



# THE GOVERNANCE BRIEF

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## Public Expenditure and Financial Accountability: Assessing Public Financial Management Performance and Influencing Reform Processes

Experience from Asia and the Pacific

By Lewis Hawke<sup>1</sup>

### Introduction

The Public Expenditure and Financial Accountability (PEFA) Secretariat, in cooperation with the Asian Development Bank (ADB) and the World Bank, organized a 3-day event in February 2017 to explore and discuss experiences and achievements of the PEFA program and its influence on public financial management (PFM) reform in Asia and the Pacific. The Practitioners Forum and Training were held to coincide with the first anniversary of the launch of the upgraded PEFA 2016 framework for measuring PFM performance.

The forum highlighted the rich experience of countries in Asia and the Pacific in managing PEFA assessments and in using the results of PEFA assessment reports as an input to governments' PFM reforms plans and to monitor its implementation. This brief will describe what PEFA

is, give a background on why the PEFA program was established, the evolution of the PEFA framework, and the key characteristics of the upgraded PEFA 2016 framework, as well as an overview of key lessons learned in using PEFA in Asia and the Pacific.

### About Public Expenditure and Financial Accountability

#### What is Public Expenditure and Financial Accountability?

PEFA is a tool for assessing the status of a country's public financial management system. The PEFA framework provides the foundation for evidence-based measurement of PFM performance at

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**“PEFA was built on a premise that effective institutions of PFM play a crucial role in the implementation of national policies concerning development and poverty reduction.”**

a specific point in time. The methodology can be reapplied in successive assessments to track changes over time. A PEFA assessment measures the extent to which a country’s PFM systems, processes, and institutions contribute to the achievement of the three desirable outcomes of an open and orderly PFM:

- aggregate fiscal discipline;
- strategic allocation of resources; and
- efficient service delivery.

The PEFA framework assesses and reports on the strengths and weaknesses of PFM using 31 indicators that are further disaggregated into 94 dimensions, as illustrated in Figure 1. The performance of each indicator and dimension is measured against a four-point ordinal scale from A to D. The highest score A, is warranted if evidence clearly demonstrated the level of performance is consistent with existing good international practices, as judged by PEFA stakeholders. The 31 indicators are grouped into seven pillars of performance focusing on essential features of an effective PFM which provide the foundation for a PEFA assessment.

### Why Public Expenditure and Financial Accountability?

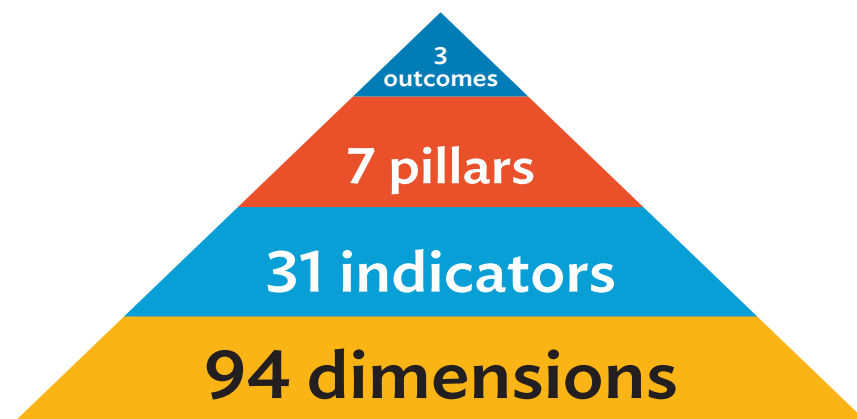
PEFA began in 2001 to harmonize country level assessment of PFM across the seven organizations that founded the program: the European Commission, International Monetary Fund (IMF), World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom.

PEFA was established to reduce duplication and costs of multiple assessments and to facilitate dialogue among governments and other relevant stakeholders on how to improve the effectiveness of fiscal policies. PEFA was built on a premise that effective institutions and systems of PFM play a crucial role in the implementation of national policies concerning development and poverty reduction. Good PFM is the linchpin that ties together available resources, delivery of services, and achievement of government policy objectives.

