



# 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)

# Housekeeping Notes



Our daily sessions are scheduled to last 4 hours (breaks included).



Make sure to have a headphone connected to your computer, the sound will be better.



Please mute yourself when not talking.



During the training, you can use the chat box to drop questions to the trainers. For all technical related issues, please send a private message to the LINPICO team.



Keep next to you a good coffee and a bit of patience, sometimes technology is not perfect.

# Test-in

Dear participants,

please refer to chat box for completion of the test-in survey

# 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

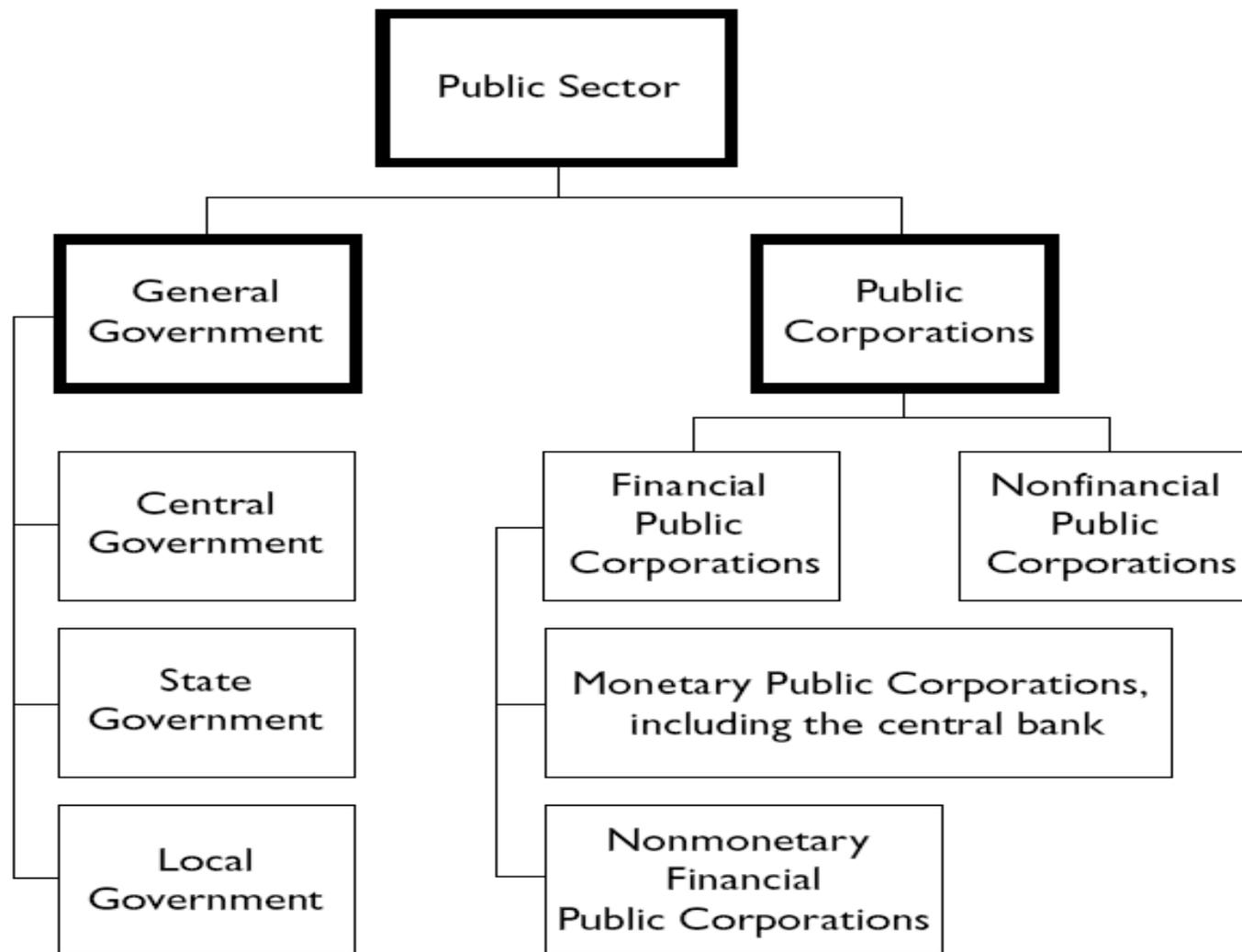


# What is the Government?

**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:**

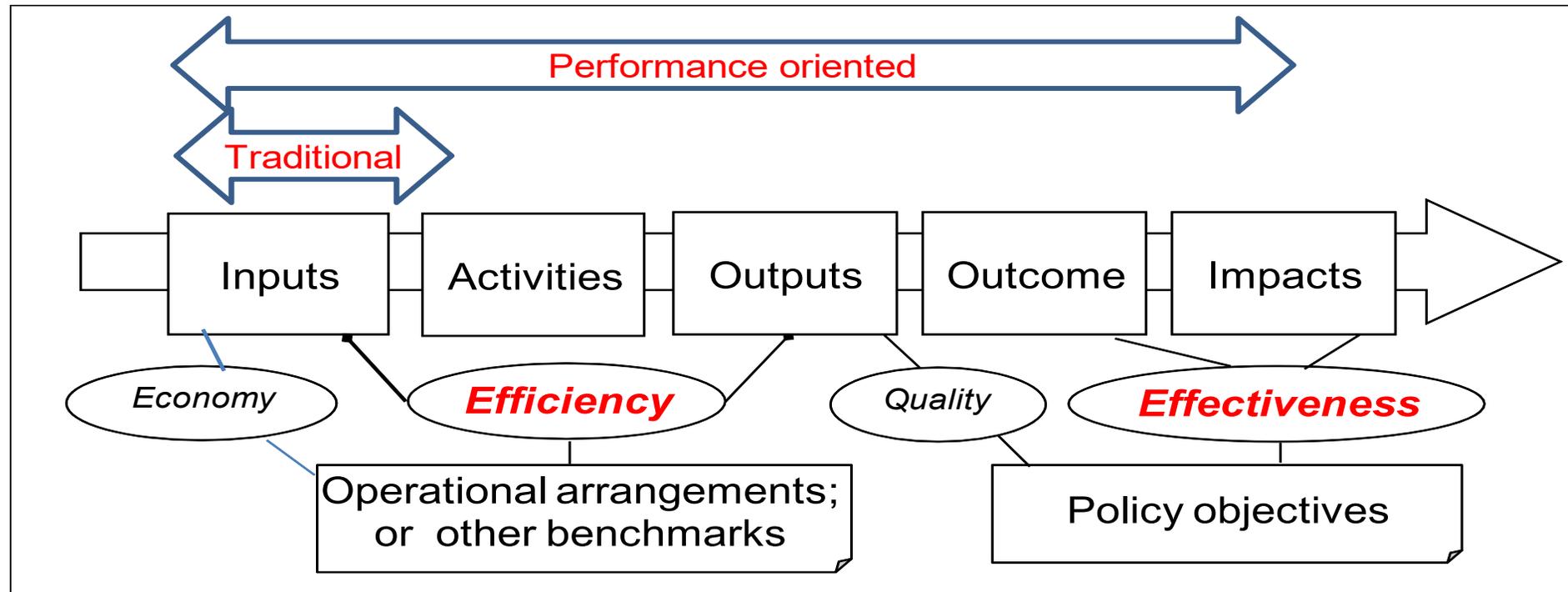
- Reflect the actual objective of budgeting

- **Weaknesses:**

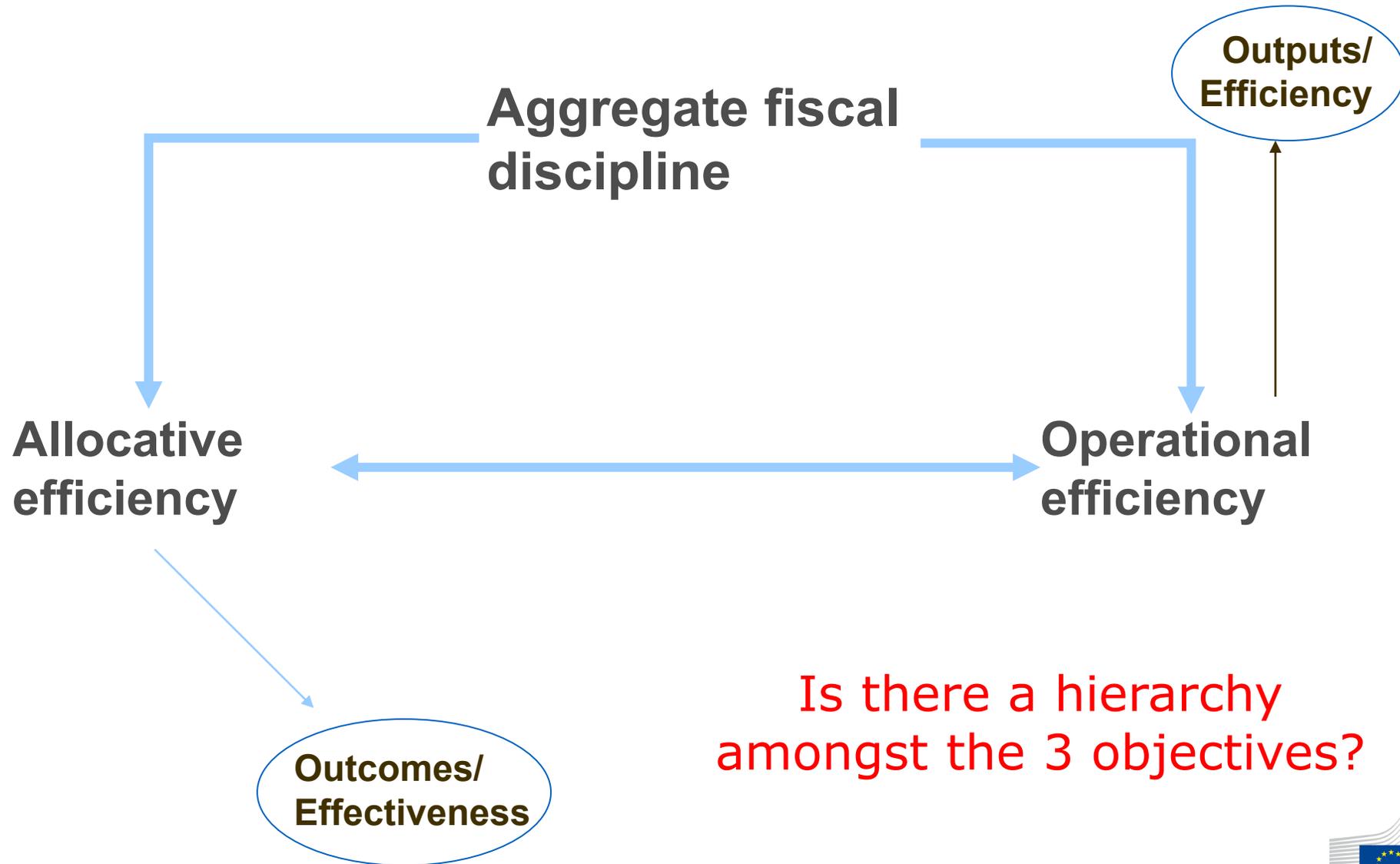
- Require solid institutional frameworks
- Effectiveness depends on country context

# The concept of performance

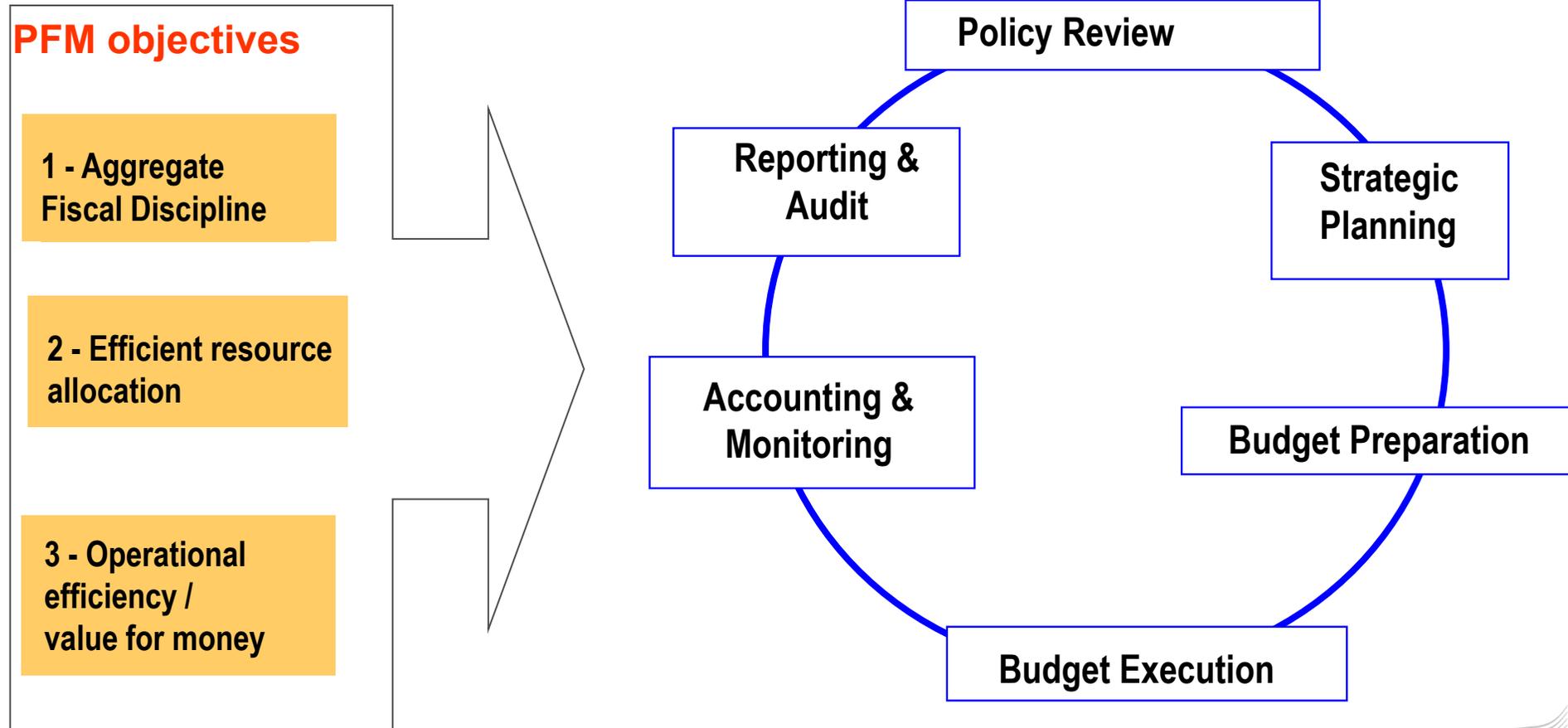
Effectiveness (fulfil objectives) and efficiency (be productive) – take into account quality



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

# Short exercise:



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

Score each of the policy measures:

- Which PFM objective does this measure help 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

# 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

# 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](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

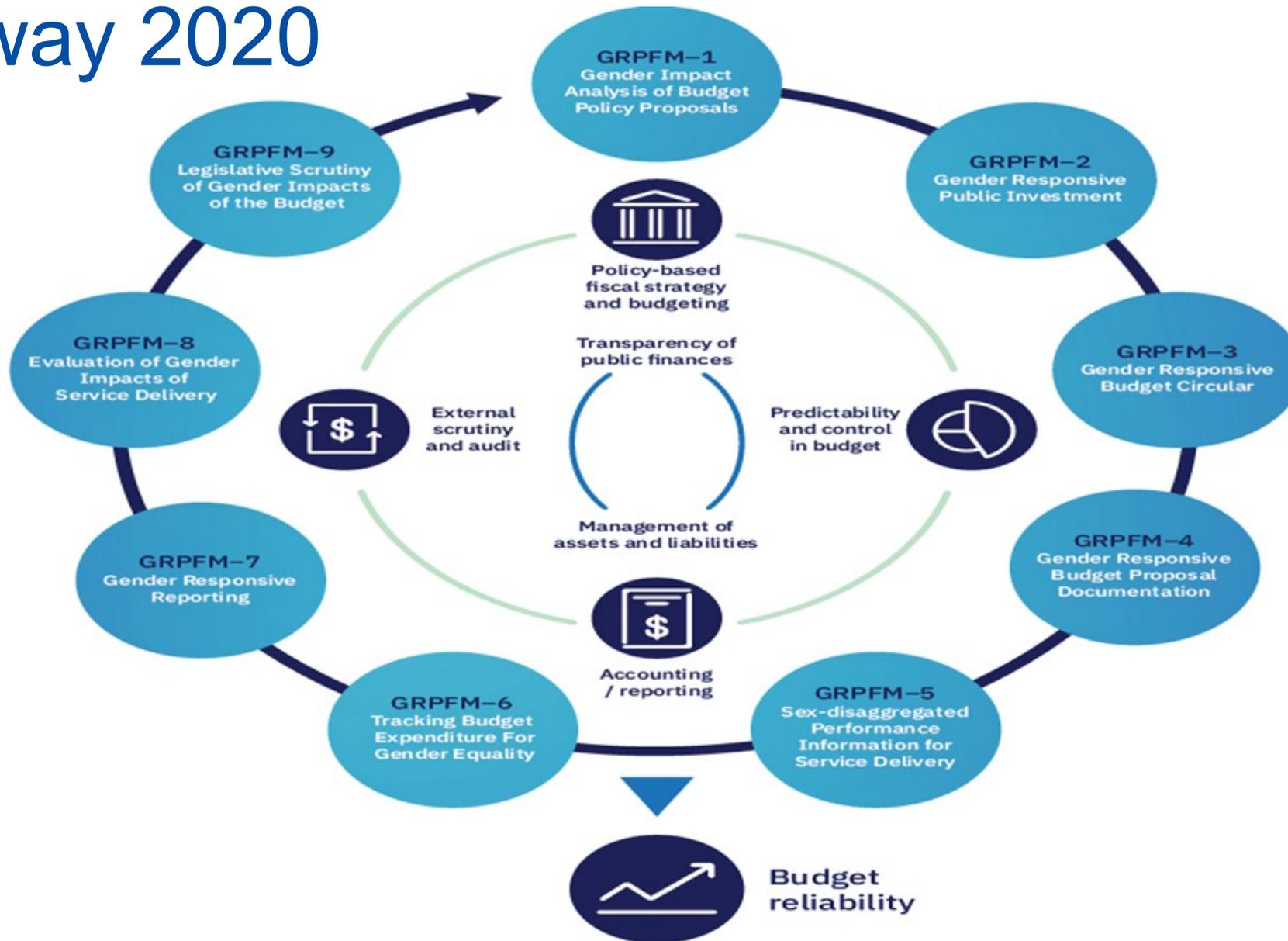
**While maintaining a demand-driven approach, prioritise EU support in CMSB areas where the EU has a comparative advantage.**

