

# Evaluation of the PEFA Programme 2004 – 2010 & Development of Recommendations Beyond 2011 (dated July 2011)

## *Management Response by the PEFA Steering Committee*

*September 22<sup>nd</sup>, 2011*

### 1. Introduction

- The importance of strong public financial management (PFM) systems for achieving economic growth and equality cannot be over-emphasized. PFM systems are instrumental in a government's ability to deliver macro-fiscal stability, policy-based allocation of resources and operational efficiency in the use of resources for service delivery. Improving PFM systems' performance is therefore a key component of the international development effectiveness agenda.
- The objectives of establishing the PEFA Program by its seven partner agencies<sup>1</sup> - almost a decade ago - were the development of a more strategic, comprehensive and collaborative approach to assessing and reforming countries' public expenditure and financial accountability systems, and identification of performance indicators and benchmarks, in order to address both developmental and fiduciary objectives. Against this background, this independent evaluation represents an important effort to critically analyze the objectives, activities and impact of the PEFA Program since an early evaluation in 2004 and to draw lessons that may help to shape the program's future direction.
- The evaluation was initiated by the PEFA Steering Committee in late 2010 in order to obtain an independent view of the Program's achievements - partly building on the monitoring reports and impact studies prepared by the PEFA Secretariat previously or in parallel - in order to establish a basis on which to decide on a continuation of the Program beyond the end of the current phase III on December 31, 2011 and, if affirmative, to provide inputs to the formulation of a phase IV commencing in 2012. The findings were discussed by the PEFA Steering Committee meeting in June-July 2011 and this management response was subsequently prepared.

### 2. Main Findings and Conclusions

- We appreciate the **evaluation's main conclusion** that "the performance of the PEFA programme is a resoundingly positive one" which confirms the general impression we have developed during recent years and is in particular based on the Program's creation of a credible Performance Measurement Framework that has been used for over 220 systems assessment in more than 125 countries since its launch in 2005.

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<sup>1</sup> PEFA is a partnership program of the World Bank, the European Commission, the UK Department of International Development, the Swiss State Secretariat for Economic Affairs, the French Ministry of Foreign Affairs, the Norwegian Ministry of Foreign Affairs and the International Monetary Fund.

- In terms of **program effectiveness**, we concur with the evaluators' findings that the program has been effective in securing global adoption of the PEFA Framework both in the implementation of baseline assessments (covering about 90% of LICs and 75% of MICs) and subsequent repeat assessments (more than 50 completed), that donor collaboration has been improved and that government engagement in and ownership of the assessments is on a positive trend. The report highlights the widespread use of PEFA assessments for PFM reform discussions at country level (in 9 out of 11 country cases investigated by the evaluators) and for donors' decisions on the use of country systems in aid operations - including by all donors consulted outside the partnership group – as well as an emerging use for empirical work by researchers.
- We accept the finding that **publication of assessment reports** can be further improved – from the current level of about 60% of finalized assessment reports – and will strive to improve this level through intensified efforts. Nevertheless, the encouraging developments in use of PEFA reports suggest that sharing of unpublicized reports through relevant country networks is widespread. However, it also underlines the desire for reports to be more widely disseminated in a timely manner for the benefit of additional stakeholder groups beyond country central finance agencies and their international development partners.
- We note the findings in the body of the report on the issue of **quality of PEFA assessment reports**. The evaluation of the program's institutional development impact concludes that since 2008: *"... it has proven possible to significantly raise the quality of the assessment process and of the final product ...."* (ref. box 5). The steady emergence of some 40 new assessments annually for six years running – including additional countries and new sponsors – indicates that the Framework has proven robust for the intended purposes. Quality review coverage of draft reports by the Secretariat has in recent years reached a very high level as has the average level of compliance with methodology. On the basis of these positive findings, outlined in the body of the report, we consider that the report overstates the case regarding quality concerns. This is by no means to say that we underestimate the importance of assessment quality, and especially the reputational risk posed by a few bad apples. High quality of assessments, therefore, is and will remain a focus of the program, particularly due to its decentralized approach to implementation of the assessments. We accept that quality reviews of concept notes and terms of reference for assessments remain at a much lower rate and this needs to improve. On the other hand, quality is not only a result of quality assurance arrangements, which can never provide full guarantee of quality; quality also reflects the skills and experience of the assessors and the terms under which they are engaged. In this context the expansion of the pool of PEFA assessors and the efforts of the SC members and the Secretariat in monitoring application, training all stakeholders as well as issuing relevant technical and process guidance are key contributing factors to the continued improvements in quality.
- In terms of **program relevance**, we agree with the evaluators' findings that the program has been consistent with the overall development strategies and policy priorities of the principal stakeholders, and with the broader donor harmonization and aid effectiveness agenda. On the other hand, we also accept that the program has provided relatively weak linkages to two of the three stated global objectives – namely (i) enhanced country ownership of PFM reform programs and (ii) improved alignment and coordination of donor support to country-led PFM reform. This is partly

