



Supporting Capacity Development in PFM - A Practitioner's Guide

Volume I



부산 세계개발원조총회
**4th High Level Forum
on Aid Effectiveness**
29 Nov – 1 Dec 2011, Busan, Korea

Supporting Capacity Development in PFM A Practitioner's Guide

Volume I



CIPFA / The Chartered Institute of
Public Finance & Accountancy



Acknowledgements

The Practitioner's Guide to Supporting Capacity Development in PFM was commissioned by the Task Force on Public Financial Management, co-chaired by Anthony Hegarty (World Bank) and Peter Simbani (Malawi) under the auspices of the Working Party on Aid Effectiveness (an international partnership hosted by the DAC). The Practitioner's Guide was prepared by Carole Pretorius with the support of Jérôme Dendura and Mario Dehove. The work was overseen by the task team leaders, the European Commission (Jonathan Wolsey) and CIPFA (Peter Boulding). Peer reviewers from the Task Force on PFM Advisory Panel provided valuable contributions and comments on previous iterations. The Task Force on PFM held broad consultative meetings in Malawi (April 2010) and India (December 2011) with representatives from partner countries and donors. Both meetings provided an opportunity for participants to share experiences in assessing Public Financial Management systems and to validate the key messages and recommendations in the Practitioner's Guide.

The task team would like to thank all the countries that have accepted to be case studies for the Practitioner's Guide, namely Lesotho, Mali, Morocco, Nepal and Rwanda, and all the government officials and other stakeholders in these countries that have been interviewed. The task team would also like to thank the OECD/DAC PFM Task Force Chairs, Secretariat and Members, as well as the Advisory Panel: Lesotho (Tom Mpeta), Malawi (Saulos Nyirenda), Germany, DFID (Stephen Sharples), SIDA (James Donovan), Finland (Mika Vehnamaki), the European Commission (Juergen Lovasz) and other organizations who assisted by commenting on this document. Sara Fyson from the OECD/DAC provided substantive inputs and contributed to the finalization of the Document. The Task Team expects that the Guide will be useful for PFM practitioners within and outside of the donor community.

Table of contents

Abbreviations and Acronyms	i
Foreword	iii
Executive Summary	iv
1. Introduction	10
1.1 Context	10
1.2 Contents	10
2 Definitions and Directions	12
2.1 Introduction	12
2.2 Definitions and Understanding of Key Concepts	13
2.3 Interest in Capacity Development	16
2.4 Key principles for Capacity Development	16
2.5 Putting CD Principles into Practice	17
2.6 Lessons Learnt and Emerging Consensus	21
2.7 Square pegs in round holes (perverse incentives and disincentives)	22
3 Step One – Understanding the Stakeholders	25
3.1 Understand the Political, Economic and Social Context	25
3.2 Know the Subject	27
3.3 Recognise Donor Constraints	28
3.4 Improving the dialogue	28
4 Step Two – Supporting Country Ownership and Leadership	31
4.1 Government-led demand	31
4.2 Assessing Demand and Supporting Ownership	33
5 Step Three – Assessing the Need	35
5.1 Assessing the need	35
5.2 Ensuring the Value of the Assessment Process	36
6 Step Four – Collaborating not Competing	39
6.1 Donor co-ordination	39
6.2 Working together	40
7 Step Five – Designing support	41
7.1 Design of a Response	41
7.2 A More Effective Response	44
8 Step Six – Flexible funding/choice of aid modalities	47
8.1 Funding choices	47
8.2 Balancing Flexibility and Accountability	48

9 Step Seven - Providing Advice	50
9.1 Use of Technical Assistance	50
9.2 Getting the Right Advice	52
10 Step Eight – Taking a longer- term perspective to learning	55
10.1 From knowledge transfer to knowledge acquisition	55
10.2 Supporting the new learning	57
11 Step Nine – Assessing the Results and Benefits	59
11.1 Monitoring and evaluation	59
11.2 Results, Uses and Benefits	61
References	62
Glossary of Terms	66
Annex A Methodology	67
Annex B Possible Approaches to TA	71
Annex C Learning Practice Approaches, Tools & Techniques	74

Abbreviations and Acronyms

AAA	Accra Agenda for Action
ABB	Activity Based Budgeting
ACCA	Association of Cost and Certified Accountants
ADB	Asian Development Bank
AfDB	African Development Bank
AFROSAI	African Organisation of Supreme Audit Institutions
ASOSAI	Asian Organisation of Supreme Audit Institutions
AusAID	Australian Agency for International Development
CARTAC	Caribbean Technical Assistance Centre
CIPFA	Chartered Institute of Public Finance and Accountancy
COFOG	Classification of Functions of Government
DAC	Development Assistance Committee
DFID	Department for International Development (UK)
EC	European Commission
EDF	European Development Fund
EU	European Union
FMIS	Financial Management Information System
FRA	Fiduciary Risk Assessment
FY	Financial Year
GFS	Government Finance Statistics
HDI	Human Development Index
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISP	Institutional Strengthening Project
JFA	Joint Financing Agreements
JICA	Japanese International Cooperation Agency
MDTF	Multi-Donor Trust Fund
MoFDP	Ministry of Finance and Development Planning (Lesotho)
MINECOFIN	Ministry of Economy and Finance (Rwanda)
MTEF	Medium Term Expenditure Framework
NAO	National Audit Office
NPPR	Nepal Portfolio Performance Review
NZAID	New Zealand Agency for International Development
OECD	Organisation for Economic Cooperation and Development
PAC	Public Accounts Committee
PARAP	Programme d'Appui à la Réforme de l'Administration Publique
PEFA	Public Expenditure and Financial Accountability
PEMPAL	Public Expenditure Management Peer Assisted Learning
PIU	Project Implementation Units
PIFMA	Pacific Islands Financial Manager's Association
PFTAC	Pacific Financial and Technical Assistance Centre
PFM PMF	Public Finance Management Performance Measurement Framework
PI	Performance Indicator

SAI	Supreme Audit Institution
SARS	South African Revenue Service
TA	Technical Assistance
TC	Technical Cooperation
TGR	Trésorerie Générale du Royaume (Morocco)
TSA	Treasury Single Account
UNDP	United Nations Development Programme
WAEMU	West African Economic and Monetary Union

Foreword

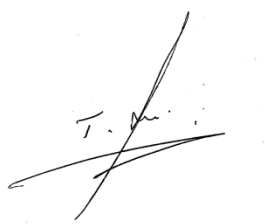
I am very pleased to write a few words to introduce this Practitioner's Guide to Capacity Development in Public Financial Management. As many readers are aware, the subject of capacity development has attracted much attention particularly in the past few years, thanks to the work of many organizations and specialists.

The Guide is intended to assist users in partner countries and development partners in designing and implementing initiatives aiming to strengthen institutional and human resource capacities in this particular component of country systems.

As the Guide clearly states, it is not intended as a do-it-yourself kit or manual. Rather, it is a framework which helps users to better understand the main concepts, identify key stakeholders and learn more about their priorities and concerns, assess capacity development needs in given situations, take due note of the local context, and examine how partner countries and their development partners can best collaborate.

I take this opportunity to stress three points. First, capacity development in all its aspects is the responsibility of partner countries which have to own whatever initiative is implemented in this regard. Second, based on such ownership and leadership, development partners have much to contribute, not only financially but technically as well. I refer here to both North-South knowledge sharing and to facilitating south-south co-operation. Third, capacity development is an ongoing medium to long term objective – a key feature which must be duly noted in planning any serious initiative in this field.

Lessons of development experience over the past 60 years have clearly underlined that building strong institutions, creating an enabling environment and upgrading human resource skills and competences are at the core of sustainable development requirements. I wish to express my appreciation to those who have prepared this Guide and hope that it will assist practitioners make their contributions to achieve this strategically important goal.

A handwritten signature in black ink, appearing to read 'T. Malek', with a stylized flourish extending from the bottom right.

Talaat Abdel-Malek, Co-Chair of the Working Party on Aid Effectiveness

Executive Summary

As part of the global efforts to make aid more effective, high level commitments have been endorsed by partner countries to strengthen their national Public Financial Management systems and by donors to use them to the maximum extent possible¹. These commitments result from the understanding that strong and effective Public Financial Management institutions underpin fiscal and macro stability, guide the allocation of public resources to national priorities, support the efficient delivery of services for poverty reduction and economic development, and make possible the transparency and scrutiny of public funds.

In the Paris Declaration on Aid Effectiveness (2005) and Accra Agenda for Action (2008) both partner countries and donors agreed to use country systems as a first option. In support of these commitments, this guide takes as its starting point, partner country demand for better support for capacity development. It is designed both for donor and partner country representatives. For donor representatives in country and in headquarters, it is a tool to help them better support capacity development efforts led and owned by partner countries. For partner country stakeholders (central and sector ministries) it is a tool to provide donor representatives with advice on how to support their capacity development efforts. Given the broad scope of PFM, it is hoped that it will also be of interest to other sector specialists. This Practitioner's Guide is drawn from the experience in five countries² and the input of members of the OECD-DAC Task Force on Public Financial Management³.

The guide adopts a broad definition of PFM, *"Public Financial Management (PFM) is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals"* (CIPFA 2010:5). It also adopts the principle that a level of financial literacy is required throughout government, as PFM and PFM Reform are not just the domain of economists and accountants.

In common with most stakeholder definitions, the guidance views capacity development as an ongoing process that occurs at the levels of the individual, the organisation and the society. It is also a process that is needed to both maintain or strengthen existing operations and to enable reforms. Despite the use of the term 'development' it does not restrict potential options to the creation of something new, recognising that an organisation's capacity can be enhanced through making better use of existing capacity. It also adopts the view that both 'new reforms' and 'ongoing capacity development' are change processes, which need to be managed albeit differently to ensure sustainability.

¹ In order to facilitate the implementation of these commitments, the Working Party on Aid Effectiveness created a Global Partnership on Strengthening and Using Country Systems. Two Task Forces were created to produce guidance and good practice notes on strengthening Public Financial Management and Procurement systems. In particular, the Task Forces were tasked with preparing a practitioner's guide to Supporting Capacity Development in PFM and Procurement respectively.

² Lesotho, Mali, Morocco, Nepal, Rwanda

³ The Task Force on Public Financial Management is partnership of donors and partner countries dedicated to implementing the Paris Declaration and Accra Agenda for Action as it relates to public financial management. It is a subsidiary body of the OECD-DAC Working Party on Aid Effectiveness. www.oecd.org/dac/effectiveness/pfm. A consultation (with 15 partner countries represented as well as 7 donors) was held in the margins of the Task Force on PFM meeting on the 13th December 2010 to provide feedback on the conclusions from the practitioner's guide.

The guide does not pretend to be revolutionary. It is not a recipe book, a Do-It-Yourself guide or a repair manual. There is no “magic bullet”. To the seasoned practitioner, some of the guidance may appear as ‘just’ common-sense. In reality, and as highlighted in the case studies, common-sense is not always that common. The four key principles set out in the OECD DAC (2006a) guidelines for supporting capacity development in PFM are still valid. These are that:

- Supporting country leadership and ownership should be central to donor approaches.
- Capacity development design and sequencing should fit specific country circumstances, rather than reflect standard or imported solutions.
- The institutional, organisational and individual levels of capacity development, including managerial and technical aspects, should all be taken into account in programme design and implementation.
- Donor support should be provided in a coherent, co-ordinated, and programmatic manner.

Evidence from the country studies and experience elsewhere shows, however, that implementation of these principles has been mixed, not least because PFM capacity development is neither for the faint hearted nor the time-constrained, intertwined as it is with broader governance, public service and general development issues. In-country discussions also show that donors and partner governments have very different expectations of what constitutes PFM and the ‘correct’ support to capacity development.

Consequently, rather than just focusing on ‘technical’ issues of support to capacity development (e.g. how to do assessments), the guide takes a more holistic view of the issues that need to be addressed. Specific guidance has also been written on supporting capacity development in procurement (UNDP 2010a) and in audit (OECD DAC 2010b). The following table provides a summary of the various steps and some of the main recommendations for donor agencies in supporting PFM reforms.

STEPS	RECOMMENDATIONS
Understanding the Stakeholders	<ul style="list-style-type: none"> • Identify and assess government priorities on PFM; understand decision-making process. • Understand context and embrace differences. • Strengthen internal (donor) capacity to understand the context. • Recognise donor constraints.
Supporting country ownership and leadership	<ul style="list-style-type: none"> • Identify champions and develop relationships that facilitate open and constructive discussions. • Avoid micro management as a solution. • Walk away if there is no internal (government) demand.
Assessing Need	<ul style="list-style-type: none"> • Be transparent and assess, if possible jointly with others, with an open mind. • Focus on what is there, not just what is not there. • Look at resources, management, institutional framework and

	support structure,
Collaborating not competing	<ul style="list-style-type: none"> • Government should take the lead in coordinating donor responses and support. • Internal coordination (within donors) is as important as external coordination.
Designing Support	<ul style="list-style-type: none"> • Provide alternatives to the problem, not single standard solutions. • Recognise the importance of timing (pace) and sequencing (order). • Design support that learns from other experiences but recognises differences – it may be more sustainable. • Recognise the potential scope of support needed
Flexible funding /aid modalities	<ul style="list-style-type: none"> • Improve the flexibility of funding to accommodate the dynamic nature of capacity development. • Initiate a dialogue on how to develop common understandings around fiduciary risk assessments (FRA).
Providing Advice	<ul style="list-style-type: none"> • First and foremost, don't provide assistance if it has not been requested; equally governments should reject unsolicited Technical Assistance (TA). • Ensure the government is actively involved in any selection process. • Set out clear management arrangements, which ensure government ownership of the process, but at the same time provides appropriate safeguards for the TA provider. • Provide quality TA to support government development not to manage donor funds.
Taking a longer- term perspective to learning	<ul style="list-style-type: none"> • Support demand for greater professionalization • Recognise the scope and the priorities of the target audience • In developing learning opportunities, determine what impact or benefit is expected, specific results or uses, whether it is a short-term or long-term intervention. • Support more innovative learning opportunities.
Assessing the results and benefits	<ul style="list-style-type: none"> • Place government in the central role for monitoring and evaluating support. This will also allow for the development of organisational evaluation skills. • Know your goal/intended benefit at the outset, if not always the exact path. • Measure the change process along the way. • Care needs to be taken not to impose perverse incentives or targets e.g. clean audit reports.

Sustainable capacity development for PFM starts with a common requirement for all donor support to understand the country context, know the subject and, importantly, recognise donor constraints. Proposed actions include following AusAID's principle of greater recognition of cultural differences, simple recommendations (that are too often ignored) to read the relevant documentation i.e. budget, establishing mission teams with a more mixed skill set, and as done by USAID, the consideration of changes to in-house recruitment policy to employ more PFM specialists with practical experience.

The guide then moves on to consider the most difficult but most important principle; that of supporting country ownership and leadership. It bases its suggestions on the view that the

definition of inclusive ownership is still debated, and as evidenced in numerous countries can be easily eroded - emerging in design, but killed in implementation. The approach to promoting inclusive ownership and leadership is a multi-faceted one and depends on the particular country context and the individuals involved. However, as clearly seen from the case studies and as explained in Hauck and Land (2011), before a partnership can be established, there needs to be a relationship between donors and government that enables constructive and open discussions to take place. Trust is imperative and establishing and maintaining a good working relationship, even when individuals and circumstances change is important. Micro-management is not a solution, but at the same time the most effective way forward may be to look elsewhere e.g. at the demand side of accountability, through greater support to civil society and parliament.

In assessing capacity development needs, the guidance draws from the description by Olander *et al* 2007 of four inter-related elements that need to be considered when assessing and developing PFM capacity. The first relates to **resources** (staff, funds, equipment, facilities, infrastructure and financial administrative networks). The second aspect looks at **management**, (leadership and political will, operational and change management). The third element is the **institutional framework** (legislation, procedures and organisational culture). The final element relates **to support structures** (the role of tertiary education institutions, professional bodies, other advisory bodies and the upgrading of skills). In response to the frequently voiced concerns over yet more assessments, the guide promotes the view that: (i) there is a lot of information already available; (ii) PFM assessments should be used for the purpose for which they were designed, and applied correctly; (iii) focus should be placed on what is there, not just what is not there; and iv) partner countries should be actively involved in coordinating the assessments.

In designing and implementing support, the guide does not set out what needs to be done e.g. the tools and techniques, but rather how to decide what needs to be done. It therefore strongly recommends that it should be linked to the broad capacity assessment above, focusing on the potential need for support to the institutional framework, resources, management but also to support structures. This needs to be done taking due regard of country context and government preferences and priorities⁴, placing change management at its core and recognising both the importance of timing (pace) and sequencing (order). Problems should be addressed, not solutions provided and when strategic advice is provided, governments should be presented with both the advantages and disadvantages of various alternatives. Furthermore, it advocates that the design should recognise the scope of the support required, the importance of all the players including those at the bottom of the chain, and motivational issues (e.g. recognition) not just technical factors.

The guide then discusses in more depth the provision of advice; it takes the view that technical advice should be interpreted broadly and includes both 'hard' knowledge and 'soft' skills. Advice can be both strategic and operational, it can be sourced from local, regional or international providers in the form of multi-lateral agencies, academic institutions, consultancy firms, regional associations or development institutions, and be in

⁴ E.g. Government officials face daily challenges and crises, support to manage these issues may be seen as a higher priority.

various forms, short-term, long-term, continuous, intermittent. Based on government responses, there is a clear preference that ‘operational’ advice is sourced from those with actual practical experience, as indicated by the positive response to the support provided by various National Audit Offices (NAOs). Concerns were raised about the quality and independence of advice provided in some cases and it is therefore recommended that further research is done on the development of a more vibrant and quality-focused technical advice market, particularly one that is able to provide the advisory approach needed by governments.

The guide also recommends that alongside support to greater professionalization and a broader target audience; more innovative learning opportunities should be supported. The traditional workshop has helped the hospitality industry, academic courses have benefitted the individual, but these have not always been translated into organisational capacity, not least because in several countries, they have been supply (donor) not demand driven. Several examples of learning by doing, supported by technical advisors or peer organisations have been cited as effective. Recognising that leadership and change management courses may be available through other support mechanisms, e.g. support to public service reform and the importance of such skills in the field of PFM as these form the basis for countries taking forward their own agenda.

In recent years, emphasis has been on improved donor coordination and in the case study countries there was a general recognition that it was improving, although there was still a long way to go, and several donors highlighted the cost in time and effort to maintain such arrangements. In theory, various papers and mechanisms are in place; in practice, they have proved to be less effective than expected. Effective coordination appears to be supported by strong individual (both donor representatives in country and their country counterparts) skills and challenged by institutional incentives and directives.

