

## The PFM Performance Measurement Framework

### Case Study on Summarizing the Assessment

1. The Public Expenditure and Financial Accountability Performance Assessment results of a country are summarized below.

Indicator	Dimension ratings				Overall score
	i	ii	iii	iv	
<b>A. PFM-OUT-TURNS: Credibility of the budget</b>					
PI-1 Aggregate expenditure out-turn compared to original approved budget					A
PI-2 Composition of expenditure out-turn compared to original approved budget					A
PI-3 Aggregate revenue out-turn compared to original approved budget					A
PI-4 Stock and monitoring of expenditure payment arrears	A	B			B+
<b>B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency</b>					
PI-5 Classification of the budget					A
PI-6 Comprehensiveness of information included in budget documentation					B
PI-7 Extent of unreported government operations	D	A			D+
PI-8 Transparency of inter-governmental fiscal relations	B	B	A		B+
PI-9 Oversight of aggregate fiscal risk from other public sector entities	D	A			D+
PI-10 Public access to key fiscal information					B
<b>C. BUDGET CYCLE</b>					
PI-11 Orderliness and participation in the annual budget process	B	B	A		B+
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	A	D	D	C
<b>C(ii) Predictability and Control in Budget Execution</b>					
PI-13 Transparency of taxpayer obligations and liabilities	C	C	C		C
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	D	C	C		D+
PI-15 Effectiveness in collection of tax payments	D	A	D		D+
PI-16 Predictability in the availability of funds for commitment of expenditures	D	A	D		D+
PI-17 Recording and management of cash balances, debt and guarantees	A	B	C		B
PI-18 Effectiveness of payroll controls	D	C	A	A	D+
PI-19 Competition, value for money and controls in procurement	D	C	C		D+
PI-20 Effectiveness of internal controls for non-salary expenditure	B	B	C		C+
PI-21 Effectiveness of internal audit	C	A	B		C+
<b>C(iii) Accounting, Recording and Reporting</b>					
PI-22 Timeliness and regularity of accounts reconciliation	A	A			A

PI-23 Availability of information on resources received by service delivery units					<b>B</b>
PI-24 Quality and timeliness of in-year budget reports	<b>C</b>	<b>A</b>	<b>B</b>		<b>C+</b>
PI-25 Quality and timeliness of annual financial statements	<b>C</b>	<b>A</b>	<b>C</b>		<b>C+</b>
<b>C(iv) External Scrutiny and Audit</b>					
PI-26 Scope, nature and follow-up of external audit	<b>D</b>	<b>A</b>	<b>B</b>		<b>D+</b>
PI-27 Legislative scrutiny of the annual budget law	<b>B</b>	<b>A</b>	<b>A</b>	<b>A</b>	<b>B+</b>
PI-28 Legislative scrutiny of external audit reports D	<b>B</b>	<b>D</b>	<b>D</b>		<b>D+</b>

2. **Credibility of the Budget.** The original approved budget is a fairly reliable guide to government policy. Aggregate expenditures and revenues are close to budget levels, and composition of spending is also close to the original budget levels and in relative priority. The annual process of identifying priorities to be protected during budget execution is working. Payment arrears are low, and have been declining, indicating no major issues.

3. **Comprehensiveness and Transparency.** There is a fairly high degree of comprehensiveness and transparency in central government public finances. Administrative, economic and program classification exist for the national government, generally following GFS standards, providing a good basis for controlling, monitoring, and reporting on expenditures. A comprehensive set of information is included in the annual budget, though the capital spending could be more detailed to show important investment spending trends. Extra-budgetary fund (EBF) operations are reported *ex post*. Sub-national governments operate through the Treasury and cannot expend more than their budget. Public access to key fiscal information is generally good. The major area of weakness is in reporting, oversight and monitoring of other public sector entities, namely state-owned enterprises (SOEs).

4. **Policy-based Budgeting.** The annual budget process is orderly, allows ample opportunity for policy official involvement, and is becoming more policy-based. Addition of a more systematic multi-year perspective would further enhance the process. The introduction and refinement of program and performance budgeting, and development of a white paper on PFM reform, indicate an active interest in improving the budget formulation process. Some improved performance is possible with relatively simple improvements, such as further development of the spring budget guidelines into a fiscal policy paper for cabinet and parliament (with multi-year forecasts), and inclusion of multi-year sector ceilings in the Guidelines.

