This guidance note provides broad guidance to staff in undertaking public financial management work based on a distillation of lessons learned into good practice. It provides a framework, with identification of some essential elements, but deliberately avoids being overly prescriptive to leave scope for variation in application. The strengthened framework focuses on public financial management work, and not public expenditure policy.

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Introduction

1. The large amount of diagnostic work and lessons learned in public financial management (PFM) reform afford an opportunity to highlight and mainstream good practice in supporting country PFM systems. This Guidance note encourages a strengthened approach to PFM by synthesizing and distilling some of the good practices that have already been underway within the regions. While no single country example fully captures the principles that this guidance seeks to promote, there are elements of it that are reflected in part in various country work programs.

2. Five principles have emerged that reflect good practice in PFM work and the mainstreaming of these approaches will have implications for the Bank-Government dialogue, the work outputs that are generated, and the internal work processes themselves. The principles, reflected throughout the following guidance, are:

- **PFM work should facilitate and encourage country leadership in setting/managing the PFM reform strategy and action plan.**
- **PFM diagnostic work should be conducted in an integrated and coordinated manner, drawing upon the distinct competencies of the PFM country team and other donors, with the timing and scope determined largely by country needs.**
- **PFM work should be weighted toward implementation of capacity building rather than detailed diagnostic analysis, should add value to Government budget and reform processes, and should be aligned with Government decision-making cycles.**
- **PFM reform work should be framed within a multi-year horizon, sequenced around agreed priorities, and built upon a coordinated donor approach.**
- **PFM work should be linked to a robust monitoring and evaluation framework, that clearly articulates the gains in PFM system performance that are sought or achieved.**

**Public Financial Management (PFM) Country Team**

3. **Rationale.** Within the Bank, there are many talented staff and resources available for assisting country PFM systems. Traditionally, these resources have been deployed in parallel efforts, not always towards common ends. It is also important to acknowledge that much coordination and customization of assistance must occur at the country-level as the unit of account. Taking advantage of reforms to ESW mandates and the importance of improving country PFM systems, while acknowledging the need to customize to country needs, stronger vehicles are needed for undertaking support to country PFM systems under the leadership of the CD/CMU. This entails planning, coordinating, and carrying-out Bank support, using all of the tools at the Bank’s disposal (diagnostic, advisory, lending, grants, training, etc.) and resources (staff across all networks) to improve country PFM systems. A related issue is the need for staff to have an ongoing rather than episodic engagement with the client on PFM issues, for more continuous and direct support to clients, and to pay increasing attention to managing support to reform – that is, implementation and follow-up.

4. A main objective of PFM assistance is to strengthen country systems. In this regard, it is useful for all Bank staff engaged in PFM-related activity to work together to improve country systems. Good practice is to establish a ‘PFM country team,’ supporting the CMU. The core team should consisting of staff from PREM, OPC-PR and OPC-FM, expanded as necessary to include other key actors. While each team member would have more than one country to which they are assigned, each country should normally have one staff member from each network assigned to it.

5. The country PFM team would coordinate work across all three networks (PREM, OPC-FM, OPC-PR) to support the CD/CMU, and build country PFM systems.

6. Enabling country PFM teams may require modifying some administrative practices to better support this mode of working. For example, annual staff performance agreements could be crafted to explicitly include involvement in teams. SAP already contains a code for joint ESW products, but a separate code may be needed for on-going country PFM support, follow-up, implementation, and monitoring.¹

7. An expanded PFM team might be organized as needed for specific tasks, and might include WBI or sector specialists. Incorporating WBI into the country team work is good practice, allowing WBI training resources to be brought to bear on strengthening country systems. Training and education is far more effective when linked to application of knowledge or immediately relevant issues faced by countries.

8. The PFM team should support the CD/CMU in assuring there is coherent content to all operations going forward. If the objective is building country systems, it is important that all operations, to the extent possible, follow the approach of using or supporting country systems.

