Manila Consensus on Public Financial Management
Partnering to Strengthen Public Financial Management for Effective States

We, representatives of partner countries, multilateral and bilateral development organizations, parliaments and civil society[1] note that strengthening Public Financial Management (PFM) is essential for effective and sustainable economic management and public service delivery. We recognize that weak PFM systems can be detrimental to development outcomes. States can only be effective and accountable when they are underpinned by good PFM institutions and systems.

We urge Partner Countries to be ambitious in strengthening their PFM systems through credible reform programmes. We call on Development Partners to deliver important commitments made in Paris and in Accra on the need to increase the amount of external assistance that flows through a country's PFM system- not as an end in itself- but as part of efforts to improve implementation of public policy and its results for sustainable development.

The Manila Consensus on Public Financial Management is not a 'new recipe' on PFM, but rather both a recognition and a deepening of efforts to strengthen and use country PFM systems. Recognising that: (i) more needs to be done at **country level** to support and strengthen PFM as an essential component of better economic governance; and (ii) **international fora** can assist in providing a peer review mechanism as well as a platform for knowledge sharing on strengthening and using country PFM systems, we propose the following for Busan and beyond:

I. We call on Partner Countries to demonstrate their political commitment to strengthening PFM through a credible reform programme, to ensure independent and well-resourced oversight institutions, and to increase transparency for better accountability to the public including through CSOs for all public resources, not only aid.
II. We call on Development Partners to honour their political commitment, in coordination with Partner Countries, to support capacity development in PFM and domestic revenue mobilisation and progressively increase their use of components of PFM systems for all aid modalities in order to contribute to achieving poverty alleviation.
III. We recognize the opportunity for Climate Change Finance to utilize country systems to the extent possible.
IV. We urge Development Partners to harmonise fiduciary and other risk assessments based on existing PFM assessment tools.
V. We urge Partner Countries and Development Partners to better define and monitor the outcomes of PFM reform programmes and PFM system use by Development Partners and to communicate to their respective publics these benefits for sustainable development outcomes.
VI. We recognize the need to review the monitoring frameworks on the strengthening and use of country systems at country level, including capturing partial use of country systems, and results from diagnostics which were not available at the time of the Paris Declaration (namely, PEFA).

In implementing these commitments, at country level, we call on Partner Countries and Development Partners, together, to strengthen policy dialogue and elaborate specific and actionable implementation plans to address the strengthening and use of country PFM systems in a co-ordinated and sustainable manner over the medium to long term. At international level, we recommend that a knowledge sharing and peer review platform on PFM be sustained and appropriate mechanisms developed in that regard post-HLF-4.

We support and encourage all development actors to base their activities and actions on the recommendations elaborated in Manila based on the work undertaken in the Task Force on Public Financial Management (2009-2011) – and as outlined in the following Annex to the 'Manila Consensus'.

[1] The following countries and organisations were present at the Task Force on PFM meeting in Manila on 6-7 June: African Development Bank, Asian Development Bank, Australia, Bangladesh, Better Aid, Cambodia, Canada, Confederation of Asian and Pacific Accountants, European Commission, Finland, Gambia, Germany, Ghana, Inter-American Development Bank, International Federation of Accountants, International Fund for Agricultural Development, Korea, Liberia, Mauritius, Mongolia, Nepal, Netherlands, New Zealand, OECD, Papua New Guinea, PEFA, Philippines, South Africa, Swaziland, Sweden, Uganda, United Kingdom, Vietnam, World Bank, Zambia

The following principles are drawn from evidence and recommendations of the main activities under the Task Force on Public Financial Management (2009-2011) on Using Country Systems; Assessing Country Systems; Capacity for Reform; and Accountable States[2]*; consultations with members held during the Task Force on PFM meetings in 2009, 2010 and in 2011; and final comments received at the Task Force on PFM meeting on 6-7 June 2011.*

Introduction

PFM institutions and systems cover all phases of the public resource management cycle for good financial governance[3]. PFM underpins fiscal and macro-economic stability, guides the allocation of public resources to national priorities, supports the efficient delivery of services, and makes possible the transparency and scrutiny of public funds. Support to strengthening PFM systems must take into account different country contexts and policy spaces.

Using country PFM systems can provide additional incentives and momentum towards better development outcomes by developing national capacity and performance, by strengthening the country's own systems in a more sustainable manner, reducing transaction costs in managing aid, fostering improved transparency and accountability, and bolstering domestic accountabilities between the Ministry of Finance, sector ministries, Parliament, the Supreme Audit Institution and citizens, at central and local levels.

