



Public Financial Management (PFM) reform virtual training

Day 1 – Approaches to PFM Reform

Start

- Welcome (+ Introduction trainers)
- Housekeeping rules
- Test in
- Introduction participants and identify familiar country (mural)

TEST IN

MURAL

Introduce yourself and a country you are familiar with

Introduce yourself and a country you are familiar with (on Mural)

Name country you are familiar with

State main problems you feel the country has

State what you think the main changes needed for PFM system

State what you think the country wants from the development partners

PFM reform - Course Objectives

- To provide tools for understanding, analyzing and sequencing Public Finance Management (PFM) reform
- To introduce the importance of and rationale for sequencing and scheduling PFM reforms

The course is centred around PFM at the level of the **central** government administration

Day 1: Approaches to PFM Reform

- **Module 1.1.** **PFM introduction (basics)**
- Module 1.2. SDGs, aid effectiveness and use of country systems
- Module 1.3. The Challenge of PFM reform

What is PFM?

PFM deals with management of public resources: the allocation and use of resources collected from the economy

3 basic elements of public finance:

- Public expenditure
- Revenues
- Government debt

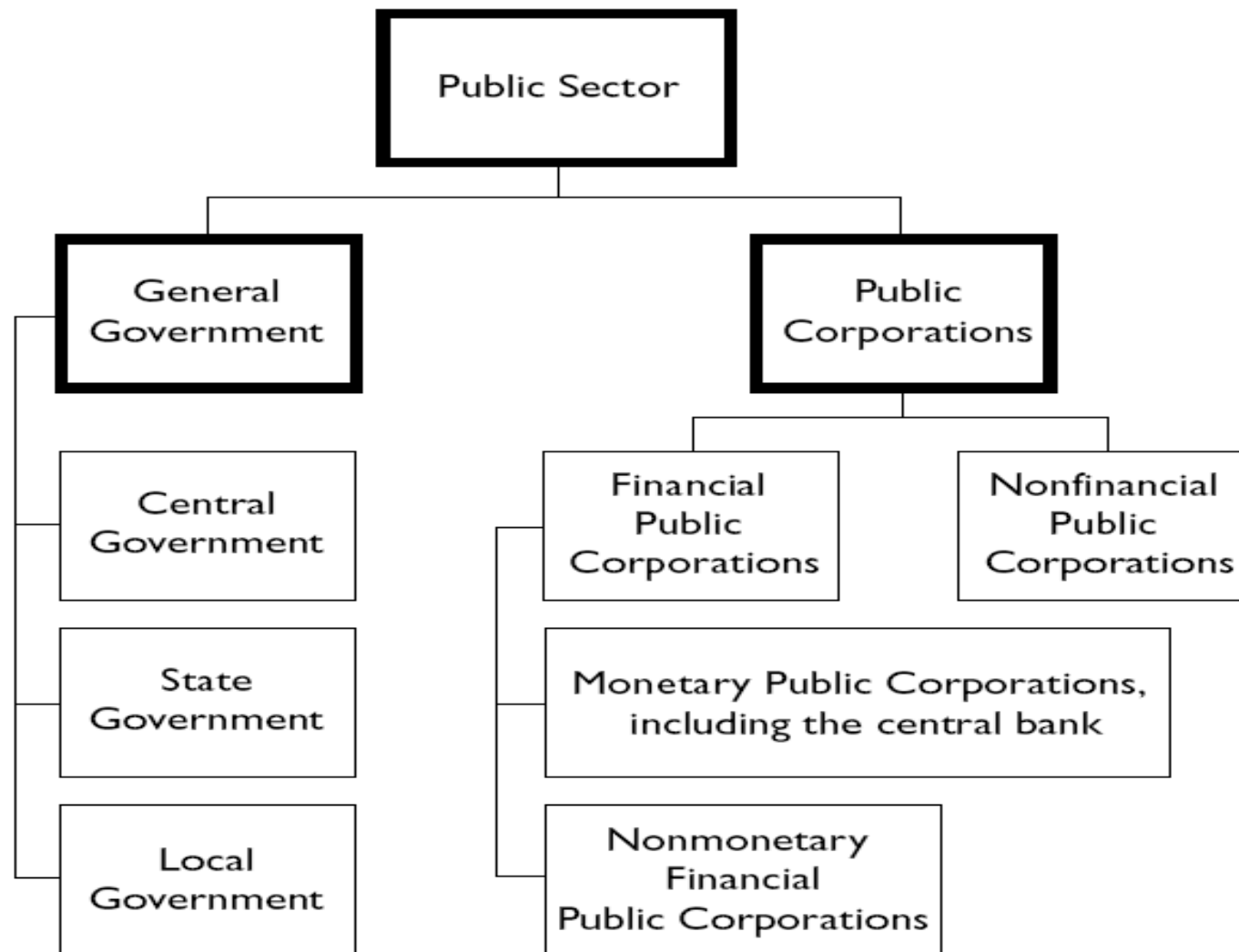


What is the Government?