due to the comparative advantage of the program which lies primarily in the establishment of the common pool of information through the PEFA based assessments, and partly due to the program's implementation strategy which has been to focus initially on establishing this common information pool, before taking on the other two objectives. Yet the evidence presented in the report, including the country case studies, points to some positive recent developments. The clear emergence of greater government involvement in the assessments, the wide range of international development agencies involved in the assessments and the frequent use of PEFA reports to guide the preparation of reform action plans, are noted as a sound platform for future action towards meeting those objectives.

- The report states that lack of **awareness of the scope and potential of the PEFA Framework** remains an issue. We believe this finding should be viewed with caution. The findings on effectiveness and institutional impact clearly suggest that awareness of the potential of the Framework is very high among international development agencies and the central finance agencies of partner governments in the many countries where the Framework has been applied. In countries where the Framework has not been applied the awareness is naturally much lower and an intensive sensitization effort will always be required in connection with a first application. We do agree, however, that more could be done to increase awareness of the potential use of the assessments for reform discussions between the central finance agencies and other government institutions as well as with parliaments and civil society.
- We appreciate the evaluators' findings on **program efficiency**. The evaluators conclude that the program has been very efficient in production of outputs and achieved good internal coherence in its work. We note the evaluators concern that human resource capacity is a key constraint. The latter is the result of a deliberate effort to keep the Secretariat small and to mainstream as many of the program functions as possible into partner organizations or other institutions that present a comparative advantage, rather than building up a larger Secretariat capable of undertaking all such activities. In fact, keeping the Secretariat small is itself a means to promote collaboration between stakeholder institutions at the operational level, rather than replacing such operational collaboration by Secretariat interventions. However, having a small number of staff entails the risk that illnesses or departures could have a more significant impact in terms of temporarily limiting the Secretariat's capacity. The report suggests that the possibility of increasing the operational autonomy of the Secretariat should be explored. A future meeting of the Steering Committee will discuss the special relationship between the program Secretariat and the World Bank which is hosting it, in order to address this issue. .
- We welcome the positive conclusions on the program's **sustainability**. We note the need to consider an enhancement of staff capacity at the Secretariat to meet the expanding demand for its core services. At the same time, we agree that financing of the program has never been at risk and ongoing discussions among the partners suggest that its funding is secure into the medium term. It would have been helpful, however, if more had been done by the evaluators to discuss the specific sustainability issues concerning a global common good, which essentially is the nature of the PEFA Framework.

