

Using PEFA to Support PFM Improvement

Volume 4 of the PEFA Handbook

Guidance objectives

Provide a practical guide on:

- How PEFA assessment reports can be used to improve PFM performance
- The issues that need to be considered in developing effective reform initiatives



Design PFM reform initiatives that:

- Have government commitment, ownership and input
- Are based on clearly desired PFM outcomes
- Consider and address potential constraints
- Reflect government priorities and capacities
- Are sequenced in accordance with the desired outcomes, potential constraints and government priorities

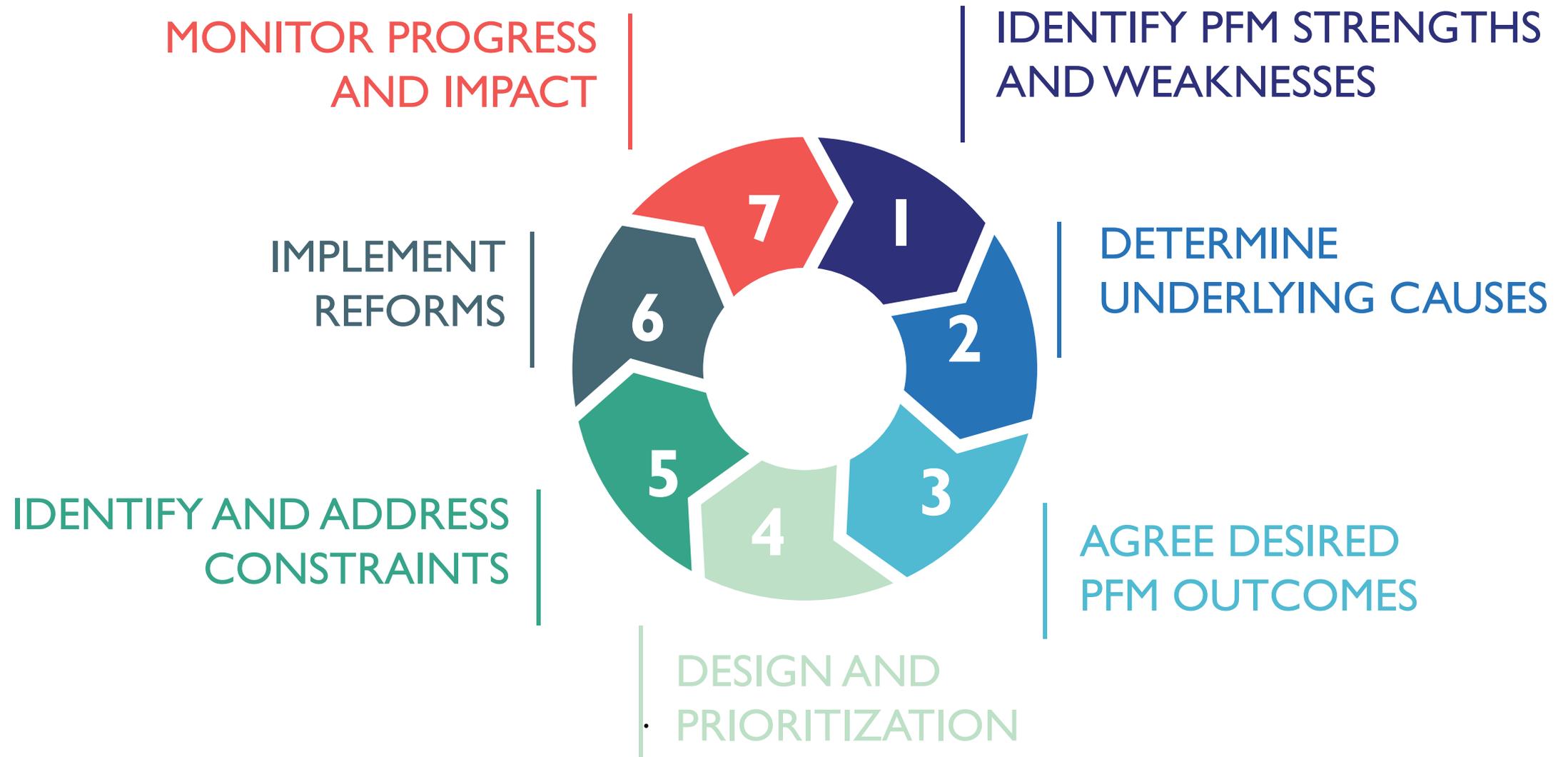
Things to consider in developing PFM reform

- Use PEFA assessment findings in the country context:
 - There is no “one size fits” answer to sequence and design reforms
 - Reforms must be tailored to country’s situation
- Practical guidance is not prescriptive
- Government is responsible for PFM reforms prioritization and implementation
- PFM reform not always linear
- Different approaches to reform should be considered from formal, structured plans to more iterative reform methodologies

