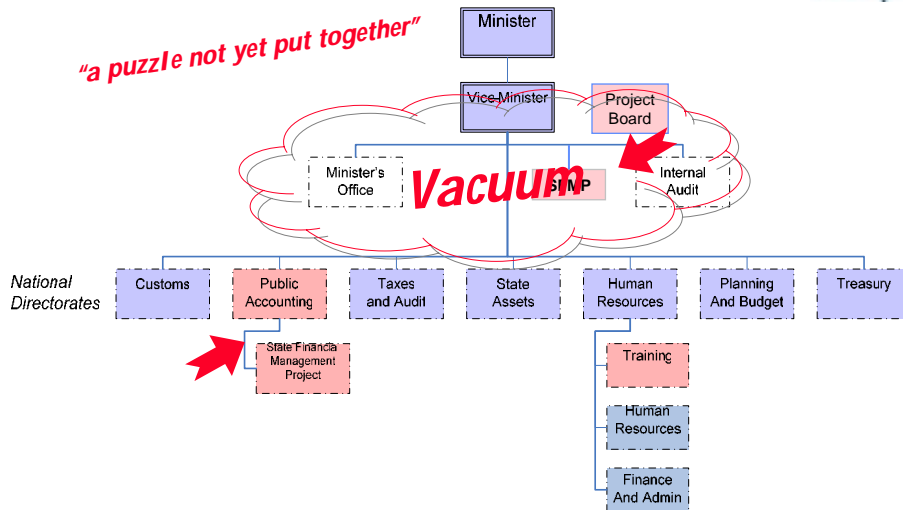


- Too technically focused
 - Big effort in training
 - Unable to address HR management issues
 - Threatened sustainability
- Projects should be:
 - More holistic
 - Part of an overall development strategy

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Organic Structure of MPF



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

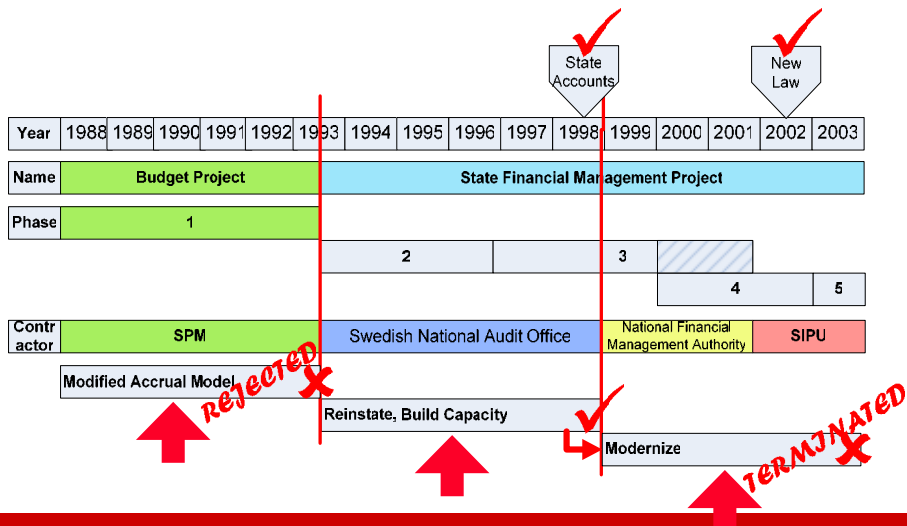


- Reflect:
 - The law
 - Tradition
 - Capacity
 - Processes
 - Informal rules that apply

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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

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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

TERMINATED

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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

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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

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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

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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

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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?

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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

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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