Consultation Draft

PEFA Handbook

Volume IV: Using PEFA to support Public Financial Management reform

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List of Abbreviations and Acronyms

DeMPA	Debt Management Performance Assessment
FTE	Fiscal Transparency Evaluations
IPSAS	International Public Sector Accounting Standards
ICT	Information and Communication Technology
L/T	Long Term
MAPS	Methodology for Assessing Procurement Systems
MoF	Ministry of Finance
M&E	Monitoring and Evaluation
PEFA	Public Expenditure and Financial Accountability
PI	PEFA Indicator
PIMA	Public Investment Management Assessment
PFM	Public Financial Management
S/T	Short Term
SAI PMF	State Audit Institution Performance Management Framework
TADAT	Tax Administration Diagnostic Assessment Tool
TSA	Treasury Single Account

PREFACE

The Public Expenditure and Financial Accountability (PEFA) Program provides a framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM). A PEFA assessment incorporates a PFM performance report that includes an evidence-based measurement of performance against 31 indicators as well as an analysis of the findings and its impact on desirable budgetary and fiscal outcomes.

The PEFA methodology draws on international PFM standards and good practices and provides a foundation for reform planning, dialogue on strategy and priorities, and progress monitoring. The PEFA program also provides support, monitoring, and analysis of PEFA assessments. A key task of the PEFA Secretariat is to ensure the quality of PEFA reports, which is done by in-depth reviews of draft reports and anchoring of the PEFA Check requirements. Please visit www.PEFA.org for more information about the Program and the PEFA Check requirements.

The purpose of the PEFA handbook is to provide users, including government officials, assessors, development partners and other interested stakeholders, with guidance on planning, implementing, reporting, and using the *PEFA Framework for assessing public financial management* 2016 (PEFA 2016).

The handbook is presented in four separate volumes:

- *Volume I: The PEFA assessment process: planning, managing and using PEFA,* provides guidance to PEFA users and other stakeholders on the key phases and steps in the PEFA assessment process.
- *Volume II: PEFA assessment fieldguide,* is a detailed technical guidance on scoring the 31 performance indicators and 94 dimensions of PEFA 2016, including data requirements and sources, calculation and definitions. The field guide also includes a glossary of terms.
- *Volume III: Preparing the PEFA report,* contains advice on writing the report and a template and instructions for each section and annex of a standard PEFA report.
- *Volume IV: Using PEFA to support PFM reform*, provides guidance on how to use PEFA assessments to support PFM reform initiatives.

Each volume of the handbook is intended to be a dynamic document that will be updated in response to common issues, good practices, suggestions, and frequently-asked questions from PEFA users. Periodic updates to the handbook volumes are announced and published on the PEFA website (www.pefa.org).

ACKNOWLEDGMENTS

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SUMMARY

The purpose of this Volume IV of the PEFA Handbook is to provide guidance to countries on how PEFA assessment reports can be used to improve PFM performance. The Volume is intended to be a guide for countries on the issues that need to be considered in developing effective reform initiatives, strategies or action plans, designed to address each country's unique situation.

The guide suggests a multi-stakeholder PFM reform dialogue with government to anchor the process. It sets out seven stages around which to structure the dialogue, develop and prioritize reforms, and monitor impact. The guide does not provide a "one size fits all" answer to the question of how to sequence specific reforms. Rather, it guides countries through a series of questions to identify the issues and challenges that should be considered in developing reforms that are tailored to their unique circumstances. Through this process, tailored sequencing and prioritization of reform initiatives and actions can emerge. The seven stages will not always necessarily follow in sequence but may occur simultaneously, or in a different order, and be repeated depending on the result of each stage.

Stage 1: Identify PFM strengths and weaknesses
Identifying the problem to be solved can be a good point of departure for a PFM reform dialogue. Problems can relate to PFM systems as identified in PEFA Assessments and other PFM diagnostic tools. However, identified problems can also relate to broader policy issues such as macro fiscal performance, the cost of borrowing or service delivery challenges. A preliminary prioritization of problems to be solved by the reform initiative is recommended. Having a good understanding of strengths, as well as weaknesses, can help inform the dialogue on the design and feasibility reform initiatives in later stages.

Stage 2. Determine the underlying causes of strengths and weaknesses
Having identified strengths and weaknesses, the next stage is to better understand underlying technical and non-technical causes of strengths and weaknesses. The PEFA report and other PFM diagnostic tools may identify the underlying technical causes. However, non-technical causes such as political will, capacity and institutional incentives are often equally or more important among the underlying causes and should be identified and understood. This may require further analysis.

Stage 3. Agree on desired PFM reform outcomes
A solid understanding of the problems to be solved and technical and non-technical factors underlying strengths and weaknesses can help inform governments to identify desired PFM reform outcomes. Agreeing on the desired outcomes will help guide the design of reform initiatives and activities specifically targeted to the government's priorities. Such outcomes can relate to PFM systems functioning or broader policy objectives.

Stage 4. Develop and prioritize PFM reform initiatives
The next stage is about translating the desired outcomes into specific reform initiatives or actions. Each reform initiative should include a description of the desired result and PFM reform outcome it is intended to contribute to, as well as an initial timeframe of actions and allocation of responsibility for implementation. With stages 1-3 completed, a more detailed prioritization and sequencing of reform initiatives and specific actions will be possible. Such sequencing and prioritization will be country-specific based on the technical weaknesses identified, but also considering the unique political, institutional and capacity characteristics of that country.

Stage 5: Identify potential constraints to reform
Understanding the constraints to implementing reforms - their manifestation, the potential impact and the likelihood that they occur - can be an important next stage. Systematically assessing potential constraints can support the development of strategies that mitigate the risks of such constraints resulting in actions not being undertaken and reforms not being implemented. Again, both technical and non-technical constraints will play a role, with the non-technical constraints most often being the most difficult to understand and address. In some cases, the lack of any realistic means to address a particular constraint should lead to a decision to not proceed with the reform action and to adjust the expected outcomes of the reform efforts accordingly.

Stage 6. Implement reforms or reform action plans
Stage 6 focuses on developing a reform action plan or other strategy for implementation. Reform approaches can be anchored in formal strategies or be organized as an iterative adaptive approach. Irrespective, reform initiatives should be planned and detailed in terms of desired outcomes, actions, responsibilities, time frame, milestones and funding and capacity needs.

Stage 7: Monitor and evaluate reform implementation
Monitoring should be used for learning and adjusting objectives, actions and risk mitigation. Notwithstanding the reform approach adopted, it is important to track the actions being undertaken and to hold accountable those who are responsible for carrying out the tasks involved. PFM reform is rarely linear in its application and continuous learning and adjustment to plans and approaches are needed.

The guidance in this Volume of the PEFA Handbook expands on each of the seven stages, highlighting key questions to be addressed and issues to be considered. Across each of the seven stages, the emphasis should be on both non-technical and technical causes of PFM performance, solutions and risks. PEFA assessment reports will form a solid basis for anchoring a PFM reform dialogue but they can rarely stand alone. It is also essential to have a good understanding of underlying causes behind the scores, constraints and factors enabling reforms. A mechanical reading of PEFA reports that leads to prioritization only of dimensions with the lowest cores, or excessively broad and ambitious reform action plans addressing all areas of low performance, are not likely to succeed.

1. INTRODUCTION

A successful PEFA assessment requires the commitment of all major stakeholders involved in PFM in a country. However, the role of the government in the end-to-end PEFA process – from planning assessment to reporting and use of the report – is paramount. The government should be the driving force for the assessment and "own" both the process and results of the assessment, as well as lead the efforts to build on the strengths and address any weaknesses identified in the PEFA report.

In this context, governments have been increasingly seeking the advice of the PEFA Secretariat for information on how PEFA reports can be used more effectively to support PFM reform dialogue and action planning. This Volume has been developed in response to these requests. However, while the strategic and operational importance of PFM reform is generally recognized, this guidance makes clear that that there is no 'one size fits all' solution to supporting and implementing PFM reform and it is important to use PEFA assessment findings in the country context.

PEFA and the PFM reform process

PEFA reports, when done well, provide a technically solid basis for undertaking PFM reforms. The PEFA framework provides a 360-degree overview of PFM, with evidence-based assessments and a scoring methodology and 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 and is internationally agreed upon and supported through a strong collaboration between key development partners. The PEFA Secretariat provides quality assurance, acts as a helpdesk and hosts a knowledge repository with PEFA reports, data and guidance.

PEFA assessments can serve multiple purposes, ranging from fiduciary assurance over PFM reform design input, to monitoring and building consensus for reform among stakeholders. The focus of this volume of the PEFA Handbook is on the use of PEFA reports for PFM reform dialogue, planning, design and implementation.

PEFA assessments should be undertaken with care, and the strengths and limitations should be considered when using PEFA reports as the basis for PFM reform dialogue and design. While a PEFA Assessment can be done with a modest budget and tight time frame, they can also be costly and time consuming. They do not capture all aspects of PFM at a deep level of detail and, and as discussed in this guidance, additional analyses may sometimes be needed to better understand the underlying technical and non-technical causes of performance levels. Regardless of the purpose of a given PEFA Assessment process, the process must be government-owned and driven.

PEFA assessment processes can lead to standardized or 'cookie-cutter' reform approaches if applied without care. While the PEFA scoring methodology embeds good international practices, applied incorrectly, the A to D rating can lead to focusing on improving all low scores without appropriate attention to capacity and other constraints, political priorities, sequencing and importance, and other local circumstances. It is therefore important that PEFA Assessment processes are adapted to the country context and that findings are interpreted and used in a way that reflect the circumstances and priorities of the country in which it is applied.

PFM reform will not succeed without a solid technical foundation. However, by the same token, technically sound reform initiatives will not succeed without adhering to the following principles:

- Non-technical factors of ownership and interest must be understood, factored in and worked on continuously.
- Broader stakeholders' groups should be involved before and during reform design, implementation and evaluation.
- Agility and speed in the assessment process are crucial to relevance and impact.
- Ongoing monitoring, learning, feedback and adjustment during reform implementation is key to countering unforeseen events and constraints and/or leveraging opportunities.
- For PEFA, the assessment process (end-to-end) should be leveraged to strengthen capacity and common understanding of PFM reform needs and goals.