- › 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](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>

# 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**

# 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 ...

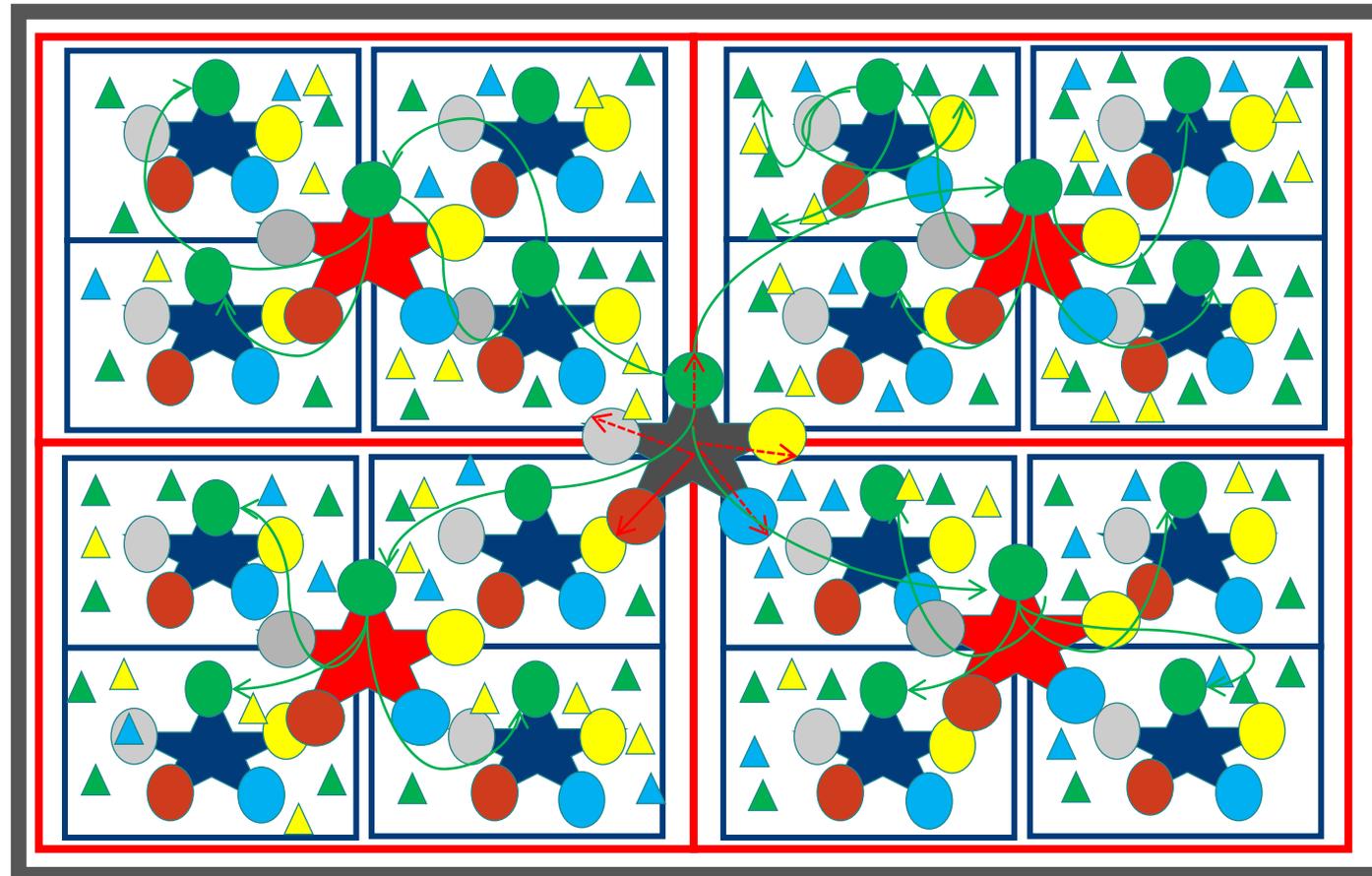
... but political incentives often explain why there is resistance to change

For example:

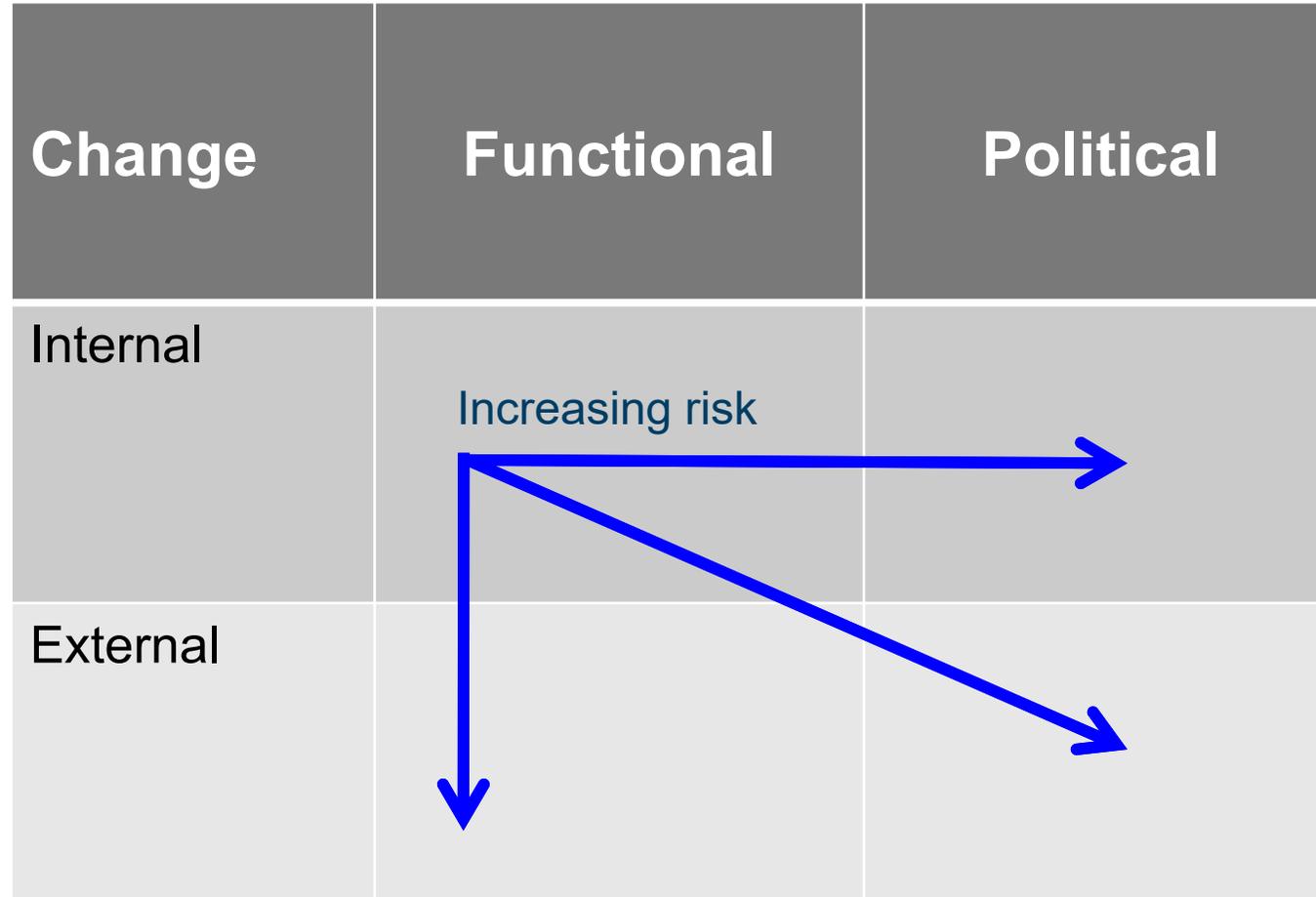
- Moving internal audit to an ex-post function
- Clearance of payment arrears
- Payroll management

