

Use of PEFA Assessments for PFM Reform Formulation & Monitoring

PEMPAL Workshop

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PEFA Secretariat

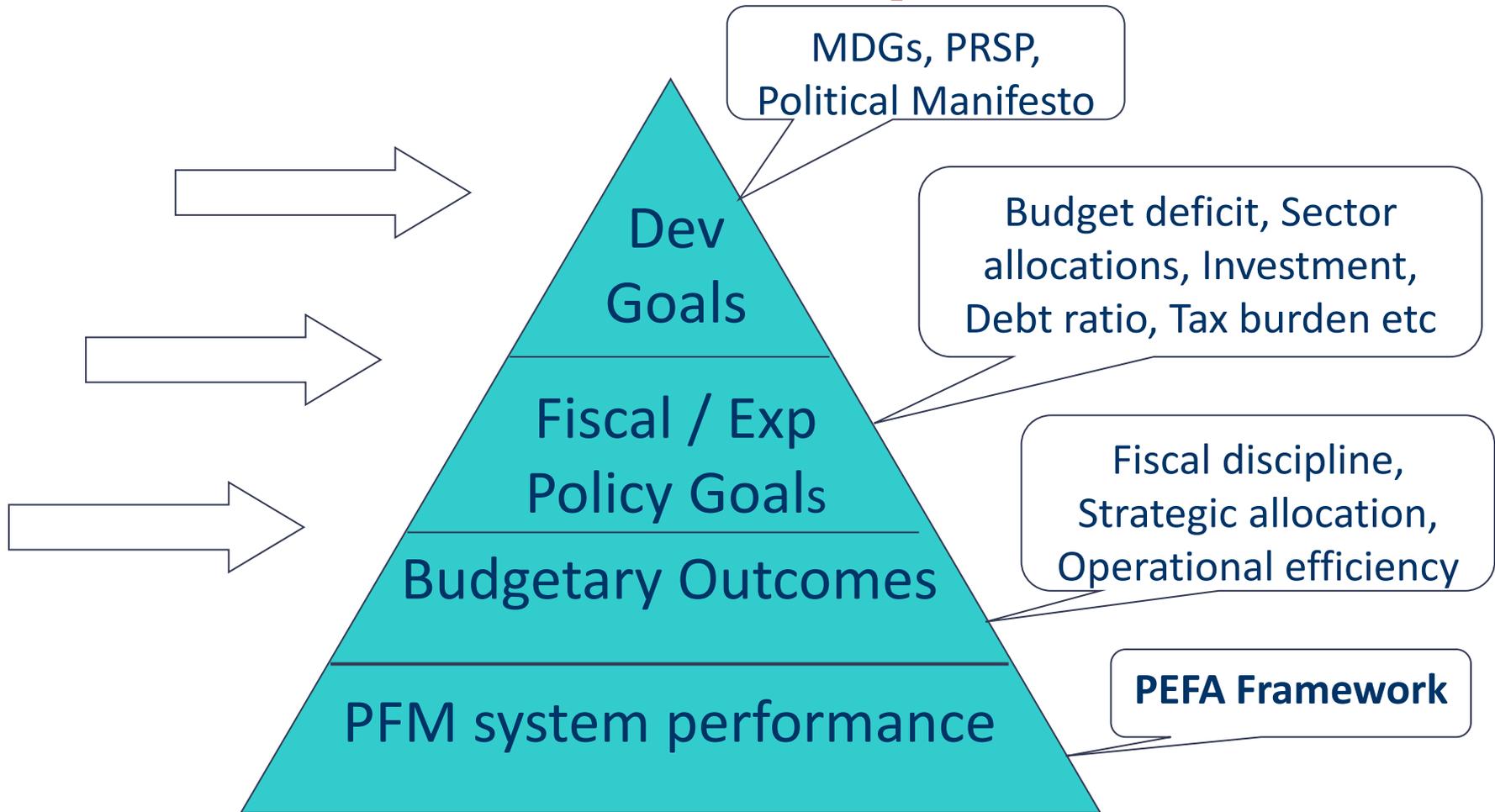
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Context