As part of the global effectiveness agenda, PEFA was also aimed at improving the results of development cooperation. It provided support for the Strengthened Approach to Supporting Public Financial Management Reform established in 2005 through the Paris Declaration, then further developed in the Accra Agenda for Action in 2008, the Busan Partnership for Effective Development Cooperation in 2011, and the Nairobi Global Partnership Outcome Document in 2016. This approach has three key components:

- **A country-led agenda.** This is a government-led reform program for which analytical work, reform design, implementation, and monitoring reflect country priorities and are integrated into governments’ institutional structures.
- **A coordinated program of support.** This comes from donors and international finance institutions in relation to both analytical work, reform financing, and technical support for implementation.

**Figure 1:** The Public Expenditure and Financial Accountability Assessment Hierarchy



Source: Public Expenditure and Financial Accountability (PEFA) Secretariat, Training material, Introducing PEFA 2016, latest edition available at <https://pefa.org/sites/default/files/PEFA%20Training%20Slides%20Cape%20Town%20FINAL.pdf>.

- **A shared information pool on public financial management.** This refers to information on PFM and their performance, which is commonly accepted by and shared among the stakeholders at country level, thus avoiding duplicative and inconsistent analytical work.

The PEFA program has been implemented over four phases since its establishment in 2001:

- **Phase 1 (2001–2005)** created a consensus on the most appropriate approach to supporting PFM systems. It focused on development of the PEFA performance measurement framework.
- **Phase 2 (2006–2008)** was concerned with supporting users of PEFA during early implementation and establishing systems for monitoring its use.
- **Phase 3 (2009–2012)** involved the creation and use of a pool of information on PFM performance from PEFA assessments. The program focused on improving the quality of assessments and monitoring changes over time.
- **Phase 4 (2012–2017)** involved a doubling of the number of new and successive assessments by central and subnational governments. The assessment methodology was substantially upgraded. It was also strengthened through the introduction of PEFA Check process

quality arrangements. The PFM performance information database was expanded and knowledge dissemination was increased. PEFA was used by many governments and development institutions for examining and planning PFM reform initiatives and strategies.

**Phase 5** began in 2017, and will build on the previous four phases. The upgrading of the PEFA performance measurement methodology and the extensive database on PFM performance at national and subnational levels are important assets that need to be maintained and utilized effectively. Phase 5 will respond to demand from the PEFA community for diverse applications of the PEFA methodology and greater contribution to advances in knowledge, skills, and insight into more effective performance assessment and reform action.

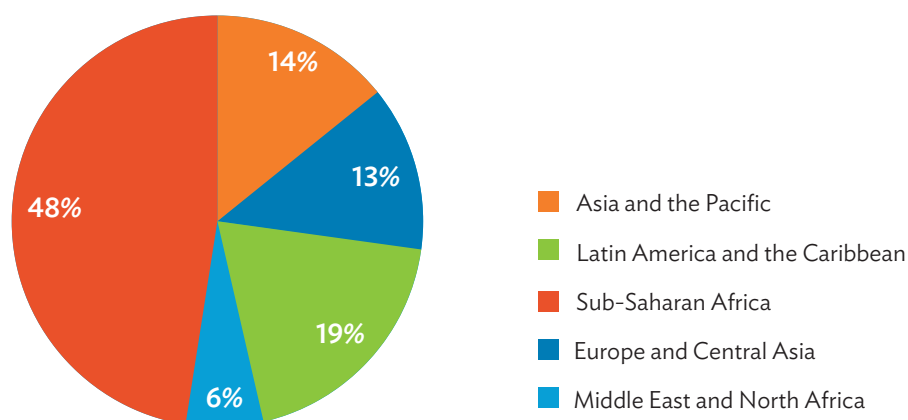
### Public Expenditure and Financial Accountability Outreach

The PEFA program introduced a standard tool for assessing performance of PFM in 2005, and the first reports for Afghanistan and Zambia were generated that year. Since the early assessments in 2005, PEFA has been used 550 times in 150 countries. It has become the acknowledged standard for PFM assessments and has amassed a pool of data comprising over 40,000 individual performance scores.

