

Use of PEFA Assessments for PFM Reform Formulation & Monitoring

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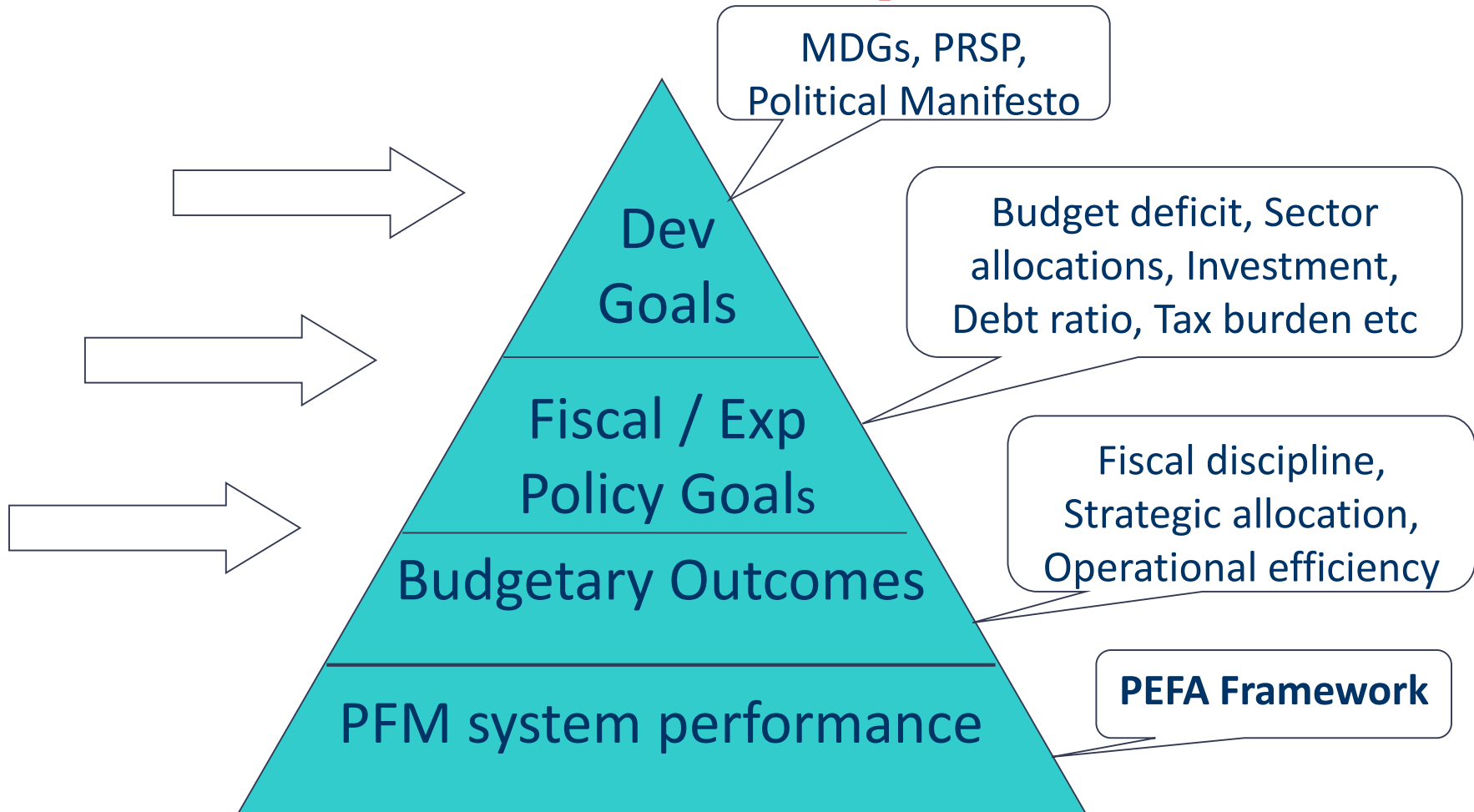
