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PEFA FRAMEWORK ENHANCEMENT FOR BETTER MEASUREMENT OF COUNTRY PFM SYSTEMS

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Analytical Note 4: Public Investment Management in the PEFA Framework

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List of Abbreviations

AGA	autonomous government agency
AN	analytical note
DSA	Debt Sustainability Analysis
EBF	extra-budgetary fund
EU	European Union
FAD	Fiscal Affairs Department of the IMF
GDP	Gross Domestic Product
GFSM	Government Financial Statistics Manual
IMF	International Monetary Fund
MDA	ministries, department and (semi-autonomous) agencies of government
MTBF	medium-term budget framework
MTEF	medium-term expenditure framework
NGO	non-government organization
OECD	Organisation for Economic Cooperation and Development
PE	public enterprise
PEFA	Public Expenditure and Financial Accountability
PEWG	Public Expenditure Working Group
PFM	Public Financial Management
PI	Performance Indicator
PIM	Public investment management
PIM-IF	Public Investment Management Indicator Framework
PIP	Public investment program
PPP	private-public partnerships
QFA	quasi-fiscal activities
SAI	supreme audit institution
SOE	State-owned enterprises
SNG	sub-national government

1. EXECUTIVE SUMMARY

Public Investment Management (PIM) was identified as one of the eight Environmental Changes that would need to be considered during the upcoming revision of the Framework. The 1st Analytical Note prepared under this contract concluded that enhancing the coverage of PIM had merit and recommended further work on the issue. This note serves that purpose.

Traditionally, the concept of investment expenditure covers spending on items that generate benefits for longer periods than a year. For some purposes this concept may include expenditure that is classified in budgets as 'recurrent' e.g. investment in education that includes the cost of teachers' salaries, text books and school materials and building maintenance as well as capital spending on school buildings. For the purpose of this Note 'investment' is defined as capital spending only.

There is substantial evidence of inefficiency in public investment management regardless of country income level in terms of poor project selection, long delays in completion, chronic under-execution of capital expenditure budgets, cost over-runs as well as neglect to operate and maintain created assets.

The note looks at the state of PIM at the time of original design of the PEFA Framework and new developments and priorities in PIM emerging among international institutions and practitioners since then.

All of the PIM-focused research, tools and guidance reviewed contribute to understanding of what aspects of PIM are more important, on which good practices an international consensus is emerging and of what the potential gaps in the coverage of PIM in the PEFA Framework might be. The main gap appears to be capture of good practices in screening, appraisal and selection of projects before funding and implementation commences.

On this basis the note recommends PIM enhancements as follows:

- Substantial changes to the details of existing indicators PI-11 and PI-12 on policy-based budgeting, including an additional dimension of PI-11 which would serve a wider purpose than PIM. However, the topics assessed by the two indicators would not change.
- Relatively small changes to indicators PI-6 and PI-26 which could be incorporated into proposals for revision already made in Analytical Note 2 on Transparency and Accountability;
- A proposal for including outturn of all externally/donor funded project expenditure in PI-1, which would simplify data collection and processing for assessors. Additional coverage of this aspect by the donor indicators is also proposed;
- A minor change to the 'A' rating of PI-16(ii) is proposed.

Some of the PIM gaps identified in PEFA do not require specific new recommendations in this note as the subjects are already broadly covered by proposals made in the previous notes analytical notes.

The above proposals only cover the most important aspects of PIM identified as gaps in the PEFA Framework through comparison with specialized tools under development and literature on emerging good practice.

2. The Importance of Public Investment Management

2.1. Why focus on Public Investment Management

The workshop of PEFA Framework stakeholders held in September 2012 identified Public Investment Management (PIM) as one of the eight Environmental Changes that would need to be considered during the upcoming revision of the Framework. The 1st Analytical Note prepared under this contract concluded that the concern about inadequate coverage of PIM had merit and recommended further work on the issue in a separate note. The current Analytical Note (AN) serves that purpose.

PIM is a critical link in fiscal policy design. Traditionally, much of public spending goes to wages, current operations and debt service with limited growth impact. Improved living standards including poverty reduction and eradication, is the ultimate goal of most governments and of the technical and financial support operations by international finance institutions and development agencies. Growth is a key to creating jobs and fiscal space for social welfare transfers. Therefore, public investment may be considered a key to achieving improved living standards, but only if good decisions on investment choices are made, and assets are efficiently created, operated and maintained.

