

Using PEFA to Support Public Financial Management Improvement

Overview



How do I use a PEFA assessment to support PFM improvement?

PEFA reports, when done well, provide a technically sound basis for improving public financial management (PFM).

The PEFA assessment framework provides a 360-degree overview of PFM, with evidence-based assessments and scoring methodology as well as a peer review process that counter risks of potential optimism bias in the assessment process. The framework facilitates comparison over time and between countries and regions, is internationally agreed on and supported through strong collaboration between key development partners.

The PEFA Secretariat is providing guidance on how to use PEFA reports for PFM improvements. The Guidance is provided in the new Volume IV of the PEFA handbook available at www.pefa.org. Its objective is to support the development and implementation of PFM reform initiatives that:

- have the full commitment of government
- are based on clearly stated desired PFM outcomes
- consider and address potential constraints
- reflect government priorities and capacities
- are sequenced in accordance with the desired policy outcomes, government priorities, and potential constraints (including nontechnical constraints to reform).

How do I approach reforms?

Comprehensive program

In some cases, it will make sense to develop a comprehensive program of reform initiatives that is formalized into a new (or revised) PFM reform strategy or action plan. More comprehensive reform strategies or action plans are most appropriate in circumstances where the government has had previous experience successfully developing and implementing reforms, where existing capacities are good, or where the government has established an agreed-upon PFM capacity development program with development partners.

Open-ended

In other cases, a more open-ended, less structured and iterative approach to reform focused on specific high-priority problems may be more appropriate. This approach might be appropriate where reform action plans have been developed in the past without any impact, where commitment to reform has been variable over time, and where the causes of unsatisfactory performance and progress are poorly understood. In these cases, smaller, less ambitious iterative reform initiatives with a focus on continuous feedback and learning may be more effective.

STAGE

PHASE 1 Planning and Preparation

1



Identify PFM Strengths and Weaknesses

2



Determine Underlying Causes of Strengths and Weaknesses

3



Agree on Desired PFM Reform Outcomes

4



Develop and Prioritize PFM Reform Options

5



Identify Potential Constraints to Reform

04

PHASE 2 Implementation

6



Implement Reforms and Reform Action Plans

7



Monitoring, Evaluation, and Adjustment

KEY TASKS

- Present a list of strengths and weaknesses identified in the PEFA report.
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- Agree if analysis is to be undertaken to identify the technical and nontechnical causes or contributing factors to the strengths and weaknesses.
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- Agree on the desired PFM outcomes to come from addressing the problems and weaknesses.
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- Develop a set of reform initiatives that address weaknesses identified and support the desired PFM outcomes.
 - Agree on the order of priority of the reforms.
 - Review priority based on constraints identified in stage 5.
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- Identify constraints to successfully implement reform and possible actions to mitigate those constraints

- Implement specific actions, identify responsibilities, timelines, and capacity development needs.
 - This could be as individual initiatives or part of a reform strategy or action plan.
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- Monitor the implementation of reforms and individual actions.
 - Review and modify reform initiatives or plans.

STAGE

1



PHASE 1

Identify PFM Strengths and Weaknesses

The driver for PFM reform may not always be a PEFA assessment. Sometimes it can be the result of the government's desire to improve overall economic performance, service delivery, or another aspect of public administration.

The first question—what is the problem?—provides an opportunity to identify broader policy issues that may have a PFM-related element. It also recognizes that the problem may need to be addressed through non-PFM actions and solutions.

If the process starts with problem identification, the next question is, what can the PEFA report tell us about the systemic PFM weaknesses, identified in the assessment, that may be contributing to the problem?

For some countries, it will not be the problem identification envisaged in question 1 that will be the main driver of reform, but the PEFA report itself. The driver for reform may sometimes be a combination of problem-driven reform and the results of the PEFA assessment as well as other diagnostic assessments, evaluations, or government decisions.

