



## MIDDLE EAST REGIONAL TECHNICAL ASSISTANCE CENTER

### REGIONAL NOTES

February 2023

# Delivering PFM Capacity Development in Fragile and Conflict-Affected States - Learning from Recent Experience

Jacques Charaoui, Jonas Frank, and Benoit Wiest

Jonas Frank, and Benoit Wiest (former) Public Financial Management Advisors at METAC. Jacques Charaoui, Senior Economist at the IMF Fiscal Affairs Department.

Established in October 2004, The Middle East Regional Technical Assistance Center is a collaborative effort between the International Monetary Fund, member countries, and bilateral and multilateral development partners. The Center's strategic goal is to help its members strengthen their institutional and human capacity to design and implement macroeconomic and financial policies that promote inclusive growth and reduce poverty.

The purpose of *Regional Notes* is to enhance peer-to-peer learning and disseminate good practices across METAC's members. The opinions expressed in *Regional Notes* are those of the authors; they should not be attributed to the IMF, its management, or executive directors.

## MEMBERS

---



Afghanistan



Algeria



Djibouti



Egypt



Iraq



Jordan



Lebanon



Libya



Morocco



Sudan



Syria



Tunisia



West Bank  
and Gaza



Yemen

## DEVELOPMENT PARTNERS

---



Germany



Netherlands



Switzerland



European Union



France

## Middle East Regional Technical Assistance Center

METACSS@IMF.org

IMFMETAC.org

*This regional note systematizes recent lessons of capacity building on Public Financial Management (PFM) in fragile and conflict-affected states (FCS), which constitute a considerable share of the Middle East Regional Technical Assistance Center's (METAC) membership. In the middle or the aftermath of a conflict, government and fiscal institutions are key to reestablish or keep afloat basic resource management. Putting in place core PFM institutions and processes supports service delivery to the population and contributes to improved governance and trust in the public sector. The proposed technical solutions need to be tailored, taking into account the manifold institutional and capacity constraints. The right choice of assistance modalities enhances ownership, supported with a stepwise approach aiming for realistic and attainable results. A strengthening of medium-term, programmatic capacity development (CD) can maximize flexibility while guiding actions so that FCS progressively adopt PFM institutions that are more aligned with good international practices.*

### CURRENT PFM SITUATION IN FRAGILE STATES AND METAC SUPPORT

**METAC covers a large share of FCS.** Out of 42 economies classified as FCS,<sup>1</sup> nine are METAC members (Afghanistan, Djibouti, Lebanon, Libya, Iraq, Syria, Sudan, West Bank and Gaza, and Yemen). The METAC FCS exhibit large heterogeneity in terms of the sizes of their economy, population, and resource endowments.

**The causes of fragility in METAC countries are diverse.** Most countries have been affected by long-standing conflicts either in the form of civil wars (Afghanistan, Iraq, Libya, Sudan, Syria, Yemen) or spillover of regional conflicts (Lebanon, West Bank and Gaza), sometimes paired with civil unrest and uprising. Recent international crises (COVID-19, Russian invasion of Ukraine) weigh heavily on FCS, as most of them are reliant on the import of food staples or oil (or both). This has large implications on income divergence and spiking food insecurity that are likely to heighten social tensions with the potential to further destabilize FCS (IMF 2022b).

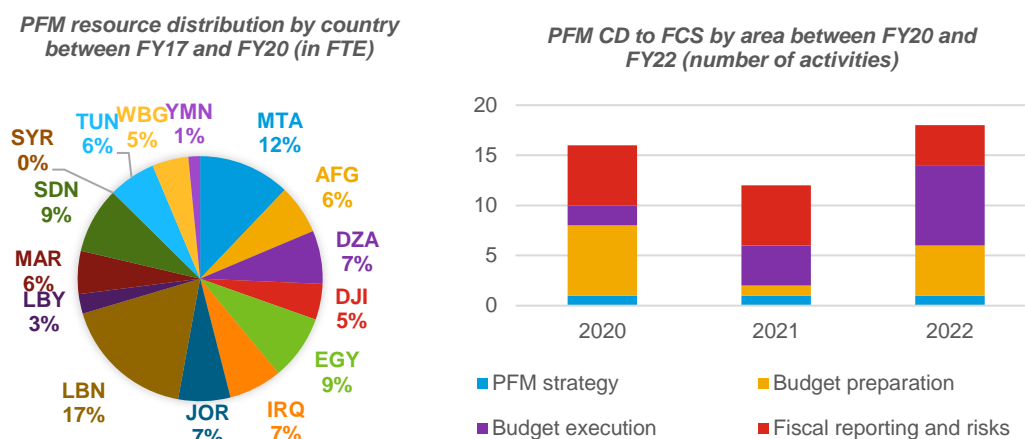
- As demonstrated by recent Public Expenditure and Financial Accountability (PEFA) assessments, FCS exhibit significant weaknesses in most areas of PFM, including in budget planning and budget execution, which are important for resource management (examples are Afghanistan, Iraq, Sudan, West Bank and Gaza).
- There are significant transparency issues and information gaps (IMF-METAC 2021b). The Open Budget Survey scores are very low (ranging from 0 to 9 out of 100 for Yemen, Lebanon, and Iraq – other METAC FCS are not covered by the open budget index). Overall, results on fiscal transparency are uneven between countries and there has been limited progress over the past few years. In specific areas of PFM, such as Public Investment Management (PIMA) or Fiscal Transparency Evaluation (FTE), data is very scant.
- The legal framework is frequently fragmented or outdated. While many Maghreb countries and Egypt adopted modern PFM laws in the past ten years, METAC FCS have not achieved much progress on revamping the PFM legal framework. In Lebanon, the Public Accounting Law dates back to 1963 and, along with other country examples in the region, does not capture modern features of PFM (absence of a medium-term fiscal framework, accrual accounting, Treasury Single Account etc.), which results in legal fragmentation or regulatory gaps.