General government comprises all government units

- Central government
- State government, in federal countries
- Local government

Public sector also includes, corporations and quasi-corporations controlled by the government units



Source: Government Finance Statistics (GFS). IMF

The purpose of PFM

PFM systems help:

- Implementing public policies
 - e.g. macroeconomic policies to create stability, taxation policies or policies to achieve the Sustainable Development Goals (SDGs)
- Controlling management of resources and limiting fraud, waste and corruption

Independence from policies

- PFM system is independent from public policies
- But only in part
 - PFM capacity and systems will limit/affect policy choices and reform sequencing
 - Approaches that are adopted regarding PFM are in part influenced by societal choices and public policy objectives

The objectives of PFM - reminder

Objectives of 'traditional' approach

1. Financial compliance (budget discipline)
2. Compliance (to rules and regulations)

Objectives of 'modern' performance-oriented approach

1. Aggregate fiscal discipline
2. Strategic allocation of resources in compliance with public policy objectives
3. Efficient delivery of public services

'Traditional' budgeting

Focus on inputs & means

- **Strengths**

- Ensuring basic processes
- Building a culture of discipline and compliance

- **Weaknesses**

- As a general rule, little consideration is given to public policies and their results
- Often, heavy bureaucratic processes

Modern 'Performance-oriented' budgeting

Focus on output/efficiency and/or outcome/effectiveness

- **Strengths:**

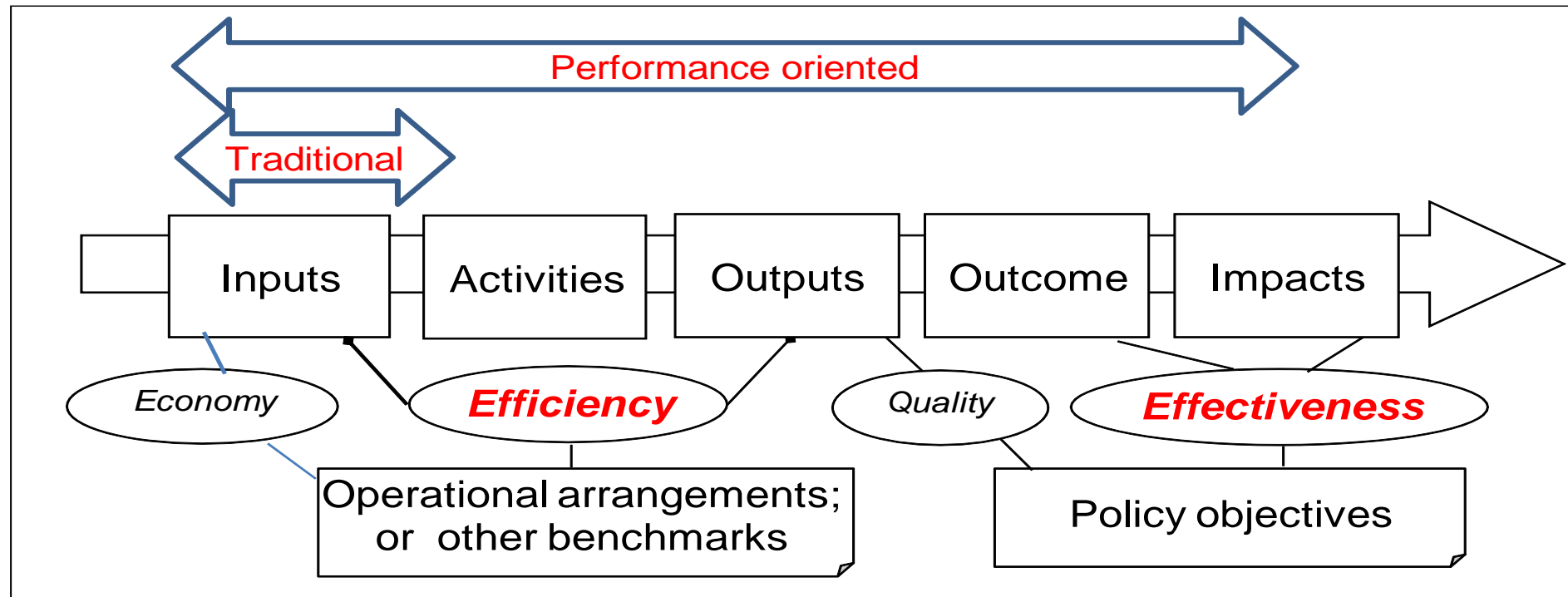
- Reflect the actual objective of budgeting