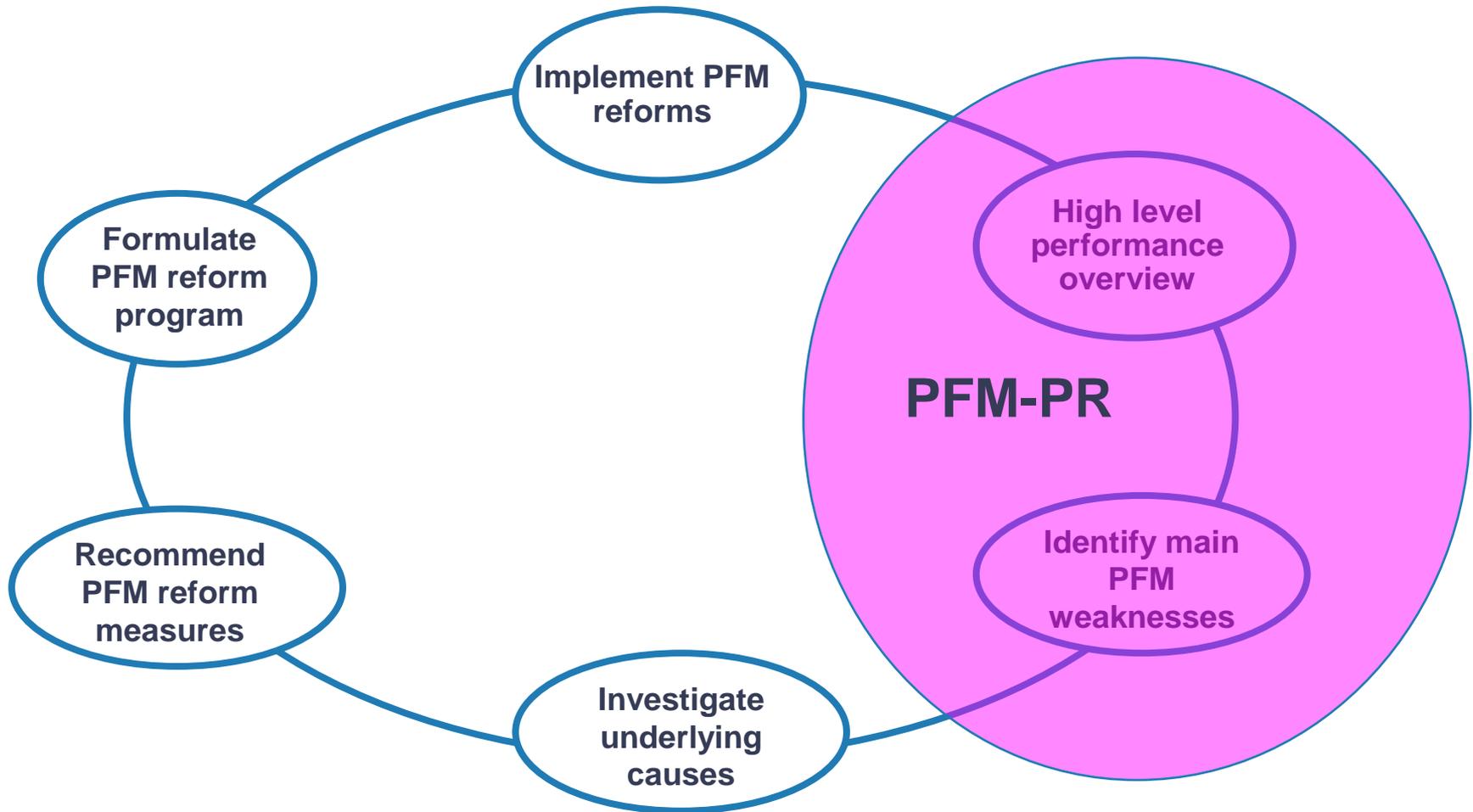
Uses of PEFA Assessment

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

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

Key Recommendations for Sequencing PFM Reforms

- The first priority in PFM reform is to establish a minimum operational level of core PFM functions
- 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

Country Specific Sequencing Decisions

- Sequencing not simply a technical issue
- The viability of reform program should be determined by a systematic analysis of the risk and opportunities
- External non-technical factors critical for sequencing: 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**
- Important to recognize a hierarchy in prioritization: e.g. core level of compliance with budgetary legislation, financial regulations & procedures is required to attain planned fiscal deficit - in turn supports service delivery
- Attempting to leapfrog this hierarchy unlikely to be successful
- 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

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

Thank you for your attention