

Public Expenditure &

**PEFA**

Financial Accountability

# **Good Practices in Applying the PFM Performance Measurement Framework**

**Guidance for Assessment Planners and Managers**

Final

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## List of Acronyms

AM	Assessment Manager
AT	Assessment Team
CN	Concept Note
MOF	Ministry of Finance
OT	Oversight Team
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PFM-PR	Public Finance Management - Performance Report
QA	Quality Assurance
SNG	Sub-National Government
TOR	Terms of Reference

## Executive Summary

1. This note provides guidance on the process of undertaking a PFM assessment based on the PEFA PFM Performance Measurement Framework ('the PEFA Framework'). The note is aimed at any stakeholder that may need and consider conducting a PEFA-based PFM assessment and seeks guidance on how to go about this.
2. A PEFA assessment sets the stage for preparing measures to strengthen PFM system performance (perhaps formalised as a revised PFM reform strategy) and subsequently for measuring the performance impact of its implementation. Government ownership of the new/revised strategy is essential to its success. The chances of the government owning and implementing the new/revised strategy are greater the more prominent the role it played in the PEFA assessment itself. The more prominent this role, the more that government staff will benefit from the exercise and therefore the more likely that the new/revised reform strategy will be well-formulated, country owned and thus effectively implemented.
3. Critical to the ability of governments to exert a strong leadership role is their understanding of the Framework methodology and the process of carrying out a PEFA assessment. Thus, a **training course in the use of the Framework** for those government officials closely involved in the assessment process is strongly recommended.
4. The assessment process has to be well managed in order to help ensure a high quality product. Following Government's decision to undertake or support an assessment, the first step would to **establish an oversight team** (OT). The members of the OT would be drawn from the leading government entity in the assessment (typically the Ministry of Finance), other government agencies involved and non-government stakeholders, such as the Auditor General's Office, Parliament, and development partners. The OT would effectively play the governance role in the assessment process.
5. The OT would be chaired by the stakeholder that takes the lead in steering the assessment process. This may be a high ranking official from the leading government agency - at political level (e.g. Minister of Finance) or administrative level (e.g. Permanent Secretary, Ministry of Finance (MOF) - or by a leading non-government agency in cases where the government's role in the assessment is more passive.
6. The initial task of the OT is the preparation and **agreement of a concept note**, which establishes objectives, scope, justification, management arrangements and roles of various stakeholders as well as the financing of the assessment.
7. The OT **appoints an assessment manager** (AM), who proposes the following essential features of the assessment for approval of the OT and undertakes the day-to-day management of the assessment process:

- **The assessment team (AT)**, its size, composition, sourcing and training requirements. The higher the quality of the AT, the greater the chances of a high quality assessment.
  - *The composition of the team* should reflect the expertise required: budgeting, revenue administration, procurement, treasury management, accounting and auditing. Each team member should have specialist expertise in one area and good knowledge of the other areas. Team members should have adequate qualifications and experience. If consultants are to be part of the AT (e.g. due to capacity constraints in government), the AM prepares terms of reference (TOR) for these and recruits them.
  - *The size of the team* will depend on the scope of the assessment (central government alone, subnational government (SNG) alone, or both), and the geographical size of the country. It may be necessary to have more than one team at the same time. An inadequately sized team will jeopardise the quality of the assessment.
- **The assessment timetable and meetings schedule**, covering preparatory work, the assessment process proper and any follow up arrangements such as an ex-post workshop. Adequate time to carry out the assessment (partly a function of the scope), agreement on definitions and thus information requirements, and adequate organisation in terms of arranging meetings with the right people and accessing relevant data will all contribute to a high quality assessment report.
- **The technical definitions** (e.g. SNG versus de-concentrated central government entity; domestic arrears, extra-budgetary funds, classification of parastatals), **information requirements** based on these definitions, and likely **information sources**.
- **The independent quality assurance (QA) process**. This is important for the credibility of the assessment report to all stakeholders. The QA process needs to check for both accuracy and quality of supporting evidence and for compliance with the PEFA methodology. Participants in the QA process should themselves be knowledgeable of the PEFA methodology. Domestic participants might include academics and representatives of civil service organisations. External participants might include international financial institutions and bilateral development agencies, particularly people with professional knowledge of the PFM situation in the country, and the PEFA Secretariat. The AM also arranges and facilitates the discussion of the draft final report (which reflects the QA process) with the OT and the timetable for finalising the report.