- **Weaknesses:**

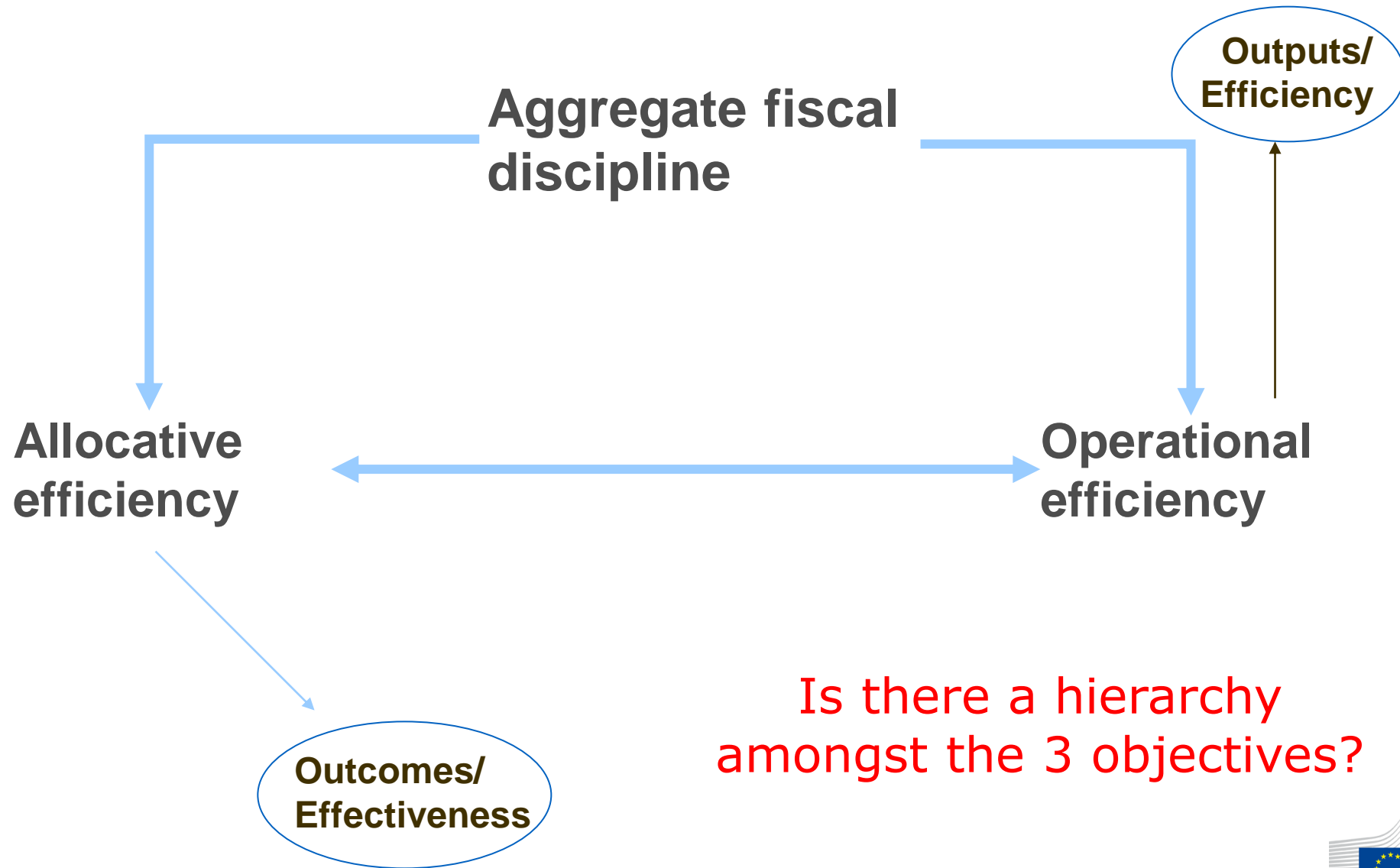
- Require solid institutional frameworks
- Effectiveness depends on country context

