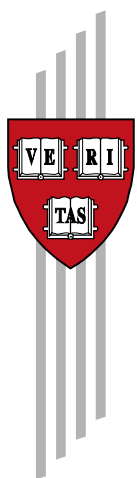


This is PFM

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This is PFM

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Abstract

The acronym ‘PFM’ stands for Public Financial Management: But what is public financial management? This short note tries to demystify the concept, drawing on perspectives of specialists in the area who work in different contexts and bring different views (from academia, the multilateral and bilateral development agencies, think tanks, government, and civil society). The note is not meant to be prescriptive but rather offers an entry point to a fuller discussion on the constituent elements of PFM systems, how and why PFM reforms have emerged, and where the gaps are for future attention.

¹ Harvard Kennedy School, International Monetary Fund, Collaborative African Budget Reform Initiative, International Budget Partnership, Overseas Development Institute and World Bank, respectively. This article does not reflect the views or policies of any of these organizations or any other entity mentioned herein.

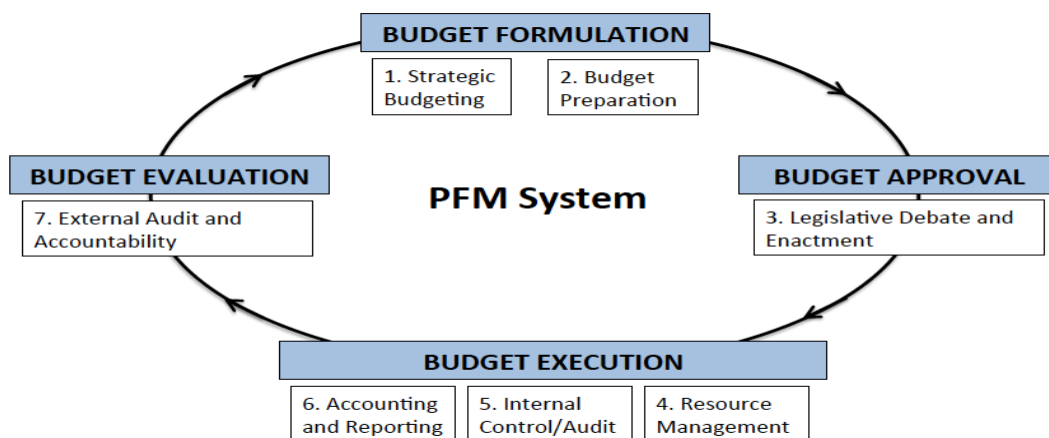
Introduction

PFM stands for Public Financial Management and relates to the way governments manage public resources (both revenue and expenditure) and the immediate and medium-to-long-term impact of such resources on the economy or society. As such, PFM has to do with both process (how governments manage) and results (short, medium, and long term implications of financial flows). This primer describes our thinking about PFM as it affects both dimensions and offers a perspective on reforms that are commonly introduced to improve PFM systems. It is not intended as a comprehensive treatise but rather a thoughtful perspective to provoke further thinking on the issue.

An overview of the main PFM processes

PFM systems are embedded in—and influenced by—broader sets of processes, systems and institutions. Think, for instance, of the political rules that determine how budgets work, or the way human resource management systems overlap with the management of public finances. PFM systems are also part of broader national policy processes, which produce directives or plans that inform public resource allocation. Such influences vary across countries, making PFM contextual. Despite contextual differences, however, some processes are similar in PFM systems across most countries. Figure 1 illustrates these.

Figure 1. A simplified view of a typical PFM System



As the figure suggests, most PFM systems incorporate four stages, each of which can be further sub-divided into one or more key processes.

Many countries start budget formulation with a ‘**strategic budgeting**’ phase to ensure that high-level policy directives inform the government’s budget decisions. At its most basic, this stage involves translating broad policy goals into financial targets, given expected conditions in the economy and society. Revenue forecasters determine how much money to expect in coming periods, for instance, leading to the setting of a resource envelope (the amount of money anticipated to be available to the state, which includes domestic revenue, foreign aid and borrowing). Similar calculations are done for proposed expenditures too, generating estimates of the spending needs in different sectors, organizations, or spending areas (like functions or programs). The expenditure

estimates are sometimes called ceilings and are used to indicate the maximum amount of funding available to each spending entity or for specific objectives in the coming budget.