- The evaluation concludes that the program has performed well in respect of **institutional development impact against its global objectives**. This is a particularly welcome finding based on country level interviews which indicates that the PEFA assessment reports are widely used to inform PFM reform agendas at country level. We totally agree with the evaluators that a well designed *process* of implementing an assessment is a crucial part of achieving this impact.
- The evaluators judge the program's **implementation process** as having worked as planned, overcoming any barriers encountered as well as having respected all agreements between the partners. We concur with this conclusion and believe this aspect of the program has been instrumental in building mutual trust between the partners as well as trust in the program's outputs.
- We agree with the general conclusions on the program's **governance arrangements**. The limitation of the partnership to seven organizations, all permanently represented on the Steering Committee, has certainly been an important factor in creating consensus, consistency and effectiveness in decision making. We recognize also that this arrangement does not incorporate the voice of other stakeholders; in fact the range of such other stakeholders is rapidly expanding as the PEFA Framework is gaining increasing recognition as an industry standard. During the entire period under evaluation, the program has addressed this issue by close collaboration with the OECD-DAC Task Force on PFM (formerly the Joint Venture on PFM) through which interaction with many other stakeholders has been developed and maintained. Whilst the number of participating partner governments and CSOs in this task force is increasing, the evaluators' pinpointing of the limitations of this arrangement in terms of both the range of stakeholders and continuity is well taken and will be given further attention.

### 3. Recommendations

- Generally, the evaluation's **recommendations and conclusions are well aligned with our own assessment and lessons learnt from program implementation**. This is particularly true with respect to the need to stay on the course established by the overall objectives of the program and building on its demonstrated value-added. We also share the evaluators' perception of most of the issues that should be a focus for deciding future development of the program. For several of these issues, the evaluators discuss a number of options and eventually conclude by recommending adoption of a particular option as the most appropriate one. We agree with the evaluators' conclusion on the most appropriate option in a number of cases, but not all. Table 1 below presents - for each of the main issues raised in the executive summary of the report - the recommendations or preferred options suggested by the evaluators along with the Steering Committee's opinion on the issue. The following table 2 presents supplementary recommendations made in chapter 3 of the report – but not repeated in the Executive Summary - along with the Steering Committee's opinion on these issues.

**Table 1. PEFA Steering Committee responses to the main recommendations in the Executive Summary**

<b>Recommendation (Evaluation team)</b>	<b>Management Response (PEFA Steering Committee)</b>
<p>We would recommend that <b>networking, communication and dissemination</b> programmes should be devised aimed at:</p> <ul style="list-style-type: none"> <li>▪ Giving Governments the confidence to build a common, harmonized dialogue on PFM reform on the basis of PEFA assessments; and</li> <li>▪ Giving donors (and potentially CSOs engaged in accountability work) the confidence to make greater use of the PEFA framework, reducing reliance on competing diagnostic frameworks and increasing the harmonisation of donor efforts in support of Government-led PFM reforms.</li> </ul>	<p><b>Agree.</b></p> <p>We agree that sharing of information gathered through the PEFA assessments themselves and through the program’s monitoring activities should be subject to intensified dissemination with an expanding user group through various means and deserve to be given greater emphasis in the future. The program already has prepared an updated communications strategy – approved by the Steering Committee in December 2010 – which addresses this issue in the short term. In connection with an extension of the program beyond the current phase, this strategy will be revisited in line with the evaluators’ recommendation. Furthermore, the PEFA program has already launched an effort to network with different CSO stakeholders, such as the International Budget Initiative and CSOs recently joining the DAC Task Force on PFM.</p>
<p><b>Development of a structure to guarantee the quality of PEFA assessments</b></p> <p>Introduce a procedure by which all assessments passing through a quality assurance process verified by the Secretariat would be issued with a “quality certificate”. This would specify the nature of the QA process applied and would document the Secretariat’s views on the adequacy of the responses included in the report to queries raised. This Quality Certificate would be included within the inside page of every PEFA assessment reviewed by the Secretariat. In this way, a type of “market differentiation’ mechanism would be introduced, where readers would automatically begin to view a PEFA assessment without a Secretariat certificate as a sub-standard product, creating a natural incentive to comply with the recommended procedure.</p>	<p><b>Partly agree.</b></p> <p>Ensuring high quality of PEFA assessments will remain a core subject on the program’s agenda for the future. We agree that a few reports of poor quality represent a reputational risk that impact on the standing of the PEFA brand and are, therefore, taking additional measures to ensure that ALL reports meet strict quality standards. As practically all draft reports now undergo a review by the Secretariat, our focus will be on ensuring that the concept notes and terms of reference that determine the assessment process are similarly subject to a review by the Secretariat and that comments from the Secretariat are addressed in the final versions of the documents. The proposal for a quality certificate put forward by the evaluators has merit and is being considered as an option for achieving such quality strengthening. However, the feasibility of each option must be thoroughly investigated in order to ensure that it does not presents a conflict with the quality assurance systems and internal arrangements adopted by the major implementing institutions of PEFA assessments. It should also be noted that the proposal may assist in providing assurance as regards compliance with assessment methodology and process guidelines, but will not automatically lead to assurance on the quality of data and analysis. As quality also reflects the skills and experience of the assessors, the</p>

