

Helpdesk Research Report

Designing and monitoring PFM reform programmes

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31.03.2015

Question

Map existing information sources for use in designing and monitoring public financial management (PFM) reform programmes. Report what level of coverage each source provides of a PFM system and in aggregate terms, to identify if there are any gaps in coverage. Diagnostic instruments and tools are the main types of sources of information that this exercise should focus on.

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1. Overview

The most comprehensive and widely used approach to designing and monitoring public financial management (PFM)¹ reforms is the Public Expenditure and Financial Accountability (PEFA) framework, which is at the core of most PFM reform efforts. Other diagnostic instruments and tools are also used

¹ PFM refers to the way governments manage public resources (revenue and resources); how they allocate funds to various activities and account for their spending. More broadly, PFM is concerned with the immediate and medium-to-long term impact of such resources on the economy or society (Andrews et al. 2014; Pretorius & Pretorius 2009; Simson, Sharma & Aziz 2011).

alongside PEFA to supplement it for specific purposes or to take a broader approach. The standard instruments and tools used by international organisations, donors and governments are:

<i>Instrument</i>	<i>Agency responsible</i>	<i>Type of instrument</i>	<i>Scope and purpose</i>
Public Expenditure and Financial Accountability (PEFA) framework	Multi-agency partnership	Diagnostic instrument	High level indicators for measuring and monitoring PFM performance across all phases of the budget cycle, including budget comprehensiveness, transparency, and credibility
Fiscal Transparency Code	IMF	Guidelines and principles	General principles for the structure and finances of government, covering fiscal reporting, fiscal forecasting and budgeting, and fiscal risk analysis and management
Public Expenditure Reviews (PERs)	World Bank	Diagnostic instrument	Evaluate the effectiveness of public finances and identify fiscal management and policy challenges to be prioritised in reforms, either government-wide or at the sector level
Public Expenditure Tracking surveys (PETs)	World Bank	Diagnostic instrument	Track anomalies and leakage of public funds to assess the efficiency of public spending, verifying how much of allocated resources reach their destination and how long they take to get there
Country Financial Accountability Assessment (CFAA)	World Bank	Diagnostic instrument	Fiduciary assessment of a country's financial management environment to assess and manage the risk that public funds may be used for non-intended purposes, and help in developing reform and capacity-building strategies
Debt Management Performance Assessment (DeMPA)	World Bank	Diagnostic instrument	Evaluate strengths and weaknesses in government debt management over the long term through repeated assessments, to establish priorities and design reform programmes
Best Practices for Budget Transparency	OECD	Guidelines and principles	Reference tool and guidelines for increasing budget transparency
Recommendation on Budgetary Governance	OECD	Guidelines and principles	Comprehensive guidance on budget formulation, management and links with other aspects of good public governance
International Budget Practices and Procedures Survey and Database	OECD	Repository of international experience	Comprehensive information for comparing national budgeting and financial management practices around the world, with survey data covering the entire budget cycle
Open Budget Survey	International Budget Partnership	Repository of international experience	Comparative and regular measures of budget transparency, participation, and oversight across 100 countries
Whole System Approach (WSA)	Chartered Institute of Public Finance and Accountancy (CIPFA)	Analytical framework	Alternative model describing the components of PFM to inform design and evaluation, not a measurement tool; it complements PEFA by describing PFM as a more broadly defined system

Andrews et al. (2014) classify a PFM system into four different components:

- Budget formulation: strategic budgeting and budget preparation
- Budget approval: legislative debate and enactment
- Budget execution: accounting and reporting, internal control/audit, resource management
- Budget evaluation: external audit and accountability

The PEFA framework, the most comprehensive assessment instrument, provides indicators to measure all dimensions of a PFM system. It is the product of a donor harmonisation movement that resulted in a single diagnostic instrument which all donors could agree on and use (expert comment: De Lay). While PEFA assessments are the most widely used, other diagnostic instruments and tools are also used alongside it for more specific purposes. Alternatively, CIPFA's Whole System Approach aims to complement and provide a broader approach than PEFA. As an analytical framework it does not seek to measure PFM practice but to inform design and evaluation of PFM systems.