The strategic budgeting phase involves various organizational entities (like finance and planning ministries, sector ministries, sub-national entities preparing spending estimates, and civil society groups that comment on the content of policy proposals, the quality of forecasting methodologies, and more). Many countries attempt to produce multi-year estimates through their strategic budgeting processes, and some even use this process to generate program or performance budgets (ways of classifying spending that show explicit links between policy objectives and expenditures).

This initial, strategic, phase of budget formulation is followed by the more mechanic and iterative ‘**budget preparation**’ process, which involves the preparation and finalization of the formal government budget proposal to be submitted to the legislature. The budget proposal usually covers one year. Its preparation commonly involves compiling detailed expenditure plans for each area of government activity. The ministry of finance plays a central role in this. On one hand, it produces detailed projections of available resources – different types of revenues, plus domestic and external borrowing – while on the other it works with spending entities to assess their expenditure requests.

A budget circular is usually issued to assist engagement between the ministry of finance and spending entities. It gives instructions for submitting spending requests and often also indicates the ceilings (or limits) for each spending entity (to ensure that the overall size of these requests is kept within the overall resource envelope). The ministry of finance and spending entities negotiate over these requests. This culminates in a comprehensive formal budget proposal that reflects revenue and expenditure plans for the entire government for the following budget period. Items in the budget proposal are usually classified according to the different nature of the financial flows. Some countries only show these flows according to economic categories (if the money buys salaries or equipment, for instance) or administrative units (if the money goes to the ministry of agriculture or a university). Other countries include information about flows towards specific functions and programs (like education or primary healthcare) or actual performance (like building a school or providing 1,000 vaccinations in a certain village).

This proposal is then submitted for budget approval to a political body that represents the citizenry. This is usually the Parliament or Congress, where ‘**legislative debate and enactment**’ takes place. This body will often examine different parts of the budget proposal in detail, in specialized committees, and often with support from technical experts and civil society organizations. Members of the executive (and especially the ministry of finance) commonly have to defend the proposed budget in front of these committees. In most countries, representatives are given a few weeks to analyze the proposal, to debate it and sometimes propose amendments. At the end of this period (and usually before the beginning of the period that it covers) the budget proposal is formally adopted and enacted into law, authorizing the executive to raise and spend resources according to its contents. The basis on which the budget is approved—by specific line item, administrative unit, program, etc.—is essential to establishing accountability and responsibility relationships and reporting requirements and standards, as discussed later.

Budget execution follows approval and enactment. Execution is simply the set of processes through which governments deliver on the promises and proposals included in the budget. A set of ‘**resource management**’ organizations and processes, for instance, ensure that resources are available to those implementing budget policies; providing services and more generally making government work. These include:

- a) Processes are needed to collect the financial resources required to execute the budget. These resources are often raised by tax, customs and debt management agencies. Finances are also sometimes raised by other entities (like line ministries).
- b) A process exists to transfer finances from those doing the collecting to those who need cash to pay bills. Treasuries commonly play this role, ensuring the structured movement of money across government. Many governments use treasury single accounts for this purpose, which provide a unique repository in which all cash is held and from which all cash is allocated and payments processed.
- c) Governments typically use the bulk of their finances to pay the personnel costs of the civil service. Human resource management processes geared towards the payment of wages and salaries, benefits and pensions for civil servants are thus a key part of the PFM system. These processes are commonly defined and overseen by central agencies (like civil service bureaus) but implemented by spending agencies. Central treasuries facilitate wage and salary payments in many countries.
- d) An additional share of budgeted expenditure goes towards purchasing goods and services. PFM systems therefore usually include processes that allow for the procurement of these goods and services by government agencies on the open market. These processes structure how agencies tender their purchases, choose vendors, monitor their delivery, and ultimately pay for goods and services. Key agencies involved in this process include central procurement bureaus (who often determine procurement rules and procedures, and monitor the overall process) and procurement officers in spending entities (who implement the rules and do the actual procuring).
- e) Finally, capital spending is an integral aspect of resource management. Many governments treat it separately from other expenditure, isolating capital spending from recurrent expenditures. Special processes thus often exist for appraising and costing capital projects, dealing with contractors, and managing the flows of money needed to develop new infrastructure and large-scale maintenance activities.