---

<sup>1</sup> The IMF maintains an internal FCS list comprising 42 economies; for more information on the criteria see IMF, 2022b.

**METAC allocated 44 percent of its PFM resources to FCS between 2017 and 2020 (Figure 1).** The focus of assistance provided (as shown on the right hand-side chart) was on four areas further discussed in this note: (i) PFM strategies to establish reform priorities and sequence them well; (ii) budget planning to improve budget credibility and catalyze aid from development partners; (iii) budget execution to “protect the core” of resource management and secure availability of resources for high-priority payments while minimizing the risk of arrears; and (iv) fiscal reporting and managing fiscal risk, including those from State-Owned Enterprises (SOEs).

**FIGURE 1. PFM capacity development to fragile states**



Source: METAC.

**In some countries, assistance was delivered in the context of an IMF program, which strengthens synergies between CD and surveillance.** In the past, IMF programs in METAC FCS have entailed both financial as well as non-financial assistance. Examples of such synergies materializing are (i) Sudan, where support was provided to improve fiscal transparency related to SOEs in the scope of the Staff Monitored Program (SMP) during 2020-2021; and (ii) Afghanistan, where TA was provided to strengthen institutional arrangements for PPP fiscal risk management in the scope of the Extended Credit Facility Arrangement (2021).

**Going forward, METAC assistance to FCS, in line with the IMF Strategy for Fragile and Conflict-affected States (IMF 2022), is expected to grow significantly.** With expected donor contributions, the Fund plans to increase CD to FCS in a magnitude of 70 percent (in terms of Full-Time Equivalents/FTE) worldwide, mostly by increasing in-country or regional (in RCDCs) long-term expert presence, in line with absorptive capacity and country demand (IMF 2022b). This will allow to work more closely with authorities; provide practical support; and coordinate on the ground with other CD partners.

## COMMON CHALLENGES RELATED TO DELIVERING CAPACITY DEVELOPMENT IN FRAGILE STATES

**FCS suffer from multiple types of capacity constraints which limits absorption of technical assistance.** Some countries experienced a substantial deterioration of operational capacity. As a result of the conflict in Yemen and the relocation of the capital to Aden, the MoF lost 90 percent of its staff. In some cases, territorial conflicts within countries (Yemen, Libya) further exacerbate capacity constraints and institutional dysfunction. In the case of Libya, the conflict led to an inextricable situation with two competing Central Banks, each issuing different currencies, while in Yemen, the Central Bank took over cash management

functions from the Ministry of Finance, a process which is now being gradually reversed. Physical asset and archives destruction, including data storage, also contribute to the overall loss of institutional memory: in Lebanon, the August 2020 port explosion partly wiped out the archives (including accounting and invoicing records) of Electricité du Liban (EdL, the electricity company) as one of the largest spending agencies. In Yemen, while the IFMIS system remains apparently operational as a Data Center-based system, it can no longer be used by the Ministry of Finance after its relocation to the new capital Aden. This system, termed AFMIS, is under the sole control of the North since the onset of the conflict in 2015. Manual Excel-based processes are currently being used by the new Aden-based Ministry of Finance.

**Delivering capacity development in unstable environments is challenging.** Recent PFM capacity building efforts in FCS show that a remarkable challenge is to adapt to rapidly changing circumstances and adjusting assistance correspondingly. In recent years, about half of the activities in METAC's annual PFM workplans are adjusted during the fiscal year, highlighting the need to remain flexible and accommodate urgent needs in countries that experience a high level of uncertainty.

**Instability challenged sustainability of CD in many countries over the last few years.** There have been hiatuses of several years in technical assistance in West Bank and Gaza, Libya, and Yemen. Engagement with Afghanistan had to be suspended in August 2021 due to a sudden regime change, after years of sustained METAC engagement with the MoF on several fronts. Likewise, METAC engagement with the Sudanese authorities was affected by the political developments that unfolded in October 2021.

