



PFM Reform: Public Financial Management – Advanced virtual training

Day 2 – Developing a reform strategy - 1

Wrap up of day 1

What do you remember from yesterday? (open discussion)

- Objectives of modern PFM?
- Focus of modern PFM?
- Main challenges of PFM reform?

Day 2: Developing reform strategy -1

- **Module 2.1** **Conditions for successful reform**
- Module 2.2 The Public Expenditure & Financial Accountability (PEFA)
- Module 2.3 PFM diagnostic tools
- Module 2.4 Sequencing of reforms (part 1)

Objectives of the module

- Many reform programmes do not achieve expected results
- This module identifies some of the causes for failure or difficulties, and examines the conditions for success

Conditions for successful PFM Reform

- Possible causes for failure or difficulties
- The conditions for a successful reform
- Beware of pitfalls

Possible causes for failure (1)

Reforms carried out without a strong internal demand (e.g. reforms pushed by an external party):

- Little political support
- External parties &/or political push for reforms, but resistance from administration

Reform measures are technically questionable:

- Copying a more advanced & complex reform from another country ('best practice') - not viable in country context
- Technically questionable measures (e.g. Sectorial MTEFs not compliant to financial constraints)
- Over ambitious targets

Possible causes for failure (2)

- Insufficient capacity
 - Institutional capacities: separation of Plan and Finances, difficult Finance-sectors relations, etc.
 - Human Resources
- Insufficient reform steering mechanisms
 - Fragmentation of the steering force
 - Poor co-ordination of capacities (e.g. Timing of IT projects not aligned to PFM reforms)

Facades of reforms

- Formal procedure for drafting budget have been modernised, but systems stays flawed
- Budget as theatre: 'Formal & informal institutional makings of budget process in Malawi' (DFID 2004)
- “Reforms” that seek solely to satisfy external pressures or to comply to a trend
- Potemkin Villages: 'The Medium-Term Expenditure Framework in Developing Countries' (Schiavo-Campo: Public budgeting and finance, Summer 2009)

Conditions for successful PFM Reform

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Conditions for success: Gleicher's equation

$$SD \times V \times FS > R$$

- Shared dissatisfaction
- (Shared) Vision
- First successful steps (Quick wins)
- Resistance to change (R)

There must be:

- $SD > 0$ dissatisfaction regarding current system
- $V > 0$ a vision
- $FS > 0$ visible short-term gains
- Combination of SD, V, & FS must overcome resistances

MURAL

Shared dissatisfaction and vision?

Discussion point:

Shared dissatisfaction and vision?

Discuss key issues from **Mural** exercise from day 1

For the country with which you are familiar (i.e. the one you chose in the icebreaker this morning)

- Enter the shared vision for PFM system held jointly by the Development Partners and the Government
- If there is no shared vision state “*No Shared Vision*”

Conditions for success: what does experience tells us? (1)

Three conditions:

- Strong political commitment to implement reforms
- Reform conception & implementation models adapted to institutional context & capacities
- Strong coordination arrangements, carried out by government representatives in order to monitor and stir the reform

Conditions for success: what does experience tell us? (2)

- Strong technical leadership important: helps in a context of political commitment, but does not **replace** it
- External pressure (civil society, donor, etc.) may strengthen political commitment, but not enough to **create** it
- Learning process is necessary, in order to adapt reform conception & implementation models
- Influence of NGOs & legislative power must not be overestimated

Donor support: what effect?

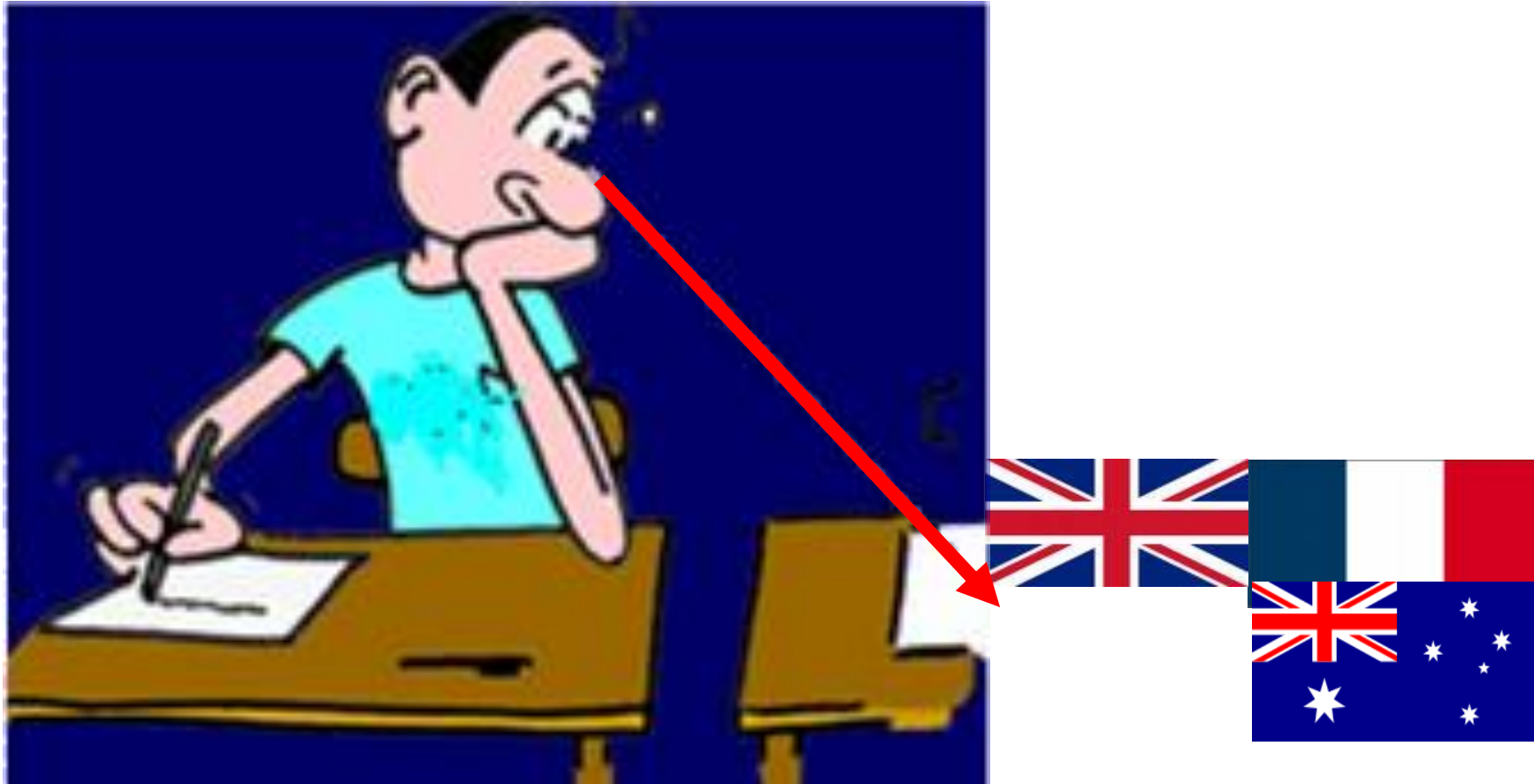
cf. Lawson

- Considerable influence in countries benefitting, or if external resources are funding a government programme
- Attempts to openly influence contents & rhythm of reforms through '**conditionality**' have been inefficient & often counterproductive
- Efficient only if focuses on specific & clearly defined objectives
- Many reform programmes suffer from bad advice & promotion of inadequate reform models from external agencies