Most governments have processes in place to ensure that resource management systems work smoothly, and that all budget-related operations comply with set rules. ‘**Internal control and audit**’ processes are important in this regard. Internal controls are processes designed to ensure compliance with established rules and procedures, whereas internal audits provide agencies with information on risky areas where controls are lacking or where routine failure to comply with rules may undermine an organization’s potential to meet its objectives. These processes fall under the responsibility of monitoring agencies, inspection entities or internal audit bodies. In some countries this function is centralized for the whole of government, while in others it is delegated to each spending entity.

Governments commonly also have ‘**accounting and reporting**’ processes in place. These allow government to keep records of financial flows, and to structure these records

in ways that allow independent scrutiny. The national treasury is often involved in determining how these mechanisms should work, but all spending entities will have accounting officers responsible for actually making them work (maintaining accounts and providing reports). Accounting approaches differ between governments. Sometimes these approaches capture flows of cash only; sometimes they capture non-cash commitments as well (where governments incur obligations prior to actually spending money). Classification regimes used to record and report on financial flows can also differ. Most governments try to ensure that the classification scheme they use in accounting and reporting matches the scheme used in the enacted budget, as mentioned above. This allows governments to produce reports that show if actual revenue and spending is aligned with the original budget law. Financial reports are often produced both during the year (to show progress in budget execution while spending is taking place) and after the end of the budget period (to provide a full record of the government's financial activities, and how they compare with what was originally planned).

Governments are commonly required to send their annual financial reports to independent bodies for '**external audit and accountability**' processes that conclude each budget cycle. In some countries these entities are specialized audit bodies that report to the same institution that passed the budget into law - typically the parliament or congress - while in others they are part of the judiciary. The main role of these Supreme Audit Institutions (SAIs) is to examine whether government financial activities were carried out in compliance with the original budget law, and respecting all other rules and procedures. In other words, they are the guardians of the integrity of the public financial management system. In addition, SAIs sometimes audit the value for money of public spending (looking, for instance, at what kinds of services were purchased with public money). Their reports and findings are used by legislative bodies to raise issues and concerns with the executive as a whole (given audits of annual financial statements, for instance), and with executive agencies individually (given the value for money audits, for instance). Government officials often have to appear in front of specialized committees to respond to concerns about spending, and usually have to respond by detailing the corrective actions they intend to take. Reports could also be used by civil society entities trying to hold governments accountable for how they use resources. Audit courts can sometimes directly pursue and sanction specific cases of mismanagement and non-compliance.

The processes outlined above represent common features that characterize PFM systems across a wide range of countries, despite obvious differences and particularities that each system will inevitably show. We have presented the commonalities in a fairly simplified way, suggesting that processes follow linearly and with clear responsibilities. In reality the situation is more complex, however, given two additional issues.

- First, multiple budget cycles are usually taking place simultaneously. The external audit and accountability process for a previous year's spending takes place while resource management processes are active for the current year. At the same time, the strategic budgeting process has already begun for the following year. Because of this, public financial management consists of overlapping processes in a complex system.
- Second, each process involves a wide range of government bodies, entities and agencies, all with peculiar characteristics, priorities and interests. Spending entities want to see their budget allocation increase, for instance, but finance ministries are

tasked with keeping overall spending under control. These tensions make the PFM process a competitive and contentious one. International organizations contribute to this mix in many countries, advising governments on reform initiatives and sometimes financing a substantial share of public spending.