**Despite those difficulties, rebuilding and maintaining solid fiscal institutions in FCS is paramount to deliver public services to the population.** In the middle or the aftermath of a conflict, government and fiscal institutions are key to reestablish or keep afloat basic resource management and, in turn, deliver critical services to the population in coordination with the international community. At the impact level, core PFM institutions and processes that are up and running contribute to improved governance and trust in the public sector.

## PARTICULARITIES OF PFM IN FRAGILE STATES AND EMERGING LESSONS

**While each FCS is unique, they share common constraints to PFM institutions which are rooted in their fragilities.** In this context, results typically build up from a series of more output-based achievements, for which the reaching of results at the outcome level<sup>2</sup> need to be envisioned and confirmed in a series of capacity building iterations. The below gives account of the lessons that are emerging, citing examples of tangible results at the country or regional level. Understanding these particularities can help to design suitable technical assistance with the ultimate goal for sustainable outcomes. The below lists those specificities for each of the main areas of PFM in which METAC provided assistance.

### Area 1: “Protecting the core”: Budget execution and cash management

---

**Budget execution lacks the tools and processes to ensure adequate piloting and will require significant improvements.** The above-mentioned weaknesses in budget planning spill over to the budget execution side, often paired with high volatility and lack of resources to clear liabilities in the payment process. Volatility in tax revenue and oil resources are not just a matter of cyclical trends in the economy: the root cause also entails domestic territorial conflicts which causes unanticipated withholdings of tax revenue; or disruptions due to

---

<sup>2</sup> Examples being, for instance, in the area of cash management: “More central government revenues and expenditures are deposited and disbursed through a Treasury Single Account”; or in the area of budget preparation: “A more comprehensive and unified annual budget is published”.

violence and destruction of infrastructure which impairs oil production and associated revenue flows. On the expenditure side, this lack of cash forecasting possibility frequently results in a high level of arrears that have, in turn, severe consequences not only for service delivery but also on the economy at large. In some cases, there is no standard and formalized definition of arrears (Lebanon); in other cases, like in Iraq, operational regulations (Iraq Financial and Accounting Manual) need to be updated against the legal framework (Iraq General Financial Management Law, 2019) which contains a definition of arrears. Accounting for and clearing arrears might become extremely complex in situations where a country-internal regional conflict involves withholding of payments for large expenditure categories such as payroll; and arrears keep accumulating year after year (Yemen; Libya). The absence of GFMS or manual processes to control and track commitments and adequately report on them constitute a binding constraint and prevents ministries of finance to perform robust financial control.

**Cash management is usually the first step to gain or regain control over resources.**

Improved cash forecasts can guide decision-making so that available resources can match priority expenditures. FCS often have no foresight beyond one month on forthcoming revenue and expenditure items—or if there are longer projections particularly on revenue, they are not accessible by the Treasury or not used—resulting in ad-hoc decisions on payment priorities. Information on spending plans by MDAs is insufficiently factored in. Fragmented banking account structures and the absence of or limited coverage of a Treasury Single Account (TSA), combined with significant treasury advances to spending units that cannot be easily used for other priority needs by the Treasury, are another factor for significant cash shortages. In Iraq, this challenge is compounded by oil price volatility while borrowing is prohibited during the non-approval of the budget; the absence of recourse to Treasury bills for short-term financing further prevents overcoming cash constraints. In Lebanon, the existing GFMS requires line ministries to record monthly spending plans for the year to come ahead of committing any expenditure, but ministries frequently split the annual spending in 12 equal amounts, which is of little use for the cash management unit. Similar procedures are applied in Iraq, where cash ceilings are not updated against updated commitment ceilings at intervals that support better resource use; this practice is now starting to change in Yemen, where allocation ceilings are updated at quarterly intervals.

**The following lessons have emerged to strengthen budget execution in METAC FCS, particularly by establishing basic controls and linking them to cash forecasting:**

- **Setting-up an expenditure control system can strengthen commitment control and prevent the further build-up of arrears.** In Yemen, as stated in Box 1, the control step of approving commitments is introduced, which no longer enables MDAs to automatically spend and issue checks upon the receipt of their allocations. In Iraq, a roadmap has been discussed that aims at equipping the Ministry of Finance with the ability to track commitments that are currently handled in a decentralized manner in MDAs with no central oversight and monitoring.
- **For countries with an existing GFMS and a role of the MoF that helps enforce a regulation, it was useful to provide a clear definition of arrears and setting up a reporting system.** In Lebanon, a joint METAC/HQ TA in March 2022 focused on providing a definition for each type of arrears based on international standards and suggested minor modifications to the existing GFMS to improve commitment controls.
- **Reconstructing historical data on cash flows helps to learn from the past; create ownership; and build a first cash forecast.** This was applied in Yemen, where – under the lead of USAID-Pragma and complemented by METAC assistance on cash management – the data from 2019-2021 were re-assembled through resource-intensive work with the Central Bank. Not only will learning from historical patterns always remain a key ingredient of cash forecasting; in the case of Yemen, it also has helped to develop a simple Excel-based tool for the first annual cash forecast prepared in 2022.