2.2. Defining Public Investment

Traditionally, the concept of investment expenditure[1] covers spending on items that generate benefits for longer periods than a year. For some purposes this concept may include expenditure that is classified in budgets as ‘recurrent’ e.g. investment in education that includes the cost of teachers’ salaries, text books and school materials and building maintenance as well as capital spending on school buildings.

For the purpose of this Note ‘investment’ is defined as capital investment spending only. In a cash-based framework (Government Finance Statistics Manual, GFSM IMF 1986), capital expenditures include payments for the acquisition of fixed capital assets, which are goods with a normal life of more than a year, and with more than a minimal significant value. Acquisition of fixed capital assets incorporates own-account capital formation i.e. construction by government itself of fixed assets, and also includes major renovations, reconstructions, or enlargements of existing fixed assets (as opposed to the costs of maintenance and repair of fixed assets, which are defined as current expenditures). In an accrual-based framework (GFSM IMF 2001), capital outlays are transactions in non-financial assets and the focus here is on fixed assets (produced assets used repeatedly in production processes that provide services for more than one year).[2]

The term ‘public’ is used to describe investment by the government sector, corresponding to the coverage in the PEFA Framework i.e. it includes direct capital investment by the governments ministries, departments and semi-autonomous agencies (MDAs) as well as autonomous government agencies (AGAs), whereas investment undertaken by state-owned enterprises (SOEs) and public-private partnerships (PPP) is covered to the extent that the government is involved in the investment processes – the identification, selection, implementation, financing (including guarantees and subsidies) and operation of the projects or assets invested in.

[1] The term ‘development expenditure’ is used in some countries/institutions.
[2] This definition corresponds to the one used by the World Bank’s PIM Indicator Framework, World Bank 2011.

2.3. Characteristics of Public Investment Management

There is substantial evidence of inefficiency in public investment management regardless of country income level in terms of[3]:

- Poor project selection (wasteful "white elephants") that do not transform into productive assets
- Unrealistic time schedules in ex-ante appraisal and consequent delays in completion
- Chronic under-execution of capital projects
- Cost over-runs
- Neglect to operate and maintain created assets

These weaknesses relate to a range of areas of concern in PIM systems including:

- Unduly political interference and corruption in PIM process[4]
- Lack of objective criteria for project selection
- Unclear lines of responsibility and accountability
- Shortage of project appraisal, procurement and management skills
- Perverse incentives for project managers to underestimate risk
- Lack of coordination between different levels of government, across jurisdictions

PIM in low income and transition countries has in the past focused mainly on public investment programs (PIP). The World Bank (1998) highlights that "despite good intentions, PIPs have, in practice, been associated with many of the dysfunctional budgeting, resource allocation, and financial management practices" and "PIPs usually encourage countries to focus on projects, with policy and program often as an afterthought." A new paradigm shift in PIPs was introduced based on integration of capital and recurrent expenditure with medium-term financial frameworks, improving selection criteria and screening processes within sector resource envelopes and application of PIPs increasingly as a tool for overall public expenditure management. The persistence of 'white-elephant' projects in developing countries and the need for this paradigm shift is also highlighted by Sciavo-Campo (2007 I), who emphasizes the need to improve technical project screening processes and criteria as a crucial development priority, particularly in countries with low administrative capacity[5].

However, concerns about the quality of public investment – and therefore its real impact on growth - is not limited to countries with low quality of governance. Flyvbjerg (2009) documents serious problems of systematic cost overruns, benefit shortfalls, and the systematic underestimation of risks in large infrastructure projects across twenty countries[6] and uncovers the causes of this state of affairs in terms of perverse incentives that encourage project promoters to underestimate costs and overestimate benefits in the business cases for their projects. Recognizing this problem a number of countries with high quality of

[3] Adapted from Rajaram et al. 2010

[4] In cross country analysis of more than 100 countries, Grigoli and Mills (2011) find that high levels and high volatility of public investment is associated with lower quality of governance, with level of corruption, bureaucratic quality and extent of law and order being the most important governance factors. They also provide some evidence of a positive effect from quality of governance on the quality of infrastructure. They suggest that capital projects in environments of low quality of governance are often initiated for the sake of an elite's rent-seeking than for the purpose of national development.

[5] Such as fragile states and post-conflict situations – ref. Sciavo-Campo 2007 I

[6] Includes several hundred projects implemented mainly during the 1980's and 1990's, mostly in advanced countries where adequate data is available.

governance (UK, Australia, the Netherlands etc.) have taken measures to address the situation in recent years by setting up new institutional structures and processes for project selection and monitoring[7].