Purpose and objectives of this Guidance

Good PFM performance is determined by the ability of the PFM systems to support the effective and efficient achievement of policy objectives while maintaining macro-fiscal control as measured by the three main fiscal and budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. Volume IV of the handbook does this by assisting countries that have undertaken a PEFA assessment to better understand the following aspects:

(i) How PEFA reports can be used to identify PFM strengths and weaknesses and their impact on PFM performance.
(ii) Whether further analysis is required to identify the underlying technical and non-technical causes of PFM performance as reflected in PEFA scores and their impact on public service delivery and the economy.
(iii) The key steps required in initiating a PFM reform process around a PEFA assessment process among government officials, other national stakeholders and development partners.
(iv) The key factors to consider when designing PFM reform initiatives, action plan or strategy to address PFM weaknesses over time.
(v) The importance of prioritizing and sequencing PFM reforms in accordance with country needs and capacities.

Volume IV is not intended to be prescriptive in setting recommendations on reform priorities or sequencing. Rather, it is intended to provide a guide for countries on the issues that need to be considered in developing effective reform initiatives, strategies or action plans, designed to address each country's unique situation. While the PEFA Secretariat is available to provide further guidance on how to use PEFA assessments, including training workshops to facilitate PFM reform dialogue and action planning, it does not provide direct technical support for implementing PFM action plans or specific reform initiatives.

2. PEFA AND PFM REFORM: A PRACTICAL GUIDE

An initial dialogue on the need for a PEFA assessment, within government and other stakeholders, is usually considered the starting point of the PEFA assessment process. Such a dialogue should result in a common understanding of the motivation for the assessment, clearly stated and agreed objectives, and clarity on how the findings of the report will be used when it is completed. The need for continuing the dialogue after the assessment has been completed should, ideally, be agreed upon and set out in the PEFA assessment concept note.

The initial dialogue after the PEFA assessment report is completed should focus on the PFM strengths and weaknesses and other problems identified by the report and address whether there is a need for further analysis of the underlying causes of the identified PFM weaknesses.

Findings and recommendations of other broad PFM diagnostic tools (for example, the International Monetary Fund's Fiscal Transparency Evaluation) or technical assistance reports may be used. The application of other PFM diagnostic tools that focus on individual elements of PFM, such as Tax Administration Diagnostic Assessment Tool (TADAT), Debt Management Performance Assessment (DeMPA), Methodology for Assessing Procurement Systems (MAPS) may be helpful in providing more detail on the technical aspects of strengths and weaknesses.

Some of these diagnostic tools may have been applied prior to the PEFA assessment, and relevant data and analysis reflected as evidence in the PEFA report. At other times, depending on the nature and significance of the weaknesses identified, governments may see a need to apply one or more of these diagnostic tools after a PEFA assessment. Countries may also rely on their own analysis and assessments of underlying issues, such as those undertaken internally in government, by think tanks, fiscal councils, supreme audit institutions, NGOs, and others.

Specific reform initiatives may be developed as part of a comprehensive and integrated strategy and reform program or more loosely based on individual prioritized problem-driven initiatives. Whether to have a formalized and structured reform action plan or strategy, or a more ad hoc approach, will depend on the country's technical capacity and institutional environment, as well as the extent to which problems, solutions and commitments are adequately understood and agreed on at the outset.

Overview of stages of the PFM reform dialogue

This guide aims to assist practitioners to develop and implement PFM reform initiatives following completion of a PEFA assessment. While the stages will involve extensive dialogue among various stakeholders, the guide has been developed on the premise that it is the government that should be responsible and accountable for prioritizing and implementing PFM reform.

The key stages may not always follow the sequence in which they are presented in the following subsections.

Table 2.1: Overview of stages of the PFM Reform dialogue

Stage 1: IDENTIFY PFM STRENGTHS AND WEAKNESSES	Stage 2: DETERMINE UNDERLYING CAUSES OF STRENGTHS AND WEAKNESSES	Stage 3: AGREE ON DESIRED PFM REFORM OUTCOMES	Stage 4: DEVELOP AND PRIORITZE PFM REFORM OPTIONS	Stage 5: IDENTIFY POTENTIAL CONSTRAINTS TO REFORM	Stage 6: IMPLEMENT REFORMS/ REFORM ACTION PLANS	Stage 7 MONITORING, EVALUATION AND ADJUSTMENT
Present a list of strengths and weaknesses identified in the PEFA report	Agree if analysis to be undertaken to identify the technical and non-technical causes or contributing factors to the strengths and weaknesses	Agree on the desired PFM outcomes to come from addressing the problems and weaknesses	Develop a set of reform initiatives that address the weaknesses identified and support the achievement of the desired PFM outcomes. Agree the order of priority of the reforms. Review priority based on constraints identified in stage 5.	Identify constraints to successfully implementing 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.	Monitor the implementation of reforms and individual actions. Review and modify reform initiatives or plans.

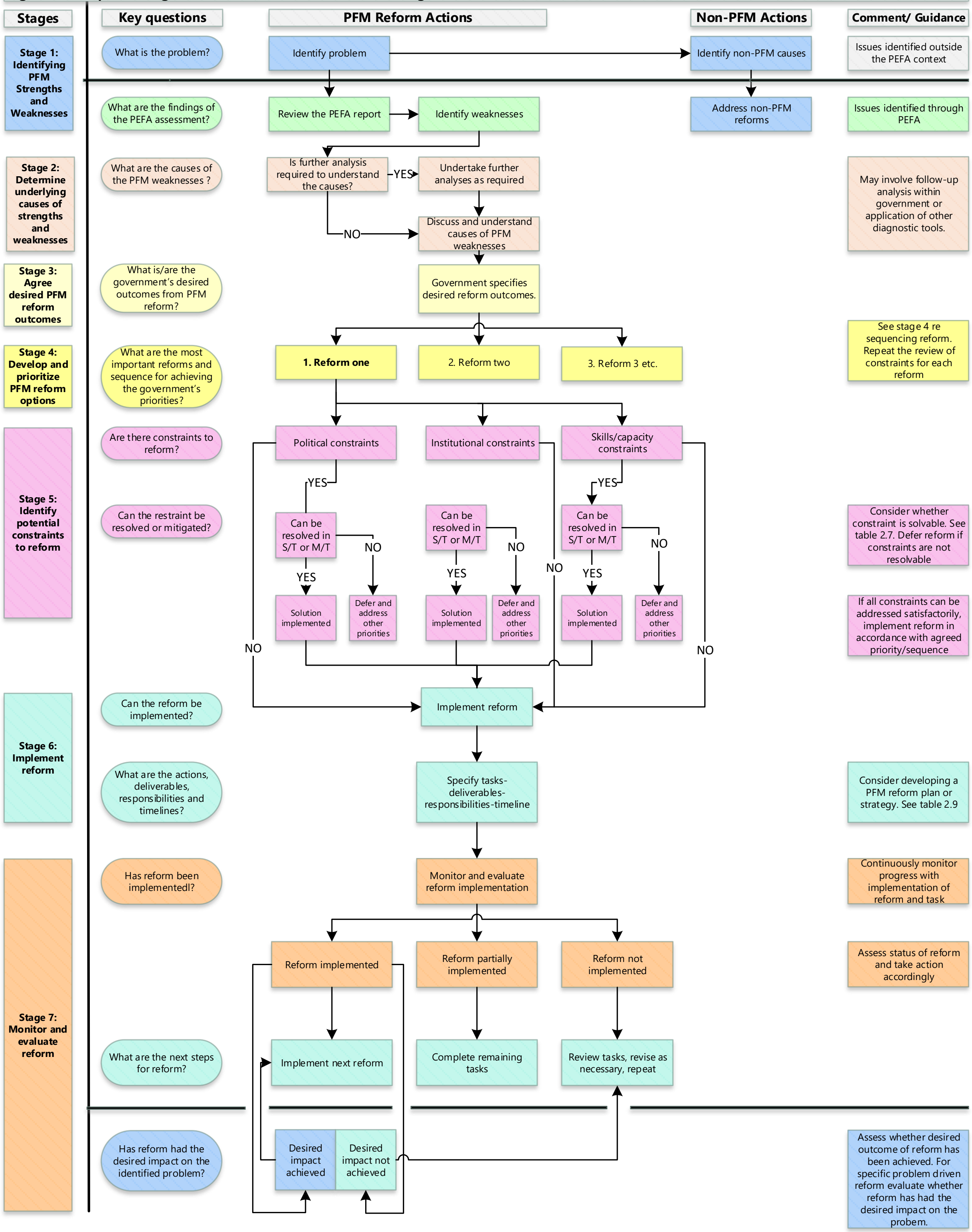
Table 2.2: Illustration of stages of the PFM Reform dialogue

Stage 1: IDENTIFY PFM STRENGTHS AND WEAKNESSES	Stage 2: DETERMINE UNDERLYING CAUSES OF STRENGTHS AND WEAKNESSES	Stage 3: AGREE ON DESIRED PFM REFORM OUTCOMES	Stage 4: DEVELOP AND PRIORITZE PFM REFORM OPTIONS	Stage 5: IDENTIFY POTENTIAL CONSTRAINTS TO REFORM	Stage 6: IMPLEMENT REFORMS/ REFORM ACTION PLANS	Stage 7 MONITORING, EVALUATION AND ADJUSTMENT
Aggregate outturn deviates from the approved budget by more than 15% in each of the last three years.	Detailed review of budget process found: over-optimistic growth and revenue forecasts; significant ad-hoc post-budget spending decisions; unrealistic and unfunded capital expenditure appropriations; delays in confirmation of donor budget support.	Strengthened fiscal discipline through reduced fiscal deficits. Budget outturns more closely aligned with budget plans.	**Broad based reform**: Strengthen budget planning and preparation **Disaggregated reform:** Implement medium-term budget planning framework; Update budget guidelines and instructions; Strengthen macro-fiscal forecasting capacity. Reforms listed in priority order	**Constraints:** Limited macro-fiscal forecasting capacity. **Possible mitigation:** Train staff in macroeconomic modeling and forecasting.	Specific actions, responsibilities, timelines and capacity development needs identified in accordance with the action plan in table 2.9.	Assess progress with specific initiative and impact on PFM performance against relevant PIs in addition to PI-1 (for example PI-15, PI-16, PI-17; annex 2).

The flowchart shown in Figure 2.1 below can guide PFM reform practitioners through each of the key stages with a series of key questions. Suggested actions are presented based on the responses to key questions.

The flow chart is provided as a heuristic tool only. It is not intended to be prescriptive, and, as noted above, application of the guidance provided in this volume may not always be linear. Several iterations may be required for any or each of the questions set out in the flowchart.

Figure 2.1. A practical guide to PEFA and PFM Reform Dialogue



The seven stages, key questions and the processes highlighted in the flow chart, are elaborated below. An example is included in Annex 1.

Stage 1: Identify PFM strengths and weaknesses

1) What is the problem?

The flowchart in figure 2.1. recognizes that 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 for government officials 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, although in the context of this guidance the flowchart addresses only the PFM-related issues.