Conditions for successful PFM Reform

- Possible causes for failure or difficulties
- The conditions for a successful reform
- Beware of pitfalls

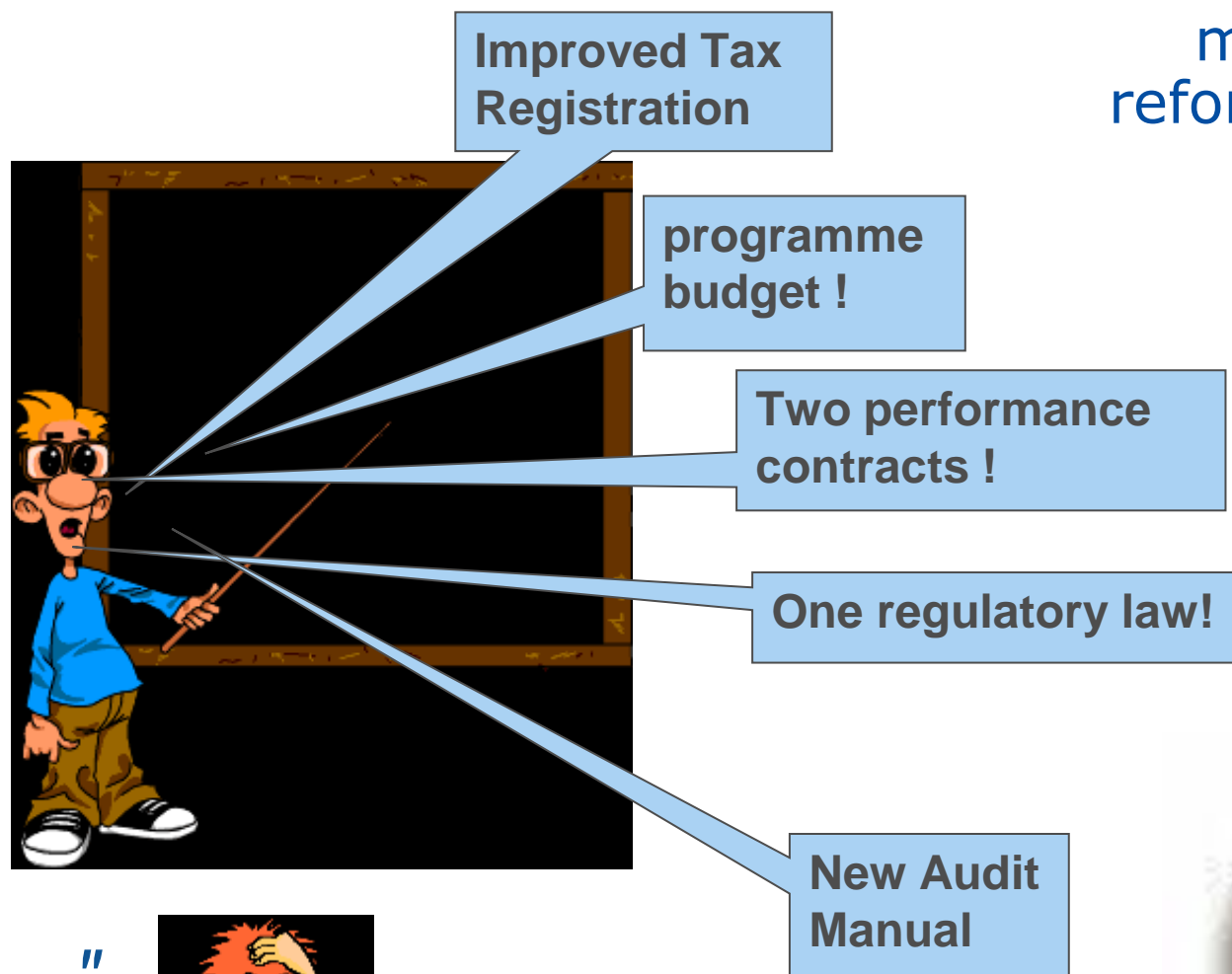
Should leading edge practices be imported ("best practice")?



Other pitfalls

- Promptness does not mean efficiency
 - Reform is a long-term, continuous process
 - Deadlines should not be too short & must take into account that similar reforms took years in more developed countries
- Accumulation of micro-measures is not equal to reform
- ‘Reform fatigue’ may develop, or scepticism due to changing recommendations

An accumulation of techniques
may create the illusion of
reform, but does not constitute
a real reform



“



Key messages

- Success of a reform relies on strong national commitment & country's capacity to respond to dissatisfaction with PFM
- Reforms must be adapted to country context: unlikely to be successful if mechanical copies of “good practices”

Day 2: Developing reform strategy -1

- Module 2.1 Conditions for successful reform
- **Module 2.2** **The Public Expenditure & Financial Accountability (PEFA)**
- Module 2.3 PFM diagnostic tools
- Module 2.4 Sequencing of reforms (part 1)

What is the PEFA Programme?



Public **E**xpenditure & **F**inancial **A**ccountability

Objective:

- **Results** orientation in development of PFM systems
- Harmonization of PFM **analytical** work (part of 'Strengthened Approach' included in Paris Declaration with shared information pool)

Established:

- Established in 2001 by seven agencies
- Contributing to development effectiveness: builds on the “Addis Ababa Action Agenda” (*Third International Conference on Financing for Development*)

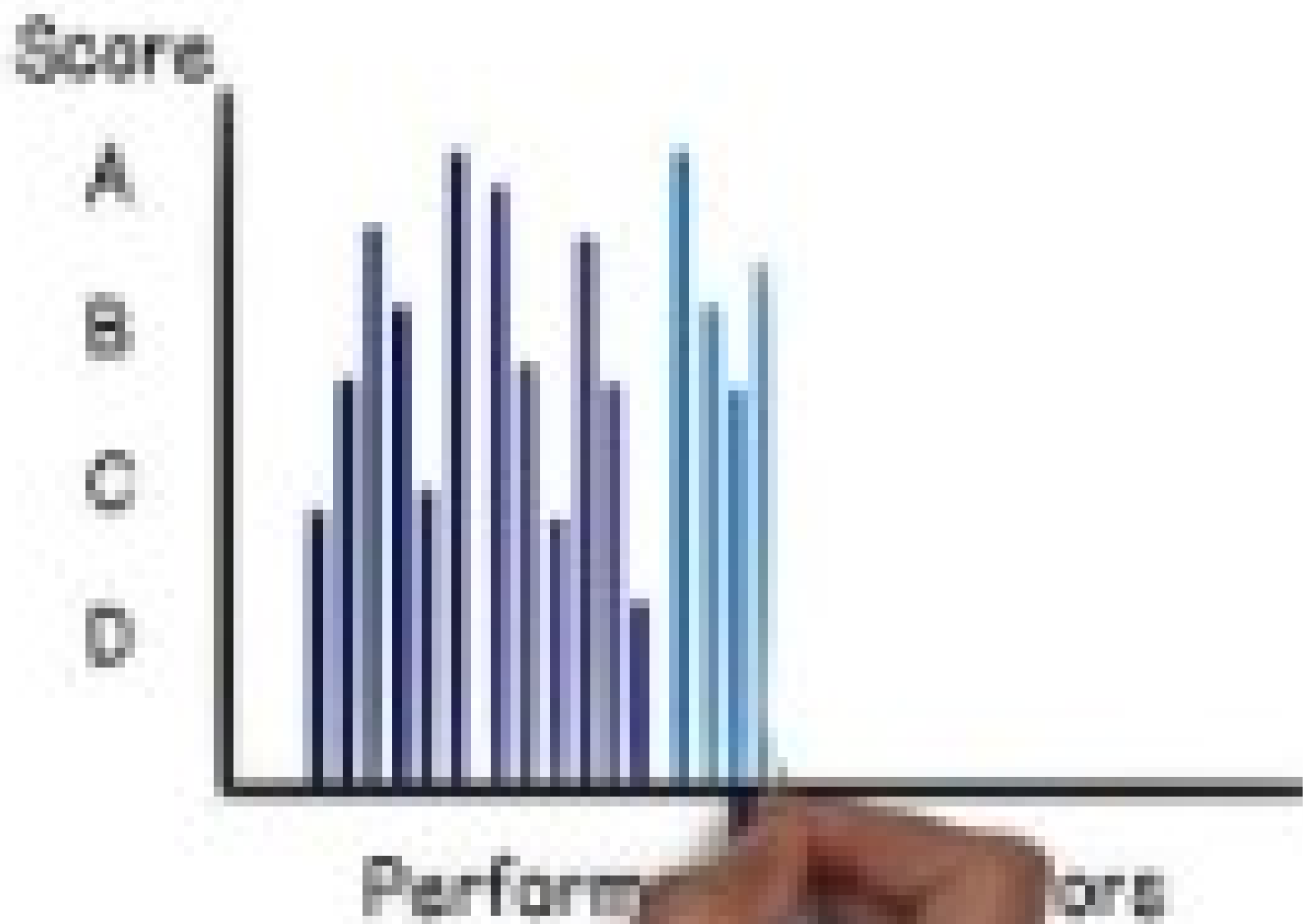
What is the PEFA Programme?