Design principles for PFM reform

- Understand role of non-technical factors
- Involve broader stakeholders groups when designing, implementing, and monitoring reforms
- Agility and speed are crucial for relevant and impact
- Ongoing monitoring, learning, and adjustments are key to countering foreseen constraints

Seven stages of PFM reform



Using PEFA to support PFM improvement: Key stages and questions

Key stages following the PEFA report	Main questions
Stage 1: Identify PFM strengths and weaknesses	What problem or problems that need to be addressed that are impacted by PFM? What are the findings of the PEFA assessment?
Stage 2: Determine the underlying causes of strengths and weaknesses	What are the causes of strong and poor PFM performance identified by the PEFA assessment?
Stage 3: Agree on desired PFM reform outcomes	What are the government's desired outcomes of PFM reform?
Stage 4: Develop and prioritize PFM reform initiatives	Which initiatives can bring about the desired outcomes? What are the most important reforms and how do we sequence them?
Stage 5: Identify potential constraints to reform	What are the constraints to reform? How are the constraints addressed?
Stage 6: Implement reforms or reform action plans	What are the actions, deliverables, responsibilities and timelines?
Stage 7: Monitor and evaluate reform implementation	Are reforms being implemented? What are the next steps for reform? Has reform had the desired impact on the identified problem?



Stage I: Identify PFM strengths and weaknesses

- **What is the problem?**
- PEFA may/may not be the driver of reform
- Identify broader policy issues
- Take stock of relevant analytical work
- Consider the matrix of PFM strengths and weaknesses
- **What are the main findings of the PEFA assessment?**

Stage 2: Determine the underlying causes of strengths and weaknesses

- **What are the causes of strong and poor PFM performance identified by the PEFA assessment?**
- Further analysis may be needed including:
 - Informal enquiry;
 - Formal technical analysis;
 - Using other PFM diagnostic tools
- Underlying causes also act as constraints or enablers to developing and implementing reform

Case study

PI	PEFA score	Strengths and weaknesses	Underlying causes
PI-1	D	Aggregate expenditure outturns exceeded original budget by more than 20% in last three years	<ul style="list-style-type: none"> • Overoptimistic economic and fiscal projections • Unavailability of economic and fiscal forecasting models • Lack of capacity in economic and fiscal forecasting • Political involvement in setting fiscal projections
PI-2.2	D	Significant variation in budget composition by function undermining the predictability and availability of budget allocations to key service delivery agencies.	

Stage 3: Agree on desired PFM reform outcomes

- **What are the government's desired outcomes of PFM reform?**
- **What would the government like to achieve over the short term, medium term and long term?**
- Helps guiding prioritization and sequencing
- Drawing on national policy objectives enables practical alignment reform/national objectives

Case study

PI	PEFA score	Strengths and weaknesses	Underlying causes	Desired outcomes
PI-I	D	Aggregate expenditure outturns exceed original budget by more than 20% in last three years	<ul style="list-style-type: none"> Overoptimistic economic and fiscal projections Unavailability of economic and fiscal forecasting models 	<ul style="list-style-type: none"> Strengthen fiscal discipline through: greater adherence to fiscal targets. Improved predictability of budget allocations to service delivery ministries.
PI-2.2	D	Significant variation in budget composition by function undermining the predictability and availability of budget allocations to key service delivery agencies.	<ul style="list-style-type: none"> Lack of capacity in economic and fiscal forecasting Political involvement in setting fiscal projections 	

Stage 4: Develop and prioritize PFM reform initiatives

- **Which initiatives can bring about the desired outcomes?**
- **What are the most important reforms and how do we sequence them?**
- Initiative/action: intended result, timeframe, responsibility
- Appropriate reform design and optimum sequencing is country-specific
- Costs and available financial resources
- Sometimes priorities causally & sequentially linked

Case study

PI	PEFA score	Strengths and weaknesses	Underlying causes	Desired outcomes	Proposed reform activity and priority
PI-1	D	Aggregate expenditure outturns exceed original budget by more than 20% in last three years	Overoptimistic economic and fiscal projections	Strengthen fiscal discipline through: greater adherence to fiscal targets.	<ul style="list-style-type: none"> Strengthening macro-fiscal forecasting (high) Implementing cash flow forecasting (medium)
			Unavailability of economic and fiscal forecasting models	Improved predictability of budget allocations to service delivery ministries.	
PI-2.2	D	Significant variation in budget composition by function undermining the predictability and availability of budget allocations to key service delivery agencies.	<p>Lack of capacity in economic and fiscal forecasting</p> <p>Political involvement in setting fiscal projections</p>	<p>Updating budget processes and procedures (high)</p>	