While international organisations and donors are largely satisfied with the harmonised PEFA instrument which is regularly updated (expert comment), a paper by Andrews et al. (2014) makes a critical case against the use of standardised assessment in the design of PFM systems. They argue that one of the biggest causes of poorly performing PFM reforms at the moment is that reform projects are designed solely on the basis of PEFA assessment. According to one of the paper's authors, PEFA assessments are not meant to be PFM reform templates (expert comment). They argued that we should not wonder how PEFA can be made more comprehensive, or how other standardised assessments can be made to complement PEFA in such a way that all the gaps are closed. Instead, it would be more useful to think about how PFM reform needs to be designed in a way that actually serves the needs of the government in question. He concludes that there are thus huge gaps when it comes to assessing the actual functionality of PFM systems.

It should also be noted that aid donors express continued interest in integrating gender into the PFM system reforms that they are promoting in low- and middle-income countries. Rao's (2015) report emphasise that PFM reforms do not on their own bring about an impact on gender equality. However, they might open space for Gender Responsive Budgeting (GRB). Combaz (2014) shows in her report on PFM and gender that specific tools have been developed for this purpose:

- **At the revenues level:** gender-disaggregated analyses of the incidence of tax (direct and indirect taxes), user fees, and government debt.
- **At the expenditures level:** tools for gender-aware work are available for a range of assessments such as policy appraisal, beneficiary assessment, incidence analysis of public expenditures, analysis of the impact of budgets on time use, budget statements, and medium-term frameworks of economic policy.

Overall, Combaz (2014) makes the case that the requirements for a gender-aware PFM system reform entails to secure the known enabling factors, tailor the reforms to the context, involve a range of stakeholders at all stages, and generate sex-disaggregated data.

2. Public Expenditure and Financial Accountability (PEFA) framework

The Public Expenditure and Financial Accountability (PEFA) framework was launched in 2004 as part of a multi-agency partnership programme to provide a common pool of information for measurement and monitoring of PFM performance progress. It includes two main documents:

- A **Performance Measurement Framework**: a set of 31 high level indicators which measure and monitor performance of PFM systems, processes and institutions. They cover all phases of the budget cycle, budget comprehensiveness and transparency, and budget credibility. The high level indicators measure performance in six dimensions identified as critical for an open and orderly PFM system:
 - Credibility of the budget
 - Comprehensiveness and transparency
 - Policy-based budgeting
 - Predictability and control in budget execution
 - Accounting, recording and reporting
 - External scrutiny and audit
- A **PFM Performance Report (PFM-PR)** that provides a framework to report on PFM performance as measured by the indicators.

Key document:

PEFA Secretariat. (2011). *Public Financial Management Performance Measurement Framework*. Retrieved from http://www.pefa.org/sites/pefa.org/files/attachments/PMFEng-finalSZreprint04-12_1.pdf

3. IMF Fiscal Transparency Code

The IMF Fiscal Transparency Code is a diagnostic tool used to identify principles and practices for the structure and finances of government. The Fiscal Transparency Principles are divided into three core principles including a set of indicators which are themselves divided into 'basic', 'good' and 'advanced' practices. The three parts are:

- **Fiscal reporting**: Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position.
- **Fiscal forecasting and budgeting**: budget and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances.
- **Fiscal risk analysis and management**: Governments should disclose, analyse, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector.

Key document:

IMF. (2014). *The Fiscal Transparency Code*. Retrieved from <http://blog-pfm.imf.org/files/ft-code.pdf>

4. World Bank tools and instruments

Public Expenditure Reviews and Public Expenditure Tracking surveys

Public Expenditure Reviews (PERs) and Public Expenditure Tracking surveys (PETs) are used to assess a country's fiscal position, its expenditure policies and its public expenditure management. Their aim is to promote fiscal discipline, allocative efficiency, and operational efficiency or, in other words, to enable delivering policy priorities.

Public Expenditure Reviews (PERs)

PERs are the World Bank's key diagnostic instrument for evaluating the effectiveness of public finances. A PER may analyse government-wide expenditures or may focus on a particular sector such as health care or infrastructure. The objective is to support reform processes by providing an assessment of key fiscal management and policy challenges that policy makers can put on their agenda in the next phase of budgetary planning.

Key documents:

Website of the World Bank on PER: <http://wbi.worldbank.org/boost/tools-resources/public-expenditure-review>

World Bank. (2009). *Preparing PERs for Human Development. Core Guidance*. Retrieved from <http://www1.worldbank.org/publicsector/pe/PEAMMarch2005/PER-Core.pdf>

Public Expenditure Tracking surveys (PETs)

Public expenditure tracking surveys (PETs) are quantitative surveys tracing the flow of resources from origin to destination. They assess the supply side of public service to verify how much of the allocated resources reach their final destination, and how long they take to get there. The objective of PETs is to track anomalies and leakage of public funds in order to assess the efficiency of public spending.