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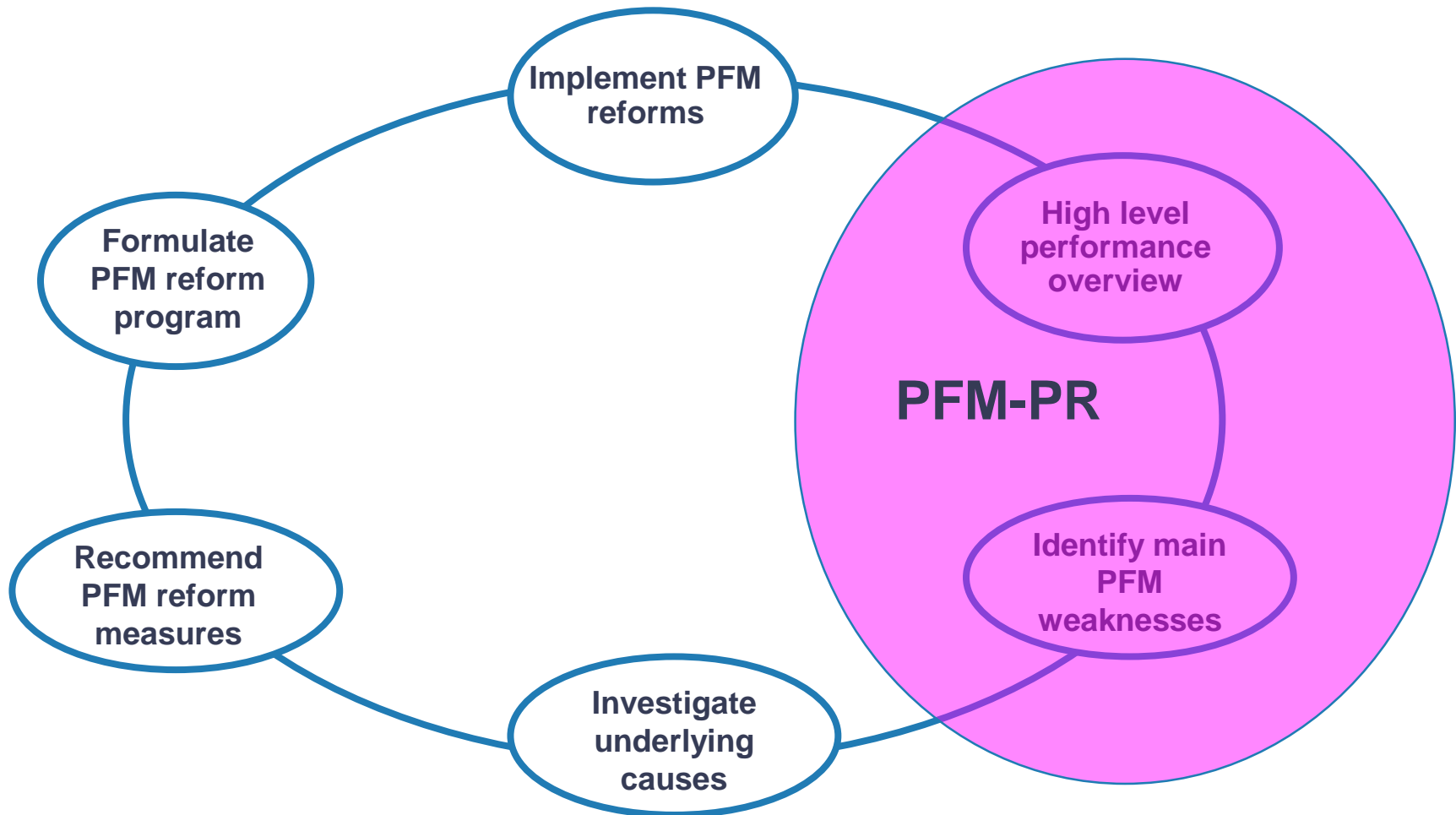
Uses of PEFA Assessments