In a recent publication, Fainboim, Last and Tandberg (2013) highlights the last few decades' developments in approaches to PIM as follows: "the management of public investment has kept pace with broader changes in PFM. The old approach of dual budgeting was abandoned in favor of a more integrated approach in which investment became increasingly delegated to spending ministries. Although initially successful, this response ended up downplaying the strategic importance of public investment to the economy, exposing long-term and costly decisions – characteristics of many large infrastructure projects – to shorter-term political whims and ultimately threatening economic prosperity. Realization of this danger has led to the resurgence of a more strategic approach to the management of public investment in which long-term priorities are more systematically identified".

[7] Similar issues are also known among international development agencies with high institutional capacity and transparent governance structures e.g. The World Bank's Independent Evaluation Group (2010) identified "a decision-making process that often makes decisions before adequate evidence is provided, and few institutional checks to counteract the influence of advocacy for projects that undermines rigor in project appraisal". Surely, these issues affect other international development agencies as well.

3. RECENT DEVELOPMENTS IN APPROACHES TO PIM

The PEFA Framework was originally designed in an environment characterized by the paradigm shift in PIPs, but it excluded any direct reference to the existence or quality of a PIP. During the recent five years or so, the above stated concerns about the real impact of public investment on growth has led to further work on PIM which has contributed to an emerging consensus that improvement of PIM systems needs to be seen as a distinct part of budget reform with specific processes and institutional arrangements across the stages of the budget and investment cycles.

3.1. The PIM assessment framework developed by the World Bank

In a ***guidance note on PIM*** issued by the World Bank, Rajaram et al (2010) describes the key "must-have" features of a well-functioning PIM system. With regard to the "must have" features, the emphasis is on the basic processes and controls (linked at appropriate stages to broader budget processes) that are likely to yield the greatest assurance of efficiency in public investment decisions. The approach does not seek to identify *best* practice, as exemplified perhaps by a sophisticated high-level OECD system, but rather to identify the bare-bones institutional features that would minimize major risks and provide an effective systemic process for managing public investments. The authors then go on to define diagnostic indicators of inputs, processes and outputs that would enable assessment of the functioning of actual public investment systems. These indicators are linked to the desirable institutional features of a PIM system and are intended to provide objective measures of inefficiency that can help identify which existing processes might be failing. The institutional features and indicators are arranged according to eight stages in the PIM cycle with corresponding "must-have"s as follows:

1. *Investment Guidance, Project Development, and Preliminary Screening*: the extent to which there is sound guidance on national and sector policy priorities, a formal process for project development, and first-level screening of all projects for strategic alignment.
2. *Formal Project Appraisal*: the quality of cases presented to justify new investment spending.
3. *Independent Review of Appraisal*: the quality of review of project proposals.
4. *Project Selection and Budgeting*: the process of deciding on priority projects to be funded in the budget.
5. *Project Implementation*: actual construction of the physical assets through effective procurement systems.
6. *Project Adjustment*: monitoring project implementation and adjusting as necessary.
7. *Facility Operation*: use of the assets for service delivery.
8. *Basic Completion Review and Evaluation*: ex post collection of data on total cost and time compared to plan, and selective evaluation of project results.

Based on the ideas from this guidance note, a World Bank team[8] continued the development of full diagnostic tool – ***the PIM Indicator Framework (PIM-IF)*** – based on indicator principles, scoring methodology and reporting format similar to those of the PEFA Framework i.e. a PEFA 'drill-down' tool. The PIM-IF was issued as a draft for testing[9] purposes in June 2011. The tool is very detailed as it comprises 28 government performance indicators (plus two donor practice indicators), each with one or more indicator dimensions (in total 95 dimensions) to be rated on an ordinal scale 'A'-'D'. Annex A provides a list of the indicators with their relationship to the PEFA performance indicators and to the eight

[8] Kai Kaiser, Tuan Minh Le and Murray Petrie

[9] See e.g. the Ukraine PIM assessment, World Bank 2013

stages of the investment cycle. However, the PIM-IF includes one feature not included in the PEFA Framework, namely a set of supplementary quantitative indicators of PIM system efficiency and effectiveness which are not performance rated but meant to assist in highlighting key aspects of system functioning in conjunction with the performance indicators. An indicative list of 21 such quantitative indicators is provided.

Most of the indicators in the PIM-IF are very similar to the PEFA indicators, except that they are edited to focus exclusively on capital spending, where PEFA considers all spending together. However, eight of the performance indicators in the PIM-IF do not have corresponding PEFA indicators and for another six PIM-IF indicators, the content has been significantly changed from the corresponding PEFA indicator. Annex B shows the details of those 14 PIM-IF indicators with comments on the extent to which the PEFA Framework includes coverage of the topics.

