



UPDATING THE PEFA PERFORMANCE MEASUREMENT FRAMEWORK

1 Why is the Framework being updated?

Since the Framework was launched in 2005, there have been developments in many aspects of public financial management (PFM): what were once thought of as features found only in “advanced” economies have been more widely adopted, and “generally accepted good practice” has evolved. The financial crises of recent years and the increasing number of countries that use revenues from the extraction of natural resources to support government expenditure are factors that have contributed to these developments.

In addition, the experience gained from more than 360 PEFA assessments has suggested improvements that could be introduced to the Framework to ensure that it remains relevant and generically applicable; that it will continue to contribute to the overall objective of providing a high-level overview of a country’s PFM system; and that it will remain a core tool for discussing, designing, and monitoring PFM reforms in a broad range of countries.

As an important component of Phase IV of the Public Expenditure and Financial Accountability (PEFA) Program (2012-2017), the seven PEFA Partners (who together make up a Steering Committee) agreed to undertake a comprehensive update of the Framework, to ensure that it remains “fit for purpose,” and, in particular, that the assessment criteria reflect current good practice.

2 What were the parameters of the update?

At the start of the update process, the PEFA Partners reiterated that “the PEFA Framework is a portable, stand-alone, indicator-based tool. This independent character of PEFA must be preserved, such that a PEFA assessment would never be dependent on another instrument having been applied in advance or simultaneously.” In addition, they stated that the nature of the Framework, and the look and feel of the indicators and the PFM Performance Report, should be retained, as these features have been important in the wide acceptance and application of the Framework.

The Partners also established the following principles to underpin the process of updating the Framework:

- The existing three “Budgetary Outcomes” (aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery) to which the PFM performance is intended to contribute will be retained (although consideration will be given to recognizing “financial

compliance” as a separate outcome), and the Performance Indicators (PIs) will be specifically linked to them.

- The same criteria will be used to review each PI.
- All proposals to change PIs must be justified from a technical perspective and then by passing a “comparability” test—that is, any loss of comparability that arises from the proposed change must be outweighed by a material and significant improvement in the relevance or quality of the indicator.
- The treatment of the various PFM functions and outcomes by other diagnostic tools (including the availability of and linkage to “drill-down” tools with a narrower technical focus), and the relative value of including or retaining these functions and outcomes in the PEFA Framework will be considered.
- The number of indicators may change, but, to maintain a high-level overview, additional dimensions will be preferred to additional indicators.
- As in the present Framework, no indicator should have more than four dimensions.

3 What process has been followed?

During the first part of 2012, an open “pre-consultation” stage invited stakeholders’ views on the need for an update of the Framework and on possible new content to be included.

A workshop in September 2012 sought to identify a set of “environmental changes” that would influence the update of the Framework—that is, areas in which the Framework needed enhanced coverage to remain relevant.

At the same time, the Secretariat undertook a detailed review of the comments that had been provided to assessors in the field during (at the time) almost 300 applications of the Framework. This analysis revealed issues for a number of PIs, for which:

- A lack of clarity required edits to the wording of the Framework;
- Calibration between rating criteria was unclear;
- Progression between rating criteria was inconsistent;
- Multiple criteria were specified within a rating criteria, and sub-dimensions blurred the focus of a score; or
- No rating could be given because data are not available.

The Secretariat had addressed many of these issues since 2006 by issuing more than 220 “Clarifications” to assist in the application or interpretation of rating criteria. These points and other minor editorial issues were consolidated to provide the base upon which work to update the Framework could begin.

During 2013, the PEFA Partners commissioned research into a number of “thematic environmental” areas, such as transparency and accountability, natural resource revenue, and public investment management (these reports are available on www.pefa.org). The Partners also established four Technical Task Teams of technical experts to examine specific groups of indicators, with the following terms of reference:

- Scan the environment to identify areas where PFM systems are under pressure (or are changing across many countries—i.e., the environmental changes mentioned above);
- Consider the impact of these “gaps” on the PIs allocated to the Team;
- Identify any problems with producing the deliverables within the time and resources allocated;
- For each indicator allocated to the Team, define its link to the budgetary outcomes;
- Classify the indicator by the feature it is assessing (outcome, function, etc.);
- Consider the treatment of the feature by other diagnostic tools, and consider the relative value of including or retaining the feature in the PEFA Framework;
- Apply the criteria (issued by the Secretariat) for reviewing and improving each dimension; and
- Review the appropriateness of the scoring methodology in view of the interrelationship of the dimensions within each PI.

Initial proposals from the Task Teams included adding several new indicators, removing several indicators and dimensions, and modifying the Framework in the light of the evolution in what constitutes “generally accepted good practice.” Further guidance from the PEFA Partners followed, including a decision to limit the number of PIs to 30.