In order to accelerate and sustain achievements so far, the following principles draw on recommendations from the Guidance developed by the Task Force on PFM and call Ministers and Heads of Organizations to make efforts to undertake the following:

1. Strengthen Public Financial Management as a tool for Good Financial Governance

Good Financial Governance is the responsive, prudent, effective, transparent and accountable management of public financial resources and requires robust budget and financial management, audit and oversight institutions that operate within the rule of law[4]. In order to achieve Good Financial Governance, countries should lead efforts to design and implement PFM reforms, with particular attention to sequencing frameworks that consider prioritizing actions and change management principles; taking into context existing capacities in determining the scope, order and timetable for reform efforts; and recognising the role of political and not only technical factors.

There is a need to link more closely public expenditure with the revenue side of the budget (especially taxation). Better resource mobilization can create a culture of government accountability to the citizen-taxpayer, diversify and make more effective public finance, enable long-term financial commitments to citizens, and reduce dependence on aid flows.

In supporting capacity development for PFM reforms, Development Partners should respect country leadership and ownership and place government priorities on PFM at the centre of decision-making processes. Technical assistance aimed at strengthening financial management needs to reflect local context and capacity, be transparently sourced, and where possible managed by partner countries. Development Partners should provide their support in a coherent, coordinated and programmatic manner.

Both countries and development partners should ensure that national-level PFM reforms are followed through to the sector and local government levels and that their feedback contributes to improvement in these reforms.

[2] Practitioner's Guide to Using Country PFM Systems; Practitioner's Guide to Supporting Capacity Development in PFM; Stocktaking Study of PFM Diagnostic Instruments; Good Practices in Supporting Supreme Audit Institutions; Guidance note on Supporting Parliamentary Oversight of the Budget Process; and Policy Briefs on the Benefits of Using Country PFM Systems.

[3] As highlighted in CABRI's Position on Good Financial Governance (2011)

[4] Definition of Good Financial Governance (CABRI), May 2011

Countries should institute national institutional mechanisms to learn from good practices of PFM reforms and manage knowledge on how to sustain reforms.

Recognising that strengthening components of Public Financial Management in fragile situations can be a powerful tool for economic growth, efforts should also focus on finding practical and innovative solutions to strengthening PFM systems in Fragile States.

2. Enhancing Skills to Achieve Better Public Financial Management

Countries should build and maintain competent managerial and technical staff capacities, including but not limited to professional accountants and auditors, with the knowledge and skills to sustain PFM reforms at different levels of government including at sector level. In accordance with each country context, the relevant professional bodies should play an important role in the development of competent professionals with the knowledge and skills to contribute to strong financial management, the production of high quality financial information, and the audit of this information.[5] Recognising labour market forces and institutional weaknesses can be barriers to developing and sustaining PFM capacity, Development Partners should strive to support country requests for greater professionalization, building and maintenance of skills needed for sustainable PFM. Development Partners should also ensure sustainability of staffing by establishing some targets for permanent staff in government integrated Project Implementation Units (PIUs).

Both countries and Development Partners should recognize weak capacity and the need to link PFM strengthening to broader public administration and civil service reforms for example by recognizing the important role played by middle management. Skills beyond traditional financial management should also be increased- such as management, strategic planning, ethics and general public administration.

Development Partners should recognise that supporting the strengthening of PFM systems and integrating aid within those systems requires the right skill mix and staffing profile in development partner country offices; building capacity of staff through adequate training on partner country PFM systems and use of country systems; and development of manuals and staff guidance material.

3. Strengthen Fiscal Transparency

Countries, with support from Development Partners, should improve fiscal transparency through mechanisms to ensure that meaningful public budget and financial information at different stages of the budget cycle is accessible to the public, with due attention to quality, usefulness, accessibility and timeliness[6]. In order to support country efforts to plan budgets and activities as well as to strengthen budget transparency, Development Partners should channel their resources through country PFM systems as a first option or alternatively provide reliable, timely and accessible information on ODA forecasts and actual disbursements to help partner countries reflect aid on plan, on budget, on parliament, on account and on report. Development Partners should ensure all aid is transparent (not only that which goes through a country's systems). We also recognize that mechanisms need to be in place and Development Partners should support initiatives aimed at improving the public's ability to access and interpret budget and financial information.

4. Improve Accountability through Oversight

Countries and their Development Partners should together make efforts to use aid as a catalyst to strengthen the ability of country oversight institutions, and Civil Society Organisations (CSOs), to engage in the budgetary process by enhancing their oversight capacity over not only aid but all public resources.