	<p>program will continue its work on expanding the pool of qualified PEFA assessors, promoting training of assessment managers and assessors, improving guidance materials and fostering a community of practice for PEFA.</p>
<p><b>Fine-tuning of the PEFA assessment framework</b> The evaluation team considers various options for future fine-tuning of the PEFA Framework. Ultimately, it recommends undertaking periodic changes to the indicator set – for example no more than once in each period of five years – and only to a limited number of indicators each time. Specifically, we would recommend altering no more than 4 indicators at a time so that a reasonably high degree of comparability is maintained.</p>	<p><b>Disagree.</b></p> <p>The recommendation appears justified mainly by the objective of maintaining the comparability of indicator ratings in a cross-country database. Whilst we appreciate the need for comparability and the convenience to researchers of having a totally consistent set of indicator ratings in a global database, the main driver of the need for fine-tuning of the PEFA Framework should be to maintain relevance of the Framework to users at the country level. This perspective would suggest that a more comprehensive fine-tuning be pursued during the next phase, whilst maintaining the current scope and structure of the Framework. There are three reasons for this view. Firstly, the experience from the more than 200 assessments to date show that there are important improvements to be made to a large number of indicators, as evidenced by the large number of ‘clarifications’ issued. Secondly, the recent experience with revision of three selected indicators shows that changes in one indicator often requires adjustments (even if minor) to others. And thirdly, the Framework has to remain relevant in a dynamic world where new approaches regularly gain influence, are tested and eventually adopted as new standards or good practices; the evaluation team’s recommendation would mean that a full overhaul of the existing indicator set would take 35 years to complete, a period during which many standards may have been radically changed.</p>
<p><b>The PEFA Steering Committee &amp; Reference Group</b></p> <ul style="list-style-type: none"> <li>▪ The Steering Committee should essentially keep its current form and should continue to have an Executive style, with a relatively limited number of members and a focus on efficient decision-making.</li> <li>▪ In order to establish a framework by which structured changes in the membership of the Steering Committee can be introduced on a periodic basis, we recommend an increase from 7 to 9 members.</li> </ul>	<p><b>Partly agree.</b></p> <p>The current composition of the Steering Committee has proven effective, and includes both the institutions representing a critical mass in terms of status, size and engagement in PFM assessment and reform on a global scale as well as the institutions that provide the resources for implementation of the program activities. An expansion of the Steering Committee may prove quite complicated without fundamentally enhancing the voice of the wider range of stakeholders. Expanding the Steering Committee not only complicates decision making – voting rules may have to be introduced to replace consensus – but also requires objective decision criteria on which institutions to add</p>