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STAGE

2



Determine Underlying Causes of Strengths and Weaknesses

Once the PFM strengths and weaknesses are identified and weaknesses initially prioritized, further analysis may be required to establish or better understand their underlying technical and nontechnical causes or contributing factors.

While a PEFA report provides extensive evidence for scoring an indicator or dimension, it does not always identify all the technical and nontechnical causes of good or poor performance. PFM reforms seldom start from clean slate. Analysis of what has worked or not and the lessons learned is particularly important to understand the underlying causes of PFM performance, the guiding reform initiatives, and the identification of constraints in later stages.

Further analysis may take different forms. Some problems might require simple informal review by government officials; others may need to be address by more formal analysis – including the application of additional PFM diagnostic tools targeting specific aspects of PFM.

STAGE

3



PHASE 1

Agree on Desired PFM Reform Outcomes

Once the underlying causes of the weaknesses are understood, the government should decide the outcomes it wishes to achieve through PFM reforms.

Identifying the desired reform outcomes helps to guide how the government prioritizes and sequences its reform efforts.

By doing this, the government is better able to focus on and prioritize those reform initiatives that will help to achieve those outcomes.

In identifying the desired PFM reform outcomes, it may be useful to draw on any policy objectives contained in national development strategies or plans and relevant sector strategies and objectives.

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STAGE

4



Develop and Prioritize PFM Reform Options

The next stage is to design specific reform initiatives aimed at achieving the desired outcomes.

Each reform initiative or action should include a brief description of the intended result of that action; the impact on (or progress toward) the desired PFM reform outcome; an initial timeframe for completing the action (and any milestone result over the short, medium, and longer term depending on the nature of the reform); and the allocation of responsibility within the government for implementation.

STAGE

5



PHASE 1

Identify Potential Constraints to Reform

Based on the prioritized list of reform initiatives identified in stage 4, the government, in consultation with other stakeholders (including technical experts and decision makers at both the executive and political level), should next identify potential impediments to successfully implementing reform and possible measures to mitigate the impact of those impediments.

In some cases, the constraints may be so great that they cannot be resolved, in which case it may be advisable not to engage in a specific reform at that point in time.

There is no “one size fits all” solution to supporting and implementing PFM reform.

The guidance is intended to be a guide for countries and subnational governments on the issues that need to be considered in developing effective reform initiatives, strategies, or action plans that are designed to address each country’s unique situation.

The guidance aims to assist practitioners to develop and implement PFM reform initiatives following completion of a PEFA assessment. It sets out seven key stages over two phases for preparing and implementing PFM reform.

STAGE

6



PHASE 2

Implement Reforms and Reform Action Plans

The next stage focuses on confirming the reform initiatives and developing a reform action plan or strategy for implementation.

The table below provides an overview of key elements to be addressed in designing a reform plan, whether as individual reform initiatives or a more detailed comprehensive strategy.

Desired Outcome	State the intended outcomes of the government expected from PFM reform
PFM Reform	Specify the reform priorities or initiatives
Key Tasks and Actions	Set out the individual tasks required to implement the reform
Responsibility	Identify institutional and individual responsibility for completion of each task
Timeframe	Set out the deadline for each task
Key Milestones and Outputs	Identify milestones
Capacity Development Needs	Set out required capacity development needs
Cost and Funding Source	Estimate cost and funding source