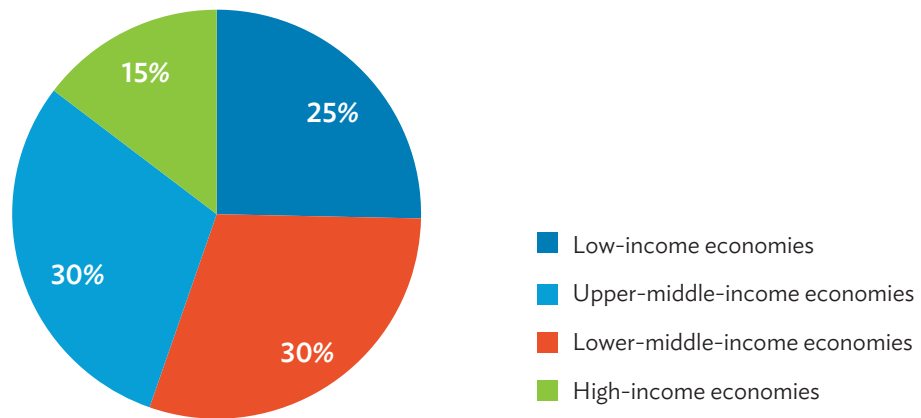
PEFA has been used to help governments achieve their policy objectives for economic

**“Since the early assessments in 2005, PEFA has been used 560 times in 150 countries.”**

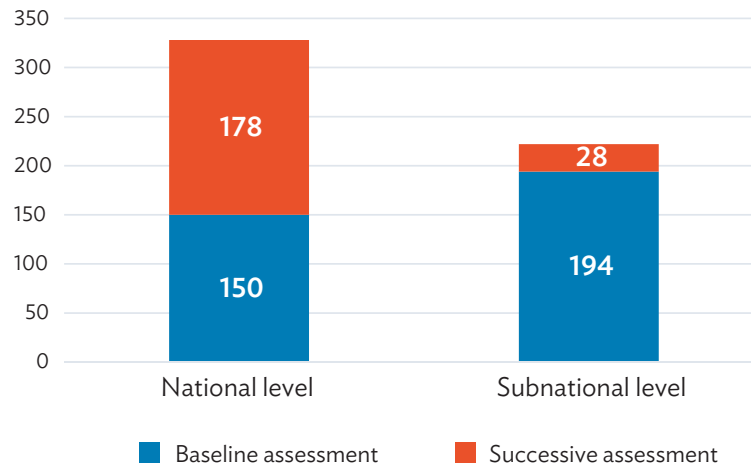
**Figure 2: Public Expenditure and Financial Accountability Assessments by Region**



Source: Public Expenditure and Financial Accountability (PEFA) Secretariat, PEFA assessment data.

**Figure 3: Public Expenditure and Financial Accountability Assessments by Level of Income**

Source: Public Expenditure and Financial Accountability (PEFA) Secretariat, PEFA assessment data.

**Figure 4: Number of Baseline and Successive Public Expenditure and Financial Accountability Assessments at National and Subnational Levels**

Source: Public Expenditure and Financial Accountability (PEFA) Secretariat, PEFA assessment data.

development, social change, and better services in their countries by providing data from the 31 indicators and 94 dimensions to better understand PFM locally, regionally, and globally. On average, PEFA is now being applied by countries once a week across the globe. More important than coverage is the degree of acceptance and value of the methodology, the framework has been strongly endorsed by government officials in many countries where it has been applied.

After more than 15 years, PEFA's simple goals for a shared tool and a common database have matured into a globally respected standard for measuring country-level PFM performance. It has been adopted by international institutions as a basis for measuring their own impact on global public financial management. It has been the model for the development of related diagnostic tools such as the International Monetary Fund's Tax Administration Diagnostic Assessment Tool, the World Bank's

Debt Management Performance Assessment, and International Organization of Supreme Audit Institutions' Supreme Audit Institutions Performance Measurement Framework. It has been used in an increasing number of research studies on the quality of public financial management, and the factors contributing to change, or lack of change. It has guided PFM related project and program design for cities, states, countries, and international development institutions.

