Update on the PEFA Revision Process

ICGFM Conference
19 May, 2014
PEFA Secretariat
Content

Overview of the PEFA Program & Framework

Purpose of revising the Framework

Progress to date & next steps
Content
Overview of the PEFA Program & Framework

Purpose of revising the Framework

Progress to date & next steps
What is the PEFA Program?

**Aim:** contribute to development effectiveness via the ‘Strengthened Approach’ to support PFM Reform (*country-led; harmonized PFM analytical work; common data pool*)

**The Performance Measurement Framework**
- the PEFA Framework (*Blue Book*)
  ‘flagship’ of the PEFA Program
  launched by 7 Partners in June 2005
- Applicable to countries with different traditions & at different stages of development
Strengthened Approach to PFM Reform

1. A country-led PFM reform program, including a strategy & action plan reflecting country priorities; implemented through government structures
2. A donor coordinated program of support, covering analytical, technical & financial support
3. A common information pool, based on a framework for measuring performance & monitoring results over time i.e. the PFM Performance Measurement Framework
Purpose of the PEFA Framework

The Framework provides:

- a high level overview of all aspects of a country’s PFM systems performance (revenue, expenditure, financial assets/liabilities, procurement): are tools in place to deliver 3 main budgetary outcomes (*aggregate fiscal discipline; strategic resource allocation; efficient service delivery*)?

It does **not provide** an assessment of:

- underlying causes for good or poor performance i.e. capacity factors
- government fiscal & financial policies
What can countries use PEFA for?

- Inform PFM reform formulation, priorities
- Monitor results of reform efforts
- Harmonize information needs for external agencies around a common assessment tool
- Compare to and learn from peers
Adoption of the PEFA Framework

Very good progress – globally

- 350+ assessments, covering 140+ countries
- Since 2010, mostly Repeat & Sub-National assessments

High country coverage in many regions

- Africa and Caribbean 90% of countries
- Latin America, Eastern Europe, Asia Pacific 50-80%

Used in many Middle Income countries

- Upper MICS: e.g. Brazil, Turkey, Belarus, South Africa
- Lower MICS: e.g. India, Kazakhstan, Ukraine, Morocco
Global Roll-out of the Framework

PFM ASSESSMENTS BASED ON THE PEFA FRAMEWORK
STATUS APRIL 16, 2013

- 336 DRAFT/FINAL/PUBLIC
- 41 PLANNED/ONGOING

NORTH AMERICA
1 PUBLIC/FINAL/DRAFT
1 PLANNED/ONGOING

WESTERN EUROPE
2 PUBLIC/FINAL/DRAFT
0 PLANNED/ONGOING

EUROPE AND CENTRAL ASIA
39 PUBLIC/FINAL/DRAFT
3 PLANNED/ONGOING

MIDDLE EAST AND NORTH AFRICA
14 PUBLIC/FINAL/DRAFT
1 PLANNED/ONGOING

SOUTH ASIA
19 PUBLIC/FINAL/DRAFT
5 PLANNED/ONGOING

LATIN AMERICA AND CARIBBEAN
68 PUBLIC/FINAL/DRAFT
9 PLANNED/ONGOING

SUB-SAHARAN AFRICA
158 PUBLIC/FINAL/DRAFT
14 PLANNED/ONGOING

EAST ASIA AND PACIFIC
35 PUBLIC/FINAL/DRAFT
8 PLANNED/ONGOING
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 indicators covering all aspects of PFM
  - 3 donor indicators, reflecting donor practices influencing the government’s PFM systems
- A concise, integrated performance report – the PRM-PR – developed to provide narrative on the indicators and draw a summary from the analysis
Structure of the indicator set

The PEFA performance framework

C. Budget Cycle

- C(1) Policy-based budgeting (PI-11-12)
- C(4) External scrutiny and audit (PI-26-28)
- C(3) Accounting, Recording and Reporting (PI-22-25)

B. Key cross-cutting features

- Comprehensive Transparency (PI-5-10)

D. Donor Practices

- D(1-3)

A. PFM Outturns

Budget Credibility (PI-1-4)
Standard set of high-level indicators

A. CREDIBILITY OF THE BUDGET: PFM OUT-TURNS (1-4)
B. COMPREHENSIVENESS & TRANSPARENCY (5 - 10)
C. BUDGET CYCLE
   C1 POLICY-BASED BUDGETING (11 – 12)
   C2 PREDICTABILITY & CONTROL IN BUDGET EXECUTION (13 – 21)
   C3 ACCOUNTING, RECORDING & REPORTING (22 – 25)
D. EXTERNAL SCRUTINY & AUDIT (26 – 28)
E. INDICATORS OF DONOR PRACTICES (D1 – D3)
Calibration & scoring

Calibrated on 4 Point Cardinal Scale (A, B, C, D)

- Reflecting internationally accepted ‘good practice’
- Determine score by starting from ‘D’, go upwards
- Do **not** score if evidence is insufficient
- Most indicators have 2, 3 or 4 **dimensions** - each **must** be rated separately
- Aggregate dimension scores for indicator; two methods M1 or M2, **specified** for each indicator
- **Intermediate scores** (B+, C+, D+) for multi-dimensional indicators, where dimensions score differently
The PFM Performance Report
An integrated narrative report including:

• **Summary assessment** of PFM system
  - The impact of PFM system performance on budgetary outcomes (fiscal discipline; resource allocation; service delivery)
  - What is the **story line**, the number one message? - it may be all Minister remembers! (starting point for discussion of reform priorities)

• Introduction with the context for the assessment
• Country background information
• Evidence & justification for scoring the indicators
• Country specific issues
• Description of reform progress & factors influencing it
Content

Overview of the PEFA Program & Framework

Purpose of revising the Framework

Progress to date & next steps
Purpose of revising the Framework

• Incorporate editorial ‘clarifications’
• Update ‘accepted good practices’
• Improve areas of weakness

It is not intended to:
• Change the purpose
• Undermine comparability over time
Purpose of revising the Framework

• Incorporate editorial ‘clarifications’ (50%)
• Update ‘accepted good practices’ (25%)
• Improve areas of weakness (25%)
• Plug ‘gaps’?