An example of this approach would be if a country identified poor education outcomes – specifically low levels of academic achievement – as the broader policy problem. The causes of the poor performance may be due to non-PFM related matters—such as poor teacher training, outdated curriculum, lack of facilities, and so on—which involve non-PFM related issues that need to be further investigated and addressed. These are outside of the scope of this guidance.

However, there could also be systemic PFM weaknesses that may be contributing to the poor performance as discussed below.

If the process starts with problem identification, the next question is what can the PEFA report tell us about the systemic PFM weaknesses that may be contributing to the problem that have been identified in the assessment. In the example presented above, the PEFA report could, for example, identify a range of issues that could potentially undermine the ability to achieve the government's desired education outcomes, including unpredictable budget allocations, lack of commitment control, inadequate or non-existent cash flow forecasting, planned resources not reaching end users or a lack of performance information.

2) What are the findings of the PEFA assessment?

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. A PEFA assessment may have been commissioned for the first time, or as part of a country's regular assessment of PFM performance. It may have been initiated by the country itself or together with development partners. And the driver for reform may sometimes be a combination of problem-driven reform and the results of the PEFA assessment.

It might be useful at this stage to create a matrix of strengths and weaknesses identified by the PEFA report that can provide the basis for further discussion among government and development partners as part of the PFM reform dialogue. The matrix will be expanded to reflect each of the stages and will include example data for illustrative purposes.

Table 2.3: PFM reform matrix: Strengths and weaknesses identified by PEFA assessment

Performance indicator/ dimension	PEFA Score	Underlying strengths and weaknesses
PI-1	D	Aggregate expenditure outturns exceed original budget by more than 20% in last three years
PI-2.2	D	Significant variation in budget composition by function undermining the predictability and availability of budget allocations to key service delivery agencies.

The weaknesses identified should be presented from highest to lowest priority. Key government agencies and other stakeholders would participate in this initial prioritization process.

However, this stage reflects only an initial prioritization. Sequencing of reform initiatives will need to consider other factors, including resources, capacities, institutional constraints, political commitment and others which are discussed further below. These factors will determine whether it is feasible to implement a particular reform and its priority relative to other possible reforms.

Stage 2: Determine the underlying causes of strengths and weaknesses

3) What are the causes of strong and poor PFM performance identified by the PEFA assessment?

Once the PFM strengths and weaknesses have been identified and listed, and weaknesses have been prioritized, further analysis may be required to establish the underlying technical and non-technical causes or contributing factors to both the strengths and weaknesses. While a PEFA report provides extensive evidence for scoring an indicator or dimension it does not always identify all the technical and non-technical causes of good or poor performance.

Further analysis to better understand the causes of PFM strengths and weaknesses may take different forms and may be undertaken by government itself or with other stakeholders. Some problems might require more formal technical analysis while others may be addressed by more informal quick enquiry. In some cases, governments may choose to apply other PFM diagnostic tools in addition to a PEFA including tools that target specific aspects of PFM (such as TADAT for monitoring tax administration or Public Investment Management Assessment PIMA for monitoring public investment). The PEFA Secretariat's study *Stocktake of PFM Diagnostic Tools*, identifies a total of 46 diagnostic tools for PFM systems in use as at December 2016[1].

A question that often arises is how to coordinate a PEFA assessment with these other PFM diagnostic tools. A comparison of the technical coverage of the PEFA Framework with that of each of the other tools is provided in Annex 2. The PEFA Secretariat has also prepared the companion document, *Guide to PFM Diagnostic Tools*[2] to help stakeholders in PFM understand the choices available and to facilitate coordination of assessments. The

[1] "Stocktake of PFM Diagnostic Tools 2016" study was undertaken by the PEFA Secretariat and is available at the PEFA website https://pefa.org/sites/default/files/asset/study_document/Stocktake%20PFM%20Tools-04-17-2018_clean.pdf

[2] Guide to PFM Diagnostic Tools was prepared by the PEFA Secretariat and available at the PEFA website at https://pefa.org/sites/default/files/asset/study_document/Guide%20PFM%20Tools-%20revised%20Final-17-4-2018_clean.pdf

companion guide has not been designed to provide recommendations on which tool to use but rather to highlight the coverage of each tool. Choosing the right tool, or right combination of tools, will be determined by governments and development partners in accordance with specific needs and purposes. A downside of applying such tools is the additional cost and time required. In many cases, further internal analysis or assessment by relevant government institutions will be all that is required.

It is important to identify such factors as they may also act as constraints or enablers to developing and implementing reform. This is discussed further in stage 5. Such analysis may identify reform issues that are technically feasible but politically unacceptable. Sequencing and prioritization should take place following a more comprehensive 'deep-dive' into the non-technical factors.

Building on the matrix of weaknesses and strengths identified during stage 1, we can now add the underlying causes of strong and poor performance.

Table 2.4: PFM reform matrix: Underlying causes of strengths and weaknesses

Performance indicator/ dimension	PEFA Score	Main strengths and weaknesses	Underlying causes
PI-1	D	Aggregate expenditure outturns exceed original budget by more than 20% in last three years	• 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

4) What are the government's desired outcomes of PFM reform?

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.

Building on the example presented above, the government's priority outcome may, at this stage, be to strengthen fiscal discipline. The government may consider this as the key for improving budget reliability and ensuring resources are allocated to spending agencies in a predictable manner that supports service delivery and the achievement of the government's goals.

Table 2.5: PFM reform matrix: Desired PFM outcomes

Performance indicator/ dimension	PEFA Score	Main weaknesses identified	Underlying causes	Desired outcomes
PI-1	D	Aggregate expenditure outturns exceed original budget by more than 20% in last three years	• 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	• 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.		

Stage 4: Develop and prioritize PFM reform initiatives

5) Which initiatives can bring about the desired outcomes?

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 towards) the desired PFM reform outcome; an initial timeframe for completing the action (and any result milestone); and the allocation of responsibility within the government for implementation.

Continuing the example, a first priority may be to develop reforms aimed at improving the reliability of budget estimates by reducing the gap between budget allocations and actual expenditures. This may require improvements in macro-economic modelling and fiscal forecasting, strengthened rules on limiting post-budget spending decisions or implementing commitment control to reduce arrears.

Strengthening macro-fiscal forecasting may require improvements to national accounts, development of new economic models or the elimination of political interference in forecasting.

An alternative desired outcome may lead to different reform priorities and initiatives. For example, the government may identify improving service delivery outcomes as its main priority. Such a priority may also require improvements in the reliability of budget allocations and other initiatives that impact on fiscal discipline, but it may also require improvements to capturing performance information or better understanding of the availability of resources to service delivery units.

6) What are the most important reforms and how do we sequence them?

When a PEFA report highlights a significant and wide range of PFM weaknesses, the challenges may seem overwhelming. Worse, countries and development partners may try to adopt all-encompassing, comprehensive reform plans that are beyond the capacity of countries to implement and beyond the resources of development partners.

A review of contemporary literature (see Annex 3) highlights that, despite some attempts to agree on sequencing in planning PFM reforms, a consensus has not emerged. The lessons of experience and academic research lead to the conclusion that appropriate reform program design and optimum sequencing will be country-specific based on the unique political, institutional and capacity characteristics of that country.

In the first example above, the country identified three reform priorities based on its desired outcome of improving fiscal discipline: 1. Strengthening macro-fiscal forecasting; 2. Implementing cash flow forecasting; and 3. Updating budget processes and procedures. Strengthening macro-fiscal forecasting is identified as the most important reform due to the consistent, and significant, variations in budget outturns and composition. This has led to continuous reallocations across expenditure items, cash rationing and an inability for ministries to plan their expenditures with any certainty. The second priority follows from the first insofar as ministries need to plan for their cash allocations, based on realistic budgets, in accordance with their program needs. The third priority, updating budget processes and procedures, is recognized as an essential reform initiative to support decision-making in prioritizing budget allocations and strengthening adherence to both aggregate and ministerial budget allocations.

Table 2.6: PFM reform matrix: Proposed reform and priority

<table>
<tr><th>Performance indicator/ dimension</th><th>PEFA Score</th><th>Main weaknesses identified</th><th>Underlying causes</th><th>Desired outcomes</th><th>Proposed reform activity and priority</th></tr>
<tr><td rowspan="2">PI-1</td><td rowspan="2">D</td><td rowspan="2">Aggregate expenditure outturns exceed original budget by more than 20% in last three years</td><td rowspan="3">• 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</td><td rowspan="3">• Strengthen fiscal discipline through: greater adherence to fiscal targets.
• Improved predictability of budget allocations to service delivery ministries.</td><td>Strengthening macro-fiscal forecasting (high)</td></tr>
<tr><td>Implementing cash flow forecasting (medium)</td></tr>
<tr><td>PI-2.2</td><td>D</td><td>Significant variation in budget composition by function undermining the predictability and availability of budget allocations to key service delivery agencies.</td><td>Updating budget processes and procedures (high)</td></tr>
</table>

Stage 5: Identify potential constraints to reform

7) What are the constraints to reform?

Based on the prioritized list of reform initiatives identified in stage 4, the government, in consultation with other stakeholders, should next identify potential impediments to successfully implementing reform. The government would also identify possible measures to mitigate the impact of those impediments. A checklist of risks arising from the various sources can be formulated to guide reform design. In some cases, the constraints may be so great that they cannot be resolved, in which it may be advisable to recommend that the government should not engage in a specific reform at that point in time.

Table 2.7 below sets out common constraints to implementing reforms and suggests ways to mitigate those constraints.

Table 2.7: Potential constraints to PFM 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.

Anecdotal evidence, as well as a review of contemporary literature (see Annex 4), highlights the important role of non-technical factors in PFM performance. While there is general agreement on the importance of non-technical factors, there is no consensus on how to address these issues in practice except an acknowledgement that they can significantly vary between countries and over time. Implementation will require political and bureaucratic commitment, learning new skills and acceptance of organizational change. As with sequencing and prioritization the approach to identifying technical and non-technical constraints will vary depending on context.

8) How are the constraints addressed?

This question relates to how the constraints can be resolved or mitigated; that is, what needs to be done to enable the reform. In the flowchart example in Annex 1, it is determined that there are no political constraints, but there are both institutional and technical constraints. The latter constraints are considered to be resolvable in the example through the creation of a dedicated macro-economic and fiscal unit and technical skills and capacity development in economic modeling and fiscal forecasting for the staff of the macro-economic and fiscal unit.

If it is not possible to resolve or mitigate a constraint—for example where there is no political will or engagement for reform—then governments and stakeholders should not proceed with implementation.

