

**Common Approach to PEFA value added
and links to other PFM Indicators**

PEFA Secretariat
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(1) Objective & scope of the note

The main purpose of the note is to provide information to the non-PEFA partners about the value added by the PFM Performance Measurement Framework (the PEFA Framework). PEFA being a multi-agency partnership program it requires to present a common view for participating governments on how the PEFA Framework and its application relate to other PFM indicator sets, which are supported by its Partners. Whilst it is appreciated that the list of other indicator sets globally in use is extensive, this note is primarily focused on PFM indicator sets which are fully or partially sponsored by the PEFA partners and used throughout the World. This includes the World Bank's CPIA (Country Policy and Institutional Assessment) indicators, the OECD-DAC's Aid Effectiveness indicators, the World Bank/IMF HIPC expenditure tracking indicators, DFID's Fiduciary Risk Assessment indicators and the OECD's procurement indicators. The World Bank's Government Debt Management Indicators are about to be launched and therefore included in the coverage of this note.

(2) Value added

The PEFA Framework was developed against the background of the need to (i) reduce on the heavy transaction costs on recipient governments (ii) reduce on the overlap of the many diagnostic instruments (iii) improve and enhance coordination among donors and (iv) improve on the impact of reform initiatives. The Framework was developed between 2003 and 2005 through extensive consultations both with donors and governments.

The PEFA Framework provides a “snapshot” of a country's PFM performance system., It covers the entire financial management cycle and embraces international standards and codes in its structure. It is internationally well accepted and has presented itself as good practice in integration and coordination of financial management evaluations amongst donors. It should also be pointed out that the utilization of the PEFA Framework fosters and encourages the dialogue between development partners and individual governments. It is an analytically robust instrument which can help to reduce duplication of diagnostic tools and should be capable of monitoring progress of PFM performance over time. The high degree of objectivity in the rating of its indicators provides the flexibility to project an impartial perspective in its application while acting as an independent monitor.

(3) Links to other PFM indicator sets

Indicator sets operate at different levels of aggregation depending on whether they cover PFM only as one of many aspects, focus entirely and comprehensively on PFM or concentrate on the details of a selected aspect of PFM. The PEFA Framework encapsulates the entire financial management cycle. Other indicator sets with a higher degree of aggregation comprise the CPIA and OECD Aid Effectiveness Indicators as they embrace a much wider and broader dimension of a country situation beyond the PFM

aspects. Whilst not quite as comprehensive, the HIPC expenditure tracking indicators and the DFID Fiduciary Risk Assessment indicators were focused on assessing PFM performance at the same level as the PEFA Framework. Both these indicator sets are being replaced by the PEFA performance indicators. The OECD procurement indicators, and the more recently developed Government Debt Management indicators, are much more disaggregated and focus in detail on a select aspect of PFM. Each of these indicator sets are briefly described below.

- **World Bank's Country Policy and Institutional Assessment indicators**

The CPIA assesses the quality of the country's current policy and institutional framework. The assessment is carried out by the World Bank, and the ratings are used to guide the Bank in the allocation of IDA resources to recipient countries. In contrast, the PEFA assessment is usually undertaken as a multi donor collaborative effort. The decision to carry out a PEFA assessment is a decision taken country by country and includes the government. In the PEFA context, any links to fund allocation discussions are more indirect, as other criteria always weigh in. CPIA indicators are characterized by a high degree of aggregation. The set of criteria used for the CPIA ratings are grouped into four clusters. The fourth cluster "D" (public sector management and institutions) under questionnaire 13 on the quality of budgetary and financial management, 14b on tax administration and 16 on transparency, accountability and corruption in the public sector are closely aligned to various PEFA indicators. Although on differing types of scales both indicators sets (CPIA and PEFA) are calibrated. They are evidence-based and require written justifications to support the ratings. Where PFM assessments have been undertaken by means of the PEFA Framework, they provide valuable information to support the scoring of the CPIA ratings.