3.2. Research on PIM at the IMF

A related development is ***the PIM Index*** developed by a team of researchers at the IMF in 2010[10]. The PIM Index uses a four-component approach (closely aligned with the World Bank's eight 'must-have's') and draws information from a range of existing data sources, including PEFA assessments for the purpose of country comparison. The Index assesses PIM at relatively high level of aggregation as it is composed of 17 key questions only. The questions are answered by drawing on a variety of existing data at country level. The dimensions and questions are listed in Annex C. Four questions are answered by using PEFA assessment reports only; eight questions utilize PEFA reports as one of several sources, whereas PEFA reports were considered unable to contribute to answering five of the questions.

A very recent publication by the IMF explores developments in PIM over the last two decades and identifies ***emerging good practices in PIM***[11]. The publication is focused on 'creation and renovation of physical assets' in line with the definition used for the World Bank's PIM-IF. The authors take as a starting point that sound PIM should follow PFM's three established goals: (1) fiscal sustainability (2) allocative efficiency and (3) operational efficiency – i.e. the same three main budgetary outcomes that provides the foundation for the PEFA Framework. The authors find that PFM reforms have come a long way toward meeting those objectives, particularly through adoption of medium-term budget frameworks, performance budgeting, longer-term fiscal projections, and accrual accounting. The importance of each of these four PIM management tools is summarized as:

- *Medium-term budget frameworks (MTBF)* – facilitate effective integration of public investment within the budget process, avoid dual budgeting, and provide assurance of funding over the medium term.
- *Performance budgeting* – provides a common performance focus for the whole budget instead of just the public investment budget; useful for integrating investment with operating costs.
- *Accrual accounting* – enhances asset management transparency and public investment decisions in particular, emphasizing maintenance costs.
- *Longer-term strategic and fiscal frameworks* – facilitates tracking and securing of funding for the many large investment projects with implementation cycles significantly longer than the typical MTBF and average political cycle (3-5 years); set out long-term development objectives and priorities with a time horizon of 10-15 years with the ability to track projects from inception to ex-post evaluation and capacity to keep decision makers informed of the longer-term implications of

[10] Dabla-Norris et al 2011
[11] Fainboim, Last and Tandberg 2013

public investment decisions; may be supported by long-term fiscal projections and longer-term commitments with budget carry-over mechanisms.

In relation to the budget cycle, the authors emphasize that emerging good practice mainly has been focused on:

- developing the processes leading up to the financing decision point. Reforms in some advanced countries have included a process of periodic project screening throughout the PIM cycle - *the "gateway" model* - which combines strategic reviews at key point throughout the project cycle with risk assessment, to determine whether a project may pass from one phase to the next[12].

The authors note a major problem in PIM, which is yet to be effectively addressed, namely the widespread '*optimism bias'* which combines under-estimation of cost with over-estimation of project benefits[13] and constitutes an important element of fiscal risk from public investment activities – ref. section 2.3 above.

3.3. Identification of major gaps on PIM in the PEFA Framework

All of the PIM-focused research, tools and guidance described above contribute to understanding of (i) what aspects of PIM are more important, (ii) which good practices are gaining an international consensus and (iii) therefore, which are the gaps in the coverage of PIM in the PEFA Framework that the revision should seek to fill.

At present the PEFA Framework only has one indicator dimension (PI-12iv) that specifically focuses on budgeting for capital expenditure – namely on the link between project selection and sector strategies combined with links between investment decisions and forward estimates of recurrent expenditure. Many other aspects of PIM are covered by PFM sub-systems that apply to public investments as well as other assets and recurrent expenditure without being specifically focused on public investment, e.g. public investment management is influenced by the effectiveness of strategic planning at sector level (PI-12iii), debt contracting procedures (PI-17iii), procurement systems (PI-19), procurement planning and commitment control (PI-16ii and PI-20i), donor project interface (D-2) as well as general systems for budget management, treasury management and control/oversight systems. Public investment implementation in turn impacts budget outturn (PI-1).

Annexes A and B offers a detailed comparison of the specialized ***PIM-IF diagnostic tool*** (in PEFA drill-down format) with the PEFA Framework. A broad comparison at performance indicator level is shown in Annex A, and all indicators with significant differences are then compared at indicator dimension level in Annex B.