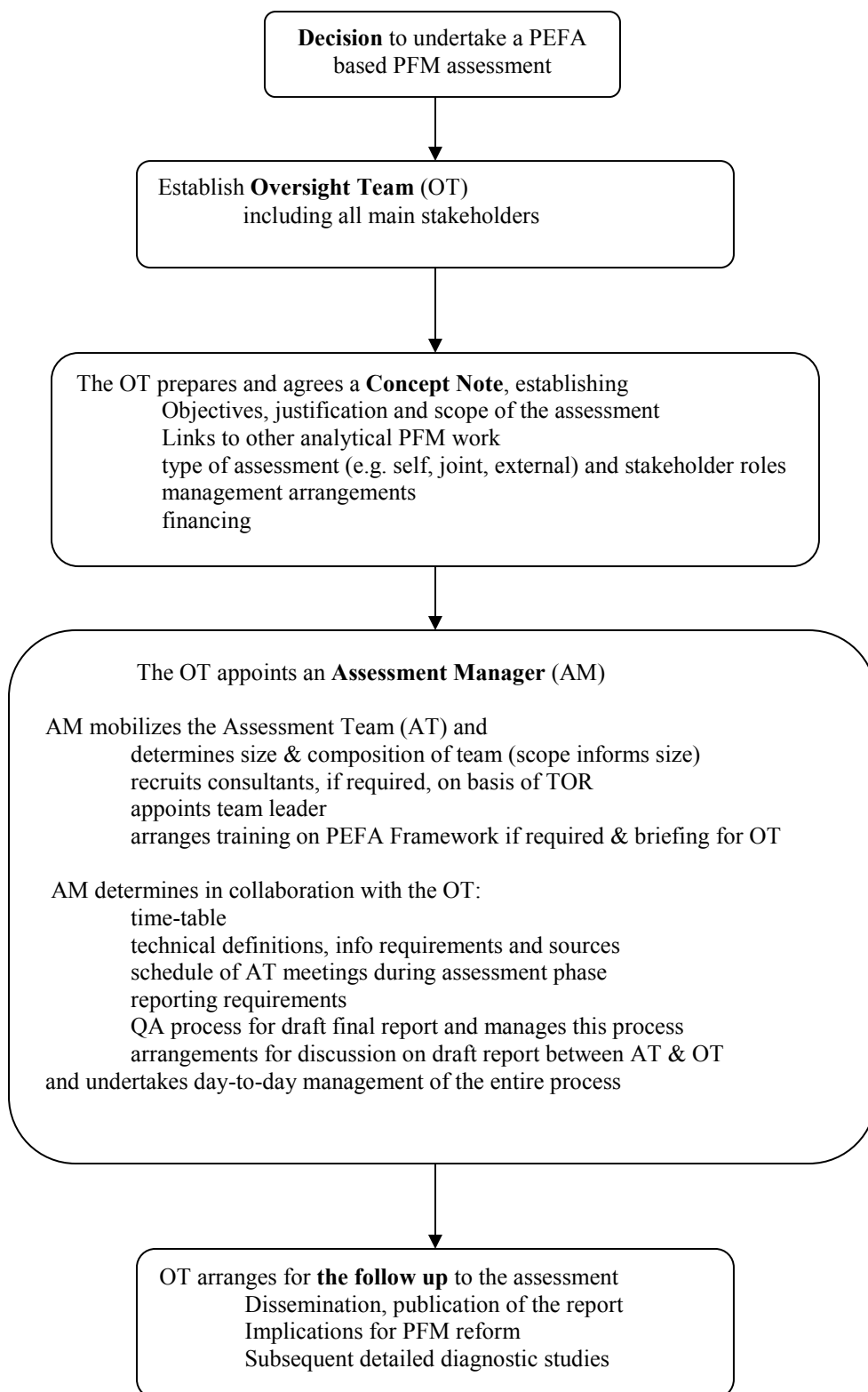
8. The OT facilitates the process of **follow up to the assessment**, but may not always be the body directly responsible for all the follow-up work. Follow-up work typically comprise a discussion of the assessment findings, the implications of the findings for PFM reform and any subsequent and detailed diagnostic studies. If the OT is not directly

made responsible for those activities it needs to identify the relevant bodies and pass on the assessment report.

9. The assessment may be undertaken by means of one of the following three **assessment models**: (a) a self-assessment undertaken by the government (preferably with arrangements for external validation) (b) a joint assessment i.e. government working with other stakeholders – e.g. development partners, domestically-based academia and civil society organisations (c) an external assessment led by a non-government stakeholder, with technical and logistical support provided by government, (may be preferable if the government is facing capacity and time constraints). The process is the same, except that for the external assessment the leading non-government stakeholder will act as Assessment Manager.

10. A well-prepared assessment will also make repeat PEFA assessments meaningful, enabling the tracking of progress in strengthening PFM performance, and will also facilitate monitoring of progress in between PEFA assessments.

11. The diagram below encapsulates the process



# 1. Introduction

12. This note provides guidance for the process of undertaking a PFM assessment based on the PEFA PFM Performance Measurement Framework ('the PEFA Framework'). Well-planned and executed assessments will help to ensure a final report of high quality. The note is aimed at governments (at all levels) and any other stakeholders that may be considering PEFA assessments and seek guidance on how to go about this.<sup>1</sup>

13. Chapter 2 identifies the main principles to be followed for undertaking a PEFA assessment. Chapter 3 describes good practices in planning and management of the assessment process. Chapter 4 identifies good practices for follow-up to the assessment report. The discussion mainly relates to a government self-assessment, but is also applicable to joint government/non-government stakeholder assessments and assessments led by non-government stakeholders (e.g. domestically-based academia and civil society organizations, or international development partners). Though conceptually useful to distinguish between these three types of assessments, in practice assessments may represent a mix of these types. The appendices provide country examples of selected aspects of good practice as well as a process framework for undertaking PFM assessments.

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<sup>1</sup> SGNs would use the Guidelines for PEFA Assessments at SNG level posted on the PEFA website; these are basically the same as for the central government.



## 2. Principles for Undertaking a PEFA assessment

14. Through its monitoring of applications of the PEFA Framework, the PEFA program has identified principles that should be followed in order to ensure a transparently high quality of the PFM performance assessment, and therefore its use in informing the preparation/revision of PFM reform strategies. Principles include:

- Full engagement of all major stakeholders with government having a full ownership and leadership role, including deciding on the type of assessment (government self-assessment, non-government stakeholder-led assessment or some combination of these as appropriate in each case).
- Adequate planning for and managing of the assessment in terms of:
  - Drafting and agreement on the document that outlines the objectives, scope, justification and organization arrangements for the assessment. The document is usually labeled as a Concept Note (CN) or terms of reference (TOR).
  - Ensuring adequate timing, organizing, and resourcing for the implementation;
  - Adequate training in the use of the PEFA Framework prior to the assessment for those closely involved in the assessment.
  - Existence of a quality assurance (QA) mechanism for the CN/TOR and assessment reports.
- To avoid duplication and unnecessary transactions costs and ensure its meaningfulness, the PEFA assessment should be the core tool for assessing and monitoring PFM system performance<sup>2</sup> and its periodicity should be a minimum of 3 years and maximum of 5 years. PFM reform tends to be a slow process, so more frequent assessments may not be meaningful. More detailed PFM process assessments should be planned and justified in terms of PFM weaknesses identified by PEFA assessments, and may use other specialized assessment tools.
- In countries where external aid is important, the stakeholders should include donor agencies and international financial institutions. To avoid unnecessary transactions costs for both themselves and the government, these agencies should coordinate and harmonize their activities through joint work, use of commonly accepted tools and clear division of roles and responsibilities.
- In the interests of transparency, the government should publish the PEFA assessment report.