# The challenge of PFM reform

## 3. Why is PFM Reform complex?



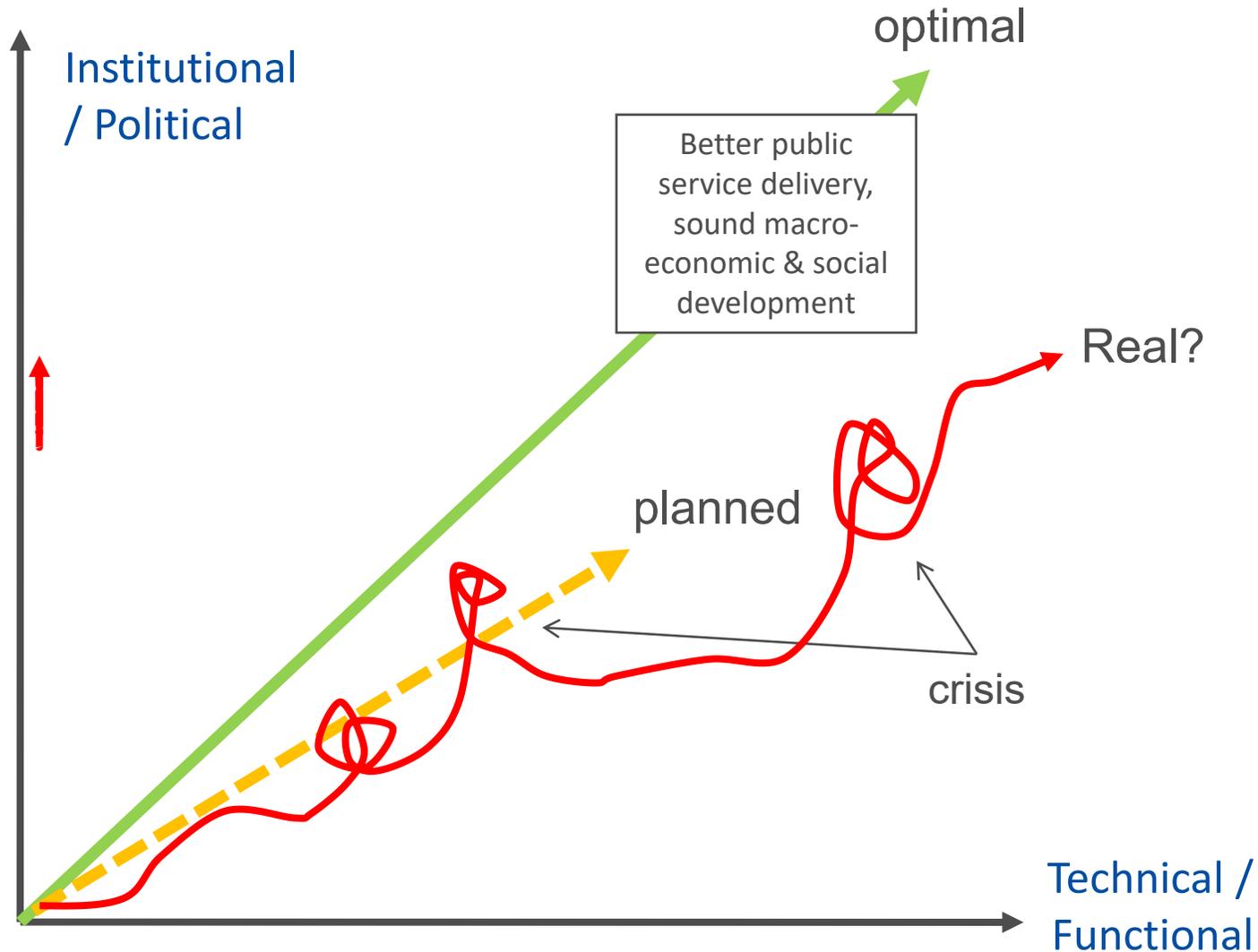
# PFM reform



# 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



# 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

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

# 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

# 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?

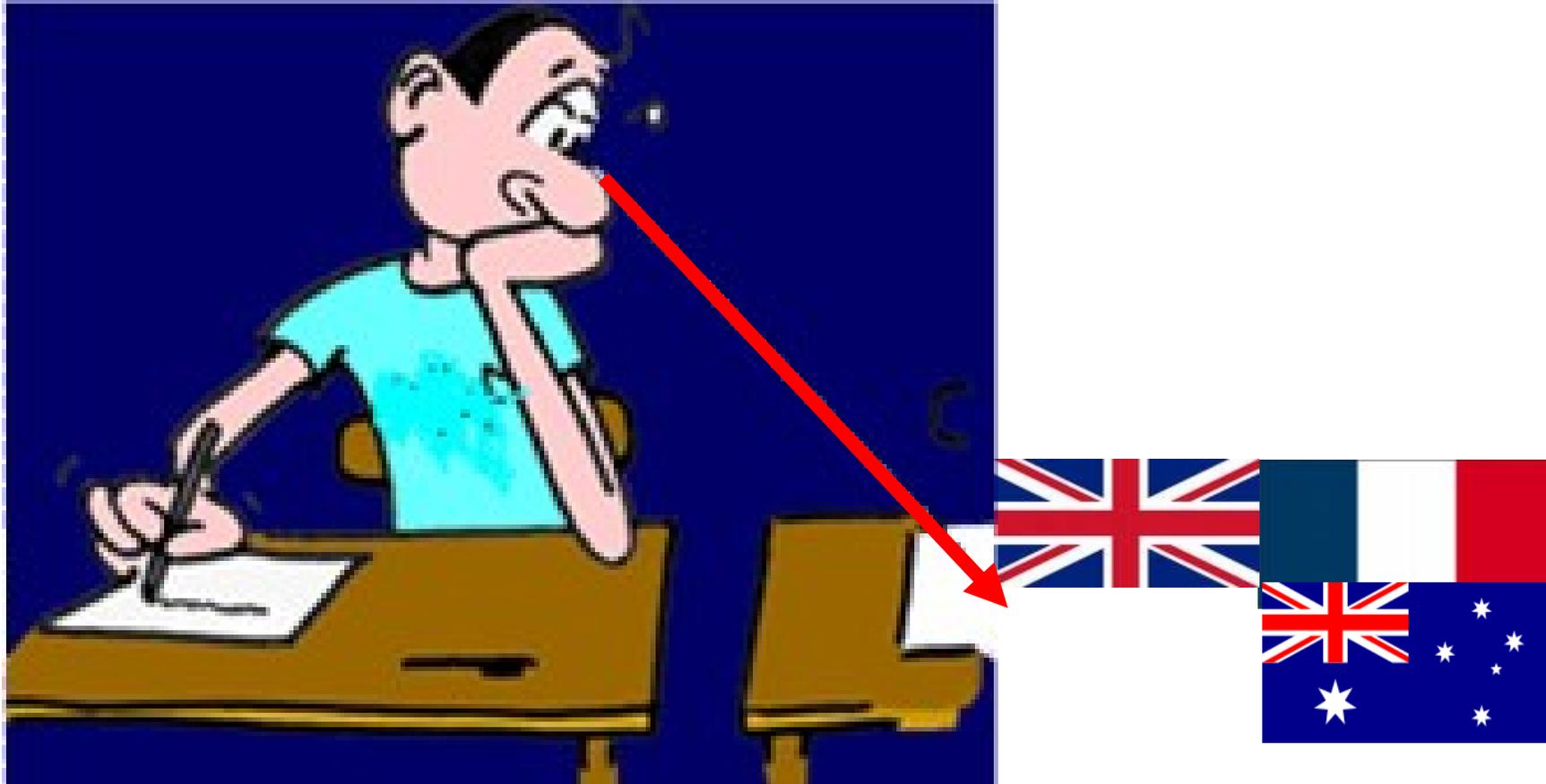
*cf. Lawson*

- 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

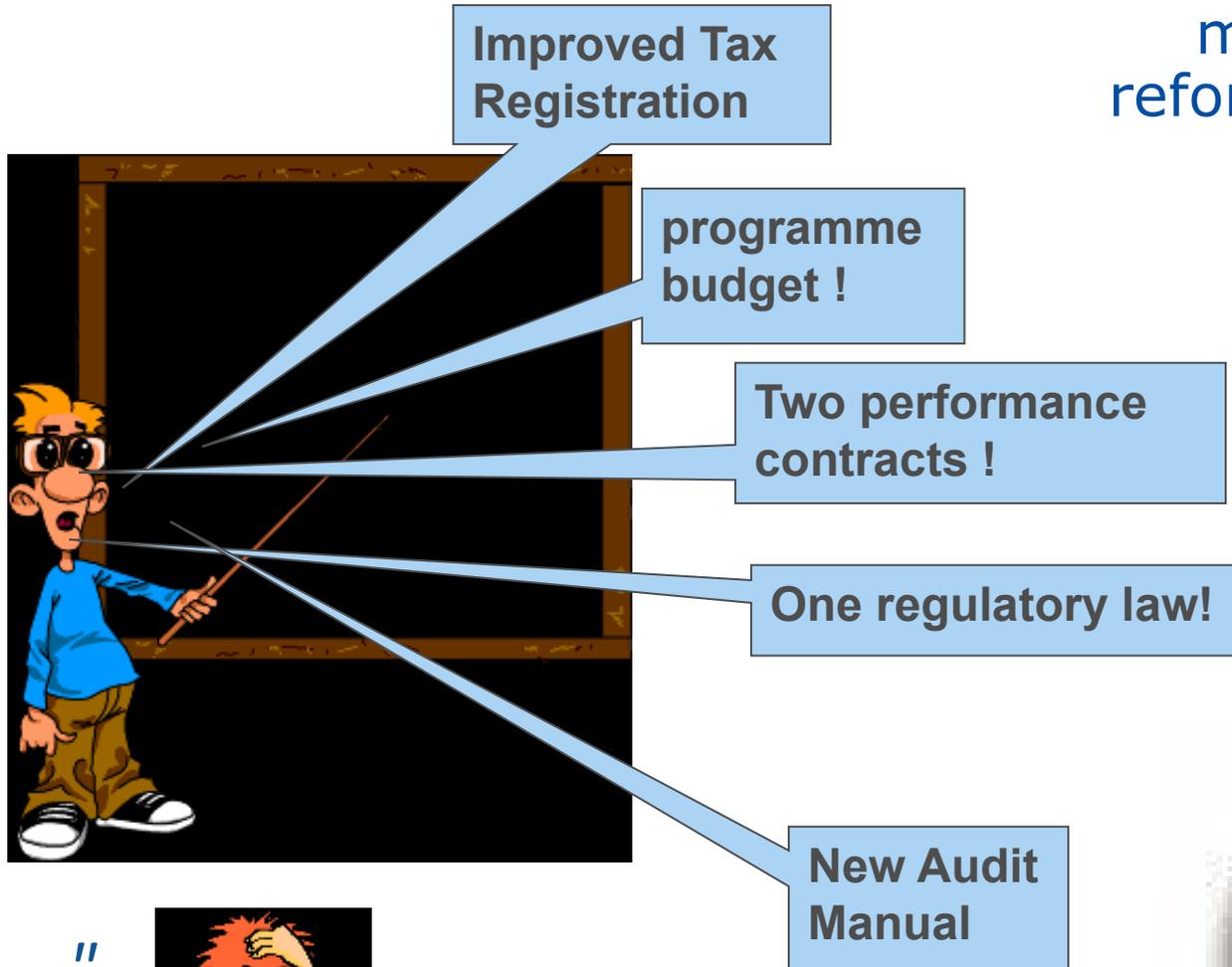
# Should leading edge practices be imported ("best practice")?



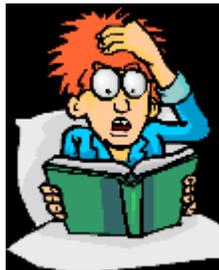
# Other pitfalls

- 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 Expenditure & Financial Accountability

### 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

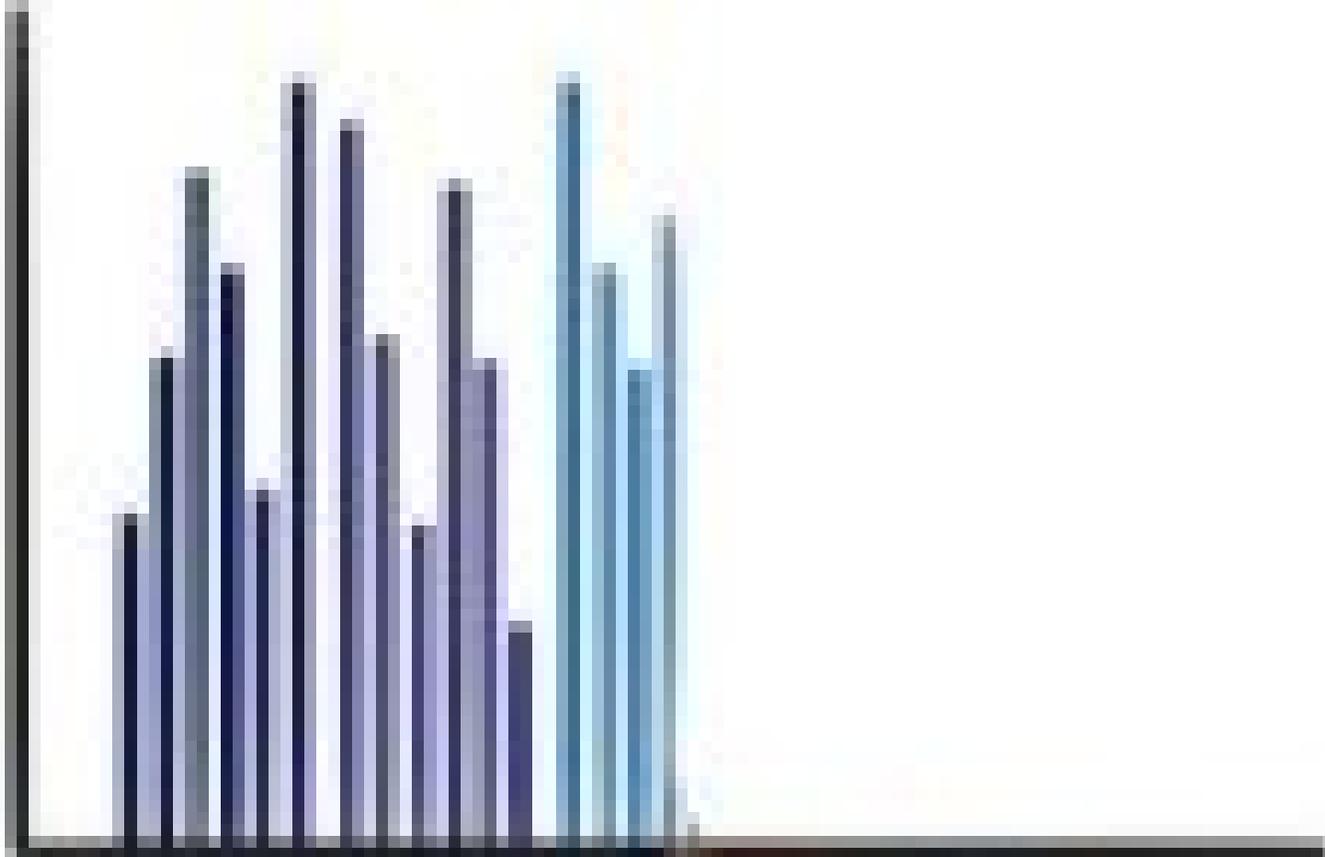
Score

A

B

C

D

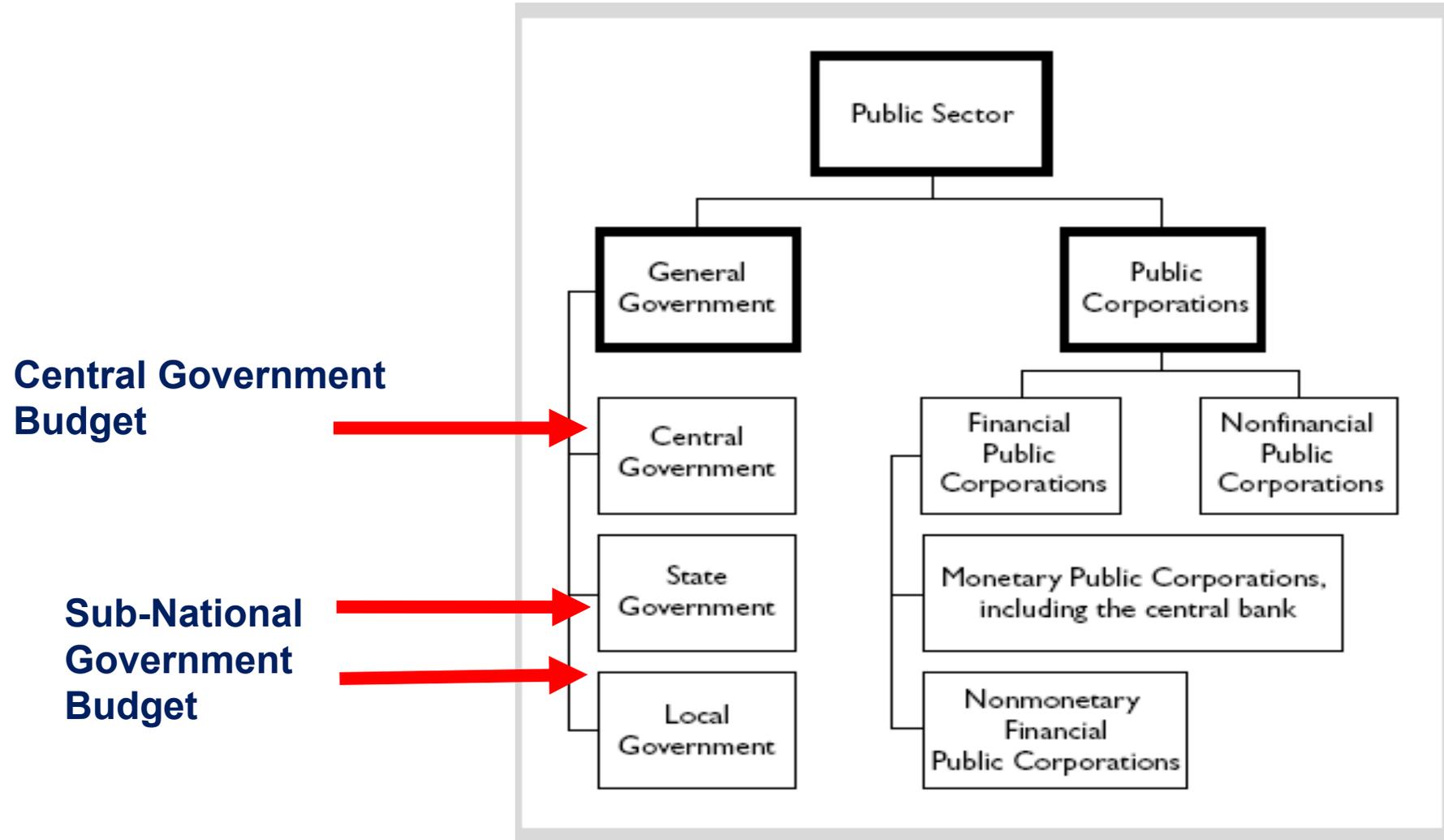


Performance

# Who are the nine PEFA Partners?



# The PEFA diagnostic tool



# 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:

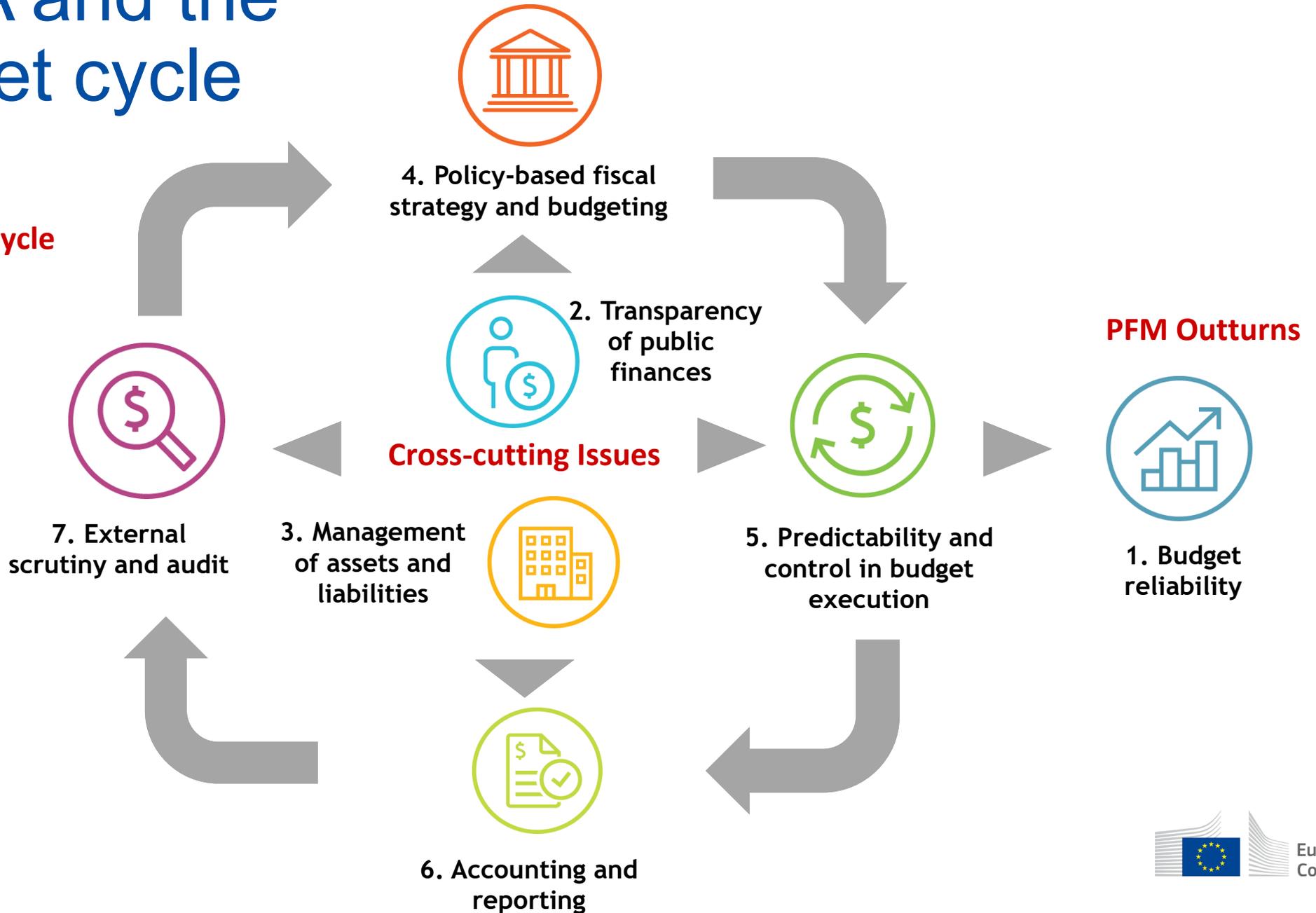
1. Credibility of the budget
2. Comprehensiveness and transparency
3. ***Asset and liability management***  
***Budget Cycle***
  4. Policy-based budgeting
  5. Predictability and control in budget execution
  6. Accounting, recording and reporting
  7. External scrutiny and audit

**Key elements of operational PFM performance:**

31 performance indicators

# PEFA and the budget cycle

**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



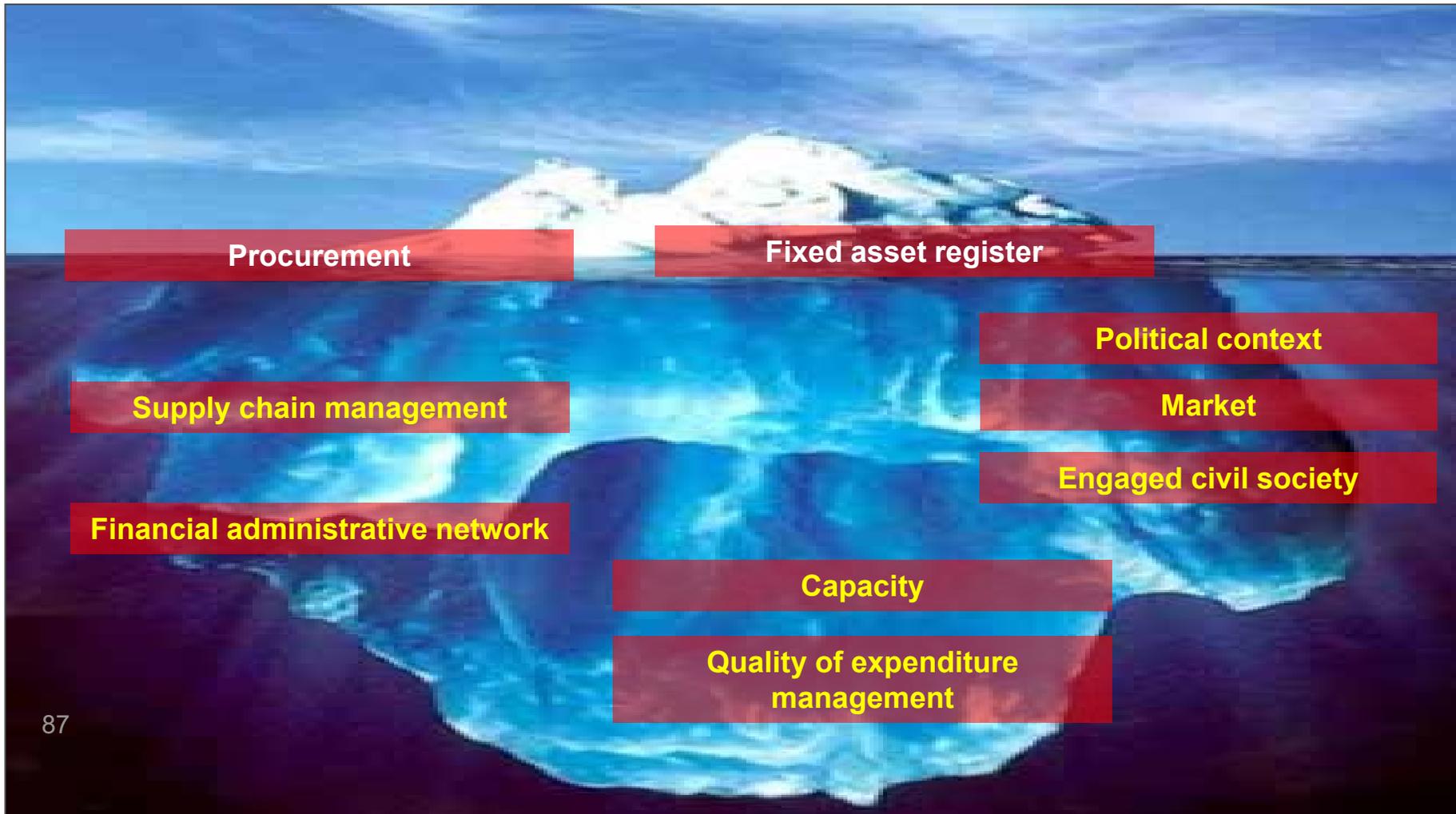
## Operating Design Principles

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!

