

Appendix G: Chairperson's Summary (Committee on Development Effectiveness)

Country Financial Accountability Assessments and Country Procurement Assessments Reports How Effective are World Bank Fiduciary Diagnostics? (Meeting of June 18, 2007)

1. On June 18, 2007 the Committee on Development Effectiveness (CODE) Informal Subcommittee considered the Country Financial Accountability Assessments and Country Procurement Assessment Reports – How Effective are World Bank Fiduciary Diagnostics and the draft Management Response.
2. **IEG Findings and Recommendations.** IEG reviewed the large number of public financial management (PFM) diagnostics – namely the Country Financial Accountability Assessments (CFAAs) and the Country Procurement Assessment Reports (CPARs) undertaken between July 1999 and December 2004. One of the main findings was that the CFAAs and CPARs evaluations have been of central relevance to development effectiveness. IEG also found that CFAAs, and to a lesser extent CPARs have significantly contributed to the Bank's development objectives, but their contribution to the achievement of the Bank's fiduciary objectives was limited. IEG noted that the quality of diagnostics was satisfactory, there was some country participation although country leadership in the diagnoses was low, and donor collaboration increased overtime. The focus of the IEG recommendations was on:
(1) gearing CFAAs and CPARs more directly to the fiduciary goal; (2) enhancing quality of the diagnostics; and (3) strengthening the impact of fiduciary work and associated outcomes.
3. **Draft Management Response.** Management welcomed the IEG evaluation report, noting that many of the findings confirmed its thinking on the Bank's PFM work. It noted that a memorandum to staff was issued in July 2005 on strengthening the Bank's PFM work, which addresses many of IEG findings and recommendations. There were some areas where Management had different views to IEG, such as the tension IEG suggested between the development and fiduciary objectives of CFAAs and CPARs; the view that assessments are less relevant for the Bank's fiduciary than for its development objectives; and the assessments have less influence at the project level. As well, there were differences in opinion on the treatment of corruption risk, inclusion of an action plan in the assessment, the recommendation to mandate a PFM concept note as part of the country assistance strategy (CAS) formulation process, and the use of assessments as instrument for aligning processes in donor-financed project.
4. **Overall conclusions and Next Steps.** Members welcomed the IEG report and the draft Management Response, noting its relevance particularly for the Bank's proposed shift to use of Country Systems in selected countries. However, a few speakers asked about the timing of the report and suggested that IEG could have reviewed the implementation of the strengthened

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approach to implementing the Bank's PFM work. Speakers were broadly supportive of the IEG findings and recommendations. It was noted that many IEG findings and recommendations have been addressed by Management. Some of the themes discussed were: the importance of more country participation in, and ownership of, the fiduciary diagnostics; the link with CASs; the importance of prioritized and time bound follow-up country action plans to strengthen country systems; the benefits of a clear integrated risk analytical framework; the question of whether there could be overall risk ratings; and CFAAs and CPARs and other assessments as entry points for donor harmonization and coordination around the use of country systems. As well, speakers discussed the need for indicators to monitor progress in PFM, the issue of disclosure of assessments, and the need for better internal coordination and appropriate incentives.

The following main issues were raised during the meetings:

5. **Reconciling the Dual Objectives.** The common view held among speakers was that the development and fiduciary objectives of the Bank's fiduciary diagnostics are complementary. A speaker found the distinction between the two objectives as misleading, noting that addressing fiduciary issues should be seen as development goal. This view was reflected by another speaker, who believed that a strong PFM should consider fiduciary issues. *IEG agreed that the development and fiduciary objectives are complementary, but noted that the measures to achieve the two objectives in the short term are sometimes distinct from one other. It noted that fiduciary objectives focus on mitigating short-term risks to Bank assistance through actions within its control, and accordingly diagnostics are expected to look more inward at the design of Bank assistance.* One speaker was concerned that there may be more rigid application of Bank procurement practices if the Bank gears CFAAs and CPARs more toward fiduciary goals as recommended by IEG. *IEG clarified that it was not suggesting that Bank procurement rules be applied more rigidly or that there should be greater reliance on ring-fenced projects. IEG's evaluation assessed a more limited point, which is whether these diagnostics are influencing the design of country and operational strategies; the evaluation found that these diagnostics could do more to influence CASs or procurement design.*

6. **The Diagnostics.** A speaker emphasized the quality of assessments, and the importance of Management commitment to strengthen the diagnostics. Another speaker also noted the relevance of the diagnostics to increasing the use of country systems. There were a number of comments on how to strengthen the CFAAs and CPARs; ensuring their coordination with other assessments such as the Public Expenditure Framework Assessment (PEFA) and ongoing Organisation for Economic Co-operation and Development/ Development Co-operation Directorate (OECD/DAC) work on procurement assessment; and incorporating monitorable progress indicators. A few speakers remarked that the multiple diagnostic tools were becoming overly complicated and should be simplified, particularly given country capacity issues. One speaker said that it was essential to have stand alone CPARs. *Management commented on the ongoing efforts to strengthen the diagnostics, in particular the CPARs for which a new set of guidelines to staff is being prepared.*

7. **Country Participation and Ownership.** Some speakers emphasized country participation in, and ownership of, fiduciary assessments especially for country follow-up action. It was noted with concern that country uptake of the assessment reports appeared limited, especially in the area of procurement. One speaker raised concerns about potential moral hazard related to country participation in CFAAs and CPARs. *Management noted the importance of helping countries*

undertake their own diagnostics, and also observed that when countries are excluded from the process they are less likely to act on the findings and recommendations. Management assured the Subcommittee of the increasingly strong country ownership and participation in the diagnostics.