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<sup>2</sup> Ref. 'Report on Use of Country Systems in Public Financial Management' by the OECD DAC Joint Venture on Public Finance Management. June 2008

### **3. Preparation and Management of the Assessment**

15. The processes outlined below are based on a government decision to conduct a self-assessment.

16. The PEFA assessments in Zambia (2005 and 2008) and in Norway (2006) are good examples of self-assessments. In Zambia, the Ministry of Finance, as lead agency, put together an assessment team consisting of government officials and two contracted consultants. Development partners fielded a joint mission to review the findings of the government team<sup>3</sup>, effectively playing a QA role.<sup>4</sup> Appendix 1 (i) elaborates. The success of the self-assessment exercise contributed to the decision by the Ministry of Finance to successfully conduct a repeat assessment exercise in June, 2008 by means of the same model.

17. The processes are similar for joint government-non-government stakeholder assessments and non-government stakeholder -led assessments, though somewhat longer, as more parties are involved. Appendix 1 (ii) provides an example of the process for the successful 2006 joint PEFA assessment for Ghana. Appendix 1 (iii) provides an example of the process for the successful donor-led 2007 PEFA assessment in Guyana.

18. The overriding principle of government ownership applies equally to assessments other than government self-assessments. The Government decides the objective, the timing (i.e. not during the height of the budget preparation system or the vacation season and a minimum three years since the last PEFA assessment (or the last CFAA assessment) and the scope (central government, or SNGs, or combined). The Government still has a strong, though not sole, oversight function.

#### **3.1 Decision to undertake a PEFA assessment**

First, the Government needs to make a decision on whether to conduct a PEFA assessment. In order to gain wide acceptance amongst domestic stakeholders (e.g. government ministries, parliament), and taking into account the extensive time and resource requirements for an assessment, the decision to undertake an assessment should be made as high up in the hierarchy as possible, preferably at the political level, such as the Prime Minister's Office or Minister of Finance. The circumstances under which high-level political backing is necessary will vary from country to country.

19. The decision to go ahead with a PEFA assessment would include a decision on the leading government agency. The Ministry of Finance (MOF) or equivalently named body is likely, though not necessarily, to be the leading government agency.<sup>5</sup> Its reasons for

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<sup>3</sup> The team included the same two donor-funded internationally hired consultants as for the first time.

<sup>4</sup> See "Assessing the Impact of the PEFA Framework, Volume II, Country Notes, Zambia", PEFA Program, June 2008. The assessment is indicated as a joint one, but it was effectively a self-assessment.

<sup>5</sup> There are also cases where the Prime Minister's Office or the National Audit Office have been the initiating and leading agency.

wanting an assessment are likely to be to determine the current status of PFM system performance in order to:

- check whether the current PFM system is performing adequately. If not, the PEFA assessment can inform the changes that need to be made in order to improve performance. Proposed changes may perhaps be reflected in a formal PFM reform strategy document.
- check the extent that PFM system performance has improved since the last PEFA assessment.

### 3.2 The Concept Note

20. The first step in preparing for the assessment is the establishment of a team to oversee the assessment process, see further in section 3.4(a) below. On behalf of the oversight team, the lead agency would draft a Concept Note/TOR,<sup>6</sup> that would serve as the basis for obtaining the support of other government agencies and, where relevant, from non-government stakeholders (potentially all such stakeholders would be included in the oversight team or reference group). The structure of the CN should be the following.

**Background:** Current status of aggregate fiscal performance and PFM systems and progress in implementing PFM reform strategy. The extent and type of donor support for PFM reform can be mentioned.

**Objective**

**Scope**

**Justification**

**Organization:** Pre, during and post PEFA assessment.

- Selection of oversight team, assessment manager & assessment team
- Timetable, information requirements and sources, meeting scheduling, resource and funding requirements.
- Planning for quality assurance
- Training in the use of the Framework and Briefing Workshops
- Financing of the assessment work

**Dissemination** of the PEFA assessment report.

21. Non-government stakeholders (e.g. development partners), in the interests of harmonization and minimizing transactions costs, both for themselves and for

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<sup>6</sup> The World Bank's format for a Concept Note is a useful example to follow. The Note may or may not include specific TOR for the recruitment of consultants. The European Commission uses the term "Terms of Reference" instead of Concept Note, but follows largely the same format, with the specific terms of reference for consultants comprising the last section. Whilst a World Bank Concept Note typically identifies the assessment team and the includes the budget, those elements may not be included in the EC's TOR which are being used as a basis for a procurement/tender process among consultants.

government, may consider also appointing a lead agency to represent them. This agency may also be asked to draft the Concept Note as a first step towards setting out internal organization procedures within each non-government stakeholder agency, coordination arrangements between the agencies, and coordination arrangements with the government.

22. The components of the Concept Note are elaborated on in the next section.

### 3.3 Objective, Scope and Justification

**Objective:** Prepare an assessment of the status of PFM using the full PEFA Framework.<sup>7</sup> In the case of a repeat assessment, another objective would be to track progress in PFM since the last assessment.

**Scope:** Central government, including autonomous agencies and de-concentrated central government agencies operating in local government geographical jurisdictions; and/or subnational governments (usually the first level, though may include lower levels where these are of significant size). Where SNGs provide a significant proportion of government services, it may make sense to have a consolidated PEFA assessment covering all government, with a representative sample of SNGs being assessed. In large decentralized countries, SNGs may want to conduct their own PEFA assessments irrespective of whether the central government wants to conduct one.<sup>8</sup>

**Justification:** The main justification is the desire to obtain a snapshot of PFM system performance that serves as a basis on which to prepare measures to strengthen PFM system performance in areas where weaknesses are impacting negatively on aggregate fiscal discipline, the strategic allocation of resources consistent with public policy objectives, and operational efficiency in public service delivery. The need would take into account the time that has elapsed since the previous PEFA assessment or PFM assessment of a similar type (e.g. CFAA); the minimum recommended time between assessments is 3 years, the maximum 5 years.

A further justification may be to use the PEFA assessment as a basis for stakeholders to coordinate and plan downstream PFM-related assessment work that they may be contemplating over the medium term. Such work would typically include drill-down analysis of PFM processes related to specific sub-topics (e.g. procurement, as is already the case with the OECD-DAC procurement assessment tool) on the basis of system performance weaknesses identified in the PEFA assessment report. There may also be an interest in drill down assessments into specific government sectors. In this respect it should be noted that a PEFA model for sector PFM assessment does not exist.<sup>9</sup>

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<sup>7</sup> The full PEFA Framework refers to the 31 indicators described mentioned in the Framework document and the structure of the PFM-PR as described in the Framework document. Partial use of the Framework is discouraged, as, due to their inter-linkages, PFM performance can only be properly assessed in terms of all the elements of PFM.