One of the PEFA indicators—performance indicator PI-1 on aggregate expenditure outturn—has become part of the indicator framework set for the United Nations' Sustainable Development Goal 16 on “Promoting peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.” The indicator builds on the premise that government budgets should be comprehensive, transparent, and realistic; and identifies the degree to which governments can execute their budgets in accordance with the level of appropriations authorized at the beginning of each year (Target 16.6).

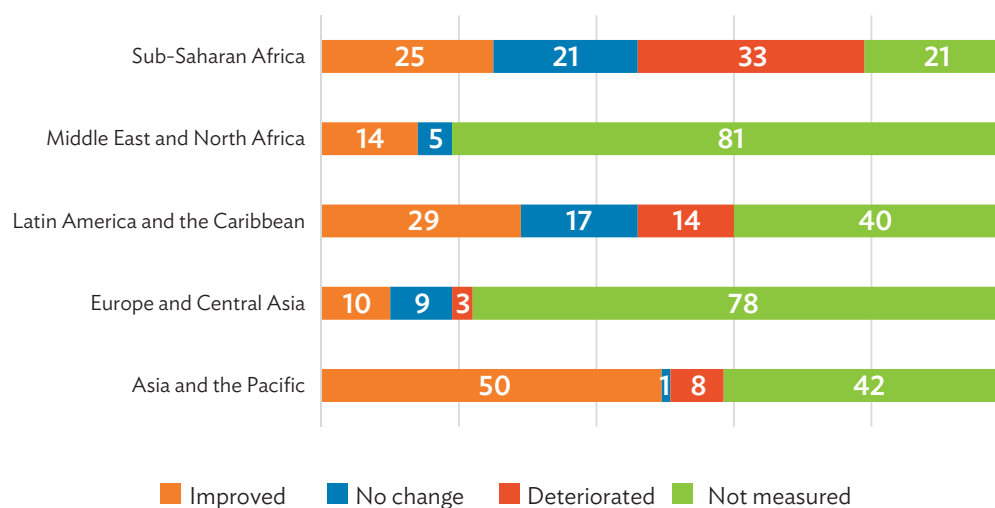
Budget reliability has been assessed at least twice through PEFA in 102 countries since 2005. This provides a useful illustration of the power of PEFA in identifying and analyzing performance trends. Nearly two-thirds of countries surveyed were within 10 percentage points of their original

national budgets, and over half of these were within 5 percentage points. However, more than one in seven countries globally deviated by more than 15 percentage points. Implementing realistic national expenditure budgets is particularly challenging in Sub-Saharan Africa where the budgets of around four-fifths of countries were more than 5% away. Around four out of five countries in East Asia, the Pacific, and South Asia showed improvement, while two out of five countries in Sub-Saharan Africa deteriorated from their previous scores.

At the subnational level, which ranges from large states in Brazil to small municipalities in Croatia, almost half of the local government budgets surveyed in 34 countries deviated by more than 15 percentage points of the original budget and only one in seven subnational budgets were within 5 percentage points. There is no systematic link between the performance at the national and subnational levels. Nevertheless, Ethiopia and South Africa are good examples of where most subnational budgets, as well as the respective national budgets, were very close to the budgets voted by legislature.

The PEFA framework will also be a significant element of the International Development Association (IDA) 18 monitoring agenda. IDA is the World Bank's initiative for the poorest countries. One of the goals of IDA 18 is to assist at least 10 IDA countries in performing second or subsequent

**Figure 5: Change in Budget Reliability Score of Countries Assessed at More Than One Time, Various Years, 2005–2016 (percentage of countries)**



Source: Public Expenditure and Financial Accountability (PEFA) Secretariat, PEFA assessment data.