After further recommendations from the Secretariat and the technical experts, the Partners agreed that the “Consultation Draft for Updating the PEFA Indicators, August 7, 2014” could be released for stakeholder review.

4 What changes are being proposed?

As regards the indicators, the major proposals are the following:

- **Three new indicators will be introduced** to address issues not covered in the existing Framework:
 - “Credible Fiscal Strategy” (PI-CFS)
 - “Public Investment Management” (PI-PIM)
 - “Public Asset Management” (PI-PAM)
- **The revenue indicators (PI-13, 14, 15)** will be reformulated to broaden coverage of revenue forecasting and administration beyond taxation.
- **Performance information** will be incorporated in PI-23 to supplement purely financial information on service delivery.
- **Four indicators (PI-7, 12, 20, 22) will be restructured.**
- **Four indicators will be removed:**
 - **D 1, 2, and 3:** donor funding is not relevant in some countries, and in those where it represents a significant proportion of revenues, aid funds should be analyzed together with other funding sources. In addition, other processes have been established to monitor mutual accountability between donors and recipient governments following the Paris Declaration on Aid Effectiveness. For these reasons, the management of donor funding will now be incorporated more generally into the indicators.

- **PI-4:** one dimension is being moved to another indicator, while the other—which has proved to be very difficult to assess because of a lack of quantitative data—will be removed altogether.
- **Some new dimensions will be added to existing indicators and one dimension removed,** making a total of 88, against the current 76 in the set.
- **Many existing indicators will be edited** to remove/reduce multiple criteria, incorporate minor editorial issues, remove negative requirements, and shift some dimensions between PIs.
- **The narrative guidance** will be improved across all indicators.
- **A default will be introduced for most of the ‘D’ ratings:** (“does not meet the requirements for ‘C’ or higher score”).

In addition to these changes to the indicators, to enhance the quality of the report and ensure that the key aspects of the assessment are communicated clearly to stakeholders, the form and content of the Performance Report will be prescribed in greater detail, with some additional requirements:

- a more comprehensive description of the public sector and the institutional boundaries of the assessment;
- a number of compulsory data tables; and
- a description of the internal control policies and a high-level analysis of the internal control framework.

5 Have these proposals been tested?

The Partners agreed on a process to test the updated indicator set. An initial phase of testing—essentially involving “parallel running” of individual elements of the updated indicators—in a small number of volunteer countries has been carried out, and the results have been used to develop this draft of the updated indicator set.

In parallel with the consultation process, a second phase of testing will be carried out in countries that are appropriately diverse in terms of both stage of development and administrative heritage. (*N.B.:* any testing work will not form part of a “normal” assessment, and hence will not meet the PEFA Check requirements.)

6 How will the proposed changes affect comparability over time?

The updated indicator set expands coverage of the PFM system into three new areas: fiscal strategy, public asset management, and public investment management. In these areas there can be no “backwards” comparability.

The modifications to several existing indicators (such as broadening the scope of the revenue indicators, integrating donor funds into the general PFM assessment, and expanding the service-delivery-related indicator to capture use of performance information) will affect comparability. Once the updated indicator set is finalized, the Secretariat will issue detailed guidance for each indicator (and dimension) on the extent to which ratings of the existing and updated version of the indicators will be comparable. There will also be a recommendation that for the first “repeat assessment” in a country using the updated version, assessors should rate *both* sets of

indicators—the existing version (of January 2011) to track performance changes since the earlier assessment, and the updated indicators to set a baseline for future monitoring and tracking performance changes. The bulk of the information needed for an assessment will support the rating of both indicators, although it is recognized that for these assessments some additional resources will be required to collect and interpret the information necessary to rate the new indicators and dimensions in the updated Framework.

7 What will be the transitional arrangements from the existing to the updated Framework?

Once the Steering Committee has approved the updated version of the Framework, all assessments will be expected to use it. The Secretariat will announce a cut-off date after which it will support only assessments based on the updated Framework (except for the purpose of tracking performance changes, when the existing version has been used for the “baseline” assessment, ref. point 6 above).

8 How will stakeholders be consulted?

The updated indicator set is now released for any stakeholder to offer comments up to **October 31, 2014**. During this consultation period, opportunities are being sought to link with PFM regional events. In addition, the PEFA Partners are arranging dedicated events at which detailed discussions can take place.

The lessons from this feedback and the second phase of testing will be distilled into a final set of recommendations to the PEFA Steering Committee. The release of the updated Framework is expected in 2015.

If you wish to comment on the proposed update of the indicators in the Framework, please complete the attached questionnaire and submit it to the PEFA Secretariat before October 31, 2014. If you would like more information, please contact the Secretariat by e-mail to services@pefa.org

PEFA Secretariat
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