The concept of performance

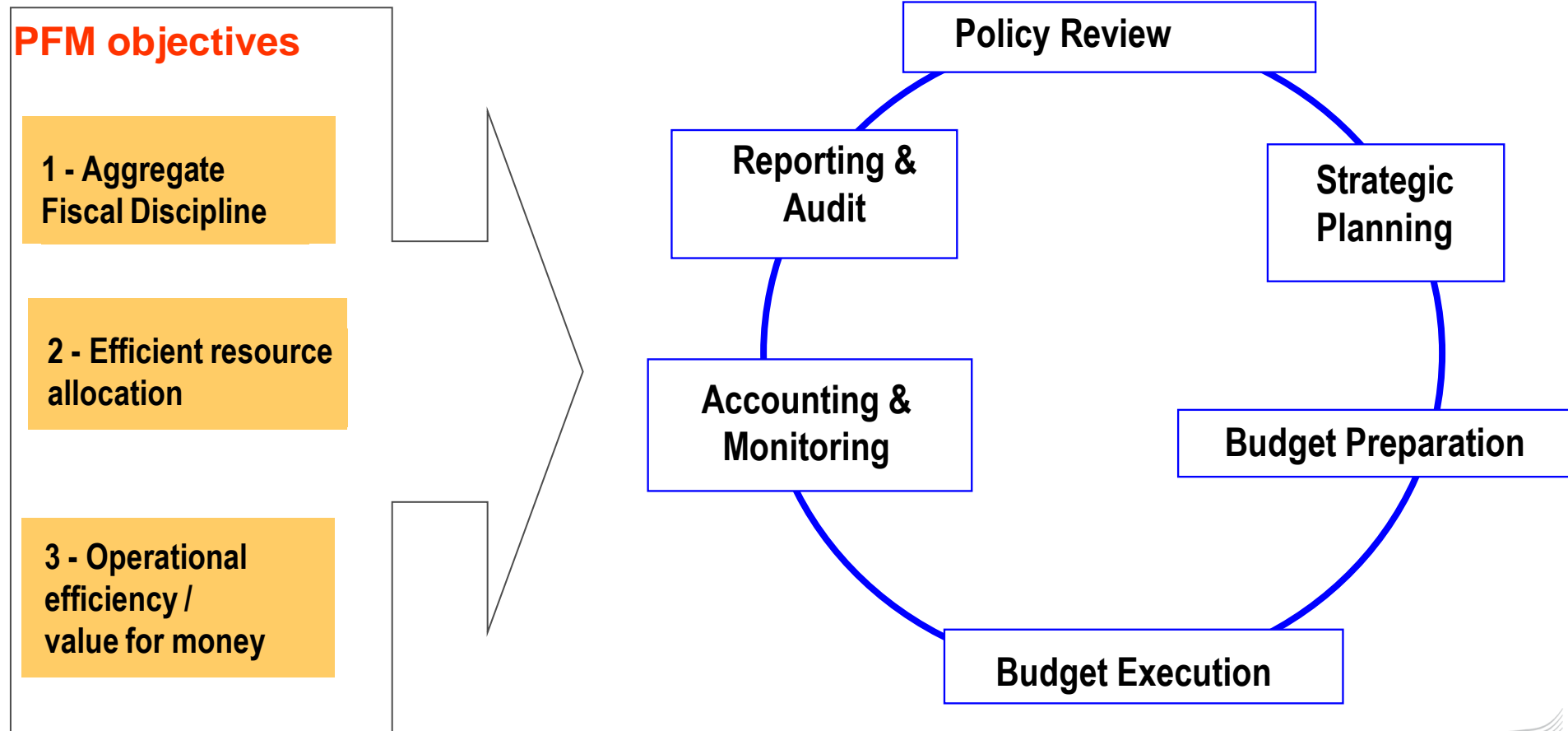
Effectiveness (fulfil objectives) and efficiency (be productive) – take into account quality



Process of public service provision & aspects of performance



PFM objectives and budget cycle



Hierarchy amongst the three PFM objectives

Objectives of PFM are interdependent, **but**:

- Maintaining an adequate level of fiscal discipline (sustainability) is a necessary pre-condition to safeguarding other objectives
- Without fiscal discipline, there is no accountability, public policy choices may not be respected and there is no efficiency
- Without overall budgetary discipline it does not make sense to prioritize

Key messages

- **The main objectives of modern PFM:**
 - Aggregate fiscal discipline
 - Strategic allocation of resources
 - Efficient provision of public services
- **PFM reforms aim at moving:**
 - **From:** traditional approach of legal compliance
 - **To:** a modern approach with greater efficiency and accountability of public finances

MENTIMETER

The objectives of PFM

Short exercise (mentimeter):

Scoring policy measures which help to achieve PFM objectives or undermine them

Score each of the policy measures:

- Which PFM objective does this measure helps achieving?
- Which PFM objective might this measure undermine or conflict with?
- Use the A to E numbering from the next slide

The objectives of PFM

Objectives of 'modern' performance oriented approach

- A. Aggregate fiscal discipline
- B. Strategic allocation of resources
- C. Efficient delivery of public services

Objectives of 'traditional' approach:

- D. Financial compliance (probity, regularity)
- E. Compliance to rules and regulations

Exercise (mentimeter): example

	Supports	Possible Undermines
Freezing spending in a cash crisis	A	B/C

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SDGs

According to the United Nations:

- The Sustainable Development Goals (SDGs) “are the blueprint to achieve a better and more sustainable future for all”



**Link to SDGs 16 and 17
and Aid Effectiveness
to allow use of country systems**

The Strengthened Approach to Supporting Public Financial Management Reform

- embodies three components agreed in the five high level meetings in Rome (2003), Paris (2005), Accra (2008), Busan (2011) and Mexico (2014):
- a country-led agenda; a government-led reform program for which analytical work, reform design, implementation and monitoring reflect country priorities and are integrated into governments' institutional structures;
- a coordinated program of support from donors and international finance institutions - in relation to both analytical work, reform financing and technical support for implementation;
- a shared information pool on public financial management - information on PFM systems and their performance which is commonly accepted by and shared among the stakeholders at country level, thus avoiding duplicative and inconsistent analytical work

The Busan Partnership for Effective Development Co-operation (2011):

The partnership signed by 160 governments and 50 other organisations

<https://www.oecd.org/dac/effectiveness/49650173.pdf>

SDG Indicators directly referencing PFM issues

- SDGs:
- 16.5 - Reduce Corruption
- 16.6 - Develop Accountable and Transparent Institutions
 - 16.6.1 – Proportion of Expenditure as proportion of original approved budget

Importance for democratic improvement and scrutiny

This video presents the central role of government budgets in addressing global development challenges and links civil society budget advocacy to better policies, implementation, and outcomes for people (international budget partnership)

Watch this video when you get back to the office

https://www.youtube.com/watch?v=PkNVY5hN4Mw&list=PLQ1WGH8_cXF8W4jBeav3ETBzrklvymQIJ&index=2