A frequent request from partner governments is greater flexibility. Achieving flexibility and the ability to adapt to changing circumstances without compromising accountability to donors’ home constituencies is a significant challenge. Overly bureaucratic procedures, inflexible terms of reference and conditionalities that are set in stone impact negatively on support to capacity development. The constraint for many donors and one that is not always recognised by governments, is that they are accountable to their home constituencies. A delicate balance is therefore required in ensuring that funds are used for their intended purposes and not misappropriated with the provision of more flexible (e.g. not tied to the training of debt management officers, but rather to the improvement of the debt office operations) and longer term funding⁵. Greater commonality between donors on fiduciary risk assessments and greater transparency on how they are interpreted is viewed as one way forward.

Recognising the complexity of CD processes, the lengthy timescales and the difficulty in attributing cause and effect, inputs to outcomes, it is suggested that a more feasible approach to monitoring and evaluation is to work backwards from desired impact or benefit, thus starting the evaluation process before the CD intervention and to monitor the process as well as the effectiveness of the change management programme.

At the end of the day, however, the fact that the key principles are not being followed, that square pegs continue to be placed in round holes is often the result of institutional incentives and directives within the various organisations, donors, governments and advisory bodies. As noted above, it is recommended that further research is done on establishing a vibrant market for high quality and independent technical advice. It is also suggested that any external/internal reviews of donor organisations' internal management requirements (e.g. lending policies), agendas (e.g. gender and green budgeting) and performance targets (e.g. amount disbursed) as well as individual performance targets should address the impact of these factors on the effectiveness of their support to PFM capacity development. Some would even argue that in assessing capacity development needs in a particular country, the constraints of participating donors should be included.

1. Introduction

1.1 Context

In the 2005 Paris Declaration, partner countries committed to strengthening their national systems and donors to using them to the maximum extent possible as part of the global efforts to make aid more effective. Both partners and donors agreed to accelerate and deepen these commitments during the Third High Level Forum on Aid Effectiveness held in Accra in 2008. These international commitments result from strong evidence that although some progress has been achieved in strengthening country systems (since 2005, 36% of countries have improved their score for public financial management (PFM) against a target of at least 50%), less progress has been achieved on the use of country systems, with only 45% of country systems being used in the countries surveyed in 2008. The survey results show that there is not necessarily a correlation between the quality of a country system and its use by donors. As a result, §15 of the Accra Agenda for Action (AAA) commits developing countries and donors to “*strengthen and use developing country systems to the maximum extent possible*” and “*donors will establish additional safeguards and measures in ways that strengthen rather than undermine country systems and procedures*”. Encouraging governments to strengthen their systems and in particular their PFM systems is linked to the importance of sound PFM systems for better service delivery, stronger economic growth and increased poverty reduction. The use of country systems is not an end in itself, therefore, but rather should be seen as a means to better service delivery.

Research undertaken as part of the preparations for the Accra High Level Forum showed that there are many obstacles in supporting the strengthening of countries’ PFM systems (OECD DAC 2008a). This Practitioner’s Guide to Supporting Capacity Development in PFM is in response to demands for better understanding and guidance on how donors could best support country-led efforts to strengthen PFM⁶.

1.2 Contents

This Practitioner’s Guide to supporting PFM Capacity Development (CD) is based on a literature review of CD and PFM, five case study countries (Nepal, Rwanda, Lesotho, Mali and Morocco) and discussions⁷ with key practitioners from government, technical assistance centres and donors. Interviews in country were guided by a semi-structured interview process, which comprised five broad themes: (i) conceptual understanding of PFM and CD; (ii) content of CD initiatives; (iii) process of design, implementation and assessment; (iv) impact of initiatives; and (v) sustainability of initiatives. The Guide has also benefited from comments received during and after the Task Force on PFM meeting in Delhi in December 2010 (including 15 partner country representatives).

⁶ The OECD-DAC Task Force on Public Financial Management tasked the European Commission and CIPFA with preparing this guide.

⁷ Telephone and email correspondence are supported by the teams’ own knowledge and experience.

Further information on the methodology is included in Annex A. Annex B includes the pros and cons of the various options for technical assistance and Annex C reviews some of the potential learning methods. A list of references and useful websites is also attached as well as a glossary of terms used. The detailed five country case studies are included in a separate volume.

Part One of this volume sets out the theory and context. Definitions of key concepts for PFM Capacity Development, as used in these guidelines, are discussed in section 2.2. Section 2.3 then discusses the nature of capacity development. Section 2.4 summarises some of the key principles in support to CD generally and section 2.5 sets out some of the findings from the country case studies, section 2.6 highlights some of the lessons learnt over the past decade. Section 2.7 then discusses some of the challenges in implementing these lessons and why there are still 'square pegs in round holes'.

Part Two contains the guidelines themselves – from pre-dialogue to post assessment and beyond. The approach taken for each step is one of setting out the theory (how it should be – good practice principles), the practice (how it really is - the good, the bad and the ugly) and then providing some suggestions for moving towards better practice. Detailed guidelines on supporting capacity development in procurement (UNDP 2010b) and audit (OECD DAC 2011) have been produced separately.

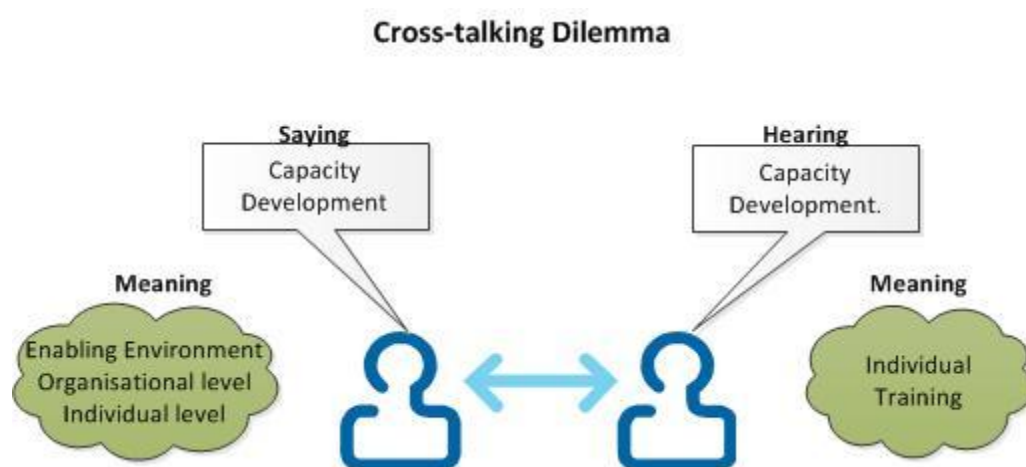
2 Definitions and Directions

2.1 Introduction

As the guidance is intended to be practical in nature, philosophical debate about definitions and interpretations is left to alternative forums. However, findings from case study countries and experience elsewhere show that there are differences in the understanding of key concepts e.g. capacity development, public financial management and reform both in governments, between governments, between donors and between governments and donors.

In the dictionary, **reform** means the action or process of changing an institution or practice. There is no reference to the pace or scale of change, whether it is radical (e.g. New Zealand PFM reforms) or incremental (small step by step change). However, some practitioners (and some donor driven reform programmes) do associate reform with more radical change and in particular new technology, new processes and procedures.

Most partner country respondents believe **capacity development** is an ongoing process and one that is needed to both maintain existing operations and to enable PFM reform. One respondent neatly summarised reform as the policy decision e.g. to move from cash to accrual accounting, while capacity development was seen as the action(s) to enable the reform to take place. **Institutional strengthening** is defined as increasing the capacity of institutions to perform their functions. The various terms appear to be used interchangeably for example the World Bank has several Institutional Strengthening and Capacity Building Projects supporting PFM reforms. Some donors also confuse PFM, PFM Reform and a PFM Reform Programme.



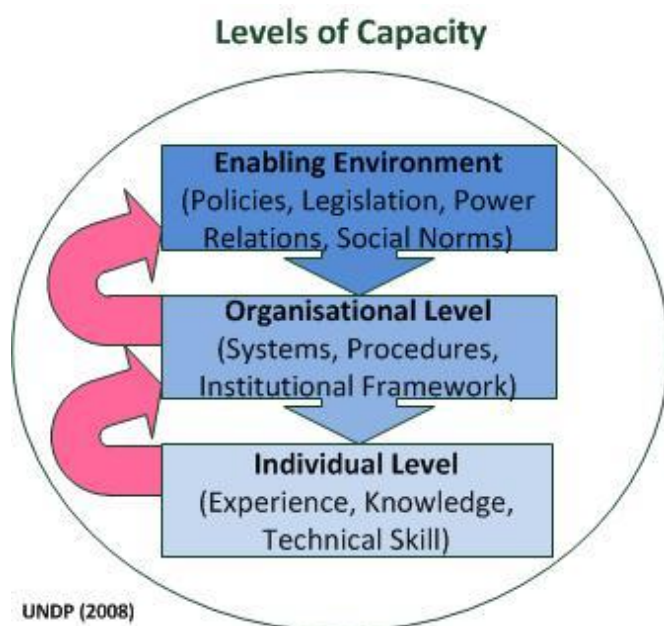
There is a clear need for a shared understanding to ensure expectations are similar between donors and government officials. In some countries, different expectations and understandings have resulted in tensions and frustration on both sides. Experience has shown, for example, that donors supporting reform are sometimes unwilling to support development of capacity to sustain the *status quo*, e.g. back room operations in the debt office, while government officials see this as a legitimate activity.

2.2 Definitions and Understanding of Key Concepts

2.2.1 Capacity

Capacity is the ability of people, organisations and society as a whole to manage their affairs successfully.
(OECD DAC, 2006b: 12)

Most practitioners generally concur with this definition. It contains no value judgement and makes no reference to best practice. It also views capacity at three different levels, as



economic growth and development.

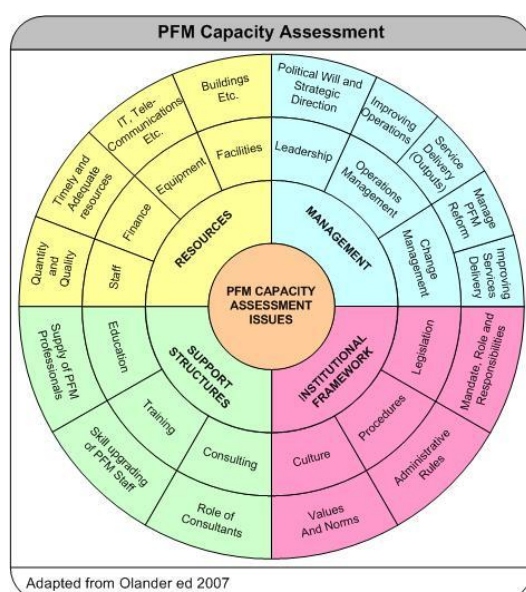
shown in figure 1 (UNDP 2008). Having defined capacity, a more fundamental question arises – ‘Capacity for What’? In PFM circles there is a general, although by no means universal, agreement that there is a need for capacity to achieve aggregate fiscal discipline, effective resource allocation and efficient service delivery. Some practitioners would also include transparency and accountability, although others, e.g. UNDP, view this as a governance issue, implying a value judgement. It is also generally agreed that the purpose of developing PFM capacity is not an end in itself, but is essential for the broader goal of

2.2.2 Capacity development

Capacity development is defined as the process whereby people, organisations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time. (OECD, 2006b: 12)

Evidence from the country case studies highlights that capacity development is still often equated by donors and partner countries with human resource development. However, there is a growing realisation that the enhancement and sustainability of individual knowledge and skills depends crucially on the quality of the organisations and the enabling environment in which they operate. Capacity is not only about skills and procedures; it is also about incentives and governance. This concept applies equally to capacity development

in PFM. Indeed, Olander *et al* (2007) describes four inter-related elements that need to be considered when assessing and developing PFM capacity. As illustrated in figure 2, the first



relates to resources and includes the quantity and quality of staff, adequate and timely financial resources, equipment and facilities as well as infrastructure such as, electricity supplies, banking services and other key financial administration networks. The second aspect looks at **management**, including leadership and political will, operational and change management. The third element is the **institutional framework** that takes account of legislation, procedures and organisational culture. The final element relates to **support structures** including the role of tertiary education institutions and professional bodies, the upgrading of skills through training and the role of consultants.

Capacity development encompasses both creating and building capacities, as well as the (subsequent) use, management and retention of capacities, with existing capacity as its starting point. Capacity building focuses only on the initial stages of building or creating capacity, assuming that there are no or little existing capacities.

This guidance refers to the broader concept of capacity *development* rather than capacity *building*. The Guide also recognises that creating new capacity is not the only option available when developing capacity. Indeed, there are various operational strategies for capacity development. These can include: (i) eliminating old or inappropriate capacity; (ii) reducing demands on over-stretched capacity; (iii) making better use of existing capacity and strengthening it; (iv) providing space for innovation and creative use of capacities; and (v) creating new capacity (Morgan, 1998). Making better use of capacity might mean for example, reviewing an organisation's incentive systems or promoting collaboration between organisations (e.g. between internal audit departments of local authorities) or consolidating departments or ministries.

2.2.3 Support to Capacity development

"Promotion of capacity development" refers to what outside partners – domestic or foreign – can do to support, facilitate or catalyse capacity development and related change processes. (OECD, 2006b: 12)

Importantly this definition recognises that capacity development is a change process that may need support in itself. The UNDP view transformation as an essential ingredient in their capacity development approach. As a result, they require that activities must bring about transformation that is generated and sustained over time from within. In other words, new

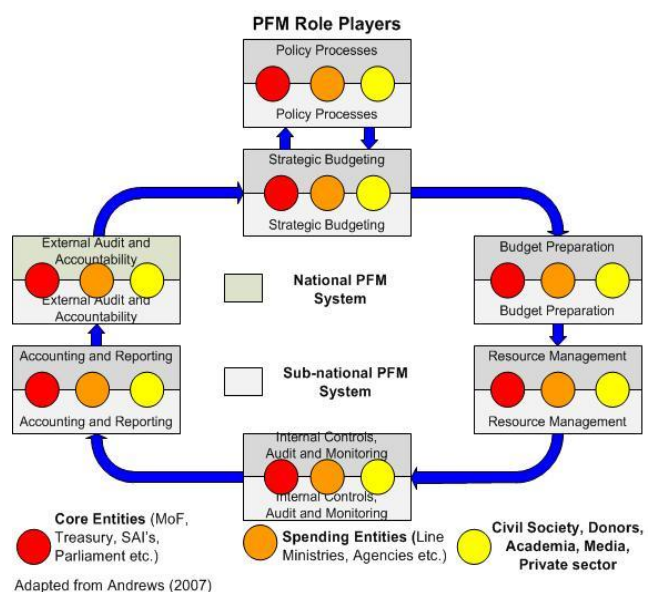
practices are only truly anchored in an organisation when it becomes ‘the way we do things here’. If something does not lead to change that is generated, guided and sustained by those whom it is meant to benefit, then it cannot be said to have enhanced capacity, even if it has served a valid development purpose.

2.2.4 Public Financial Management

Public Financial Management (PFM) is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals.”
(CIPFA 2010: 5)

Until recently, there was no universally agreed definition of PFM. The narrowest definition confined PFM to the downstream activities of budget execution, control, accounting, reporting, monitoring and evaluation (Allen *et al*, 2004). With the growing recognition of the importance of a sound PFM system to the delivery of a country’s development efforts and aid effectiveness, there has been an increased focus on the need to understand - *What is PFM?* and *Who are the key players?* The CIPFA definition of PFM⁸ focuses on its contribution to achieving strategic and operational goals as a key aspect of good governance.

Furthermore, it moves away from the concept that ‘managing the money’ rests solely with the Ministry of Finance. Every manager charged with delivering public services is equally responsible for ensuring that public money is managed well. Public financial management is not just about accountants keeping score (CIPFA 2010). Leaders and managers need to be financially literate and finance professionals need the skills to analyse, challenge, advise and not just control (or try to control).



The complexity of PFM relationships and multiplicity of PFM role players is best illustrated in the figure 3, which also highlights the sometimes forgotten area of policy (Andrews, 2007). In order to improve accountability and understanding, PFM capacity should therefore be developed within government’s core and spending entities as well as within civil society, the media and relevant oversight bodies. Although often dealt with as a special topic, most

⁸ Including both revenue collection and expenditure management.

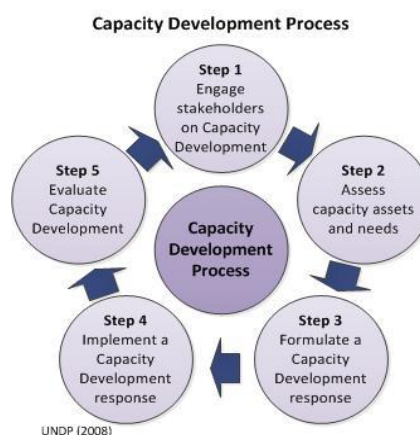
respondents included both procurement and audit in their interpretation of PFM and the key players.

2.3 Interest in Capacity Development

Outside the 'Development World', the term capacity development appears to be rarely used. However, this does not reflect a lack of interest, actions of people, organisations and societies strengthening, creating, adapting and maintaining their capacity occurs continually, as individuals, businesses and societies react to internal and external circumstances. At the level of society, capacity development happens, perhaps in line with economic development and the development of education. Can lessons be learnt? Are there key principles which others can follow? Can success be guaranteed? Certainly a review of successful business would suggest that you need excellent analysis, a good (but flexible) plan and capable staff, but most importantly quality leaders with vision, drive and commitment. ADB (2008) in their review of the creation of Star Mountain Investment Holding Limited in Papua New Guinea by the local community (without donor support), also highlights local participation and ownership.

Sometimes, there is an assumption that without donor intervention, there is no capacity development in or by developing countries. However, in all countries, capacity development can and does occur without external intervention. Due to various constraints (structural, financial, knowledge) the process may be different and outcomes may be less effective, but it would be wrong to assume that it is not changing and improving previous practices. In less developed countries donors can therefore play a role in providing expertise and finance, but capacity development programmes supported by donors is just a sub-set of overall capacity development.

However, there is no magic wand, either in the private or public sector. There is no model or process that will ensure successful and sustainable capacity development in all contexts. It does not matter whether it is a private company or a public sector organisation, whether the process was well designed and funded or not, there are too many variables to guarantee success. The process needs more than good analysis, planning and action plans. It needs quality leadership and continuing commitment. Leaders who are looking for new ideas to improve productivity or service delivery, brave enough to adopt and implement them, are the ones that are the most successful in transforming their organisations. Without a clear vision, the courage to challenge existing practices and embrace the unknown, leaders only become managers. It also needs 'buy-in' from those benefiting from capacity development to make the change sustainable.