The conclusion of this comparison is that there are major gaps in PEFA's coverage of the elements of PIM. These gaps may be considered in three stages of the PIM cycle:

- Planning and budgeting (covering 'must-have' features I-IV)
- Project implementation and facility operation (covering 'must-have' features V-VII)
- Project review and evaluation (covering 'must-have' feature VIII)

[12] Initially introduced in the UK. A partial application of the model is found in some Latin American countries with Chile as the most developed case, ref. Fainboim et al 2013. A similar approach was taken with the establishment of the CNED in Algeria, ref. Sciavo-Campo 2007 I.
[13] Ref. Flyvbjerg 2009

At the *planning and budgeting* stage, PEFA only touches upon individual programs and projects in terms of sector planning, two specific elements in the selection of projects for inclusion in the budget, inclusion of capital spending MTBF/MTEFs and explanation of budget implications of new policy initiatives. The far more detailed aspects of project appraisal and selection – including the ability of the legislature to amend or add projects to the executive's proposals – is not given any attention in the PEFA Framework.

Project implementation and facility operation is covered by PEFA only in respect of procurement systems, internal control of payments, and financial reporting. Non-financial monitoring is not covered by PEFA. Facility operation in general and the questions of adequate funding of service delivery programs and asset utilization are not covered by PEFA at all.

Project review and evaluation is covered by PEFA to the extent that performance audit by internal and external auditors is providing this type of evaluation.

Box 1 Detailed Gaps in the PEFA Framework compared to draft World Bank PIM-IF

Content in PIM-IF that PEFA does not assess:

1. donor project expenditure outturn
2. total multi-year estimates for approved projects disclosed in budget documentation
3. planned lending/on-lending to SOEs and SNGs disclosed in budget documentation
4. contingent liabilities disclosed in budget documentation
5. PPP information disclosed in budget documentation
6. inter-governmental policy coherence [for projects or in general]
7. a national economic and social strategy
8. any particular format or project specification, nor any specific review process
9. any kind of project appraisal
10. projects databases
11. a Public Investment Plan/Program (PIP)
12. priority funding of on-going projects
13. multi-year budget authority
14. project implementation guidelines
15. organization/management or plan implementation for projects [or service delivery functions in general]
16. multi-year project cost management
17. project completion reporting
18. non-financial information and progress against multi-year implementation
19. active monitoring of projects [other than monitoring undertaken by an internal audit function]
20. project adjustments
21. explanation of deviation from project plan
22. payment in tranches linked to project phases
23. fundamental review of ongoing projects [other than what emerges from updating of sector plans and annual budget submissions]
24. formal project handover
25. assets registry
26. whether assets are fit for purpose
27. adequacy of budgets for any O&M activities or service delivery in general [other than what is covered by PI-12(iv) and in forward budget estimates (MTEF)]
28. monitoring of service delivery [of any kind]
29. post-project reviews [other than performance audits undertaken by internal audit (PI-21) and external audit functions (PI-26)]
30. ability of the legislature to parachute projects into the budget [or generally change the budget]

In total 30 detailed gaps were identified as shown in Box 1. This is a substantial number of aspects of PIM which is the result of two features of the PIM-IF: firstly, that PIM-IF is a detailed drill-down tool for a narrow topic of PFM; secondly, that the PIM-IF is more comprehensive and detailed than PEFA even if it covers only a particular topic of PFM (95 rated dimensions compared to PEFA's 76[14]).

It should be noted, however, that two PIM-IF indicators are identical to corresponding PEFA indicators PI-16 (predictability in the available of funds) and PI-19 (procurement) – i.e. the PIM-IF assessment of the two indicators adds nothing to a standard PEFA assessment of the corresponding indicators. The two subjects fall within the scope of the eight 'must-have's'. Whilst other PIM-IF indicators add further content on predictability (e.g. multi-year budget authority in PIM-16), no additional content is offered on procurement. Considering the strong dependence of successful project implementation on effective and efficient procurement systems, it is perhaps surprising that the PEFA content on the subject is accepted as sufficient. Whilst this could in principle mean that the PEFA PI-19 is already quite detailed, the PIM-IF country testing has raised questions as to whether the indicator is in fact missing important elements[15]. This issue may need to be explored in more detail also in view of the differences of opinion among procurement experts during the revision of PI-19 in 2010-2011 on the coverage of procurement compliance and performance.

The extent to which PEFA assessment reports have been used for creation of the ***PIM Index*** provides a higher level view of where the Framework provides reasonable coverage of PIM processes and where the main gaps are found. Annex C indicates that PEFA has little or nothing to offer as concerns (i) project appraisal (ii) ex-post evaluation and (iii) assets registers/inventories, whereas the index relies heavily on data from country assessments of PEFA indicators PI-10, PI-12, PI-19 and PI-27 for four of its 17 questions.