A further column on constraints to reform is now added to the PFM reform matrix shown in table 2.8. The completed matrix can now help guide users in establishing a prioritized list of reforms that is achievable within the known technical and non-technical constraints.

Table 2.8: PFM reform matrix: Constraint to reform

PI/ Dim	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; Lack of capacity in economic and fiscal forecasting Political involvement in setting fiscal projections	Strengthen fiscal discipline through: • greater adherence to fiscal targets. • Improved predictability of budget allocations to service delivery ministries.	1. Strengthening macro-fiscal forecasting (high) 2. Implementing cash flow forecasting (medium) 3. 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.					

Stage 6: Implement reforms or reform action plans

9) What are the actions, deliverables, responsibilities and timelines?

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

Table 2.9 provides a template for developing a PFM reform plan that can be adapted for iterative approaches for reform or more sophisticated and comprehensive reform strategies. The template is not intended to be prescriptive, nor exhaustive, but rather, again, as guide to the key elements to be addressed in designing a reform plan, whether this involves individual reform initiatives or a more detailed comprehensive strategy.

Table 2.9: Key elements of a PFM reform action plan

DESIRED OUTCOME	PFM REFORM	KEY TASKS/ ACTIONS	RESPONSIBILITY	TIMEFRAME	KEY MILESTONES/ OUTPUTS	CAPACITY DEVELOPMENT NEEDS	COST AND FUNDING SOURCE
State the govt'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

Table 2.10: Illustration of key elements of a PFM reform action plan

DESIRED OUTCOME	PFM REFORM	KEY TASKS/ ACTIONS	RESPONSIBILITY	TIMEFRAME	KEY MILESTONES/ OUTPUTS	CAPACITY DEVELOPMENT NEEDS	COST AND FUNDING SOURCE
Strengthen fiscal discipline through greater adherence to fiscal targets Improved predictability of budget allocations to service delivery ministries	Strengthening macro-fiscal forecasting	Establish a Macroeconomic and Fiscal Forecasting Unit	Director, HR, MoF	Dec 2019	Staff recruited for macro-economic and fiscal unit July 2019	Technical support and training staff of macro-economic and fiscal unit	$$
		Design a medium term fiscal framework (MTFF)	Budget Director, Ministry of Finance	Aug 2020	Develop macro-economic model used for budget preparation by July 2020	Technical support and training staff of macro-economic and fiscal unit	$$
					Medium-term macro-fiscal forecasts based on new model prepared by Aug 2020		
					Prepare and publish MTFF by Aug 2020		
	Implementing cash flow forecasting	Develop and distribute circular advising Ministries to prepare monthly cash flow forecasts	Accountant-General, MoF	Dec 2019	Budget call circular July 1, 2019	Not required	No additional cost
		Require ministries to update cash flow forecasts each month	Accountant-General, MoF	Jan 2020	From 2020 budget year	Not required	No additional cost
	Update budget	Revise budget calendar	Budget Director, MoF	Mar 2019	Revised budget	Technical support and	$$

DESIRED OUTCOME	PFM REFORM	KEY TASKS/ ACTIONS	RESPONSIBILITY	TIMEFRAME	KEY MILESTONES/ OUTPUTS	CAPACITY DEVELOPMENT NEEDS	COST AND FUNDING SOURCE
	processes and procedures				calendar approved by Cabinet	training staff of Budget department	
		Revise budget instructions	Heads of line ministries; Budget Director, MoF	June 2019	Revised budget instructions setting out: budget timetable aggregate and ministerial budget ceilings; instructions for preparing detailed estimates	Not required	No additional cost
		Update financial management legislation and/or regulations to strengthen legal requirements for adherence to aggregate and ministerial budget ceilings	Heads of line ministries; Budget Director, MoF	June 2021	Draft revised financial management legislation and regulations (June 2020) Revised financial management legislation approved by parliament (June 2021)	TA support for drafting new financial management legislation	$$)

Table 2.10 includes a simplified example of the template could be used in practice to address specific reform priorities centered on the need to improve fiscal discipline using the example we have outlined in each of the stages. The example aims to demonstrate the program logic for developing and implementing reform priorities resulting from the PFM reform dialogue, highlighting the specific outcome that the reform is intended to achieve (or contribute to) and the specific tasks required to achieve that outcome, along with responsibility, timeframe, any specific milestones and capacity development needs.

In some cases, a government’s approach to reform may be less structured and more piecemeal based on individual (and achievable) reform initiatives. Specific problems may be responded to in a more ad hoc manner or simply reflect what is considered achievable given a particular set of circumstances (depending on the political environment, the skills capacity available or the institutional framework). Such circumstances may not lend themselves to a formal work plan. It is nevertheless important to be clear on what the objective of a reform may be, what actions are required, who is responsible for working on the reform and when the reform is expected to be completed.

Stage 7: Monitor and evaluate reform implementation

10) Are reforms being implemented?

Progress on implementation should be monitored against specific reforms, actions, milestones and deadlines, as well as for the potential impact on performance as measured by the relevant PEFA performance indicator(s) or dimensions.

Monitoring should be used continuously for learning and adjusting objectives, actions and risk mitigation. Whether reforms are implemented through a structured, iterative or unstructured approach, it is important to track the actions undertaken and deliverables achieved and to hold accountable those who are responsible for carrying out the tasks involved.

The PEFA framework provides one means of monitoring progress and impact of the reform, but the MoF should also monitor progress of individual tasks. Often full implementation of a task may take several steps over several years. Individual indicators or dimensions may be used for project progress monitoring; that is, as an indicator of project implementation results. Progress can be monitored against the implementation of actions or measures, the outcomes and deadlines achieved measured by specific PEFA performance indicators or dimensions.

Successive PEFA assessments can be planned after three or more years to take another cross-sectional snapshot of progress across the entire PFM framework. In this way, PEFA can be integrated into the government's monitoring and evaluation (M&E) system with respect to its overall reform program. It is also important, therefore, that those tasked with implementing reforms provide regular progress reports to those responsible for monitoring progress. In turn, the officer responsible for M&E, should prepare regular quarterly or half-yearly updates for the government to ensure that the PFM reform process is ongoing, transparent and accountable.

Some PFM reforms are not suited to annual monitoring due to considerations of cost and complexity or where it is unlikely that there will be significant change over a relatively short time. Many PFM reforms can take several years to implement to the extent that they will affect PEFA dimension or indicator scores. Nonetheless, many new governments consider that having a PEFA assessment early in their appointment is a useful check on the status of PFM and serves as a benchmark for reform initiatives.

11) What are the next steps for reform?

PFM reform is rarely linear in its application. Reforms can encounter constraints and progress can be variable. Governments may need to respond to those constraints and continually adjust their reform plans. Following an adequate period of monitoring and review (usually between three and five years) a PEFA assessment should be considered to examine progress more comprehensively. This would restart the PEFA assessment process.

The success or failure of a reform initiative will determine the next steps in the reform process. Failure or partial success will require government and their development partners to evaluate the factors that have affected success or failure. Further impediments to reform that have been identified should be addressed. A lack of success may be due to poor or inadequate program design. Practitioners may need to try several iterations of design before a reform is successful. If reforms are successfully implemented, the government and development partner should move on to the next priority and apply the same approach. In our example, there may be several attempts at developing economic models and fiscal forecasting techniques that produce sufficiently robust fiscal forecasts

12) Has reform had the desired impact on the identified problem?

The final question is whether the reform has had the desired impact on the identified problem, whether this is policy driven or PEFA driven. So, while specific tasks and deliverables should be closely monitored, the reforms should be evaluated to determine whether they have had the desired impact on the PFM weaknesses previously identified and addressing any broader policy problems that may have been the initial catalyst for the reform. Even in cases where the driver for the reform was the PEFA report, it is important to look beyond just the PFM impact—not only in terms of the form and functioning of the PFM institutions and systems, but also the impact on the improved PFM performance on the three key budgetary outcomes: aggregate fiscal discipline, strategic allocation of resources and efficient service delivery.

In the above example, the government would evaluate how implementation of the three reform priorities has impacted on its desired outcome – aggregate fiscal discipline. The evaluation may show that implementation has been successful and has had an impact but that additional reforms are required to strengthen fiscal discipline further.

Box 2.1: Using PEFA for prioritization and sequencing of PFM reform: An example – budget credibility and fiscal discipline

Budget credibility and fiscal discipline "*are often the first and foremost concern in many developing countries, with any efforts at addressing the other PFM objectives – strategic allocation of resources and efficient service delivery.*" In the following example, we take the case of a country that exhibits low budget credibility and poor fiscal discipline. The government has decided that addressing poor performance in these area is the first priority of the country's PFM reform strategy.

The PEFA report confirms the government's concerns. The PEFA indicators most relevant for measuring budget credibility in a country might be: PI-1 (Aggregate expenditure outturn), PI-2 (Expenditure composition outturn), PI-16 (Medium term perspective in expenditure budgeting) and PI-17 (Budget preparation process). For fiscal discipline, the relevant performance indicators are PI-14 Macroeconomic and fiscal forecasting) and PI-15 (Fiscal strategy).

The next step is to define the causes that lead to poor scores on these indicators, and to make an analysis of each of these factors, drawing on PEFA assessments and other diagnostic reports. These causes could be legal, administrative, technical or institutional (for example, political economy). In some cases, there might be insufficient information to draw any firm conclusions about the causes of inferior performance. Further analysis by the relevant government agencies may be needed or additional diagnostic work might be commissioned.

Common causes of poor budget credibility include unreliable or unrealistic macroeconomic forecasts that underpin fiscal forecasts. This may be the result of institutional factors (for example, underlying national accounts data are untimely and inaccurate); technical weaknesses (for example, lack of internal capacity and expertise to prepare macroeconomic forecasts); or political economy factors (such as government manipulation of the projections to provide a more positive bias).

The question is then whether these data can be improved and whether these institutional, political and technical impediments can be overturned. For example, can the national statistics office improve the timeliness of the production of its national accounts data; can the ministry of finance strengthen the skills of the macroeconomic unit and improve the robustness of its macroeconomic modeling and fiscal forecast; can political interference in the economic forecasting be addressed through greater independence and greater transparency of macroeconomic and fiscal forecasting.

The next step is to assess how possible it would be in the short run and in the longer run to make improvements in the regulations identified. Political, technical and institutional causes should be addressed in turn. To each of these factors the government (with the support of its development partners) would assign a low, medium or high probability of success. This may result in the identification of some dead-ends from which no prospect of success can be gleaned.

Dialogue among stakeholders at the political level is therefore critical for the approach to work well. Political input is required at two levels: (i) how to prioritize the various reform measures that would emerge from the analysis, and (ii) how to analyze the severity of the institutional constraints that might have an impact on the implementation of each potential reform option.

