The PEFA Framework
– Five Years Of Successful Implementation.
In June 2005, the PEFA Program issued the PFM Performance Measurement Framework. Its five year anniversary is an opportunity to look at what the Framework has been achieved, and also where it is heading.

Roll-out of the Framework turned out to be less of a problem than the ‘parents’ of the Framework had imagined. Since late 2005 we have seen a steady flow of assessments being initiated and finalized. There was obviously a great demand in many countries for a tool that provided a rigorous conceptual basis for PFM systems assessments and could measure the impact of reforms over time. This rapid global acceptance of the PEFA Framework has also shown that the tool is indeed widely applicable across countries of different sizes and levels of development. With recent PEFA assessments successfully finalized for India and Brazil, the initial notion among some critics that the Framework was suitable only for poor, aid-dependent countries has been proved wrong. While most assessments concern the national government’s PFM systems, the Framework has also become popular for assessments at the sub-national level, not least for individual states/provinces in large federal nations such as Nigeria.

Quality of the assessments has gradually reached a high level over these five years, despite the highly decentralized approach to planning and implementation of PEFA assessments. We attribute this to the training on PEFA methodology that has reached a large and diverse audience, the issuing of guidance notes for assessors as well as assessment planners and managers, the experience gained by assessors from their first assessment assignments, and the enhancement of quality assurance arrangements being established for the individual assessments these now typically include the government itself, up to three international financial institutions or aid agencies, and the PEFA Secretariat.

As a result of the international recognition of the PEFA Framework as a robust and comprehensive technical tool, its wide geographical coverage, and the generally high quality of reports, the PEFA-based assessments are becoming a standard input to many processes. It is the starting point for discussion of PFM reform plans in many countries and is widely used by international financial institutions and aid agencies to decide on the use of country systems for individual operations. International researchers and aid evaluation departments seek PEFA assessments for reliable and wide ranging datasets needed in their work. Moreover, a number of regional networks of government officials have adopted the PEFA Framework and related country assessments as the basis for their peer learning, e.g. in Eastern Europe and in the Caribbean.

While the points above demonstrate very satisfactory progress, the work is far from complete. There remain a range of issues to be addressed. Amendment of three PEFA indicators is in progress to remedy design problems identified during these five years. Such upgrades are needed to strengthen the Framework and secure its continued usefulness. Most of the assessments now being initiated are repeat assessments. Tracking performance changes over time is becoming possible on a wide scale and this opens the door for exciting new learning. Finally, many partners among both governments and donors are asking for advice on how to use the PEFA assessments for identifying reform priorities and establishing comprehensive and well-sequenced reform action plans, and work is underway to develop a Guidance note on this important subject.

Frans Ronsholt, Head of PEFA Secretariat
The goals of the Public Expenditure and Financial Accountability (PEFA) Program are to strengthen the ability of partner countries and donor agencies to:

(i) assess the condition of country public expenditure, procurement and financial accountability systems, and

(ii) develop a practical sequence of reform and capacity-building actions.

In a manner that:
- Encourages country ownership
- Reduces the transaction costs to countries
- Enhances donor harmonization
- Allows monitoring of progress of country PFM performance over time
- Better addresses developmental and fiduciary concerns
- Leads to improved impact of reforms

The Program provides its services through the PEFA Secretariat. Advice to users of the Framework and quality review of assessment reports is available upon request by email to the Secretariat.

The PFM Performance Measurement Framework – frequently referred to as “the PEFA Framework” – was developed during 2003-2005 and officially launched in June 2005.
The PEFA Framework has two main components:

**PFM Performance Indicators:**
- A set of 31 high-level indicators, covering the entire budget management cycle and all main PFM subjects.