2.4 Key principles for Capacity Development

The UNDP (2008) emphasises that capacity development is not a one-off intervention but a process of design-application-learning and adjustment. They align their capacity development process to the project management

framework as shown in figure 4 below, but acknowledge that there are many variables that influence the process.

In 2008, the EC developed its Backbone Strategy, with respect to capacity development, mainly in terms of reforming technical cooperation and Project Implementation Unit (PIUs) approaches. A study by the OECD Capacity Development Team (OECD 2009a) has developed an inventory of donor principles and practices with respect to Capacity Development. Donors are making capacity development a fundamental element of their programme of assistance.

In theory, donors share a number of fundamental principles on capacity development, which align closely with the Paris Declaration on Aid Effectiveness. These include the need for: (i) local demand for capacity development efforts; (ii) country ownership of capacity development initiatives; (iii) donor alignment with national strategies and development priorities; (iv) an understanding of the country context; (v) donor co-ordination and joint actions on capacity development; (vi) joint capacity need assessments; (vii) better division of labour; and (viii) building on existing capacities.

In supporting capacity development in PFM the OECD DAC (2006a) guidelines set out four key principles. These are that:

- Supporting country leadership and ownership should be central to donor approaches.
- Capacity development design and sequencing should fit specific country circumstances, rather than reflect standard or imported solutions.
- The institutional, organisational and individual levels of capacity development, including managerial and technical aspects, should all be taken into account in programme design and implementation.
- Donor support should be provided in a coherent, co-ordinated, and programmatic manner.

These principles will continue to shape implementation of capacity development programmes. Ahead of the 4th High Level Forum on Aid Effectiveness to review progress since the Paris Declaration, the recent Cairo Consensus Statement (March 2011) draws on these principles whilst marking a shift in approach to supporting Capacity Development. The statement sets out the following key principles: (i) capacity development should not be an afterthought; (ii) capacity development is strategic for the achievement of development results; (iii) domestic leadership of capacity development is essential; (iv) existing capacities should be the backbone of any CD initiative and must not be undermined; (v) systematic learning on what works and doesn't is key to improved capacity; (vi) supply-driven technical co-operation rarely builds sustainable capacity; and (vii) capacity development is a top priority for countries affected by fragility.

2.5 Putting CD Principles into Practice

Putting the above principles into practice is acknowledged to be considerably more challenging, particularly with respect to government ownership and donor coordination. Key

findings from the five case study countries are summarised below and provided in more detail in Volume Two.

Supporting country leadership and ownership should be central to donor approaches

As set out in the guidelines, country ownership implies active government involvement in all phases of designing and implementing support to PFM capacity development. While country leadership may mean that donor specific interests are not necessarily always followed. This first principle assumes implicitly that country leadership and ownership exists and is constant. In the case study countries and elsewhere, the situation is not so clear cut, as described in the Box 1 below.

In Rwanda and Morocco, there is high-level leadership and support from the President and King respectively for many of the ongoing PFM initiatives. In Lesotho, several government respondents noted that was high-level ministerial and administrative support.

Despite high-level support, however, this does not always translate into leadership in implementation. In Lesotho, although there was high level support, wider support even within the Ministry of Finance and Development Planning (MoFDP) was less tangible. In Lesotho, as implementation has progressed, personnel has changed and implementation targets as well as day to day work pressures appear to have shifted ownership and leadership away from government. Broad ownership of the overall reforms by stakeholder line ministries is reported to be weak, while political support as evidenced by timely approval of revised legislation has not occurred. Despite the high-level support of the King in Morocco, there is also a recognised need for clear leadership in government itself. Stewardship of the reform process is deemed weak and positive gains being sought from the development of a shared vision amongst the senior management.

In Mali, the absence of involvement of Parliament and other external actors e.g. audit was highlighted as a major factor and the delays caused by lengthy discussions over the methodological issues are seen as diminishing initial government ownership and interest.

In Nepal, concerns were raised about the extent to which the Government is in the driving seat, whether at design stage or implementation. Many training courses are viewed as supply not demand driven, and technical assistance is not viewed as truly owned. In Morocco, the donors' support programmes to the PFM reform and the government's reform have become confused with disbursements conditions effectively driving the process. In Mali, the level of scrutiny by donors is viewed as eroding country ownership.

Conversely in Rwanda, the low level of corruption linked with the perception of high-level leadership means that there is a significant amount of trust between the main donors and government on PFM issues. Although reforms may not have been originally designed by government, there is a high level of government buy-in, which of course puts additional pressure on donors and their advisers to provide the Government with the most appropriate advice and support.

At a more micro level, in Lesotho, several government officials are actively trying to develop the capacity of their organisations to fulfil their mandate. In these cases, despite the many difficulties, it is their emphasis on the human element (recognition of efforts) that appears to be facilitating progress. Leadership and ownership can therefore occur at many levels, not just at a political or senior management level. It is also not a constant and can easily be derailed.

Capacity development design and sequencing should fit specific country circumstances, rather than reflect standard or imported solutions.

The second principle revolves around the concept that effective capacity development starts with a premise of building upon what already exists, rather than transplanting entirely new systems. As for the first principle, the experience in the country case studies is mixed, but overall there is reported to be a tendency to introduce standard solutions irrespective of prevailing capacity, potential use or perceived benefit. Views expressed on the extent to which design and sequencing fit specific country circumstances are shown in Box 2 below.

In Rwanda, the move from a Francophone to an Anglophone system is clearly a major transformation. A review of the type of reforms being implemented suggests a fairly standard set of solutions, as is the case in Lesotho, Nepal, Morocco and Mali. Although in Lesotho some adaptation to reflect country context did take place during implementation, for example sidelining activity based budgeting and revised banking arrangements. In Rwanda, some external stakeholders see the reforms as too ambitious and therefore ultimately unsustainable, although this is not a view shared by key government personnel. In Nepal, some concerns were raised about the countrywide implementation of a Treasury Single Account (TSA) given the uncertainty over the future governance system in the country and poor banking and communication facilities. Similarly, in Morocco, Nepal and Lesotho, concerns were raised about donor support to the preparation of 'best-practice' manuals, which did not fit the country context or meet specific management needs (too abstract and lacking in practical guidance). However, in Morocco, twinning arrangements with other practitioners are appreciated, providing a welcome international peer exchange mechanism and in situ training. As this takes place in both countries, it allows for practices to be adapted to make them relevant to the Moroccan context.

In Morocco, the Trésorerie Générale du Royaume (TGR) has led and undertaken reforms on public procurement, internal controls and internal audit and has introduced an accrual accounting reform. The TGR, contrary to the ministries, has sequenced its reform plan and has paced its reform effort carefully, considering capacity issues and roll-out. At the micro-level, some degree of sequencing over the introduction of computerised systems is also evident in Rwanda. In Mali, the direction of their reforms and the associated capacity development has reflected the directives of WAEMU, a degree of standardisation is therefore inevitable. Sequencing of reforms has not taken into account the country's development state or its available capacities. The sequencing of the reforms to gradually introduce better procedures and practices from the simplest to the most complex has not been factored in to the design process.

The institutional, organisational and individual levels of capacity development, including managerial and technical aspects, should all be taken into account in programme design and implementation

The third principle focuses on the fact that capacity development must be viewed from a holistic perspective, and not seen merely as a transfer (e.g. of skills, money, equipment). Donors must increasingly consider change management issues, and how the process of developing capacity can be managed effectively by the organisation. The extent to which such a holistic approach has been taken in the country case studies is discussed in Box 3 below.

In Morocco, the internal lack of a holistic perspective is viewed as their biggest challenge. The focus on developing capacity has been narrowly defined as developing professional competence through regular training programmes, and coordination of organisational efforts is seen as particularly weak. The emphasis on techniques has been to the detriment of “soft” issues: no clear plan was developed for the reform to establish a clear goal, share a vision and manage change. In addition, the focus on tools has also been to the detriment of a focus on enabling people to use those tools for the benefit of their organisations.

In Mali, carefully formulated plans are addressing a number of institutional, organisational and individual capacity development issues. There is also a change management strategy, the implementation of which is headed by a dedicated unit: however, it is recognised that insufficient attention has been paid to counteracting the influence of vested interests and the need to provide motivational incentives. In Nepal, there is recognition of the need to support different actors (e.g. government and civil society) but most support appears to have a technical bias and is not yet addressing the capacity needs of training institutions. Although discussions are ongoing about key civil service reform issues including pay and transfer policy, change management issues remain on the periphery not at the centre of support and dialogue.

In Lesotho, donor support has focused on new legislation, systems and procedures, the professionalization of accounting, auditing and procurement and the associated capacity of training institutions. Although issues of staff retention for those obtaining their professional qualifications in Lesotho and Rwanda remains a key concern. It would seem that insufficient attention was paid at the outset to the possible winners and losers and change management was equated with downwards communication.

Donor support should be provided in a coherent, co-ordinated and programmatic manner.

One of donors’ primary responsibilities should be to minimise the transaction costs, harmonise procedures and monitoring mechanisms and coordinate not compete. The picture in the five country case studies is significantly different, a reflection perhaps of the overall donor: government relationship. As explained in Box 5 below, the situation is quite different across the five country case studies.

Rwanda has a highly structured donor coordination mechanism, existing at several levels of the development plane, from high level representatives to technical working groups. Similarly, a monitoring system also exists at several levels, measuring performance and guiding coordination from the technical level up to the donor level. Success of the donor coordination in PFM support is partly attributed to the small number of donors.

In contrast in Nepal with respect to PFM support, it is generally recognised by both donors and government that a coherent, co-ordinated programme of support is a work in progress. Earlier support was provided in an ad-hoc and fragmented way, the introduction of a Multi-Donor Trust Fund (MDTF) is seen as the first step to a more co-ordinated and coherent approach. The principles of the MDTF include improved harmonisation and coordination, better policy dialogue, greater flexibility and participation.

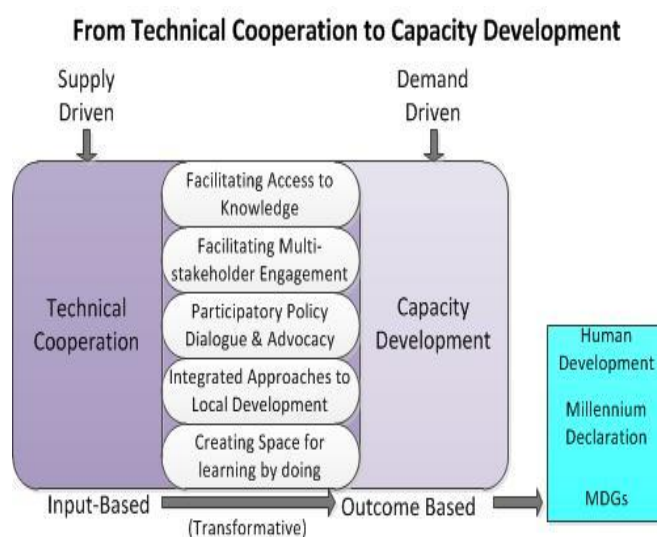
In Morocco, in the absence of a coherent government plan and vision, donor support has also been somewhat fragmented. The lack of clear indicators and targets and the confusion between the Government’s programme and the donors’ support programmes that ensued, resulted in a feeling of an imposed reform set of activities.

Support to PFM in Mali is a mix of budget support and specific project support. The level of coordination is considered to be quite good, championed by the European Union, although transaction costs are viewed by some participants as considerable. However, donors are viewed as having failed to adopt a coherent approach to supporting the external audit function. Their own prevailing models have been advocated ahead of a model that meets Mali's political, cultural and social context.

In Lesotho, efforts have been made to improve donor coordination, and given the relatively small number of donors (particularly those in country), this has achieved some success. However, several respondents felt that co-ordination of support and technical advisors could be improved. At the end of the DFID programme, all donor support is being provided separately, there is no pooled fund, no pooling of technical advisors, no formal mechanism to ensure that responses to requests are complementary not competitive.

2.6 Lessons Learnt and Emerging Consensus

It is now recognised that both donors and partner countries have traditionally viewed capacity development as a primarily technical process, a transfer of knowledge or 'best practice' models from North to South. Technical co-operation - defined by the DAC as "the provision of know-how in the form of personnel, training, research, and associated costs" – has for long been equated with capacity development. Also, a significant level of technical assistance was (and still is) employed to manage donor operations and therefore was (is) either not providing any form of capacity development or at best developing local capacity to run external systems. As illustrated in figure 5, there is now a shift in focus from the provision of supply driven technical cooperation to demand driven capacity development (UNDP 2008). There is also a recognition that capacity development is not simply equated with technical cooperation but it is a much broader concept referring to incentive systems and public sector reforms.



Insufficient attention was paid to the political, economic and social context within which capacity development initiatives were taking place. According to Dorotinsky (2008), the way forward for donors is to allow countries to identify their most pressing PFM management challenges, and help them solve these with practical solutions, rather than advancing a specific set of reform measures, be it medium-term expenditure frameworks (MTEF) or gender-based budgeting.

The challenges of making changes in PFM are well known. PFM reform is not for the faint-hearted, nor the time constrained. In both developing and developed countries, progress to date has been mixed. Politics and the budget process are intertwined and changes are often triggered by fiscal or political crisis. Donor influence is perhaps not as strong as they believe. This does not mean that improvements are not being made on a daily basis, but rather that the pace of change does not always meet stakeholder expectations. Indeed the whole issue of the timing (pace) and sequencing (order) of reforms has received considerable attention and combined with the links with public service reforms and governance issues shows the complex environment in which PFM capacity development occurs. There is a growing recognition that a long-term focus is needed, that developing capacity in PFM is a continuous and dynamic process not a discrete and mechanical process. The fact that it is continuous and dynamic implies that both a long-term and flexible approach is required. There is greater recognition that capacity development requires change in peoples' behaviour, and in PFM this means many people and many organisations.

In terms of training, there is an emerging consensus that the focus should be on learning not training, knowledge acquisition not knowledge transfer and a move away from individual skills to organizational and institutional learning needs (OECD DAC 2009b). The problem is that training (especially abroad) has become an incentive/reward for many government staff. It is also not always clear whether donors are willing to allow governments to learn through their mistakes – dismissing ideas that may have incremental success in favour of more radical 'ideal' solutions.

However, perhaps, the hardest lesson to put into practice is the growing realisation that CD is an internal change process. External partners cannot "do" capacity development of others – they can only support it.

2.7 Square pegs in round holes (perverse incentives and disincentives)

Experienced practitioners (inside and outside government) acknowledge these basic 'truths'. Nevertheless, even from a purely technical perspective, an honest assessment of ongoing initiatives would show that there are still several examples of square pegs being placed in round holes. In addition, as evidenced by numerous political economy studies, the budget is a political process rather than just a technical one, and there is a gap between formal institutions (how things are supposed to work) and informal practices (how things actually work).

What should be done and is not done, and what is done but probably should not be done is often also the result of the following pressures:

- **Peer pressure and international 'best practice'**. The concept of going back to basics is often not palatable and for some countries, for instance those adhering to the West African Economic and Monetary Union (WAEMU), not even possible. Addressing basics first or building the foundations are more marketable concepts;

- **Private sector interests** (e.g. profits). The for-profit sector may dismiss what the organisation really needs (basic accounting software) in favour of ‘the latest technology’ (highly sophisticated multiple modules using multiple currencies etc.) in their drive for greater profits or continuing existence;
- **Donor organisations’** internal management requirements (e.g. lending policies), agendas (e.g. gender and green budgeting) and performance targets (e.g. amount disbursed). Indeed some argue that a focus on disbursement rates can lead to inappropriate choice of aid delivery mechanism. In some cases internal rules and procedures are of greater significance than the organisation’s mandate or goal; and
- **Individual incentives** (financial and non-financial). Promotions within some donors may be based on loans approved not the success of interventions. In PFM, vested interests play a dominant role even in ‘so-called’ technical initiatives, and some individuals may be keen to be seen implementing the latest trend.

The challenge is how to address these issues or mitigate their impact. Based on real-life success stories, good and bad practice, the following guidelines attempt to address some of the challenges faced in supporting capacity development in PFM. It is not a recipe book, a Do-It-Yourself guide or a repair manual. There is no “magic bullet”. To the seasoned practitioner, some of the guidance may appear simply common-sense. In reality, and as evidenced in the country case studies, common-sense is not always that common. Some suggestions are straightforward, others, such as the need to develop a more effective market in independent technical advice will require further research. This guide takes as its starting point, partner country demand for better support for capacity development.

The guidelines adopt the broad CIPFA definition of PFM, which recognises that financial and non-financial personnel are involved in PFM. This is recognised to be broader than that expressed in many of the countries visited, who frequently restricted their view to central ministries or excluded oversight organisations. Capacity development is an ongoing process and one that is needed to both maintain or strengthen existing operations and to enable reforms. It is not restricted to individual capacity development or to one solution – creating something new. The guidance also adopts the view that both ‘new reforms’ and ‘ongoing capacity development’ are change processes, which need to be managed to ensure their sustainability.

Many of the ideas described in the following section have been raised on previous occasions. However, addressing many of the institutional incentives described above, which have been shown to work against effective and appropriate support to capacity development goes beyond the expected outcomes of a practitioners guide. Further research is required, for instance, on how current internal donor targets such as disbursement rates or loan approvals affect interventions, or as discussed in Fyson (2009), how consultancy/software supplier profits distort the effectiveness of support provided. Current logical frameworks, stakeholder analysis and change management strategies also often

focus on only one side of the equation. Providing solutions which are too complex and expensive to use, and thus potentially creating 'capacity gaps' will undermine all other capacity efforts.

3 Step One – Understanding the Stakeholders

3.1 Understand the Political, Economic and Social Context

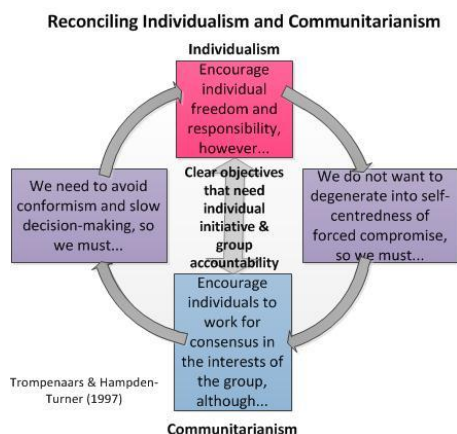
Theory

For a long time, multi-national companies have recognised the importance of country context. They understand that their bottom line depends on knowing how to do business in a particular country. They realise that marketing a product in a culturally inappropriate way may cause offence and ultimately affect their profits. Increasingly, multi-lateral and bi-lateral donors are also emphasising the importance of understanding the political, social and cultural dynamics in a country, the formal and informal structures and relationships. Significant time and money is spent on “drivers of change, power and institutional analysis”.

