

Chapter 1: Introduction

1.1 This document reports on a PFM assessment, conducted jointly by the World Bank, EU, DFID and ADB, with the active cooperation and support of the Government of NWFP, by describing the existing financial systems briefly and rating these systems against the laid down indicators of the PFM Performance Measurement Framework. The study has been conducted in line with the Public Financial Management Performance Measurement Framework issued by PEFA in June 2005 (PFM Performance Measurement Framework). The framework uses six critical dimensions of performance for an open and orderly PFM system:

- i. Credibility of the budget – The budget is realistic and is implemented as intended.
- ii. Comprehensiveness and transparency – The budget and the fiscal risk oversight are comprehensive and the fiscal as well as the budget information is accessible to the public.
- iii. Policy-based budgeting – The budget is prepared in order to best carry out government policies.
- iv. Predictability and control in budget execution – The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
- v. Accounting, recording and reporting – Adequate records are maintained and information is produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
- vi. External scrutiny and audit – Arrangements for scrutiny of public finances and follow up by executive are operating adequately.

1.2 Against the six core dimensions of PFM performance, the set of high-level indicators measures the operational performance of the key elements of the PFM systems, processes and institutions of the NWFP government and legislature. The 28 indicators for the country's PFM system are structured into three categories:

- A. PFM system out-turns: these capture the immediate results of the PFM system in terms of actual expenditures and revenues by comparing them to the original approved budget, as well as level of and changes in expenditure arrears.
- B. Cross-cutting features of the PFM system: these capture the comprehensiveness and transparency of the PFM system across the whole of the budget cycle.
- C. Budget cycle: these capture the performance of the key systems, processes and institutions within the budget cycle of the central government.

In addition to the indicators of country PFM performance, the framework also includes the donor practices - three indicators capture the elements of donor practices that affect the performance of the country PFM systems.

1.3 It is important to note the scope and limitations of this assessment. The Performance Measurement Framework does not review the factors impacting performance, such as the legal framework or existing capacities in the government. It focuses on the operational performance of the key elements of the PFM system, and not on the inputs that enable the PFM system to reach a certain level of performance. It does not involve fiscal or expenditure policy analysis, which would determine whether fiscal policy is sustainable, whether expenditures incurred through the budget have their desired effect on reducing poverty or achieving other policy objectives, or whether value for money is achieved in service delivery. This would require detailed data analysis or utilization of other country/province-specific indicators. The framework solely focuses on

assessing the extent to which the PFM system is or is not an enabling factor for achieving such outcomes.

1.4 It is expected that the repeated application of the indicators-tool will provide information on the extent to which GoNWFP PFM performance is improving. This assessment report briefly recognizes the efforts made by the government to reform its PFM system by describing recent and on-going reform measures, which may not have yet impacted PFM performance. The report, being a ‘snap-shot’ does not, however, include any recommendations for reforms or assumptions as to the potential impact of ongoing reforms on PFM performance, nor does it include an action plan.

1.5 Accordingly, this review has assessed PFM in NWFP against each of the indicators for the PFM objectives, describing the processes related to the indicator, identifying issues where necessary, and providing an assessment against a four level rating for the indicator – A, B, C, or D. These ratings and the criteria for achieving a specific rating for each indicator are set out in the PFM Framework which is briefly explained in each section. A rating of ‘A’ would be international best practice and a rating of ‘B’ would be a good achievement. Of course the ratings of ‘C’ or ‘D’ are considered to be a call for improvement.

1.6 The Provincial Steering Committee was established, chaired by the Special Secretary Finance, GoNWFP. The study started with a formal presentation of the framework at a launching session on April 24, 2006 where the key stakeholders as well as the members of the Steering Committee were present. The work has been carried out through a combination of field study in specific areas; review of existing studies (e.g. NWFP Economic Report, December 08, 2005, NWFP Provincial Financial Accountability Assessment, January 2004), on-going self-assessment reports of the government, desk research, and extensive discussion and dialogue with concerned stakeholders. The draft report was discussed at a stakeholders’ consultation workshop, with representatives coming from the PFM institutions, line agencies and district governments on January 25, 2007.

1.7 The PFMAA task team comprised institutional Co-task Leaders: Ismaila B. Ceesay, Sr. Financial Management Specialist, World Bank; David Johnson, Sr. Governance Advisor, DFID; Sandra Nicoll, Senior Governance Specialist, ADB; Thorsten Bargfrede, Second Secretary, EC. Furqan A. Saleem, Financial Management Specialist, World Bank, Saeda Sabah Rashid, Financial Management Specialist, World Bank, Waqas ul-Hasan, Project Officer, ADB, Uzma Sadaf, Procurement Specialist, World Bank, Hanid Mukhtar, Senior Economist, World Bank, were all members of the task team. National Consultants included M. Aamer Chaudhry, Umair Sadiq and Junaid Bin Iftikhar; and Michael Jacobs, International Consultant, assisted with developing the assessment report. Altaf Ahmad, SARFM Program Assistant, World Bank, provided the logistical and administrative support, and Professor Dr. Khawaja Amjad Saeed, carried out a review of the draft as well as served as a resource person at the stakeholders’ workshop in Peshawar.

1.8 The peer reviewers were Margaret Robinson and Julie Lynn, Financial Accountability and Anti-Corruption Team, DFID, London; Kathleen Moktan, Director, Capacity Development & Governance Division, ADB, Manila; Jean Louis Lacube, AIDCO, EC; and R. Maggi, EC.

1.9 The team, working along with the OECD-DAC BIS procurement team, gratefully acknowledges the cooperation extended by government counterparts (led by the Finance Secretary and the Special Secretary Finance), Members of the Steering Committee including the Accountant General NWFP, Secretary PAC, DGs Provincial and District Audits, Provincial Reforms Coordinator, other sector units and local government officers, and civil society representatives.