It is not intended to:

• Change the purpose
• Undermine comparability over time (although — relevance is more important!)
Revision process – the plan

- SC approve process (Nov 2012)
- ‘Task Teams’ formed & begin work
- Checking for internal consistency
- Draft released (Jan 2014)
- Desk & in country testing; Stakeholder comments invited (Feb – April)
- Revision & refinement, based on comments
- PEFA Partners approve ‘New release’ (June)
- “Live” (target, 1 July 2014)
Content

Overview of the PEFA Program & Framework

Purpose of revising the Framework

Progress to date & next steps
Progress to SC meeting, June 2013

- Late 2012: ‘Baseline’ workshops: scope, issues
- Early 2013: 4 Task Teams begin work
- Secretariat eliminated 220+ “Clarifications”
- EU commissioned 5 ‘Analytical Notes’
- Initial proposals from TTs (mixed!): 7 new PIs
- Secretariat complied summary & commentary on all proposals: of existing 31 PIs:
  - 3 or 4 would be removed;
  - 7 or 8 would require minor amendments;
  - 20 would require major amendments, including the addition of new 18 dimensions
Steering Committee decisions

- Purpose remains, focused on “generally accepted good practice” = ‘A’ rating
- “C” should = basic level of functionality
- Aim for similar number of indicators or less
- ‘Scope’: default is CG
- Removal of ‘Donor’ indicators
- No separate Pis for Resource Rich countries
- Proposals must be tested to see if ‘PEFAerable’
Current proposals: April 2014

Out

- 3 Donor indicators
- PI-4, 12, 13, 20, 23
- Major changes to PIs: 9, 17 & 26
- Edits to many others
Current proposals: April 2014

Out

• 3 Donor indicators
• PI-4, 12, 13, 20, 23
• Major changes to PIs: 9, 17 & 26
• Edits to many others

In

• 3 new PIs
  – Credible Fiscal Strategy
  – Public Investment Mgt
  – Asset Management
• Replacements for 12, 13, 20, 23
• Plus 14 new dims (now 88 in total – previously 76)
Structure of the indicator set

The PEFA performance framework

C. Budget Cycle

C(1) Policy-based budgeting (PI-11-12)

C(2) Predictability and control in budget execution (PI-13-21)

C(3) Accounting, recording and reporting (PI-22-25)

C(4) External scrutiny and audit (PI-26-28)

B. Key cross-cutting features

Comprehensive Transparency (PI-5-10)

D. Donor Practices

(D-1-3)

A. PFM Outturns

Budget Credibility (PI-1-4)
Budget credibility: (1-4)

Problems

• Fiscal strategy & macro-forecasting ignored, as is Asset management

Proposals

• New PI for ‘Fiscal Strategy’
• New PI for ‘Asset Management’
Comprehensiveness & transparency (5 - 10)

Problems
• Comprehensiveness - unreported operations
• Budget processes

Proposals
• Extend coverage & align criteria in 5, 6 & 10
• Unreported operations – redesign 7
• Fiscal risks – broaden scope & focus on management of risks
• Budget processes – include participation
Policy-based budgeting (11 – 12)

Problems
• Medium term issues

Proposals
• Changes to PI-12
Predict’ & control in budget exe (13 – 15)

Problems
• Piecemeal approach in existing PIs 13, 14, 15
• Limited coverage (tax!)
• Practicality of measurement of tax arrears

Proposals
• Revamp: separate budgeting/admin/accounting
• Include ‘natural resource’ revenues
Predict’ & control in budget exe (16 – 21)

Problems
• ‘Controls’ are fragmented
• Developments in internal control & internal audit

Proposals
• Internal control (PI & report narrative)
• Treatment of liabilities
• New PI for Public Investment Management
Accounting, recording & reporting (22 – 25)

Problems
• PI-23: weak link to “Service delivery”
• “Financial statements”

Proposals
• Revamp PI-23: link to Performance Budgeting?
• “Financial reports”
External scrutiny & audit (26 – 28)

Problems

• Lack of clarity – whose performance?
• Not sufficiently generic

Proposals

• Separate responsibility between Executive & Legislature
• Include transparency
Indicators of donor practices (D1 – D3)

Problems
• Not ‘fit for purpose’
• Often not scored

Proposals
• Remove, but include aspects in PI-1
• ‘Space’ for new indicators:
  ➢ Public Investment Management
  ➢ Asset Management
Next steps

• April & May: ‘Feasibility testing’, by Secretariat shadowing 3 or 4 planned assessments
• June: Steering Committee requested to release for Stakeholder comments
• July, for 3 months (?): Stakeholder comments
• September: Revision & refinement, based on comments
• Last months of 2014: final testing
• December: Steering Committee asked to approve ‘New release’
Thank you for your attention