3. Planning for reform

Deciding the right approach

Based on the seven stages approach outlined in Part 2, the reform dialogue is intended to lead to a set of desired PFM outcomes around which the government's reform priorities can be agreed and initiatives developed to address weaknesses identified in the PEFA report (supplemented by further analysis as required). What happens next will largely depend on the country context.

In some cases, it will make sense for the government 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.

In other cases, a more open-ended, less structured and iterative reform approach focused on specific high-priority problems may be more appropriate. This might be the case 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 not well understood. In these cases, smaller, less ambitious iterative reform initiatives with a focus on continuous feedback and learning may be more effective.

Many experienced practitioners tailor reforms to country circumstances or apply a system of ”trial and error” in reform design and implementation focusing on reforms that address the government's main problems and priorities and that can be implemented. Andrews et al (2017) proposes a similar approach referred to as “problem driven iterative adaptation” However, for many countries, governments and development partners have often preferred a comprehensive reform strategy over a more iterative approach. This often leaves countries “weighed down” with multiple reform initiatives that strain country capacity, undermine political commitment and often result in “reform fatigue'.” Nevertheless, even in settings where an iterative approach is more appropriate, there are benefits in setting out initiatives in a structured, albeit simplified reform and task plan.

Box 3.1. Similarities in PFM reform projects

Despite continued efforts to tailor the reforms to country needs, and despite donors' insistence that reforms should be led by the authorities and answer their perceived problems, in practice this is not always evident. For instance, Andrews found a disturbing similarity in reforms being pursued in Africa, regardless of different country contexts and different stages in their PFM system development. This he put down to bureaucratic agencies being biased towards what has worked in the past, or what they are familiar with—in his phrase "institutional isomorphism."[3]

Fritz et al. (2017), also found that reform packages targeting PFM reforms remain rather homogenous; they include a list of around 10 items: Medium-Term Expenditure Frameworks (MTEFs) and program budgeting to achieve a better policy orientation of budgets; introduction of new budget classifications and accounting standards (including in many countries, the ambition to shift to International Public Sector Accounting Standards [IPSAS]); establishing and upgrading information technology (IT) systems for managing public expenditures; better cash management, including the introduction of Treasury Single Accounts (TSAs); strengthening internal audit and external audit and ex post accountability. Reform packages typically focus on a selection of this set and, in some cases, most or all these areas. The considerable homogeneity of reform intentions, also reflected in the five case studies (Nepal, Tanzania, the Philippines, Georgia, and Niger) on which this conclusion builds that there may be problems with adequate tailoring of reforms to the country's context.

Further guidance on prioritization and sequencing

The literature unfortunately provides very little practical guidance on how a government should decide on which areas of PFM it should prioritize in preparing its PFM reform strategy. The most concrete advice—on getting the basics right—by Allen Schick, focusses more on horizontal sequencing than vertical sequencing. The literature, however, has largely drawn a blank about the issue of selection—what a country should choose to do first, second and third—and what criteria are relevant here. Should improving cash management be given priority over establishing a TSA, or vice versa? Should eliminating spending arrears be given priority over building capacity in macro-fiscal forecasting and analysis? What degree of priority should be given to upgrading the legal framework for public finance and budgeting? These are important questions on which 101 different answers can (and often have) been given, most of them based on loose or missing criteria.

While not pretending to establish a rigorous analytical framework for answering the question of how to prioritize and sequence reform, this guidance provides general guidelines and criteria that may help narrow down the possibilities and organize the subsequent dialogue, by bringing together the key stages set out in Section 2.

Stage 1 will analyze the latest PEFA assessment report and identify the weak areas of performance. While a mechanical approach to selecting "weak" areas of performance based on a simple ranking of the PEFA scores should be eschewed—for reasons well-rehearsed in the literature—useful information can be derived. The assessment should be compared with previous PEFA reports (if available) to establish whether a consistent pattern of relatively weak performing areas emerges, and comparisons with other front-line diagnostic assessments such as TADAT, FTE and PIMA reports, as well as relevant TA reports from the IMF, World Bank and other credible sources should also be made, where these are available.

Stage 2 will draw on the assessment of the causes of the deficient performance. In many cases, there are likely to be several causes behind an indicator under-performing (for example, PI-14 Macroeconomic and fiscal forecasting) which could be linked to technical capacity, lack of suitable IT systems to produce economic modelling, or political override. Existing diagnostic analyses of the country may not provide sufficient information to assess the causes of inferior performance in all cases and where this is the case, the guidance recommends further analysis. Having a better understanding of the underlying causes will enable countries and their development partners to identify which of these can be addressed and in what timeframe. Some of the underlying causes (technical or process oriented) may be resolved quickly; others, particularly, longstanding political constraints, make take significantly longer or, as discussed in section 2 may not be able to be overcome at all in the short or medium term.

Stage 3 requires an understanding of a government's desired PFM reform outcomes. For most developing countries, two major objectives of fiscal policy will be to strengthen fiscal discipline and to improve the credibility of the annual budget. In relation to the PEFA framework, this narrows down the focus quite substantially. Other areas of PFM could of course still feature as priorities, subject to further analysis discussed below. During this stage it is important to ask what comprises a country's overall strategy for fiscal policy and PFM. For example, are there any documents published by the government—such as budget speeches, or a fiscal strategy statement, or a PFM reform strategy—that define such policies or strategies? If a country has a program with the IMF, its overall policy objectives may also be enshrined in the program documents, which could include specific benchmarks such as a commitment to produce a new budget law or fiscal rules or to bring spending arrears under control. Such documents may be useful in identifying a country's short term or medium-term PFM reform priorities.

Stage 5 should assess the possible obstacles (technical, institutional or political) to making improvements in the areas identified. As set out in section 2, a template could be prepared, based on this analysis, which identifies the areas of reform that should potentially be allocated high priority, with observations about whether the reform is likely be relatively easy to achieve, moderately challenging, or extremely challenging. Only those areas in the first two categories should be given further consideration.

Even with the filters applied in the stages of prioritization described above, the process is likely to result in a large menu of "high priority" reforms. There is some justification for this outcome since in most developing countries, almost by definition, many PFM areas are relatively weak compared to the PEFA benchmarks. However, an approach which allows all such areas to be included in a country's PFM reform strategy leads to the overly detailed strategies which are commonplace in developing countries. This leads to both unrealistic expectations of what can be achieved in a particularly timeframe and, consequently, often unfair perceptions of failure as reform programs exceed the capacities of countries to implement. Under-execution (or non-execution) of many or most of the projects included in these strategies is frequently observed. Further filtering may thus be required to bring the selected list of projects down to a manageable size that aligns well with a country's fiscal and political priorities. This stage is likely to require more input from senior managers and politicians than from technicians.

In practice, history suggests that countries at any level of development are not able to manage successfully more than one or two major reform projects at one time. In practice, however, it has proved difficult to persuade development partners—many of whom are focused on pursuing their own perceived objectives for achieving good development outcomes and disbursing resources through their ODA programs—of the virtues of a lean and focused PFM reform strategy.

The last step of prioritization and sequencing (stage 5) should engage in a dialogue with senior government officials and (ideally) political leaders to discuss the analysis and agree on a set of reform priorities based on the preceding analysis. This dialogue can take many forms.

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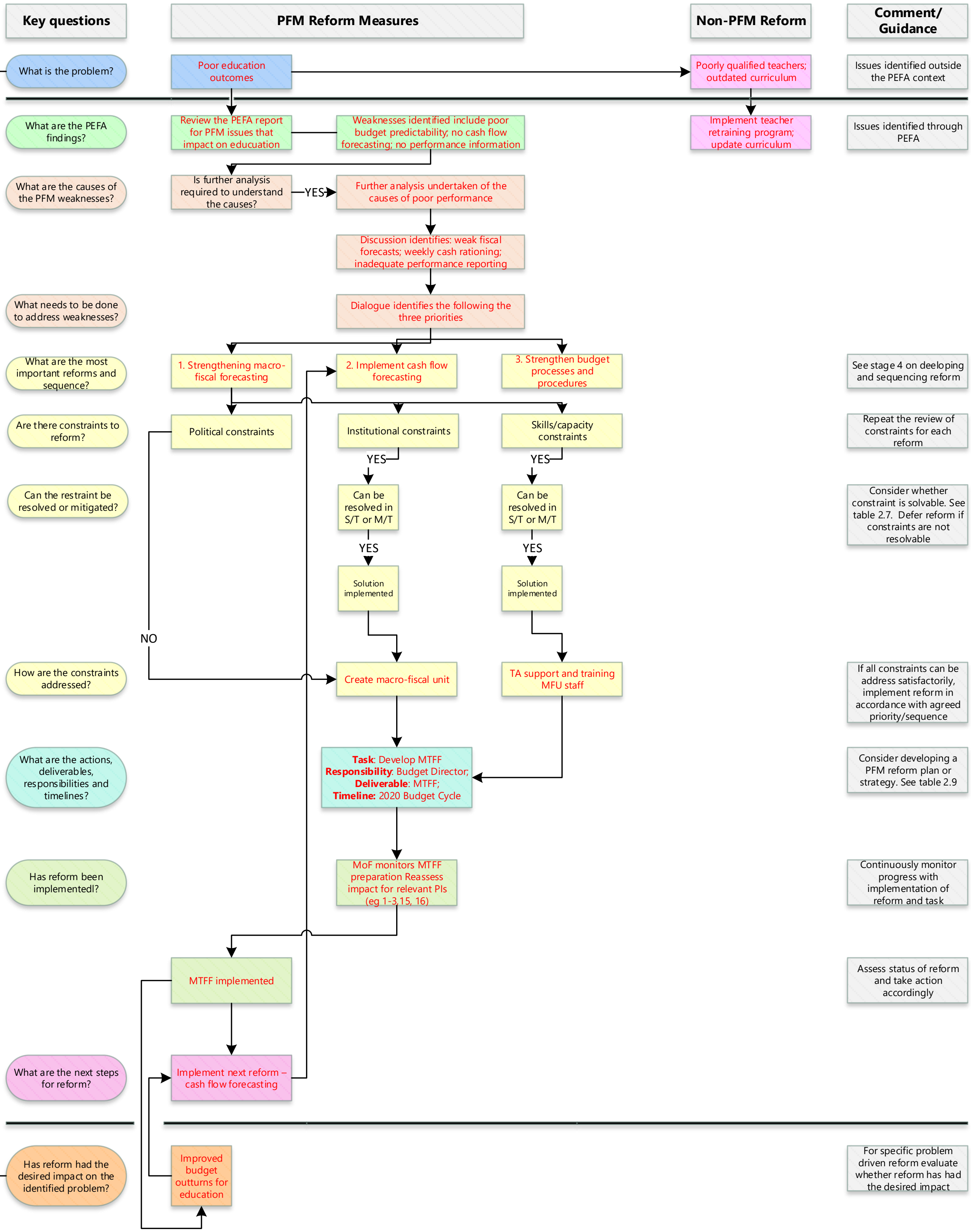
Annex 1. Example of Flowchart for Reform Design



