Updating the PEFA Performance Measurement Framework

Joint IMF-World Bank Seminar
New Fiscal Transparency Code & PEFA Framework
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1. PEFA PROGRAM OVERVIEW

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
Purpose of the PEFA Framework

It provides:
- High level overview of all aspects of a country’s PFM systems performance, including revenue, expenditure, procurement, financial assets/liabilities

It does not provide assessment of:
- underlying causes for good / poor performance
- government fiscal/expenditure policies

Components of the PEFA Framework

• A standard set of **high level PFM indicators** to assess performance against 6 core pillars of a PFM system

• A concise, integrated **performance report** – the PFM-PR – developed to provide narrative on the indicators & draw a summary from the analysis
Structure of the PEFA Performance Measurement Framework

A. PFM Outturns

B. Comprehensiveness and Transparency (PI-5-10)

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)

D. Donor Practices (D-1-3)

C(1) Policy-based budgeting

C(2) Predictability and control in budget execution

C(3) Accounting, Recording and Reporting

C(4) External scrutiny and audit

Budget Credibility (PI-1-4)

PEFA Scoring

• Most indicators have 2, 3 or 4 dimensions

• Each dimension must be rated separately

• Calibrated on a four point ordinal scale (A, B, C, D)

• Reflecting internationally accepted ‘good practice’
The PEFA Framework – Objectives

To assess the extent to which a country has the tools to deliver three main budgetary outcomes:

• aggregate fiscal discipline
• strategic resource allocation
• efficient use of resources for service delivery

Countries can use PEFA to:

• Implement PFM reforms
• High level performance overview
• Formulate PFM reform program
• PEFA Assessment
• Investigate underlying causes
• Investigate PFM progress, strengthens weaknesses
• Recommend PFM reform measures
• Identify main PFM progress, strengthens weaknesses
• Compare to & learn from peers

Inform PFM reform formulation
Monitor reform efforts results
Harmonize information needs
Use PIs in monitoring system
2. PEFA FRAMEWORK UPDATE

Purpose of updating the Framework

- Reflect evolution of ‘good practices’
- Improve areas of weakness and fill recognized gaps (e.g. public investment management)
- Incorporate ‘clarifications’

Key principles:

- Purpose remains the same
- Universal applicability
- Balance between comparability and relevance
Key principles (cont.)

- Indicator ratings remain focused on “generally accepted good practice” = ‘A’ rating

- “C” rating = basic level of functionality

- Aim for similar number of indicators or less
  - but possible to add dimensions to the existing indicators (e.g. monitoring of contingent liabilities)

- Proposals must be subject to testing

Update process - progress to date

2012
- Open “pre-consultation” stage - what needs to be updated
- Baseline technical workshop – on how to improve the Framework

2013
- Review issues identified by assessors in the field (e.g. clarity, calibration, multiple criteria)
- Research of “thematic/environmental” issues (natural resource revenue, transparency/accountability, investment management)
- 4 teams of technical experts worked under the Steering Committee supervision

2014
- Initial testing at country level began April 2014 – preliminary draft indicators tested in coordination with ongoing PEFA assessments
- Draft of the Updated PEFA Indicator set released for public consultation August 7 – deadline for feedback by October 31
Update Indicators - major proposals

- **Introduce three new indicators** to address issues not covered in the existing Framework: (i) “Credible Fiscal Strategy”, (ii) “Public Investment Management”, (iii) “Public Asset Management”

- Reformulate **revenue indicators (PI-13, 14, 15)** to broaden coverage beyond taxation (tax & non taxes revenues)

- Incorporate **performance information** in PI-23 on service delivery

- **Strengthen focus** on transparency, liability management & fiscal risks (contingent liabilities, guarantees, PPPs) and Internal Control

- Remove **Donor indicators** – donor funded revenue & expenditure incorporated into other indicators

New Indicators

- **Credible Fiscal Strategy (CFS):**
  - Setting fiscal objectives/targets
  - Preparing macroeconomic forecasts
  - Forecast & outturn of CG fiscal balance (GFS)

- **Public Investment Management**
  - Project appraisal/selection
  - Project budgeting
  - Project monitoring and reporting

- **Public asset management**
  - Financial asset monitoring
  - Non-financial asset monitoring
  - Transparency in the sale of non-financial assets
Indicators reformulated

- **Revenue Indicators**: expanded to include non-tax revenues (including natural resources)
  - PI-13 focuses on forecasting
  - PI-14 focuses on administration & compliance
  - PI-15 focuses on accounting
- **PI-20 – Internal control**: stronger focus on a wide range of internal controls (segregation of duties, commitment controls, compliance with payment controls)
- **PI-23 - Service delivery**: incorporates performance information on service delivery (disclosure of annual targets and results)

3. NEXT STEPS IN THE PROCESS
Next steps

- Update of the PFM Performance Report format/content
- Testing continuing to aide finalization of the updated methodology
- Further adjustments based on feedback from stakeholders and tests
- “New release” – 2015

Transitional arrangements

- All assessments to use updated Framework after publication
- Issue of detailed guidance (incl. data requirements, bridge table, comparability and tracking of change in repeat assessments)
- Announcement of cut-off date for use of the existing Framework

Thank you for your attention