Reform Sequencing

PFM Links to Development Goals



Coverage of PRM-PR in the Reform Cycle



PFM Performance Report (PFM-PR)

- Useful as a separate output
- Helps to meet IA fiduciary requirements
- Produced in less time than integrated diagnostic /in-depth review with reform recommendations
- But: **Limited value** as a development tool for PFM without in-depth study to go with it

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Use of Results: FRAs

- All stakeholders need to assess risk that public funds may not be used for prescribed purposes
- Some IAs are devising standard methods of risk assessment, based on PEFA indicator ratings & special inputs on assessment of corruption, as a basis for decision on budget support

Why do donors require FRA?

- “Giving aid is a risky business”
- Aspects of Fiduciary risk
 - Funds not used for intended purposes
 - Funds not properly accounted for
 - Funds do not achieve ‘value for money’
- Principles of assessing risk
 - Structured process: likelihood & impact
 - Record risk in order to monitor
 - Differentiate inherent & residual

PEFA & typical FRA requirements

FRA Issues	PEFA
Analysis of historical, governance & institutional context	Helpful
How well is PFM system currently performing?	Yes
What are the key risks?	Helpful
What is the overall level of fiduciary risk?	Helpful
What is the overall risk of corruption?	No
Is there a credible programme to reform?	Helpful
What risks are not addressed by existing programs?	Helpful

Use of results:

Dialogue on PFM Reform Program

- Use strengths & weaknesses to identify further in-depth work needed on underlying reasons for poor performance
- Do not use Indicator scores simplistically: low score is not sufficient justification for reform
- PEFA report of one of several inputs: many other factors: political economy, culture, constitution/legal, resources, capacity at entry
- Ownership means government decision on priorities
 - Govt to consider all factors in deciding priorities
 - Reform dialogue with Ias to allow ample space

Use of results: PFM Performance Monitoring

Discuss with government units the potential of incorporating the PEFA indicators in their own M&E system.

- Will make much of the data collection a routine exercise, implemented by the government
- Will enhance government ownership of the tool

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Key Recommendations for Sequencing PFM Reforms

- The first priority in PFM reform is to establish a minimum operational level of core PFM functions
- It should be recognized that many countries, especially LICs, fail to meet target scores in core PFM functions on a wide range of PEFA indicators
- Before advancing to reforms aimed beyond core PFM functions, it is important to establish an adequate basis on which to anchor subsequent reforms
- With this as a platform, subsequent PFM reforms should be sequenced along three tracks

Country Specific Sequencing Decisions

- Sequencing cannot be viewed simply as a technical issue.
- The viability of any reform program should be determined by a systematic analysis of the risk and opportunities
- External non-technical factors should be recognized as critical for sequencing and must be accommodated in any viable reform program.
- Choice of the type of reform action has an important impact on its likelihood of success.
- A reform program should be designed to ensure that level of risk implied by planned reform actions is compatible with the level of environmental risk posed by external non-technical factors.
- In deciding on any specific sequencing strategy, reform managers should make efforts to enhance opportunities for reform and to mitigate any risks faced.

Sequencing - Guided by PFM Priorities

- Sequencing decisions should focus on principal deliverables of a PFM system: same for all countries
- A hierarchy in prioritization should be recognized E.G. a core level of compliance with budgetary legislation, financial regulations & procedures is required to attain planned fiscal deficit (important for macroeconomic stability) - in turn supports efficient & effective service delivery
- Attempting to leapfrog this hierarchy likely to be unsuccessful
- Focusing reforms on one top level PFM objective does not exclude significantly contributing to the others

Guidelines for Sequencing Reforms

- 1 When possible, mitigate risks implied by reforms
 - Scope of the reform
 - Time required to complete the reform actions.
 - The degree to which procedures & behavior must be changed.
 - Visibility of reform actions.
- 2 Match reform priorities to risks implied by reforms (high risk reform should only be attempted in a low risk environment)
 - Tactical or “low-lying fruit” approach:
 - Local demand:
 - Weakest link first:
 - The platform approach
- 3 Be flexible and not be afraid to mix strategies

Risk-based Approach to Reform Design

- 1 Diagnosis of what is needed
- 2 Analysis to decide what is possible
- 3 Dialogue to decide what is wanted

Risk Impact from External Factors

Impact from top-level external factors

- growing recognition of importance of political economy context of reform: need systematic analysis of this to determine overall risk to reforms posed
- aim should be to rank countries by their overall level of risk, after taking into account any positive opportunities for reform.