9. Moreover, for purposes of PFM support, whether diagnostic, financing, advisory, technical assistance, or other, the expanded PFM country team should be viewed broadly to include other donors

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¹ Add more on administrative barriers and incentives, budget issues, etc.
active or interested in a country’s PFM system. Efforts should be made to maintain active communication across donors to assure a coordinated approach.²

10. Further, given the different modes of providing assistance to countries, it is recommended that the expanded PFM team normally include resident consultants or peripatetic advisors that are actively advising or assisting the Government on PFM reform. Assuring all involved are in agreement and moving in the same direction will help assure priority reforms are implemented.

11. Where the CD/CMU is sensitized to the importance of PFM systems and the value of AAA to supporting reform, and PFM reform is an issue in the country, the PFM team can help the CD/CMU improve country systems, coordinating and sharing work, bringing multiple networks to bear on achieving results. Where the CD/CMU is not insisting on coordinated support, or not supportive of PFM reforms, the PFM team can build and present a coordinated case for support and plan for taking it forward. Within the PFM performance framework, a CD/CMU may begin to think in terms of budgeting for achieving PFM results rather than in buying traditional products.

Country PFM Strategy and Action Plan

12. Rationale. It is generally acknowledged that country ownership is an essential component of successful PFM reform. Where a country wants to make a change or reform, it is more likely to occur than where interest is lukewarm or absent. To achieve greater country ownership, it is important to support a reform program based on a country-led or country-owned PFM reform program – meeting country needs.

13. A useful starting point in organizing PFM assistance is the country’s own PFM reform strategy and action plan. A first step is to obtain the country’s strategy and action plan, if they exist. Possible sources for a strategy might include: Government white paper or policy document; PFM reforms embedded in PRSP’s; other PFM reform documents, or, for selected countries, the action plans incorporated into a countries HIPC expenditure tracking Assessment and Action Plan (AAP).

14. Where several strategies and action plans exist, it would be valuable to engage in a dialogue with Government around them all, as well as any other diagnostic work that exists, and assist the Government to develop a unified strategy for reform as well as an action plan supporting the strategy.

To reinforce country decision-making processes, this dialogue should, where possible, utilize a country’s own institutions and processes for developing reforms and addressing PFM issues. In some cases, this may be part of the annual budget process. It may also be through a donor coordination group chaired by Government. Whatever the vehicle, the Government should be leading the process. Annex A provides several country examples.³ Countries will have different capacities to coordinate or lead donors, and Bank (or other donor) staff may need to support Government in fulfilling this lead role, at least until Government

² How to budget for donor coordination and cross-network coordination. These are critical, and increasing in time consumption, but not clearly budgeted for.
³ Add Annex of examples from Nicola’s Tanzania note, Uganda, PNG.
capacity develops. In cases where a country has no interest to lead donor coordination, donors should still coordinate work and harmonize via a lead donor.

15. Where no Government strategy exists, the discussions with Government on developing a strategy should begin with the most pressing PFM problem facing the country, and proceed from there to develop a strategy and supporting action plan that builds capacity, while taking into account the realistic needs and sustainability of reforms. For example, a country may have problems making payroll, and failure to make payroll in a timely fashion generates political unrest given high unemployment rates. Addressing this problem directly is the most pressing concern of the Government, and should be the focus of assistance. Development of a multi-year reform strategy can proceed in parallel to fixing the concrete problem.

16. It is generally not expected that such reforms would resemble the cutting-edge reforms adopted in developed countries, or that every aspect of the PFM system have a reform measure associated with it. Reforms targeted to solving pragmatic problems in PFM have more impact. For example, a government may be wrestling with an immediate problem of containing deficits emerging from extrabudgetary funds. This can be a perfect entry point for directly assisting government to solve this immediate problem, building some institutional mechanisms to prevent future recurrence of the problem, encourage longer-term or more permanent corrective measures, and ‘training’ some government staff on these issues.