Collect More – Spend Better: An EU Approach to help countries to better mobilise domestic resources

The document outlines core elements to expand fiscal space and to support developing countries in three critical areas:

- i) Improved domestic revenue mobilisation
- ii) More effective and efficient public expenditure
- iii) Debt management



Evaluation of EU Collect More Spend Better

(2015-2020)

Conclusions



Effectiveness of EU CMSB support

C11 > C16

**EU contribution to
PFM reinforcement:**

**significant progress
achieved, that
remains to be
consolidated for
bringing about
outcomes**

A more systemic approach to PFM reforms

Strengthening tax administration systems

Introduction of programme budgeting and results-based management, including medium term budgeting

Improving transparency and accountability and reinforcing the fight against corruption

Rolling out PFM reforms in priority sectors (agriculture, education, health, and justice), including social protection

No evidence of systemic improvements in the budget execution cycle, except for some stages (internal audit and expenditure control stages)

Limited support for the development of statistical and M&E systems

Less EU attention on public investment than might have been expected

Very limited involvement in the financial management of state-owned enterprises

Recommendations



Strengthen EU global strategic approach in DRM, PFM and debt management

R2

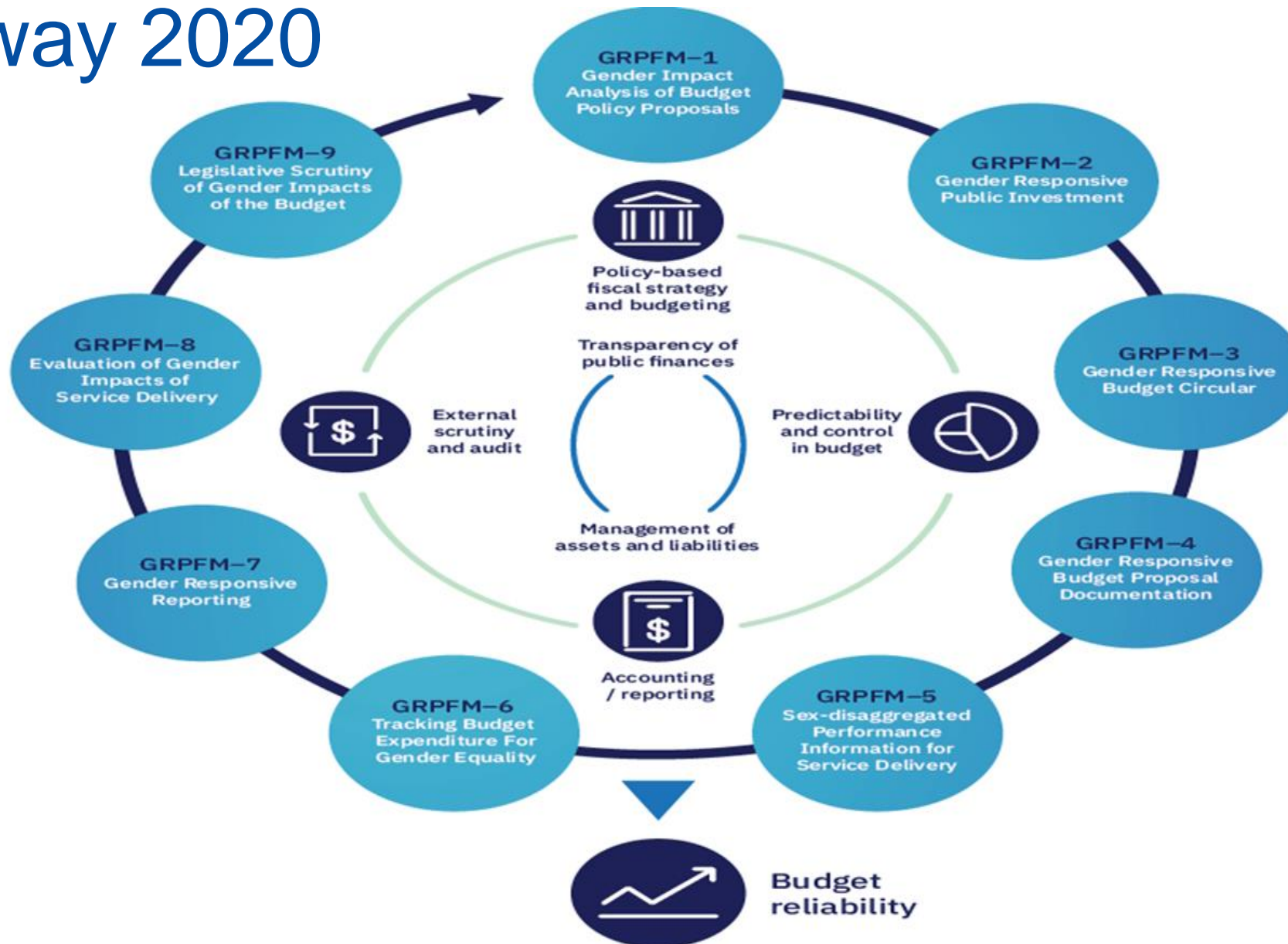
While maintaining a demand-driven approach, prioritise EU support in CMSB areas where the EU has a comparative advantage.