- **There is a need to strengthen cash forecasts by expanding the cash forecasting horizon while clarifying information flows on selected revenue and expenditure items.** In Yemen, Iraq, and Libya, METAC trained the authorities to build an annual cash forecast with the existing data using a simple template, with the objective to use the forecast for budget planning. Over time, the forecast horizon can be expanded from one to three months, as recommended for Sudan, which is considering factoring in financial information of spending plans from MDAs. In all country cases, the goal is to also improve granularity, that is, forecasting for less than a month with regular updates, while information flow is enhanced.

## Area 2: Strengthening fiscal transparency: Managing fiscal risks and fiscal reporting

---

**While FCS usually experience a large materialization of fiscal risks across a wide spectrum, the day-to-day management of urgencies frequently overshadows fiscal risk management.** These risks originate, inter alia, in the volatile security context which may lead to destruction of critical infrastructure, implying large outlays for re-building assets; and withholding of revenue flows due to split territories. Lack of expenditure controls and cash forecasting may induce expenditure arrears; and the lack of supervision of state-owned enterprises leads to associated fiscal risks. The macroeconomic context may induce inflation or even hyperinflation as in the case of Lebanon, and a failing banking sector. The two most recent international crisis (COVID-19 pandemic and Ukraine war) have shown how deeply connected economies are. The fiscal outlook is now subject to elevated uncertainties, as the full consequences of the war are unknown and will vary across countries. Even if commodity exporters will benefit from revenue windfalls, increasing inflation and tightening global financing conditions will put further pressure on countries that face mounting public spending pressures while having scarce fiscal space to accommodate new spends; at the same time, insufficient build-up or use of buffers to handle these new shocks (IMF 2022a) are likely to further expose FCS to fiscal risks.

**Interest in managing fiscal risks has picked up in METAC FCS in recent years, mainly because of the large fiscal risks stemming from the SOE sector.** SOEs in the MENA region tend to generate sizable fiscal costs and expose Governments to explicit and implicit fiscal risks which can materialize at high costs to public finances (IMF 2021a). In METAC FCS, simply knowing the size and establishing a perimeter of the SOE sector can be a challenge, but it is a prerequisite to strengthen the ownership function.

**Fiscal reporting ensures accountability but has improved little in METAC FCS in recent years.** According to the 2021 Open Budget Survey, the MENA region is one of the least transparent regions in the world with persistent reporting gaps – and the METAC FCS are no exception. Downstream, disclosure of timely financial statements suffers from all weaknesses described above: issues in budget coverage (with many extra-budgetary funds) in combination with limited credibility and weak monitoring of budget execution spill over and negatively affect the fiscal reporting side. Two frequently raised issues relate to limited availability of reliable and timely data (IMF-METAC 2021b) and the obsolete PFM legal frameworks. In the broader governance framework of countries, auditing capacities and independence of Supreme Audit institutions (SAIs)<sup>3</sup> are often insufficient to keep Governments reasonably accountable for public spending.

**The following lessons have emerged by assisting METAC FCS to strengthen fiscal transparency and thereby supporting incremental changes:**

---

<sup>3</sup> Refer to: World Bank 2021.

- **Focusing on basic steps and selected fiscal risks before moving to more advanced functionalities.** In Iraq, a review of guaranteed management practices allowed to gain an understanding of potential risks materializing; this assistance also highlighted the need to regularly inform senior management. In Sudan, supporting the IMF Staff Monitored Program, METAC helped the authorities to establish an SOE registry and identify discrepancies in the ownership policy and legal framework.
- **Gradual roll-out of practical tools such as the IMF’s “SOE health check tool” can create momentum while focusing on the largest risk.** In Afghanistan and Lebanon, the SOE health check tool<sup>4</sup> was applied to major SOEs, with the aim to improve the exchange of financial data and analysis of the performance of the SOE sector.
- **Training on tools can help an understanding of PPP fiscal risks – but an institutional framework is required to put it in practice.** While PPPs are somewhat less relevant in FCS, training on P-FRAM for Afghanistan was conducted given the intention of authorities to considerably scale up PPP investments from 5 percent GDP of costs related to six projects under execution, with an additional 7 percent GDP of cost for 21 new projects (data from end-2020). Capacities for quantification of fiscal risks greatly supports adequate monitoring, which was complemented with policy dialogue to strengthen fiscal risk management responsibilities in an evolving PPP institutional framework.
- **Fiscal transparency can be improved without revamping the whole PFM legal framework.** In Lebanon, METAC co-drafted with the macro-fiscal unit a detailed outline for a fiscal risk statement; a similar approach was followed in Afghanistan. Lebanon also created a dashboard to harvest metadata from the MoF and shed light on main public spending categories (IMF-METAC 2021b). In West Bank and Gaza, recent TA (June 2022) recommended to report quarterly on fiscal risks identified in the multi-year Fiscal and Economic Framework to update policymakers more frequently on these risks.