<sup>8</sup> To date, this has been the case in India, Pakistan and Brazil.

<sup>9</sup> Note, however, that the PEFA Steering Committee at its recent December, 2008 meeting in Brussels, decided that the default option for use of PEFA for sector-oriented assessments was to incorporate sector PFM aspects as far as possible into the current government-wide assessment model.

23. The justification would also include the rationale for a joint government-non-government stakeholder assessment or non-government stakeholder -led assessment, if this is considered a more desirable organizational arrangement than a self-assessment (for example, due to time and capacity constraints);

### **3.4 Organization**

#### **(a) Establishment of Oversight Team, Assessment Manager and Assessment team**

24. Following approval of the CN at the appropriate level of government, an oversight team (OT) would be established by the lead agency; the lead agency and the head and composition of the OT would have been proposed in the CN. The OT would in effect play a governance role. The OT might consist of senior management of key government agencies involved as well as other important stakeholders. The head may be the Minister of Finance or the Prime Minister or someone delegated by them.

25. The OT may delegate to a member, here called the Assessment Manager (AM) to manage the assessment process, starting off with the selection of the assessment team (AT). The selection process might include drawing up TOR for consultants (if required), recruiting them, and managing them during the assessment (the TOR may already have been included in the CN). They would state background, objective, scope, timetable, key deliverables, reporting requirements, required qualifications and experience. The OT would approve the TOR for consultants and officially appoint the assessment team at the end of the selection process. If the AT is drawn entirely from government agencies, the institutional composition of the team might consist of staff from MOF, as well as perhaps from the budgeting and finance sections of key line ministries (e.g. education and health), auditor general's office and parliament (e.g. Public Accounts Committee).

26. In the event of a decision to opt for a joint government-non-government stakeholder assessment or non-government stakeholder-led assessment, the OT would include representatives of non-government stakeholders. In the case of a joint assessment, the OT would agree on the modality: the government and non-government side working separately and then discussing results, or the two sides working together; the latter is likely to be more efficient. The AM would select the government component of the assessment team. In the case of a non-government-led assessment, the AM would appoint a government team, that would help facilitate the assessment work of the non-government team through organizing meetings and travel, and providing data. The AM would have some input into the selection of the non-government team.

#### *Assessment Team Composition and Size*

27. The core AT members should be PFM practitioners, each having a sound understanding of most areas of PFM, and ideally each one having previously participated in PFM assessments. The core members should be complemented by additional inputs in particular specialist areas they may not cover. At least one core member, preferably the team leader, should have experience in conducting PEFA assessments. Each assessor

should ideally have received training in PEFA through the standard course put on by PEFA Secretariat (see 3 (d) below). A good mix of disciplines would, for example, be an economist who has specialized in public finance, and an accountant/auditor, supplemented by inputs from a procurement specialist and a tax administrator. The ability of the assessors – and crucially the team leader - to understand the linkages between the different components of the PFM system and the impact of their performance on the broad outcomes of fiscal management is more important than highly specialized ability in one area but little ability in others.

28. The size of the team will depend mainly on the scope of the assessment.<sup>10</sup> If the assessment covers SNGs as well as central government, or central governments with geographically dispersed deconcentrated entities, it may be practical to have two teams (perhaps more, depending on the number of SNGs and/or de-concentrated central government entities) of at least three operating at the same time. Or else, one team would conduct the assessments in sequential order; this would extend the length of the assessment, thereby increasing the chances of the assessment being out of date by the time it is finished, but the time required to select assessment teams would be lower.

29. The assessment team should be headed by a team leader, who is responsible for the quality of the assessment. The inter-relationship between the assessors should be collegial, but nevertheless, it is useful to have one person responsible for providing work plans for each team member, setting timetables and deadlines, calling internal team meetings and, preparing the draft report. The most important deadline will be the submission of a draft assessment report to the oversight group. The team leader would be an experienced PFM practitioner.

#### *Issues concerning hiring of consultants*

30. The evidence-based nature of the PEFA assessment combined with a strong independent QA process (Section 2.5) helps to reduce the risk of bias and thus reduce the need for external assessors. As long as assessors demonstrate sufficient evidence supporting their ratings and the QA process is free of bias, the main reason for contracting consultants should be manpower resource constraints. If consultants are hired, they should be domestically-based to the extent possible in the interests of efficiency gains through, for example, greater awareness of political sensibilities, greater knowledge of the sources and validity of evidence and the right people to speak to, and local language skills. Another advantage is greater feasibility of filling any data gaps after the end of the assessment exercise. Involving local consultants also has a developmental aspect through building of capacity to undertake PEFA assessments, as demonstrated e.g. in Moldova; a repeat assessment made significant use of capacity developed during the first assessment.

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<sup>10</sup> The size of the assessment team should not be reduced for small countries. In the case of some small island countries, the assessment team has consisted of only one person, under the mistaken belief that the smaller the country the smaller the size of the subject material to be covered. The amount of work required is not necessarily less, however, than for larger countries as the same number of systems have to be assessed. In addition, one person teams rule out the always useful discussion of assessment-related issues with other team members.

## **(b) Timetable, Information Requirements and Sources, Meeting Scheduling**

### *Timetable*

31. The AM would establish the timetable. To better assure success, a PEFA assessment should be planned and carried out within a short a time period as possible, otherwise the assessment loses relevance and moreover consumes extra resources. From the beginning of the assessment itself to the finalization of the draft report, the time should be no longer than 4-5 months. Nevertheless, the timetable should contain some flexibility to accommodate unforeseeable complications (likely to be the norm rather than the exception) and especially to provide ample time for the filling of information gaps after the initial stages of comments are received from the reviewers (ref. quality assurance below).

### *Establishment of technical definitions, information requirements and scheduling of meetings*

32. The AM would work out the information requirements and the sources of information and this exercise would inform the scheduling of meetings with key government staff (e.g. head of Budget Department in MOF). Information requirements can be inferred from the Framework document and are explicitly stated in the “Guidelines on Evidence and Sources of Information to support Scoring of Indicators” and “Queries for the Field Implementation of the PEFA Framework”. The information requirements may differ between countries according to institutional circumstances. For example, governments may have more than one payroll management system and, if this is the case, data would have to be collected on each system. Information requirements will be higher the larger the scope of the assessment. The training course discussed below would greatly help in the understanding of the information requirements and sources. Sources would typically include budget documents, budget execution reports, external auditor reports, and reports prepared by international financial institutions.