[5] As highlighted in the Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration ('MOSAIC'), discussed and endorsed by the Task Force on PFM.

[6] As highlighted in CABRI's position paper on transparency (2011)

Legislators are urged to take on a proactive role in participating in discussions around strengthening and using national PFM systems. Development Partner support to parliamentary oversight should be better coordinated and provided on the basis of the legislatures' own strategic and capacity development plans and through donor and partner country legislative dialogue. Development Partners should also contribute to the strengthening of supreme audit institutions on the basis of solid strategic planning and audit standards.[7] Information gathering of evidence (statistics) and sharing (through CSOs) can have a significant impact on incentives for more transparent and accountable government.

Better integration of aid flows with national processes offers the opportunity for strengthened scrutiny by Parliament and Supreme Audit institutions (SAIs). Development Partners should ensure that aid flows and their use are accessible to the legislature and SAIs to allow for oversight over those funds and strengthen CSO capacity to engage in a dialogue on how aid is spent.

The quality of parliamentary and SAI involvement is an important factor in building donor trust- an essential element in allowing more aid to use country systems. Development partners should pay attention to their findings, including for their own funded programmes and to the extent possible also use SAIs to audit donor funds.

Recognising that building effective states requires an inclusive approach, countries and Development Partners should work together to train members of parliament and CSOs to access and use the technical content of budget and financial reports issued by the executive and audit reports produced by Supreme Audit Institutions.

5. Assess and Use Country Systems for Sustainable Development

In line with the commitments in the Accra Agenda for Action, donors should use country PFM systems as the first option for aid programmes in support of activities managed by the public sector. We recognize that there are significant and documented benefits to the strengthening of country systems when donors use them. The use of country PFM systems is not an "all or nothing" approach, but can be increased gradually in coordination with partner countries. The 'use of country PFM systems' is not limited to a specific aid modality and equally applies to project support. When Development Partners support the strengthening of country systems, they should foster the use of those systems for the delivery of their aid programmes. We call on countries and development partners to continue to monitor the use of country systems for various aid modalities and instruments. We commend government efforts to build capacity and take leadership over Project Implementation Units.

As committed to in the Accra Agenda for Action, Development Partners should transparently state the reasons for not using country systems when that is the option adopted. Recognising that fiduciary risk management is a major factor for most development partners and deserves attention, we underline the importance of assessing the opportunity of use of country systems through a more comprehensive risk/benefit analysis and an assessment of impact on sustainability. When supplemental features and safeguards are introduced to satisfy the fiduciary risk or information requirements of donors, these measures should not impose high transaction costs and should be designed in a manner that build upon rather than undermine the country systems and procedures.

While recognizing that Development Partners have different risk appetites, we note that there is further scope to collaborate on the significant number of fiduciary risk reviews and risk assessments through sharing findings, data gathering and the coordination of assessment missions. Joint country level planning of coordinated assistance strategies may present potential openings for joint assessments of country PFM systems and capacity, and we call on Development Partners to utilize such openings for coordinated assessments whenever possible. We call on countries to establish a coherent, integrated medium term strategy of diagnostic instruments which can be used and supported by its development partners.

6. Advocate for Public Finance as a core element of a more Effective State

[7] As highlighted in the Memorandum of Understanding between the International Organization of Supreme Audit Institutions (INTOSAI) and the Donor Community to strengthen SAIs.

We recognize the importance of communicating the benefits of stronger Public Financial Management as a core component of an Effective State. As such, we recommend that countries improve the awareness of all stakeholders including sector ministries, local government, legislatures, and civil society around the need and impact of stronger PFM for economic development. At country level, we urge countries and Development Partners to improve the awareness of the vast array of existing efforts to strengthen the components of PFM systems as well as existing diagnostic tools and fiduciary instruments.

We urge donor institutions to also communicate with their parliaments and accountability institutions and in particular around definitions of risks and expected benefits as well as developmental risks of not using country PFM systems. Donor institutions should support inter-parliamentary dialogue on priorities and monitoring of expenditures, in the interest of increased ownership, transparency and accountability.

The current debate on development cooperation is shifting focus: we are now moving from a discussion about process and mechanisms to results (from more effective aid (using country systems) to more effective institutions and policies underpinned by good country systems). As such, linking commitments on use of country systems to strengthening PFM systems and better service delivery sits at the crossroads of the more traditional –yet still relevant- aid effectiveness debate and future country-led development effectiveness commitments. The Manila Consensus on PFM and the above principles aim to contribute to the current debate and to provide impetus to future commitments in this area.