PFM goals and functions

The discussion so far has given a glimpse of what PFM systems generally look like—from a process perspective—and how complex these systems are. The variety of institutional arrangements found across countries can further complicate this discussion. For example, most countries in the world today have some form of external audit institution that checks the government's accounts. But there are different models even among Western democracies; those led by an auditor-general that report to the legislature (like in South Africa), courts of auditors with quasi-judicial powers (like in France), or boards of auditors (as in Germany). Is any one of these more functional than others? In fact, is having an independent external auditor at all a requirement for ensuring that public funds are not wasted, lost or stolen? Could the same purpose be achieved by other means? These concerns lead to an important and often un-asked question about PFM systems: “What are the main goals and functions of a PFM system?” Put another way, “Why do countries have these processes in the first place?”

In reflecting on this question, we thought about the basic functionalities one hopes to see emerging from a PFM system. One such functionality relates to the way PFM systems influence decision-making and solvency in the public sector. Most observers would hope that a PFM system promotes prudent decision-making and the sustained fiscal health of a government (such that deficits are not too high, debt is manageable, and spending is prioritized so as to be manageable). Most would also hope that PFM systems provide the orderly means by which governments raise and spend money, fostering credibility and reliability. A critical outcome of a credible and reliable budget is that money reaches the front-end interface of government and the citizenry—where financial resources lead to actual results and service delivery. Without a basic level of functionality, governments do not actually control the flow of funds, meaningful analysis of spending is impossible and discussions over policy choices cannot happen. Public officials who cannot rely on the PFM system to produce results must rely on other, informal and unofficial means to get what they want, opening the doors to inefficiency, waste and corruption.

One also hopes that the PFM system provides inputs into the systems of accountability and contestation of a government. This need not necessarily mean transparency and accountability in the Western-democratic sense. But every bureaucracy of modern size and complexity relies on some system of establishing records about government operations, of which financial operations are a fundamental part. Any PFM system needs to record and distribute these to the right places in a reliable and timely manner so that they can be audited, because without proper audit, politicians and citizens have no assurance that money is being used properly.

Given such reasoning we settled on four main dimensions that are fundamental to a functional PFM system. These suggest that functional PFM systems promote (i) Prudent fiscal decisions, (ii) credible budgets, (iii) reliable and efficient resource flows and transactions, and (iv) institutionalized accountability. We summarize these below.

(i) Prudent fiscal decisions

- Spending decisions are affordable (deficit, debt levels, debt payments are managed),
- Public debt is taken seriously (government knows what is owed, creditors are paid on time, debt payments are treated as a first (direct) charge),
- Deficits, debts, cash and obligations are at levels not threatening solvency or economic stability in the foreseeable future.

(ii) Credible budgets

- Comprehensive and regular budgets are formulated that give a binding expression to government public finance priorities and plans,
- Actual revenue policies and collection performance reflect proposals and forecasts,
- Actual spending reflects budgeted promises (in aggregate and in detailed allocations),

(iii) Reliable and efficient resource flows and transactions

- Cash is provided to spending agencies when agreed, in agreed amounts,
- Salaries are paid in a timely fashion; arrears are low or non-existent,
- Goods and services are procured when planned, at appropriate quality and price,
- Contracts are paid on time; penalties are low or non-existent,
- Financing is available to capital projects when agreed and in agreed amounts,
- Corruption, nonperformance losses (with salaries, contracts, etc.) are minimal.

(iv) Institutionalized accountability

- It is possible to track fund flows to service delivery units,
- Financial reports are comprehensive, timely, allow comparison between actual spending and budget decisions; are accessible by political representatives, citizens,
- There is an independent assurance (for instance, through audit) that funds are collected, managed and spent for intended purposes, in compliance with laws and regulations and with regard for value for money,
- Concerns raised by independent assurance exercises are transparently discussed by citizens' representatives and receive timely follow-up and redress by the executive.