- Global Report on PFM, 2022 (showing and comparing PEFA scoring of countries)

- [PEFA EXPLAINER VIDEO](#)



PEFA



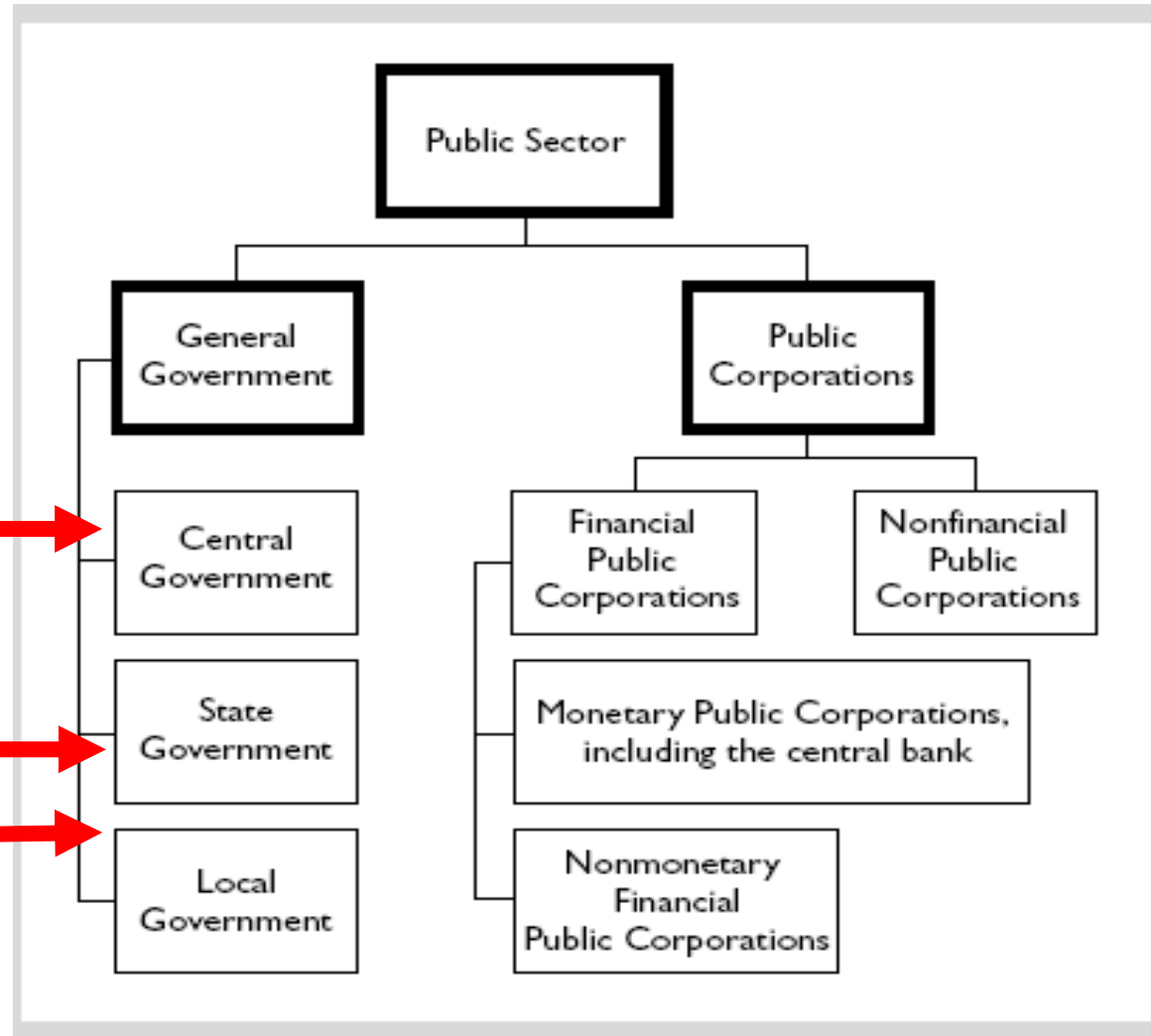
Who are the nine PEFA Partners?



The PEFA diagnostic tool

**Central Government
Budget**

**Sub-National
Government
Budget**



The PEFA diagnostic tool



Introduced in 2005 for central government

Revised in 2011, **final new version in February 2016...**

The 2016 framework:

- 31 indicators
- 94 dimensions
- 7 core pillars

The PEFA diagnostic tool



The PEFA Operating Design Principles

An open and orderly PFM system that supports the **3 PFM objectives:**

- **Aggregate fiscal discipline**
- **Strategic allocation of resources**
- **Efficient service delivery**



Seven core pillars:

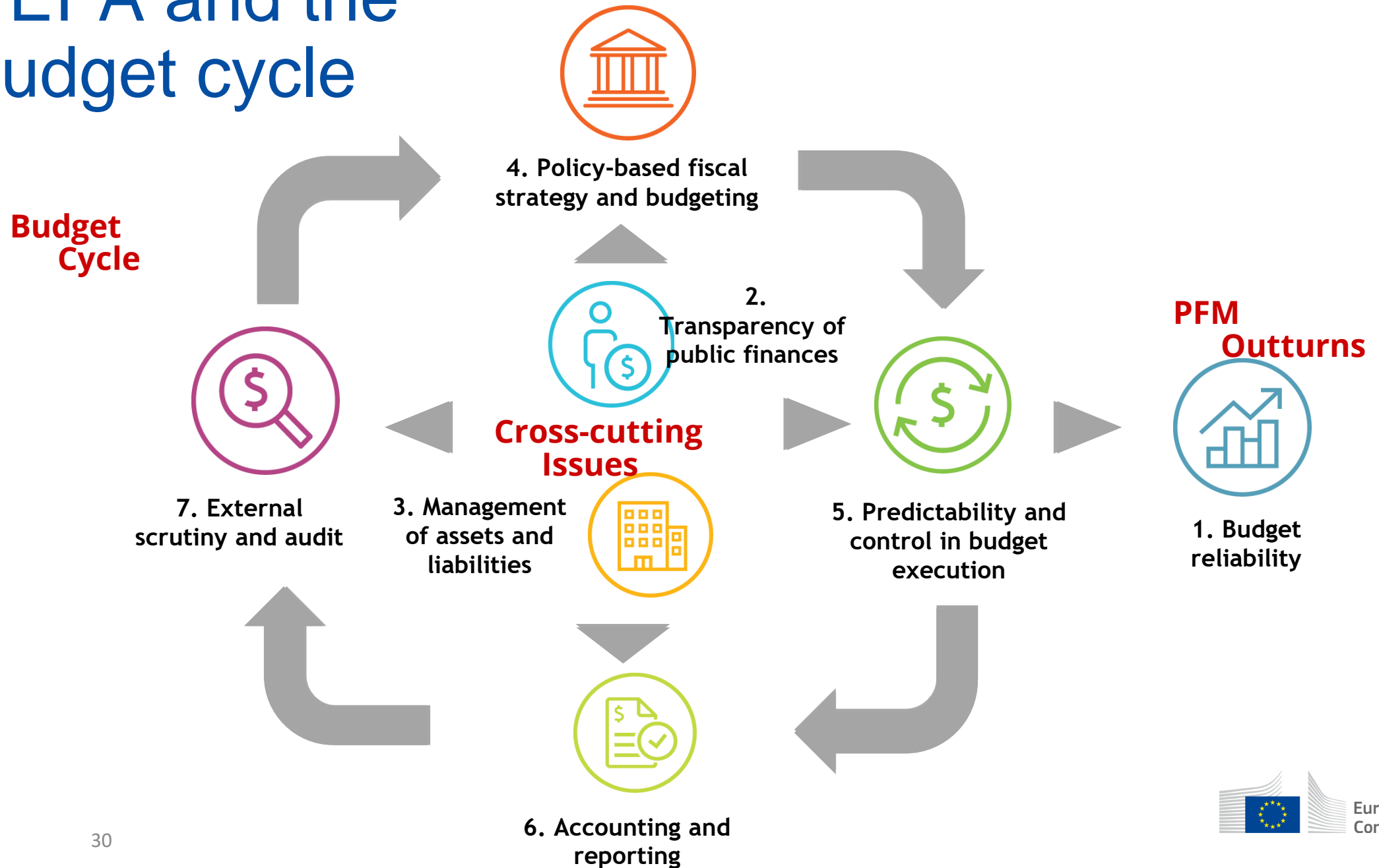
1. Credibility of the budget
2. Comprehensiveness and transparency
3. ***Asset and liability management***
Budget Cycle
 4. Policy-based budgeting
 5. Predictability and control in budget execution
 6. Accounting, recording and reporting
 7. External scrutiny and audit



Key elements of operational PFM performance:

31 performance indicators

PEFA and the budget cycle



The PEFA diagnostic tool

Operating Design Principles

- Focus on **high level standardised** performance indicators applied to the central or sub-national government level
- **Widely applicable:** relevant to countries at all levels of development
- Assessment must be **evidence based**
- Capable of capturing **progress over time**
- Facilitates PFM reform, **but does not formulates the measures**
- Uses data that can be collected cost effectively
- Comprehensive: cover all aspects of the PFM cycle
- Basis of sound PFM rests on the three PFM objectives

The PEFA diagnostic tool



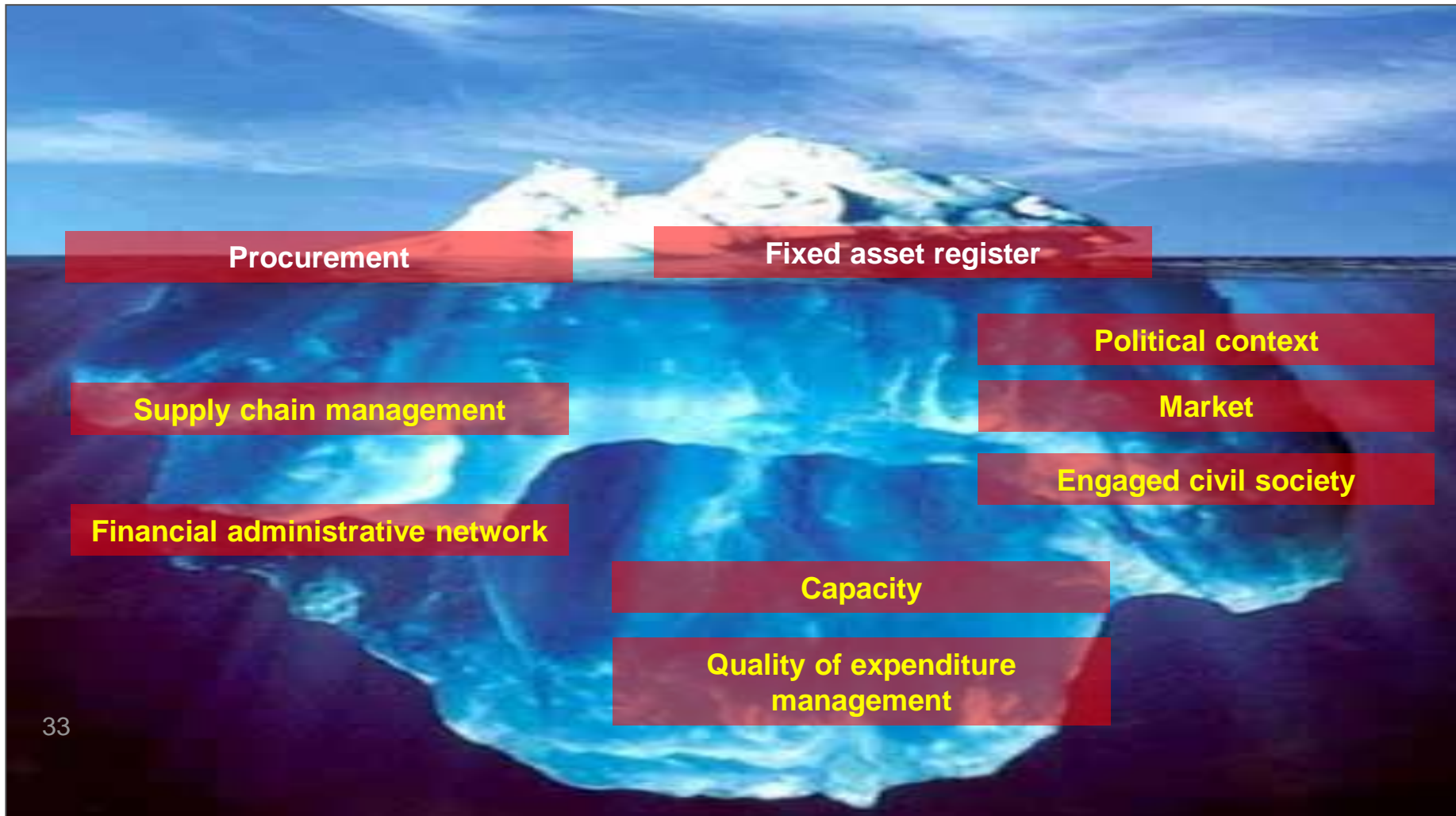
Operating Design Principles

PEFA **does not** provide an assessment of:

- **underlying causes** for good or poor performance e.g. the capacity factors
- government fiscal & financial or other **policies**

The PEFA diagnostic tool

The PEFA Iceberg – how comprehensive?