- › Prioritise support in the area of **transparency and accountability**, with a multi-stakeholder approach that is more explicitly linked to the fight against corruption.
- › Give greater importance to **public service delivery**, with a focus on fiscal and budgetary management within sector ministries and deconcentrated and decentralised authorities, especially in areas targeted by the Global Gateway.
- › Focus more on **public investment management, public procurement and debt management** within the framework of the support developed by the EU to boost investment, including public-private investment.

Examples – PEFA Pilots

SDG 5 – Gender Equality – Example PEFA

Norway 2020



Gender Action Plan – putting women and girls' rights at the heart of the global recovery for a gender-equal world

- 85% of all new actions throughout external relations will contribute to gender equality and women's empowerment by 2025
- Shared strategic vision and close cooperation with Member States and partners at multilateral, regional and country level
- GAP III calls for accelerating progress, focusing on the key thematic areas of engagement
- Leading by example
- Measuring results

https://eeas.europa.eu/headquarters/headquarters-homepage/89112/gender-action-plan-iii-towards-gender-equal-world_en

SDG 13 – Climate Action

Watch this clip of pilot PEFA assessment on climate responsiveness

<https://www.pefa.org/news/samoa-first-country-pilot-test-pefa-climate-module>

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- **Module 1.3. The Challenge of PFM reform**

The challenge of PFM reform



The challenge of PFM reform

Which obstacles to PFM reform do exist?

Technical solutions can be copied from international good or best practice, but implementation is challenged or impeded by:

1. Capacity constraints
2. Political factors
3. Complexity

The challenge of PFM reform

1. Capacity constraints

A well qualified public administration will make PFM reform more achievable

Challenges:

- Education in general and training in PFM in particular
- Salaries in the public sector to retain the best officials

The challenge of PFM reform

2. Political economy of PFM reform

Technical improvements can help resolve capacity constraints ...

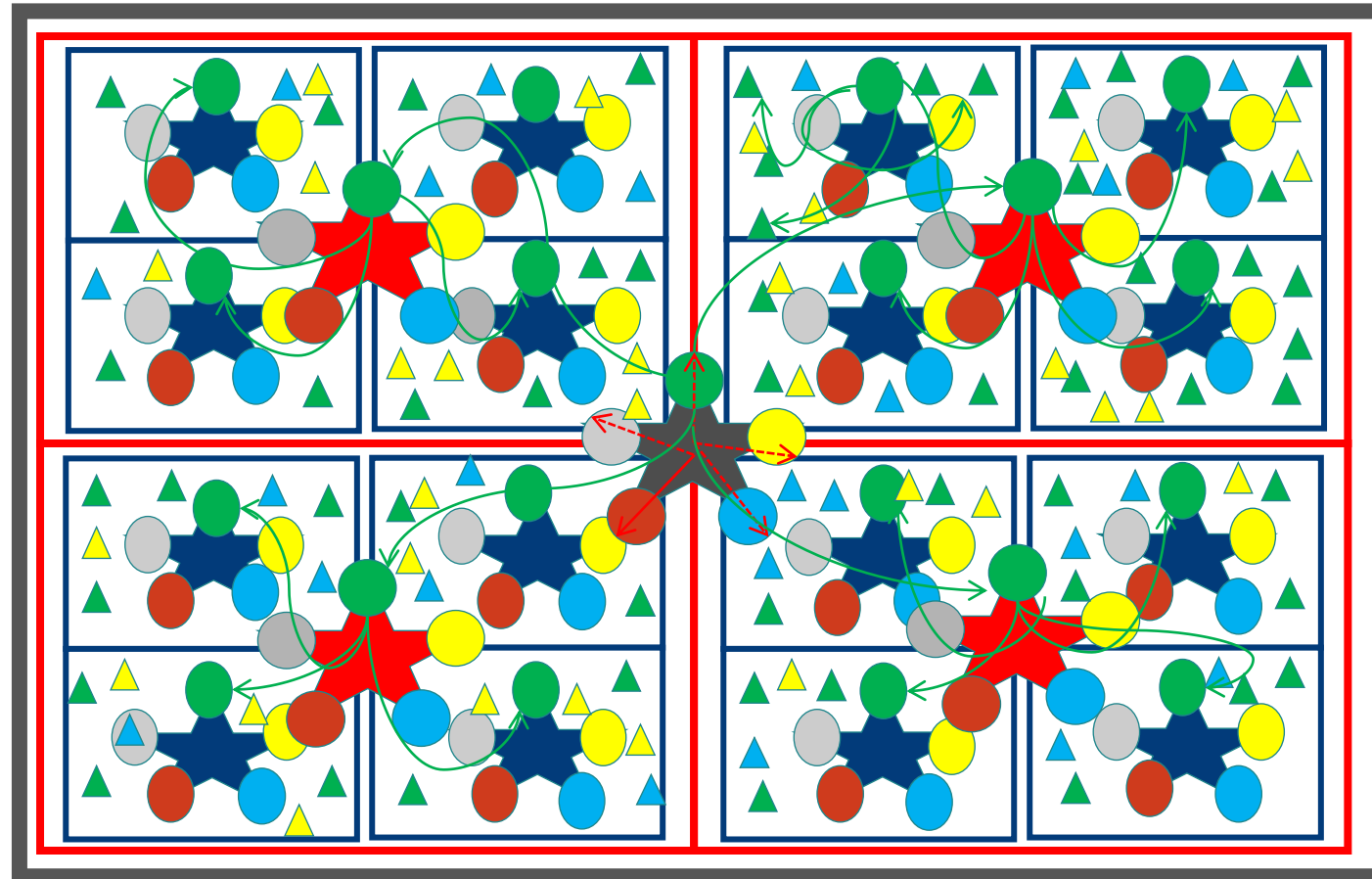
... but political incentives often explain why there is resistance to change