STAGE

7



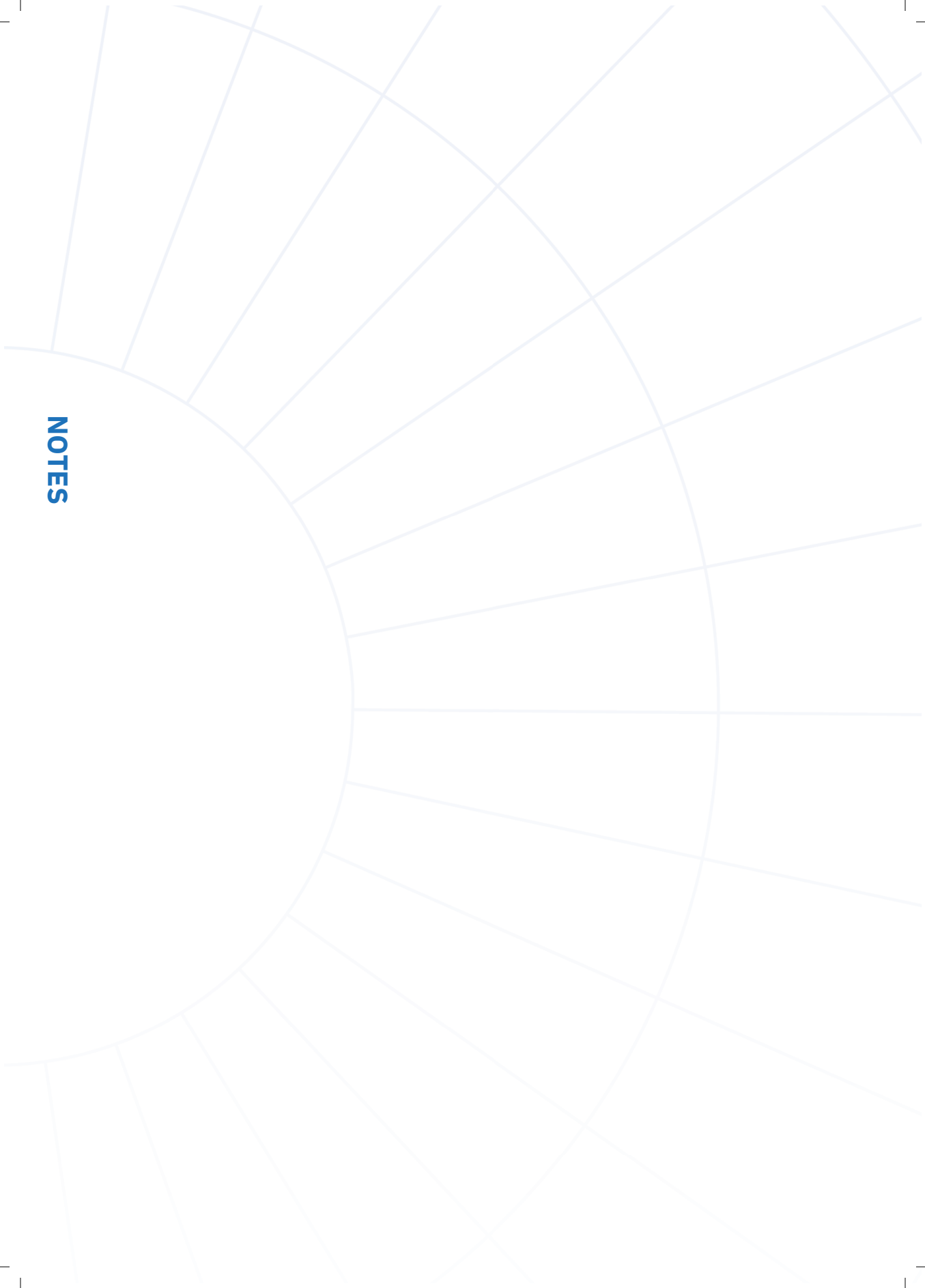
Monitoring, Evaluation, and Adjustment

Progress on implementation should be monitored against specific reforms, actions, milestones, and deadlines.