<ul style="list-style-type: none"> <li>As at present, all Steering Committee members should continue to be funders of the PEFA programme.</li> </ul>	<p>to the committee. It is far from certain that such criteria could be established and could limit the additional members to two, and the report does not propose how this might be done, other than referring the decision to a Reference Group which would face similar selection problems for its own membership (ref. below).</p>
<p>It is recommended that the Steering Committee should be supported by a formally defined Reference Group, which would comprise an equal balance of three groups:</p> <ul style="list-style-type: none"> <li>Representatives of governments who have used the PEFA framework;</li> <li>Representatives of professional accounting and auditing bodies and CSOs engaged in budget advocacy work; and</li> <li>Development Agencies not currently represented within the Steering Committee.</li> </ul> <p>It is recommended that the Steering Committee should directly invite members but once established, the Reference Group could then establish its own nomination and voting rules.</p> <p>The Reference Group would act as a consultative body, meeting once a year in Washington DC to review progress with the PEFA Programme and prepare advice for the Secretariat and resolutions for consideration by the Steering Committee.</p>	<p><b>Partly agree.</b></p> <p>We concur with the evaluators that adding voice of additional stakeholders to the current governance arrangement represented by the Steering Committee is important and should be pursued. The close collaboration with the OECD DAC Task Force on PFM during the entire period under evaluation represents exactly such an attempt and this Task Force has gradually expanded its membership from including mainly the third group listed to also include the other two groups. However, the limitation of this arrangement is the same that the evaluators proposal will face, namely who to invite, on what criteria, and whether participation should be financially sponsored.</p> <p>As an alternative, we think that another solution – mentioned by the evaluators but not specifically recommended – should be pursued, namely the periodic arrangement of an open forum on PEFA, based on self-selection, self-finance and no restriction on participation. Such a forum could equally develop recommendations for consideration by the Steering Committee.</p>
<p><b>Future staffing and funding of the PEFA Secretariat</b></p> <p>The report presents three broad options for staffing of the Secretariat, depending on the extent that proposed program activities may be mainstreamed into partner organizations or other relevant institutions, and to what extent activities will be outsourced to trusted consultants.</p> <p>Overall, these proposals imply an increase in staffing of the Secretariat from 6 (in July 2011) to 8, 9 or 11 between now and end 2012.</p>	<p><b>Partly Agree.</b></p> <p>The point made in the report that the Secretariat’s human resources are a constraint to expansion of the scope of outputs is well taken. We agree that a modest increase in core staffing is warranted, as represented in options 2 or 3 – an increase from 6 to 8 or 9 staff – though possibly with a slightly different composition than envisaged by the evaluators. The addition of a position to expand the capacity for dissemination and networking has in fact already been approved.</p> <p>The need for additional staff to handle quality reviews is yet to be proven as it is a direct function of the number of assessments being undertaken. Outsourcing to trusted part-time reviewers has proven an effective and efficient way of managing that function.</p>

	<p>Research on the basis of the database of PEFA results is in our opinion one of the functions that lends itself well to mainstreaming and we do not envisage an expansion of staffing for that purpose. However, a thorough fine-tuning of the PEFA Framework during the next phase – ref. above – may require the addition of a PFM expert to coordinate that task.</p>
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**Table 2. PEFA Steering Committee responses to recommendations made in chapter 3 of the report but not repeated in the executive summary.**

<p><b>3.1 Four Options for the Management Model of the PEFA Program</b></p> <p>There are strong arguments for remaining with the current “hybrid option”. Quite apart from being a successfully tried and tested formula, it holds the major advantage of combining opportunities for governments and development agencies to directly finance PEFA assessments and training, allowing for the ownership of the PEFA instrument to remain relatively broad and avoiding exclusive financial dependency on the PEFA Partners, while investing in the PEFA Partners the clear responsibility of “guardians” of the Framework, in conjunction with the Secretariat itself.</p>	<p><b>Agree.</b></p> <p>We find that the four options presented cover the broad spectrum within which the program may theoretically be able to operate. Prior to 2005, the program experimented with some of the characteristics presented under the ‘project option’ before settling on the ‘hybrid option’. We agree that the hybrid model has proven its effectiveness and that there is no compelling reason to change this management model. Whilst the program has focused on mainstreaming as many functions as possible, the ‘largely mainstreamed’ and ‘fully mainstreamed’ options would introduce too many risks to the program without obvious benefits.</p>
<p><b>3.3 Technical and Procedural Innovations envisaged</b></p>	
<p>The PEFA Secretariat should introduce a 3 step quality assurance process :</p> <ul style="list-style-type: none"> <li>▪ The first step, as at present, would involve the review of ToR/ Concept Notes, with a specific accent on the team composition, the proposed management arrangements and the proposed peer review arrangements.</li> <li>▪ The second step would be a review of the draft report, along with a review of comments from the country-specific peer reviewers.</li> <li>▪ The third step would be a final check of the revised report to ensure that review comments had been adequately addressed. Only after this third step would a quality certificate be included in the assessment report.</li> </ul>	<p><b>Partly agree.</b></p> <p>The recommendation closely corresponds to the system that has been in place for some time, with the exception of the proposal that the PEFA Secretariat should review the comments made by country-specific peer reviewers. We are not convinced that this proposal will be practical and of significant benefit. It will require that other peer reviewers issue their comments before the Secretariat is able to complete its review, thereby giving rise to a delay in the process. Secondly, the value of country-specific peer reviewers is to offer comments on the facts/data used or omitted for the report. This is something on which the Secretariat, not having detailed local knowledge, will rarely be in a position to form an opinion. The only value added by the Secretariat would therefore be to check methodological comments submitted by other reviewers, which we do not consider an important</p>