- **Paris Declaration /OECD Aid Effectiveness indicators**

The *Paris Declaration*, which was endorsed on 2 March 2005, lays down a practical, action-orientated roadmap to improve the quality of aid and its impact on development. The 56 partnership commitments are organized around the five key principles: Ownership, Alignment, Harmonization, Managing for Results, and Mutual Accountability. The Declaration is supported by a set of 12 "Indicators of Progress" on aid effectiveness which were developed as a way of tracking and encouraging progress against the broader set of partnership commitments, that improves transparency and accountability on the use of development resources. Under the *Paris Declaration* Principle of "Alignment", Progress Indicator 2(a), which deals with public financial management system is closely linked to the PEFA framework. The *Paris Declaration* Progress Indicator 5 is closely aligned to the PEFA Performance Indicator D-3 whilst the Indicator 7 is closely linked to the PEFA D-1, D-2 and the second (ii) dimension of PI-7.

- **HIPC-AAP Expenditure Tracking Indicators**

The HIPC expenditure tracking indicators are being replaced by the PEFA indicators as the basis for tracking PFM performance in the analytical work undertaken by the World Bank and the IMF. The 16 HIPC Expenditure Tracking Indicators which have been applied primarily in 27 African and Latin American countries between 2000 and 2005 have formed the foundation upon which the 28 performance indicators of the PEFA PFM

Performance Framework were elaborated. The evolution to the PEFA Framework made the PFM indicators applicable to a wider range of countries, broadening the scope of PFM subjects covered, and introduced a more rigorous scoring methodology. The HIPC and PEFA indicators are characterized by the same level of aggregation.

The IMF and the World Bank will work together on tracking progress in PFM performance in countries where HIPC-AAP assessments were undertaken prior to 2005 and have been followed by PEFA based assessments since 2005.

- **DFID's Approach to Managing Fiduciary Risk**

DFID has for a number of years used a specific analytical instrument, known as the DFID Fiduciary Risk Assessment, to assess and record fiduciary risk in relation to its budget support operations. This instrument used a set of 15 benchmarks or indicators, covering the fiduciary risks associated with PFM systems, together with a narrative which included the risk of corruption. DFID's indicators were rated on a 3-point ordinal scale similar to the HIPC expenditure tracking indicators and the level of indicator aggregation was also similar. With the launch of the PEFA Performance Measurement Framework, DFID is replacing its internal guidance on conducting fiduciary risk assessment, so that - where available - PFM assessments based on the PEFA indicator set now constitute the foundation for DFID's fiduciary risk assessment. The additional element of anti-corruption assessment, however, is still maintained by DFID in its guidelines.

Internal guidelines of several other bilateral donor agencies (e.g. France, the Netherlands, Sweden and Denmark) have recently been updated to refer to the PEFA indicator set as the preferred basis for assessing performance of PFM systems in client countries.

- **OECD Procurement indicators**

The Baseline indicators have been developed as part of a collaborative effort by the World Bank/OECD-DAC Procurement Round table initiative on strengthening procurement capacities in developing countries. The tool is predominantly based on macro indicators designed to examine key elements of a public procurement system under four pillars. While the PEFA Framework includes one specific procurement indicator with three dimensions (PI-19) as well as reference to procurement issues as part of other indicators, the OECD Procurement indicators cover in much greater depth the procurement aspects in a PFM system. The OECD indicator set is far more disaggregated. It has been recently updated to version 4 of the Benchmark and Assessment Tool for Public Procurement System and consists of 12 indicators to be scored on a four point numeric scale.

- **World Bank's Government Debt Management Indicators**

Similar to the procurement indicators, the World Bank has developed a Government Debt Management Performance Measurement Framework. This Framework follows closely the principles and methodology of the PEFA Framework, but is focused exclusively on debt management. It therefore represents a drill down of PEFA indicator PI-17 into a detailed set of 15 indicators. The Framework for Government Debt Management will be officially launched in late 2007.