For example:

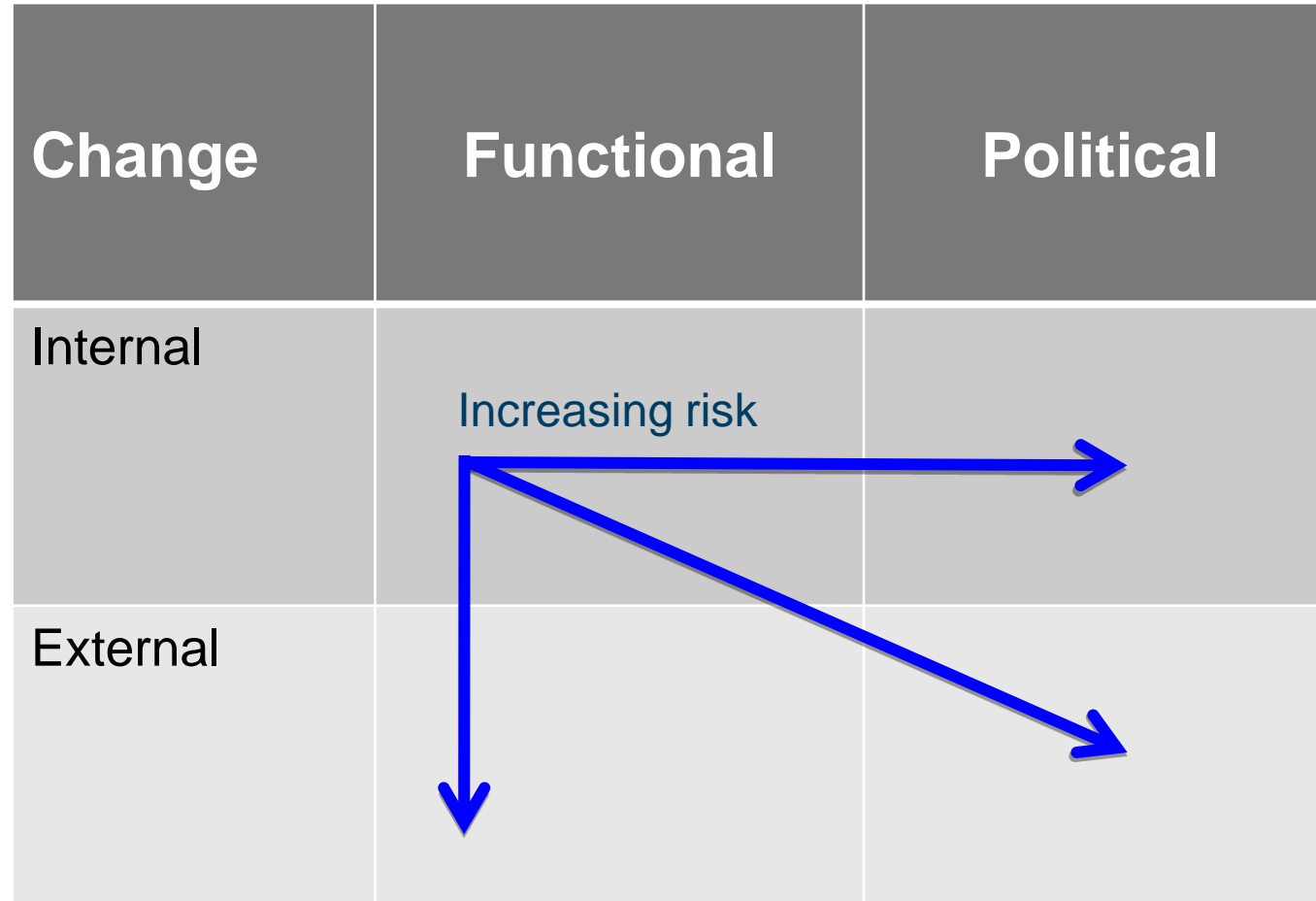
- Moving internal audit to an ex-post function
- Clearance of payment arrears
- Payroll management