Impact from lower-level external factors

- If environmental risk to successful reform is judged "tolerable", analysis should move to assessing risks at institutional (middle) & then organizational (lowest)
- At the *institutional level* focus on MOF's room for maneuver when implementing PFM reform
- At the *organization level* focus on internal leadership & commitment to reform, allowing for constraints on the ground

Factors from Structure of PFM System

AUTHORITY

- Leadership role of MOF in PFM system
- Leadership role of the MOF in this reform project

ACCEPTANCE

- Level of support for reform outside PFM system
- Level of support within the PFM system
- Level of support within the MOF

ABILITY

- MOF Managerial capacity
- MOF technical capacity
- Workload
- Financial resources

Key Factors Affecting Reform: Internal

AUTHORITY - Internal leadership

- How committed is the Minister/PS?
- Did s/he instigate or volunteer for the reform?
- Has s/he assigned a dedicated manager for the reform?
- How committed are top managers?
- How much capacity do they have to implement reforms?
- Do they have adequate technical skills? Or will they need assistance? Is any planned/available?
- Presently how high is their workload?
- Can that be adjusted so they can devote adequate time to reform?
- How likely is top management to change during period?

Key Factors Affecting Reform: Internal ACCEPTANCE - Management incentives

- How difficult is it to execute budgets as planned (indicated by arrears, re-budgeting, etc)?
- Will the reform, once implemented, reduce/increase workload?
- How much is drive for reform viewed as from MOF not minister?
- Is the regular interaction with the MOF cooperative or hostile?
- How far will the reform decrease power/authority in PFM system?
- How far will the reform curtail opportunity for rent seeking?
- How much support/pressure can managers expect from their staff & sector stakeholders (business community, client base, NGOs)?
Are they generally hostile, indifferent, or supportive of reform effort?

Key Factors Affecting Reform: Internal

ABILITY - Adequate HR resourcing

- Does the MDA have adequate trained staff to operate new reform procedures?
- Does the reform require any specialist skills presently unavailable?
- If so, are there opportunities to recruit or re-deploy suitable staff?
- Can suitable training be identified/financed?
- Can staff be adequately trained to institutionalize the reforms in a reasonable time frame?
- What incentives can be provided to staff to retain them once trained?

Use of results: Sequencing the PFM Reform Program – eg: Mozambique

- Used identified strengths & weaknesses to reformulate ongoing plan
- Quick wins: often at no or little cost – “BPR”
- Short-term: result of ongoing reforms
- Medium-term: new structure reforms
- Long-term: development of institutional capacity

Country case - Norway

- Findings of Norad-managed self-assessment presented to OECD-DAC in December 2007
- The assessment showed low scores for 7 areas
- MoF reaction:
 - Weaknesses in procurement practices & follow-up to external audit findings need to be addressed
 - 3 areas of low scoring not considered priority at present (Multi-year program/sector budgeting, limited extent of internal audit, no consolidated overview of risks from AGAs & public corporations)
 - 2 indicators scored low but are municipal responsibilities; CG will not get involved

Use of SN Assessment for reform discussions

- Some indicators may score low, but SN government has no powers to change systems
 - Typically legislative/regulatory issues e.g classification systems & accounting standards determined centrally for all of general government
- Important to discuss with national authorities, but not part of reform action plan at local level

Use of PFM-PR for reform planning – Pakistan Provinces

- Separate A PFM-PR prepared for each province
- The PR identified main weaknesses in terms of 'C' & 'D' indicator scores
- A subsequent report prepared to establish causes for poor performance in weak areas only
- in-depth analysis in these areas
- Used for formulation or revision of reform action plan

Thank you for your attention