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# Analyzing the Link between PFM System Strength and Public Investment Performance

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# Agenda

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## 1. Overview

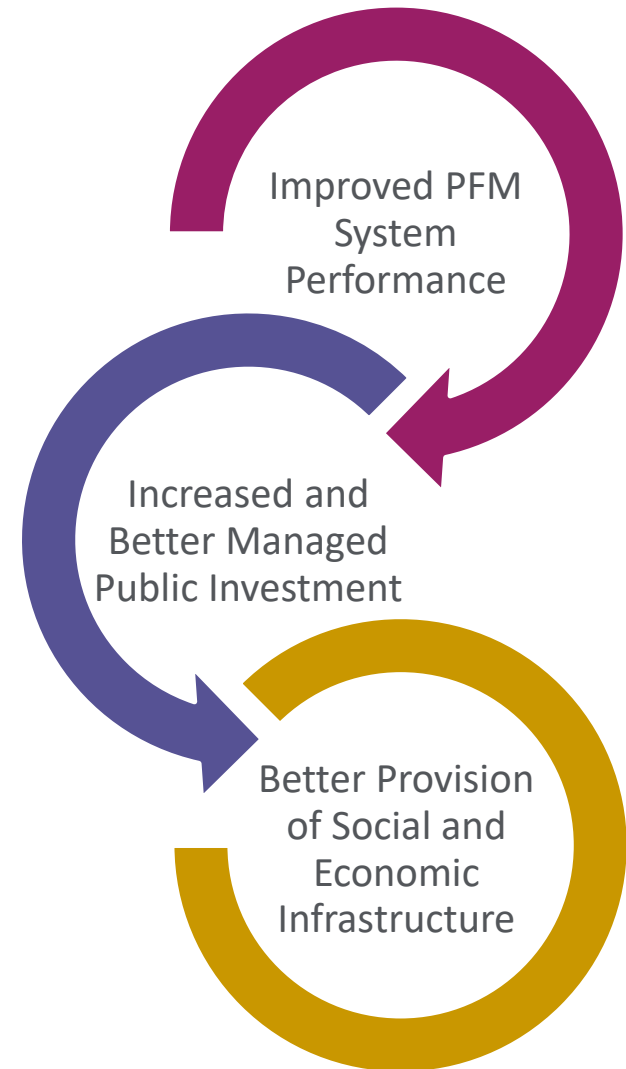
- Background & Framework
- Aim & Research Question
- Methodology

## 2. Results and Key Findings

## 3. Recommendations

# Background & Framework

- Public investment in key infrastructure → economic growth, improved public investment performance and higher-level outcomes like infrastructure-related service delivery
- Weaknesses in PFM and PIM can prevent realization of full potential of public investments – 30% losses on ROI due to PIM inefficiencies (IMF 2015)
- There's limited research on linkages between PFM performance, level of public investment, and higher-level outcomes.



# Aim & Research Question

## Aim

To examine the links between PFM system strength and public investment performance by:

- Measuring the extent to which improvements in scores on PEFA indicators and dimensions are associated with (1) increases in the level of public investment and (2) improvements in public investment performance
- Using an event study framework & curve fitting

**Public Investment Performance (PIP):** measured through the impact of PIM on public infrastructure quality outcomes

## Core Research Question

Do countries whose PFM performance is improving see greater subsequent improvements in public investment outcomes than countries whose PFM systems are not improving?

# A Model for Understanding the Effects of PFM on PIP

## 2011 PEFA Framework

### Selected Quantitative Indicators

PI-1: Aggregate expenditure out-turn compared to original approved budget

PI-2: Composition of expenditure out-turn compared to original approved budget

### Selected Qualitative Indicators

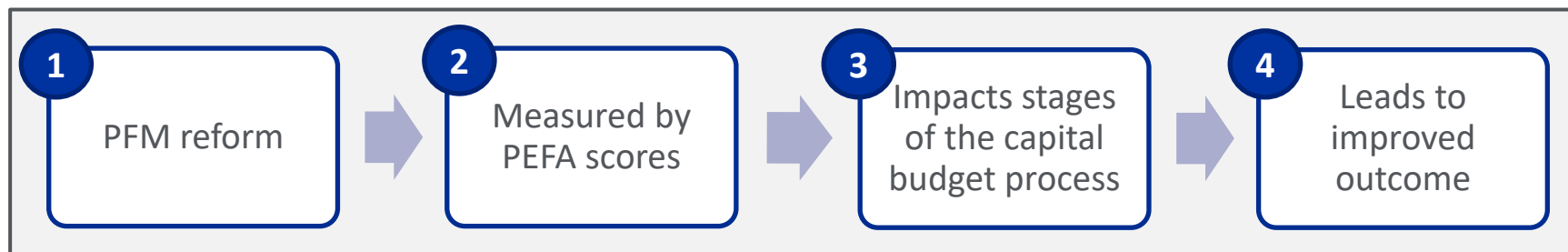
PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting

PI-19: Competition, value for money and controls in procurement

PI-20: Effectiveness of internal controls for non-salary expenditure

## Public Investment Performance

15 indicators covering the level of public investment, water and sanitation, electricity and communication, and transport



# Main Results

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- Positive link between improved PFM performance and improved public investment performance
- Results with statistical significance:
  - Investment in nonfinancial assets
  - Water and sanitation measures
    - People using at least basic sanitation services
    - People using safely managed drinking services
    - AIDI water and sanitation index
  - Mobile cellular subscriptions
  - Propensity to travel

# Key Findings

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## Key Findings:

- Stronger link between quantifiable improvements in PFM performance and PIP
- Limited relationship between qualitative indicators and PFM improvements
- Outlier: PI-20, which focused on implementation of effective controls

## Reasons:

- Quantitative indicators reflect **cumulative impact** of multiple reforms
- Measurement of PEFA performance captures both **de facto** and **de jure impacts**
- Improvements captured by qualitative indicators still matter → must consider preconditions for successful qualitative reform to **avoid isomorphic mimicry**
- Quantitative indicators may measure the implementation quality of processes captured by qualitative indicators

# Implications

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1. Individual reforms should be linked to broader PFM outcomes measured quantitatively
  - Immediate outcomes provide a clearer base of assessment to link PFM improvements to public investment outcomes
2. Immediate outcomes should be the focus of future analysis linking reforms to higher-level outcomes (like PIP outcomes)
3. Country context plays an important part in determining the influence of PEFA reforms on PIM



# Recommendations: PFM & PIM Programming

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1. Link PFM performance areas to quantitative, immediate measures to more measure their impact.
2. Establish quantifiable immediate outcomes for reform in PFM strengthening programs
3. Identify complementarity between reforms and reform prerequisites
4. Select programs based on (i) evidence and (ii) linkages between targeted and desired performance outcomes → reforms with clear, measurable goals

# How can PEFA be used in PFM programming?

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- Measure and analyze the impact of PFM programming on higher-level outcomes
- Shape the design of PFM programming
- Practical challenges include:
  - Understanding results in the context of the country's overall development levels
  - Establishing causality between PFM programming and outcomes

**PEFA to be used as a supporting tool in understanding the context and progress of PFM systems in countries**

# Recommendations: Areas for Future Research

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Further research should consider:

- Relationship between quantitative vs. qualitative indicators
- Complementarity of PFM reforms
- Expanding the scope of indicators included in analysis
- Disaggregation of data and country-level analysis
- Policy-oriented study

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**Thank you**