The PEFA diagnostic tool

The PFM Performance Report...

Executive summary

1. Introduction
2. Country background information
3. Assessment of PFM performance
4. Conclusions on the analysis of PFM systems
5. Government PFM Reform Process

s.4.2 Effectiveness of
the internal control
framework

Annexes

- i. Performance indicator summary
- ii. Summary of observations on the internal control framework
- iii. Sources of information
- iv. Tracking performance to previous PEFA using an earlier version of the framework



- a mechanism for confirming that the processes used in planning and implementing a PEFA assessment and preparing a PEFA report **comply with the PEFA 2016 methodology**
- Objective: to increase users' confidence in the findings of a PEFA assessment and provide a level of quality assurance
- The key documents must be submitted for comment to reviewers representing at least four PFM institutions
- The reviewing institutions must include a government representative and the PEFA secretariat, and at least two other independent institutions from within or outside the country
- Without PEFA check no publication
- *INTPA HQ doesn't have capacity to review PEFA's*

PEFA Scoring

Scoring

Scores of indicators use a four-point ordinal scale:

- D:** less than basic level
- C:** basic level of performance
- B:** sound performance in line with many elements of good international practices
- A:** high level of performance that meets good international practices

Two scoring methods:

- Method M1 ‘**weakest link** among dimensions’
- Method M2 ‘average of dimensions’

PEFA Scoring

Indicators and Dimensions

- Certain indicators may have more than one dimension
- Intermediate scores (B+, C+, D+) only for multi-dimensional indicators i.e. differences in dimension scores
- **Dimensions** reflect important elements, that may register significant improvement or deterioration
- Such changes may not be reflected in the overall score of a multi-dimensional indicator!

MENTIMETER

PEFA Ethiopia - scoring of a multi-dimensional indicator

PEFA Scoring

Mini Exercise (mentimeter): PEFA Ethiopia - scoring of a multi-dimensional indicator

Steps:

- Refer to the PEFA scoring PI-14 file and to PEFA Framework 2016 (p. 44) in your participants' pack
- Score indicator 14 (3 dimensions) in the PEFA for Ethiopia. Do this by replacing the ? in the table below by your score (A, B, C or D)

PEFA Scoring



Interdependencies

- PFM linkages are analogous to foundation footing linkages – the strength of a foundation is determined by its weakest footing
- That is the reason why the Tower of Pisa leans. The performance of a PFM system is determined by the strength of its weakest PFM activity
- As a general rule PFM scores, like the strengths of foundation footings, **cannot be averaged**

The PEFA reach...

By September 2023...

- **783** assessments completed of which 518 are public
- In addition, **71** are draft and **21** planned...

Source: <https://pefa.org/>

The (annual) **Global Report on PFM** presents trends in PFM using PEFA data

- **Link PEFA and SDGs:** PEFA secretariat being in charge of the data collection for SDG 16.6.1. This development goal corresponds broadly with PI-1. It compares the aggregate expenditure outturn with the government's budget approved by the legislature

The PEFA reach...

783 assessments were completed, **220** led by EU

- **449** assessments at national level
- **334** sub-national assessments

Of which:

- EAST ASIA & PACIFIC: 81
- EUROPE & CENTRAL ASIA: 135
- LATIN AMERICA & CARIBBEAN: 138
- MIDDLE EAST & NORTH AFRICA: 36
- NORTH AMERICA: 3
- SOUTH ASIA: 43
- SUB-SAHARAN AFRICA: 347

- The gender annex (GRPFM) was used in 39 PEFAs (supplementary framework)

43% of
assessments are at
SNG level with its
own sub-national
methodology

Key messages

- The PEFA Framework measures the performance of PFM systems in achieving their objectives
- But the PEFA **does not assess** the causes of performance
- It focuses on the “basics” of PFM systems
- It monitors progress in systems over time
- It does not deal with policy issues and does not provide policy recommendations
- There are several other PFM diagnostic tools to assess in detail specific PFM areas

Day 2: Developing reform strategy

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- Module 2.2 The Public Expenditure & Financial Accountability (PEFA)
- **Module 2.3** **PFM diagnostic tools**
- Module 2.4 Sequencing of reforms (part 1)

MENTIMETER

PFM assessment & diagnostic tools

PFM assessment & diagnostic tools

Toolkit



What diagnostic tools to assess PFM systems are you familiar with? (mentimeter)

Stocktaking of PFM diagnostic tools



Category	Characteristics of the category	Available PFM tools
A	Tools covering broad multiple aspects of PFM system	13
B	Tools focusing on individual PFM functions, institutions or subsystems	27
C	Tools used by development partners to assess fiduciary risk	10
D	Tools focusing on PFM performance in specific sectors or topics	14
Total		64

Tools of Category A: 13 tools

- main examples



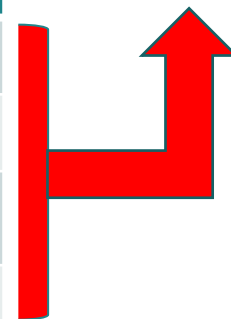
Tools covering broad multiple aspects of PFM system	Custodian	Year
Public Expenditure & Financial Accountability Assessment (PEFA)	PEFA	2005
Fiscal Transparency Evaluation (FTE/FTR) – IMF	IMF	2014
Open Budget Survey	International Budget Partnership (IBP)	2006
Public Expenditure Review (PER)	WB	1996
Country Policy & Institutional Assessment (CPIA)	WB/AfDB	1970/2012

Tools of Category B: 27 tools

- main examples

EU is main contributor
and strong promotor of
PEFA and these 4 tools

Tools focusing on individual PFM functions, institutions or subsystems	Custodian	Year
Methodology for Assessing Procurement Systems (MAPS)	OECD	2004
Debt Management Performance Assessment (DeMPA)	WB	2007
Tax Administration Diagnostic Assessment Tool (TADAT)	IMF	2013
Public Investment Management Assessment (PIMA)	IMF	2015
Public Expenditure Tracking Surveys (PETS)	WB	1996
Supreme Audit Institutions Performance Measurement Framework (SAI-PMF)	INTOSAI	2016



Tools of Category C: 10 tools

- main examples



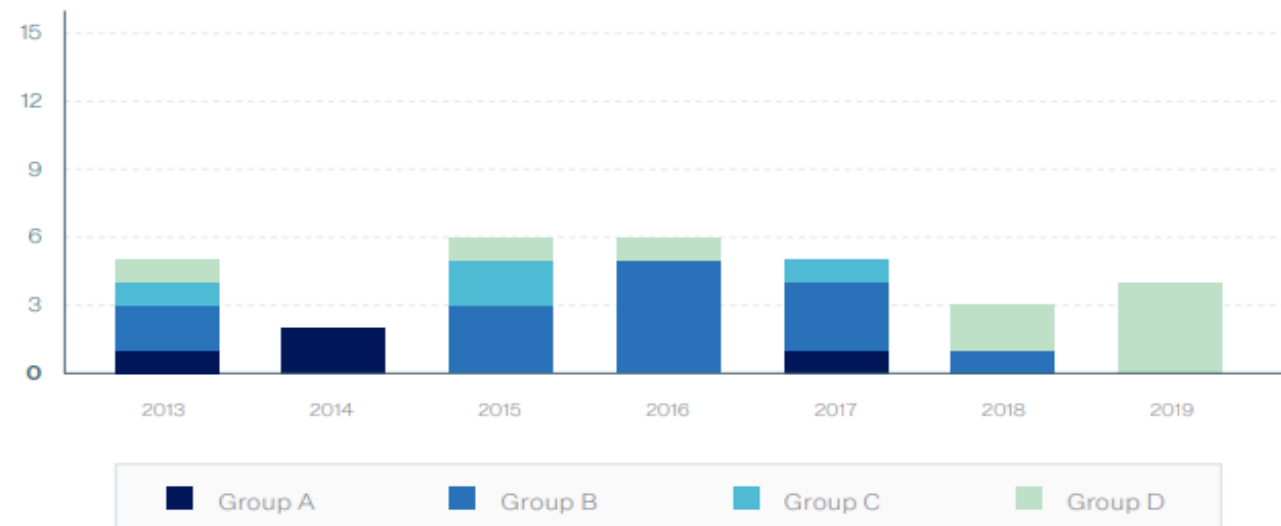
Tools used by development partners to assess fiduciary risk	Custodian	Year
Operational Assessments (ECFIN AO)	ECFIN (EU)	1990s
Fiduciary Risk Assessments (FRA)	FCDO	2008