33. In establishing information requirements it is important that definitions are clear. If unclear, the AT might be assessing performance incorrectly. Examples of areas where definitions need to be clear are: domestic arrears, extra-budgetary agencies, levels of sub-national government as well as classification of parastatal bodies into autonomous government agencies and state-owned enterprises. Use of correct definitions and classifications also facilitates tracking of progress over time.

## (c) Resource Requirements and Funding

### *Resource Requirements*

34. Resource requirements will depend on the scope of the assessment, the nature of the assessment (self assessment or other), the predicted ease of obtaining information, the amount of travelling that may be involved (i.e. related to size and structure of the country), importance of language barriers, the extent to which consultants are hired, the extent to which some of these may be foreign consultants (higher travel costs and interpretation/translation requirements) and whether a further follow-up mission may be required. Even if the scope of the assessment covers central government only, travel requirements may be significant if deconcentrated units of central government operate in the regions of the country and the country is large. Resource costs are likely to be considerably lower for self-assessments than the other assessment types (shorter time required for all phases, lower travel costs, lower personnel costs).

### *Structure of Budget for PEFA Assessment*

Item	No.	Unit Cost \$	Total Costs \$000s
<i>Assessment team:</i>			
Man-days (e.g. x people for y weeks)			
Travel costs (# days, # of trips )			
Accommodation Costs (# days)			
Miscellaneous (e.g. translation and photocopying)			
<i>Training team</i>			
Man-days			
Travel costs			
Accommodation Costs			
Miscellaneous			
<i>QA team</i>			
Man-days			
Travel costs			
Accommodation costs			
Miscellaneous			
<b>Total Costs</b>			

35. The precise requirements will vary from country to country, and thus a ‘standardized’ budget is not possible; it should be built from bottom-up on the basis of the type (e.g. self-assessment) and scope (e.g. central government) of the assessment. The structure of the budget is simple: estimates of number of man-days for each phase of the assessment, remuneration rates per man-day, and travel and accommodation costs where relevant. Most of the costs would be during the assessment phase. If government staff conducts the assessment, they would be receiving their regular salary, and additional remuneration costs may only apply to the QA team.<sup>11</sup> The following table represents the format of a

<sup>11</sup> To minimise the opportunity cost of their time (in terms of their regular duties), staff would be presumably be assigned to conduct the self assessment during the least busy time of the year.



hypothetical budget preparation framework for a central government assessment with some travel required. Physical numbers and unit costs may vary significantly according to the type and scope of the assessment and the cells in columns 2-4 are accordingly left blank.

36. For a central government assessment alone with minimal travel requirements, as a rough guideline about 4 weeks for each of three experts should be allowed for the assessment, but the actual requirements depends on the circumstances<sup>12</sup> and should be determined by the AM. Also travel and accommodation costs may vary significantly depending on the circumstances.<sup>13</sup>

37. The resource requirements should take into account the manpower resources necessary to finalize the report after the QA process. Significant additional information is often required to fill gaps identified after the first round of comments are received on the draft report. Adequate provisions for filling these gaps should be built into the timetable and the assessment resources/budget<sup>14</sup>.

#### *Funding of the PEFA Assessment*

38. For any type of assessment, personnel costs may already be funded in the form of staff salaries (for example, those of government civil servants and development partner staff). Additional personnel funding would therefore mainly relate to the costs of hiring consultants, if it is decided that they are necessary for reasons of capacity constraints and as a way of building capacity. These costs could be funded directly out of government budgets and/or the budgets of non-government stakeholders, the agreed composition arising out of preparatory discussions between stakeholders. For training in the use of the PEFA Framework, stakeholders might consider hiring trainers, who themselves have been trained (e.g. by the PEFA Secretariat) in the use of the Framework.

#### **(d) Planning for Quality Assurance:**

Whatever the type of assessment, a quality assurance (QA) process is very important in order to ensure the credibility of the PEFA assessment. The QA process applies to both the Concept Note and the draft report. It covers both the accuracy of the data used to score performance indicators and the correctness in the use of the PEFA Framework methodology. The CN would elaborate on the composition of the QA team, the requirements for membership of the team being impartiality and knowledge of the PEFA Framework. Members can be drawn from both domestically based organizations that are not part of the government (e.g. the external audit office, universities, civil society organizations) and externally-based organizations (e.g. PEFA Secretariat and donor

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<sup>12</sup> Determining factors include *inter alia*: the scope and model of the assessment, the preparatory work done by the government, recent related work, country characteristics such as size/structure of government and ease of information access.

<sup>13</sup> Travel and accommodation costs may depend on *inter alia*: geographical location of the country, use of local or international experts, and the funding agency's travel policy.

<sup>14</sup> This is particularly critical where the assessment is undertaken and the report written by external assessors, as an additional visit to the country may be needed.

agencies, particularly in the case when donors fund a significant component of total public expenditure. Appendix 1 (v) provides an example of good practice in quality assurance from the PEFA assessment in Moldova in 2006.

39. A future trend might be quality assurance review provided by other country governments, particularly those in the same regions, with common interests and legacies and experience from PEFA assessments. Possibilities include the Caribbean region countries (the idea was raised at the Caribbean regional PFM conference in April 2008), the Caucasus region countries (all the countries covered by PEMPAL) and the WAEMU countries. Another possibility might be OECD countries reviewing PEFA assessments conducted by other OECD countries.

#### **(e) Training in the use of the PEFA Framework and Briefing Workshops**

40. Training in the use of the PEFA Framework is highly recommended prior to the commencement of the assessment, irrespective of the type of assessment. A full training workshop takes 2-3 days, using the standard PEFA Secretariat course and the PEFA Secretariat can arrange the training, perhaps through the services of consultants who have themselves been trained by the Secretariat. The training would be aimed at both the assessment team itself and interested members of the oversight team (though not doing the assessing itself, their enhanced understanding of the Framework would enhance the effectiveness of the team). Ideally a meaningful period of time should ensue between the end of the training and the beginning of the assessment itself, otherwise assessment activities might disrupt the training program.