Considering the ***emerging good practices in PIM*** identified in the IMF publication, coverage in PEFA of the highlighted PIM-related features varies considerably:

- effective integration of public investment within the budget process, avoidance of dual budgeting, and assurance of funding over the medium term, facilitated by an MTBF or MTEF appears quite well covered by PEFA in PI-12;
- performance budgeting – or any use of performance informed budgeting – is essentially missing from the PEFA Framework – other than the implicit link to longer term goals and medium output indicators that would be standard content of strategic sector plans included in PI-12(iii);
- accrual accounting is partially covered by PI-25 up to a not-further defined level between modified cash and modified accrual accounting;
- longer-term strategic and fiscal frameworks at the national or overall central government level are partially covered by PEFA – through debt sustainability analysis in PI-12(ii) which provides some indication of long term fiscal sustainability, but usually with real economic and fiscal developments incorporated at highly aggregated level (e.g. fiscal balance and GDP growth rate) which offers little guidance to PIM and through strategic sector plans referred to in PI-12(iii) though without reference to the effective horizon of such plans;

[14] For comparison, the DEMPA Debt Management Performance Assessment tool – also a PEFA style drill-down developed by the World Bank – has only 35 rated dimensions across 15 main indicators; and the SAI Performance Measurement Framework has 63 rated dimensions across 22 indicators.

[15] Unpublished note on the PIM-IF testing in Ukraine, prepared by the World Bank's task team leader, who was also the task team leader on the most recent PEFA assessment in Ukraine.

- project screening, appraisal and selection are covered in PEFA only in terms of the two criteria included in PI-12(iv), namely that projects are based on sector strategies and that recurrent cost implications of projects are considered in forward budgets.

This means that four of the five emerging good practices identified by the IMF publication appear inadequately covered by PEFA.

An additional source of information on what is seen as high level issues in PIM may be gleaned from the OECD Budget Practices and Procedures Survey[16] – which however is neither an assessment tool nor promoting specific good practices. Whilst this instrument has not been updated since 2006, it reflects high level budget management issues among more advanced countries and therefore issues of increasing interest to middle income countries. Survey questions directly relate to capital projects/investments concern

- multi-year and annual budget ceilings and their subdivision by nature of expenditure (questions 20 and 23);
- whether the budget is integrated or split into separate capital and operating budgets (question 27);
- how budget appropriations are financing capital projects that require funding over multiple years (question 28);
- whether MDAs receive lump sum appropriations for capital expenditure (question 49 and 59);
- whether ministers can carry-over unused funds and appropriations for investments from one year to another; whether MDAs can borrow against future investment appropriations (question 55) and
- whether program evaluation reports are commissioned and by which institutions (question 72).

Only the second question is directly addressed by the PEFA Framework (in PI-12(iv)), whereas the 3rd, 5th and 6th questions overlap with gaps identified in relation to the other sources.

[16] OECD 2006

4. Options for Enhancing PIM coverage in the PEFA Framework

4.1. Prioritizing PIM aspects to include in the PEFA Framework

At the higher level, Analytical Notes (AN) 1, 2 and 3 have already made proposals on how to address the topics related at the more general expenditure management level to three of the emerging good practices in PIM, namely performance informed budgeting (AN1), reporting on accrual basis (AN2) and long-term fiscal sustainability (AN3).

This leaves the *main gaps* in PEFA as *project screening, project appraisal and ex-post project evaluation*.

Some of the detailed PIM features listed in box 1 would also be addressed by the proposals made in earlier Analytical Notes, e.g. gaps #4 and #18 would largely be covered by the enhancements to PI-6 proposed in AN2, whereas #25 would be covered by a new assets management indicator proposed in both AN1 and AN3. Others overlap with the main gaps mentioned above e.g. #8, #9, #29 and #30. However, the PIM-IF is a detailed, drill-down tool. It would be expected that it cover many detailed features of PIM not to be included in PEFA – otherwise the PIM-IF would be superfluous and the PEFA Framework become expanded excessively. Nevertheless, a few of the detailed gaps may be reasonable and relatively easy to include in a revised PEFA Framework. Detailed gaps #1, #5 and #13 could be considered candidates for inclusion through minor adjustments to existing indicators as suggested in section 4.3 below.

4.2. Options for Structure of an Enhancement

In principle there are three ways in which PIM content may be enhanced in the PEFA Framework

> First, addition of one (or more) performance indicator(s) that would focus exclusively on PIM – whilst leaving the existing indicators virtually untouched;
>
> Second, tweaking the wording of existing indicators and their dimensions in order to enhance clarity and content at the margin;
>
> Third, amending some content and internal structure of relevant existing indicators e.g. by significant change to detailed content of selected indicator dimensions and/or addition of new dimensions.