Tools of Category D: 14 tools - main examples



Tools focusing on PFM performance in specific sectors or topics	Custodian	Year
Gender Responsive PFM Framework (GRPFM)	PEFA	2019
Report on Observance of Standard and Codes (ROSC)	WB	2001
Climate Responsive PFM Framework (CRPFM)	PEFA	2020
Climate PIMA (C-PIMA)	IMF	2021

After 2017, most new tools were in group D



PFM diagnostic tools

OECD Methodology for Assessing Procurement Systems (MAPS)

How does the procurement system work?

Reason:

- Need for a detailed procurement tool and consistent approach

Introduced in 2004 following the PEFA approach, relaunched in 2018

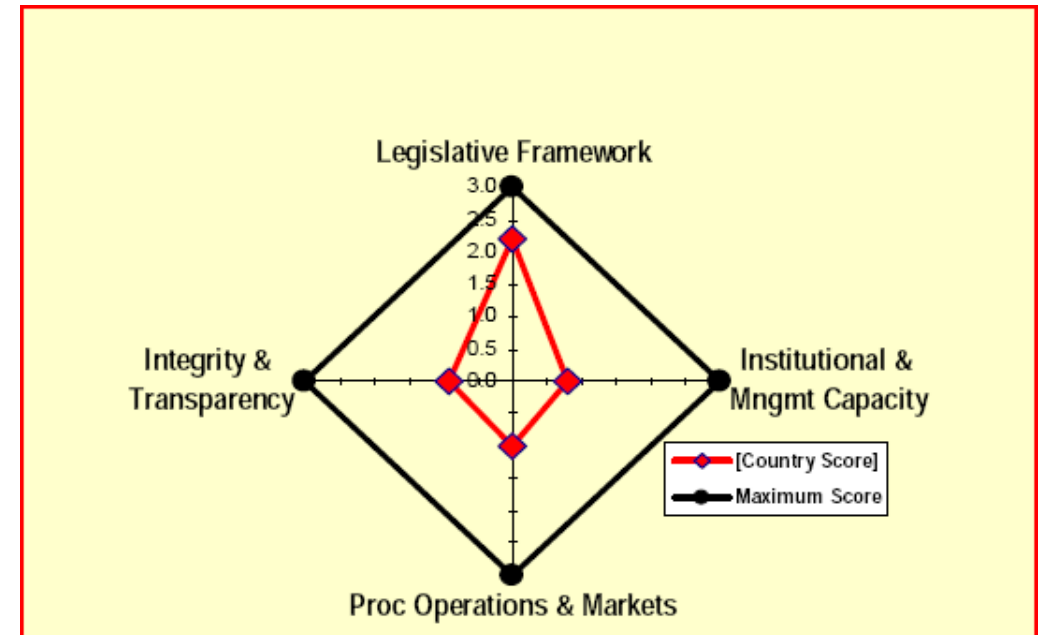
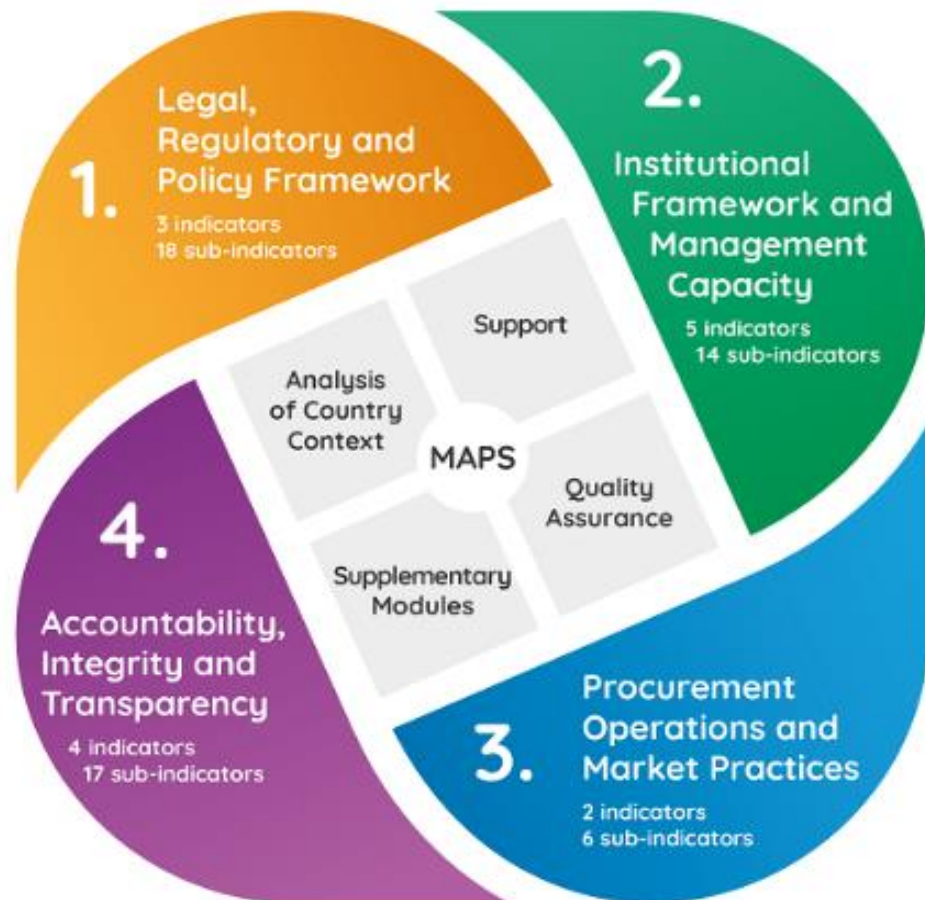
- 12 indicators, 54 sub-indicators
- Base Line Indicators (BLIs)
- Compliance/Performance Indicators (CPIs)

☐ *Enables tracking progress over time*

☐ *Does not include recommendations for reforms, but based on the MAPS report countries can formulate a capacity development plan to improve its procurement system*

PFM diagnostic tools

OECD Methodology for Assessing Procurement Systems (MAPS)



PFM diagnostic tools

Debt Management Performance Assessment (DeMPA)

How is public debt managed?