Key document:

World Bank. (2002). *Public Expenditure Tracking and Facility Surveys: A general Note on Methodology*. Retrieved from <http://siteresources.worldbank.org/INTPCENG/1143380-1116506243290/20511062/exptrack.pdf>

Country Financial Accountability Assessment (CFAA)

A Country Financial Accountability Assessment (CFAA) is a diagnostic tool used alongside PEFA to assess a country's financial management environment. The CFAA enables a fiduciary assessment to help the borrower and the bank assess and manage the risk that public funds may be used for non-intended purposes; identify the key risks, capacity gaps and constraints to progress; help the government develop a strategy for reform; and assist in designing a programme to improve financial management capacity in the public and private sectors. The tool is primarily used by the World Bank to inform its Country Assistance Strategies and by other donors, always in close consultation with governments.

Key document:

World Bank. (2003). *Country Financial Accountability Assessment (CFAA): Guidelines to Staff*. Retrieved from <http://www1.worldbank.org/publicsector/pe/CFAAGuidelines.pdf>

Debt Management Performance Assessment (DeMPA)

The Debt Management Performance Assessment (DeMPA) is a standardised evaluation of strengths and weaknesses in government debt management which is often used to monitor performances over time through repeated assessments. It helps establish priorities and design further reform programmes. The assessment is based on a set of 15 performance indicators covering **six core areas of public debt management**:

- Governance and strategy development
- Coordination with macroeconomic policies
- Borrowing and related financing activities
- Cash flow forecasting and cash balance management
- Operational risk management
- Debt records and reporting.

Key documents:

World Bank. (2009). *Debt Management Performance Assessment (DeMPA) Tool*. Retrieved from <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1184253591417/GDM-PMF.pdf>

World Bank. (2009). *Guide to the Debt Management Performance Assessment (DeMPA) Tool*. Retrieved from <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1184253591417/DeMPAGuide.pdf>

5. OECD principles and tools

OECD Best Practices for Budget Transparency

The OECD Best Practices for Budget Transparency are a reference tool for governments to use to increase budget transparency. It includes three parts:

- Part 1 lists the **principal budget reports** that governments should produce and their general content.
- Part 2 describes **specific disclosures to be contained in the reports**, including both financial and non-financial performance information.
- Part 3: highlights **practices for ensuring the quality and integrity of the reports**.

Key document:

OECD. (2002). *Best Practices for Budget Transparency*. Retrieved from <http://www.oecd.org/governance/budgeting/Best%20Practices%20Budget%20Transparency%20-%20complete%20with%20cover%20page.pdf>

Recommendation on Budgetary Governance

In 2015, the Best Practices were embodied and updated within the Recommendation on Budgetary Governance, which provides a comprehensive set of guidance on budget formulation, management and its links with other aspects of good public governance. The recommendations are driven by **10 principles of good budgetary governance**:

- Manage budgets within clear, credible and predictable limits for fiscal policy

- Closely align budgets with the medium-term strategic priorities of government
- Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner
- Ensure that budget documents and data are open, transparent and accessible
- Provide for an inclusive, participative and realistic debate on budgetary choices
- Present a comprehensive, accurate and reliable account of the public finances
- Actively plan, manage and monitor budget execution
- Ensure that performance, evaluation and value for money are integral to the budget process
- Identify, assess and manage prudently longer-term sustainability and other fiscal risks
- Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit

Key document:

OECD. (2015). *Recommendation of the Council on Budgetary Governance*. Retrieved from <http://www.oecd.org/gov/budgeting/Recommendation-of-the-Council-on-Budgetary-Governance.pdf>

OECD International Budget Practices and Procedure Database

OECD Budget Practices and Procedures Survey

The OECD Budget Practices and Procedures Survey contains 89 questions that cover the entire budget cycle: preparation, approval, execution, accounting and audit, performance information, and aid management within developing countries.