# PEFA Scoring

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

Steps:

- Refer to the PEFA scoring PI-14 file and to PEFA Framework 2019 (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 PEFA's (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

- 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)

# 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

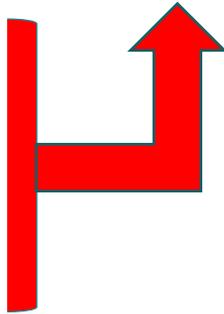


Tools covering broad multiple aspects of PFM system	Custodian	Year
Public Expenditure & Financial Accountability Assessment (PEFA)	PEFA	2005
Fiscal Transparency Evaluation (FTE/FTR) – IMF	IMF	2014
Open Budget Survey	International Budget Partnership (IBP)	2006
Public Expenditure Review (PER)	WB	1996
Country 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 ( <b>MAPS</b> )	OECD	2004
Debt Management Performance Assessment ( <b>DeMPA</b> )	WB	2007
Tax Administration Diagnostic Assessment Tool ( <b>TADAT</b> )	IMF	2013
Public Investment Management Assessment ( <b>PIMA</b> )	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

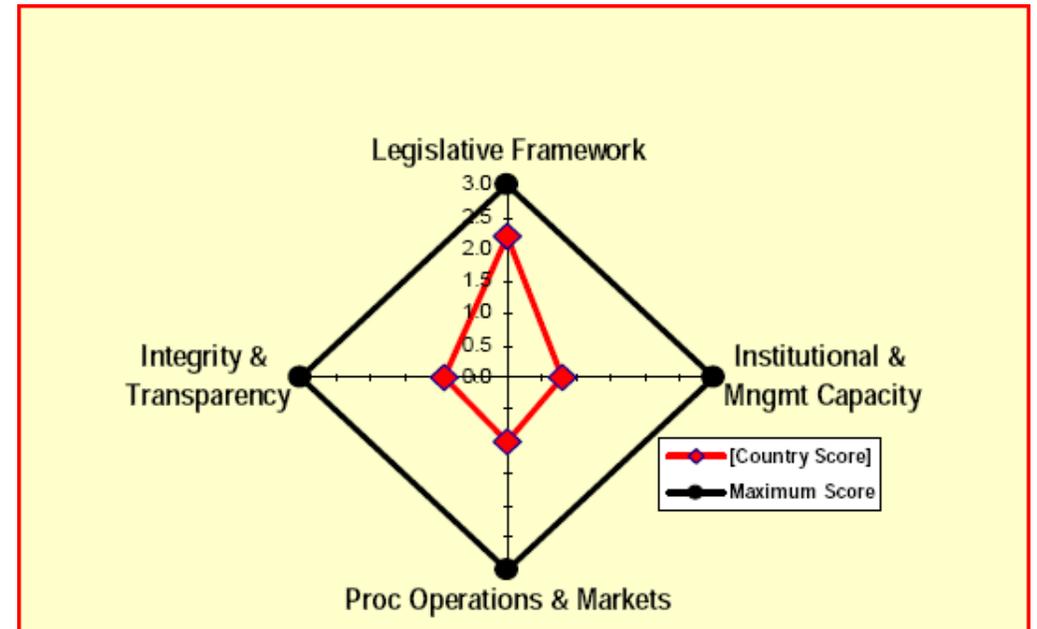
- 12 indicators, 54 sub-indicators
- Base Line Indicators (BLIs)
- Compliance/Performance Indicators (CPIs)

*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)

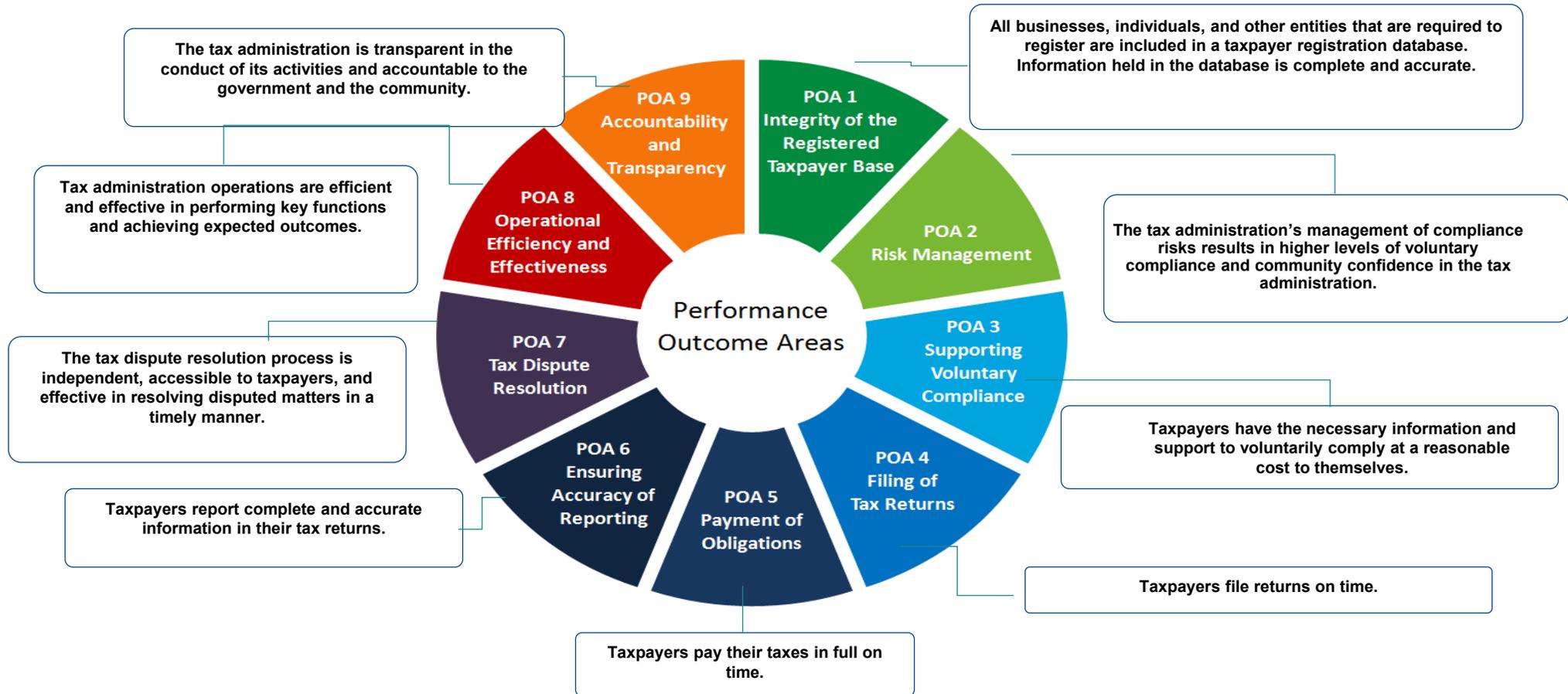
- DeMPA modelled on PEFA
- 5 pillars, 15 indicators, 35 dimensions

*Enables tracking progress over time*

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

# PFM diagnostic tools

## Tax Administration Diagnostic Assessment Tool (TADAT)



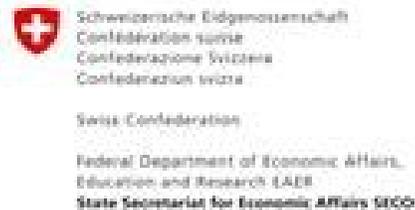
- ❑ Enables tracking progress over time
- ❑ Provides a basis on which a country can formulate a capacity development plan (but does not include recommendations)

# PFM diagnostic tools

The Tax Administration Diagnostic Assessment Tool (**TADAT**)

TADAT is supported by international development partners and institutions

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



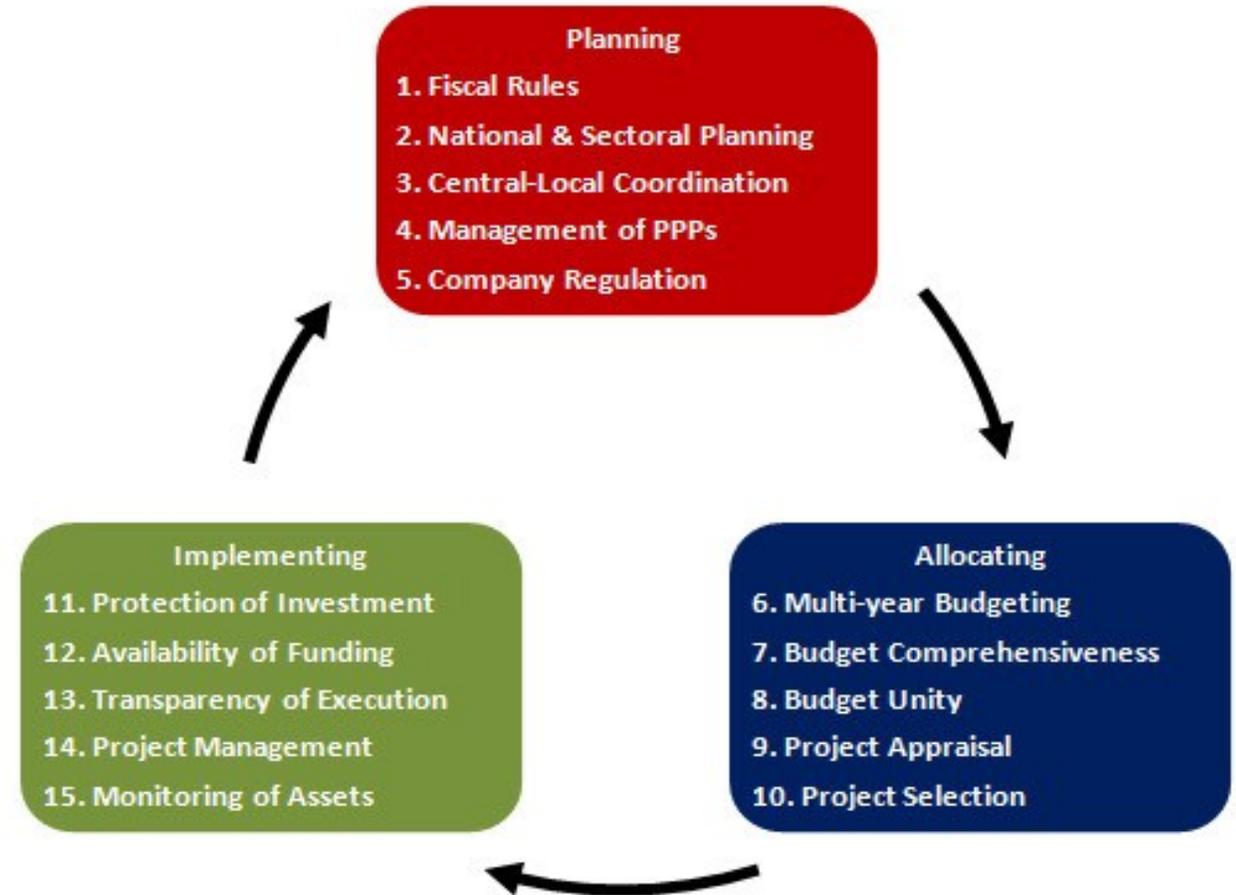
# PFM diagnostic tools

## 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



## 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:

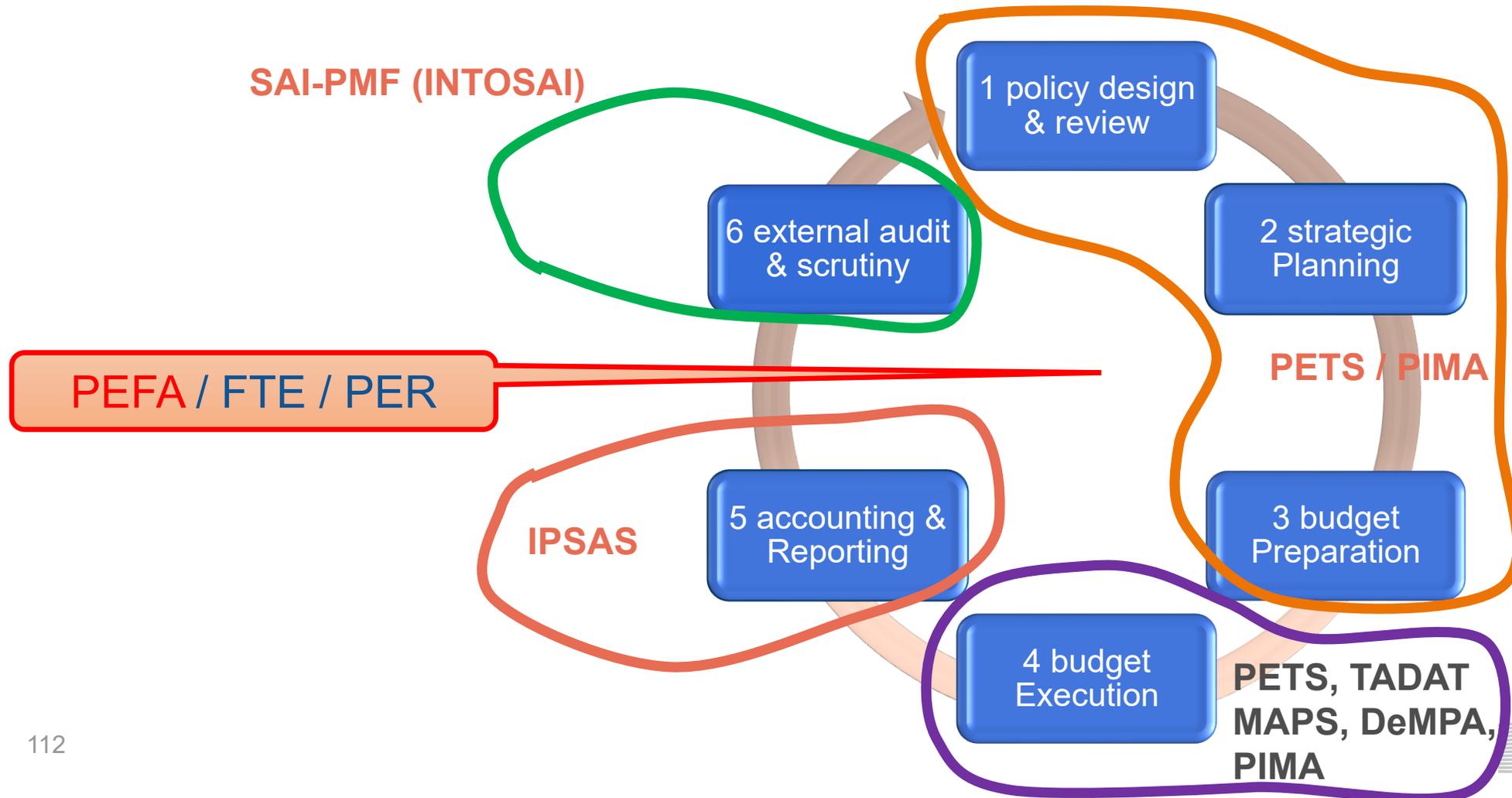
- Coherence of its economic management
- Coherence of its structural policies
- Degree to which its policies and institutions promote equity and social inclusion
- Quality of its governance and public sector management
- Degree to which its regulatory framework is enabling infrastructure development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



