Objective of the study

The objective of this study is to undertake a comprehensive stock-taking, review and synthesis of lessons learnt about designing, implementing and assessing public financial management (PFM) reform initiatives in fragile and conflict-affected states (FCS). The intended outcome of this project is to provide development practitioners with accessible, evidence-based knowledge about PFM reform approaches in FCS.

Overarching study questions:

1. How were PFM operations affected by the challenges associated with state fragility?
2. Did the design and implementation of PFM operations contribute
   a. To achieving sustainable progress in the development of PFM systems?
   b. To supporting wider state- and peace-building objectives?

Why study this area now?

First, despite an increasing amount of literature on PFM reform initiatives across developing countries, there has been limited systematic analysis of PFM reform initiatives in FCS. Second, improving development outcomes in FCS has, over time, gained greater importance in the strategic agendas of many DAC donors, reflected by donors growing their response capacities to FCS. Third, it is increasingly acknowledged that the establishment of a well-functioning PFM system is a central component of state-building and peace-building and as reform efforts in this area intensify so should the knowledge basis around them. Fourth, PFM reforms in FCS are particularly challenging as the fragility of governance systems, and the associated political complexities, interplays with the effectiveness of PFM reform efforts and systems. For this reason, concepts and approaches that have been developed for PFM reforms in low and middle income countries may not be automatically transferable to FCS.

The first phase of this project allowed an opportunity to summarise the literature currently available on PFM reform initiatives in FCS and to extrapolate key issues and themes from three desk-based case studies (Afghanistan, Cambodia and Sierra Leone). This current study (second phase of the project) builds on the outputs of the first phase, but in doing so extends the breadth and depth of the investigation as well as its reach – by carrying out eight country case studies and exploring synergies across them.

Approach

The study focuses on issues and processes related to the expenditure side of PFM. It examines developments over time; across budget cycle functions; across concentrated and de-concentrated agencies (finance ministries, line ministries, sub-national entities, etc); and across actors/stakeholders.

The case studies analyse the relationships between the dimensions (i.e. the arrows) in figure 1 in order to better understand the PFM reform trajectory in FCS. By accounting for the nature of the country context, it examines reform efforts from a political-economy perspective.

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**Outputs**

The **four sets of deliverables** are:

i) **A detailed case study protocol** setting out the analytical framework and methodology for cross-country research on PFM reforms in FCS;

ii) **Eight country case study reports**: Democratic Republic of Congo, Kosovo, Liberia, Tajikistan, West Bank and Gaza, Afghanistan, Cambodia, Sierra Leone²;

iii) **A synthesis report** drawing together the findings and key areas of comparison across the case studies;

iv) **Input to a World Bank Guidance Note** outlining the key findings and suggesting ways staff can approach the development and management of PFM reform operations in (different types) of fragile environments.

**Figure 1: Summary of contextual factors and reform interactions (fragility context)**

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**Emerging Findings**

ODI is in the process of finalising the draft country case study reports and, as such, key patterns across the case studies have yet to be mapped. However some preliminary findings include:

i) **Prioritisation of reform efforts is quite clear across the cases.** There has been a strong focus on budget execution (cash management, financial control, single treasury account, treasury automation), with apparently stronger results in those dimensions. In addition there has been an immediate and sustained emphasis on support to finance ministries, with lagged progression and limited early engagement at line ministries and sub-national tiers.

ii) **Yet, the sequencing of reform measures is less obvious.** On the whole, the early stages of the reform process are characterised with selective and opportunistic interventions, with comprehensive and sequenced reform action plans only developing later. Some reforms implemented have been surprisingly well-advanced in some cases, although questions about substance and sustainability remain.

iii) **Major challenges common to most cases include capacity, coordination and autonomy.** Multiple forms of capacity substitution have been used to fill important gaps, but in doing so have created distortions that risk reform sustainability. A complex and lengthy process of donor coordination is common across cases with pre-coordination rare. This has existed alongside a weakness in the autonomous agenda-setting capacity of government for reform (strategic reform capability) and hence led to a multifaceted reform agenda.

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² The latter three country case study reports will expand the desk studies from phase 1.