**“PEFA 2016 is a substantial upgrade from its 2011 version.”**

PEFA assessments. This will help the World Bank identify strategies and priorities for country-level projects. The World Bank will monitor the success of IDA 18 through a set of indicators and targets, including whether selected PEFA scores improve in IDA countries.

### Public Expenditure and Financial Accountability Upgrade

PEFA’s achievements have increased its obligation to remain relevant and useful. PEFA needs to move with the times and adapt to users’ needs for better public financial management and the means to assess it with robust and reliable methods. In responding to the challenge set by this obligation, the seven PEFA partners took stock of results, lessons learned, and feedback from users after the first decade of PEFA and decided to make some refinements.

This was done through a global consultation process, involving PEFA and PFM experts and practitioners from governments, and international, private, and nongovernment institutions. More than 800 formal recommendations were received regarding how PEFA could be improved, and 100 more people were consulted both formally and informally. The resulting draft revisions were put through an iterative testing and refinement phase of almost 2 years, with specific applications in around 30 countries from all continents, income groups, and political and administrative heritage types. The 2015 testing version was refined, a new upgraded framework—PEFA 2016—was constructed, and released on 1 February 2016.

PEFA 2016 is a substantial upgrade from its 2011 version. PEFA 2016 acknowledges the changing landscape of PFM reforms and the evolution of good practices over the last decade. Analysis of more than 500 PEFA assessment reports identified specific areas where the assessment would benefit from clarification and refinement and these have now been integrated into the PEFA framework.

PEFA 2016 builds on the 2005 and 2011 versions through the addition of four new indicators, expansion and refinement of existing indicators, and recalibration of baseline standards for good performance in many areas. The upgraded framework introduces a stronger focus on the elements of internal financial control that can be observed in PEFA assessments, and establishes a clearer and more consistent structure for reporting PEFA findings.

These improvements are not only important to make PEFA more relevant, improve coverage, and strengthen the methodology, but also allow governments, development partners, and other stakeholders gain better understanding of the status of PFM and use that knowledge to make improvements and achieve better public service. The ultimate objective is to make sure that PEFA can deliver a more useful basis for prioritizing and implementing PFM reforms.

### Public Expenditure and Financial Accountability and Public Financial Management Reforms

Governments use PEFA to obtain a snapshot of their PFM performance. PEFA scores and reports allow PEFA users—national and subnational

#### Box 1: Key Features of Public Expenditure and Financial Accountability 2016

To reflect the evolving good public financial management practices, Public Expenditure and Financial Accountability 2016 has several new features including:

- an expanded scope to include more coverage of central government performance and to include nontax revenue;
- greater emphasis on transparency of government plans and achievements;
- more attention to noncash aspects of public finances, such as assets, liabilities, and nonfinancial performance;
- a stronger focus on fiscal strategy, risk management, and internal control;
- more precise measurement and, in some cases, standards for scores have been increased in line with good public financial management practice; and
- better alignment of terminology and measurement with global standards and related tools.

Source: Public Expenditure and Financial Accountability (PEFA) Secretariat.

governments, international development institutions, and civil society organizations—to gain a quick overview of the strengths and weaknesses of a country’s PFM. Users also see the implications of the overall performance results on the seven key pillars of PFM performance and achievements of the three budgetary outcomes. The PEFA analysis therefore contributes to dialogue on the need and priorities for PFM reform as PEFA reports outline the economic environment faced by the public sector, examine the nature of policy-based strategy and planning, and analyze how budget decisions are implemented. The reports consider the institutions, laws, regulations, and standards used by governments in the PFM process.

The latest external evaluation of the PEFA program confirmed that governments and development partners have been using PEFA to support analysis of PFM. They have also used it to provide a baseline for reform initiatives and to inform action plans for improving performance. The case studies undertaken during the evaluation established that it has been common practice to use PEFA to underpin government-led PFM reform. There has been an increase in government leadership and ownership of PEFA assessments and growing recognition of the value of PEFA in understanding PFM and highlighting strengths and weaknesses. Governments have been increasingly active in using PEFA findings as part of reform action plans.

