The Mechanics of the Framework

PEMPAL Workshop

25 June 2014

PEFA Secretariat

Contents

The PEFA Framework

The high-level Indicator Set

Scoring Methodology

The PFM Performance Report

Components of the Framework

- Standard set of high-level indicators to assess performance against 6 elements 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

Focus of the framework

- Focused on CG operations, but links to other parts of the public sector (SNGs, PEs) to the extent these have implications for CG

- Applicable for SNG, but specific guidelines

- **Not** for public business / state-owned enterprises, as different governance standards

- Sector level PFM assessment? - Not directly applicable (integrate selected sectors into general PEFA assessment)

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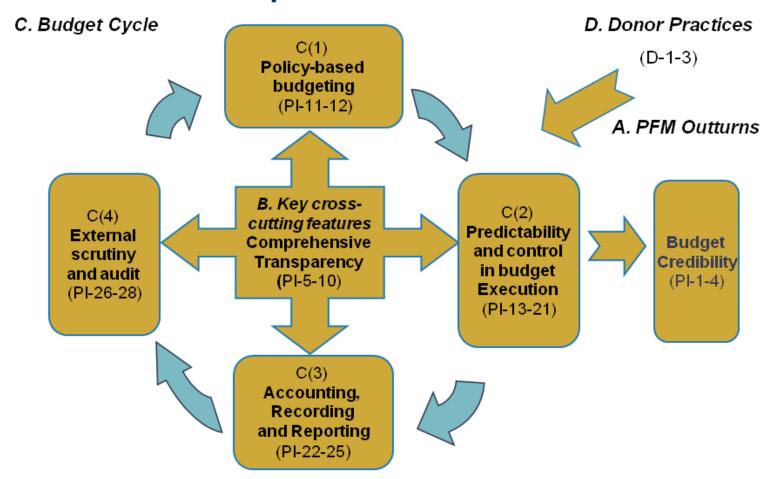The PEFA Framework

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Structure of the indicator set

The PEFA performance framework

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)**

An example: Procurement coverage

Often inadequately covered in PFM-PRs

Why is procurement important:

- 20 to 70% of budget expenditures are managed through the procurement system

- Key area of interest for countries to increase efficiency of expenditure & improve service delivery

- Key area of interest for international agencies to help manage risk of misuse of funds & to achieve development objectives

An example: Procurement coverage

Dedicated indicator PI-19 focuses on unique aspects of procurement system not captured in other indicators, ie:

- Degree of competition in the procurement system
- Dispute resolution to enhance controls

Other indicators capture aspects of procurement

- **PI-4** Expenditure arrears typically concern contracts
- **PI-10** Public access to information on contract awards
- **PI-12** Multi-year budgeting should consider multi-year contracts
- **PI-16** Predictability of allocations affect procurement plans
- **PI-20** Internal controls also cover the procurement system
- **PI-21** Internal audit should address procurement issues
- **PI-26** External audit should address procurement issues

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Scoring the indicators

- Evidence-based tool: do **not** score if evidence is insufficient

- Focus is on *"generally accepted good practice"* = 'A' rating (N.B. not "best"): 'C' = basic functionality

- 31 indicators: most have 2, 3 or 4 **dimensions -** each must be rated separately: 76 in total

- Aggregate dimension scores using method specified for each indicator (M1 or M2): if dims score differently, may be intermediate scores (B+)

M1: 'Weakest link' (eg: PI-4 Score = 'D+')

Score	Minimum Requirements (Scoring Method M1)
A	(i) The stock of arrears is low (i.e. is below 2% of total expenditure) (ii) Reliable & complete data on stock of arrears is generated through routine procedures at least at end of each FY(& includes age profile).
B	(i) The stock of arrears constitutes 2-10% of total expenditure; & is evidence has been reduced significantly (i.e. more 25%) in last 2 years. **(ii) Data on stock of arrears generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions.**
C	(i) The stock of arrears constitutes 2-10% of total expenditure; & there is no evidence it has been reduced significantly in last 2 years. (ii) Data on stock of arrears has been generated by at least 1 comprehensive ad hoc exercise within last 2 years.
D	**(i) The stock of arrears exceeds 10% of total expenditure.** (ii) There is no reliable data on stock of arrears from last 2 years.

M2: 'Average of dims' (e.g: PI-22 = 'C')

Dimension	Minimum Requirements (Scoring Method M2)
(i) Regularity of bank recs	**Score = A**: Bank recs for all central government bank accounts take place at least monthly at aggregate & detailed levels, usually within 4 weeks of end of period. **Score = B: Bank recs for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month.** **Score = C**: Bank recs for all Treasury managed bank accounts take place quarterly, usually within 8 weeks of end of quarter. **Score = D**: Bank recs for all Treasury managed bank accounts take place less frequently than quarterly OR with backlogs of several months.
(ii) Regularity of recs & clearance of suspense accounts & advances	**Score = A**: Rec & clearance of suspense accounts & advances take place at least quarterly, within a month from end of period & with few balances B/F. **Score = B**: Rec & clearance of suspense accounts & advances take place at least... **Score = C**: Rec & clearance of suspense accounts & advances take place annually in general, within 2 months of end of year, but significant number of accounts have uncleared bals B/F. **Score = D: Rec & clearance of suspense accounts & advances take place EITHER annually with more than 2 months' delay, OR less frequently.**

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Content of the PFM Performance Report

An integrated narrative report including:

- 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
- Summary assessment of PFM system impact

PFM-PR – 1 Introduction

- **Objective** of the assessment – Why being undertaken; what it will contribute

- **Process** of preparing the assessment – Donors involved, assessment team, govt involvement

- **Methodology** of preparing the assessment – Sources of information, use of previous diagnostic reports, extent of original data collection

- **Scope of the assessment**
  - Quantitative data on structure of public sector (organizational units; value of exp at all levels)
  - Which parts of public sector are covered

PFM-PR – 2 Country background info

Country economic situation - Including general country information, macro-economic parameters, aggregate poverty data, economic structure

Budgetary outcomes

- Information on government fiscal & expenditure targets
- Data on aggregate fiscal performance for last 3 years
- Data on allocation of resources (functional & economic)
- To be drawn from existing analysis such as a PER

Legal & institutional framework for PFM

- Legal framework for PFM & its evolution
- Institutions & their responsibilities

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PFM-PR – 3 Assessment of PFM system

Indicator-led analysis

- Description of actual performance based on **evidence**
- Description of sources of & gaps in information
- Scoring of indicator (& its dims) with brief justification

Reporting progress (for each indicator)

- Describing recent or on-going reform measures
- Indicating if measures may have changed performance (even if not reflected in evidence available, & in scoring) or if/when measures likely to change performance

Country specific issues

- Description of country characteristics, to understand functioning of PFM systems (SNG; PEs; resource revenues)

PFM-PR – 4 Government reform process

- **Overall summary of recent & on-going reforms** – bringing together an overview of reform measures

- **Institutional factors supporting reform** – forward-looking perspective on institutional factors supporting reform planning & implementation

Not intended to judge adequacy of reforms nor to make recommendations

PFM-PR – Summary Assessment

The summary assessment brings together:

- The assessment under each of the 6 critical dimensions of PFM system performance
- The impact of PFM system performance on budgetary outcomes:
  - aggregate fiscal discipline
  - strategic resource allocation
  - efficient service delivery

Thank you for your attention