# PFM assessment & diagnostic tools

	PEFA	FTE	PER	PETS	MAPS	DeMPA	TADAT	PIMA
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



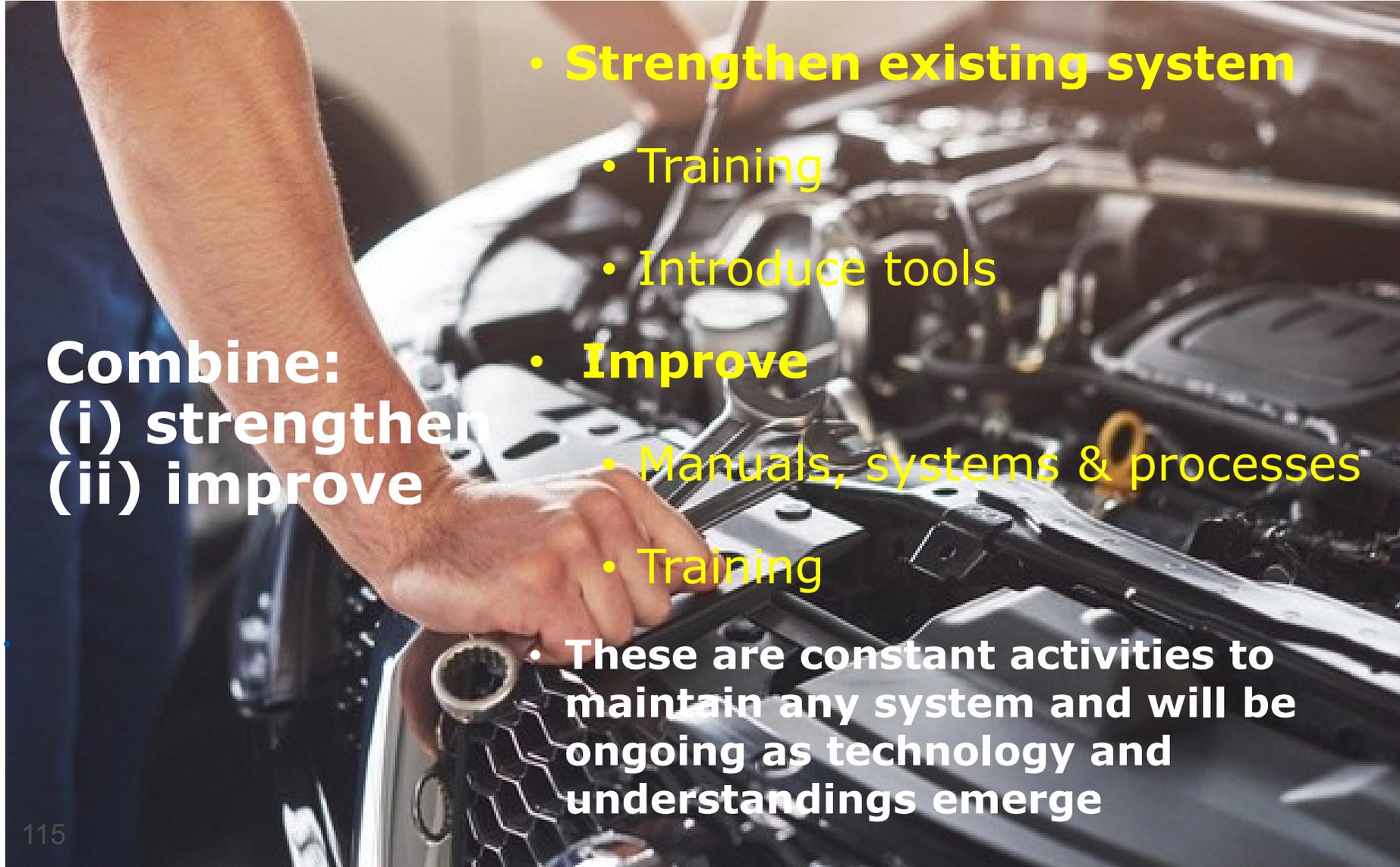
# Day 2: Developing reform strategy

- 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)**

# 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.



# Public Financial Management (PFM) reform virtual training

Day 3 – Developing a reform strategy – 2

# Wrap up of day 2

- What do you remember from yesterday? (open discussion)
  - Main conditions for successful PFM reform (Gleicher)?
  - What are the main features of PEFA?
  - What diagnostic tools to assess PFM systems are you familiar with?

# Day 3: Developing reform strategy -2

- **Module 3.1**      **Sequencing of reforms (part 2)**
- Module 3.2      PEFA platform exercise – Ethiopia
- Module 3.3      Basics and beyond

# Getting the basics right



Individual Exercise – Quick Wins (mentimeter)

- Where can I find a quick win?

# Group Exercise – Quick Wins



According to the Gleicher, one of the pre-requisites for successful change management are some successful first steps.

- From the list of PFM reforms shown on the next slide which ones would you identify as good candidates for successful first steps?
- List the main reason why your selection reforms would be good candidates for quick wins?

# Group Exercise – Quick Wins



1. Civil service reform project covering the implementation of a new integrated personnel database and payroll management system
2. Reform of the constitution to address the independence of the auditor general and to clarify the role of parliament in the approval of the appropriations law
3. Implementation of the pilot phase of the IFMIS project
4. Reform of debt management
5. Reform of the mechanism for transfers of tax revenue to the consolidated revenue fund and the implementation of daily reconciliations between the revenue agencies and the ministry of finance.
6. Implementation of a Medium Term Expenditure Framework (MTEF)
7. Implementation of new procurement procedures that include the institution of an independent procurement review board and a public procurement oversight authority
8. Implement programme based budgeting
9. Introduce a Treasury Single Account (TSA)

# Why establish a sequence of reforms? (1)

- In developed countries, experience demonstrates that budgetary reform takes a long time
  - Over 18 years for accruals accounting reform in UK to be completed. Announced 1993 first whole of Government accounts 2011/12 (published 20 months late)
  - In France: Accruals accounting reforms – prepared in 1999; voted in 2001; Implemented in 2006 Budget

# Why establish a sequence of reforms? (2)

- Experience shows that premature introduction of complex instruments in developing/transition countries is counterproductive

# What are the objectives?



Be accountable towards citizens, be receptive

Aggregate fiscal discipline

Role of Parliament in democratic societies

Resource allocation & fiscal policy consistent with objectives

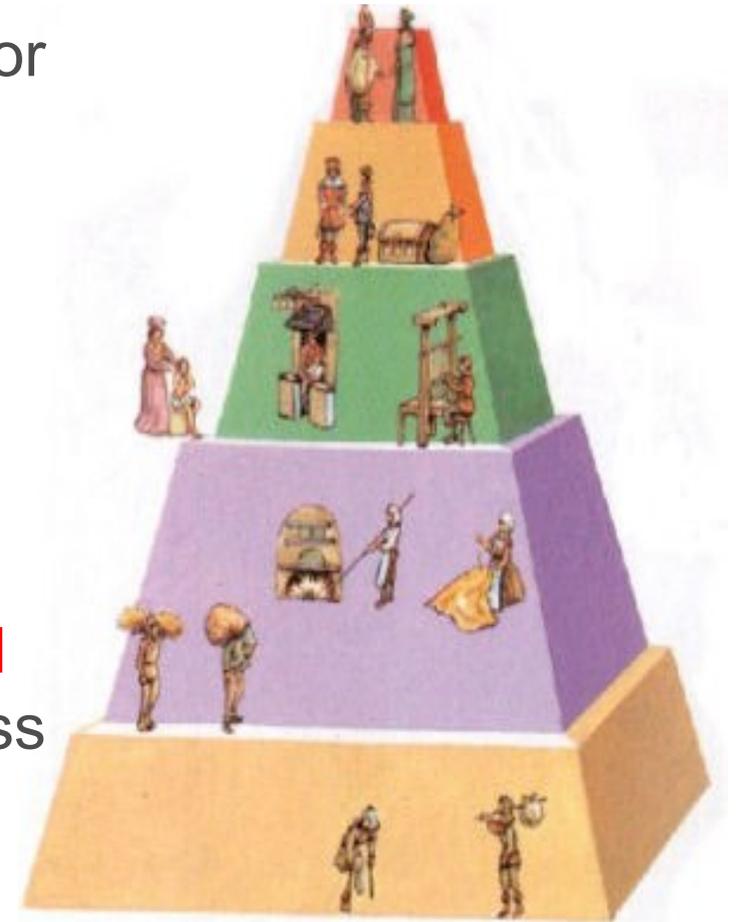
Efficient public service provision and tax administration

Proper procedures (integrity, regularity)



# The Platform approach (Peter Brooke, 2003)

- It aims at implementing a package of measures or activities designed to achieve increasing levels ('platforms') of PFM competence over a manageable timeframe
- Each platform establishes a clear basis for **consolidation and launching to the next step**, based on the premise that a certain level of **PFM competence** is required to enable further progress to take place

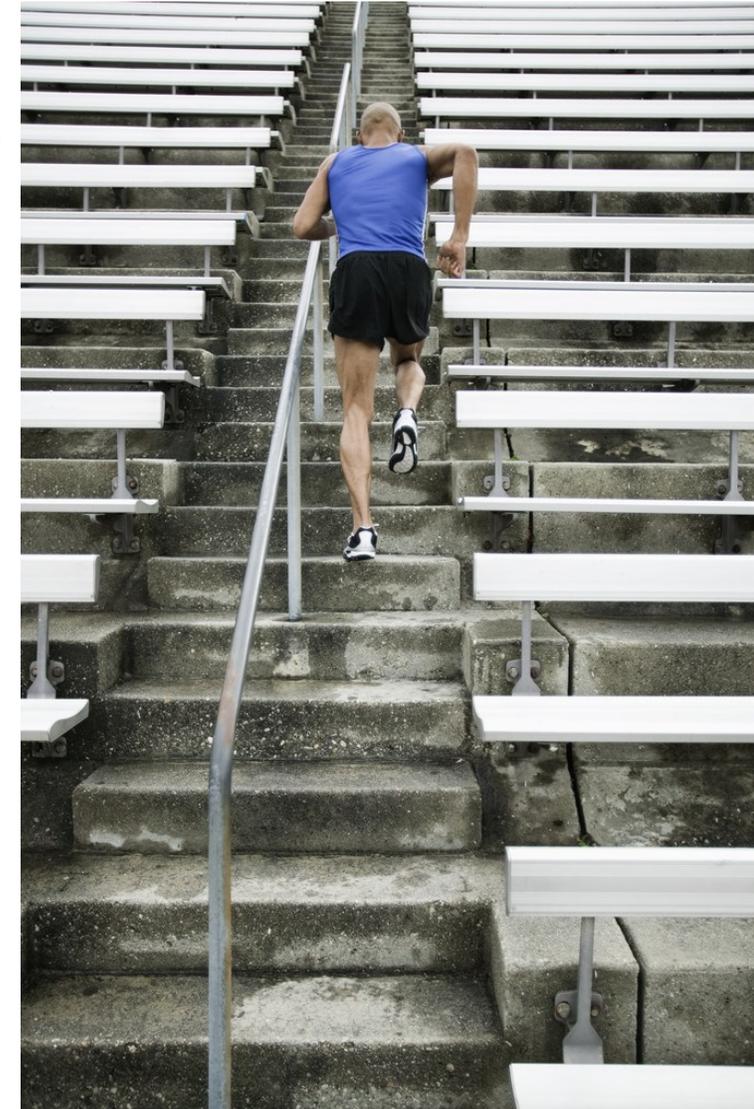


# The Platform approach

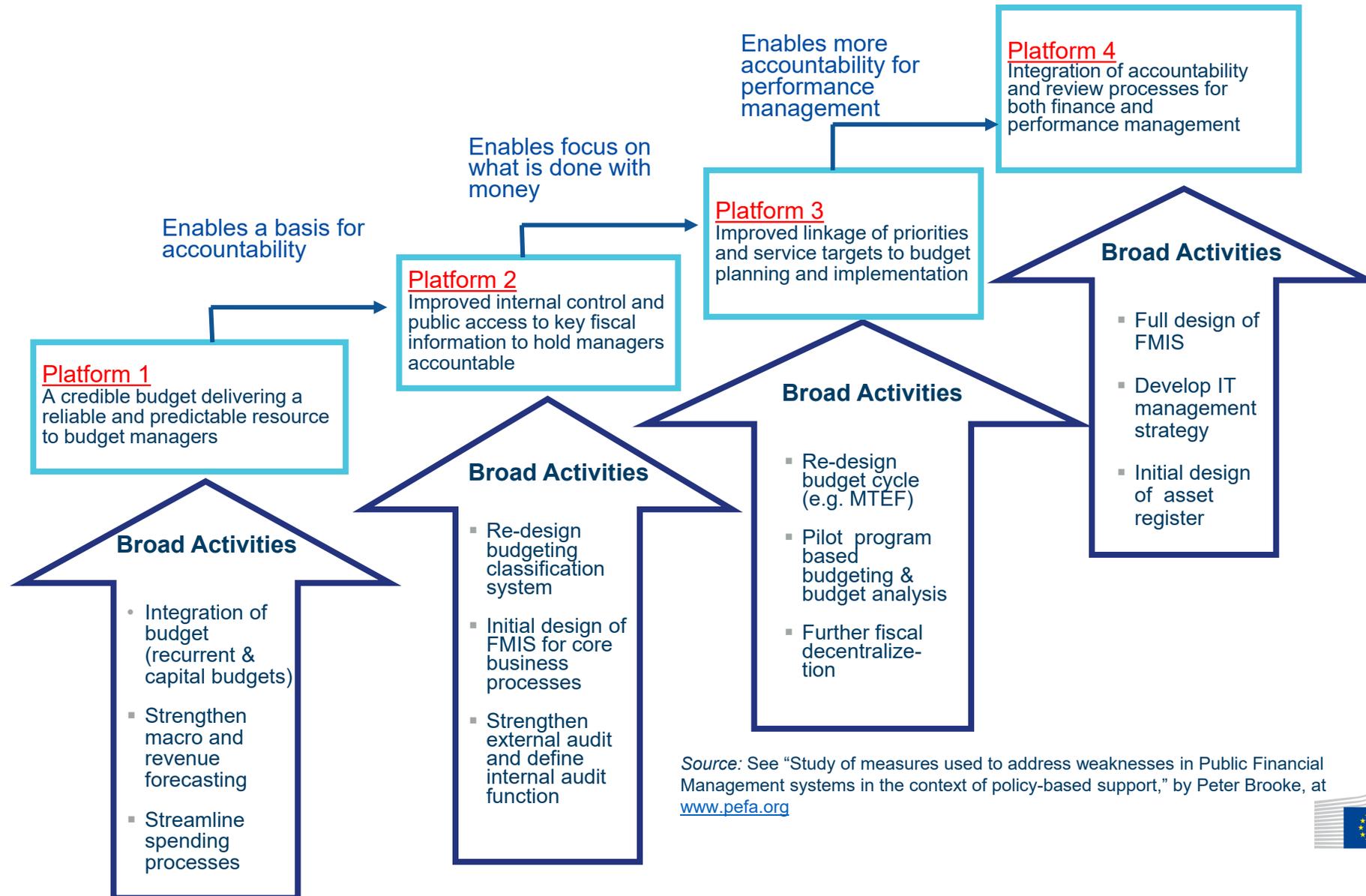
- It facilitates broad reform focus for the individual components and serves as a basis for aligning and coordinating activities
- There are no standard platform specifications, but they seem to conform broadly to a sequence of:
  - Fiscal Discipline (first steps)
  - Efficiency (performance) in Service Delivery (second steps) and finally
  - Strategic Allocation of Resources (final steps)

# The Platform approach -example

- **Platform 1:** A credible budget delivering a reliable resource to budget managers
- **Platform 2:** Improved internal control to hold managers accountable
- **Platform 3:** Improved links of priorities to budget planning
- **Platform 4:** Integration of accountability and review processes



# Example: Sequence of Platforms



Source: See "Study of measures used to address weaknesses in Public Financial Management systems in the context of policy-based support," by Peter Brooke, at [www.pefa.org](http://www.pefa.org)

# Cluster approach (Jack Diamond)

## The subset of Platform approach

Three main stages:

- Ensure core PFM functions are operating (reach core level functionality by **3 top-level priorities**)
- **Consolidation**: establish an adequate IT basis, an accounting system, and regulatory framework, to anchor subsequent reforms
- Subsequent PFM reforms, sequenced along **three clusters**:
  - further improving compliance
  - medium term planning
  - programme and performance budgeting

# Cluster approach (Jack Diamond)

## Cluster approach – stage 1: 3 top-level priorities

**STAGE ONE: ESTABLISH CORE PFM FUNCTIONS FOCUSED ON COMPLIANCE:**

**PFM Deliverable 1:  
Financial  
Compliance**

1. In-year control of spending
2. In-year control of taxes
3. Timely accounting & reporting
4. Central control over cash/borrowing
5. Adequate internal controls
6. Adequate external control

**SUPPORTS a credible budget, and vice versa**

**PFM Deliverable 2:  
Macroeconomic  
Stability**

1. Realistic revenue forecasts
2. Realistic costing of expenditure
3. Budget outturn avoids revenue shortfalls & arrears
4. Deficit delivered as planned