### **From reporting to reform dialogue and monitoring of reform plans**

Following completion of the PEFA report, a dialogue is usually initiated by government and other stakeholders on the implications of the assessment findings for PFM. The PEFA report can be an important catalyst for change, however, the report alone is insufficient to develop a reform plan because it focuses on very specific, quantifiable aspects of PFM, and does not address all PFM considerations, such as (i) the cause of performance outcomes, (ii) policy initiatives, (iii) country capacity, (iv) political economy, and (v) the country’s economic development strategy.

The dialogue on PFM reform that would be generated by the PEFA report is a crucial step towards identifying the needs and priorities for measures to improve PFM system performance. These could be formalized in a new or revised PFM reform strategy or action plan in the light of weaknesses identified by the PEFA assessment. The dialogue would be expected to include discussion

of other relevant information and focus on the reform priorities, the need for a comprehensive and integrated strategy and reform program, and how such a reform program agenda could be financed and supported.

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 political, legal, institutional and capacity constraints to implementing reform measures. The process may be conducted within the government or may include external stakeholders, such as civil society and development partners.

Once a PFM reform strategy or PFM plan is drafted, reviewed, and approved, it is important to think about monitoring and follow-up measures that will ensure that actions identified are implemented and have the intended impact. PEFA dimensions and indicators can be useful elements in monitoring arrangements. Successive PEFA assessments can be planned after 3 or more years to take another cross-sectional snapshot of progress across the entire PFM framework. In this way, PEFA can be integrated as part of the government’s monitoring and evaluation system with respect to its overall reform program. However, some parts of PEFA are not suited to annual monitoring due to considerations of cost and complexity or where it is unlikely that there will be significant change over a relatively short time. Many PFM reforms can take several years to result in changes to PEFA dimension or indicator scores.

### **Experiences in the Asia and Pacific region**

For over a decade, the global experience with PEFA has demonstrated that effective planning and management of PEFA assessments are critical success factors for preparing well-formulated PFM action plans. Such can be used as basis for a dialogue on the need for reform or to fine-tune ongoing reforms and subsequent action planning. Good planning and preparation is also the key to ensuring that all relevant stakeholders—government officials, civil society, and development partners—are engaged in, committed to, and own the results, of both the process and subsequent reform strategies.

Many countries in Asia and the Pacific have used the results of PEFA assessments to feed into their PFM action plans and to guide their PFM reform programs. In his welcoming address to the participants of the PEFA Practitioners Forum in Manila in February 2017, Secretary Benjamin Diokno of the Department of Budget and Management of the Philippines noted that “the Philippines had



undertaken two full PEFA assessments in 2007 and 2015,” and that the assessments have been “one of the major factors” that had motivated PFM reform. Diokno said that for “the Philippines, PEFA has been instrumental in identifying weaknesses in PFM and enabling the Philippines to capitalize on those lessons, and continue to move forward on PFM reforms.”

In Papua New Guinea, the first PEFA assessment was undertaken in 2009 and the second in 2014. The 2014 PEFA assessment was a self-assessment that used the testing version of the upgraded framework and technical assistance was provided by the IMF Pacific Financial Technical Assistance Center. The report was embraced by the government and officially published in 2015. Keen to improve PFM, the government formulated a PFM roadmap that according to Samson Metofa, first assistant secretary, Financial Reporting and Compliance of Papua New Guinea, “has led to the implementation of significant reforms.” The government has used the 2011 framework to monitor progress since the previous assessment. The PEFA assessments assisted the government to prioritize reforms. Papua New Guinea now has one integrated financial management information system across the country. The assessment process had also opened relationships and strengthened communication among other organizations of the government.

In Viet Nam, a key driver for the PEFA assessment was the need to amend the legal

regulatory framework including laws on the state budget and public investment management. The assessment was led by the Ministry of Finance but was also strongly supported the ADB, the World Bank, and other development partners. The main lesson from Viet Nam was the importance of government commitment and ownership of the PEFA assessment process. This was manifested in the establishment of the working group, ensuring staff were trained, and conducting pilot assessment before the full assessment, as described by Tran Kim Hien, director general of the State Budget Department, Ministry of Finance of Viet Nam.