	issue.
As part of the standard guidelines for PEFA assessments, a requirement should be introduced that the evidence consulted for each of the PEFA indicators should be formally referenced by the assessors, following a standard matrix format.	<b>Agree.</b> Documentation of evidence in terms of document sources or persons consulted on an issue is important for instilling trust in the assessment and the proposed matrix format has been adopted in a few reports so far. The Secretariat will consider how this recommendation may be operationalized.
Existing guidance material on the composition of assessment teams and the composition of quality assurance teams/ peer reviewers should be updated by the Secretariat to ensure that it is absolutely clear and that it caters for different types of PEFA assessments (national or sub-national) in different types of countries (small island states, large countries, etc.)	<b>Agree.</b> The guidance material referred to should indeed be updated as new knowledge is gained through the Secretariat’s monitoring work. We agree that the guidance should be relevant to many different country situations even if provision of specific guidance for each type of country situation is not feasible.
The publication of PEFA assessments should be made the standard default option, to be ensured by the PEFA Secretariat directly, except in exceptional circumstances where for specific reasons Governments (or other sponsoring institutions) formally requested the Secretariat to leave the assessment unpublished for a defined period.	<b>Partly agree.</b> We concur with the evaluators that publication of the assessment reports is a key to creating a truly common information pool on PFM, which is an important program objective. The PEFA partners do consider publication the default option, but despite concerted efforts to highlight the benefits of publication, the government involved may not always agree to publication, which is a position that is respected, be it for legal or for political reasons. Ensuring publication is outside the remit of the PEFA Secretariat, which is never the owner of the report or even a formal party to the agreement on undertaking the assessment.
<p><b>3.3.3 Introduction of supplementary technical guidelines</b></p> <p>The utility and relevance of the PEFA framework should be enhanced through a structured programme of work to develop supplementary guidelines to support more widespread use of the PEFA framework. These guidelines should be prepared in response to demand, focusing on those areas where guidance is frequently requested or appears to be needed.</p> <p>Perhaps based on the current work, a separate, and more basic set of guidelines be prepared, explaining the steps which would normally be required to move from a PEFA assessment to an updated PFM reform plan.</p>	<p><b>Agree.</b></p> <p>Such supplementary guidance has already been developed or initiated during the current phase III. Examples include the guidance for application of the PEFA Framework for sub-national government and guidance on undertaking cross-country comparison (both on the PEFA website), as well as ongoing work on guidance on reflecting variance of PFM performance at sector level in PEFA assessments and the use of PEFA assessments for reform formulation. Work on the latter guidance is currently being undertaken by two of the partners (IMF and EC) with focus on providing guidance on reform sequencing. Depending on the outcome of this work, there may be need for a supplement to specifically address the role of a PEFA assessment in the reform prioritization and sequencing process.</p>