“Knowledge of the specific context (political, economic, social and cultural conditions as well as formal and informal power structures) is a key prerequisite to design external donor contributions”.
(GTZ 2008: 3)

Culture operates on a sub-conscious level, where one is not always aware of one's own norms and values or one assumes they are universally shared. It is also a relative concept because one only becomes aware of cultural differences when coming into contact with people with different cultural values and norms. *“What is like our culture is normal, good, rational and safe. What is unlike our culture is abnormal, evil, irrational, dangerous”* (Hofstede, 2006:10). The same applies when a donor (representing an organisation with its own unique organisational culture) cooperates with government officials (and other donors) from a different cultural background. Only when

both parties understand the key cultural differences can they take steps to improve cross-cultural communication and understanding.



In order to understand other cultures, one needs to look at one's own cultural values and norms. Understanding the way you make decisions, behave in meetings or view time will be a great benefit in understanding why others may behave differently⁹. Once the basic cultural differences have been established, one can move forward in reconciling these differences and creating more sustainable relationships.

“Many (people with different-CP) cultures decline to change at the behest of western consultants unless the ways in which they will preserve their identity are made clear to them” (Trompenaars and Hampden Turner, 1997:133).

⁹ As a starting point look at www.geert-hofstede.com where one can make a basic cross cultural comparison.

A view clearly shared by some officials in Mali as highlighted in the case study.

Practice

During the country visits, several government officials believed donors should understand the country context because of their long term organisational (if not individual) involvement. However, the way in which donors take these factors into consideration is often unclear - as staff retention/transfer policy, lack of leadership, politics, cultural values, internal conflict, unions, resistance to change, low pay, poor motivation and lack of recognition are often cited as implementation problems. The majority of respondents felt that actual understanding was limited, and did not recognise the real-life problems faced on a daily basis by senior government officials. Even when donors appear to understand these contextual problems, it is felt that they either ignore, or do not know how to deal with them during the design and implementation of support. Donors' responses to cultural differences also vary.

In Nepal for example, some government officials felt that the potential implications of a federal state were not sufficiently considered in deciding upon the introduction of the Treasury Single Account (TSA). In Mali, there were contrasting perceptions (see Box 6).

Contrasting perspectives

Donors were of the view that the cultural and organizational context is a very important issue in Mali. They quote in particular: the importance of consensus in the society in Mali; the weight of interpersonal relations and family, village, clan relationships and its effect on hierarchical system and functional relationships; the emphasis on personal interests over public good; the general climate of mistrust; non-use of sanctions; the great tolerance of absenteeism. Donors consider that these cultural and contextual factors are taken into account both in dialogue and by the fact that their staff members are either senior ex-government officials or persons having a very long experience of Africa. They also consider that the dialogue with the partner country is a means to take into account the obstacles in terms of life experience.

In contrast, officials in Mali believe that the cultural and institutional context is not always sufficiently taken into account; they cite the example of family and religious policies that they consider alien to their tradition. For other officials the problem is not that donors should take into account the Malian context, but rather that Malians free themselves from outside influences, and not obey the latest "trend or fashion" for example decentralization and the creation of Court of Accounts are often quoted as a good illustration of this opinion.

In order to counteract some of these challenges, some donors such as AusAID in their assistance, including support to financial management try to embrace cultural differences and factor them into their support.

Embracing Differences

AusAID recognises the importance of the cultural dimension of capacity development. This knowledge is used both in training course design, technical adviser and counterpart orientation¹ and in broader programme design. As part of this approach, in the Pacific both AusAID and NZAID require technical advisers and country staff to undergo local language training.

3.2 Know the Subject

Theory

Donors should have at least a basic knowledge of PFM in order to contribute to discussions on support to PFM capacity development. As a minimum, they should be able to read and analyse financial documents such as budgets and financial statements. This is vital as dialogue on PFM issues is frequently with specialist technicians from the government, who understandably may be irritated by a clear lack of knowledge (a senior government official complained of poor donor knowledge of PFM in one country) and inappropriate solutions. Care should also be taken not to assume that finance officials do not understand their subject, just because the country's PFM systems may be flawed. Similarly, if representatives from headquarters undertake a mission to review PFM reforms, they should take the time to read any relevant PFM assessments (and in particular PEFA) before meeting with in country representatives and government officials.

However, a theoretical knowledge of general PFM concepts is not sufficient. Effective dialogue requires an understanding of how these concepts are applied in country. This will enable dialogue to go beyond identifying the symptoms and to gain greater understanding of the causes (see also Step three – assessing the need), such as: *“What could explain unrealistic revenue forecasts? Weak technical capacity in forecasting? Unpredictable external economic developments? Or deliberate manipulation of revenue forecasts in order to postpone hard choices to the budget execution phase?”* (Tomassi 2009:9).

Practice



Despite the training efforts and multiple diagnostics, donor representatives often acknowledge that their understanding of local PFM systems remains weak in many countries. For example, in one country analysed for this study, donors place their support to PFM reform through the budget (appropriated by Parliament). However, the consequence of delays in parliamentary appropriation for programme funding is not well understood. Several offices with significant funding assigned as budget support also do not have a copy of the budget!



During the country visits, concerns were raised that the donor staff profile in country does not always reflect adequately their own country programme. This lack of technical skill is further hampered by the limited technical support from Head Office.



In the Pacific and Caribbean regions, some (although not all) donors are coordinating their efforts through the Caribbean Technical Assistance Centres (CARTAC) and the Pacific Finance and Technical Assistance Centres (PFTAC) or are using their knowledge and expertise for quality assurance or in designing support.



An increasing number of donors e.g. EC, DFID, Royal Netherlands Embassy (RNE), SIDA and Danida are providing in-house training for their staff on PFM. AusAID has established a Capacity Development Panel comprised of seven Australian and seven international experts to provide guidance on capacity development action throughout their own system. A similar initiative has been launched recently by the European Union.

3.3 Recognise Donor Constraints

Theory

Development literature focuses heavily on understanding country context and the need for harmonisation and coordination of donor practices, but less emphasis is placed on understanding the aid environment, donors' own organisational culture and individual capacity. However, the need to recognise these factors is essential to supporting inclusive ownership as discussed in Step Two. *"Supporting inclusive ownership requires donor staff developing self-awareness of how power operates in their relationship with people in the country where they are working. The organisational and individual critical self-reflection that this demands delivers benefits to donors as well as to those they work with. Donors too will learn to think differently, imagine new possibilities and debate alternate choices"* (Eyben 2010: 8).

Practice



Internal procedures and excessive bureaucracy often limit the ability of in-country donor representatives to understand the country context, initiate dialogue or develop the necessary relationships, which as discussed later are essential for successful partnerships. There are also examples of donors/advisers arriving in a new country who do not allow themselves time (or are not allowed time) to become acquainted either with the country or their partners.

3.4 Improving the dialogue

Clearly to enter into meaningful dialogue, it is not necessary to be a specialist in every area of PFM or to be an expert on the political economy or cross-cultural management. As with driving a car, knowledge of the technical workings of the combustion engine is not a prerequisite; however, you should have the skill to drive a car and have an informed understanding of the rules of the road in order to reach your destination (and avoid a crash in the process). The following paragraphs set out some ideas on how individual donor representatives in country can (and are) improving their knowledge, how individual donor organisations and the donor community could (are) improving their own capacity to support capacity development in PFM. Evidence from the case studies shows that there are clear differences between donors and government officials on both what is PFM and what type of support donors should provide. The first step in any dialogue therefore is to agree for each country on what is PFM and to understand the different expectations. The following recommendations are intended to enhance the ability of donor representatives to contribute effectively to the discussion.



At an Individual level:

- Place government priorities on PFM at the centre of individual, organisational and donor level decision-making processes.

- For a better understanding of the enabling environment review donors' "institutional, power or drivers of change analyses"; social history and other publications¹⁰;
- Read government reports - the budget, budget speeches, financial reports, the Constitution and relevant legal documents, they are first base¹¹;
- Read existing donor diagnostics and analysis – e.g. Public Expenditure and Financial Accountability (PEFA) assessments, Reports on the Observance of Standards and Codes (ROSC), etc.;
- Use the Train4Dev PFM initiative to gather relevant training materials;
- Know your limitations (because others certainly will) and avoid the temptation of voicing opinions too early;
- Learn the language; and
- Work on weaknesses (whether it is 'soft' or 'hard' skills). Remember strengths in one society (e.g. assertiveness) may be perceived as arrogance or ignorance in another environment.



At an Organisational level

- Consider examples of good practices in incorporating cross-cultural dimensions (such as AusAid's model);
- Include more PFM information in staff induction courses, even for sector specialists such as health and education advisers. This would potentially mean a review of current skill sets including a broader understanding of public sector policy making and institutional relationships;
- Consider the need for a review of the composition of staff advising on PFM matters to ensure that the appropriate level of expertise is available. This may mean recruiting specialist staff (accountants/auditors/budget analysts/procurement personnel). For example, USAID is recruiting more chartered accountants and training them on development issues;
- Consider making better use of existing resources, available either in country or at headquarter levels, e.g. local finance staff. For example, Irish Aid uses its internal auditors as key interlocutors with government on PFM issues;
- Establish key document libraries;
- Ensure that teams have the requisite skills ("hard" and "soft"), consider the use of multi-disciplinary mission teams; and
- Choose the right person for the location that can do the job, but can also fit in.



At Donor level

- Develop regional networks/forums;
- Use more extensively the expertise of the Technical Advisory Committees;

¹⁰ A World Bank study is on-going to look in more depth at the organisation of and the political economy of central finance agencies.

¹¹ Trainers frequently cite examples of participants at public policy courses who have never opened a budget or read the country's development plan

- Develop more country-specific training courses; and
- Develop international communities of practice.

Know the Country. Know the Subject.

4 Step Two – Supporting Country Ownership and Leadership

4.1 Government-led demand

Theory

The first key principle of the OECD DAC (2006a) guidelines in supporting capacity development in PFM, relates to country leadership and ownership. It is increasingly recognised that ownership implies a specific, active investment by partners (leadership, time, energy) and that successful capacity development - and associated support - depends on the change readiness of partners. Whether capacity development is demand (government requesting assistance) or supply (hard selling by donors) driven, can be a matter of interpretation. Donor ideas may be viewed by government as pressure. *“Demand is expressed in specific, daily interactions: who calls a meeting, who defines the agenda, who sits at the end of the table, who talks and who listens”* (EuropeAid, 2009a:20)

Supporting country leadership and ownership should be central to donor approaches. (OECD DAC 2006a : 59)

At the same time, before a true partnership can be established, there needs to be a relationship between donors and government that enables discussions to take place. The importance of establishing a good working relationship cannot be overstated.

In the context of capacity development, government ownership is required from the demand stage, through design, implementation, evaluation and importantly the accountability stage.

“Government ownership is at its strongest when the political leadership and its advisers, with broad support among agencies of state and civil society, decide of their own volition that policy changes are desirable, choose what these changes should be and when they should be introduced, and where these changes become built into parameters of policy and administration which are generally accepted as desirable.”
(Killick et al (1998:87).

Ultimately, however, ownership is not easy to define or measure. It is possible that there may be government ownership on a political level (or in the design stage), but on the organisational level (at implementation stage) officials believe that the donors are increasingly driving the process. Figure 7 below illustrates how a country can start off with high ownership, but the arrow may swing towards greater donor ownership as they are increasingly driving the process ahead through targets and deadlines, using separate systems and demanding accountability. Similarly one side may believe that the other has ownership but because of factors such as donor funding and unequal power relationships, the other party may differ. As noted by Hauck and Land 2011: 8. *“Donors and aid recipients*

are partners, but their respective resource base and capacities make them fundamentally unequal”.

Ownership Relationship



Practice

In real-life, the translation of this commitment to greater government ownership into working practices is extremely challenging. It requires government leaders with the political and economic capacity and appropriate incentives to encourage behavioural change. This will obviously differ between countries and therefore donor response needs to be tailored to the situation. This is also the case for decisions to use country systems. As noted in CABRI (2009a) a government may ask donors only to use components of their country systems when they feel they have sufficient control over the use of that aid, knowing that they will be made to be accountable for its use. “Ultimately, therefore, whilst most partner countries demand stronger use of country systems across the entire government cycle, the decision to use country systems must be taken in collaboration with partner countries and in line with their own priorities” (OECD 2010a: 53).



During the country visit to Rwanda, it was noted that although demand was not specifically initiated by the Government of Rwanda, there has been high-level political buy-in for the need and subsequent ownership of PFM capacity development initiatives. At the same time, there is a high-level of donor confidence in government’s sincerity and commitment to develop capacity in PFM. In Mali, donors believe that the country owns the PFM capacity development initiatives, **BUT** this view is not shared by all government officials as shown below. In Morocco, there is high-level support from the King, but the need for greater internal leadership and coordination amongst senior management was also raised.



In Vanuatu, senior politicians set out a clearly articulated need (one shared by resident donors) and request for external support to the Auditor General’s Office. AusAID’s Institutional Strengthening Project (ISP) with Vanuatu’s Ministry of Finance and Economic Management was described as being based on a “strong sense from individuals of what they wanted.” The fact that the project was based out of the Treasury Department, rather than being run through a Project Implementation Unit (PIU) contributed to this sense of ownership (ADB, 2008).



In Morocco, donors' support programmes to the PFM reform and the government's reform have become confused with disbursements conditions effectively driving the process. In several other countries, real ownership (or even basic buy-in) or leadership to ongoing initiatives is very limited. Ownership and direction is skewed heavily towards the donor. The scenarios described below are not unique.

Shifting Sands

In a country in sub-Saharan Africa whose PFM systems have recently assessed (report not available to the public), country ownership of its own PFM reform agenda dwindled as project deadlines and pre-determined donor priorities curtailed the consultation process, sidelined key supporters and altered the modus operandi of the original reform programme. In a neighbouring country demand for improving PFM capacity declined as key leaders (political and technical) and donor representatives changed and the donor : government dynamics descended in a downward spiral. Micro-management of PFM reform programmes prevails, seriously eroding government ownership and interest.

4.2 Assessing Demand and Supporting Ownership



The burning question for all donor representatives is what to do if there is demand or what to do if there is no obvious demand? Is there a shared view of key constraints on and opportunities for capacity development, inside and outside the organisation(s)? These questions are common to providing support to any form of capacity development. Support to capacity development in PFM is even more complicated as it involves a number of different organisations, where demand, leadership and ownership varies significantly. The simplest and at the same time the hardest route for donors is for them to say; "If there is no demand, look elsewhere". Yet not to do so, breaks the fundamental rule of capacity development i.e. you cannot do capacity development of others. The non-sustainability of many earlier initiatives proves this theory. In the case studies, one repeated comment was that ultimately individual capacity development depends on the individual; the same would apply to organisations/institutions.

Hauck and Land (2011) propose that in order to generate more inclusive ownership there is a need for donors to: (i) engage in a more 'relational' manner; (ii) work towards stronger collective action through pooled funding and delegated cooperation; and (iii) facilitate multi-stakeholder dialogue processes, including sector ministries. Alternatively, as recommended at the Third High Level Forum in Accra, providing support to developing the demand side of effective PFM i.e. Parliament and civil society may initially be a more productive route.

A senior government official in another Sub Saharan country recognised that certain ministries were unwilling to improve their internal audit capabilities; they either did not want others to know how the systems were operating or did not understand the potential benefits. A pragmatic approach was taken, work with those who were willing and let the word spread and the benefits be seen.

In supporting more inclusive ownership and increasing demand, it has also been observed in many countries that:

- **Ownership in theory and in practice may differ.** Signed agreements (stating government ownership) and ownership at the design stage can be eroded by 'interfering' donor practices during the implementation stage. Just as an architect can take over a house-build, ignoring the owners' demand and viewing it rather as his legacy, donors can undermine the foundations of any country ownership.
- **Ownership is relational.** The general relationship between donors and government can affect the ownership relationship.
- **The need for capacity development should be demand driven.** Give government the opportunity to verbalise their demands.
- **There is a need to look and listen.** Aim to learn and understand why things are the way they are and why government demands what they demand.
- **There are different levels of ownership and leadership.** Ministerial support may not translate into ownership or leadership at other levels.
- **Demand created if insight is gained.** Benefits of capacity development may not only be the obvious ones. For example, external audit is not only there to criticise, but also to praise sound financial management practices.
- **If you are entering into a partnership, get to know the partner personally.** In most countries people prefer to do business with people they know and trust.

Constructive partnerships support country ownership BUT if there is no government demand – look elsewhere; No country demand - think again.

5 Step Three – Assessing the Need

5.1 Assessing the need

Theory

Capacity assessments are themselves part of setting the stage for CD processes. How, when and by whom they are made is crucial for the success or failure of subsequent CD processes. Is there a real problem? What is the need for CD? Does it matter to an island nation of 10,000 people that there is no functional classification of

Capacity assessments are themselves part of setting the stage for CD processes
(EuropeAID 2009a:9)

expenditure? Or is it done for donor statistics? A key principle is that assessments should be agreed jointly. They should also be designed to understand the causes for a particular situation rather than just focus on the symptoms. Rather than identifying capacity gaps¹², the starting point should be to focus on what already exists. Remember, 'organisations do not always know what they know' and so this knowledge may prevent 're-inventing the wheel' interventions. Evidence from OPM (2006) supports the view that an understanding of the wider institutional context, as well as the specific features of the organisation, is critical for effective capacity development. Furthermore, in PFM CD, given the multitude of potential players, there is a growing recognition of the need to assess the capacity and the authority of those who are supposed to manage the CD process.

Public Expenditure and Financial Assessments (PEFA) assessments and associated drill-down assessments e.g. Debt Management Performance Assessment (DeMPA), Methodology for the Assessment of Procurement Systems (MAPS) are only one input in designing reform or CD initiatives and must be used with care to ensure that short term pursuit of higher scores does not cloud a longer-term goal of capacity development.

As mentioned in 2.2.2, Olander *et al* (2007) propose that a capacity assessment for supporting PFM CD should include an understanding of the institutional framework, management, resources and support structures. This is different than the UNDP's approach to capacity issues which include: 1) institutional arrangements; 2) leadership; 3) knowledge; and 4) accountability.

Practice

As explained in the recent stocktaking exercise (Mackie, 2011) carried out for the PEFA Secretariat and the OECD-DAC Task force on PFM, there continue to be a significant number of PFM diagnostics. Assessments focus on particular aspects, e.g. systems and procedures (PEFA assessments), organisational assessments (e.g. Audit maturity models), systems, procedures and some organisational issues (e.g. MAPS, DeMPA) or individual capacity building needs assessment. Despite guidance from the PEFA Secretariat to the contrary,

¹² Note this methodology is different from that adopted by the guidelines on procurement which starts by identifying the difference between desired capacity and actual capacity.

application and interpretation of the PEFA assessments is also often focused at the centre and donors aggregate scores for their own internal requirements. In some countries, e.g. Mozambique, Egypt, Philippines, sector assessments have been carried out, but again they only partially address some of Olander *et al*'s four elements. Evidence or reference to more comprehensive capacity assessments, which includes an overview of constraints, e.g. poor banking services, appears limited.