### Area 3: Budget planning

---

**Robust budget planning helps to restore budget credibility.** Macro-fiscal functions are critical to plan and enact fiscal policies, the base for efficient resource management. In the often-volatile economic context, macro fiscal planning requires constant monitoring, feeding into budget planning, or the enactment of supplementary budgets – as evidenced in several METAC countries at the onset of the COVID-19 pandemic in 2020. METAC has worked in several FCS over the past years (Libya, Sudan, West Bank and Gaza) to build capacities of macro-fiscal units (MFU). The main challenge has been to adequately staff those units (and avoid turnover); tailor their outputs to the existing capacities; and, importantly, provide them with the leverage to influence fiscal policy decisions (IMF-METAC, 2021a). A few factors will remain outside the control of ministries of finance for the time being, particularly the timeliness or quality of macroeconomic data provided by statistical offices or the central bank.

**CD in FCS should consider structural weaknesses in the budgeting process and fiscal situation that hamper budget credibility.** Bottom-up budgeting is most likely resource intensive and investing in it might not always be justified in cases of significant fiscal constraints where large top-down budget cuts during the planning process can be anticipated and budget officers in ministries, departments, and agencies (MDAs) need to be trained. On the other hand, implementation of good practices such as top-down budgeting and medium-term budgeting might not be suitable in all cases, and most likely not in those METAC FCS where there is no voted budget on a recurrent basis; or if there are significant delays to enact

---

<sup>4</sup> Refer to: <https://www.imf.org/en/Topics/fiscal-policies/Fiscal-Risks/Fiscal-Risks-Toolkit/Fiscal-Risks-Toolkit-SOE-HCT>



a budget. Yemen did not have a budget during 2015-2019 and in 2021. In Libya, there has been no voted budget for several years, while in Lebanon there has been a hiatus of 12 years (between 2005 and 2017) with no budget and 2022 expenditures are still based on the 2020 budget. In Sudan, a budget has been voted for the last few years, but there are large off-budget operations. With varying degrees and institutional arrangements, dual budgeting is applied in Iraq (separate budgets) and Yemen (investment budget integrated into three budgets – national, local, autonomous entities – but managed by the Ministry of Public Works), which creates the need to coordinate well across ministries of finance and ministries of planning or infrastructure.

**Assisting METAC FCS to strengthen the macro-fiscal function and to improve budget planning for budget credibility has provided the following lessons:**

- **Creating MFUs from scratch helps to enshrine the macro-fiscal function.** This was done in Libya, where METAC leveraged on other donors' involvement to create the MFU. In WBG, building the MFU from scratch in 2017 along with intensive support until 2019 has proved successful; this effort is sustainable as the unit now routinely issues macroeconomic forecasts (as part of the Economic Forecasting Working Group) and quarterly updates.
- **Establishing availability of macro-fiscal data.** In Libya, METAC helped authorities to identify the relevant sources of data to populate the MTFF – even though the production and supply of data will remain largely outside the control of the MoF. While there is no voted budget yet in Libya, the objective is to progressively strengthen the credibility of the MTFF to better inform budget preparation over the medium-term
- **Building a macro-fiscal forecast with the available data, as a first step that can then be transformed into a MTFF, data and capacities permitting.** Building on the established MFU functions and efforts of other development partners, in WBG a first MTFF was elaborated in 2021 although it is not yet published. In Sudan, moving from fiscal forecasts to issuing a MTFF required several iterations of capacity building, with limited success thus far. Focused communication with the statistical office to obtain essential macroeconomic data in a timely manner to feed into the MTFF (growth and exchange rate, selected economic indicators and commodities prices, among others) can also help.
- **Applying a “theory of change”, working on carefully selected outputs allows to ignite the reform process.** In Libya METAC worked on creating a quarterly macro-fiscal report with policy advice for the senior management of the Ministry of Finance; similarly, in West Bank and Gaza improvements to quarterly reports are envisioned to clearly communicate the need for fiscal policy actions to reach the annual budget targets, strengthening a process of MoF-internal coordination.
- **Building capacities to implement core steps of the budget preparation process.** This has proved useful in cases where the non-approval of the budget was anticipated and factored into the CD: in the absence of a voted budget in Libya, METAC works on practical outputs to create a budget calendar and a budget circular for later use. In Lebanon, joint work with the MFU has resulted in a MTFF that is now attached to the budget circular ahead of the yearly budget preparation process, although its ministerial ceilings are not binding.
- **Workshops and regional courses encourage peer dialogue and technical exchange.** In Lebanon, workshops in 2020 and 2022 on medium-term budget planning included more than 20 MDAs for a large buy-in, highlighting the need for adequate costing methodologies. Regional courses at the CEF in 2019 and 2021 on tools and methods for medium-term budget planning stimulated peer dialogue and technical exchanges, where FCS could discuss regional experience.