8. **Follow-up Action Plan and Monitoring Progress in PFM.** The importance of follow-up actions to the assessments was highlighted. A speaker asked Management for examples of PFM initiatives that emerged from CFAAs and CPARs. Speakers supported IEG recommendations for the Bank to support country specific, prioritized and sequenced action plans aimed at strengthening country fiduciary systems. They also stressed that the action plan should enable monitoring and evaluation of progress in PFM, and should include timeframe, responsibilities, and costs. *Management referred to the example of Sri Lanka in explaining that while the assessments may not include action plans, action plans are developed after the completion and local dissemination of assessments. Given the interest in the follow-up actions, Management proposed to take on this topic in its subsequent annual Financial Management Report and Procurement Report.*

9. **Links with CASs.** There was general support for more integration of CFAAs and CPARs in CASs, as well as in national development strategies. A few speakers commented on the need for better synchronization so CFAAs and CPARs with CASs, to ensure that the assessments feed into CASs. They supported IEG's recommendation that PFM concept note should be initiated as part of CAS formulation process. One speaker emphasized that the diagnostics are central to the Bank's operational decisions, and expected CASs to discuss findings and risk ratings in CFAAs and CPARs. Another speaker sought clarifications on IEG's findings that assessments were not informing Bank's choice of support, including decisions to extend Development Policy Operations (DPOs) and Sector-Wide Approaches (SWAs). *Management explained that many factors are taken into account in planning for CFAAs and CPARs, which are intended not only to inform CASs but other Bank operations. Accordingly, the most important is to ensure that the assessments are undertaken before the CAS finalization.*

10. **Integrated Risk Analytical Framework and Risk Rating.** There was general support for integrated risk analytical framework, and speakers welcomed Management's initiatives in this area. A speaker urged the Bank to give more emphasis to this framework, noting the uneven achievements of the Bank's fiduciary goals. However, another speaker cautioned that the comprehensive and integrated risk analytical framework should not lead to further rigidity of Bank procurement practices. Clarification was sought on the IEG findings concerning the lack of a satisfactory framework for risk analysis, and its implication for project design.

11. One speaker supported inclusion of risk ratings in all CFAAs and CPARs while two speakers expressed caution about having such risk ratings. *IEG clarified that it was not suggesting that risk rating be provided in the assessments, and noted the need for flexibility to take into account the sensitivities of some governments. IEG also pointed to the findings that two-thirds of CFAAs and CPARs were including explicit risk rating, and thus it suggested some clarifications in this area. In this regard, Management preferred to flexibility in undertaking risk analysis. Management also noted that the standardized national risk analysis included in the CFAAs and CPARs can not be applied at project level, since individual implementing agencies will have different levels of capacity. As for addressing corruption issues in CFAAs and CPARs, a few speakers supported Management's view that this matter should be addressed through the ongoing efforts on governance and anti corruption. IEG explained that the report does not recommend separately pursuing corruption, but is suggesting that*

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for a risk assessment on procurement to be realistic and comprehensive, consideration must be given to the impact of corrupt practices on the procurement or financial management systems.

12. **Disclosure of Assessments.** Several speakers urged more transparency and systematic disclosure of assessments, within the Bank and to the public. A speaker noted that assessments should be available to not only the Government, but also to other local stakeholders including the civil society. A few speakers asked about the CPARs that are publicly available. *Management noted that the presumption is in favor of disclosure, and more work was needed to maximize disclosure. Management said it would follow-up on the availability of the CPARs.*

13. **Donor Coordination and Harmonization.** A few speakers sought clarifications on Management's response that these assessments are not normally the right instrument to further the objective of alignment of processes in donor financed projects. A speaker noted that the CFAAs and CPARs may serve as an entry point for dialogue with other donors, and may further promote donor coordination and harmonization. Another speaker positively noted that these assessments are important for donors' operations. It was suggested that IEG could have taken a broader perspective of harmonization of practices in donor-financed investment projects. *IEG replied that it will look further into harmonization issues in the forthcoming evaluations on public sector reform and decentralization.*

14. **Internal Coordination and Incentives.** Speakers stressed the need to improve internal coordination. In this context, a few speakers explicitly support the IEG recommendation for integrated diagnostics, which was also expected to strengthen internal coordination. Others commented on the need to address staff incentives. *Management noted that it was making progress in the area of strengthening the Bank's work in PFM, and reported that 19 integrated assessments have been completed.*

Jiayi Zou, Chairperson, CODE