Experience in the case study countries varied. Rwanda carried out an assessment in mid-2005 with an objective of ascertaining the required number and qualifications of accountants and auditors, the development of a recruitment plan for internal auditors and accountants and the design of a training curriculum necessary to improve the accounting and auditing professions in Rwanda. The scope of the assessment was limited to ministries, provinces, semi autonomous agencies and the Office of the Auditor General. More recently, an assessment has been carried out for districts. All the countries participated in PEFA assessments, although only the assessments in Rwanda were commissioned and organised by the Government. In other countries, there are examples of jointly commissioned PEFA assessments or where external assessors facilitated a government process including Samoa, Kosovo and some Nigerian states.



Nepal has adopted the PEFA assessment complete with recommendations as its guiding 'light' establishing a PEFA Secretariat (based in Kathmandu and unrelated to the Washington version) and PEFA implementation units in various ministries. Rwanda is aiming for 'A's, leaping onwards and upwards in the same way that it has done in the 'Doing Business indicators'.



Mali complained of assessments overload, and was particularly critical of the large number of assessments/evaluations carried out almost exclusively for donor purposes. They described it as a ritualistic process, which repeated earlier recommendations and resulted in little change or recognition of what was felt to be important by the government. Some PEFA assessment processes (particularly annual or bi-annual repeat assessments) are still donor driven to meet donor conditionalities, rather than to inform, and some regional donor offices are still sending out ToRs for PEFA assessments in which they are described as external assessments!

5.2 Ensuring the Value of the Assessment Process

The following proposals are intended to improve the capacity assessment process, so that the most appropriate support to capacity development is provided. It is not proposing that even more assessments are carried out, but rather that better use is made of the significant amount of knowledge and information available. This will require donors both to share information and for PFM donors to look outside the 'technical' box and understand the relationship between PFM and governance (in general) and financial governance, in particular. Governance studies may highlight issues, for example, which may result in a change in the fiduciary relationship between the leaders and the public. At the same time, various sector studies (financial, education, telecommunications) may have identified constraints which are relevant to PFM, and advances and delays in associated public service

reforms may impact on support to capacity development. Due regard to internal government reports e.g. internal and external audit reports are also an important source of information. The toolkit produced by EuropeAID (2009a) provides more detailed guidance.



Assessments

- The four elements (resources, management, institutional framework and support structure) and their sub-components, as set out in Olander et al (2007) should form the basis of any capacity needs assessment.
- Take into account the Accra Agenda for Action principle to ‘transparently state the rationale [for not using country systems]’.
- The scope of a capacity development assessment should be agreed jointly. Should it be an all encompassing study of the whole (or at least the core entities) of the PFM system, or should the focus be on single organisations or should it be *ad hoc* in units in different organisations?
- A joint decision to carry out an assessment does not imply that the assessment needs to be done together. As discussed in the section on country ownership and leadership, it is who makes the decisions on what is done that is important.
- Assessments should be shared widely with other donor representatives in country to reduce possible duplications (and to promote the use of joint assessments) and to protect partner countries from being ‘assessed to death’.
- Understand what the assessment is assessing, apply it correctly and use it appropriately.
 - The PEFA assessment provides the common information pool for the strengthened approach to PFM reform. It is a high-level snap shot at a particular point in time. It does not assess individual or organisational capacity.
 - Critically PEFA assessments should not contain recommendations and are only one part of the reform design.
- Understand the capacity of organizations (audit maturity models are particularly relevant for Supreme Audit Institutions (SAIs) and internal audit offices), and also (where relevant) their capacity to work together.
- Do not forget the assessments already carried out by internal and external audit. In some countries, these help identify the need for capacity development and assess progress of any ongoing initiatives.
- Assess the credibility of any change management process and in particular how it will operate at different levels e.g. central ministry of finance, line ministries.
 - Avoid over-confidence in legislative rules and regulations, e.g. Treasury circulars – in reality compliance is often low.
 - Test the practice and try to understand the constraints on the practitioners.
- At the individual level, capacity needs assessments should begin with the question “capacity for what?” and avoid the trap of providing generic training on broad topics e.g. activity costing or gender-based budgeting, disconnected from the needs of the organisations.

Be Transparent and Assess with an open mind

6 Step Four – Collaborating not Competing

6.1 Donor co-ordination

Theory

An effective donor coordination arrangement should streamline the dialogue between government and donors and facilitate donor support to the government's PFM reform action plan. Collaboration among donors can avoid duplication and fragmentation in donor assistance and facilitate consistency in advice. This can take a number of forms including the pooling of funds, technical assistance, joint assessments, division of labour and the appointment of lead donors. This should also allow coordination across groups for example between PFM and decentralisation or public service donor groups.

Donor support should be provided in a coherent, co-ordinated, and programmatic manner.

(OECD DAC 2006a :60)

Practice

In response to the Paris Declaration and Accra Agenda, key donors are setting up mechanisms e.g. donor PFM working groups, Secretariats and basket or pooled funds that theoretically should improve donor coordination. However, their success and failure often depends on the skills (especially 'soft' skills) of the chair person. With the increased emphasis on external coordination, internal governance mechanisms, codes of conduct and clear divisions of labour have been established in many countries. However, enforcement mechanisms are often weak, as shown below.



Generally, in the country case studies, the view was that donor coordination had to some extent improved. In Rwanda, a small number of donors are supporting PFM and are working together in a more co-ordinated way. The relatively small number of donors involved is seen as a positive. At the time of the Nepal visit (October 2010), a World Bank managed multi-donor trust fund was being established. The Nepal Portfolio Performance Review (NPPR) process also facilitates a more coordinated way of reviewing overall government performance, at least for major donors (ADB, World Bank, DFID and JICA).



In several other countries e.g. Tanzania, Kenya, Ghana, Mali donor working groups have been established, which support pooled or basket funds. Coordination across donor working groups is not always so structured, although in Tanzania efforts have been made to ensure attendance at other group meetings. Coordination with e.g. the activities of capacity building funds, also appears *ad hoc*. Digging a little deeper shows that even within so called 'basket or pooled' funds, there are multiple

Basket Funding



reporting requirements and competition between in basket and out of basket funds (even from the same donors). Even within established working group arrangements, major players have bypassed the agreed working relationship with the offer of funds.



Arrangements for coordination of initiatives within donor organisations is also sometimes unclear, with many advisers working in silos. Specific examples include education sector support in Country B promoting the introduction of an MTEF, while the same donors supporting PFM had agreed with the Ministry of Finance that it was too early to introduce such a concept, given the problems with basic financial reporting and internal controls.

6.2 Working together



Establishing effective donor teams that support, not suffocate Governments, relies heavily on the skills of individual donor representatives. Formal mechanisms for donor coordination, which set out codes of conduct, division of labour and internal governance mechanisms often exist on paper but not in practice. Reflection on why the donor community is in the country may be sobering. The following have been found to be of benefit.

- Government taking the lead in coordinating donor responses and support.
- The 'soft' skills of the chair person of the PFM donor working group are key, choice of an appropriate chair person is therefore fundamental to good working relations, rotation amongst members is not necessarily the most appropriate solution.
- In terms of number of donors, the message seems to be the fewer, the better.
- Internal coordination (within donors themselves) is as important as external coordination (between different donors) but working in silos has been found to be common practice.
- Given the fact that PFM capacity development is cross cutting, some attention needs to be given to establishing 'mechanisms' to ensure coordination (at least information sharing) across the groups.

Effective Coordination led by Government NOT Competition

7 Step Five – Designing support

7.1 Design of a Response

Theory

The OECD DAC (2006a) principles are clear on what needs to be taken into account in programme design and implementation in support of CD in PFM. Similar messages were conveyed (OECD DAC 2008) ahead of the Accra meeting including: (i) Align support with the government's reform strategy and priorities; (ii) Do not impose a reform action program on partner countries; (iii) Do not attempt to implement all PFM reforms at the same time; and (v) Do not attempt to transplant international models into partner countries. Design needs to be linked to a clear understanding of the context and local limitations, an assessment of the needs and the constraints.

The institutional, organisational and individual levels of capacity development, including managerial and technical aspects, should all be taken into account in programme design and implementation (OECD DAC 2006 a: 60)

Capacity development design and sequencing should fit specific country circumstances, rather than reflect standard or imported solutions OECD DAC (2006a:60)

Quist (2009) emphasises the importance of adequate sequencing to ensure that reform efforts are positive, reforming institutions can effectively manage the reform effort (often a major problem), that they are not overwhelmed by the process, and to ensure more effective coordination between the different components of reform. More generically, but equally applicable (some would say even more) to supporting CD in PFM is that capacity development is change – and change is often difficult. CD support, however well intended, is an intervention affecting the lives of

people and organisations, for good or bad – or both. Chances are that change will imply wins for some, losses for others. Understanding who are the potential losers and potential winners is important in designing a change management strategy. Comprehensive change demands considerable leadership resources (including time and capacity) and requisite support from higher levels. Support to change management should therefore be an integral part of CD support.

Assuming a reasonably clear understanding of the overall context, organisational dynamics and relationships has been established, the next step is to think strategically about capacity development opportunities and constraints in that context. Efforts to develop the capacity of e.g. the Ministry of Finance, the Auditor General's Office or the financial management capabilities of the Ministry of Education or the Local Authority are likely to be shaped as much by forces in the enabling environment (e.g. laws, regulations, attitudes, values) as by

factors internal to the organization, (skills, systems, leadership, relationships). Similarly, the success of a training program is likely to be as dependent on conditions in the participating organization, such as incentives, supportive management or finances, as the quality of the training inputs provided.

Practice (content)

The move to budget support and the pressure on donors to use country systems and governments to improve their systems has led to a significant increase in PFM reform strategies and action plans. In many cases, the extent to which these reflect country circumstances or address meaningfully issues of sequencing (the order) and timing (the pace) appears very limited. Although in Nepal a specific decision has been made by donors supporting the new Multi-Donor Trust Fund (MDTF) to restrict support to a couple of interventions.

Although there is an increasing recognition of the importance of including line ministries in PFM capacity development efforts, focus often remains on either senior management or finance staff from these ministries. Little attention is paid to those directly involved in data capture, classification or bank reconciliations at the level of spending unit. In reality, the person at the bottom of the chain often has a pivotal role in the quality of PFM in the country.

Importation of technical tools and standard solutions still continues. A significant number seem to be still built around donor country programming/loan approval timescales. Recognition of the constraints, particularly at the local level, imposed by broader development issues such as energy supply, banking facilities and communication networks is only addressed during implementation.

With some exceptions CD in PFM/PFM reform initiatives focus on technical issues, yet links with broader civil service and educational reforms remain critical in addressing sustainability. Most initiatives look at creating new capacity without considering making better use of *existing* capacity, sharing expertise or using the private sector. There are of course a few exceptions.



In Nepal (and elsewhere), new web-based aid management systems are being introduced, which facilitate the input of data by donors themselves, thus reducing the demand on government capacity, although some donors reportedly consider it to be an additional burden.



The usefulness of data management systems will very much depend on the buy-in from users and in this case, donors. In Benin, despite frequent requests donors were unable to provide detailed figures of their amounts pledged, committed and disbursed to support PFM reform support operations while requiring the government to do it.



Instead of creating additional capacity in government, an example of the use of the private sector to improve government's reporting capabilities is being used in Vanuatu. Similarly the amalgamation of the ministries of finance and development planning in Lesotho is helping to improve the overall capacity of the government.

Using the capacity of others

In Vanuatu, an innovative way of accounting for and reporting on the new funding for primary education (per capita grants) in the remote islands has been recently developed with the support of the local banking system. The Government recognises that it is impractical to have a network of finance ministry offices on every island. They also realise that it is neither realistic nor desirable to incorporate schools in the government's accounting system. An agreement has therefore been reached between the National Bank of Vanuatu and the government, in which both sides win. The major commercial bank provides statements to both the schools and the Ministry of Finance and Economic Management. Incentives were also provided to officials to use this system rather than a whole range of other bank accounts.



In Morocco, the Trésorerie Générale du Royaume (TGR) has undertaken reforms on public procurement, internal controls and audit and accrual accounting. However, it has sequenced and paced its reform effort carefully. This is best demonstrated in its sequencing of accrual accounting. The TGR had decided to embark upon it from 2011 with a careful modular approach. Its decision is based on its appraisal of the costs and benefits, the institutional characteristics of the MEF (Ministry of Economy and Finance) and TGR that allows moving forward without drawing in all the ministries.



Standard tools and concepts continue to be started regardless of country circumstances. For example, demands for daily reconciliation of bank statements (despite the fact that banking systems in some countries do not allow this to be done), or mass introduction of sophisticated computer systems (irrespective of capacity and infrastructure constraints e.g. some remote locations do not have electricity and if a generator is purchased, it is almost certain that a better use for it will be found).

Practice (process)

Attention to change management issues remains largely focussed on communication. Issues of *Awareness* - as to why change is needed; *Desire* - to support and participate in the change process; *Knowledge* - of how to change; *Ability* - to implement the new skills and behaviours, and *Reinforcement* - to sustain the change, appear relatively under-emphasised. The issue of rewards and incentives (a key component of most change models) appears not to be addressed appropriately.

People-friendly reforms

In Morocco, the Government recognises that in its recent reform efforts that focus has been on the 'gadgets' and although making important technical improvements, it has paid insufficient attention to its 'people' and thus the long-term sustainability of its efforts. The plan for the next phase of its CD sees a shift from technical tools to the people and places who use them (people and organisations).

7.2 A More Effective Response



As set out in the 2006 guidelines, design and implementation of more effective support requires both recognition of country context, appropriate sequencing and a holistic approach. It cannot be stressed enough that the country circumstances should determine the response. It requires stakeholders to consider not only 'what to support' but 'how to support' and this will also depend on the existing level of capacity development. The response in Morocco will not be the same as in Nepal or Lesotho. More discussion on the issues of sequencing and prioritisation can be found in Diamond (2010).

In designing and implementing support, the following does not set out what needs to be done e.g. the tools and techniques, but rather how to decide what needs to be done. Steps six and seven discuss providing advice and supporting learning opportunities. The following list summarises some key pointers, many of these are common sense, but have been included for completeness.

- ✓ **Take a broad perspective.** The four elements (resources, management, institutional framework and support structure) and their sub-components, as set out in Olander et al (2007) should be considered.
- ✓ **Respect partner country demands and choose the right approach for the country or organisation** - 'no one size fits all' (e.g. platform, basics first). There is a tendency to adopt the latest trend, whether it is platform, basics first, accounting first. Yet this is not the route of many OECD countries, the 'right' approach is the one that fits the country context, the evolution of Scandinavian systems is not the same as those in the UK or Australia. As Murphy (2010) notes a rule driven society may suit the platform approach, other countries or organisations may benefit a more opportunistic approach.
- ✓ **Ensure proposed solutions (more than one) to problems are developed,** not a 'cut and paste' tool, discuss alternative solutions, their costs and benefits and their implications. For example, there are pros and cons to the centralisation of payments, there are different costs and benefits associated with the introduction of a TSA, which may depend on governance structures. Some governments complain of conflicting advice, however, provided that a balanced viewpoint is provided, contestability can be positive.
- ✓ **Be more creative,** strive to think out of the box, so that 'good practice' can be applied more effectively. Improving the external audit function may involve subcontracting certain functions to private practice, but at the same time improving its supervisory and quality assurance capacity.
- ✓ **Think small to gain big** e.g. developing a filing and archiving system may be the most appropriate form of capacity development and a key pre- requisite to developing a successful accounting system.
- ✓ **Quick wins can gain momentum and support** but need to be chosen carefully to ensure that they are sustainable and do not require significant behavioural change.

- ✓ **There are only 24 hours in a day** - Many Government officials have to deal with real life crises on a day to day basis, capacity development is often seen as an additional burden and full advantage of many initiatives cannot be taken because of other more pressing concerns. Supporting capacity development for major reforms may require support for day to day operations.
- ✓ **Use common sense** – Is a sophisticated and costly computer system for 100 transactions a month really needed? Why is it being proposed?
- ✓ **Don't forget the infrastructure and logistics**, the banking systems, electricity supplies, the internet connectivity.
- ✓ **Do not dismantle**, look to add value to what is there first.
- ✓ **Address issues of sequencing (the order) and timing (the pace)** or perhaps timing (the pace) and then sequencing (the order).
- ✓ **Allow time for new ways of working to become the norm**, (just as a golfer perfects his swing or a footballer his penalty kick). Continual change is tiring!
- ✓ **Ensure that individual professional skills are continually updated** through continuous professional development.
- ✓ **Adopt an open mind**, replacing an old dilapidated office with a new modern building may not solve the technical problems or provide the necessary motivation to change, but it may impact positively on attitudes¹³.
- ✓ **Don't underestimate the importance of people** (positive and negative) and so ensure that change management is placed at the centre of support initiatives not at the periphery. Remember the six Ps:
 - Purpose: "What is reason for change?"
 - Picture: "What will things look like after change (vision)?"
 - Plan: "What is timeline? What should we expect?"
 - Part: "What is my part during change? What do you expect from me now and later?"
 - Passion: "Am I excited about the changes?"
 - Personal: "What is in it for me?"
- ✓ **Be flexible and adaptable** (see also step six flexibility of funding). Capacity development does not follow a linear path, the goal may be known, but the path may change.
- ✓ **Allow mistakes to be made so that learning can take place**, be humble Rome was not built in a day and British, French, American, German PFM capacity development has not always followed a linear path. Share your own country's experiences as they are a useful learning process
- ✓ **Re-examine internal incentives in donor institutions** accountability/rewards for outcomes not loans designs/programming.

¹³ In Bangladesh, funds for renting a project office were used to renovate a government office. The 'new look' office significantly reduced absenteeism and installed a sense of pride and belonging

Design support with partner countries that learns from others but recognises differences, think out of the box – it may be more sustainable

8 Step Six – Flexible funding/choice of aid modalities

8.1 Funding choices

Theory

Given the nature of capacity development, there is a general agreement that donors' financing mechanisms should be flexible and able to react constructively to new scenarios or directions. At the same time, there is the commitment to use country systems as the default scenario. Of course, *"The important question when deciding on how an aid flow*

There is "the need to ensure that donor support is flexible and available when there are windows of opportunity"
(OECD DAC 2009b:3)

should be managed remains: Will channelling this aid through this particular system make it more effective, and/or will it lead to a better allocation and management of public funds (domestic and external) in the medium to longer term? (CABRI 2009b:3). In theory, budget support provides the greatest level of country ownership, but perhaps not the greatest level of flexibility. Although all types of aid modality can use country PFM systems (in part or in their entirety), the extent to which country systems are used is affected both by the choice of aid modality and the design of the specific instrument.