Stage 5: Identify potential constraints to reform

- **What are the constraints to reform?**
 - **Capacity**
 - **Institutional**
 - **Political economy**
- **How are the constraints addressed?**
 - **Can the constraints be mitigated, if so, how?**
 - **Are constraints such that they will preclude implementation of reform?**
 - **If so, should the reform be deferred until such time as the constraint can be addressed?**
- **Non-technical factors vary across countries and overtime**
- **No consensus on how to address non-technical factors**
- **Identify alternative technical solutions**

Potential constraints to reform

CONSTRAINT	MANIFESTATION	POTENTIAL IMPACT	RISK (H, M, L)	MITIGATION STRATEGY
Political environment	Unwillingness of senior politicians and/or senior bureaucrats to support reform implementation	Critical. Inability to effectively implement and/or embed reform. Lack of cooperation or resistance among key stakeholders. Lack of adherence to new processes and procedures.	High. Few reforms will be successful without the commitment of senior levels of government.	Seeking endorsement of political leadership. Raising awareness of the benefits of reform. If endorsement is not achieved it may be necessary to defer reform and pursue other priorities that are endorsed and supported by government.
Government and development partner engagement	Reform design is not internally driven.	Reform design is undertaken by development partners and reflects their priorities rather than the governments.	Variable: The risk depends on the extent of commitment and engagement of the government. The less engagement, the higher the risk that development partners will engage in technical assistance that does not reflect the government's priorities.	Reform initiatives should be tailored to the specific administrative and political circumstances of a country.
Technical capacity	Staff lack specific competencies to develop and/or support implementation.	Significant. Both short and longer-term impact on the ability to implement the reform.	High. An understanding of the reform, and its application is essential.	Capacity development
Institutional environment	Institutions and/or organizational structures are not sufficient or appropriate for supporting reform implementation	Significant. Inadequate supervision, and workflow management and monitoring	Moderate. It may be possible to establish alternative management and workflow arrangements.	Organizational restructuring to support reform initiative.
ICT systems capacity	The administration lacks systems hardware and software to support reform initiative.	Moderate. Some reforms require more advance systems and software, e.g. FMIS.	Moderate. Manual processes and procedures can be used pending the acquisitions of software and systems.	Development partner support and technical assistance.

Case study

PI	PEFA score	Main weaknesses identified	Underlying causes	Desired PFM outcomes	Proposed reform and Priority	Constraints to proposed reform	Addressing constraints
PI-1	D	Aggregate expenditure outturns exceed original budget by more than 20% in last three years	Overoptimistic economic and fiscal projection; Unavailability of economic and fiscal forecasting models;	Strengthen fiscal discipline through greater adherence to fiscal targets. Improved predictability of budget allocations to service delivery ministries.	Strengthening macro-fiscal forecasting (high) Implementing cash flow forecasting (medium) Updating budget processes and procedures (high)	Lack of capacity in economic modeling and analysis. Political interference in setting macro-fiscal projections. Unwillingness of line ministries to adhere to budget processes and procedures	Recruitment and training of macro-economists. Strengthening the legal framework underpinning budget planning and preparation.
PI-2.2	D	Significant variation in budget composition by function undermining the predictability and availability of budget allocations to key service delivery agencies.	Lack of capacity in economic and fiscal forecasting Political involvement in setting fiscal projections				

Stage 6: Implement reforms or reform action plans

- **What are the actions, deliverables, responsibilities and timelines required to successfully implement the reform initiatives?**
- Developing a PFM reform plan
 - Desired outcome
 - PFM reform
 - Key tasks/actions
 - Responsibilities
 - Timeframe
 - Outputs
 - Capacity needs
 - Cost implications

Stage 7: Monitor and evaluate reform implementation

- **Are reforms being implemented?**
- **What are the next steps for reform?**
- **Has reform had the desired impact on the identified problem?**
- Continuous process
 - Learning
 - Adjusting
- Accountability
- Impact evaluation

Key elements of a PFM reform plan

DESIRED OUTCOME	PFM REFORM	KEY TASKS/ ACTIONS	RESPONSIBILITY	TIME FRAME	KEY MILESTONES/ OUTPUTS	CAPACITY DEVELOPMENT NEEDS	COST AND FUNDING SOURCE
State the gov't's intended outcomes expected from PFM reform	Specify the reform priorities or initiatives	Set out the individual tasks required to implement the reform	Identify institutional and individual responsibility for completion of each task	Set out the deadline for each task	Identify milestones	Set out required capacity development needs	Estimate cost and funding source

Key lessons

- A PEFA report will highlight PFM strengths and weaknesses
- But further analysis may be required to understand underlying causes
- Important to define desired PFM outcomes but also be aware of potential constraints to reform
- Prioritization and sequencing of reform needs to take into account specific country circumstances
- Important to continually monitor progress impact of PFM reforms

Learn more about PEFA



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