Annex 2: The PEFA Framework and other PFM diagnostic tools

A.1 PEFA - PFM performance - Pillars	Budget credibility			Transparency of PF						Management of assets & liabilities				Policy based fiscal strategy and budgeting					Predictability & control in budget execution								Accounting & reporting			External scrutiny &	
A.1 PEFA Indicators	1 - Aggregate expenditure out-turn	2 - Expenditure composition outturn	3 - Revenue outturn	4 - Budget classification	5 - Budget documentation	6 - Central Gvt operations outside	7 - Transfers to SNG	8 - Performance information for service	9 - Public access to fiscal information	10 - Fiscal risk reporting	11 - Public Investment Management	12 - Public asset management	13 - Debt management	14 - Macro & fiscal forecasting	15 - Fiscal strategy	16 - MT perspective in expenditure budgeting	17 - Budget preparation process	18 - Legislative scrutiny	19 - Revenue administration	20 - Accounting for revenue	21 - In-year resource allocation	22 - Expenditures arrears	23 - Payroll controls	24 - Procurement management	25 - Internal controls non-salary expenditures	26 - Internal audit	27 - Financial data integrity	28 - In-year budget reports	29 - Annual financial reports	30 - External audit	31 - Legislative scrutiny
Broad PFM tools																															
A2. FTE (fiscal transparency)				●	●	●		●	●	●	●	●	●	●	●	●	●	●										●	●	●	
A3. RCBG (budgetary governance)					●	●		●	●	●	●				●	●		●			●					●				●	●
A4. IBPPD (budget practices/procedures data)					●	●			●	●	●			●	●	●	●	●			●							●	●	●	●
A5. SIGMA PPA (principles of public admin)					●	●		●	●				●			●	●	●					●	●	●	●		●		●	●
A6. OBS (open budget survey)				●	●	●			●						●	●	●	●										●	●	●	●
A7. GIFT PFT (Principles fiscal transparency)					●	●		●	●	●					●			●										●	●	●	●
A8. PER (public expenditure review)	●	●	●	●												●	●	●													
A10. RAAP-ID for sub-national government	●	●	●	●	●	●		●	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●	●	●	●		
A12. COE BFD (benchmarking fiscal decent.)							●			●																					
Individual PFM elements tools																															
B1. TADAT (Tax adm diagnostic)														●	●				●	●											
B2. IAMTAX (Tax adm performance)														●	●				●	●											
B3. TACIS (Tax Adm Compar. Info)																			●	●											
B4. CTD (Collecting taxes data base)																			●	●											
B5. EU-FB (Fiscal Blueprints)																			●	●											
B6. HTS (tax simplification)																			●	●											
B7. RA-FIT (revenue admin/fiscal info)			●																●	●											
B8. RA-GAP (revenue admin/gap analysis)			●																●	●											
B9. CATT (customs assessment/trade)																			●	●											
B10. EITI (extractive industries transparency)						●						●							●	●											
B11. SOE Toolkit (corporate govern. & risk)										●		●																			
B12. DeMPA (debt management performance)													●																		
B13. PIMA (public investment management)											●																				
B14. DF-PIM (public investment management)											●																				
B15. MAPS (procurement systems)																								●							
B16. CPAR (procurement)																								●							
B17. PETS (public expend. tracking surveys)								●																							
B18. DF-FMIS (financial manag. info system)				●								●	●							●	●		●		●		●	●	●		
B19. IA-CM (internal audit capability model)																										●					
B20. IRM-FMIS (integrating records managemt)																											●				
B21. AA-GAP (gap analysis account & audit)									●	●		●										●					●		●	●	
B22. AA-ROSC (account & audit standards/codes)										●		●															●		●	●	
B23. SAI PMF (supreme audit performance)																														●	
B24. ICBF (audit institutional capacity building)																														●	

Note: The table does not include three tools for which details fo technical coverage is inaccessible (ECFIN-OA, MiGestion and FM Model)

Annex 3: Approaches to sequencing PFM reform

Allen Schick's 1998 contribution "*basics first approach*", stresses the important principle of "getting the basics right" as a priority when undertaking reform. His approach was originally a plea for reversing what he felt were the over-ambitious attempts to establish PFM international best practices in less developed countries that lacked the capacity to operate even basic processes. However, the "*basics first approach"* has never been popular for a number of reasons. First, it has been difficult for experts in the field to agree on what should be considered "basic", although there is a substantial degree of overlap in all interpretations[4]. Secondly, others have objected to designating any PFM process as "basic" that involves a large degree of arbitrariness, hence the approach gives insufficient guidance to reform action[5]. Thirdly, that the concept of sticking to the "basics first" principle is not an easy strategy to sell within LICs, as well as within the donor community[6].

An approach that has gained wide interest is the "platform approach" associated with Peter Brooke (et al., 2003). This strategy for sequencing PFM reforms proposes to replace the emphasis on individual reform activities and to focus on reform activities packaged together. These packages of supportive measures then should form a logical sequence for reform, so that once one package of activities is completed it will form the basis, or "platform," on which to anchor a further package of complementary reforms. This strategy is designed to advance the PFM system over a period of time, perhaps as long as ten years, with each platform's activities lasting for a period of two to three years. The total strategy is envisaged as being updated and rolled over, maybe every two years depending on progress made. Although, there have been several arguments in favor of such an approach to sequencing reforms, there have also been a number of criticisms. First, some doubt the validity of technical arguments for identifying some processes, on which other PFM processes depend, as more important for inclusion in successive platforms.[7] Second, given that each platform is an amalgam of various reform activities, it has been argued that it is often difficult to agree on the definition and objective of each platform, and hence reach consensus on its achievement.[8] Third, the approach is often criticized as being overloaded in reform actions and over-engineered in design, hence difficult to manage, and therefore prone to failure and reform fatigue.

Tommasi (et al., 2009) attempts to separate "basic" from "beyond basic" for each sub-sector of the PFM system by using the PEFA Framework and associated performance indicators by delineating the desired rating/target that would suffice to ensure a "basic" level is attained in the PFM process covered by that indicator. Because the first

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[4] Compare, for example, the "basic" reforms identified by Tandberg and Pavesic-Skerlep, 2008, with Schick's checklist. See also, Tommasi, 2009, p.22, for his definition of "basics" versus "beyond basics", and Browne, 2010, pp.16ff, for a description of her interpretation of "first level" or basic reforms.

[5] Allen, for example, sees the concept of "basic" as subjective, as he puts it "it is similarly unclear what criteria should be applied in determining whether a country has achieved sufficient progress in improving its basic systems to move forward to more advanced measures. Should a government be encouraged to start work on such reforms before *all* the basics are in place? Are some of the basics more important than others in establishing essential preconditions for moving on to the menu of more advanced measures?" (Allen 2009, p.17).

[6] Allen and others have noted how unattractive the "return to basics" strategy can be for politicians knowledgeable about the latest reforms in advanced countries and eager to show results (Allen, 2009; Andrews, 2006).

[7] This is equivalent to the controversy over what constitutes "basics" in the "basics first" approach.

[8] As Richard Allen puts it: "If it is not possible to agree on a rigorous definition of the goals of the reform strategy that are being pursued—and a unique measuring rod for evaluating whether or not these goals have been achieved—then the whole concept of platforms becomes operationally meaningless, and collapses, much as a building or bridge would collapse if the architects and contractors could neither agree on how the foundations of that structure should be built, nor on a way of measuring when such work had been completed to the required specifications (Allen, 2009, p. 18)."

“basics first” platform is seen as depending on the country context in several ways, the choice of basic reform priorities will be country specific; priorities cannot be solely technically determined, and, in terms of practicality, it may be necessary to incorporate on-going reforms that go beyond the basics.

Quist (et al 2009) adopts a broad platform approach founded on the stages in PFM system development: aggregate fiscal discipline; efficient service delivery; and strategic allocation of resources. The approach called “PEFA Reform Sequence Model Framework,” technically defines the sequence of reform activities by looking at the inter-dependencies in the various PFM subsystem elements to identify the impact of each element on overall PFM performance, after taking into account the number of “broken” PFM functions (that is, those scoring D or NR in PEFA rating) and the number of well-functioning activities (generally A and B ratings).

Annex 4: Non-technical factors in PFM reforms

PFM performance and reform cannot be viewed simply as technical issues. A review of contemporary literature highlights the important role of nontechnical factors in the design and the success of PFM reforms. The scope of the factors identified in the literature is very wide. While there is general agreement on the importance of non-PFM factors, there is no consensus on how to address these issues except with an acknowledgement that they can significantly vary between countries in importance.

Allen (2008) notes that PFM reform advice is often poor because advisors are unable to see beyond budgetary institutions and PFM systems. He argues that it is important to recognize that "reforming institutions is a necessary but insufficient condition for improvement; other important considerations are people, skills, organization, and information (Allen, 2009, p.23)". This echoes the arguments advanced by Schiavo-Campo and McFerson (2008). Brooke (2003) highlighted the importance of the political context, as well as four other important factors: capacity development; motivational development; process development; and institutional development. For Tommasi (2013), the country context includes, "among other elements, human resources capacity, current strengths and weaknesses of the budget system, the administrative culture and the institutional and political context" (2009, p.10)." This agrees with Quist (2009, p 7), who sees "the political context, the maturity and level of activity by civil society, the level of donor harmonization, the degree of ownership of reform strategy along with the political will, all factor into the sequencing of reforms."

Allen (2016) highlighted the role and importance of the organization of the Ministry of Finance (MoF) in PFM reform. Organizational models of MoF are strongly influenced by the national characteristics of a country—its legal framework and administrative culture (Anglophone, Westminster, Francophone, Scandinavian, and so on)—as well as its political economy and governance arrangements. These differences need to be recognized when considering how to improve a finance ministry's capability. According to Allen, transformation of the MoF from a traditional to a modern organizational model would include (i) change from the dominance of informal rules to a reliance on formal rule; (ii) evolution from an organization characterized by vertical silos that do not communicate with one another to one characterized by strong horizontal communications between the various organizational units; (iii) leaner and flatter organizational structure, as in the past; and (iv) devolution of many operational functions to line ministries or specialized agencies that are independent of the finance ministry.