In terms of demand on government capacity, there is also a common misperception that using country systems reduces demand immediately on government capacity, although clearly in aid-dependent countries, a requirement to procure and manage for example large infrastructure contracts will, at least in the short term, place additional demands on government resources.

Other potential constraints on flexibility revolve around donors' responsibility to ensure that the resources they provide are used for the intended purposes. Concerns over fiduciary, developmental or reputational risk and accountability responsibilities clearly influence the choice and the design.

Practice

In supporting capacity development, the demand from all case study countries and elsewhere is for flexibility and the ability to react to changing circumstances. *Ad hoc* bilateral project funding therefore is frequently winning over multi-donor funded programmes or multi-lateral funding, and is preferred to budget support. At times, the design of the funding instrument therefore appears to contradict both the concept of using country systems and the benefits of a pooling arrangement. With few exceptions, funding arrangements are also short or medium term (3 or 4 years), one exception to this rule appears to be the 10 year AusAID Governance for Growth facility. Although, it is understood that this facility is primarily designed for investment type activities.



In Mali, a significant amount of support to PFM capacity development is actually funded through budget support, however many officials believe it is controlled by donors. This appears to reflect budget support evaluations and donor influence on the budget support allocations¹⁴.



In Rwanda, where there is a high level of trust between the donors and government, and the donors believe there is high level political support, the pooled fund is managed by a small PFM reform Secretariat overseen by a Steering Committee, which includes a donor representative. This is not an unusual structure, but instead of the tight controls found elsewhere, there are comparatively liberal 'strings' attached. Although 'no objections' from the World Bank are required in certain circumstances, the limit is set comparatively high, allowing greater government control. Funding does however follow a strict planning and approval process. In contrast, in a country in sub-Saharan Africa whose PFM systems have recently been assessed (report not available to the public), detailed decisions on who should even attend training courses (despite Permanent Secretary approval) are scrutinised (and sometimes rejected) by supporting donors.

Coordination or Confusion

In one Sub-Saharan Africa country, while the total budget needs for the implementation of the Public Financial Management Reform Programme (PFMRP) is set out in the PFMR strategy, financial commitments of the Pooling Development Partners (P-DPs) are specified within the bilateral agreements between the Government and the individual DPs. This results in a lack of the complete picture on the available resources and undermines the implementation of the pooled funding mechanism. Further while Joint Financing Agreements (JFA) discourages the use of bilateral agreements, which contradict or diverge from the JFA, it still allows the development partners to establish individual bilateral agreements with conditionalities. In practice most of the DPs have individual arrangements with the Government, which set conditionalities for the use of their resources regardless of the joint mechanism.



The experience in Morocco also demonstrates that donors' support has to be flexible. Financing agreements need to be responsive to change of direction and objectives, particularly when addressing reforms where the goal is known but the path to attain it is not. This is the case with the Government's financial information management system, as the original solution planned in the Programme d'Appui à la Réforme de l'Administration Publique (PARAP) financing agreement with the EU had to be modified with the associated delays. With different donors having different programming cycles, it also meant that coordinating between donors on their performance matrix meant an additional burden and delays for signing and managing financing agreements.

8.2 Balancing Flexibility and Accountability

Achieving flexibility and the ability to adapt to changing circumstances without compromising accountability to home constituencies is a significant challenge. Overly

bureaucratic procedures, inflexible terms of reference and conditionalities that are set in stone impact negatively on support to capacity development. The situation is further exacerbated by the fact that in the time taken for many projects to be designed and approved, the situation on the ground has changed.

The constraint for many donors and one that is not always recognised by governments is that they are accountable to their home constituencies. A delicate balance is therefore required in ensuring that funds are used for their intended purposes and not misappropriated with the provision of more flexible (e.g. not tied to the training of debt management officers, but rather to the improvement of the debt office operations) and longer term funding. Some suggested ways to improve flexibility of funding include the following.

- More extensive discussions with donor institutions' external auditors to assess risk and determine a suitable risk management plan.
- Continue discussion on the development of a common Fiduciary Risk Assessment (FRA) and ensure that the conditions imposed by funding countries on the multi-lateral agencies are consistent.
- Consider longer-term funding facilities (more than 4 -5years).
- Assess the feasibility of harmonising donor programming cycles with those of government.
- Conduct more research into improving the flexibility of donor funding without losing sight of the ultimate goal.

Flexible, adaptable long-term funding allows a goal to be achieved even when the path changes.

9 Step Seven - Providing Advice

9.1 Use of Technical Assistance

Theory

Technical cooperation (TC) is defined by EuropeAid (2009b: 5) as *“the provision of know-how in the form of short and long-term personnel, training and research, twinning arrangements, peer support and associated costs”*. Technical Assistance (TA) refers to the personnel involved (the individuals or teams) in developing knowledge, skills, technical know-how or management capabilities. This guidance uses TC as the general term and TA when referring to individuals. The literature on both TC and TA and capacity development is vociferous on the importance of receiving the right advice, the right mix of technical capabilities, personal attributes, cultural sensitivity, and openness to learning. ADB (2008) highlighted the importance when providing TA of factors such as: good personal relationships with local colleagues, solid knowledge of the local or national context, ability to speak the local language, long-term engagement, and an ability to function in an advisory capacity and transfer skills while leaving space for local colleagues to ‘get on with’ their jobs. Critical of the lack of success of past TC, the Accra Agenda also stresses the need for greater use of local and regional expertise and more South – South cooperation.

“For Technical Assistance to be effective for Capacity Development it must be based on genuine choice and explicit demand from country partners”. OECD 2010?: 3)

Indeed, it is now recognised that in the past a significant amount of TC has been supply driven - provided to support donor processes and procedures not governments or sustainable capacity development. The EC (2009b) identifies four potential ‘uses’ of TC: (i) capacity development; (ii) policy/expert advice; (iii) implementation; and (iv) preparation or facilitation of EC cooperation. However, the division between policy advice, implementation and capacity development is not always clear cut. There may be a need for example to develop the capacity of policy makers, and capacity development may take place alongside implementation. Although, clearly TC for the fourth category does not support the form of capacity development envisaged in this guide.

As noted in AusAID (2007) it is important to have a clear role for TA. Many ‘advisors’ end up performing in-line functions, either because a counterpart is not available, or simply to fill an existing gap, which may have been the unspoken intent. *“Being clear about the purpose enables more accurate terms of reference, better matching of potential candidates to the role, and helps establish transparent performance expectations”* (AusAID 2007:5). Despite widespread criticism of long-term consultants in key positions, ADB (2008) explains that in certain regions, gap filling support may be justified, provided it is requested not supplied. Indeed gap filling in the Pacific reflects the reality that for many countries in the region, there are three choices; go to the international market, rely on TA provided by donor agencies, or do without.

Practice

Technical advice is both strategic (often provided by donors) and operational (often provided by technical advisers). As discussed above, the need for technical skills to be accompanied by personal skills was emphasised by government respondents in the case study countries. Partner governments also commented positively on the appointment of advisors with practical hands-on experience, rather than those who had only theoretical knowledge. In many cases, for long-term advisers, they preferred practitioners who could combine their technical knowledge with more general management skills, acting more as mentors. This preference for practical knowledge and experience was also confirmed by the positive feedback on the support provided by national audit bodies, the work carried out by the various regional supreme audit institutions, such as the African Organisation of Supreme Audit Institutions – English (AfroSAI-E) and the Asian Organisation of Supreme Audit Institutions (ASoSAI), as well as the international body, INTOSAI. However, demand for ‘technical’ assistance does not refer purely to e.g. accountancy or economic skills ‘Technical’ can equally apply to change management or general management skills.



Poor quality of technical assistance, the provision of unrequested assistance and insufficient government involvement in the recruitment, selection and management processes were all mentioned by several of the case study countries.



In response to a bad experience, one senior government official from an East European Country is reported to have taken decisive action requiring the prospective adviser to work with the country team for three days. The team then decided whether the person was the ‘right fit’ – someone with whom they could work. Similarly, in Timor Leste, the Minister of Finance has taken a strong position and demands that advisers be let go if they are not seen to be responding to Ministry priorities and capacity needs.



In the last decade, there has been a growth in the number and diversity of regional peer groups and associations, which provide members with the opportunity to share experiences on a regular basis. There is general agreement that they provide a useful forum, but it is understood that like other organisations some do not have the necessary leadership and commitment to reach their full potential. However, there are good examples such as the Pacific Islands Financial Manager’s Association (PIFMA), which has recently held its 5th meeting (PIFMA 5) in Vanuatu, and has become a major forum for debating and promoting sound public financial management and fiscal transparency in the Pacific region.

Similarly, the Public Expenditure Management Peer Assisted Learning (PEMPAL¹⁵) represents a multilateral effort to develop capacity and share reform experiences among countries in Central Asia and Central and Eastern Europe. PEM PAL represents a regional approach involving more than a dozen countries in a shared effort to improve the management of public expenditures. PEM PAL’s success depends on demand-driven “communities of practice” (budgeting, treasury and internal audit) in which officials from

¹⁵ www.pempal.org

different countries develop much of their own agenda and decide how best to share experiences among themselves using networking, electronic learning, and face-to-face meetings.



Although the diversity in PEM PAL's membership is one of the key challenges to success, the participants do not share a common language, and relations between some countries have not always been benign.



In Morocco, the experience of institutional twinning has been a successful one. Morocco has sufficient capacity to design their requirements, translate those into specifications and contractual objectives. The unit managing the twinning arrangements provides support for selecting, negotiating and contracting as well as for managing. Beneficiaries are also selected based on the potential capacity development outcomes. A successful twinning arrangement was also established between the South African Revenue Service (SARS) and the Swedish Tax Agency (Bottern and Christensen 2009). An arrangement characterised by its flexibility, long term support and the quality of leadership at SARS. While the whole of government approach adopted by Australia and France has a similar philosophy. Although it is understood that pooling arrangements and World Bank management of support to PFM make such 'twinning' more difficult to arrange.



From a donor perspective, in an effort to ensure quality, the IMF has a vetting process for all its potential advisers. Similarly DFID previously had a governance panel, whereby potential governance advisers had to go through a rigorous interview process assessing their soft skills as well as their technical expertise.



From an adviser's perspective, in a review (unpublished) of a PFM reform programme in one Southern African country, advisors complained of poorly designed terms of reference leading to unachievable deliverables. In particular, the expected outcomes did not reflect a true understanding of the country's political system or of prevailing power struggles.

9.2 Getting the Right Advice



Getting the best advice and/or advisor depends on the whole process of managing the TA process from identification of the need to monitoring and evaluation. ADB (2008) has set out the pros and cons of various TA options and this is attached as Annex B for information. This should be read in conjunction with Annex C on learning methodologies, as the two are clearly linked. Traditionally advice has been provided by international, regional and local consulting firms, academic institutions as well as the IMF, the World Bank and other key donors. Increasingly however there are a number of other sources of sound technical advice including local development institutes, professional associations, IMF regional technical assistance centres, regional associations and organisations and peer groups.

Concerns over the quality of advice provided in many countries appears to support the need for further research on the conditions necessary for developing and maintaining a vibrant and highly competent advisory market, particularly at the local level. A market that is able to adapt its approach to partner countries' needs.

Irrespective of the source of advice, a fundamental pre-requisite is the provision of an independent perspective. In practice, attempts are made to compromise independence, either through withholding of fees, reduced fees, requests for 'confidential' information or other means. Clearly, this issue is one that would need to be considered in any review.

The following paragraphs summarise some key factors that have been found to be important, when considering the need for the provision of TA. It should be stressed that the term 'TA' is used loosely, where the advice is sourced from, for what period, whether it is continuous or intermittent and how it is used (mentor, trainer, doer) are all issues to consider in selection. The merits of twinning, secondments, attachments, regional associations or forums and study tours should also be considered. Indeed secondments to donor organisations as practised by the World Bank have the potential to improve the capacity of the individual and both organisations.

Identification

- First and foremost, don't provide assistance if it has not been requested. Equally governments should reject unsolicited TA. Unless there is demand, provision of TA will be a waste of everyone's time and money. It is important to acknowledge when TA is not relevant given other contextual factors which might need to be addressed first.
- Determine what impact or benefit is expected, specific results or uses.
- Make sure everyone is clear on the expected role and outcomes?
- In identifying the need for TA look at the pros and cons of:
 - **Short or long term:** the dangers of long-term assistance are frequently cited, but at the same time short term advisers often are unable to establish the necessary working relations or to understand the working environment;
 - **Continuous or Non continuous:** Little attention has been given to the feasibility of long-term but intermittent support or to long-distance (the end of an email) assistance;
 - **Local or regional or international:** (or a combination of all three) a local adviser will often understand the problem and what should be done, but in some countries may need an international or regional colleague to recommend changes. In some regions, an adviser from one neighbouring country may be perfectly acceptable; an adviser from another neighbouring country may be totally unacceptable.
- Consider the feasibility of twinning arrangements or peer review mechanisms.
- Look at potential options for short-term secondments.

Selection/Recruitment

- Involve government in the selection of a short list and in the interview process. They are the people who will have to work with the prospective TA.
- Ensure that the whole selection/ recruitment process is transparent and fair.
- For TA contracts in excess of more than one year do not rely on CVs (even with references).
- Consider new contracting solutions e.g. joint donor/government pool, which will ensure that neither ownership nor quality is compromised.
- Start contracting procedures well in advance, short turnaround times may mean a less than optimum response.
- Give equal opportunities to national/local experts

Orientation

- Arrange induction/orientation process for TAs (Individuals or institutions- local, regional or international) and their counterparts.

Management

- Set out clear management arrangements, which ensure government ownership of the process, but at the same time provides appropriate safeguards for the TA provider (individual or institution).
- Develop expertise of government to manage assistance themselves.

Monitoring and Evaluation

- Devolve evaluation of long-term TA to counterpart staff.
- Consider the establishment of improved quality assurance processes for consultancies and consultants e.g. user forums for software to share experiences.

Other alternatives

- Consider how existing and new 'communities of practice' or forums can be made more sustainable, but again only if this is requested.

For Capacity Development – Use Quality¹⁶ TA to support government development, NOT to manage donor funds

¹⁶ The term quality is recognised to be subjective; it is not intended to imply that technical qualifications alone should be considered.

10 Step Eight – Taking a longer- term perspective to learning

10.1 From knowledge transfer to knowledge acquisition

Theory

Over the last few decades, billions of dollars have been spent on training with limited effect. There is therefore now a growing consensus amongst training institutes and experts that a new way of working is required. This new consensus moves the focus from individual skills to organizational and institutional learning needs. Instead of training for training's sake, there is now a recognised need to ask (and answer) the following questions, *Training on what and why?* In PFM, there is a general agreement that a suite of learning opportunities are required from basic bookkeeping skills through to professional qualifications (at various levels) and continuing professional development, from specialist courses e.g. debt management to general overview of public financial management, from technical skills (e.g. use of accounting software) to soft skills of leadership, negotiation, change management. Under the auspices of the International Federation of Accountants (IFAC), independent of donors and governments, there is also a professional environment that allows for the development of capacity from technical level to full professional qualification.

“There is broad agreement on the need to move beyond a narrow vision of training, to the broader concepts of learning and learning practices”
(AAA 2008 para: 14)

OECD- Len CD (2010) provides an overview of the strengths and weaknesses of some of the different learning delivery approaches and is included in Annex C for information. The Africa Commission and others have argued that a major new investment is required in local training capacity (requested also in Mali). Others argue that any new investment should learn from earlier sustainability issues, recognise the advancements in technology and assess whether relevant organisations and the enabling environment will use the new-found skills effectively.

There is also the need to recognise at least two different audiences, the professional PFM education and training for those in Ministries of Finance and finance functions in sector ministries and agencies; and PFM training for line managers who actually deliver services and require the fundamentals. Even in the UK, a recent report by HM Treasury (2011) has emphasised the importance of financial management skills for all senior civil servants, if taxpayers' money is to be used wisely.

Practice

Generally, it has been found that the emphasis is on technical training for a relatively narrow group, although increasingly non-financial personnel are included in specific PFM initiatives e.g. role and use of Financial Management Information Systems. In Nepal, senior

leadership and management courses contain elements of financial management modules, but these were not considered sufficient. In three of the five countries visited, there was a specific demand for basic training of accounting staff. On the job training and coaching are considered the most effective form of training, with Mali referring to the workshop approach as useless.

In Rwanda a more holistic approach is taken with a combination of functional, technical and professional training. In Nepal, the provision of random training courses (supply not demand driven) by donors continues and is considered ineffective. Overseas training is still offered and requested. In Nepal the need for ensuring that the right person goes on the right course for the right reason was emphasised.

Increased support to professionalization is not without its challenges as illustrated below, but is intended to establish life time learning and a peer review environment.

Developing the Professionals

In Lesotho support is being provided for individuals wishing to pursue professional qualifications in accounting and procurement. Specific support is being provided to two training institutions and this is planned for Rwanda, where there is also the intention to support the local professional institute. This is not a new practice, the road is not a smooth one and there remain significant challenges, not least the selection of suitable candidates and the retention of staff. Level of graduates was noted as a challenge in both Rwanda and Lesotho. In Rwanda, participant's ability to cope with the different requirement of a professional programme compared with an academic one was also cited as a cause of concern, while in Lesotho, recognition of professional qualifications for promotion and salary purposes is also proving to be a challenge. In Nepal, any move to greater professionalization will also face the challenge of raising the status of accounting staff.



In the Caribbean, an internationally designed workshop¹⁷ run by an international consultant has been transformed to a region specific one, managed and presented by regional experts from the participating governments. The workshop's relevance is assessed as high and the Belize finance ministry has reported that it has had a positive impact on the behaviour of line ministries. CARTAC advisers also adopt a mentoring role in addition to their specific training commitments.

A different approach to technical assistance was recently adopted in the Pacific, where shortage of manpower is a significant constraint on everyday operations.

¹⁷ Supported /funded by CARTAC

Learning by doing – two birds with one stone

In the Pacific, regional audit teams comprising of skilled advisers and auditors from three islands (Tuvalu, Nauru and Kiribati) carried out a six month programme, whereby six weeks were spent in each of the three islands carrying out specific audits. This was designed to improve the capacity of the individual auditors on the team and the capacity of the audit offices in country as well as helping with the backlog of outstanding audits

10.2 Supporting the new learning

As one government official remarked, willingness to learn is an individual choice. Although one issue raised during the visits was the willingness/ability of managers to allow people the time to 'learn' and then to translate new-found knowledge into practice. As part of the capacity assessment, the availability of learning opportunities, formal and informal, should be assessed. However, it is recommended that support of government owned training institutions should look carefully at issues of sustainability. In the countries visited, many of the training institutes had received long-term external assistance, but are now facing serious funding constraints. This undermines the quality of the learning environment.