Reason:

- Limited coverage of debt management in PEFA and other tools
- No insight into underlying causes of weak performance

Methodology launched by World Bank in 2007 (revision in 2015)

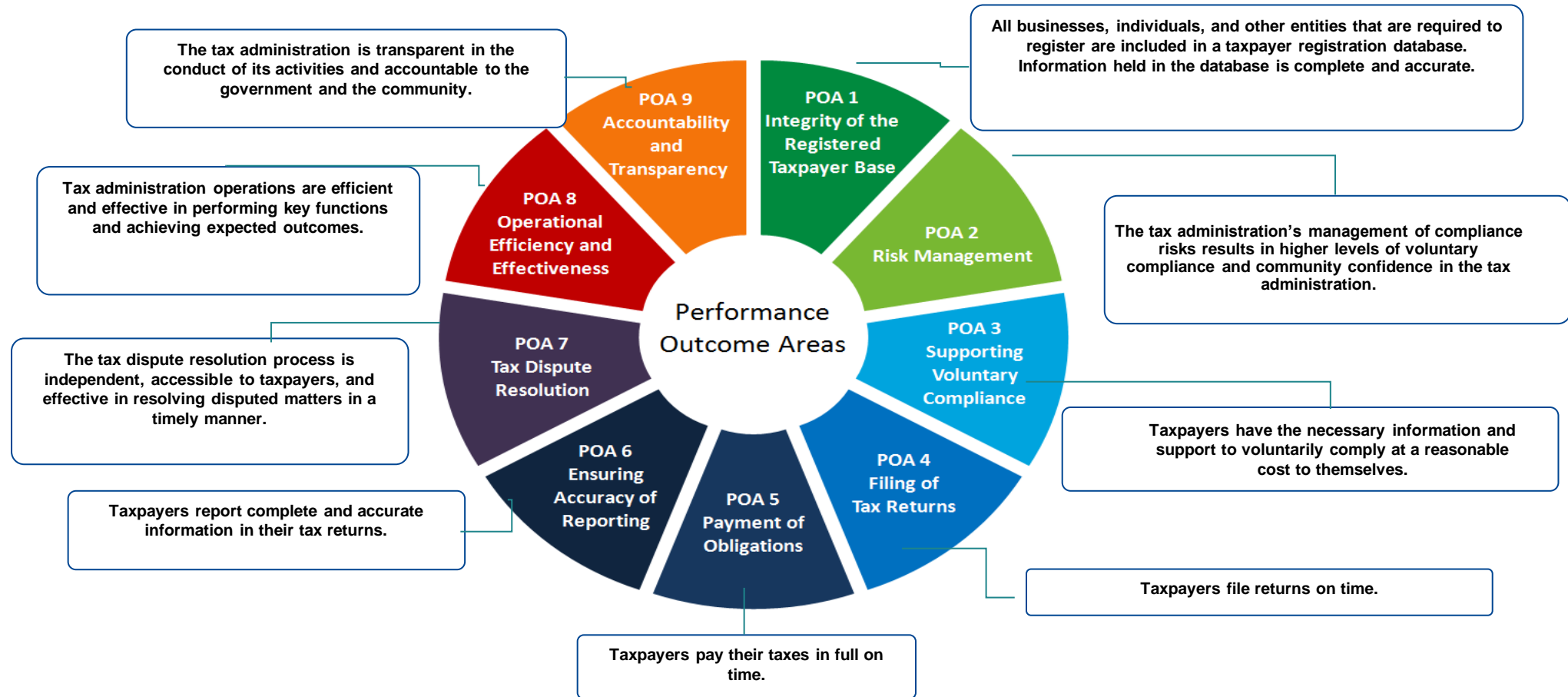
- DeMPA modelled on PEFA
- 5 pillars, 15 indicators, 35 dimensions

☐ *Enables tracking progress over time*

☐ *Does **not** include recommendations for reforms or action plans*

PFM diagnostic tools

Tax Administration Diagnostic Assessment Tool (TADAT)



- ❑ Enables tracking progress over time
- ❑ Provides a basis on which a country can formulate a capacity development plan (but does not include recommendations)

PFM diagnostic tools

The Tax Administration Diagnostic Assessment Tool (TADAT)

TADAT is supported by international development partners and institutions

<http://www.tadat.org/>



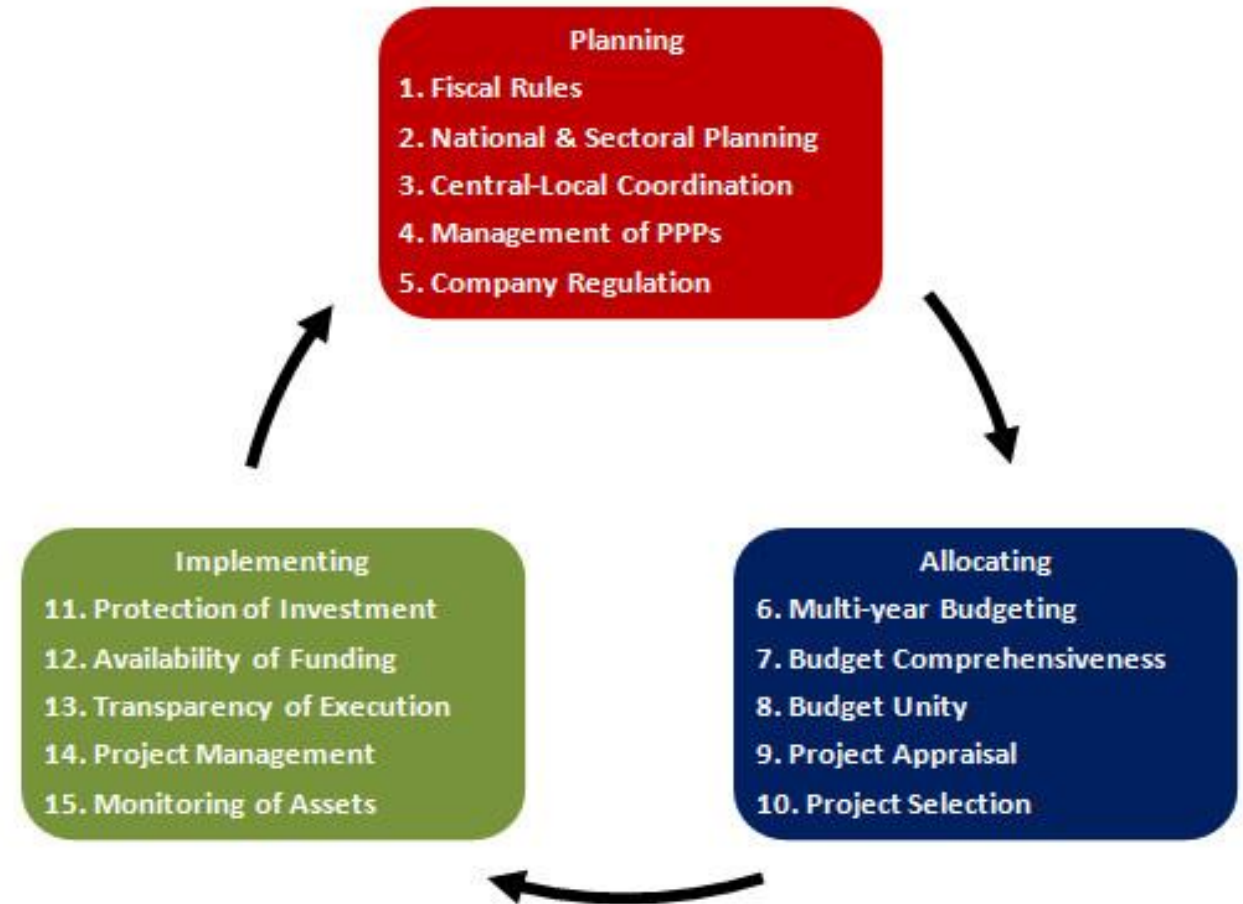
PFM diagnostic tools

Public Investment Management Assessment (PIMA)