Andrews empirically associates a number of external factors (growth, stability, revenue structure, length of reform commitment, colonial heritage) with higher PEFA ratings from his research in African countries. He also stressed the importance of organization capability for implementation success (Andrews 2017). He points to whether designated staff—specific teams, as opposed to particular individuals—can actually do the (often) complex, high-stakes, time-consuming, discretionary work associated with learning new ways of doing things; and if they cannot, discerning what can be done to help them acquire it.

There is also a growing recognition of the importance of the political economy context in the design and success of PFM reforms. High-level or leadership commitment is widely reported in the literature (for example, Robinson 2009) and among practitioners as being crucial for PFM as well as for a range of other reforms. As Allen, Hemming, and Potter (2013) have emphasized, "PFM is no longer viewed a purely technical finance and accounting topic (as it once was); rather, it has become a subject where institutions and political factors play an important role." Furthermore: "We anticipate that, over the next ten years, the importance of political economy analysis as applied to PFM will continue to grow both as an area of research and in its practical application (Allen et al. 2013)."

According to Fritz, Verhoeven, and Avenia (2017), "Jointly, all the factors tested explain about 40 percent of the observed variation (based on PEFA and CPIA data to measure a country's quality of PFM systems). One of the hypothesis is that there are considerable nontechnical factors that play a role in influencing whether a government manages to pursue and achieve reform progress." So, Woolcock, Leah Hughes, and Smithers (2018) also stress the importance of the political economy: "With respect to the political environment, emerging factors of significance included the extent to which a political consensus on reform existed at leadership level and the extent to which leaders worked to build and expand this consensus in lower levels of government and with stakeholders outside the leadership group. A further pertinent feature of the political environment was the nature and effectiveness of communication practices between reform leaders and other key actors."

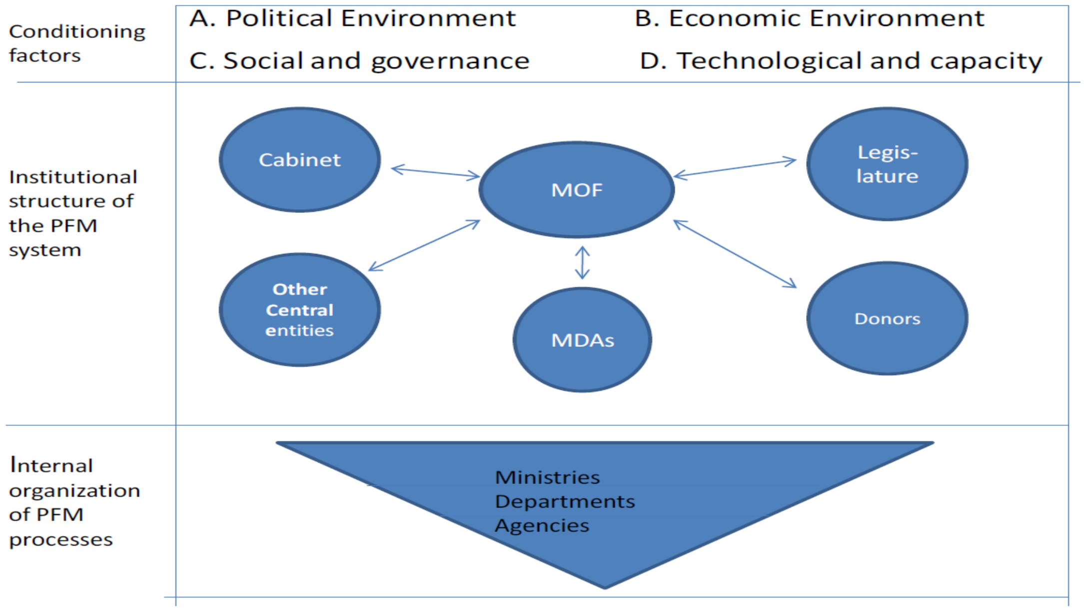
Diamond (2013) recognizes the important role of nontechnical factors in the design and the success of PFM reforms and suggests a three-tier classification of these factors. He also proposes that the three-tier framework be employed as a filtering device to gauge and manage the risks involved in the proposed PFM reform actions, and so guide their sequencing (see figure A1.0). The three categories are provided below:

- *At the top level* are ""conditioning factors" determining the climate for reform. These conditioning factors are divided into four broad categories: political environment; economic environment; socio-cultural and corporate governance environment; technological and capacity environment.

- *At the middle level* are PFM institutional factors determining how well the PFM system can cope with reform. It covers the PFM system at its broadest definition, including critical relationships as they affect PFM: between the legislative and executive branches of government; within the executive branch (especially focused on the role of the MOF); and the relationship between the MOF, line ministries and other relevant government entities.

- *At the lowest level* are the organizational factors that determine absorptive capacity for reform on the ground. These arise from the structure of organizations, the managerial culture, the limitations of leadership and skills available, and other capacity constraints often found in public institutions, especially in the LICs.

Figure A4.1: Framework for understanding and analyzing the non-technical factors



Source: Extracted from Diamond et al 2013.

Diamond also proposes a framework for understanding and analyzing the nontechnical factors as well as assessing the overall risks. In addition to risks to reform that arise from the general political economy of a country, there are also important risks that arise at a lower level. Diamond argues that the first, and perhaps most fundamental decision, of whether to engage in a reform program, could be addressed by assessing the risk impact at the highest level, from the "conditioning factors," that describe the general political economy faced by reform. In cases where engagement is indicated and two dimensions of the reform design have been largely settled—that is, what is technically required has been agreed on, and where the need for reform has been "sold" to the authorities so the demand for change exists—the question is how to decide on the feasibility of different reform actions as a way of sequencing them. Deciding between reform options requires accommodating the wide range of nontechnical factors indicated in the lower two tiers of the three-tier framework previously outlined: those covering institutional and organizational characteristics.

Assessing risks to PFM reforms arising from nontechnical factors that operate at the lower institutional and organizational levels of the PFM system is based on Andrews' "three A's" "*Ability, Authority, and Acceptance.*" The A's approach will help in determining the room for reform in the organization by focusing on the leadership roles of the ministry of finance and the managers of the receiving ministries in the reform process. Generally, there is agreement that successful reform requires resources, especially human resources. However, it is recognized that even with adequate resources, there are constraints in converting capacity (the potential to reform) into capability (actual reform action). The two most important constraints center on authority and acceptance. Authority describes the formal and informal institutional rules that determine scope for action (or discretion allowed for reform), while acceptance describes the incentive structure to induce key players to undertake that reform action.

Based on this analysis, it is proposed that a checklist of risks arising from these various sources be formulated to guide reform design in countries trying to improve a PFM system and to assist development partners to provide technical assistance.

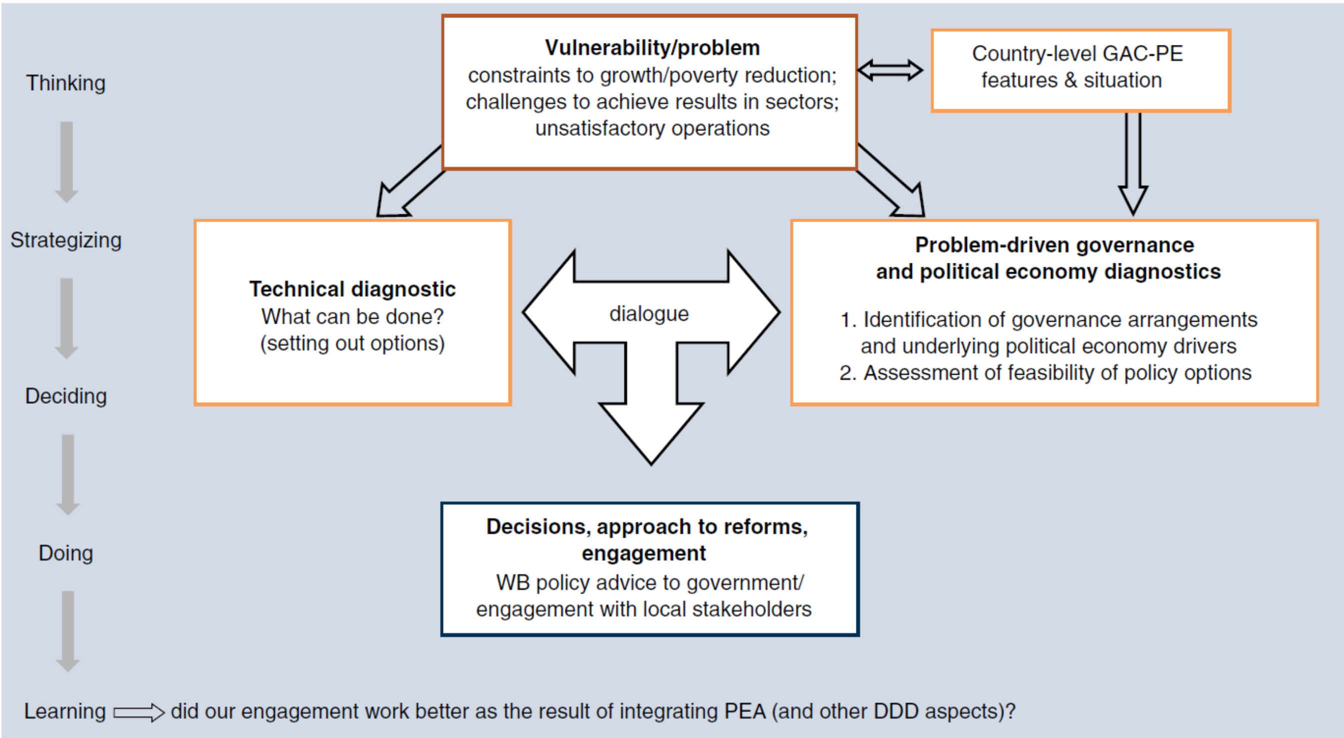
Fritz et al. (2017), considers as nontechnical drivers “institutional incentives and constraints, as well as political commitment, capabilities, and demand to pursue reforms, interacting with institutional aspects.” The understanding of nontechnical drivers is based on the emphasis of the World Development Report 2017 regarding the importance of functional improvements. Operationalization of political economy drivers draws on the framework developed in Fritz et al. (2009). The problem-driven approach to Governance and Political Economy (GPE) comprises working through three layers: (i) identifying the problem, opportunity or vulnerability to be addressed, (ii) mapping out the institutional and governance arrangements and weaknesses, and (iii) drilling down to the political economy drivers, both to identify obstacles to progressive change and to understand from where a “drive” for positive change could emerge. This basic approach can be applied to analysis at the country, sector or project levels.