- In developing learning opportunities, determine what impact or benefit is expected, specific results or uses, whether it is a short-term or long-term intervention.
- One specific example used in OECD countries is to support general induction programmes for finance personnel, which provide them with an understanding of the work of the finance ministry, other key financial institutions and their role in the overall service delivery cycle. Examples from developing countries required.
- Support similar programmes for non-finance managers providing them with an overview of key PFM dates, processes and institutions as well as basic financial analysis skills.
- Consider incorporating finance trainee programmes (in which trainees obtain practical experience in a variety of finance functions rather than (in addition to) academic knowledge) into professionalization schemes. Examples from developing countries required.
- Provide a suite of learning support (for all levels both technical and managerial).
- Ensure that equal emphasis is placed on applied leadership, policy making and change management skills, the skills that will help to take the organisation forward.
- Provide support to continuing professional development, both for financial and non-financial disciplines.
- Address the work - training balance. In the countries visited, work demands often led to the wrong person attending the course or non attendance.
- New normative behaviour requires follow-up support and re-enforcement.
- Consider a combination of methods (see Annex C – combining learning with doing has been productive as discussed under step six).
- Provide courses in local languages (particularly for instruction type courses) and as discussed elsewhere ensure that the right learning opportunities/training is provided to the right person.

- Ensure that course content is relevant to the course participants; adaptation by regional presenters has proved beneficial.
- Ensure that courses are timely and that course participants have a chance to implement lessons learned as soon as they go back to the office.

Knowledge acquisition cannot be supply driven

11 Step Nine – Assessing the Results and Benefits

11.1 Monitoring and evaluation

Theory

Some argue that capacity development is far too complex a process to allow a detailed, results-based framework. Others argue that there is a recognised need for an appropriate results focus, but one that goes beyond aid-supported deliverables (e.g. “training conducted”), and also avoids rigid frameworks that are poorly suited to the complex and dynamic nature and flexibility required of CD processes.

“The measurement of capacity and specifically the capture of change in capacity are critical to understanding the success of the capacity development process”.
(UNDP 2010b:2)

Given the importance of CD to Development in general, there is an increased level of attention being given to the monitoring and evaluation of capacity development support, including technical assistance and training alongside traditional results-based frameworks. This involves ways of assessing changes in hard and soft capacities. Use of evidence-based results/impact is still possible, but part of the challenge comes in reconciling long-term capacity interests with donors’ usual commitment to ‘objectively verifiable indicators’ of change in time scales of four to five years or less.

Attribution of impact to inputs is always dubious particularly when dealing with complex processes such as capacity development. As described in EuropeAID (2009b) working backwards from feasible impact to determine potential inputs is a more effective approach. However, the best time for evaluating a change programme is before the programme starts, so it is important to know where you are going (and why), otherwise how do you know if you have got there. At the same time, it is clearly important (although sometimes forgotten) to understand where you started.

There are numerous methodologies to monitor the programme on the way, the process step analysis including Inputs: Outputs: Outcomes: Impact or the extended logical chain set out in EuropeAID (2009b) as follows:

1. **Impact** (e.g. the wider feasible societal effects)
2. **Outcomes** (e.g. satisfying needs of customers/citizens)
3. **Outputs** (e.g. better products/services delivered by the organisation)
4. **Capacity** – resulting from CD processes (e.g. staff using new skills)
5. **CD processes/activities** (e.g. training and practising, development of procedures etc)
6. **Inputs** (e.g. staff, TA, equipment, operational inputs, management support)

For the evaluation of training, there is also Kirkpatrick's Four Levels model:

- Level 1 **Reaction**: the immediate impressions of the participants and trainers, what they thought and felt about the training; (feed back form on the inputs – the trainer and/or the course).
- Level 2 **Learning**: the developments in knowledge, skills and attitudes resulting from the training process; (exam, test, assignment).
- Level 3 **Behaviour**: the extent of behaviour and capability improvement and demonstrated application of the new learning within the work setting;
- Level 4 **Results**: the impact on work results; the return on the training investment.

An alternative form is the Project: Results: Uses: Benefits PRUB¹⁸ or looking backwards BURP methodology, which is gaining support in the public sector in a number of countries (albeit currently in terms of public investments) because of its focus on uses and benefits and the cost of arriving at those benefits.

Given that the CD is a change process, there is also a recognised need (and the relevant tools and guidance) to monitor the associated change management programme to ensure that it remains on track and continues to deliver the desired change.

Practice

Evaluating the impact of improving capacity is generally not yet done in a structured way, even in middle income countries like Morocco. Most monitoring is restricted to the level of legislation passed, computer system installed (although sometimes reference is made to implemented, this would imply active use of all functionalities and should perhaps be better referred to as partially implemented), manual produced or training conducted.

Most evaluations of training courses appear to be restricted to level one of Kirkpatrick's model. However in Rwanda, the process has been formalised and results are shared. In both Rwanda and Morocco, TA is evaluated by counterpart staff and/or coordination units e.g. the PFM reform Secretariat and the Twinning Management Unit respectively.

Monitoring and evaluation of particular interventions appears to be still primarily donor driven, and in the case study countries some government officials believed that the prime focus of many donors' evaluations was on the level of their support programmes and associated disbursements, thus not contributing to the overall evaluation of the capacity development effort.

One explanation for the focus on technical aspects of capacity development is the lack of recognition of the institutional and organisational changes that are required even for 'technical' innovations. In multiple organisations change processes take a long time and can

¹⁸ www.openstrategies.com

take unexpected and unpredictable paths. Therefore evaluations also need to address those objectives that may not be reached for many years.

11.2 Results, Uses and Benefits

Ideally, all CD interventions are designed to provide benefits for the individual, organisation or society at large. Achievement of clear benefits, particularly in PFM may take time, but ongoing use of new knowledge, systems etc can provide a clear indication of progress along the right path. Recognising the complex nature of CD processes and the lengthy time scales involved, the following provides some suggestions for improving the monitoring and evaluation of support to capacity development in PFM.

- Determine the expected benefits/impact before the start.
- Determine as clearly as possible, where you are starting from.
- Monitor progress on the way including monitoring the progress of the change management programme.
- Place government in the central role for monitoring and evaluating support. This will also develop organisational evaluation skills.
- Take care needs not to impose perverse incentives or targets e.g. clean audit reports.
- From a system perspective, repeat PEFA assessment, maturity models etc help demonstrate the results of particular interventions e.g. improvement in the quality of audits.
- Improvements identified in external and internal audit reports in particular follow-up action on their recommendations, as well as those of the Public Accounts Committee can show the progress of capacity development support.

References

- ACCA (date unknown) *Improving Public Sector Financial Management in Developing Countries and Emerging Economies*. London: Association for Cost and Certified Accountants (ACCA).
- ADB (2008) *Learning from Success Capacity Development Series* ADB, Manila
- Allen, R. Schiavo-Campo, S. and Garrity, T. (2004) *Assessing and Reforming Public Financial Management: A New Approach*. Washington: World Bank.
- Andersson, G. and Isaksen, J. (2002) *Best Practice in Capacity Building in PFM in Africa*. SIPU International.
- Andrews, M. (2007) *What Would an Ideal Public Financial Management System Look Like?* In Shah, A. ed. *Budgeting and Budgetary Institutions*. Washington: World Bank.
- AusAID (2006) *A Staged Approach to Assess, Plan and Monitor Capacity Building*. Canberra: AusAID.
- AusAID (2007) *Discussion Paper on Technical Assistance and Capacity Building in Timor Leste*, Canberra: AusAID.
- AusAID and Government of France (2008) *Thematic Meeting on whole Whole-of-Government Approaches to PFM in Fragile States*. Paris 17-18 March 2008.
- Boesen (2006) *Supporting PFM reform and capacity development – what can we do better?* unpublished
- Byrne, M. (2004) *PNG Enhanced Cooperation Package: Cultural Briefing on Arrival in Port Moresby*. Canberra: United KFPW.
- Bottern, P. and Christensen, J.P. (2009) *The Swedish Support to the South African Revenue Service Through an Institutional Cooperation With The Swedish Tax Agency, 1998–2008*, Stockholm: Sida
- CABRI (2009a) *Improving Aid on Budget in Rwanda* in Briefing Paper 1/2009. Pretoria: CABRI.
- CABRI (2009b) *CABRI Response to the Accra Agenda for Action Using Country Systems* in Briefing Paper 2/2009. Pretoria: CABRI.
- CIPFA (2010) *Public Financial Management : A Whole System Approach (volumes 1 and 2)* CIPFA, London.
- Diamond J (2010) *Towards Good Practice Guidelines in the Sequencing of PFM Reforms: Third Draft*. Unpublished
- Dorotinsky, W. (2008) *Public Financial Management Reform: A Complete History (Abridged)*. Washington: IMF.

EuropeAID (2005) *Institutional Assessment and Capacity Development: Why, What and How?* Brussels: EC.

EuropeAID (2009a) *Toolkit for Capacity Development* (Reference Document no. 6). Brussels: EC.

EuropeAID (2009b) *Making Technical Cooperation More Effective* (Guidelines no. 3). Brussels: EC.

Eyben R (2010) *Supporting inclusive and democratic ownership a 'how-to note' for donors. Prepared for the OECD DAC Working Party on Aid Effectiveness, Cluster A 'Ownership and Accountability'* UK: Institute of Development Studies.

Fyson, S. (2009) *Sending in the consultants: development agencies, the private sector and the reform of public finance in low-income countries* in Int. J. Public Policy, Vol. 4, Nos. 3/4, 2009

GTZ (2008) *Capacity Development and Aid Effectiveness* (Discussion Paper in Preparation for the High Level forum on Aid Effectiveness in Accra (September 2008). Eschborn: GTZ.

Hedger, E. and De Renzio, P. (2010) *What do PFM Assessments tell us about PFM Reform?* In Background Note July 2010. London: ODI.

Herzberg, F.I. (1959) *The Motivation to Work*. New York: John Wiley & Sons

Hauck, V. and Land, A. 2011 *Fostering democratic ownership A capacity development perspective*. Brussels: ECDPM

HM Treasury (2011). *Managing taxpayers' money wisely: A commitment to Action*. London: HMG.

Hofstede (2006) *Culture Beyond the Black Box*. Keynote Speech during CCIM Conference 2006

Killick, T. (1997) *Principles, Agents and the failings of conditionality* in Journal of International Development, Vol. 9 (June) pp 483 - 495

Mackie, A. (2010) *Stocktaking Study of PFM Diagnostic Instruments Volume I – Main Report Final Draft*. Paris: OECD/PEFA

Morgan, P. (1998) *Capacity and Capacity Development – Some Strategies*. Quebec: Canadian International Development Agency

Ministry of Foreign Affairs of Denmark (2006) *Guidance Note on Danish Support for Capacity Development*. Copenhagen: MoFA.

Murphy, P. (2010) *The Platform Approach in PFM Reform – Positive for Cambodia so far, but not necessarily the magic bullet for all countries.* (<http://blog-pfm.imf.org/pfmblog/2010/07/the-platform-approach-in-pfm-reform-positive-for-cambodia-so-far-but-not-necessarily-the-magic-bulle.html>)

OECD DAC (2006a) *Harmonising Donor Practices for Effective Aid Delivery* (Vol. 2). Paris: OECD.

OECD DAC (2006b) *The Challenge of Capacity Development: Working Towards good Practice*. Paris: OECD.

OECD DAC (2008) *Synthesis Report: capacity development on the Road to Accra*. (Prepared as a room document for the 15-16 May 2008 Bonn workshop on “Capacity Development: Accra and Beyond”). Paris: OECD.

OECD DAC (2008) *Report on the Use of Country Systems in Public Financial Management*. Paris: OECD.

OECD DAC (2009a) *Inventory of Donor approaches to Capacity Development: What we are Learning*. Paris: OECD.

OECD DAC (2009b) *Capacity Development Learning: Capacity Development of Country Systems* in Issues Brief 1, 2009. Paris: OECD.

OECD DAC (2009) *Donor Capacity Development Innovation: Australia* in Issues Brief 5, December 2009. Paris: OECD.

OECD DAC (2009) *Exploring Capacity Issues “On the Road to Seoul”: Quality Training for Capacity Development* (Discussion Note). Paris: OECD.

OECD DAC (2009) *Southern Perspectives on Capacity Development: “Time to Act and Learn”* (Issues Brief, 6 December 2009). Paris: OECD.

OECD DAC (2010a) *Task force on public financial management. Good practices in supporting SAIs* Draft November 2010. Paris: OECD.

OECD DAC (2010b) *Development Cooperation Report*. Paris: OECD.

OECD DAC (2010c) *Donor Capacity Development Innovation: The European Commission* in Issues Brief 7, March 2010. Paris: OECD.

OECD DAC (2010d) *Capacity Development in Donor Business Processes: Getting it Right!* (OECD/DAC Donor Consultation: 29-30 November 2010). Paris: OECD.

OECD DAC (2011). *Perspectives Note on Technical Cooperation for Capacity Development*. OECD/LenCD

OECD DAC (date unknown) *Training and Capacity Development* (Discussion Note). Paris: OECD.

OECD DAC (date unknown) *Technical Assistance for Capacity Development* (Discussion Note). Paris: OECD.

Olander, S, ed. (2007) *Public Finance Management in Development Co-operation*. Stockholm: SIDA

OPM (2006) *An Evaluation of DFID Funded Technical Cooperation to Economic Management in Sub-Saharan Africa*. London: DFID.

Pearson, J. (2010) *Seeking Better Practices for Capacity Development: Training & Beyond*. Paris: OECD DAC-LenCD.

Quist, R. (2009) *The PEFA Reform Sequence Model Framework, Draft Paper submitted to AIDCO, European Commission*, (Unpublished)

Tommasi, D. (2009) *Strengthening Public Expenditure Management: Sequencing Issues*

Trompenaars, F. and Hampden-Turner, C. (1997) *Riding the Waves of Culture*. London: Nicholas Brealey.

UNDP (2008) *Capacity Development: Practice Note*. New York: UNDP.

UNDP (2010a) *Public Procurement Capacity Development Guide*. New York: UNDP

UNDP (2010b) *Measuring Capacity*. New York: UNDP.

Useful websites

www.oecd.org/dac; www.capacity4dev.eu; blog-pfm.imf.org; www.capacity.org
www.train4dev.net;

Glossary of Terms

TERM	DEFINITION
Capacity	is the ability of people, organisations and society as a whole to manage their affairs successfully. (OECD DAC, 2006b: 12)
Capacity development	is defined as the process whereby people, organisations and society as a whole unleash, strengthen, create, adapt and maintain capacity over time. (OECD, 2006b: 12)
Promotion of capacity development	refers to what outside partners – domestic or foreign – can do to support, facilitate or catalyse capacity development and related change processes. (OECD, 2006b: 12)
Public Financial Management (PFM)	Public Financial Management (PFM) is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals.” (CIPFA 2010: 5)
Technical Cooperation (TC)	is the provision of know-how in the form of short and long-term personnel, training and research, twinning arrangements, peer support and associated costs (EuropeAID 2009: 5)
Technical Assistance (TA)	refers to the personnel involved (the individuals or teams) in developing knowledge, skills, technical know-how or management capabilities. (EuropeAID 2009: 5)

There are numerous variations on the above definitions, but the above are used in this guide.

Annex A Methodology

Background

In the 2005 Paris Declaration, partner countries committed to strengthening their national systems and donors to using them to the maximum extent possible as part of the global efforts to make aid more effective. Both partners and donors agreed to accelerate and deepen these commitments during the Third High Level Forum on Aid Effectiveness held in Accra in 2008. These international commitments resulted from strong evidence that despite some progress to strengthening country systems, less progress has been achieved on the use of these country systems. The Accra Agenda for Action (AAA) emphasised the commitment of developing countries and donors to “strengthen and use developing country systems to the maximum extent possible”. The AAA defines country systems as follows: ‘systems for public financial management, procurement, audit, monitoring and evaluation, and social and environmental assessment’. A Global Partnership on Strengthening and Using Country Systems has been created in order to facilitate the implementation of these commitments, with the following objectives:

- Accelerate progress in donors’ use of country systems;
- Facilitate the strengthening of country systems and effective locally-rooted capacity to reform systems where deemed necessary;
- Better communicate the benefits of using country systems and involve a greater number of stakeholders (parliaments, CSOs) in overseeing the strengthening and use of country systems.

Rationale for this assignment

The OECD(DAC) created two Task Forces to produce practical guidance and good practice notes for practitioners both in donor headquarters and in the field, on strengthening Public Financial Management (PFM) and Procurement systems. Both Task Forces have been tasked with preparing a practitioner’s guide to Supporting Capacity Development in PFM, building on ongoing initiatives and interventions by donors and partner countries.

This assignment was commissioned by the Task Force on PFM Capacity Development. According to the Terms of Reference (TOR), the objectives of the assignment are as follow:

- Assess the expectations from countries for donor support to their capacity development efforts in PFM, in terms of content, form and duration;
- Collect evidence from partner countries’ perspectives of both good and ‘bad’ practices in how donors support Capacity Development in Public Financial Management;
- Collect evidence from donors on the different ways in which donors (bilateral and multilaterals) approach capacity development in PFM to strengthen a country’s sustainable development; using countries’ case studies and wider research information;
- Using the partner country perspective as an entry point, produce a Reference Guide on approaches to responding to capacity development demand from countries, design support programmes and implementing capacity development in PFM, and
- Highlight the risks inherent to such support with regards to its goals (impact on performance), duration of partnership and support, quantum of civil servants dealing

with PFM supported versus total quantum of civil servants dealing with PFM and retention

Methodology

The assessment methodology included both desk research and visits to five partner countries (Nepal, Lesotho, Rwanda, Mali and Morocco), representing both Anglophone and Francophone PFM systems. These information sources were supplemented by the consultants' own knowledge and experience in PFM capacity development in Africa, Europe, Asia, the Caribbean and Oceania. The Task Force on Procurement was also consulted to establish links with their capacity building guide. Particular attention was also paid to any capacity development guidance for specific operational areas e.g. fragile states and other reform areas such as public sector reform.

Desk Research

The desk research focussed on gaining a good understanding of the following:

- Current Capacity Development (CD) discourse and formulating a suitable definition for CD in PFM;
- Donor's current principles and practices with respect to CD in PFM;
- Support to CD in PFM provided by regional organisations such as the East and Southern Africa Association of Accountant Generals (ESAAAG) and the regional technical assistance centres of the IMF e.g. AFRITAC- E and CARTAC;
- Recent evaluations of CD in PFM with or without donor assistance;
- Recent CD in PFM in the five selected case study countries including by government alone and with donor intervention/assistance.