Key document:

OECD. (2007). *Budget Practices and Procedures Survey*. Retrieved from <http://www.oecd.org/gov/budgeting/39466141.pdf>

OECD International Budget Practices and Procedures Database

On the basis of the Budget Practices and Procedures Survey, the OECD International Budget Practices and Procedures Database provides a comprehensive source to compare and contrast national budgeting and financial management practices from across the globe. The 2007/2008 database includes the results of the 2007 OECD survey of budget practices and procedures in OECD countries, the 2008 World Bank/OECD survey of budget practices and procedures in Asia and other regions, and the 2008 CABRI/OECD survey of budget practices and procedures in Africa.

Key document:

Webpage of the OECD Database: <http://webnet.oecd.org/budgeting/Budgeting.aspx>

6. Open Budget Survey

The Open Budget Survey is a tool which provides for a comparative and regular measure of budget transparency, participation, and oversight across countries in the world. It has been put together by an

association, the International Budget Partnership (IBP) in cooperation with civil society organisations and researchers.

The Open Budget Survey 2012 examines 100 countries by measuring three aspects of how governments are managing public finances. It consists of 125 questions and is completed by independent researchers in the countries assessed. The three aspects are the following:

- **Budget transparency:** the amount, level of details, and timeliness of budget information governments are making publicly available. Each country is given a score between 0 and 100 that determines its ranking on the Open Budget Index (OBI).
- **Budget participation:** the opportunities governments are providing to civil society and the general public to engage in decisions about how public resources are raised and spent.
- **Budget oversight:** the capacity and authority of formal institutions (such as legislatures and supreme audit institutions) to understand and influence how public resources are being raised and spent.

Key document:

IBP. (2012). *Open Budget Survey 2012*. Retrieved from <http://internationalbudget.org/wp-content/uploads/OBI2012-Report-English.pdf>

7. CIPFA: A Whole System Approach to PFM

A professional body, the Chartered Institute of Public Finance and Accountancy (CIPFA), has developed its own model of PFM called the Whole System Approach (WSA). The aim of this model is to outline the necessary measures and controls to promote wise spending, tackle corruption and contribute to economic growth and long-term stability in the recipient country. The WSA proposes a holistic model of the PFM processes with the objective to stimulate thinking about the totality of a PFM system, the connectivity between its individual processes and its performance, recognising that it also requires a supportive institutional and social environment.

The PFM Process architecture includes 8 elements: legislation, standards, strategy and planning operations, monitoring and internal control, assurance, scrutiny, and learning and growing. Each of these elements includes a number of components.

As an analytical framework that seeks to describe the components of a functional PFM system, inform design and evaluation of PFM systems and reforms it is not, however, a new tool for measuring PFM practice. As such, it does not compete or replace tools such as PEFA. CIPFA's complements PEFA's approach, with a more broadly defined system.

Key documents:

CIPFA. (2010). *Whole System Approach, vol. 1*. Retrieved from <http://www.cipfa.org/policy-and-guidance/reports/whole-system-approach-volume-1>

CIPFA. (2010). *Whole System Approach, vol. 2*. Retrieved from <http://www.cipfa.org/policy-and-guidance/reports/whole-system-approach-volume-2>

8. Additional general references

- Andrews, M., Cangiano, M., Cole N., de Renzio P., Krause, P., & Seligmann R. (2014). *This is PFM* (CID Working Paper No. 285). Boston: Center for International Development at Harvard University. Retrieved from: <http://www.hks.harvard.edu/centers/cid/publications/faculty-working-papers/this-is-pfm>
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- Simson, R., Sharma, N., & Aziz, Imran (2011). *A guide to public financial management literature*. London: ODI. Retrieved from: <http://www.odi.org/publications/6242-public-financial-management-pfm-guide>

Key websites

- PEFA: <https://www.pefa.org/>
- IMF – Fiscal Transparency: <http://www.imf.org/external/np/fad/trans/>
- World Bank – Governance and Public sector Management: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPUBLICSECTORANDGOVERNANCE/0,,contentMDK:20206128~pagePK:210058~piPK:210062~theSitePK:286305,00.html>
- OECD – Budgeting and public expenditures: <http://www.oecd.org/gov/budgeting/>
- International Budget Partnership: <http://internationalbudget.org/>
- CIPFA: <http://www.cipfa.org/>

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Suggested citation

Lopez Lucia, E. (2015). *Designing and monitoring PFM reform programmes* (GSDRC Helpdesk Research Report 1215). Birmingham, UK: GSDRC, University of Birmingham.

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