The first approach will conflict with the desire to keep the number of indicators close to the current level and therefore face a trade-off with other subjects that would similarly compete for any available indicator space. Previous analytical notes have already suggested candidates that would arguably be better candidates for filling such a space. PIM is a cross-cutting issue which has implications across the entire annual budget cycle. The second approach is likely to be too feeble to allow any significant enhancement of PIM coverage. Whilst the first and second approaches would best facilitate tracking of progress over time from the existing assessments, they are less likely to provide a consistent and strengthened framework for the future. The third approach would best integrate PIM across the PEFA Framework – in the same way that PIM is now considered an integrated element of PFM systems and reform – whilst allowing significant enhancements in selected areas where PEFA is missing crucial PIM features.

The PIM gaps in PEFA related to **screening and appraisal of projects** – that lead to the final selection of projects for funding in the coming annual budget - would need to be addressed under the PFM dimension of 'policy-based budgeting' i.e. within the current indicators PI-11 and PI-12. These indicators separate the processes between the initial multi-year planning (PI-12) and the preparation of the annual budget (PI-11) and the appropriate stages of capital expenditure planning and budgeting should therefore fit into the two indicators accordingly.

Another option would emerge if the PEWG/PEFA partners decide to expand 'policy-based budgeting' content by adding a complete, new indicator called 'Effective linkages between policy and budget planning systems' as suggested in a submission[17] from 'the PFM Board'. One element of the proposed additional indicator is 'the public investment management process is guided by approved policy documents and incorporates the key components of a project cycle management process'. The additional indicator would also free up at least two indicator dimensions of PI-12, providing space for PIM related content. However, this option is not further considered here as it is contingent on the important decision by the PEWG of adding the indicator proposed by the PFM Board.

Ex-post evaluation of projects would arguably fit best in with performance audit activities i.e. as part of PI-26. Performance audits under this indicator could be considered to include ex-post evaluation studies of major projects undertaken by independent evaluation teams, assuming that the government auditor is involved in the evaluation e.g. as member of an evaluation steering committee.

[17] A concrete proposal for changes to the 'Policy-based Budgeting' dimension of the Framework has been contributed by a group of eight experienced PEFA assessors from the private consulting sector, ref. The PFM Board 2013.

5. Suggestions for Changes to the PEFA Framework

5.1. Recommendations for PI-11 Orderliness and Participation in the Budget Process

The proposal for PI-11 is to add a fourth indicator dimension and use that additional content space to reflect the content of the budget guidelines (or similar documents) as well as MDAs adherence to the guidance. Currently the required standard of the guidance for budget submission is only referred to as 'clear and comprehensive' – entirely left to the assessors' subjective judgment – with budget ceilings being the only specific ingredient. No assessment is included of whether MDAs actually respect the instructions – other that deadlines.

Table 1.a Proposed amendments to Indicator PI-11

dimension	Proposed Content – required for an 'A' score
(i) Existence of an adherence to a fixed budget calendar	• A clear budget calendar is issued *at the beginning of the annual budget preparation process – or is fixed by organic law/regulations;* • The calendar is comprehensive *i.e. sets deadlines for all major stages;* • The calendar allows MDAs at least six weeks to prepare *initial* budget submissions – *from the date*[18] *the budget circular and ceilings*[19] *are issued;* • The calendar is adhered to *without significant delays;*
(ii) Guidance on the preparation of budget submissions	• *Budgeting for recurrent and capital expenditure are integrated into one process*[20] *managed by one central budget authority;* • Budget ceilings are issued *for each MDA (or defined sector groups) distinguishing recurrent from capital expenditure ceilings;* • *Budget submissions by MDAs largely respect the ceilings;* • *Capital investment project submissions by MDAs adhere to a comprehensive format issued as part of budget guidelines;* • *All major*[21] *capital investment projects included in the approved budget have been subject to formal appraisal*[22]*;* • *…… other relevant criteria, not necessarily related to capital investment*[23]*.*
(iii) Political participation in the budget preparation process	• *A budget strategy/policy paper has been prepared and approved by Cabinet (or equivalent decision-making body) at least [5] months prior to the start of fiscal year*[24] • Budget ceilings approved by Cabinet are issued to MDAs *at least one month prior to finalization of MDAs' detailed budget estimates;* • *The executive's final budget estimates are approved by Cabinet prior to submission to the legislature.*
(iv) Timely budget approval by legislature[25]	• The legislature has, during the last three years, approved the budget before the start of the fiscal year [i.e. same content as current dim(iii)[26]]