17. Once a Government PFM reform strategy and action plan exists, the PFM team should engage in a dialogue with Government over what, if any, support a country may want or need to implement the reforms. The Government strategy and action plans might include specific measures to improve PFM systems in the central agencies, in sector ministries, or subnational governments. It might also include further advisory, diagnostic, or other analytical work to better understand problems and develop appropriate reform measures, as well as establishing a PFM performance monitoring system to monitor progress in PFM reform. The set of measures and actions included in the Government strategy and action plan requiring assistance would be the primary basis of the program of work of donors.

18. The CD, CMU, or PFM country team, in discussing or helping develop the country strategy and action plan, should also bring to the discussions any specific diagnostic, analytic, or information needs required by donors, to the extent these would not be met through the work supporting the Government strategy and action plan. These additional needs might include an indicator-based PFM performance report, or supplemental analytical or diagnostic information tied specifically to donor lending programs (see section XX below).

19. Where the country has no strategy and action plan, and no interest in PFM reform, the country team should think creatively of how analytic work might be used to generate interest in and momentum for reform (see Packaging Analytic Work below for more on this.)

20. In many cases, the Government strategy and action plan will be developed in countries where there is an on-going set of reforms or donor support to PFM. Where there has been little progress in PFM reform and country systems remain weak, it would be valuable to reassess whether these reforms are appropriate in light of the Government strategy or needs, whether the reforms need to be better sequenced or coordinated, and whether there is sufficient Government capacity to undertake many parallel reforms. In one country, three
separate large donor projects developed independently where not progressing, and country PFM systems remained weak. The Ministry of Finance did not have the capacity to manage all three projects, and the projects themselves were not addressing immediate needs of the Ministry of Finance for managing their public finance system. Donors agreed to set-aside their reforms to coalesce around a Government strategy focused on addressing immediate PFM needs.

**Benchmarking and monitoring progress**

21. **Rationale.** An objective PFM performance framework is essential for countries to benchmark current PFM system performance, document improvement over time, and as an aid in targeting reforms. For donors, a performance framework can supplant duplicative diagnostic work, provide evidence of PFM system performance and direction of change, and provide a framework for learning what interventions, reforms and aid modalities work. Within the Bank, a performance framework can also serve as a vehicle for focusing staff efforts towards results on the ground and improving country PFM system capacity.

22. Whether as part of the Government PFM monitoring system or to support a PFM performance report, it is expected that a performance monitoring framework would be put in place for each IDA-eligible country actively borrowing (particularly budget support)\(^4\), based on high-level performance indicators and able to monitor PFM system performance over time. At a minimum, the framework would include the 28 PFM indicators (see Annex B for indicators and guidance in applying them). This can be supplemented by a limited number of performance indicators customized to the country circumstances, for example an indicator extractive industry revenue issues. In addition to the need for the high level indicators that monitor overall system performance over time, the Government may also identify more detailed indicators related to specific PFM reforms that capture more incremental improvements.

23. Where an assessment against the indicators has not been prepared, one of the first analytic exercises in a Government strategy or donor program of work should be to perform such an assessment and a summary report, similar to the HIPC expenditure tracking AAP. An example of such a report is provided in Annex C. The PFM performance report and associated indicators form a benchmark for monitoring PFM system progress and the impact of Government reforms and external assistance over time.

24. The PFM performance report and indicators are not intended to be a diagnostic in themselves, but a high-level performance monitoring system. These indicators would not normally be used to directly develop an action plan, and the PFM performance report would not normally include an action plan. It might be useful, however, for informational purposes, to array the Government strategy and action plan measures against related performance indicators in some cases.