Cambodia started its public financial management reform in 2004 and PFM since undertaken two PEFA assessments. The first assessment in 2010 was conducted by an external consultant engaged by the World Bank. The second assessment in 2015 was government-led, with a local team established and supported by an external consultant to assess the data. The 2015 assessment was disseminated to stakeholders and led to the development of the third consolidated PFM reform action plan. The PFM Reform Steering Committee recognized PEFA as a significant tool to improve PFM reform and provided important inputs to develop good practices. Importantly, it also recognized the need for a local team involved. The secretary of the PFM Reform Steering Committee monitors and reports on progress every 3 months. A series of meetings was conducted to monitor progress and identify key challenges.”The key

## Box 2: Countries’ Experience with Using Public Expenditure and Financial Accountability to Reform Public Financial Management

*“PEFA provided a pool of objective information to help all stakeholders understanding the status of PFM. It guided development of our action plan and reform program: PEFA road map 2015–2018.”*

— Ken Ngangan

Secretary for Finance, Papua New Guinea

*“Strong government and political ownership over PEFA is a must. We managed to do this and get the results.”*

— Kewal Prasad Bhandari

Jt. FCG/Coordinator, Ministry of Finance, PEFA Secretariat, Nepal

*“PEFA especially highlighted the need to improve the link between planning and budgeting. We adopted a principle ‘one plan, one budget, and one system’ after considering PEFA results.”*

— Januario Da Gama

Director-General of State Finance, Ministry of Finance, Timor-Leste

PEFA = Public Expenditure and Financial Accountability.

Source: PEFA Secretariat, PEFA Success Stories, YouTube, 2016, <https://www.youtube.com/watch?v=SvjpCQOQLLs&t=8s>.



impact of the reforms to date has been an improved national budget system, strengthened revenue forecasting and administration leading to increased revenue collection and an improvement in budget discipline,” noted Deputy Secretary General Yeth Vinel of the Ministry of Economy and Finance of Cambodia. In this regard, PEFA has had a direct impact on PFM reform and improvement in budgetary outcomes.

## Conclusion

As the PEFA program moves into its fifth phase, there is an opportunity to build on PEFA’s assessment framework as a foundation for strengthened knowledge of PFM performance. PEFA’s extensive database, combined with more than a decade of user experience, provide a rich source of information. This can provide understanding and explain changes in PFM performance over time and across countries. Examination of PEFA data can reveal how countries achieve the most value from PEFA assessments. It can also identify how PEFA information can contribute most effectively to reform dialogue.

Knowledge sharing and lessons learned from analysis of PEFA data increases understanding of PFM reform impacts. It contributes to the development of more effective reform measures and help identify ways to improve the contribution of PFM to improve public services and sustainable development. The PEFA program has initiated several research projects on the impact and effectiveness of PEFA. This work is a starting point for deeper analysis of PFM using PEFA’s database and other information. It will also support policy dialogue on areas identified as crucially important in international development policy and practices. The research projects and the regional exchanges of knowledge, for example the recently facilitated event by ADB and the World Bank in Manila, are the backbone of PEFA’s work in the future. These will provide further opportunities to learn what has worked well and how good practice in analyzing and reforming PFM performance can be supported and effectively applied elsewhere.

*The Governance Brief was peer reviewed by Aman Trana, advisor, OSFMD and head, Financial Management Unit, ADB, and Rajeev K. Swami, lead financial management specialist, Governance Global Practice, The World Bank.*

### Box 3: Useful Resources on Public Expenditure and Financial Accountability

- Public Expenditure and Financial Accountability (PEFA). <https://pefa.org/>
- PEFA. Assessment Pipeline. <https://pefa.org/assessments/listing>
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- PEFA. 2016. *PEFA Handbook Volume III: Preparing the PEFA Report*. March. <https://pefa.org/sites/default/files/03-27-16%20Volume%20III%20-FINAL%20VERSION%20-clean.pdf>



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