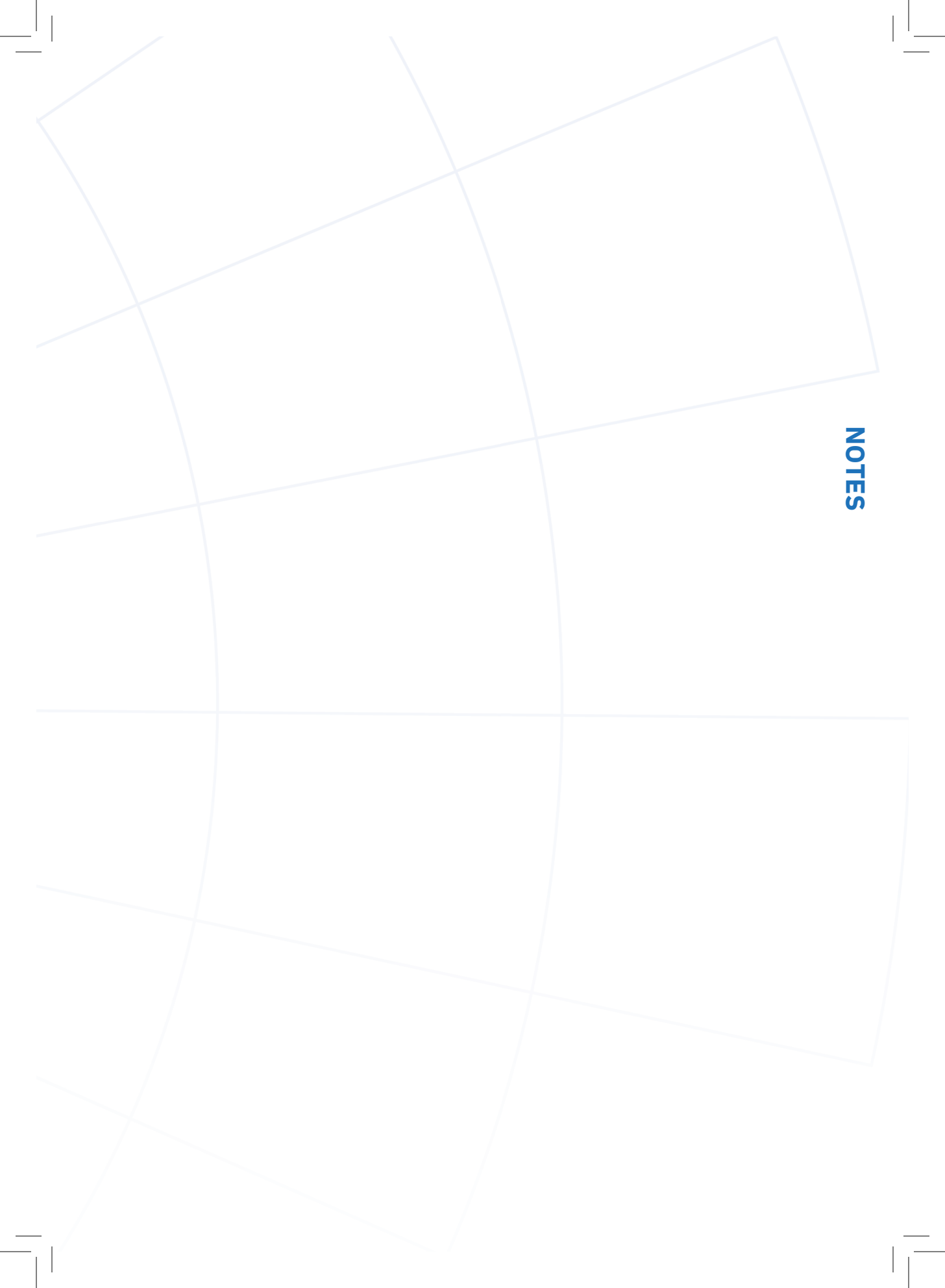
As well as for the potential impact on PFM performance as measured by the relevant PEFA performance indicator(s) or dimensions. Monitoring continuously for learning and adjusting objectives, actions, and risk mitigation.

Implementation

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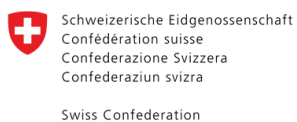
PEFA Secretariat
1818 H Street NW
Washington DC 20433, USA
services@pefa.org
pefa.org

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The European Commission, International Monetary Fund, World Bank, and the governments of France, Luxembourg, Norway, Slovak Republic, Switzerland, and United Kingdom.



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