- The PIMA evaluates 15 institutions that shape public investment decision-making:
 - **Planning** sustainable investment across the public sector
 - **Allocating** investment to the right sectors and projects
 - **Implementing** projects on time and on budget
- ❑ *Enables tracking progress over time*
- ❑ *Includes a sequenced reform plan*

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Figure 4: PIMA Framework



Show summary assessment PIMA Bangladesh

PFM diagnostic tools



ASSESSING AFRICA'S
POLICIES AND INSTITUTIONS

World Bank Country Policy & Institutional Assessment (CPIA)

Each country's performance scoring is assessed against a questionnaire of 18 criteria, grouped on 5 clusters based on:

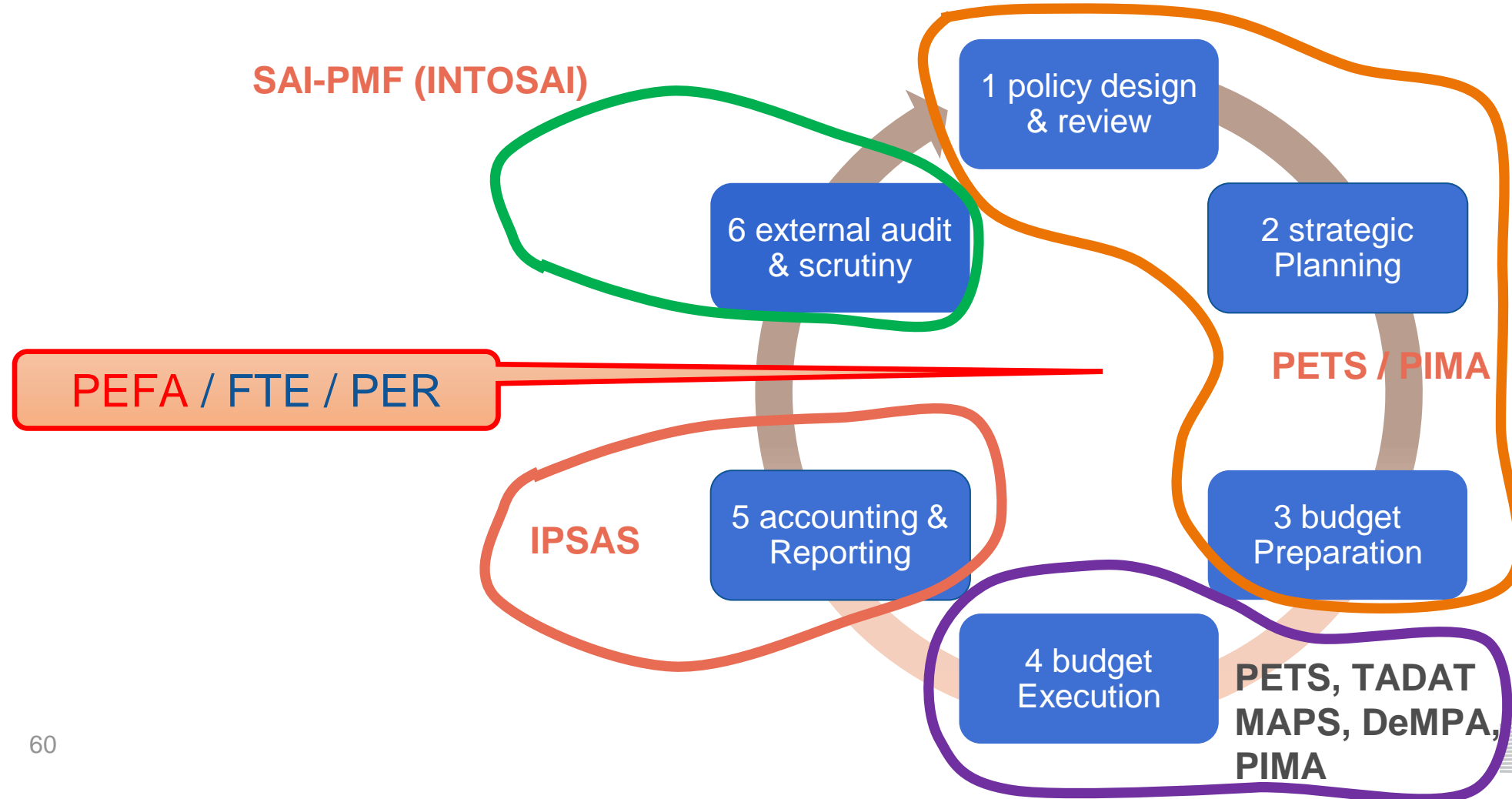
- Coherence of its economic management
- Coherence of its structural policies
- Degree to which its policies and institutions promote equity and social inclusion
- Quality of its governance and public sector management
- Degree to which its regulatory framework is enabling infrastructure development and regional integration



PFM assessment & diagnostic tools

	PEFA	FTE	PER	PETS	MAP S	DeM PA	TAD AT	PIM A
Identification of PFM strengths & weaknesses	X	X	X	X	X	X	X	X
Integrated Focus (comprehensive)	X	X	X					
Focused on part of the Budget Cycle				X	X	X	X	X
In-depth analysis of capacity factors		X	X		X	X	X	X
Recommendations for reform		X	X	X				X
Track progress over time	X				X	X	X	X
Assess fiduciary risk to public/external funds		X						

PFM assessment & diagnostic tools



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- **Module 2.4 Sequencing of reforms (part 1)**

Maintenance of systems

- A budgetary system is shaped by a number of factors, both political & cultural - changing these to reshape the system takes time
- Maintenance is a continuous & permanent process: crucial to go through the process of learning by experience (There is no magic formula!)
 - Correct errors
 - Adapt to changes
 - Step by step improvement

Maintenance is Ongoing

Combine:
(i) strengthen
(ii) improve

- **Strengthen existing system**

- Training

- Introduce tools

- **Improve**

- Manuals, systems & processes

- Training

- **These are constant activities to maintain any system and will be ongoing as technology and understandings emerge**

PEFA Volume IV

Volume IV: Using PEFA to support PFM reform

- BROCHURE - Overview of Handbook Volume IV: Using PEFA to support Public Financial Management Improvement

<https://www.pefa.org/resources/brochure-overview-handbook-volume-iv-using-pefa-support-public-financial-management>

- Volume IV: Using PEFA to support Public Financial Management Improvement:

<https://www.pefa.org/resources/volume-iv-using-pefa-support-public-financial-management-improvement>

Co-Ordination of development partners

- The reform sequence is crucial to prevent reforms supported by different agencies working against each other and becoming dysfunctional
- Different donors have different priorities and provide different types of support
- Interconnection of different PFM subsystems is essential
- (Remember Busan Partnership from yesterday)

How to handle such situations?

- Ensure mechanisms to co-ordinate all development partners in the design of the reform sequence
- Regular meetings of co-ordination committees
- Sharing/pooling information wherever possible
- (Busan Partnership agreement. We look at mechanics on the final day)

Why establish a sequence of reforms? (1)

1. **Be opportunistic – Ad hoc reforms as they meet country needs/wishes – OK when improving systems**
2. **Strategic plan to meet the three aims of PFM:**
 1. Aggregate Fiscal Discipline
 2. Allocative Efficiency
 3. Operational Efficiency

Needs to be sequenced when changing the aims and purposes of the system including changes to technology, human resources, and institutional frameworks to achieve new aims and objectives. – Remember SDGs.

Keep in touch



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Thank you



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