The challenge of PFM reform

3. Why is PFM Reform complex?



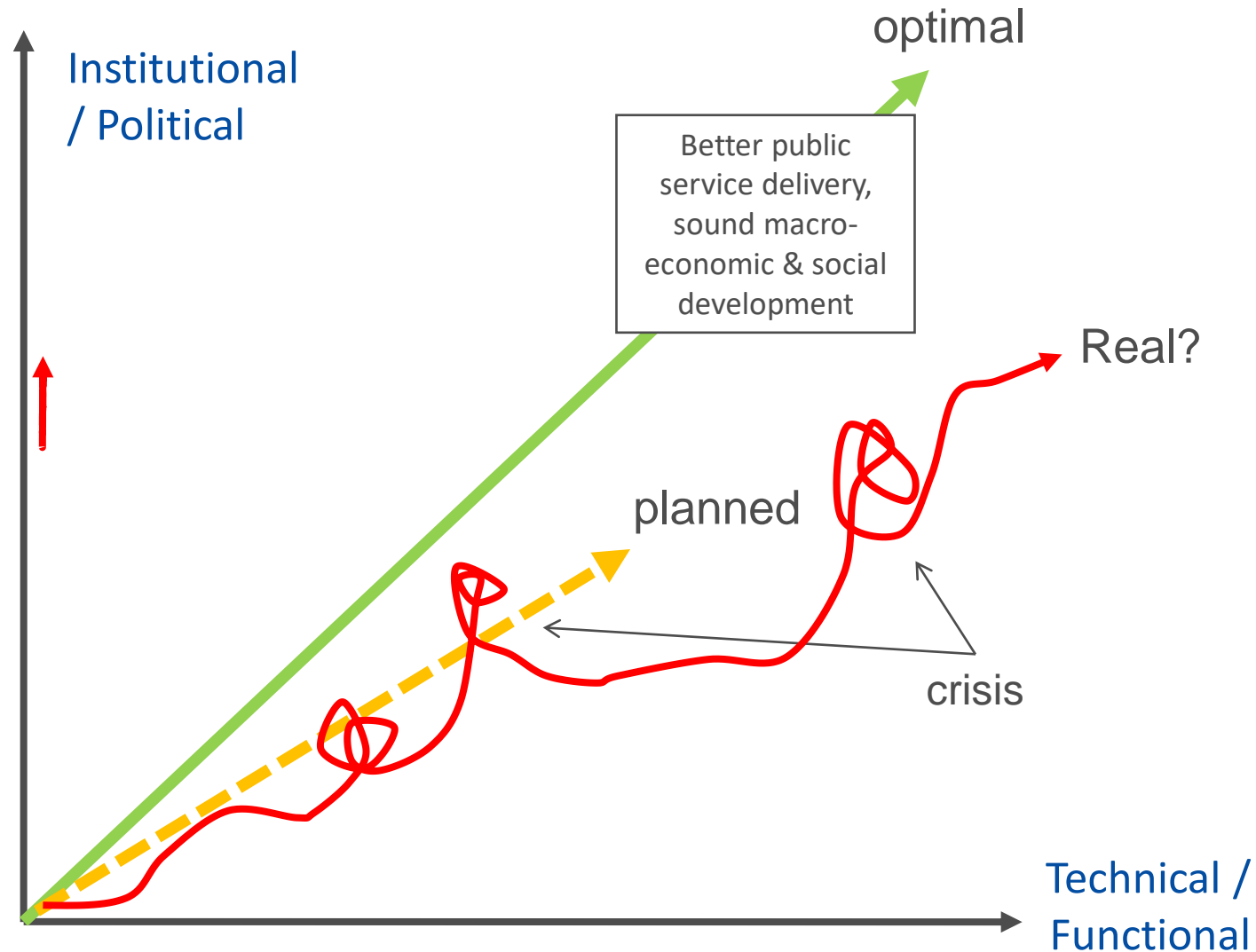
PFM reform



PFM reform

	Functional	Political
Internal	Strategy, systems, structures, work processes, internal relationships (reporting format, budget classification, etc.)	Leadership, power distribution, material and nonmaterial incentives, rewards and sanctions, vested interests, conflicts
External	Legal framework, timeliness and adequacy of resources, results-based performance targets, oversight bodies, formal accountability requirements	Political governance, pressure from clients, customers, competitors, media attention, civil society & public watch dogs

PFM reform process in practice



Improving a PFM system

Improving performance of a PFM system usually requires a mix of three different approaches:

1. Strengthen compliance



2. Improve functioning of systems



3. Reform



Improving a PFM system

1. Strengthen compliance with existing systems:

- Better use existing manuals, systems and procedures
- Provide training and coaching on existing systems and procedures
- Based upon internal and external audit reports



Improving a PFM system

2. Improve functioning of systems

- Improve manuals, IT systems and procedures
- Provide training on improved systems and procedures and new tools
- Based upon systems audits (matrix of corrective measures)



Improving a PFM system

3. Reform of PFM systems

- Change laws, regulations, contracts and tender documents, manuals
- Change institutional arrangements
- Introduce PFM reform management structures
- Build capacity including new skill sets
- Based upon diagnostic studies and assessments



Improving a PFM system - summary

- Relative importance of each approach depends on the country context
- PFM systems should be constantly improving and evolving
- Only periodically is this a real reform process

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Thank you



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