Our approach to thinking about goals and functions differs slightly with conventional thinking, which suggests that we should assess the functionality of PFM systems by asking about macroeconomic stability and allocative and operational efficiency. We believe that the four dimensions of PFM functionality discussed here influence these three factors, but we also hold that macroeconomic stability and allocative and operational efficiency are influenced by other factors (and are hence not direct measures of PFM functionality). Fiscal discipline, for instance, is influenced by how prudent and credible revenue and spending patterns are, but also by shifts in the business cycle, changes in political decision-making mechanisms, rents from natural resources or aid, and more. We contend that a direct measure of PFM functionality should reflect on the direct impacts of the PFM system (asking whether it fosters prudent fiscal decisions, credible budgets, reliable and efficient resource flows and transactions, and institutionalized accountability) more than whether the country has macroeconomic stability or allocative efficiency (which are only influenced partly by PFM systems).

PFM reforms

The goals and functions outlined above have proven difficult to achieve in many countries, which means that many PFM systems are not as functional as one might hope. As a result, PFM reforms are commonly introduced to help improve functionality. Such reforms can be defined as ‘purposeful changes to budget institutions aimed at improving their quality and outcomes’. Countries often introduce these reforms with help from international organizations. Over the past two decades, total external support to PFM reforms has grown ten-fold, from around US\$50 million in 1995 to around half a billion US dollars in the late 2000s. Reforms take place in a wide variety of countries but tend to evoke a common set of interventions. Some widespread reforms include:

- *Medium-term expenditure frameworks (MTEFs)*: MTEFs are multi-year strategic budgeting exercises that are often seen as a way of reconciling aggregate fiscal discipline and public spending plans. Their precise form varies widely. They are introduced with a view to create better linkages between the policies and plans that ministries produce and the revenue and expenditure forecasts that ministries of finance produce. The goal is to guide annual resource allocation processes.
- *Fiscal rules*: Many governments have introduced rules to limit spending (or debt and deficits). These can take the form of balanced budget laws, debt limits, and administrative ceilings used to contain and constrain budget proposals.
- *Formalized budget preparation processes*: A variety of reforms focus on providing structure and formality to budget preparation processes. These include introducing budget calendars (so that it is clear when different steps take place in budget preparation), and using circulars to clarify what should happen in different steps.
- *Budget classification systems*: Coding and classifying budget items according to their economic, administrative or functional nature allows for the interpretation and analysis of what would otherwise be a large amount of unspecified numbers included in budget reports. The more detailed the budget classification system used, the more it will provide a comprehensive and useful picture of government operations. International organizations have developed common budget classification standards (such as the IMF’s Government Finance Statistics or the UN’s COFOG system).
- *Program or performance-based budgeting*: This reform is based on the idea that effective policy implementation requires a shift in budget management from just controlling inputs and ensuring financial compliance to an emphasis on the outputs and outcomes associated with public policy objectives. It commonly involves a change in the budget classification system (classifying spending according to strategic objectives or even anticipated results) and changes to the processes of allocating resources, accounting for resource flows (to ensure links between actual resource allocations and performance objectives) and the appropriation by legislatures.
- *Legislative strengthening*: Many countries have embarked on reforms intended to improve the role legislative bodies (like parliaments) play in the PFM process. These reforms often include explicit efforts to give these bodies enough time to assess budgets (introduced through budget calendar reforms) and to strengthen the advisory capacities legislative bodies have at their disposal (often through the creation of

budget offices in parliaments). These offices help with assessing budget proposals, structuring hearings on budgets, and evaluating expenditure reports and audits.

