

PFM Risk Assessment Framework (PFMRAF) - United States Agency for International Development



Objective and features

1. Objective

PFMRAF aims to assess USAID partner governments' PFM and accountability systems.

2. Institutional coverage

National and subnational governments and sectors that receive aid through USAID.

3. Technical coverage

The dimensions covered by the framework are accountability, institutional strengthening, capacity building, and anti-corruption.

4. Application method

Custodian or qualified external experts.

Methodology



5. Methodology

PFMRAF is a risk-based methodology for assessment of partner government systems. The PFMRAF is carried out by USAID in partnership with respective governments. PFMRAF is not intended as a certification.

PFMRAF is set up as a two-stage evaluation:

- Stage 1 Rapid Appraisal is a country-level examination of the partner government's PFM environment and associated fiduciary and related risks, as well as elements of governance and public accountability. Broadly, Stage 1 answers fundamental questions such as the following: *What is the overall PFM operating environment in the partner country? Are public accountability institutions and related support mechanisms sufficiently viable to support government-to-government? Is the level of fiduciary risk manageable enough to justify a more in-depth Stage 2 Risk Assessment(s)?*
- Stage 2 Risk Assessment is designed to identify, evaluate, and propose measures to mitigate transactional level fiduciary risks of target partner government institution's PFM systems at the country, sector, or subnational level. Stage 2 informs the project design process and forms a basis to incorporate fiduciary risk mitigation measures into the government-to-government project components. Completion of Stage 2 requires answers to questions such as the following: *What is the risk appetite? Which are the identified relevant risks? How should the identified risks be assessed, scored, and appropriately mitigated?*

6. Benchmarking system

The assessment includes a four-stage risk level system, where risks assessed in the PFMRAF are categorized. It uses a color-based system, where Red is Critical, Orange is High, Yellow is Medium, and Green is Low.

7. Linkage to PEFA framework

The assessment covers aspects related to the following PEFA performance indicators: performance information for service delivery (PI-8), fiscal risk reporting (PI-10), and public asset management (PI-12).

8. Complementarity with PEFA framework

The PFMRAF tool provides additional assessment on PFM areas related to risk, such as those in Pillar I and II (budget reliability and transparency of public finances), with further scrutiny on risk and financial transparency questions and indicators.

Development and use



9. Development and coordination

The development of the PFMRAF tool began as an attempt by the USAID Chief Financial Officer (CFO) to manage fiduciary risk inherent in directly financing development activities implemented by governments receiving assistance. It has been designed to primarily identify and assess fiduciary risks and associated mitigation strategies based on specific project objectives and implementation mechanisms.

It was developed in late 2010 and early 2011 as a two-stage inquiry to facilitate accountability and due diligence for USAID missions prior to disbursing funds to partner governments, which could allow USAID to track its funding to actual costs incurred by the implementing government entity or ministry. The tool has been revised two times since its creation in 2010, to reflect lessons learned by previous applications.

The PFMRAF is conducted in countries that receive USAID funding. Joint assessments between other jurisdictions such as the UK and Canada are being considered for the future.

10. Assessment management

Depending on the stage of the assessment, it is carried out by the USAID mission staff, contracted to third-party professional service firms, or a combination of both. Stage 1 Rapid Appraisal and its components may not be contracted to a third party. An inherently governmental function, Stage 1 is led by mission staff contemplating direct use of partner government systems in the delivery of development aid. For Stage 2, this effort may be undertaken by mission staff, contracted to third-party professional service firms, or a combination of both. Professional services firms are often used to complete Stage 2 of the assessment. Quality assurance is provided by USAID risk teams based in the United States. Both Stage 1 and Stage 2 reports are reviewed by the USAID risk teams.

11. Uses by the government and members of the PFM community

The PFMRAF is used by USAID partner countries and is conducted by USAID for national governments or relevant local government institutions, including departments such as the Ministry of Finance. It also serves as a management tool to inform government-to-government aspects of project design.

12. Sequencing with other tools

Not applicable.

13. PFM capacity building

Stage 2 of the assessment includes a risk mitigation plan if USAID activity is approved for the organization or country in question.

14. Tracking of changes and frequency of assessments

Changes are not tracked but previous assessments are taken into consideration when completing additional assessments. The PFMRAF is recommended to be completed every six years.

15. Resource requirements

The time to complete a Stage 1 assessment can depend on the personnel involved, but usually takes 8 to 12 weeks. Stage 2 varies significantly from country to country.

Transparency



16. Access to methodology

USAID publishes a [manual](#) for the PFMRAF which contains information on the assessment along with indicators and questions that are used in addition to the overall methodology.

17. Access to assessment results

Not available.