41. In practice, some members of the oversight team may prefer just to have a briefing on the key aspects of the Framework and the assessment process. The assessment team could provide this briefing at the start of the assessment, the duration of which would be no more than a day (only a half day in many countries to date).

42. If agreed beforehand, the assessment team might also provide a briefing on key finding to the OT at the end of the field work.

#### **(f) Fieldwork Supervision and Support**

43. The AT undertakes its fieldwork as planned. If required, the AM will provide logistical support (e.g. arranging travel and accommodation in the regions). The team leader of the AT would report periodically (e.g. once a week) to the AM; this provides the opportunity to discuss problems that may have arisen (e.g. cancelled meetings). Following incorporation of comments arising from the QA process, and perhaps also comments from the OT provided at the end-of-fieldwork briefing, the team leader submits the draft assessment report to the OT and, later, discusses the report with the OT at a meeting.

44. Upon request, the PEFA Secretariat can provide support (free of charge) to the assessment team:

- QA Review of CNs/ TOR and the draft report (if necessary, successive drafts);
- Video-conference briefings of the oversight team and/or the assessment team
- “Clarifications to the PFM Measurement Framework of June 2005”, on the PEFA website.
- Quick response to ad-hoc queries from the assessment team;

**(g) Publishing of the PEFA Assessment Report**

45. The Government should publish the finalized PFM-PR as soon as possible, consistent with the spirit of the Strengthened Approach. The greater the sense of government ownership of the assessment combined with a strong interest expressed by the parliament and civil society organizations (perhaps both represented on the oversight team), the greater the likelihood of the government being willing to publish the report. Governments may also be more willing to publish if they perceive that a large proportion of PEFA assessments are being published (thus providing some peer pressure).

## **4. Post-Assessment Follow Up**

46. Upon completion of the assessment, the oversight team should ensure that the assessment will be used for its intended purposes, and especially that it will serve as a common information pool for any subsequent work. The responsibility for subsequent work may or may not rest with the OT, depending on how and for what purpose the OT was established. A final assessment/restitution workshop would in many cases provide the transition from the assessment proper to its input into further work.

### **4.1 Dialogue on PFM reform**

47. A dialogue among the stakeholders would typically be the next step towards identifying the need for measures to improve PFM system performance (perhaps formalized in a new or revised PFM reform strategy) in the light of weaknesses exposed by the PEFA assessment. The length of the dialogue process will depend on the depth and nature of the PFM weaknesses identified in the PEFA assessment report, and the extent of political, legal, institutional and capacity constraints to implementing reform measures. To facilitate the process the oversight team may appoint a technical team to prepare the reform measures. The head of the team might be the same person who was the Assessment Manager for the PEFA assessment.

48. In terms of using the PEFA reports for prioritizing and sequencing PFM reforms it should be kept in mind that:

- PEFA assessment scores highlight strengths and weaknesses of a PFM system and thus constitute an important input to a priority setting and sequencing of PFM reforms.
- But PEFA scores are only one - out of several - inputs to the reform formulation process. Many other important factors must be considered simultaneously, such as political economy, cultural, legal, administrative and resource factors as well as capacity to initiate reform in each area.
- Governments themselves should thoroughly consider these factors – in addition to the PEFA assessment findings - in order to come to conclusions about priorities and sequencing. Governments require ample space for this process and the reform dialogue with donors needs to take this into consideration.
- Indicator scores should not be used simplistically in reform formulation. A low indicator score (such as a D) is not in itself enough justification for making reform for the system element a priority. The relative importance of the subject, the complexity and timeframe for improving the system element and its interdependence with the performance of other system elements all need to be taken into consideration.
- PEFA assessments do not provide enough detail to establish a detailed reform action plan. Due to its high level nature and broad overview, the PEFA assessment needs to be complemented by detailed analysis of the underlying causes and capacity factors (institutional, organizational and human resource factors) that result in unsatisfactory performance. Such complementary analysis may be restricted to only areas identified

as priority and part of the first stage in a sequence. Other, more subject specific diagnostic tools are available for this type of detailed (drill-down) analysis.

49. By way of example of post-assessment follow-up, Appendix 1 (ii) indicates the response of the Norwegian government to the PEFA assessment it commissioned and Appendix 1 (vi) provides an example of how the sequencing of the stages in the reform cycle has been handled in the case of Pakistan provinces.

#### **4.2 Embedding the PEFA Framework in the government's M&E system**

50. The MOF can use PEFA assessments to measure PFM reform progress over time. In this context, the PEFA Framework could be integrated as part of the Government's monitoring and evaluation (M&E) system with respect to its overall reform program..

51. However, much of the PEFA Framework is not suited to annual monitoring as the information requirements are too many and too costly and burdensome to obtain, and in any case improvements in PFM performance tend to be gradual, which is why PEFA assessments should only happen once every few years. Between full assessments, monitoring of PFM performance may include:

- Annual monitoring of relatively easy to monitor PEFA indicators, typically quantitative indicators/dimensions such as PIs 1-3, PI 6, PI-9 (i), PI-10, PI-11 (iii), PI-16 (iii), PI-19 (i), PI-25 (i-ii), 26 (i-ii), PI 27 (iii) PI-28 (i). As shown in the Framework document, PIs 1-4 represent the "Credibility of the Budget" core dimension and are essentially 'outcome' indicators influenced by the 'output' indicators in the other core dimensions.
- Annual monitoring of indicators (in addition to those stated above) that relate to areas where reform efforts are focused and where progress in reform may constitute 'triggers' in the case of development partner programs that are supporting PFM reform measures.

#### **4.3 Use of the assessment for aid decisions**

52. Governments and other stakeholders (including development partners) should fully appreciate the usefulness of the PEFA assessment, in terms of the establishment of a baseline of PFM system performance upon which a new/revised PFM reform strategy can be prepared, with eventual benefits for fiscal stability and the provision of public services, and as a means of tracking progress in PFM. The PEFA assessment is not a direct instrument for receiving more aid. Both development partners and governments should avoid the temptation to link PEFA assessments directly to aid allocations. Establishing such a link might distort incentive structures through the manipulation of indicator scores; i.e. the higher the scores, the more aid the government thinks it will receive.

