The PEFA Performance Measurement Framework and the Strengthened Approach to Supporting PFM Reform

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• What is PEFA?

• The Strengthened Approach to Supporting PFM Reform

• The PFM Performance Measurement Framework

• Planning & implementing a PEFA-based PFM assessment
WHAT IS PEFA?

- Public Expenditure & Financial Accountability Program
- An initiative of seven international financial institutions and donor agencies
- Working closely with OECD Development Assistance Committee’s Joint Venture on PFM
- Aimed at supporting improvements in public financial management of partner governments
- PEFA Secretariat located at the World Bank
The Strengthened Approach to Supporting PFM reforms
Limited progress or little evidence of progress

Large amount of PFM work undertaken, mostly by development agencies and a good deal of knowledge generated.

Limitations

- The duplication and lack of coordination in the work has led to a heavy burden on partner governments.
- With the exception of HIPC benchmarks, it has not been possible to demonstrate whether a country’s PFM performance is improving over time.
- The monitoring of PFM reforms has tended to focus on inputs and activities, rather than on the impact on PFM performance.
Examples of challenges

Types of PFM diagnostic exercises in 2003
(Percentage of total exercises by type)

The average number of reviews for a country in 2003 was 4.6 reviews.

Niger was subject to the most reviews with 10.

Source: SPA Budget Support Alignment Survey 2004
Examples of challenges

PFM diagnostic exercises and action plans

Percentage of total reviews producing PFM Action Plan

Most reviews produce PFM Action Plans.....

Comprehensive Action Plans as percentage of total

....and most reviews seem to be drawn together into comprehensive PFM Action Plans..... But we do not know how many are Government-led plans.....

Source: SPA Budget Support Alignment Survey 2004
The Strengthened Approach to supporting PFM reforms

1. A country-led reform program – including a PFM reform strategy and action plan

2. A donor coordinated program of support

3. A common framework for measuring and monitoring results over time – The PFM Performance Measurement Framework
1. A country-led PFM reform program

The government-led reform program

- Planning and undertaking diagnostic work over time.
- Designing reform measures and integrating them in the reform program.
- Implementing reforms
- Monitoring of progress over time.

No blueprint for the government reform program, but some common defining features:

- The government reform program reflects country priorities, and is not driven by the donors’ agenda.
- The overall direction and responsibility for the reform program is integrated within the government structures.
2. The program of support of the donors

A critical condition for the success of the government-led reform program is that donors align their support.

**Coordinated program of support by the donors to support capacity building**

**Analytic support**
Donor analytic support and advice to government for (i) PFM diagnosis (through modules), and (ii) development and implementation of country-led reform strategy and action plan.

**Technical cooperation support**
According to the priorities defined in the PFM reform strategy, donors provide technical and capacity-building assistance and other support.

**Financing**
Financial support aligned to support the implementation of the PFM reform strategy (streamlined conditionality).
3. The PFM Performance Measurement Framework

A standard set of high level indicators
• Widely accepted but limited in number
• Broad measures of performance relative to key PFM system characteristics
• Enabling credible monitoring of performance and progress over time

A PFM Performance Report
• Integrative, narrative report based on the indicators and assessing performance; based on observable, empirical evidence.
• Updated periodically, depending on country circumstances and operational needs
• Contributing to coordinated assessment
• Feeds into government-donor policy dialogue
What are the implications of the Strengthened Approach?

The Strengthened Approach focuses on improvements in country PFM systems:

- Emphasizing **country leadership and ownership** for results
- **Common information pool**, fewer duplicative diagnostics
- **Joint donor work in country**, reducing diagnostics
- Less emphasis on diagnostics, **more on capacity-building**
- With performance framework, **more learning of what works and why**
The PEFA PFM Performance Measurement Framework
A TOOL FOR PFM PERFORMANCE MEASUREMENT

The PEFA PFM Performance Measurement Framework was developed

• under the initiative and guidance of the PEFA partners, by a joint working group of World Bank, IMF and PEFA Secretariat staff.

and involved:

• Wide consultation with donors, clients, international professional organizations and OECD-DAC Joint Venture on PFM

• Country testing in 25+ countries in Africa, Latin America, Asia and Europe.
COMPONENTS OF THE FRAMEWORK

• A standard set of high level PFM indicators to assess performance against 6 critical dimensions of a PFM system
  • 28 government performance indicators
  • 3 donor indicators, reflecting donor practices influencing the government’s PFM systems

• A concise, integrated report – the PFM performance report developed to provide narrative on the indicators and to draw a summary from the analysis
FOCUS OF THE FRAMEWORK

- Focused on central government operations
- Links to other parts of the public sector, such as Sub-National Governments and Public Enterprises, to the extent these have implications for Central Government
PRACTICAL ASPECTS
OF THE DESIGN OF THE INDICATORS

- Focused on high level assessment of system performance
- Providing full overview of PFM system incl. revenue, expenditure, procurement, financial assets and liabilities
- Building on the 16 HIPC Expenditure Tracking Benchmarks
- Drawing on IMF’s Fiscal Standards and Codes (ROSC)
- Referring to internationally accepted standards
- Calibrated on the basis of extent of ‘Good Practice’ in PFM
- Widely applicable to countries at all levels of development
- Utilize data that can be collected cost effectively
STRUCTURE OF THE PERFORMANCE INDICATOR SET

A. PFM Out-turns

B. Cross-cutting features

C. Budget Cycle

D. Donor Practices

External scrutiny and audit

Comprehensiveness and Transparency

Accounting, Recording, Reporting

Policy Based budgeting

Predictability and control in Budget Execution

Budget credibility
CONTENT OF THE INDICATOR SET (1)

A. PFM Out-turns

**Credibility of the budget**

Indicators 1-4

Deviations from aggregate budgeted expenditure and revenue as well as expenditure composition. Level of expenditure arrears.