- *Independent revenue collection agencies*: Revenue reforms in the past few decades commonly focus on improving the efficiency and transparency of revenue policy-making and collections. Reforms aim to create independent revenue and customs bureaus, and to streamline and simplify tax and customs policies and processes.
- *Treasury Single Accounts (TSAs)*: Over the last two decades, most countries have undergone reforms intended to introduce TSAs. These centralize most financial stocks and flows in governments, ensuring that revenue is stored in one place and payments are consolidated as well.
- *Integrated Financial Management Information Systems (IFMIS)*: With the spread of information technology infrastructure across the developing world, the automation and ‘informatization’ of budget management has come to be seen as a necessary step in modernizing the management of public finances. International institutions supporting budget reforms have made the introduction of Integrated Financial Management Information Systems (IFMIS) a normal component of budget reform ‘packages’ in developing countries. This is meant to address weaknesses in outdated manual accounting systems, and promote: (a) prompt and efficient access to financial data; (b) strengthened financial controls during each stage of budget execution; and (c) improved efficiency and effectiveness of government financial management.
- *Public procurement*: Many countries have undergone procurement reforms that create independent bureaus that determine and oversee rules governing public procurement. The rules typically promote transparent bidding processes and competitive procurement (where multiple bids are provided and a process ensures competition between bids). They also aim to increase efficiency (often termed value-for-money) and effectiveness (focused on timeliness of delivery).
- *Independent and transparent human resource management*: Independent agencies have often been created to set the rules for hiring, firing, compensation, and other human resource management processes. This is intended to foster competitive hiring and merit-based civil service systems. These bureaus have also commonly focused on creating systems to record and track the number of people working in governments (sometimes called human resource rolls and sometimes integrated into Human Resource Management Information Systems (HRMISs)). It is common to try and connect the human rolls with payrolls and to ensure the integrity of both, as a means of ensuring salaries are paid on time and corruption is minimized in the civil service. Some countries call this payroll reform.
- *Internal control, internal audit, and monitoring*: Many countries have introduced or strengthened internal controls in the past decades, intending to improve the formality of the PFM process and enhance compliance with formal process requirements. Governments also typically introduce internal audit laws, units and processes to ensure compliance is routinely being assessed and managers in the PFM system receive constant feedback on risks. Monitoring mechanisms are also common across many governments, focused on performance and/or compliance.

- *Accounting and reporting reforms:* Many governments have tried to strengthen accounting and reporting activities. Reforms involve standardizing charts of accounts and professionalizing the accounting function across government. Accounting procedures have been formalized in many places and government entities face common requirements to (inter alia) request funds, report on fund use, and classify fund stocks and flows. These reforms are often connected with efforts to modernize classification schemes and to introduce IFMIS systems.
- *External audit and external accountability reforms:* It is common to find countries creating or strengthening the role of independent entities charged with doing assurance exercises (most commonly this is the External Audit agency). These efforts are often associated with attempts to strengthen the role of legislatures..
- *Budget and spending transparency and citizen participation:* Transparency and accountability reforms have more recently become the focus of increased attention and activity in the PFM reform arena. These are often led by actors like civil society groups, parliaments and audit institutions who believe that budgets should be more open to independent scrutiny, so that adequate checks and balances could be established to ensure that executives use public resources responsibly and effectively.

What do we know about countries' systems?

The increased interest in PFM reforms has gone hand-in-hand with efforts to quantify the quality of countries' PFM systems. The Public Expenditure and Financial Accountability (PEFA) framework is probably the best-known assessment mechanism. It was developed by a consortium of donors and consists of 31 indicators covering all phases of the budget cycle, budget comprehensiveness and transparency, and budget credibility. Other tools also exist, including the OECD's Budget Practices and Procedures Database, the Open Budget Index (OBI), and the recently revised IMF Fiscal Transparency Code.

These assessment mechanisms tend to evaluate the degree to which PFM processes comply with forms considered 'good practice' and pay less attention to the functionalities that these good practices are assumed to produce. For example, many measures of the quality of budget classification systems examine compliance with existing international standards, not the usefulness of classification systems for domestic policy-making. They focus on the number of years that forward estimates cover in a budget, and at the existence of costed sector strategies, rather than looking at the characteristics of the strategic resource allocation decisions that governments take. They measure budget transparency by counting the number of documents that governments publish, rather than by examining how useful that budget information is to domestic stakeholders.