**PFM Performance Report:**
- Describes the country context; the process and scope of the assessment; the evidence for indicator ratings; and presents the integrated analytical summary

The assessment methodology includes:

**Indicator scoring** done on a four-point ordinal scale, based on:

- Objective and transparent criteria
- Evidence (not perception)
- Internationally recognized good PFM practice

**An Integrated Analysis** to establish if the government has the tools to deliver on the main budgetary outcomes – fiscal discipline, strategic resource allocation and operational efficiency in use of financial resources for service delivery

**The focus is on Assessing Systems Performance**
- It is not assessing fiscal policy; nor in detail the causes-for-causes for good or poor performance

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**ABOUT PEFA**

The PEFA Program was founded in December 2001 as a multi-donor partnership between the World Bank, the European Commission, the UK’s Department for International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Royal Norwegian Ministry of Foreign Affairs, and the International Monetary Fund.

A Steering Committee comprising these agencies manages the Program, while the Secretariat implements the PEFA activities. The PEFA Secretariat is located in the World Bank headquarters in Washington, DC.

The Program works closely with the OECD-DAC Task Force on Public Financial Management in contributing to achievement of the objectives of the Paris Declaration and Accra Agenda for Action on Aid Effectiveness.
Modalities in Implementing a PEFA Based Assessment

Country focus and decision
Application of the PEFA Framework is entirely decentralized to the country level (if, when, how to use Framework)

Inclusiveness
All stakeholders can be involved and any agency can in principle undertake any role in its implementation; it does not ‘belong’ to any organization

Supported by a neutral body - the PEFA Secretariat
- Offers support to any user of the Framework without representing a particular interest
- Does not undertake or finance assessments
- Support is free of charge

Benefits to Countries:
The 176 assessments conducted to date have produced a variety of benefits to the countries involved. These benefits include:
- The harmonization of information requested by external agencies by using a common assessment tool, thus reducing the demands placed on senior (finance) officials in responding to mission after mission wanting similar data;
- Being able to monitor the results of PFM reform efforts, either through repeat assessments (although ideally not within three years, as PFM reforms typically take time to implement and show impact: see the Mozambique study on page X), or by building specific PEFA indicators into the countries own M & E mechanism (see the Zambia case study, page Y);
- Setting priorities and informing PFM reform plans, as seen in the examples from Norway and Mozambique;
- Initiating and conducting self assessments; a number of PEFA exercises have been government-led, thus enhancing the ownership of the results and facilitating efforts to improve areas of acknowledged weakness;
- Comparing and learning from peers, as has happened in regional PFM groupings in Eastern Europe and the Caribbean.

Global reach:
PEFA has become the most widely utilized PFM tool, with more than 176 assessments completed in over 110 countries. While the initial support and use of the tool continues to be drawn from the seven PEFA partners, at least 20 other donor/multilateral organizations have been involved in some capacity with the PEFA assessments and a growing number of governments are leading the management of the assessment process and writing of the reports.

The PEFA Framework’s popularity has also led to the development of guidelines for use of the Framework at the sub-national level where over 55 sub-national entities have been assessed (with some assessments covering multiple regions in a single report). Going forward, it is expected that the country coverage will start to slow but the number of assessments conducted will maintain a steady pace as countries conduct repeat assessments and a growing number of sub-national entities are assessed, particularly in large countries.
ZAMBIA
Zambia was one of the first countries to adopt the PEFA Framework in 2005. Strong government ownership through fielding a government team, combined with an explicit incorporation into the monitoring framework for the PFM reform program, helped create the conditions for PFM reform managers to bring about a closer alignment between the PEMFA reform program and the PEFA assessment. A government team (comprising staff from Ministry of Finance and National Planning (MoFNP) and from the Zambia Institute of Chartered Accountants) was appointed to carry out the assessment. This team was supported by two external consultants funded by Sweden (SIDA). The team was led officially by a senior official in MoFNP. At the pre-assessment workshop and at the workshop to discuss the initial results, a wider group of domestic stakeholders (from MoFNP, line ministries, and external audit) as well as donor agencies attended. Following the work of the assessment team, an external validation mission was fielded by donor agencies where the PEFA ratings and justification were discussed with government officials. Comments from government, development partners and the PEFA Secretariat were incorporated by the assessment team into the final report. The report was published as a government document. The government presented the PEFA findings at the annual CABRI conference.