25. The frequency of preparation of the PFM performance Report and update of indicators would vary by country circumstances, and be determined through the donor-country dialogue. The country should be requested to prepare the assessment against the indicators in the first instance. Any donor could assume the lead for preparing the report and validating the indicators. Other donors might assist, but at least all should be allowed to review and comment before finalizing the report. One PFM performance report per country

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\(^4\) [add clear definition of budget support]
per year (maximum) is expected to meet some information needs of all donors, and reduce some duplication of diagnostic work.

26. Where country and donors differ on the assessment against performance indicators, it is still expected that donors would prepare a PFM performance report presenting a unified donor view of PFM system performance, providing the Government with an objective assessment of system operation that feeds into the donor-client dialogue.

27. The PFM performance report and supporting indicators would generally be made public, or at least available to Government and donors (e.g. via the Country Analytic Website).

Sequencing reform over time

28. **Rationale.** Successful PFM reforms have carefully sequenced work over time to match Government interest, need for a PFM improvement, and capacity to implement. Lack of reform progress in some cases is attributable to reform overload, trying to do too much too quickly. The PFM systems in developed countries have evolved in smaller steps over long periods of time, in some cases hundreds of years. In developing countries, the evolution has been more gradual and over decades, rather than in quantum jumps. Better sequencing of reforms over time is essential for progress to occur.

29. Recognizing that PFM system reform and capacity-building take time, and need to be properly sequenced, it is useful to bear in mind that PFM systems consist of many functional components, not all of which may require improvement to meet country needs. One approach to sequencing (preferred if available) is the country’s own preferences for improvement embodied in the strategy and action plans.

30. Generally, Government will have a sense of which aspect of PFM system operation is most hindering efficient use of resources and achievement of Government policy objectives. Where these do not exist, the PFM performance assessment itself may identify gaps in knowledge or areas of poor performance that might serve as focal points for capacity-building.

31. Moreover, it is important to begin where a country PFM system is today, and seek to build upon this system rather than replace it wholesale or begin to plan reforms based on where it is deemed a country should be. There will be some tension between what donors believe a country should have in PFM systems to meet donor accountability requirements (generally OECD standards of performance) and where a country PFM system is today and what a country needs to better manage its own affairs. The default approach should favor the latter, giving Governments the tools they need to meet their own needs first.

32. As a further aid in planning and structuring a program of work several years, PFM systems can be disaggregated into several broader categories to help focus the work on more practical aspects of system performance. An illustrative breakdown is provided in Box 1.
Packaging analytic work

33. **Rationale.** Traditional analytic work undertaken by donors has been in the form of large reports, covering all aspects of PFM systems, with long lists of recommendations, been undertaken to meet donor information rather than clients needs on donor fiscal year cycles rather than government decision-making cycles. To make analytic work more useful, it is valuable to customize it more to meet client needs, providing advice on issues of import and aligned with Government decision-making. Some donor information needs can be met via engagement in supporting country reforms and advising the country. Even where analytic work is undertaken to meet residual donor information needs (e.g. fill a knowledge gap with respect to specific lending or support programs), the work can be more customized to meet that specific need. Further, depending on the objective of a country or donor, analytic work may take a different form from traditional approaches.

34. In terms of packaging analytic work to meet country needs and any supplemental knowledge requirements, the minimum necessary to fulfill the requirements should be planned. As these requirements will vary, there is no one structure that fits all needs. Numerous variables need to be taken into account in packaging and sequencing analytic work, including: coverage and date of existing analytic work; perceived importance of PFM issues to country development (whether country has the institutions to support macrofiscal stability, strategic allocation of resources for growth and poverty reduction, and efficient delivery of public services); volume and type of lending planned and adequacy of current knowledge base with respect to planned lending; whether analytic work is a potential entry point for building country relationships or supporting PFM reform; whether the client needs further analytic work, and how much advice can usefully be absorbed and acted upon by the country; whether a country strategy exists and further analytic work is needed to help a country develop a strategy; whether further analytic work would contribute to improved PFM performance;

35. In countries where there has been little or no PFM system analytic work, or so much work that the Government requests assistance in getting a comprehensive picture of system performance, it may be appropriate to plan a larger piece of analysis, similar to current CFAAs or the integrated PFM assessments.