53. If development partners want to conduct a fiduciary risk assessment exercise, this should be separate from the PEFA assessment, though the assessment can provide useful information. Otherwise they should base their aid allocations on the quality of the PFM reform strategy (new or revised) that arises from the PEFA assessment in the post-assessment phase and the measurable progress in implementing the strategy.

# APPENDIX ONE

## Country Examples of Good Practice

### **(i) Zambia 2005 PEFA Self Assessment**<sup>15</sup>

Strong government ownership through fielding a government team, combined with an explicit incorporation into the monitoring framework for the PFM reform programme helped create the conditions for PFM reform managers to bring about a closer alignment between the PEMFA reform programme and the PEFA assessment. A government team (comprising staff from Ministry of Finance and National Planning (MoFNP) and from the Zambia Institute of Chartered Accountants) was appointed to carry out the assessment. This team was supported by two external consultants funded by SIDA. The team was led officially by a senior official in MoFNP. At the pre-assessment workshop and at the workshop to discuss the initial results, a wider group of domestic stakeholders (from MoFNP, line ministries, and external audit) as well as donor agencies attended.

Following the work of the assessment team, an external validation mission was fielded by donor agencies where the PEFA ratings and justification were discussed with government officials. Comments from government, development partners and the PEFA Secretariat were incorporated by the assessment team into the final report. The report was published as a government document. The government presented the PEFA findings at the annual CABRI conference.

The PEFA assessment has influenced the direction of PFM reform to some degree through the revision of Annual Work Plans and realignment of PEMFA. Monitoring of some of the PEFA indicators was incorporated explicitly into the annual Performance Assessment Framework, discussed jointly between government and development partners.

The PEFA assessment appeared to cause a reduction in competing general PFM assessments, as the development partners agreed to use the PEFA assessment as their common information pool on general PFM assessments. Development partners indicated to Government that it should not allow any other general PFM assessments whilst the PEFA assessment was in place

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<sup>15</sup> Assessing the Impact of the PEFA Framework, Vol. II, Country Notes, Zambia”, PEFA Program, June 2008

### **(ii) Norway 2007 PEFA Self Assessment**

Norway's self-assessment of its PFM system performance at central government level was coordinated by a PEFA experienced staff member of Norwegian Agency for Development Cooperation (Norad) in collaboration with MOF officials, the National Audit Office and others.

As expected, Norway mainly scored high, but eight indicators/indicator dimensions were rated at C and D level. It was the government's reaction to the report that stands out. Among the areas obtaining low ratings, the government agreed on needed improvement in procurement practices and follow-up to the external audit report findings. Low ratings affecting two other indicators were a result of primary service provision being entirely decentralized to municipalities. Three other areas of low performance rating were not considered priorities for improvement, as the Ministry of Finance found the current systems to be appropriate in the Norwegian context: lack of multi-year budgeting at a disaggregated level, internal audit functions being optional for MDAs and lack of a consolidated assessment of risks in public corporations and autonomous agencies.

The government response is useful as it shows the areas in which the government is ready to initiate reforms or improvements. At the same time, the publication of the report and the response may lay the basis for a debate on the validity of the assumptions regarding the three non-priority issues.

*Source: Norway PFM Performance Report, June 2008*

### **(iii) 2006 Ghana PEFA Joint Assessment**

The 2005 donor-led assessment in Ghana was largely a failure, due to almost complete absence of government involvement. Clearly much greater government ownership was essential if a PEFA assessment was to be successful. A joint assessment approach was agreed upon. The government team was strongly led by the Deputy Minister of Finance. The World Bank (lead donor agency) team comprised two members, the TTL himself and one external consultant. The PEFA assessment was one of the two main components of the 2006 ERPFM mission, a mission that would have taken place anyway even if there had been no PEFA assessment.

The PEFA assessment was conducted in the field during 2 ½ weeks. Most of the meetings took place in one room, the Deputy Minister directing his officials to bring in the relevant supporting information. The MOF officials made their own assessments, the Bank team made its own assessments (with other donor agencies that were part of the donor reference group providing support) and the two sides then compared scores. The MOF scores tended to be higher than the Bank's team. However, through an iterative process (mainly through the MOF team being challenged to justify their higher scores), agreement was reached on virtually every indicator.

The final report (representing another 2 weeks or so work of the consultant mainly at home base) noted the small remaining areas of disagreement. Moreover, the Bank team, still in the field, and the MOF, following resolution of the scores, were able to agree on how the MOF's PFM reform action plan should accordingly be modified. The ERPFM documents were finalized at the end of June, about 5 months after the initiation of the PEFA process.

*Source: Assessing the Impact of the PEFA Framework, Vol. II, Country Notes, Ghana", PEFA Program, June 2008*



#### **(iv) 2006 Guyana PEFA Donor-led Assessment**

It was agreed among stakeholders in Guyana that the Integrated Fiduciary Assessment (IFA) would be performed through a collaborative effort involving the government working with multilateral and bilateral development agencies. The development agencies agreed on: (i) joint mission work, led by the IADB; (ii) use of a single methodology and of common quality assurance, review and disclosure procedures; and (iii) issue of a joint IFA. The IFA would be prepared using the PEFA Framework and the OECD/DAC Country Procurement Assessment Framework. The IFA would help donor support for the continuing development of Guyana's PFM systems, processes and institutions. The IFA would also result in greater harmonization and coordination of donors' work, which would help reduce transaction costs and reduce the burden posed by different information requirements on projects implemented with donor financing.

First, a joint mission from the IADB and the World Bank Group visited Georgetown Guyana in December 2006 to discuss the timing and modalities for preparing the IFA. Then, a common initiating concept memorandum was drafted in January 2007, settling the specifics of the linkages to other analytical instruments and the respective roles of the stakeholders, and providing the TOR of the consultant team. A QA mechanism was put in place in order to reach a full agreement on this concept memorandum. The PEFA Secretariat participated in this review process.

(\* PEFA Secretariat, *Monitoring Report 2007 Part I*, Washington DC March 2008

#### **(v) 2007 Moldova PEFA Assessment: Quality Assurance**

Review of the draft Performance Report by major stakeholders - such as government and donor agencies - is a crucial part of a QA system that leads to a generally accepted report. The system needs to include how comments arising from the QA have been dealt with by the authors. The latter has often not been clear.