The research was carried out through the review of published and unpublished reports, telephone interviews and email correspondence.

Data Collection in Country

Interviews were conducted in the case study countries with key actors in PFM leadership roles within partner governments, training institutions, professional bodies, donors and civil society. More specifically, the consultants held meetings with relevant government officials in the Ministry of Finance (e.g. budget, accountant general, internal audit), revenue authority (where applicable), line ministries, local authorities (if applicable) as well as representatives from the auditor general's office, parliament, accountancy bodies, training institutes and civil society. They also met with technical advisers and donor representatives.

The consultants used a qualitative research methodology to understand the current demand and supply of CD in terms of content, form and duration, and also to collect evidence of stakeholder perceptions and expectations of capacity development in PFM. It was based on semi-structured interviews conducted either with individuals or small focus groups within the five selected case study countries. This methodology allowed the interviews to be conducted in a focussed and structured way by different interviewers (in the Anglophone and Francophone countries) and also to explore in depth, areas of interest. This also allowed the information collected in the five countries to be compared as well as identify general trends, irrespective of a country context.

A bespoke interview questionnaire was prepared consisting of 25 questions covering the following broad themes: i) conceptual understanding of CD in PFM: ii) content, form and duration of ongoing initiatives (with or without donor support); iii) the process of designing and implementing support to

CD (ownership, alignment, donor harmonisation and monitoring of CD in PFM; iv) impact of CD interventions at an individual, organisational, institutional or societal level, and v) sustainability of CD efforts.

Practical methodological issues

Methodology: The target participants were predominantly in PFM management positions. The relative small number of participants made a quantitative approach impractical. The qualitative approach allowed for structured interviews by different consultants, and to clarify information on relevant subjects.

Interviews: Interviews were conducted both with individuals and in small focus groups. It was found that in many cases the senior person spoke “for the group” while rest only confirm his/her views.

Subject: Although the main purpose of the interviews was to gather information relating to donor support of PFM capacity development, participants preferred to focus on capacity development in general within their respective organisations. This meant that all questions were not always answered or was just a repeat of a previous answer.

Time: It was found that a one hour meeting was sometimes not enough to complete the questionnaire. Consultants also found that five days were not enough to cover the number of interviews. It was found that a maximum of five interviews per day were practically possible because consultants had to travel across the city for meetings within different organisations.

Semi-structured Interviews

Guidelines for interview process

- The interview questionnaire has been designed to improve consistency (i.e. different countries and different interviewers) and to facilitate comparative analysis.
- Questions are open ended and interviewer should prompt for more information by asking for instance “Can you give an example, do you care to expand, please elaborate, etc” (Avoid bias by asking leading questions).
- Interviewers should be sensitive to feelings and attitudes and use neutral language such as “Would it be fair to say..., Am I right in thinking that...etc”.
- The questions are categorised under five elements for the sake of analysis.
- Interviewees will not be identified except for where they work.
- Staff from both Government and Donor organisations as well as other stakeholders (e.g. civil society, training institutions, and parliament) will be interviewed.
- The results will be a ‘management’ interpretation that will allow some data analysis, but it is not intended to be a detailed organisational analysis.
- The various questions are designed to support each other and validate different answers.

Questionnaire

Conceptual understanding

1. Who would you consider to be key stakeholders in PFM in your country?
2. What do you understand under PFM Capacity Development?
3. What do you understand to be the difference between PFM capacity development programmes and PFM reform programmes?
4. What do you think the Donors’ role should be with regards to Capacity Development?

Content of Capacity Development initiatives

5. What is the focus of PFM Capacity Development in your country?
6. How long do you think Donor support for Capacity Development initiatives should last?
7. How are Capacity Development initiatives being supported after the end of donor support?
8. Are any key stakeholders excluded in current Capacity Development? If so, why?
9. If you had the power, how would you improve PFM Capacity Development?

Processes involved in Capacity Development initiatives

10. In practice, how do Donors align their Capacity Development support to a Government programme or strategy?
11. How do Donors consider the organisational culture and country context when supporting Capacity Development?
12. Who designed the Capacity Development initiatives in your organisation?
13. How were you consulted when Capacity Development projects were designed?
14. If you had the power to make Capacity Development policy in your organisation, what will you do?
15. Who took the lead in managing the implementation of Capacity Development projects?
16. Do you think the local system for donor coordination in PFM works effectively?
17. If you had the power, what will you do to improve local donor coordination?
18. How are Capacity Development efforts assessed by both Government and by Donors?
19. Can you give an example of a Capacity Development success story and a failure?

Impact of Capacity Development efforts

20. Do you think that colleagues/staff have benefited from Capacity Development?
21. What do you think are the biggest problem/stumbling block in developing capacity at (i) an individual level and/or (ii) organisational or system wide level?
22. What do you think was the main benefit for your organisation of recent Capacity Development efforts?
23. What impact do you think Capacity Development efforts in your organisation had on the wider PFM system?

Sustainability of Capacity Development efforts

24. What are /have been the main constraints in ensuring sustainability (reasons for non sustainability) of CD initiatives?
25. What has made CD initiatives more sustainable?

Annex B Possible Approaches to TA¹⁹

	Pros	Cons / Risks
A. Technical Assistance (Expert Advisors)		
➤ Long-Term International Advisor (resident in country) – advisory role	<ul style="list-style-type: none"> -provides continuity, enhances prospects of building solid relationships and understanding of the local context - focus on provision of advice and building capacity -able to take a ‘long view’ and avoid unrealistic pressures for ‘short-term results’ 	<ul style="list-style-type: none"> -risks increasing dependency -may be question of accountability to whom – contractor? local partner?
➤ Long-Term International Advisor (resident in country, in-line role)	<ul style="list-style-type: none"> -provides continuity, enhances prospects of building solid relationships and understanding of the local context -able to take a ‘long view’ and avoid unrealistic pressures for ‘short-term results’ 	<ul style="list-style-type: none"> -risks increasing dependency, especially if advisor is in a line position -may be question of accountability to whom – contractor? local partner?
➤ Strategic Gap Filling (often long-term)	<ul style="list-style-type: none"> -can advise on issues requiring highly specialized skills not available locally, e.g. trade, anti-corruption, telecommunications -can provide operational or policy support in areas critical to functioning of government, e.g. judges, legislative drafting (esp important in small island states with limited specialized capacity) -can serve as change agent, bringing in international expertise, ideas, practices 	<ul style="list-style-type: none"> -doesn’t necessarily address longer-term capacity needs or systemic constraints
➤ Long-Term International Advisor (in-and-out)	<ul style="list-style-type: none"> -provides ‘space’ for local staff to develop new skills independently between visits -stronger sense of ownership 	<ul style="list-style-type: none"> -advisor may have limited understanding of organizational culture, capacity issues, informal systems -may be more inclined to respond to pressures for short-term ‘results’ or deliverables vs focusing on capacity issues
➤ Short Term International Advisor (specialist expertise)	<ul style="list-style-type: none"> - responds to specific need at a particular point in time 	<ul style="list-style-type: none"> -advisor may have limited understanding of organizational culture, capacity issues, informal systems -more inclined to respond to short-term needs or pressures for ‘deliverables’ vs. longer-term capacity issues
➤ Short term International	-broadens base of support for local	- potential to bypass local

¹⁹ Adapted from ADB (2008) Learning from Success Pacific Series

	Pros	Cons / Risks
Specialist supported by regional institution	<ul style="list-style-type: none"> institution -draws on regional capacity and encourages ongoing links (sustainability) -cost savings -local ownership 	<ul style="list-style-type: none"> institutions
➤ Local Expert	<ul style="list-style-type: none"> -work done in country; reliance on local systems, procedures -in-depth knowledge of context, including political economy, org'l culture etc. -costs savings -local ownership 	<ul style="list-style-type: none"> -limits opportunities to drawn in international expertise or build up external links -
➤ Local expert supported by Specialist short-term TA	<ul style="list-style-type: none"> - majority of work done in country with long distance support (e.g. e-mail, teleconference) or short visits -in-depth knowledge of context, including political economy, org'l culture etc. - cost savings - local ownership 	<ul style="list-style-type: none"> -Seconding local staff to project team can (potentially) diminish capacity of local partner in short to medium term -immediacy of support can be diminished by not having locally-based specialists
➤ TA through twinning	<ul style="list-style-type: none"> - works where there is high ownership such as for pre-accession states to EU - ongoing links to range of institutional capacities (experts, network partners, interactive websites) - can enhance credibility of local partner (incentive for staff) 	<ul style="list-style-type: none"> - most ODA examples show few relevant outcomes in organisational strengthening - activities tend to become routine - capacity development objectives have to be well defined -focus more on training than learning so recourse to formal courses rather than on-the-job learning
➤ TA through partnership with professional associations	<ul style="list-style-type: none"> - as above 	<ul style="list-style-type: none"> - as above
<p>➤ TA through pooling – different levels:</p> <p>Full – untied with procurement and strategic management by partner country;</p> <p>Mixed – tied or untied with procurement managed by donors and strategic management by partner country;</p> <p>Loose – tied or untied with procurement managed by donors and strategic management shared by donors and partner country</p>	<ul style="list-style-type: none"> -full – government in charge, makes decisions on TA; can reduce transaction costs in long run, less opportunity for dev orgs to put non-developmental demands on TA; transparent costs -mixed – less time to put in place; relieves gov'ts with limited capacity of managem't responsibilities; can reduce coordination costs in long run -loose – can be put in place relatively quickly; little pressure on partner country management systems 	<ul style="list-style-type: none"> - can take a long time to put in place; lowest common denominator kind of thinking ; individual foreign TA may be unwilling to sign contracts with partner country; risk of corruption - no opportunity to build up local procurement capabilities through experience; pool could be donor-led and undermine ownership; little transparency on costs - no opportunity to build up local procurement capabilities; gov't needs and

	Pros	Cons / Risks
		<p>preferences may not be given adequate attention, thus reducing ownership; no transparency on costs; possibility of overwhelming gov'ts</p>

Annex C Learning Practice Approaches, Tools & Techniques²⁰

DESCRIPTION	LEVEL AND APPLICATIONS	STRENGTHS	CHALLENGES
<p>Blended learning: Blended learning is the combination of different training and learning technologies, activities and events. It most usually combines a mixture of e-learning and interactive human contact.</p>	<p>Individuals and Groups: For any learning need that has a mixture of theory and practice. For processes where large numbers of people in different locations need to learn the same things.</p>	<p>The blend selected can be problem focused or person focused. Enables quality assessment of e-learning processes. Enables rapid roll-out to large groups. Can be very cost effective depending on development costs.</p>	<p>It needs skilful design and management to ensure the right balance between the e- and person components of the blend. Requires a high level of (compatible) technology and study skills as prerequisites. Development costs can be high</p>
<p>Coaching and Mentoring: Coaching is generally focused on workplace challenges and issues and will be time bounded. Mentoring is generally a long-term process of supporting an individual's career and personal development. Both are tailored and contextual and can be used for individuals and groups.</p>	<p>Individuals and Groups: As part of leadership development programmes; follow up to training activities; anywhere that managers and professionals could benefit from focussed guidance</p>	<p>Very focused way to support learning and performance improvement; can be offered by national personnel</p>	<p>Needs to be separated from line management structures; coaches and mentors need to have specific skills</p>
<p>Communication: Processes that bring groups together to connect and surface their collective knowledge and wisdom, and by so doing enhance and support learning and change within those groups. Considered by some to be a cross cutting element of all other processes, and by others to be a component of Knowledge Management.</p>	<p>Groups, Organisations and Sectors: For working on issues that have a defined stakeholder group whose knowledge and wisdom can contribute to identification and solution of problems within their domain; best used for challenges that do not have technical solutions</p>	<p>Surfaces the implicit knowledge and wisdom embedded in groups; ensures that all stakeholders have voice in decisions that concern them; empowers participants; creates ownership and commitment to action</p>	<p>Can be countercultural and create resistance; requires skilful facilitation; can raise inappropriate expectations</p>
<p>Customised training: Training that has been commissioned for the needs of a specific group</p>	<p>Individuals and Groups: For specific technical skills for project implementation; for system compliance needs</p>	<p>Focused on the specific needs of participants</p>	<p>Relevance and success depends on the quality of the needs assessment and design processes, which often are inadequate and does not involve adequate follow up</p>
<p>Degree level study overseas: Most usually scholarships for graduates to study at masters and doctoral levels at overseas universities</p>	<p>Individuals: For young professionals; where a sector lacks a pool of personnel with academic level knowledge of its technical needs</p>	<p>Individual learning which results in positive and quantifiable impacts at both individual and organisational level</p>	<p>Covering positions and workload during absences of years; adaptation and application of new knowledge on return to workplace; risk of brain</p>

²⁰ OECD DAC – LenCD (2010) Special consultancy by Jenny Pearson February 2010 *Seeking Better Practices for Capacity Development: Training & Beyond*, OECD, Paris

<p>Distance learning: Academic study programmes offered by overseas universities for participants to follow from home.</p>	<p>Individuals: For people who do not have high quality tertiary education available to them locally and whose financial or personal circumstances do not allow them to study overseas</p>	<p>Give high level academic opportunities for people who are not able to go overseas; flexible timing</p>	<p>Students are isolated; requires high level of English and study skills; needs good quality and affordable Internet access; little support for adaptation and application of new learning in the workplace</p>
<p>E-learning: Any technology-supported or web based learning system. E-learning can happen across distances and borders or within one organisation and not therefore, at a distance.</p>	<p>Individuals and Groups: For learning needs that have high knowledge or technical components. For working on processes with groups who are geographically distant.</p>	<p>Offers individual and flexible learning opportunities without requiring direct human interaction so good for people who do not have easy access to learning resources or facilitators. Can be very cost effective</p>	<p>Students are isolated; requires high level of study skills and facility in the language of instruction; needs good quality and affordable Internet access; little support for adaptation and application of new learning in the workplace</p>
<p>Experiential learning: Generic heading for numerous structured and semi-structured processes which can support individuals to learn from their workplace experiences</p>	<p>Individuals and Groups: For advisors to build capacity of counterparts and teams; for training follow up activities; as monitoring tools</p>	<p>Starts where the participant is in their own experience; grounds learning into workplace practice; works well for those not academically inclined</p>	<p>Can create resistance because countercultural; requires strong facilitation skills; not so good for technical needs</p>
<p>Exposure: Exposure visits take people to see what others are doing in similar work situations to themselves. Attending conferences and other events provide exposure to new knowledge, ideas and influences within sectors.</p>	<p>Individuals and Groups: For those who will benefit from seeing new or different ideas in action. For those who would benefit from introduction to new knowledge, ideas and practices</p>	<p>Makes learning about new ideas more practical and grounded in reality. Stimulates the spread of good practice and the fertilisation of innovation</p>	<p>If it involves international travel exposure can be expensive and not cost effective. Needs to have very clear learning objectives specified at the start, and effective follow up afterwards if new ideas are to be applied</p>
<p>External training courses: Courses for which the content and curriculum are predefined by the provider, who may be a private company, a training institute, or not-for-profit organisation</p>	<p>Individuals: Technical subjects such as accounting, computer and ICT skills: language development</p>	<p>Relatively inexpensive and readily available</p>	<p>Cannot be specifically tailored to participant needs; rarely have any pre-testing or follow-up activities; impact is difficult to assess; limited support for participants to apply learning in the workplace</p>
<p>Knowledge Management: Considered by some to be a cross cutting issue in CD it is the process by which organisations generate value from their intellectual and knowledge-based assets by documenting what staff and stakeholders know about the organisation's areas of interest, and then</p>	<p>Groups, Organisations and Sectors: For sectors with rapid advances in knowledge e.g. health; sector's that are knowledge based e.g. education and training; in multi-disciplinary/stakeholder processes, such as decentralisation</p>	<p>Enhances communication and connection within systems to ensure that they are using all the available knowledge assets to best effect</p>	<p>Can be very complex and time consuming to implement; requires constant attention and updating; can become overly technical and dependent on data management systems</p>

sharing that collected data back to those who need it to enhance their job performance

Leadership Development:

Processes designed to enhance the leadership skills of existing and potential leaders within systems. Most effective if a combination of training modules and supplementary activities such as exposure visits, and coaching or mentoring

Organisational strengthening:

There are three interrelated disciplines known as: organisational development, change management and organisational learning. In summary working with coordinated learning and change techniques to move organisations towards the levels of capacity necessary to be effective and fulfil organisational/sectoral mandates

Partnerships and Networks:

Mechanisms through which diverse actors with mutual interests come together in order to achieve a common goal. This can include twinning organisations and institutions with similar mandates, and the same or different levels of capacity.

Individuals and groups:

For development of the next generation of leaders; where new challenges are emerging for which no experience sector leadership yet exists; to help women overcome the glass ceiling that prevents their professional advancement

Organisations and sectors:

For any organisation or system that does not yet have the capacity to fulfil its mandate; best used when the development of capacity calls for multiple aspects of the system to be learning and developing in tandem

Organisations and sectors:

For sharing knowledge and experience across borders; for developing research capacity

Gives emerging leaders the skills and confidence to step into leadership roles

Works at the level of whole systems and therefore ensures that learning, change and development are simultaneous across the whole organisation or sector

Provides opportunities for sharing knowledge and experience across borders; offer opportunities for mutual learning

Requires the background political economy to be such that participants can practice what they learn in order to bring about change in their own performance or within their organisations

Very complex, requiring high levels of conceptual and strategic thinking to be transferred to operational realities, multiple concurrent interventions, and strong facilitation skills; needs support of enabling environment

Can be difficult to coordinate and keep functional; power relations can become unbalanced, having a negative impact on opportunities for learning



Supporting Capacity Development in PFM - A Practitioner's Guide

Volume I

This Practitioner's Guide outlines good practices for development partners engaged in supporting capacity development in Public Financial Management (PFM) as well as country expectations in terms of development partner support to their efforts to strengthen PFM systems. It builds upon the experience of five countries – Lesotho, Mali, Morocco, Nepal and Rwanda.

Volume I of this Guide puts country ownership and leadership at the centre of the capacity development process – as a fundamental prerequisite for its success and its sustainability. It provides a number of recommendations and approaches for development partners to respond to country demand for capacity development support – in terms of design, implementation and monitoring of results of capacity interventions. It takes as its starting point the need to understand the country context, know the subject, but also the need to recognize donor constraints. It adopts a holistic view which frames the issue within the broader country context and calls for a stronger focus on both internal and external impediments and incentives. By doing so, this Guide aims to encourage donors and partner countries to overcome challenges and to work together in strengthening country systems and boosting their use by aid agencies.



부산 세계개발원조총회
**4th High Level Forum
on Aid Effectiveness**
29 Nov – 1 Dec 2011, Busan, Korea