36. Where work is also planned on sectoral or policy issues, it is also frequently important to include simultaneous analysis of PFM system performance with respect to the central and sectoral PFM systems to understand institutional incentives and dynamics that support or hinder attaining Government policy objectives or lead to particular outcomes. In such cases, products similar to current PER’s might be appropriate.
37. It is also important to drill down into details of some aspects of PFM system performance, perhaps along some of the lines listed above (see Box 1). In these cases, a deeper topical report might be in order; an example from procurement is the current CPAR.

38. However the work is structured, it should follow certain precepts: be part of the Government strategy and action plan; be coordinated across donors; be planned to support country institutions and meet country information needs; after meeting client needs, be made generally available to donors to avoid duplicative work and serve as a reference (e.g. via the Country Analytic Website); provide for a more continuous, ongoing engagement with the Government on PFM reform to fully support countries and maintain a focus on the importance of progress. On this latter point, it is common for a Government, in the course of managing its PFM system and finances, to identify a new or immediate need for advice and assistance. Some flexibility or unprogrammed resources should be available to meet these needs in a timely fashion, providing real time support to Governments.

39. Table 1 provides some broad avenues for thinking through how analytic work can most constructively be used, in response to different levels of client interest.

<table>
<thead>
<tr>
<th>Client interest</th>
<th>Approach</th>
<th>Emphasis</th>
<th></th>
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<tbody>
<tr>
<td>High, but no public support</td>
<td>Analytic work makes case for reform, providing analytical and research support to reform.</td>
<td>Focus on wide dissemination in civil society, communication strategy to emphasize need for reform.</td>
<td></td>
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<tr>
<td>High, but unfocused</td>
<td>Analytic work seeks to provide strategy and sequencing to assist authorities to move forward.</td>
<td>Participatory process within government, supporting government decision-making. Analytic work might consist of “chapters” provided to government as ‘policy papers’ developed to support government decision processes, implementation. Subsequent compilation into “PER” optional.</td>
<td></td>
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<tr>
<td>Modest, disparate interests</td>
<td>Analytic work focuses on selected issues of common interest, making the case</td>
<td>Process seeks to bring together disparate parties, build consensus and coalition for reform.</td>
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<tr>
<td>Low, selected officials in government</td>
<td>Analytic work is focused review supporting position of reformers, helping them make their case with analytical support, providing advice on strategy and actions plan.</td>
<td>Wide dissemination in government, perhaps outside government if thought useful. Process might emphasize broader participation within government to help build more consensus.</td>
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<tr>
<td>Zero or low</td>
<td>Analytic work selects problems of known interest to government, seeks to help them think through issues and relate them to PFM issues, understand options, develop strategy</td>
<td>Helping government solve a problem, building stronger relationship, demonstrating value of analytic work and donor support.</td>
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<tr>
<td>Negative</td>
<td>Analytic work is an external review of government budget, policies, and institutions, trying to make the case to government that action is necessary Report might cover many topics, trying to generate interest in some issue, or raise awareness of a particular problem.</td>
<td>Well argued, documented report, with focus on wide dissemination within and outside government, civil society discussions</td>
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Program of work

40. Starting with a sequenced set of country needs (arising from the country PFM strategy and action plan), where assistance is required, donors should collectively plan how best to meet these needs, applying all instruments at their disposal: analytic work, grants, loans, conditionality, technical assistance and advisory work. All of the tools should come together to solve the problem and improve PFM system performance. The focus is not the instruments themselves, but results on the ground. The instruments are the input towards the outcome of improved performance and stronger capacity.

Additional issues:
- more on donor coordination, outreach, citing OECD good practice note
- paragraph on supporting country systems
- comment on beginning process with inventory of current country support, planned ESW/AAA, arrayed against country strategy
- more on program of work