**SUPPORTS a minimum level of service delivery focused on economy**

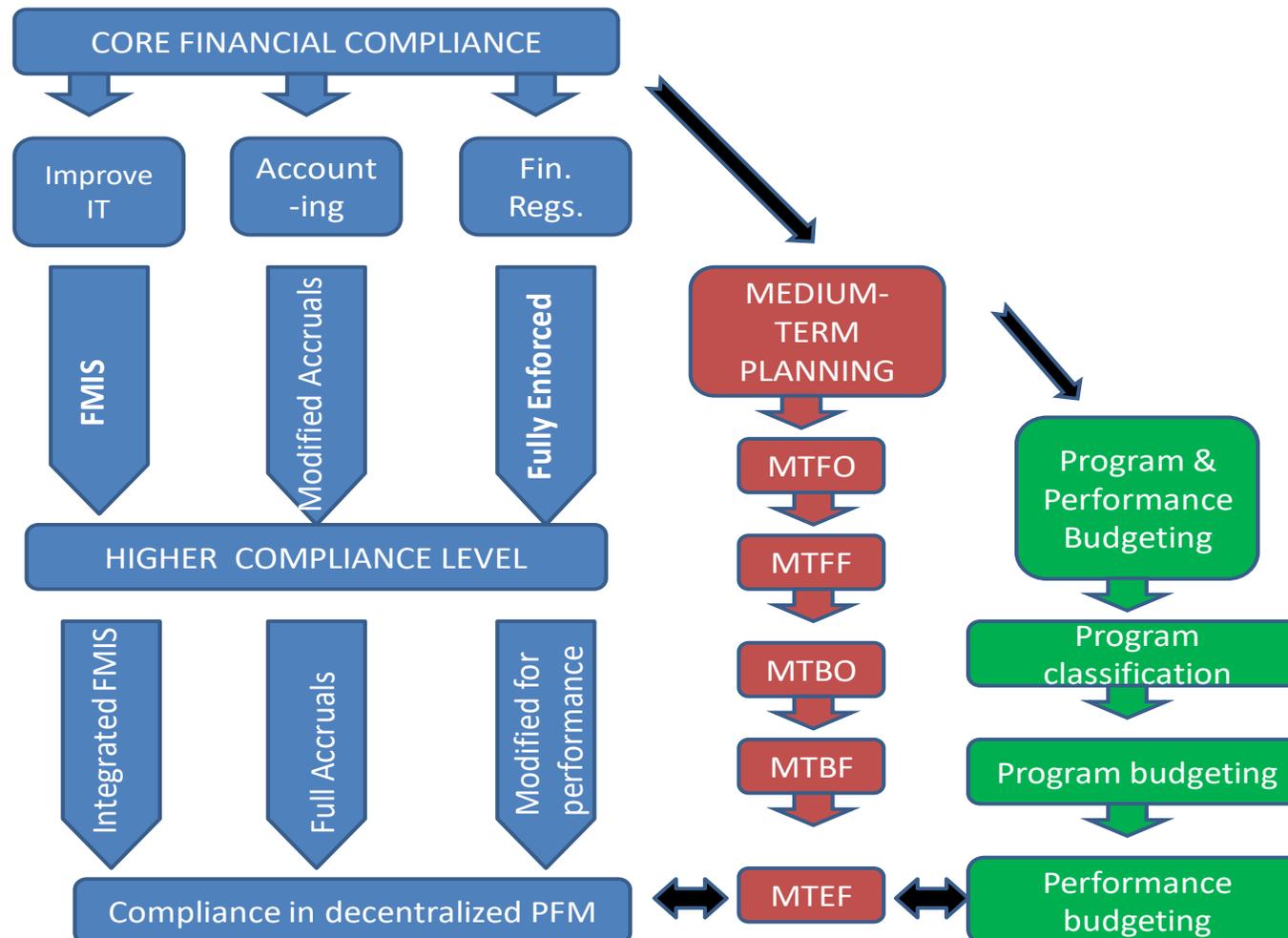
**PFM Deliverable 3:  
Efficiency and  
Effectiveness**

1. Actual spending matches budget allocations
2. Resources available for service delivery as planned
3. Service delivery costs as planned
4. Costs are minimized

**STAGE TWO: MOVE BEYOND THE CORE ON THREE TRACKS:**

# Cluster approach (Jack Diamond)

## Cluster approach – stage 2 and 3



# Cluster approach (Jack Diamond)

## Cluster approach – stage 1

- Sequencing decisions should focus on the three top-level PFM priorities
- These priorities, determining the overall sequencing strategy, should be the same for all countries
- Attempting to leapfrog this hierarchy in the top PFM priorities will likely lead to unsuccessful reforms
- The first top-level priority in PFM reform is **to establish a core (or basic operational) level for the core PFM functions**

This core level can be defined by using the ratings of **PEFA indicators**

# Cluster approach

## Cluster approach – stage 2

- Before advancing to reforms aimed beyond core PFM functions, it is important to establish:
  - A financial management information system
  - Accounting system that can meet International Public Sector Accounting Standards (IPSAS) cash reporting standards for central government operations
  - Budget legislation that meets critical control standards and is adequately enforced

# Cluster approach

## Cluster approach – stage 3

- Reforms aimed beyond core PFM functions
- Focus on policy and performance
- Sequenced along three clusters:
  - Further improving compliance
  - Progressive move from annual to medium term budget planning
  - A staged move from traditional line-item budgeting to programme (and eventually performance) budgeting

# The Dilemma

- Sometimes need to go against logical sequence, it may be driven by:
  - Pressure from donors
  - Internal determination to show that country is on the path of modernisation & capable to carry out complex reforms, etc.

# How to handle such situations?

Strengthening foundations must be priority: however, if not possible to avoid complex reforms, is necessary to:

- Ensure that basic measures & necessary pre-conditions for the complex reform are included in reform programme
- Reshape complex reform measures & limit their ambition
  - E.g., a programme budget may initially be limited to an information document

# Day 3: Developing reform strategy -2

- Module 3.1 Sequencing of reforms (part 2)
- **Module 3.2 PEFA platform exercise - Ethiopia**
- Module 3.3 Basics and beyond

# Group exercise - PEFA Ethiopia

## Break out groups

- Review the PEFA Summary Assessment for the Federal Republic of Ethiopia, 2018
- Make a judgment on the likelihood for PFM reform in Ethiopia linked to the platform approach

# Group exercise - PEFA Ethiopia

**Review the Summary Assessment of the PEFA for the Republic of Ethiopia, 2019, discuss it in your group and do the following:**

1. Make a shared judgment on the likelihood of successful PFM reform in Ethiopia
2. Detail the sequence of PFM reform activities you would recommend in the first platform

e.g. would you regard the following as basics (link to Diamond's hierarchy)?

- a) The adoption of MTEF
- b) The adoption of Accrual Accounting

# Day 3: Developing reform strategy -2

- Module 3.1 Sequencing of reforms (part 2)
- Module 3.2 PEFA platform exercise – Ethiopia
- **Module 3.3 Basics and beyond**

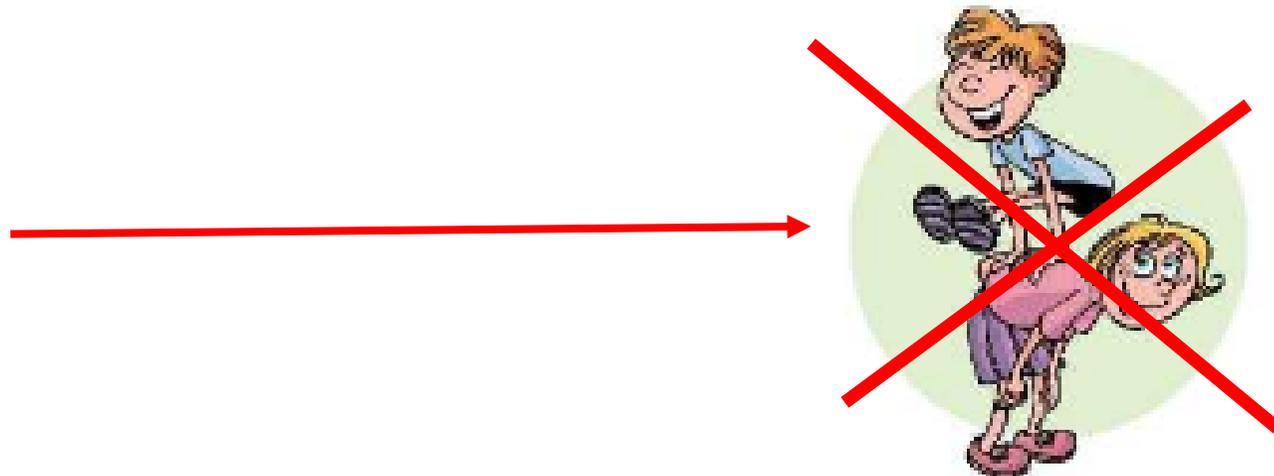
# Objectives of the module

- To examine the key sub-systems of PFM
- For each sub-system, we look at:
  - The level of development regarding ‘foundations’
  - Developments **beyond** the foundations

# Allen Schick: the foundations first!

- In 1998, Schick reacted against the attempts to export and apply the New Zealand model to developing countries
- He recommends to first **consolidate 'foundations'**, rather than “leapfrogging”: often referred to as “core functions” (basics) first

Schick, Allen, 1998. “Why Most Developing Countries Should Not Try New Zealand Reforms.” The World Bank Research Observer



# Examples of basic functions

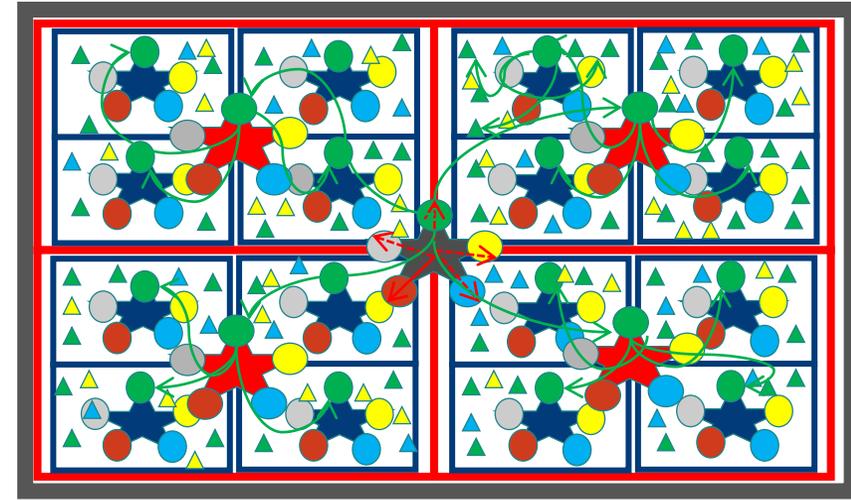
- Administrative as well as economic classification of expenses (consistent with GFS)
- Satisfactory level of comprehensiveness of budget
- Taxpayer registration
- Regular monitoring of financial budget – cash & commitments
- Registry of physical assets for “risky” assets (e.g. vehicles, computers)
- Suspense Accounts
- End-of-year accounts
- External Audit

# Get the Basics Right



## Getting the Basics Right (Allen Schick)

# How to define 'foundations'?



## Suggested definitions:

- Set of functions necessary to ensure that other functions are sustainably applicable and cost effective
- This set of functions aimed at:
  1. Ensuring “budget credibility” (in budget preparation)
  2. Ensuring budgetary discipline (integrity, regularity – financial compliance in budget execution)

# The PFM Foundations:

## 1. ensuring credibility of the budget

PEFA pillar 1 (budget reliability)

PEFA pillar 2 (transparency) and

PEFA pillar 4 (budget preparation):

- Budgetary and macroeconomic framing (PI-14)
- A budget formulation process that (PI-18):
  - eases strategic decision-making and
  - leaves enough time for line ministries to carry out internal decisions: “two stage” budget process
- Budget calendar that is clear and enforced (PI-17)

# The PFM Foundations:

## 2. ensuring budgetary discipline

PEFA Pillar 5: Predictability and control of budget execution

Schick identifies **3 stages** to the development of **control systems**:

1. **Basics**: supervision by third party, external to spending ministries (i.e. MoF)
2. Internal supervision **within** spending ministries
3. Strengthen managerial accountability

# The foundations: economic and administrative classification (PI-4)

Economic classification (1) \ Public administration functions classification (2)	Employee compensation	Goods and services utilisation	Interests	Subsidies	Grants	Social benefits	Other charges	Non-financial assets acquisition	Buildings and civil engineering projects	Machines and equipment	Miscellaneous
General services of public administrations											
Defence											
Public order and safety											
Economic affairs											
Environmental policy											
Housing and communal equipments											
Health											
Leisure, culture and religion											
Education											
Social protection											
TOTAL											

(1) Principales catégories de SFP/GFS, amortissement des actifs physiques exclus

(2) Premier niveau de la CFAP/COFOG

- Going beyond:

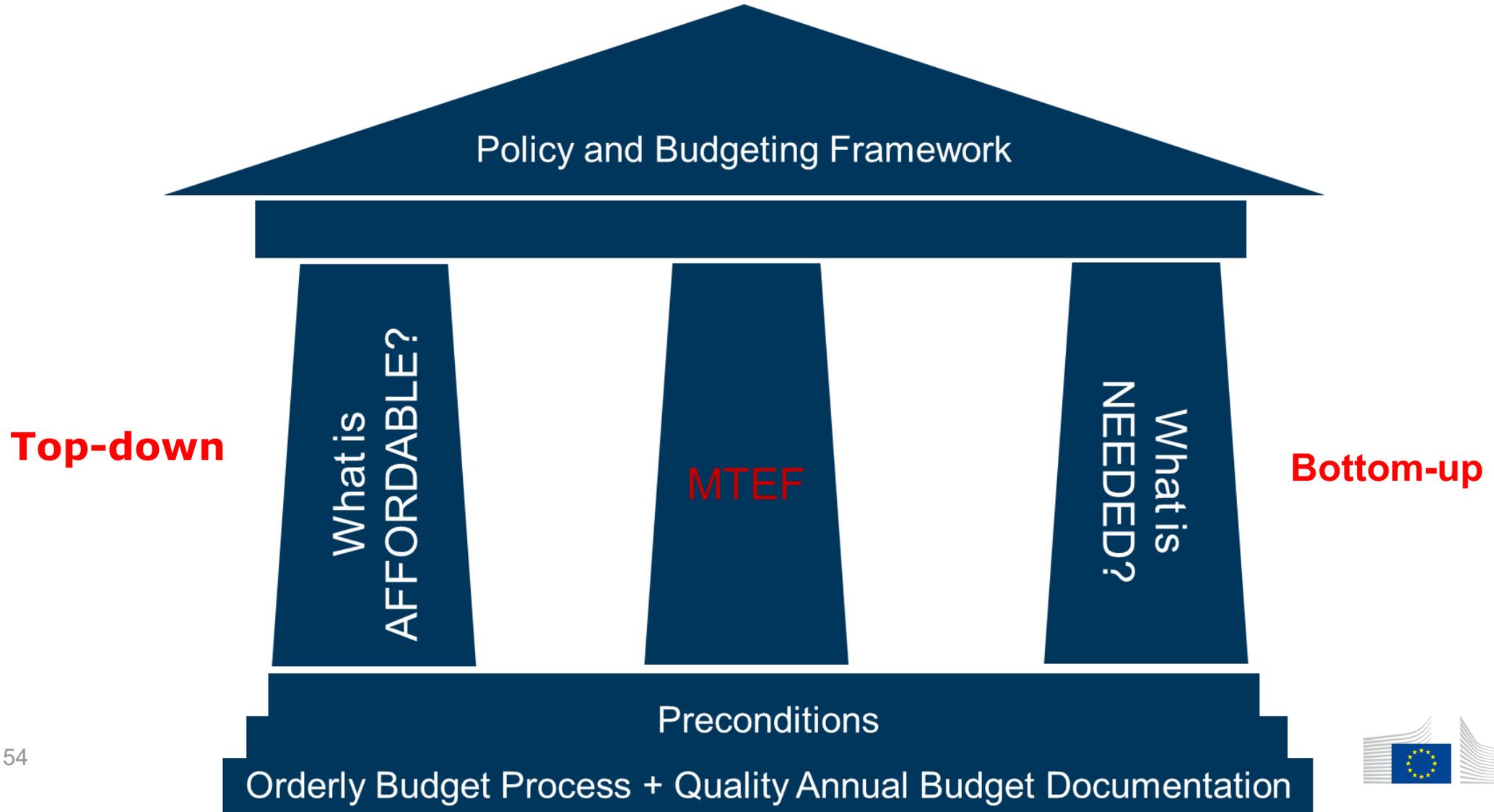
- more advanced classification for analysis of public policy and performance: **functional and programme classification**

# Going beyond the basics: the MTEF

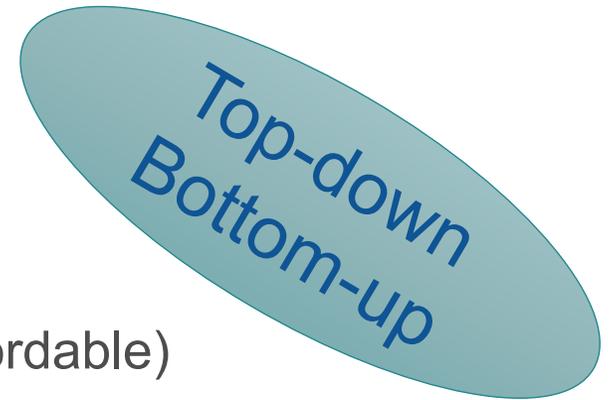
A Medium-Term Expenditure Framework (MTEF) is defined as:

- An additional budget document showing the multi-year expenditure forecasts
- A change of approach to budgeting
- A tool to embed the annual budget process in a **medium term** budget and policy framework with:
  - A rolling multi-annual expenditure programme
  - Established on a yearly basis
  - The first year is the next year budget

# Main features of MTEF



# Main features of MTEF



## Top-down budget preparation

Multi-year projections of resource envelope targets (what is affordable)

## Bottom-up budget preparation

Multi-year cost estimates of sector programmes (what has to be financed, with a focus on programme performance)

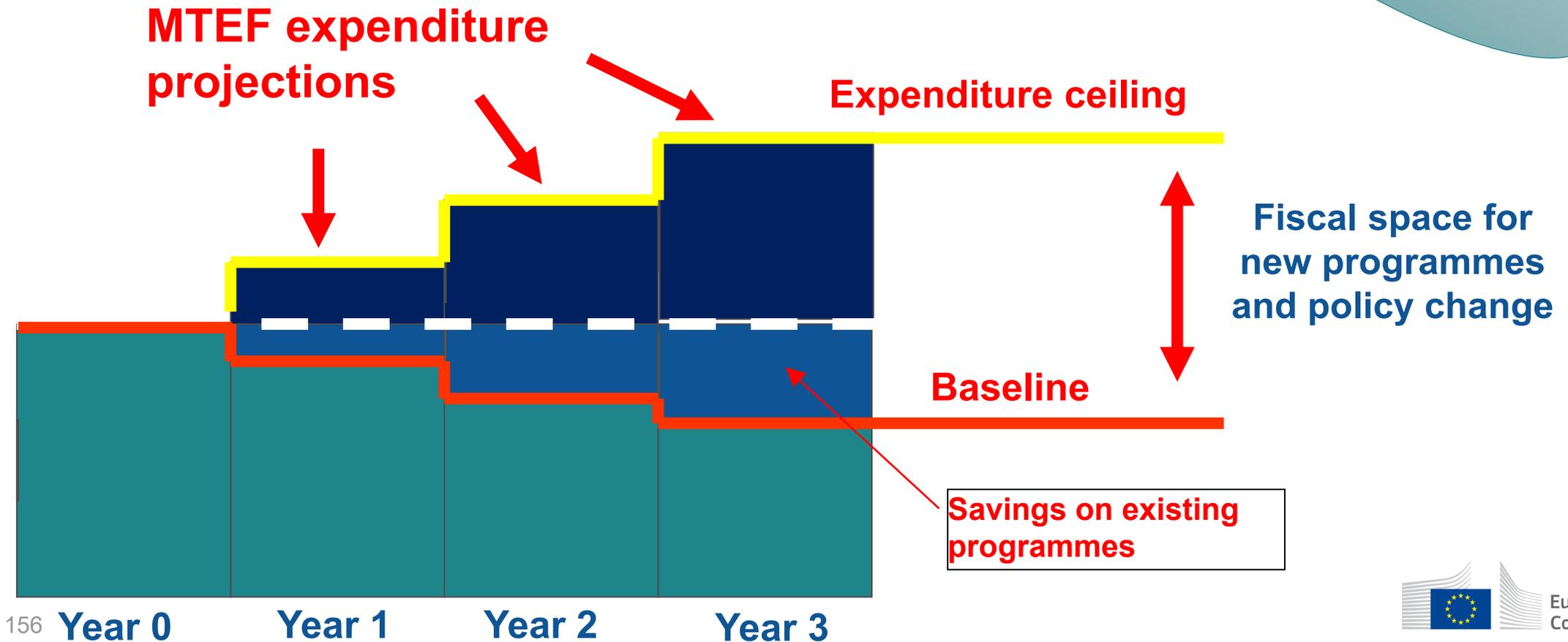
## Integrating these two pillars

Institutional (political-administrative) decision-making process to make the necessary trade-offs

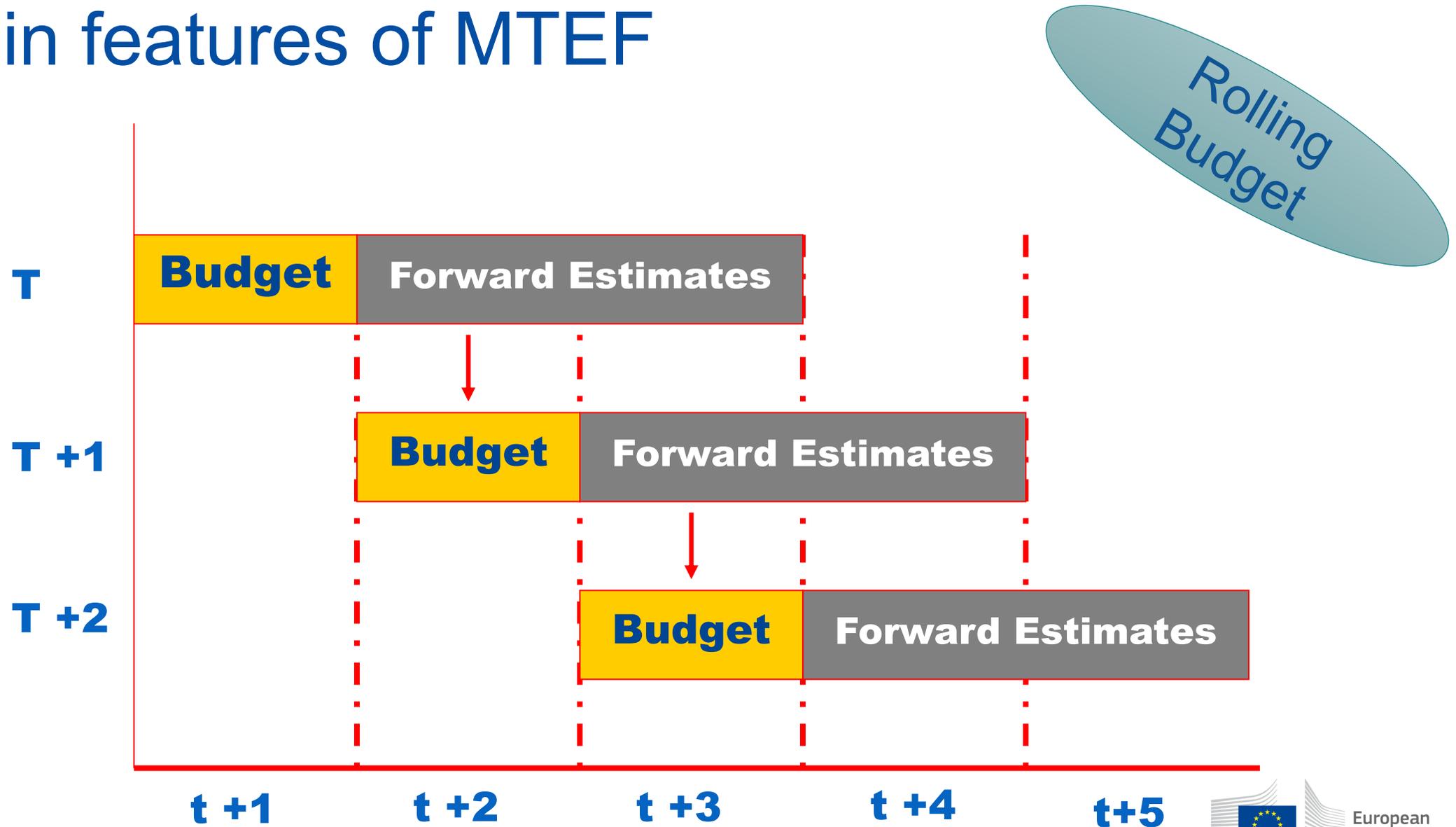
# Main features of MTEF

Top-down ceiling

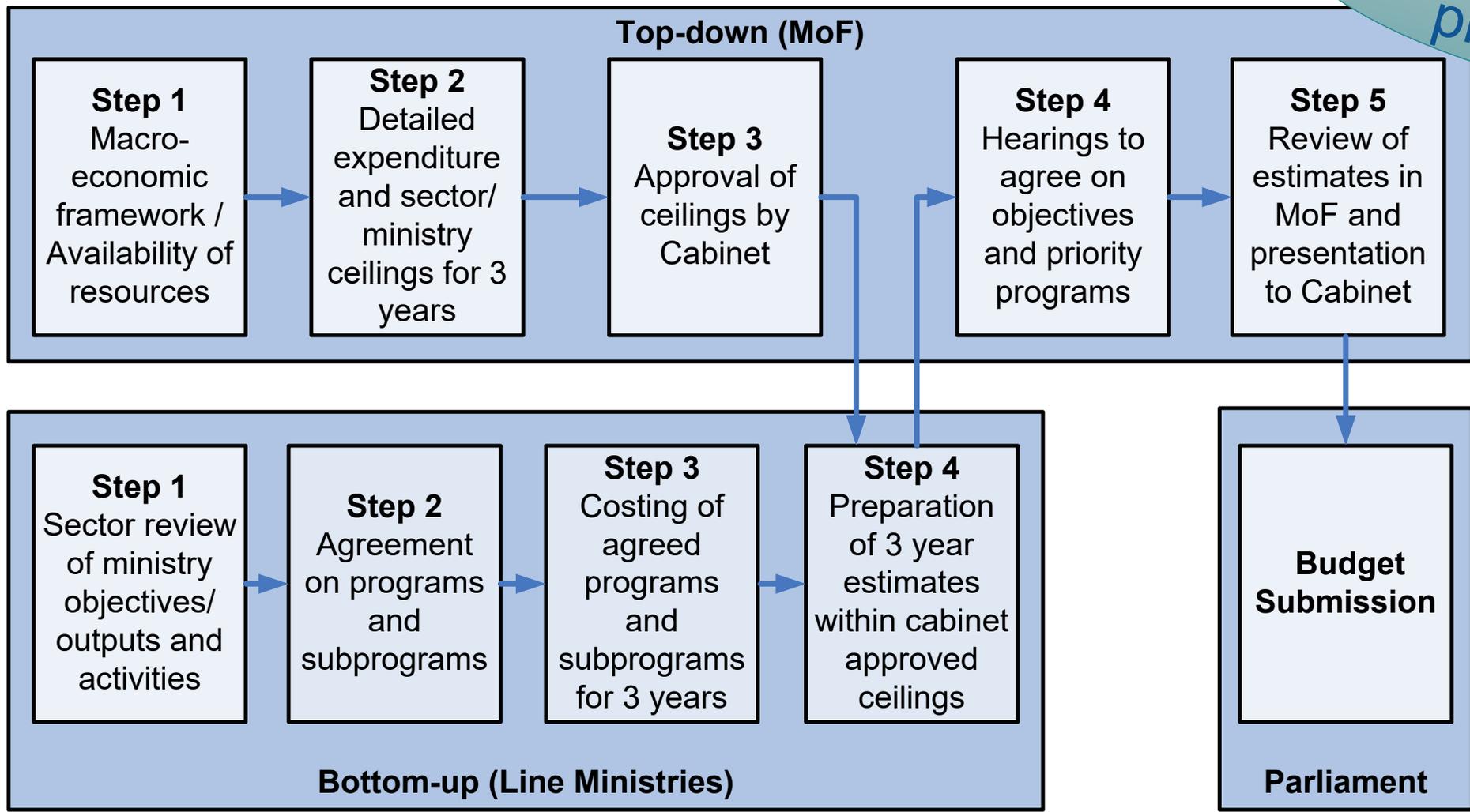
Costing



# Main features of MTEF



MTEF  
process



# Risks of 'leapfrogging' the basics - MTEF

## IMF – World Bank:

*"developing comprehensive MTEFs can be effective **when circumstances and capacities permit.***

*Otherwise, it can be a great consumer of time and resources and might distract attention from the immediate needs for improving the annual budget and budget execution processes.*

*...in a number of African countries, the MTEF was introduced prematurely, and is turning out to be merely a paper exercise".*

*IMF — World Bank "Global Monitoring Report 2006" page 146.*

# Budget execution

- This section examines key points about the budget execution cycle
  - Management procedures of the expenditure cycle
  - Personnel, procurement
  - Financial monitoring and accountancy
  - Internal audit
- Aims at identifying the “basics”
- Brief examination of a few issues that go beyond the basics, including accrual accounting

# Guaranteeing foundations

- Take measures to make budget execution effective
- Make sure funds are available, improve predictability
- Rationalise controls within the executive by accounting for specific aspects of budgetary system
  - Francophone countries: rationalise control within the MoF, ensure transparency of Treasury
  - Anglophone countries: follow commitments, audit internal controls, strengthen Treasury
  - Post-conflict countries: put in place a centralised payment monitoring and management system

# Payment systems: points to consider

- Single Treasury Account (STA):  
cash centralisation - desirable for sound treasury management

# Accounting methods

## Cash-based accounting

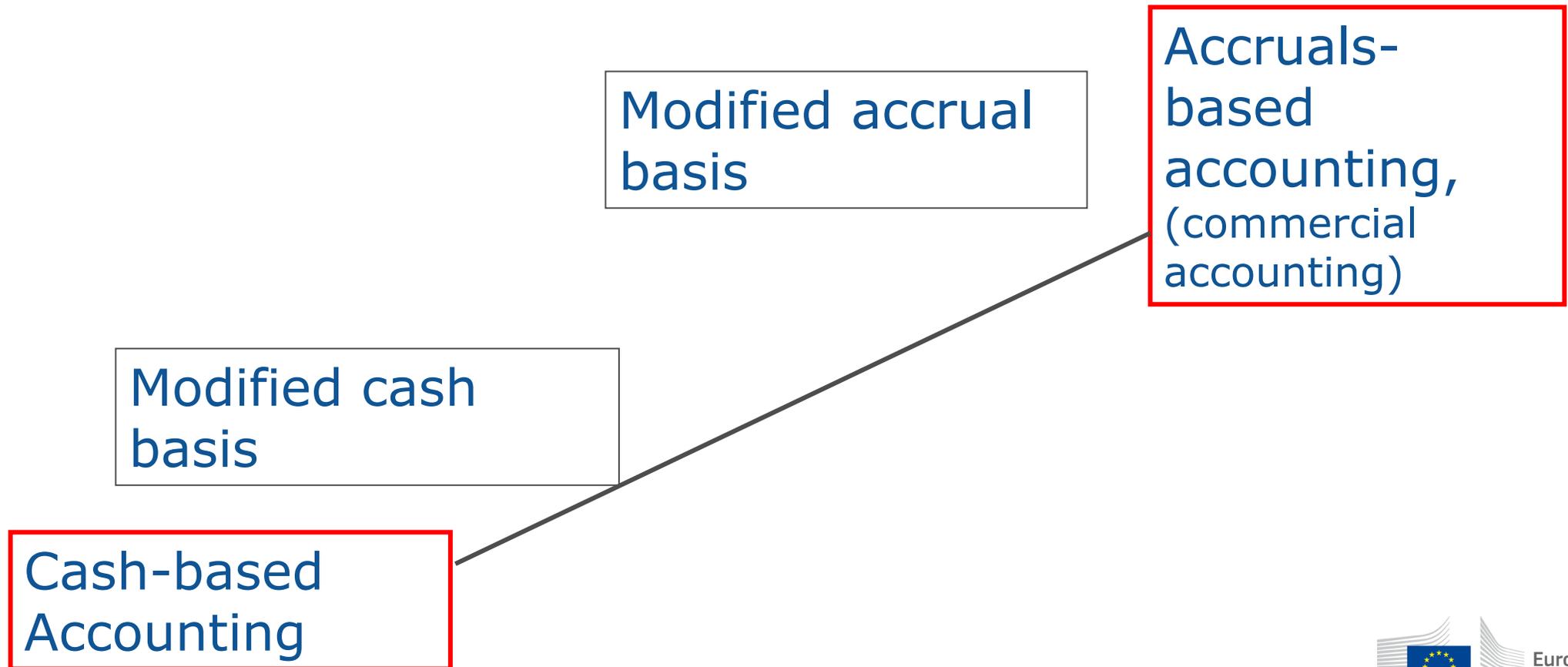
- Keeps track of expenses when paid for, implementation of revenue when registered (i.e. when cash moves)

## Accruals-based accounting

- Used in commercial world
- Keeps track of events when they occur: assets, liabilities, net assets/net position, outputs & expenses (including depreciation, inventory stocks, etc.)