- **Applying selected features of gender and green budgeting remains a valid policy goal.** However, as demonstrated by the Lebanon case, other pressing policy priorities might temporarily sideline this topic.

#### Area 4: PFM Strategy

---

**Putting in place a PFM strategy is key, as FCS experience difficulties to plan and implement reforms to reinstate core functionalities.** As in all countries, PFM reforms should be aligned with government priorities and existing capacities, taking into account implementation risks. In FCS, the two core additional challenges at the strategy level are prioritization and coordination.

- **Confronted with manifold PFM issues, FCS are often in a “firefighting mode” and have difficulties to prioritize and lay out a suitable sequence of implementation.** As mentioned above, FCS exhibit gaps across all stages of the PFM cycle. However, coming up with all-encompassing reform plans that are beyond the authorities' capacities is counterproductive, as reforms will inevitably trail behind expectations, jeopardizing the credibility of the ministry of finance and other stakeholders.
- **Coordinating across government agencies remains challenging.** As all areas of the PFM cycle are linked together, a systemic view and high level of coordination between institutions is essential. It is also important to avoid that a PFM strategy is managed only by or perceived to be solely the responsibility of the MoF; i.e. it needs to be endorsed by the cabinet (or higher level) and sufficiently sustainable, protecting it from erratic and short-term policy changes that may be related to regime changes or government turnover. However, this may not be sufficiently possible due to the complex political landscape and fragile context; loss of institutional memory because of critical staff turnover; or other basic logistical difficulties linked to a conflict situation. While some institutions will show resilience, others will be barely functional, rendering any joint action difficult. As highlighted in Box 1, Yemen is gradually overcoming the constraints and establishing institutional frameworks that more clearly separate the functions of MoF and CBY, requiring constant coordination and exchange in an evolving context.

**To strengthen PFM strategy in METAC FCS, a few CD approaches and practices have proved effective:**

- **A “theory of change” to guide strategy.** This requires understanding how linkages between each area of the PFM cycle are working in terms of changing demand for institutional reform. For instance, improving year-end reporting would provide a better information base that can be used for more realistic budgeting in the next year. If reporting reveals statistical inconsistencies, it may create demand to improving monitoring of government finances, for instance through a Government Financial Management Integrated System (GFMS). Understanding these and other causal links are very useful to select suitable entry points. Such assessments can also benefit from political economy considerations and stakeholder analysis.
- **Careful choice of assessment tools.** (i) Modular applications of assessment tools should be given consideration when transaction costs become a binding constraint. (ii) Broad assessment tools like PEFA, do have their place as witnessed by several applications in FCS, as they provide a systemic view and linkages of PFM areas; facilitate an understanding of causalities for capacity constraints; and induce stakeholder coordination. They do not provide any recommendation, so leave open for policymakers to discuss solutions. However, such tools are resource-intensive, which can prove delicate in situations of persistent understaffing in FCS. (iii) Assessment tools on narrow PFM areas leading to a strategic action plan or roadmap can also be given consideration. For instance, if an FCS wishes to ramp up public investment, the PIMA is a suitable tool;

however, such application may be less effective if public investment is mostly financed by development partners and remains off-budget. (iv) Self-designed surveys will allow tailoring analytics to individual country circumstance but may take time to be elaborated; a recent FAD-METAC survey for Yemen for cash management and expenditure control proved useful to understand current processes and weaknesses.

- **Selectivity.** For conflict or immediate post-conflict states, a few focused actions are usually required to restore core operations, such as treasury functionalities along with basic budget execution functions.
- **Appropriate sequencing.** Some advanced functionalities are ineffective if basic institutional arrangements are not established first: for example, implementing a medium-term budget framework (MTBF) if there is no medium-term fiscal framework (MTFF) has a limited effect on budget credibility and fiscal sustainability. Likewise, rolling out accrual accounting with no solid cash accounting processes in place will yield little result. At the same time, developing IT systems without having established reasonable processes beforehand is unlikely to “leapfrog” underlying capacity constraints outlined above.
- **Developing a medium-term PFM plan.** Focused missions, in close coordination with other international partners, are useful to design medium-term action plans to improve PFM. In Sudan, a post-PEFA implementation plan strategy with milestones for a medium-term approach was developed jointly with the WB and EU in 2021 and helped in creating ownership in the Ministry of Finance and Economy while determining appropriate reforms to implement.
- **Regular training and peer exchange.** This will allow policymakers and stakeholders to identify reforms and craft PFM strategies with ownership. This was the objective of the METAC regional course delivered at the Center of Economics and Finance (CEF) in March 2021 on “Selected Analytical Tools for Better PFM Reforms and Systems”.