5. **Predictability and Control in Budget Execution.** The budget execution system is presently characterized by widely varied performance. The mixed results reflect the fragmented nature of the execution system with: (a) no government entity taking over-all responsibility or oversight for system operation (e.g. MoF, Audit Office); (b) weak coordination or integration of processes spanning organizations (e.g. Treasury-Revenue Authority data matching); and, (c) uneven modernization of organizations and processes (e.g. Treasury has undergone one modernization and is embarking on a second round, while tax, customs, procurement, and civil service have yet to start). Tax system weaknesses are a major obstacle to improved revenue collections, and thus also pose a risk for fiscal balance. Better PFM assessment scores do appear in areas where modernization has taken place, yielding better system performance. Recent procurement law amendments are not consistent with international standards, nor consistent with the country's intention to harmonize with EU practices. Formal internal audit according to recognized international standards is still under development, but it is partially effective.

**6. Accounting, Recording and Reporting.** The country assesses relatively well in most areas of accounting, recording and reporting of expenditures. Accounts reconciliation is continuous, through the interim treasury system. The Treasury system provides generally reliable, complete information on most resources received by service delivery units. In-year budget reports are timely and of reasonable quality. The most significant shortcoming of present reporting is the absence of a fully-implemented, automated commitment registration and reporting system. Reporting quality generally appears high, but the Audit Office did note some problems with appropriate recording of spending. A consolidated government financial statement is prepared quarterly and annually, but excludes pension fund expenditures (nearly 10 % of GDP).

**7. External Scrutiny and Audit.** External audit and legislative follow-up to audit are not adding as much value as they could, but the legislature is fully engaged in budget formulation and review. The Audit Office is firmly established and well funded, but the nature of the audit is more compliance oriented, with limited performance audits and no attestation of government financial statements. Audit reports are submitted to the legislature within four months of the end of the fiscal year, and findings are released to the media, but there is limited evidence of legislative follow-up to audit recommendations. The legislature's budget review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue, and the legislature has at least two months to review the detailed budget proposals. Clear rules exist for in-year budget amendments by the executive and are respected.

**8. While there is extensive donor assistance in PFM, donor administrative practices currently do not contribute to building PFM systems.** Most major donors include support for PFM reform in their project portfolios. However, most assistance is donor executed using parallel processes, with limited reporting to Government of expenditure in line with budget formulation or execution cycles. At 1-2 percent of GDP in total, donor support is important, but less determining of PFM system capacity than in smaller countries.

### **Prospects for Reform**

**9. Impetus for PFM reforms has been strong from late 2004 through early 2006.** This has been a broad-based interest mainly due to the coincidence of clear Presidential commitment to EU harmonization, Minister of Finance commitment to a stronger Ministry of Finance and PFM system, mid-level Ministry of Finance interest in addressing internal management challenges, and strong modernization interests from some key organizations (Department of Internal Audit, Treasury).

**10. The PFM modernization working group, led by MoF deputy ministers and involving the Treasurer and MoF departmental heads, has been a good vehicle for planning and advancing the reform agenda.** MoF is working on formally establishing the group as an interministerial working group under Cabinet of Ministers remit, which would strengthen momentum for reform.

**11. The recent parliamentary election has not yet produced a new government, so it is unclear whether the high-level interest in reform will continue.** Presidential support for EU harmonization will likely continue, but the new Government will play a major role in implementing that strategic direction. Along with the new government, it is not clear if the next Minister of Finance will continue strong personal interest in advancing the PFM reform agenda.

**12. As with other aspects of the PFM system, the tools are in place for rapid progress in PFM system performance** (e.g. the Modernization working group and draft strategic

reform plans). The major determinant of continued progress will be the interest of new policy officials and their involvement in reform efforts.

**Required:**

1. Comment on the impact of the strengths and weaknesses revealed in the indicator assessment on (i) aggregate fiscal discipline, (ii) strategic allocation of resources, and (iii) efficient service delivery?
2. What is (or should be) the story line?