- *The first layer* requires defining the challenge to be addressed and to establish whether it appears to have a governance or political economy dimension. Often, this will emerge from ongoing policy dialogue or existing reports.
- *The second layer* aims at understanding institutional and governance arrangements and how these are related to poor outcomes. Analysis at layer two is essential for identifying what reforms are feasible from an institutional perspective.
- *The third layer* aims at drilling down to the underlying political economy drivers. Layers two and three clearly overlap. However, they are differentiated to emphasize that institutional and governance dimensions, as well as stakeholders and their interests, need to be explicitly considered. Drilling down to the political-economic layer is important to understand why the identified problem has not been addressed successfully and what the relative likelihood is of stakeholder support for various change options.

Problem-driven GPE analysis developed by Fritz et al. (2017), can be translated into action in several ways. However, the country situations matter for calibrating what action to take. This problem-driven approach to analysis can provide political intelligence for agreement on what is feasible within teams and with management. Moreover, it can provide advice on shaping strategies and operations in ways that range from adjusting them to the existing space for change to developing proactive strategies for expanding the space for change.

A basic way of using GPE analysis is to have it *inform* country strategies and operations. GPE analysis helps to create a better understanding of the environment in which operations take place and in which strategic results are being pursued and helps spell out crucial governance and political (economy) risks. If context permits, GPE analysis can contribute to enhancing the policy dialogue and to developing innovative approaches to operations.

Figure 4.2. Technical Analysis and PE Perspectives Are Complementary



Source: Fritz, Kaiser and Levy (et al 2009)

Andrews (et al 2017) proposes "problem driven iterative adaptation (PDIA)," a framework which builds on four key principles:

Box 4.1. Problem driven iterative adaptation (PDIA)

Local solutions for local problems
Transitioning from promoting predetermined solutions to allowing the local nomination, articulation and prioritization of concrete problems to be solved.

Pushing problem-driven positive deviance
Creating (and protecting) environments within and across organizations that encourage experimentation and positive deviance.

Try, learn, iterate, adapt
Promoting active experiential (and experimental) learning with evidence-driven feedback built into regular management that allows for real-time adaptation.

Scale through diffusion
Engaging champions across sectors and organizations who ensure reforms are viable, legitimate and relevant.

Source: Extracted from Building capability by delivering results: Putting Problem-Driven Iterative Adaptation (PDIA) principles into practice. Matt Andrews, Lant Pritchett, Salimah Samji and Michael Woolcock 2017.

Change management and the political economy of PFM reforms are related, but cover distinct aspects of reform authorization, implementation, and effective use. Change management refers to the "process of --helping people understand the need for change and to motivate them to take actions, which results in sustained changes in behavior" (World Bank, 2015). The process is important, as the introduction of new ways of working will only deliver results if they are widely accepted and actively utilized, rather than resisted or circumvented. While change management ideas have originated in the private sector, they have also been applied to public sector organizations, with most observers noting some specificity (Van der Voet 2014 and Kuipers et al. 2014).

Depending on the level and solidity of political commitment to PFM reforms, it is then sensible to design a reform strategy that corresponds to the relative "window of opportunity" and a change management effort (Fritz et al., 2017). Change management entails deliberate efforts to communicate effectively within affected organizations on why a certain change is being made, what to expect in terms of sequencing of reform steps, setting out what training will be needed and offered, and so on. This is particularly relevant for reforms that affect many staff and how things are done; for example, the introduction of a new accounting system or of large-scale IT applications. When rolling out changes to procurement systems, this type of change management may also involve nongovernmental stakeholders, for example, suppliers. For instance, in Cambodia, the introduction of a change management team tasked specifically with assisting and advancing these negotiations was ultimately successful in advancing progress in FMIS, a key element of the country's PFM reform. Furthermore, in the case of Malaysia, managing the change process was at the forefront of OBB implementation and was addressed by the MOF from multiple angles. From the start, the MoF recognized the challenges inherent in implementing a complex reform process and created a dedicated unit to manage OBB implementation. Communication and outreach to stakeholders across government figured prominently in the change management plan, and substantial time and effort were devoted to developing a training-of-trainers approach to build capacity in developing results frameworks (Woolcock, Leah Hughes, and Smithers 2018).

Many donors have recognized the value of an initial high-level political economy analysis for any proposed reform intervention to avoid wasting scarce development resources. Notwithstanding the political sensibilities that are often raised in opening a dialogue with recipient countries on such issues, there seems little doubt that such dialogue is a crucial precondition for judging the feasibility and ensuring the viability of many developmental reforms, including those in the PFM area.

Allen (forthcoming) has identified two kinds of sequencing of reform that can be found in the literature. First, *horizontal sequencing* refers to the order in which over time one specific type or area of a PFM reform objective is implemented. Allen Schick was largely discussing this type of sequencing in his famous 1990s presentation "Look before You Leapfrog" which emphasized the importance of doing the basics first. Thus, for example, Schick argued that a country should focus on putting in place an effective system of internal control before it implemented internal audit (which is only useful once a credible set of controls has been established). A similarly logical progression would move from basic cash accounting to more advanced cash accounting (for example, on the IPSAS cash accounting standard) to accrual accounting or from an annual budget to a medium-term budget framework. This type of sequencing is simple, logical and straightforward, but is frequently not observed by countries (or their advisors), who decide to make a leap of faith into more advanced forms of budgeting (program budgeting and accrual accounting are common examples) before the basic elements are in place.

The second form of sequencing may be called *vertical sequencing*. This involves the selection of the specific PFM reform objectives that a country should prioritize among a very large menu of possibilities. For example, should a country give priority to improving its macro-fiscal forecasting capability before it modernizes its chart of accounts? Should it focus on improving cash management before establishing an effective system of commitment control? Decisions in this area are much more challenging because no clear criteria have been established for making them.

The "platform approach" represents a combination of horizontal and vertical sequencing. Its selection of PFM reform areas on which to focus the initial platform was an example of vertical sequencing, while the spreading of reforms across a series of platforms that took place later developed the idea of horizontal sequencing. Both types of sequencing are essential to good decision -making. The platform approach failed to succeed partly because the criteria for selecting which PFM elements to include in the initial platform and subsequent platforms were not based on any clear criteria or an agreed upon methodology.

Form vs Function

PFM reforms have been criticized for producing "…administrative systems in developing countries that look like those of modern states but that do not (indeed, cannot) perform like them…." (Andrews et al, 2017). While there is no doubt that, in some cases, there has been too much focus on the form of PFM (and in some cases in such complex form that is beyond the capacity of the countries to absorb and implement), it is nevertheless, difficult to reform function without first putting in place the necessary laws, regulations and processes to support that --- reform. It is stating the obvious that countries and their development partners need to ensure reform of "function" as well as "form" of PFM systems. In many cases, establishing the form is an essential pre-requisite for implementing the function. It is not that a focus on form per se is bad; rather it is important to follow up on the implementation of form with adherence with function. This often requires intensive and, importantly, sustained technical assistance and support for capacity development.

A review of contemporary literature suggests some dissatisfaction with how the reform design process has worked in the past. Once the stakeholders have been identified and their motivations understood, the decision process should focus on reaching an agreement between different stakeholders on defining the limits of reform, agreeing with donor partners on the overall reform strategy and ensuring the authorities are fully aware of the implications of, and fully committed to, the reform. Somewhat in contrast to this rather idealized view of how the decision process should function, in the real world there are obvious complications, which are summarized below:

- *Reform activities are too broad and overly ambitious in scope*. There seems a built-in bias in the PFM area to be over-optimistic about what can be achieved and to underestimate the time required. This also seems a common feature of large-scale public projects.

- *Donors' assistance to PFM remain rather homogenous despite continuous effort to tailor the reform to country needs*. Despite continuous efforts to tailor the reforms to country needs, and despite donors' insistence that reforms should be led by the authorities and answer their perceived problems, this is not always put into practice. For instance, Andrews found a disturbing similarity in reforms being pursued in Africa, regardless of different country contexts and different stages in their PFM system development. This he put down to bureaucratic agencies being biased toward what has worked in the past or what they are familiar with—in his phrase "institutional isomorphism."[9]

[9] Isomorphism implies that common reforms are presumed to provide a rational means to attain desirable ends—especially organizational legitimacy in external settings (Andrews, 2010, p.53)."

Fritz et al. (2017), also found that reform packages targeting PFM reforms remain rather homogenous: they include a list of about 10 items: Medium-Term Expenditure Frameworks (MTEFs) and program budgeting to achieve a better policy orientation of budgets; introduction of new budget classifications and accounting standards (including in many countries, the ambition to shift to International Public Sector Accounting Standards [IPSAS]); establishing and upgrading information technology (IT) systems for managing public expenditures; better cash management, including the introduction of Treasury Single Accounts (TSAs); strengthening internal audit and external audit; and ex post accountability. Reform packages typically focus on a selection of this set and, in some cases, most or all of these areas. The considerable homogeneity of reform intentions, also reflected in the five case studies (Nepal, Tanzania, the Philippines, Georgia, and Niger) on which this conclusion builds shows that there may be problems with adequate tailoring of reforms to a country's context.

- *There is a bias to agree to donor proposals in decisions in which political benefits (and resources) come up-front and costs (if any) much later.* Part of the explanation for the previous concerns arises from the way local authorities enter into dialogue with donors. Given the usual political cycle, the time horizon of the politician's term tends to be shorter than that of the donors. Resources come first and, given the nature of PFM reforms, results occur only after a considerable time. On the other hand, donors want reform programs and they stress the importance of the local authorities to lead and drive the reform. However, how the political commitment is evidenced and sustained deserves more consideration in the design of reform programs.

- *Choosing reform activities on the basis of local demand also has its downside*. Getting the authorities to own and lead reforms is essential, but if taken too far in some contexts this could prove risky and may involve PFM trade-offs. Given the already stated concerns, donors should perhaps more explicitly re-examine how far technical PFM considerations should be compromised to fit a country's political economy context

Others have advocated more radical approaches of questioning whether a particular PFM area is actually reformable in certain circumstances and therefore whether it is desirable to keep allocating resources without the required enabling factors in place. This highlight both the capacity for reform and ensuring that reform initiatives are implemented with the appropriate and optimum sequencing. Woodcock et al. (2017) analyzed experiences with public sector reform, including PFM, based on case studies in eight countries in East Asia. These studies focused on three key areas that affect the success or failure of reform: design quality, political environment and institutional capacity. This approach provides a useful basis for developing PFM reforms following a PEFA assessment and subsequent PFM reform dialogue.