B. Key Cross-cutting issues

**Comprehensiveness and transparency**

Indicators 5-10

Coverage of budget classification, budget documentation, reporting on extra-budgetary operations, inter-governmental fiscal relations, fiscal risk oversight and public access to information.

C. Budget Cycle

**i. Policy-based budgeting**

Indicators 11-12

Annual budget preparation process, multi-year perspective in fiscal planning, expenditure policy and budgeting
C. Budget Cycle

ii. Predictability and control in budget execution  Indicators 13-21

Revenue administration, predictability in availability of funds, cash balances, debt & guarantee management, payroll controls, procurement, internal controls and internal audit

iii. Accounting, recording and reporting  Indicators 22-25

Accounts reconciliation, reporting on resources at service outlet level, in-year budget execution reports, financial statements

iv. External scrutiny and audit  Indicators 26-28

Scope, nature and follow-up on external audit; legislative scrutiny of annual budget law and external audit reports

D. Donor Practices  Indicators D1- D3

Predictability of direct budget support; donor information for budgeting and reporting; use of national procedures
CALIBRATION AND SCORING

• Most indicators have 2, 3 or 4 dimensions which must be scored separately

• Guidance developed to support scoring of the indicators:
  • Narrative to highlight context and particular problems
  • Specific calibration of scores using a four point ordinal scale (A, B, C and D) representing degree of good practice
  • Arrow ▲ can indicate an improvement not reflected in change of indicator score

• Two scoring methods to combine dimension scores:
  • Method M1 ‘weakest link among dimensions’
  • Method M2 ‘average of dimensions’
  • Intermediate scores (B+, C+, D+) for multi-dimensional indicators, where dimensions score differently
CONTENT OF THE PFM PERFORMANCE REPORT

An integrated narrative report including:

- **Introduction** with the context for the assessment
- **Country background information**
- **Evidence and justification** for scoring the indicators; key to a transparent assessment
- **Description of reform progress** and factors influencing it
- **Summary assessment** of PFM system impact
Planning & Implementing a PEFA-based PFM assessment
USE OF THE ASSESSMENT

• Inform the development or evolution of PFM reforms
• Monitor and learn how reform efforts are impacting performance
• Provide a common platform for dialogue between government and donors on PFM performance and reforms.
• Inform the fiduciary risk analysis and decisions on aid modalities of individual donor agencies, based on their own criteria
THE GOVERNMENT’S ROLE IN THE ASSESSMENT

Factors affecting the government’s role:

• Interest and capacity of the government.
• Fulfillment of some donor accountability needs require an external validation of the final results of the assessment.
• High degree of government involvement may increase consideration by government of the results and lead to a more effective policy dialogue.

Options for the government’s role:

• A self-assessment by government for internal use only
• A self-assessment by government followed by an external validation by the donors.
• An assessment led by donors with the cooperation of the government.
• A joint government-donor process with a mechanism that gives sufficient guarantee to donors of the rigorous application of the Framework.
• Clarify purpose, scope and objectives of the **assessment** to support the dialogue on the PFM reform process between the donors and the government and to contribute effectively to donor accountability requirements.

• **Define participation, consultation and quality assurance modalities** - to allow wide recognition of the assessment while allowing a cost-effective assessment process.

• **Agree a common timetable** – to meet both the needs of the group as a whole and avoid operational requirements of individual donors driving the repetition of the assessment.

• **Ensure effective integration with other analytic work** as part of the program of PFM work.
FREQUENCY OF ASSESSMENTS

Full indicator set would be applied every 3 years

- Any significant changes in the scoring of the indicators are likely to take more than one year (high-level indicators, four-point scale).

In intervening years, options to monitor progress:

- Yearly monitoring of a selected number of indicators (e.g. focus on indicators most likely to be impacted by on-going reforms).
- Focus monitoring of progress on the implementation of reform measures.
Roll-out of PFM Assessments

- PFM Performance Measurement Framework launched June 2005

Assessment Status as at March 2007
- 45 substantially completed i.e. draft/final report
- 24 on-going but report not yet issued
- 27 agreed with government but not started
- Roll-out rate: a steady 2-3 new assessments per month

Outlook for mid 2008
- 75-80 countries covered
- 8-10 repeat assessments
Geographical distribution

PFM ASSESSMENT BASED ON PEFA FRAMEWORK
STATUS MARCH 2007

- 45 SUBSTANTIALLY COMPLETED
- 24 ON-GOING BUT REPORT NOT YET RECEIVED
- 27 PLANNED

- **Europe and Central Asia**
  - 6 COMPLETED
  - 4 ON-GOING

- **Middle East and North Africa**
  - 2 COMPLETED
  - 1 ON-GOING
  - 1 PLANNED

- **Latin America and Caribbean**
  - 11 COMPLETED
  - 6 ON-GOING
  - 3 PLANNED

- **South Asia**
  - 2 COMPLETED
  - 5 ON-GOING
  - 2 PLANNED

- **Sub-Saharan Africa**
  - 18 COMPLETED
  - 5 ON-GOING
  - 16 PLANNED
APPLICATION SUPPORT

• The PEFA Framework was officially issued in June 2005
• Available as a booklet and on website www.pefa.org and the World Bank website www1/worldbank.org/publicsector/pe
• Languages: English, French, Spanish, Portuguese, Russian

Support tools available and updated on the websites:
• Calculation spreadsheet for indicators PI-1 & PI-2 & D-1
• Guidance on objective information / evidence for assessment
• Clarifications and additional guidance

Other support by PEFA Secretariat on request:
• Advice to country teams on assessment planning
• Advice to assessors during implementation
• Quality reviews of draft reports
Thank you for your attention