### **BOX 1. Strengthening budget execution in Yemen under the programmatic approach**

The Ministry of Finance (MoF) of Yemen aims to enhance its core institutional functions to ensure efficient allocation of its limited financial resources to priority expenditures and to better control the size of the budget deficit. At the request of authorities, METAC in close collaboration with FAD is supporting MoF on budget planning; budget execution; and digitalization through a strategy for an integrated financial management information system.

In order to strengthen expenditure control, METAC is assisting a technical working group in MoF to implement a new commitment control process. Currently, the pre-cash and the cash-phase of expenditure control are coupled together: on receipt of allocation ceilings (“financial ceilings”) ministries, departments and agencies (MDAs) are authorized to spend and to issue checks, which further contributes to the build-up of arrears. The objective is to introduce one additional control step so that MoF has the ability to authorize commitments in line with cash availability. This is being tested and implemented in three pilot entities (Ministry of Public Works; the University of Aden attached to the Ministry of Higher Education; and the Customs Agency), a process which is continuing during FY23. The strategic approach lays out a sequence of changes over the medium-to long-term run.

The MoF is also resuming cashflow forecasting activities which were paused since the move of the capital from Sana’a to Aden in 2016. METAC provides support on the institutional arrangements and risk scenarios for cash flow forecasting. The team is working on a cashflow forecast based on the 2022 budget, with technical support planned to be continued during FY23.

The support in budget execution is provided in close coordination with the USAID Economic Recovery and Livelihoods Program (USAID/ERLP), implemented through the Pragma Corporation.

Source: Based on METAC Steering Committee Report 2022.

## **LESSONS ON THE ENGAGEMENT: A TAILORED APPROACH FOR BETTER EFFICIENCY**

**A medium-term, programmatic<sup>5</sup> approach, can be combined with flexibility to respond to instability and frequently changing circumstances.** METAC experience identifies five concrete points to this end:

- **CD should be anchored in medium-term objectives and clear milestones that are developed upfront with authorities.** In Lebanon, ahead of each project, CD activities carve out time to discuss a strategic roadmap which contains objectives, milestones, and desired outputs along with further CD activities. As circumstances change, the roadmap is updated during the execution of the project. METAC has provided training on fiscal risks from PPPs over the last few years and has identified, in the roadmap, the need for a revamped PPP process at the level of the Ministry of Finance. This helped the authorities to keep track of this specific objective and resulted in further METAC support to co-design this process together with the MoF.
- **Under a programmatic and medium-term approach, a stepwise procedure should be followed while allowing flexibility for urgent needs.** The assistance should be

---

<sup>5</sup> A programmatic approach combines a number of projects to cause a broader, strategic business outcome to be achieved – see Box 1 with the example of Yemen.

broken down into smaller steps, which keeps the MoF staff motivated as they can identify some progress, which, in turn, helps to build and sustain momentum. In Yemen's expenditure control enhancement, the support is based on a programmatic engagement including a peripatetic advisor, under a work plan encompassing several phases that identify results to be achieved. Hybrid and online engagement greatly help in that regard. The stepwise improvements to the cash forecast in Iraq are another example illustrating the usefulness of this type of CD. At the same time, METAC can mobilize resources quickly to accommodate urgent CD requests that are essential to build trust with authorities.

- **Working on practical outputs that respond to stated needs.** METAC frequently works on outputs that match needs, including institutionalized PFM outputs like cash forecasting tools and an MTF—**but it can also entail support for “smaller”, less formal outputs** (see section III) like a report for MoF management that can advance PFM reforms in identified areas. To this end and as mentioned above, the center makes extensive use of the various tools created by HQ such as the P-FRAM for PPP contingent liabilities and fiscal risks (Afghanistan and Lebanon), the State-owned enterprise (SOE) health check tool (Sudan), or the cash forecasting tools for FCS. Across all topics, the aim is to provide the authorities with short guidance notes, which are customized to the country setting and provide practical recommendations for the context of fragile and rapidly changing environments; “classical” technical assistance reports continue to remain essential for inception and strategic missions.
- **Peer-to-peer exchanges and platforms are useful to share experience and need to be further intensified.** METAC organized a series of online sessions in June 2020 to promote the sharing of experience among regional countries on macro-fiscal and fiscal transparency topics. FCS can greatly benefit from this kind of CD as many METAC countries experienced shocks in recent years. During CD engagements, METAC makes sure to present and discuss examples from the region that reflect institutional similarities. For example, the Sudan case to strengthen cash management practices was used in Libya. This also includes situations where non-FCS contribute to FCS, for instance Morocco supporting Iraq to identify the feasibility of implementing program and performance budgeting, one of the most challenging PFM reforms which typically exceed capacities in FCS.
- **Combining field and online CD provision offers desirable flexibility to deliver results while improving ability to reach counterparts.** This is particularly true for FCS where physical presence for external advisors is limited, while conducting missions in a third-party country are naturally limited to pre-selected personnel. In Libya, online work was already in place before the COVID pandemic because of curfews. While some outputs require field presence and extensive face-to-face discussions, such as diagnostics or the design of a roadmap, others can be accommodated remotely like co-drafting of documents or refinements to Excel spreadsheets.