# Accounting methods

- Depends on the country: variants between the extremes



# The basics

The accounting system must enable the basics in terms of budget preparation, control, reporting, & publication as per country regulations: this requires:

- Adequate budgetary classification
- Registration of expenditure at both commitment & payment stages
- Reports on arrears & other liabilities
- Reports on financial assets
- Asset register at least for those physical assets liable to misappropriation or waste

# External Audit

- Undertaken by Supreme Audit Institution (SAI: Court of Audit, Court of Finances, National Audit Office, etc.)
- Key point is the independence of the SAI should (must!) be guaranteed by the **constitution** according to International Organization of Supreme Audit Institutions (INTOSAI )

# Different types of Audit

- **Compliance audit:** assessing extent to which legal & administrative requirements are followed; integrity & suitability of administrative, financial & management control systems
- **Financial audit:** review of financial statements & accounting systems which underlie them
- **Performance audits:** assesses management & operation performance of government programs & MDAs to evaluate effectiveness & efficiency with which program or organization uses resources

# End-of-year Accounts

- End-of-year accounts are first submitted to the SAI, then to parliament (often with significant delays)
- Major weaknesses
  - Long delays
  - Administrative & management accounts are often incomplete & difficult to compare

# Legislative and Regulatory framework

- Constitution
- [Organic] Budget Act (or Public Finance Management Act, Budget Framework Law, etc.)
- Other laws and regulations
  - Audit Act
  - Fiscal responsibility law
  - Public Accounting Law
  - Financial regulations

# Key points of the legislative framework

- Provide a framework for parliamentary authority
- Establish responsibilities (*Countries in transition: strengthen the powers of the Minister of Finance*)
- Define principles of sound fiscal management
- Define reporting obligations

# Management Information Systems

- Management information is necessary
  - For scheduling, implementation and surveillance
  - For the MoF & sectoral ministries
- Not a mere collection of statistical data
  - Financial & Physical Information
  - Dashboard
  - Must be available quickly in order to enable to take decisions
- It is not only IT, but may be useful to classify, sort & publish data in various formats

# Integrated Financial Management System

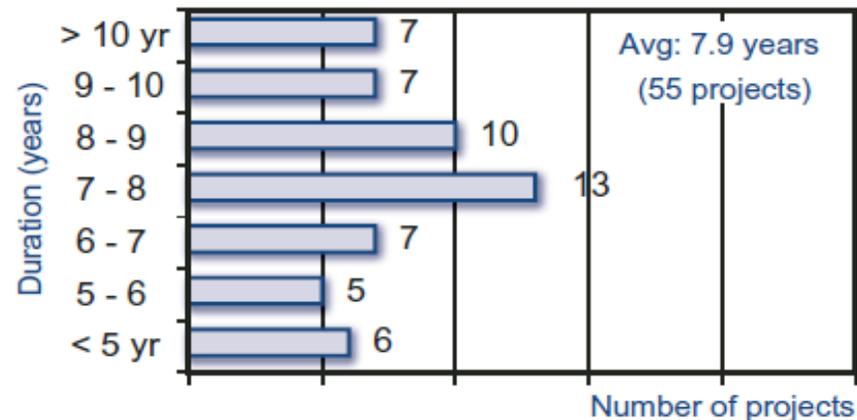
- “Heart” of the accounting system (General Accounting)
  - Setting standard exchanges between systems
  - Covers all financial transactions
- Other Systems:
  - Budgetary module: Accounting & budgetary control
  - Preparation of budget
  - Treasury management
  - Debt management
  - Revenue
  - Management modules for managers

# In practice



- A large majority of the integrated systems are only partially implemented
- Yet, the implementation process is time consuming

Figure 2.1. Total Duration of Completed Projects



**Dener:  
WB 2011**



# Public Financial Management (PFM) reform virtual training

Day 4 - Change management and institutional arrangement

# Wrap up Day 3

## Open plenary discussion:

- What are the three top level priorities in the Cluster approach?
- Get the basic rights (first) – What does it mean in the PFM reform context?
- In the ‘basics and beyond’, which ‘beyonds’ did we discuss?
  - In budget preparation?
  - In budget execution?
  - In external oversight?

# Day 4: Change management and institutional arrangement

- **Module 4.1**      **Change Management and Capacity Building**
- Module 4.2      PFM strategy Uganda - case study
- Module 4.3      Reform strategy, Programme and management

# Module 4.1: objectives

- Examine some essential issues related to the preparation and monitoring of a PFM reform
- Discuss more specifically about change management and capacity reinforcement

# Strengthened Approach (*Paris Declaration*)

- Reform programme carried out **by national governments**
- Coordinated donor support
- Monitored progress of the reform through a common pool of information

# What is change management?



- The process of building the required capacity to implement and manage the change
- **Helping individuals impacted by the “change” to understand the need for change** and to motivate them to take actions, which may result in sustained changes in behaviour
- Change management refers to:
  - a set of basic tools or structures intended to keep any change effort under **control**
  - it is about **adaptive leadership** (or change leadership) for addressing **non-technical challenges**

# PFM Reform as change process

- Main drivers of PFM Reform:
  - **Political**: authorities decide to adopt new PFM policies and practices to implement strategic priorities
  - **Institutional**: implementation of new regulations and norms, including capacity strengthening efforts and process improvements
  - **Technological**: new ICT solutions become available or there is a need to modernize existing systems
- Change may be either **incremental** or **radical**
- In case of the incremental approach
  - less resistance to change
  - but organizations might get “change fatigue”
  - adapting too much for culture / office politics can dilute the desired outcomes of the change

# Core tasks (1)

## Ensure that there is:

- A comprehensive understanding of:
  - current status of PFM model
  - legal & regulatory framework & institutions
  - both in order to evaluate where a reform is needed and
  - to what extent PFM system may be reformed
- A realistic assessment of:
  - political commitment to the change
  - macro-economic context
  - constraints in terms of capacity & how reform may be carried out

# Core tasks (2)

## Make sure that:

- Change management and capacity building have been accounted for in the preparation of the reform
- The institutional arrangements to manage the reform are well outlined and established
- The reform activities have been properly sequenced
- The modalities for the alignment and coordination of the donors are properly outlined
- The reform programme is fully budgeted and funded
- There is a framework for monitoring and assessment

# There is no functional change without resistance

- Self-interest
- Fear of the unknown
- Conscientious objection or differing perceptions
- Suspicion
- Conservatism



# Evaluating current capacities of PFM system

- Is there leadership in the Ministry of Finance?
- Are legal & regulatory requirements enacted in practice?
  - Is tax collection effective?
  - Is there reliable banking system with national coverage?
- Is there an active, functioning private market?
- Are there any identified critical gaps in capacity?

# Opportunities for reform

- Is there a democratic environment with active engagement of civil society?
- Are public and private administrations concerned with corruption?
- Is there political will?
- Have strong measures for macroeconomic stability & economic growth been taken?
- Have other major reforms been carried out?
- Is there a group of financial specialists & experienced managers, and do they have adequate incentives

# Threats to PFM reform

- Difficulty in keeping experienced and qualified personnel
- Corruption
- Fragmented funding sources
- Poor reform sequencing
- Fatigue from previous reforms

# The conditions for change management

- Change will be perceived as legitimate if there is a conjunction of certain factors: dissatisfaction; a shared vision; & a will for change
  - Reminder: Gleicher's equation
- There must be one or more champions. Without political support & strong leadership to prevent resistance, reform will not succeed!
  - Champion: Finance Minister, Prime Minister, etc.

# Change management (1)

- Set out the expected results: prepare & publish **reform strategy**
- Assess resources available for reform
- Assess capacities: human, material, institutional capacities
- Prevent resistance: predict 'losers'

# Change management (2)

- Management capacity
  - Effective leadership
  - Institutional arrangements
- Building consensus
  - Include sector ministries in the management of the reform
- Find "FS" of Gleicher (quick wins, immediate results)
  - To who's advantage? MoF? Donors? Sector ministries? Parliament?
- Organise reform management on a long-term basis

# Assessment of capacity for Reform implementation

## Institution

- Laws, regulations, rules
- Relevant values (it ought to)

## Organisation

- Capacity to deliver
- Capacity to plan and renew
- Conditionality: financial and human resources, leadership and management

## Staff

- Human capabilities
- Willingness to change

# Capacity building

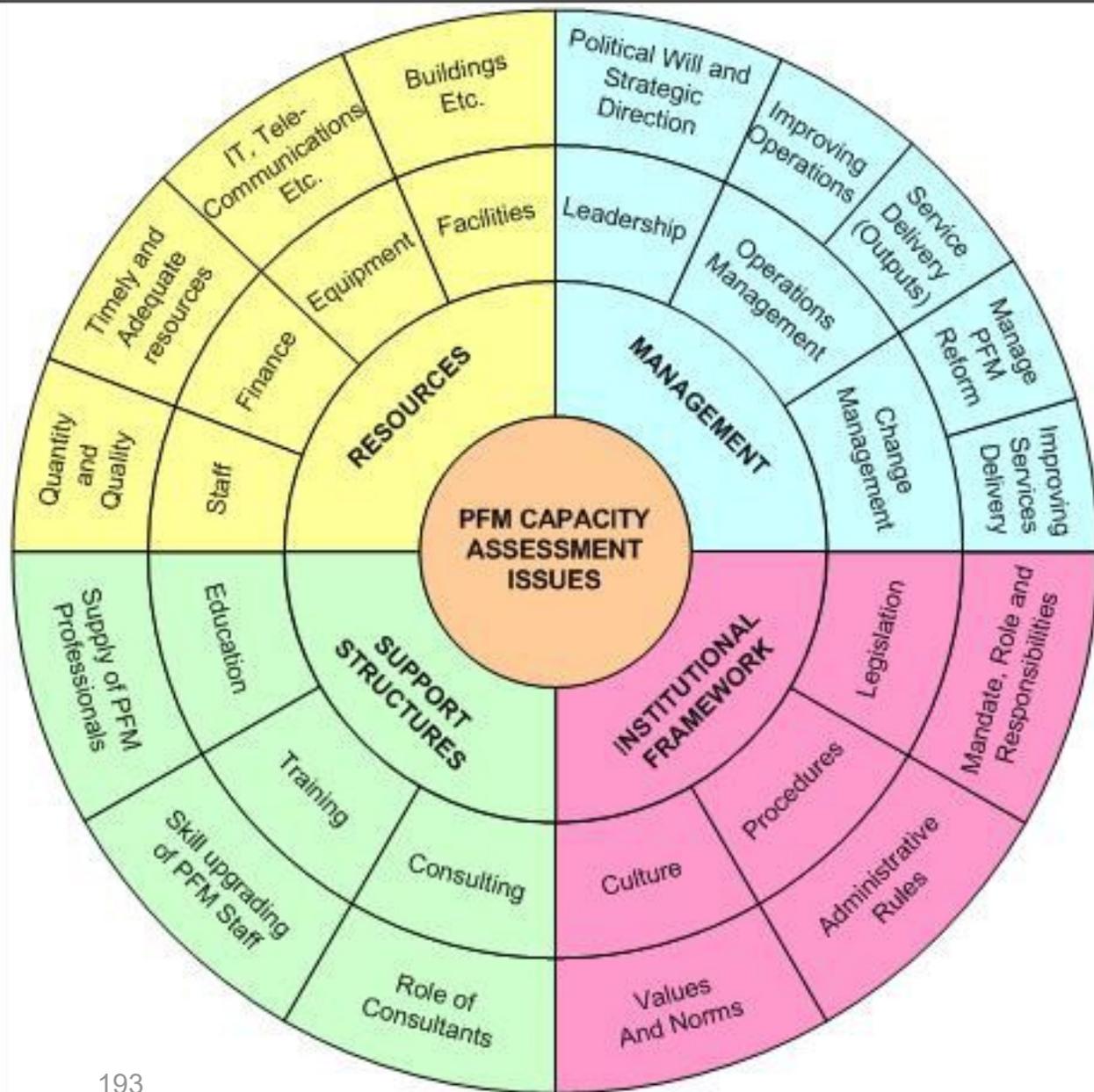
- Institutions (formal & informal rules): aims of the reform
- Organisations
  - MoF (+Prime Minister, Planning ...): Must be in charge of monitoring, & organised in such a way that it can carry out dialogue with other sectors
  - Sectorial Ministries: often side-lined in reforms; or, on the contrary, are sole focus of donors, who disregard system as a whole
  - Key aspect: finance-sector dialogue (or finance-sector-plan)

# Capacity building

## Individuals' skills and motivations

- Upgrading skills
  - Technical training
  - General training and raising awareness
- Incentives
  - Attracting, retaining & motivating skilled individuals
  - Low compensation is a problem in many DC, but financial constraints reduce possibilities of substantial raises
  - Other forms of incentives? E.g. promotions; beware in patronage-dominated systems

# PFM Capacity Assessment



## Capacity assessment

# Addressing Capacity gaps

- **Capacity building:** human capabilities, equipment, networking, management
- **Capacity supplementation:** provision of continuing support to staff undertaking certain functions, delivered through advisors, internship schemes, and regional organisations and professional bodies
- **Capacity substitution:** “outsourcing” of specific PFM functions on a long-term basis, with external specialist individuals or agencies performing line functions on a long-term or permanent basis

# Regional Training Centres such as:

## **IMF**

<https://www.imfmetac.org/content/metac/en1.html>

## **INTOSAI**

<https://afrosai-e.org.za/about/>

# Key messages

- A national will is essential to any PFM reform
- Great care must go into change management
- Capacity building is a key issue, that must go beyond simple training actions

# Day 4: Change management and institutional arrangement

- Module 4.1 Change Management and Capacity Building
- **Module 4.2 PFM strategy - case study**
- Module 4.3 Reform strategy, Programme and management

# PFM Reform Strategy Uganda – case study

- **Assessing the Relevance and Credibility of PFM Reforms**

You are requested to assess this PFM reform strategy document by using the **check list**. This checklist covers seven features which a strategy of PFM reforms should have.

You will work in sub-groups. Given time limitations, we ask you to respond only to the questions related to the following **two** features of the PFM Reform Strategy.

**3. Integrated and effectively sequenced**

**7. Monitoring and performance indicators**

# Day 4: Change management and institutional arrangement

- Module 4.1      Change Management and Capacity Building
- Module 4.2      PFM strategy - case study
- **Module 4.3      Reform strategy, Programme and management**

# Module 4.3: objective

- Examine core issues related to the preparation and management of a PFM reform

# “Reform Strategy” Document

## Relatively brief document by Council of Ministers

- Used as programme for implementation
- Detailed examination of PFM reform programme
- Puts forward institutional framework
- Identifies considerable risk factors (legal framework, procurement, viability, etc.)
- Outlines a multi-annual expenditure programme
- Puts forward a proposal for deployment of activities, a sequence & agenda for implementation
- Defines monitoring & assessment modalities
- Puts forward proposal for funding modalities
- Defines responsibilities of different components
- Serves as basis for agreement on approach amongst different concerned parties

# The reform programme (1)

- Defines global objective of PFM reform programme
- Establishes list of all reform components
- Defines reform sequencing
- Defines, for each component: main objective, purpose, main institution in charge & link with other components
- Prepares agenda for carrying out each component, with a summary of results, inputs, activities, stages requiring monitoring, & calendar for implementation
- Estimates expenditure provisions, identifies administrative budget lines of national budget from which funding is drawn (including external financing)

# The reform programme (2)

- Outlines modalities for monitoring & assessment
- Defines single financing instrument
- Outlines rules of financial management & procurement
- Outlines institutional dispositions – including high-level steering group, technical direction committee, & work groups

# Risks in carrying out PFM reform programme

- Absence of political will
- Risks due to content of the reform: errors in evaluating technical & capacity constraints
- Risks from reform management institutional factors
  - Inadequate management structure
  - No long-term support of cooperating partners
  - Inefficient monitoring & assessment framework
  - Incomplete or inefficient legal & regulatory framework
- Risks in implementation
  - Delays in activities (e.g. procurement, funding)
  - Inadequate implementation agenda

# Risk mitigation and management

- Strong sustained engagement of political actors
- Monitor capacity building
- Adequate & efficient management structures
  - Coordinated, flexible & unique funding mechanism, adequate control publication of reports
  - Coordinated approach in legal & regulatory framework
  - Effective & efficient procurement system
- Adequate agenda
  - Particular attention to management of link between different components, implementation & sequencing of agenda
  - Coordination of PFM reform programme with other public sector reforms

# Budgetary and financial management of PFM reform programme

## Preparation of:

- expenditure programme (5 to 7 years) & cash flows
- annual budgets (work programmes) with explicit result objectives, indicating funding sources
- procurement plans, which distinguish:
  - Recurring & non-recurring expenditures
  - Direct & indirect costs
- monthly expenditure reports
- annual monitoring & audit reports
- annual control statements

# Monitoring and assessment

## Monitoring of:

- inputs
- activities
- number of trained employees
- preparation & finalisation of legal & regulatory texts
- reports published
- PFM outputs indicators
- PEFA & OECD/CAD procurement indicators
- Indicators not tackled by PEFA

# 'Viability' conditions

- Integration with national budget
- Management rooted in public administration structures
- If possible, permanent positions in Reform Secretariat
- Retaining of office trained personnel
- Regularly informing all parties of progress

# Reform management: three levels

- Strategic level: defining objectives, approach & decisions
  - Inter-ministerial committee, Council of Ministers
  - Management board
- Technical, national level
  - Reform Secretary
  - Technical Thematic task force
- Ministerial departments level

# Recommendations for Governments

- Ensure clear and **coherent support** for PFM reform within the **Executive** (Cabinet as well as MoF): broaden support across the political spectrum over time!
- Give serious attention to **design and staffing** of PFM reform coordination and management structures
- Those responsible for coordinating PFM reforms should control external support to PFM & dialogue with Budget Support donors
- Structures for monitoring PFM reform should promote the practise of **learning from experience** and adapting implementation plans accordingly
- Finally, the regular **training** of PFM staff needs to be a consistent priority

# Key messages

- A reform strategy & programme must be established
- An efficient reform management system must be put in place

# Test Out and Participants' feedback survey

# Keep in touch



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# Thank you



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