The PEFA assessment has influenced the direction of PFM reform through the revision of Annual Work Plans and realignment of PEMFA. Monitoring of some of the PEFA indicators was incorporated explicitly into the annual Performance Assessment Framework, discussed jointly between government and development partners. The PEFA assessment appeared to cause a reduction in competing general PFM assessments, as the development partners agreed to use the PEFA assessment as their common information pool on general PFM assessments. A repeat assessment took place in 2008, coordinated by the monitoring and evaluation unit of the PEMFA reform program.

NORWAY
Norway’s self-assessment (2007) of its PFM system performance at central government level was coordinated by a PEFA experienced staff member of Norwegian Agency for Development Cooperation (Norad) in collaboration with MOF officials, the National Audit Office and others. The PEFA Secretariat contributed to quality assurance. As expected, Norway mainly scored high, but eight indicators/indicator dimensions were rated at C and D level.

It was the government’s reaction to the report that stands out. Among the areas obtaining low ratings, the government agreed on needed improvement in procurement practices and follow-up to the external audit report findings. Low ratings affecting two other indicators were a result of primary service provision being entirely decentralized to municipalities. Three other areas of low performance rating were not considered priorities for improvement, as the Ministry of Finance found the current systems to be appropriate in the Norwegian context: there were a lack of multi-year budgeting at a disaggregated level, internal audit functions being optional for MDAs and lack of a consolidated assessment of risks in public corporations and autonomous agencies. The government response is useful as it shows the areas in which the government is ready to initiate reforms or improvements. At the same time, the publication of the report and the response may lay the basis for a debate on the validity of the assumptions regarding the three non-priority issues.
**INDIA**

Following piloting of PEFA based assessments at the state level in India, the Union Government decided to go ahead with a national PEFA assessment in 2009. This was carried out by the New Delhi-based National Institute of Public Finance and Policy (NIPFP), an autonomous government agency which conducts research on public finance and contributes in the process of policy-making related to public finance. The assessment process, therefore, was entirely locally based. The objective of the assessment, which was completed in March 2010, was to “provide a basis for the measurement and monitoring of PFM performance of the country at the union (central) level over time” (NIPFP Newsletter, July 2009). The assessment was sponsored by The World Bank and the assessors involved in the process had earlier been trained by a team comprising the PEFA Secretariat and the UK Chartered Institute of Public Finance and Accountancy (CIPFA). The World Bank and the PEFA Secretariat contributed to quality assurance of the assessment.

The report was made publicly available in March 2010 and the main author additionally publicized the report and its findings on IMF’s PFM blog. In June 2010, NIPFP held a two-day workshop where some 80 high level officials from Government of India - responsible for PFM at the Union and State levels - discussed the study findings and their policy implications. The workshop resulted in suggestions for a number of PFM reform priorities and possible actions.

**MOZAMBIQUE**

The PEFA performance indicators were incorporated in PFM reform monitoring systems in Mozambique starting in 2005 in connection with implementation of a baseline PEFA assessment. A program of future updates of the PEFA assessment was agreed at the same time. The first repeat assessment was completed in 2007 with the next one is under preparation for implementation in 2011. The 2007 assessment comprehensively tracked progress from the baseline assessment, through comparison of indicator ratings and their respective evidence. It also provided an understanding of the origins of the system changes identified. Some of the most important performance improvements from 2005 to 2007 were in budget execution – revenue administration, cash management and internal controls. Improvements were directly related to three factors:

1. Reforms were already well underway in 2005 (e.g. IFMIS and revenue administration) but only began to improve system outputs in 2006/07.
2. Identification of small managerial and administrative changes in the 2005 assessment led to quick-wins.
3. Pay-roll control was identified as an important neglected area of reform on the basis of the 2005 assessment. Measures were incorporated in the reform program and generated some results already in 2007.

The report, therefore, illustrates how substantial reforms that were initiated long before the baseline PEFA assessment, contributed to the improved indicator ratings during the short two-year period between the baseline and the repeat assessments, whilst also recognizing that some of the findings of the 2005 assessment generated adjustments to the reform program and started to show impact two years later.
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