**Following the IMF Strategy for FCS, partnerships can leverage the CD and broaden the audience for better outreach.**

- **Partnerships with development partners entail diverse arrangements.** Following established practice, collaboration ranges from acting as observers in missions to elaborating and implementing joint work plans, both for discrete outputs or programmatic engagements. METAC engages in this way not only with partners contributing to METAC, but also beyond, such as USAID, UNESCWA, and the World Bank.
- **The role of training institutes has shown strong benefits.** In Lebanon, METAC partners with the Institute of Finance (IoF) Basil Fuleihan to train MoF staff on topics like fiscal risks from SOEs and PPPs and budgeting. In Libya, METAC has partnered with the

Accounting and Finance Training Institute (AFTI) to organize a series of training sessions on core PFM issues, mainly drawing on neighboring countries' experiences. These sessions gather various departments of the MoF and the Central Bank and allow ample time for discussion on challenges within the administration. This has proved beneficial as training institutes have long-established relations with MoFs to ensure the appropriate attendance for CD activities. This role has not changed with the introduction of virtual training, as training institutes keep performing a crucial task to gather participants in a single location (or several venues to comply with Covid-rules); as well as to arrange for an online mode delivery, similar to the CEF.

## CONCLUSIONS AND OUTLOOK

**This note discussed the particularities of PFM issues in METAC FCS, which require a distinct approach to capacity building.** While flexibility and gradualism are useful approaches for strengthening PFM in all developing economies, the need to carve out a stepwise approach and come up with tailored solutions to answer exceptional situations is even greater in FCS. In a global context of vast uncertainties, METAC will continue to leverage its ability to flexibly respond to emerging urgent needs of FCS among its membership, while keeping a balance with a medium-term and programmatic CD to achieve results in the long term. This will also help ensure that FCS progressively adopt PFM institutions aligned with good international practices.

**As an outlook of emerging trends and needs, capacity building in METAC FCS will have to increasingly recognize the role of digitalization.** Where not already in place, the strengthening of institutions and processes laid out above would strongly benefit from digitalization to allow better information sharing and data integrity in environments where collaboration within the public administration is often weak. This will require specific strategies and funding approaches for ministries of finance who are already actively screening international experiences for specific solutions. While this is unlikely to leapfrog basic capacity issues, well managed and tailored, digitalization can inject new dynamism to strengthen PFM arrangements on a sustainable basis. METAC and FAD recently provided strategic advice for a GFMS solution for the Ministry of Finance of Yemen, which is adapted to context and is open to partner collaboration.

**Regional Capacity Development Centers like METAC can catalyze partnership and provide a platform for CD and policy dialogue.** Keeping an active technical dialogue with peers in ministries of finance in the region is vital, particularly for the "hard-to-reach" FCS given security constraints. Among others, this is evidenced by the high participation and the active involvement of participants of METAC FCS to regional webinars and training courses which has peaked during the COVID crisis.

**Broadening METAC's reach to new country-level stakeholders that have key roles in building solid PFM institutions in FCS is the next challenge.** METAC technical assistance to FCS is currently mainly focused on ministries of finance, given their key role for public finance. However, Civil Society Organizations, Supreme Audit Institutions and parliamentarians have an important role to play in rebuilding public institutions and trust in FCS. A challenge will be to reach out selectively to these stakeholders which can play a decisive role to keep Government accountable for their public finance management reforms.

## BIBLIOGRAPHY

IMF, 2022a, “Fiscal Monitor”, April 2022, Washington DC.

IMF, 2022b, “IMF Strategy for Fragile and Conflict-Affected States (FCS)”, Washington DC.

IMF, 2021a, “State-Owned Enterprises in Middle East, North Africa, and Central Asia: Size, Costs, and Challenges”, Departmental Paper No 2021/019, Washington DC.

IMF-METAC, 2021a, “Improving Fiscal Management in the METAC region: The Role of Macro-Fiscal Units”, METAC Regional Note no. 5.

IMF-METAC, 2021b, “Strengthening Fiscal Transparency in METAC countries: Progress, Challenges, and Lessons Learned”, METAC Regional Note no. 6.

World Bank, 2021, “Supreme Audit Institutions Independence Index: 2021 Global Synthesis Report”, Washington DC.

**INTERNATIONAL MONETARY FUND**  
**METAC**  
**Middle East Regional**  
**Technical Assistance Center**

[METACSS@IMF.org](mailto:METACSS@IMF.org)  
[IMFMETAC.org](http://IMFMETAC.org)

**REGIONAL NOTES**  
NOTE 2023/9