A systematic approach to dealing with review comments was developed in connection with the Moldova assessment and has been adopted in other countries subsequently. This involved both comments from the PEFA Secretariat and comments from the government and donor reference group. In the case of comments from the PEFA Secretariat, the team amended the first draft report on the basis of comments received (from all reviewers). A second draft report was issued and the PEFA Secretariat received it for comment on the responses to the earlier version. This was done in a matrix format, mostly indicator by indicator, showing initial comment and change in the subsequent report. The team inserted responses in the matrix showing the action they would take on the next draft version of the report plus actions required on supplementary information needed from the government. The final version of the report could then be checked against the matrix, following the development of the report from initial comments to final version.

In a number of cases, comments received from the government and the donor group were partly conflicting. The team developed a matrix of all such comments and a meeting was arranged during which the team went through the areas of conflicting observations with the government and main donors in order to reach agreement on each point. Due to this process, the response to and impact of comments can be easily tracked from early draft to final report and this creates confidence in the final product.

(\* PEFA Secretariat, *Report on Early Experience from the Application of the Framework (REEAF)*, Chapter 4.8, pages 34, World Bank, Washington DC, November 2006

**(vi) 2007 Pakistan Province PEFA Assessments; Linkage of PEFA Assessment to PFM Reform Program**

In the Pakistani States of Baluchistan, Punjab and North West Frontier Province, the linkage from performance measurement to reform program was shaped by the government and its development partners comprising a PFM-PR and a diagnostic report. Based on the PFM-PR, the diagnostic report was immediately prepared, by the same team, focusing on the underlying causes of weaknesses in the low scoring areas. The diagnostic report was prepared using a questionnaire aimed at ensuring maximum government involvement in the assessment process and in deciding on possible steps to improve weakly rated areas. The diagnostic report shows for each performance indicator that rated poorly: the assessed rating, a description of the indicator and the basis for making the rating; a narrative describing the reasons for the poor rating and the diagnosis of steps to improve performance in the indicator for each performance dimension.

As a result the provincial governments refined their PFM Reform Strategies and developed Implementation Action Plans.

Source: PEFA Secretariat, *Monitoring Report 2007 Part I*, Washington DC March 2008

## APPENDIX 2

### PROCESS FRAMEWORK FOR UNDERTAKING A PEFA SELF-ASSESSMENT

Process	Responsibility	Time	Comments
<p><b>1. Decision to undertake assessment</b></p>	<p>High ranking political or administrative government body</p>	<p>Not possible to determine precisely beforehand</p>	<p>Higher the level of backing (e.g. PM's office) the more chance that all relevant agencies (e.g. Parliament) will be covered.</p> <p>The lead agency (likely, but not necessarily MOF) drafts Concept Note outlining objectives, scope, justification and management &amp; organization of assessment. Non-government stakeholders may be consulted, particularly if the impetus for an assessment is coming from them.</p>
<p><b>2. Following decision, Government appoints oversight team</b>, headed by the lead agency. Team may include key line ministries and non-government stakeholders, including, for example, Auditor General, parliament, CSOs, chamber of commerce and development partners)</p> <p>Oversight team appoints Assessment Manager</p>	<p>Oversight team performs governance role</p>	<p>Ditto</p>	<p>Non-government stakeholders more likely to be on oversight team if Government has decided that the assessment should be a joint government-non-government stakeholder assessment of a non-government stakeholder-led assessment.</p>
<p><b>3.. Assessment Manager (AM):</b></p> <p>-- Establishes Assessment Team (AT)</p> <ul style="list-style-type: none"> <li>- Determines size, composition &amp; budget;</li> <li>- Recruits consultants if required.</li> <li>- Appoints Team Leader</li> <li>- Organizes training in Framework and briefing workshops.</li> <li>- Establishes reporting requirements</li> </ul>	<p>Managing &amp; organizing pre-assessment &amp; assessment phase and initiating post-assessment phase</p>	<p>Up to 2 mths for pre-assessment phase</p> <p>Up to 3 mths for assessment phase</p> <p>Up to 3 mths. for post-assessment phase</p>	<ul style="list-style-type: none"> <li>- AM could be a small team &amp; include representatives of non-government stakeholders.</li> <li>- Size, composition, budget of AT are function of scope of assessment and geographical size of country. More than one team may be necessary</li> <li>- Need for consultants depends on time &amp; capacity constraints of government. TORs contain: objective &amp; scope of assignment, deliverables &amp; required qualifications &amp; experience.</li> <li>- Training should be conducted by people already trained in the use of the PEFA Framework (e.g. community of PEFA trainers from private sector).</li> <li>- Briefing workshop for OT members at start of assessment provided by AT: ½ - 1 day. Also</li> </ul>

Process	Responsibility	Time	Comments
<ul style="list-style-type: none"> <li>- Determines time-table</li>   <li>- Determines tech. definitions, info requirements and sources;</li>   <li>- Establishes &amp; manages QA process</li>   <li>- Arranges discussion on draft report between AT &amp; OT</li> <li>- Establishes beginning of post assessment process</li> </ul>			<p>perhaps a briefing workshop at end of assignment.</p> <ul style="list-style-type: none"> <li>- Reporting requirements includes periodic briefings by AT during field work, briefing note for OT at end of fieldwork, &amp; discussion of draft final report with OT after QA comments incorporated.</li> <li>- Timetable influenced by scope of and size of country.</li> <li>- Technical definitions include e.g. definition of SNG, domestic arrears, extra-budgetary funds, classification of parastatals.</li> <li>- Establishing definitions helps establish information needs.</li> <li>- QA team could comprise both domestic (e.g. auditor general, member of parliament), academia, civil society organizations, chambers of commerce, and external (e.g. development partners, PEFA Secretariat) non-government stakeholders. .</li> <li>- After assessment team has incorporated QA comments</li> <li>- Length of post-assessment process depends on nature of PFM system performance weaknesses exposed in PEFA assessment and extent of political, legal, institutional and capacity constraints to addressing weaknesses.</li> <li>- Identification of PEFA indicators can be readily monitored between PEFA assessments, and selection of monitorable indicators with respect to progress in implementing measures to address PFM system performance weaknesses.</li> </ul>
<p><b>Total months</b></p>		<p>Not possible to determine ex-ante</p>	<p>The shorter the assessment period, the better, as the relevance of the exercise diminishes over time.</p>