The following table shows (in a highly simplified form) how existing frameworks over-emphasize forms and under-emphasize functionality. It should be particularly striking to note that existing frameworks offer no real insight into the functionality of resource flows and transactions: There are no assessments of the reliability of cash flows or of procurement transactions or of wage and salary payments. In all of these areas common assessments focus only on whether countries have formal processes in place that comply with 'international good practice' (like having competitive procurement mechanisms).

Table 1. We have a limited view of the functionality of PFM systems

<i>Functional concern</i>	<i>Do existing assessment frameworks reflect on functionality?</i>	<i>Do existing frameworks reflect on process compliance (assumed to be) associated with functionality?</i>
<i>Prudent fiscal decisions</i>	<i>Partly</i>	<i>Yes</i>
Spending decisions are affordable (deficit, debt levels, debt payments are managed)	Partly	Yes
Public debt is taken seriously (government knows what is owed, creditors are paid on time, debt payments are treated as a first (direct) charge)	Partly	Yes
Deficits, debts, obligations levels do not threaten solvency/economic stability in foreseeable future	Yes	Yes
<i>Credible budgets</i>	<i>Yes</i>	<i>Yes</i>
Comprehensive and regular budgets are formulated and give a binding expression to government public finance priorities and plans	Yes	Yes
Actual revenue policies, collection performance reflect proposals and forecasts	Yes	Yes
Actual spending reflects budgeted promises (in aggregate and in detailed allocations)	Yes	Yes
<i>Reliable and efficient resource flows and transactions</i>	<i>No</i>	<i>Yes</i>
Cash is provided to spending agencies when agreed, in agreed amounts	No	Yes
Salaries paid on time; arrears are low/nonexistent	No	Yes
Goods and services are procured when planned, at appropriate quality and price	No	Yes
Contracts paid on time; penalties low/nonexistent	No	Yes
Financing is available to capital projects when agreed and in agreed amounts	No	No
Corruption, nonperformance losses (with salaries, contracts, etc.) are minimal	No	Yes
<i>Institutionalized accountability</i>	<i>Partly</i>	<i>Yes</i>
One can track fund flows to service delivery units	No	Yes
Financial reports are comprehensive, timely, allow comparison between actual and planned spending, accessible to representatives, citizens	Partly	Yes
There is independent assurance (e.g. through audit) that funds are collected, managed and spent legally and with regard for value for money	Yes	Yes
Concerns raised by independent assurance exercises are transparently discussed by citizens' representatives, receive timely follow-up and redress by the executive	No	Yes

This limited functional view may not be a problem, if we know for sure that complying with the 'good practice' forms actually yields functionality. If there were bullet proof evidence that having competitive procurement generates reliable and efficient provision

of goods and services, for instance, we would be safe in only measuring compliance with competitive procurement procedures. Unfortunately, we do not have this evidence, and it must be said that many OECD countries achieve relatively high levels of functionality without necessarily complying with these processes. These countries shape their systems around their realities and often have mechanisms and processes that look quite similar but that differ in important ways. Many developing countries do not have this flexibility, however, and are forced to comply with process requirements in PEFA and other assessments because of pressure from donors (even if such compliance does not yield improved PFM because reforms do not ‘fit’ local contexts). The dependency relationship makes it both challenging and important to ensure that space is left for local choice of reform types, adaptation and learning. The purpose should be to help fit a ‘good practice’ to a local context, so that PFM institutions may more directly respond to locally-defined issues and problems and match local capacity and political realities.

What could PFM be?

This brief primer shows that a group of specialists from various organizations and arenas can agree—to some extent at least—about the basics of PFM: What it is, what functionality looks like, what reforms have involved, and where the gaps are in current reform packages. The summary of this discussion is that we know a lot about what PFM is, what functional PFM systems could look like, and even the kinds of (general) reforms are needed to attain greater functionality. There is a major challenge for PFM in the future—especially, but not exclusively in developing countries—however, which centers on better assessing the functionality of PFM systems and working out how to shape reforms around the challenge of improving functional performance. PFM may have been biased towards form in the past, but could be more focused on function in future.