[18] This timing element is transferred from PI-11(ii) and has been the subject of frequent guidance to assessors.
[19] The PEFA Secretariat proposes in its clarifications update of April 2013 that 'ceilings' be replaced by 'limits'.
[20] This criterion has been transferred from currently PI-12(iv) where separate processes automatically leads to a 'D' rating.
[21] The term 'major' needs to be defined e.g. as a percentage of national GDP or total central government revenue.
[22] For large projects which have received budget funding for [2] prior years, this requirement may be expanded to include a mid-term project review e.g. by referring to an original or updated appraisal undertaken within the last 3 years.
[23] The dimension would be score on the basis of a 'list approach' as currently used for PI-19(iv)
[24] This element was proposed in AN2.
[25] It should be considered to swop this dimension with PI-27(iv) as it is more relevant to the legislature.
[26] It should be considered to change the 2 months delay accepted for 'B' and 'C' ratings to 3 months as many national constitutions make allowance for provisional budget authority for 3 months, ref. inconsistency identified in AN2.

Apart from changes on these issues, the proposal in table 1.a below also includes some related reorganization of current indicator content. Changes of content – but not reorganization or language editing - are shown in *italics.* The indicator proposal only includes the requirements for the highest level practice – the 'A' rating. Graduation of requirements for 'B' and 'C' scores will need to be determined at a later stage, following acceptance in principle of the proposed indicator changes by the Task Team and PEWG. For easy reference, the corresponding current content of PI-11 is included in table 1.b.

Table 1.b Current content of Indicator PI-11

dimension	Current Content – required for an 'A' score
(i) Existence of an adherence to a fixed budget calendar	A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from receipt of the budget circular) to meaningfully complete their detailed estimates on time.
(ii) Guidance on the preparation of budget submissions	A comprehensive & clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent) prior to the circular"s distribution to MDAs.
(iv) Timely budget approval by the legislature	The legislature has, during the last three years, approved the budget before the start of the fiscal year

5.2. Recommendations for PI-12 Multi-year perspective in the fiscal planning, expenditure policy and budgeting

It has already been proposed in both AN2 and AN3 to include a richer analysis of long-term fiscal sustainability in dim(ii) including analysis of demographic changes, entitlement programs and extraction of natural resources in relation to stable economic growth, inter-generational fairness, government solvency and stable taxation. Low or middle income countries with stable age distribution, without significant natural resources and without major entitlement programs may not find a 20-50 year fiscal projection perspective particularly important and may find the well-known debt sustainability analysis sufficient. However, an analysis of economic growth and fiscal sustainability with a horizon of at least 10 years would be important for all but the most fragile environments. Such an analysis would typically be linked to the formulation of a national development strategy and include the full implementation period of major projects as well as the initial operation and maintenance costs following project completion. A fiscal analysis with a 10 year perspective could be included in PI-12:

- in dim(i) as a requirement for an 'A' rating – thus extending the current 2-3 year perspective of this dimension –
- in dim(ii) combined with long-term fiscal sustainability analysis - including this practice as a step towards long-term fiscal sustainability analysis i.e. an alternative to long-term fiscal sustainability analysis at the 'B' score level. The 'C' score for dim(ii) would then require only a full DSA within the last three years;
- in dim(iii) as a national development strategy with estimates of aggregate fiscal implications for 5 years - at least, but preferably ten – beyond the current fiscal year; the latter to ensure that the strategy is an up-to-date policy instrument and therefore a useful planning guide for sectors and projects.

The national development strategy would also be useful to refer to in dim(iii) in terms of ascertaining that the sector strategies currently referred to in the indicator are consistent with the national development strategy – at least for 'A' and 'B' ratings. As dim(iii) reads at the moment, sector strategies may not be guided by any national framework other than an MTBF which – according to calibration in dim(i) may have a perspective of only 2-3 years, hardly an appropriate basis for planning investments of which project implementation alone may go well beyond 3 years.

As the current dim(i) is quite specific and has shown few problems in application and dim(ii) takes a much longer perspective, it is recommended to include this element in dim(iii) which under any circumstances need strengthening as to the time horizon and updating of the strategic plans. However, all three options may be further considered in connection with any other proposed changes to PI-12.

Screening of projects for inclusion in the medium-term expenditure framework would be the subject of dim(iv) i.e. a more specific interpretation of the existing dim(iv) without fundamentally changing the subject of the dimension. It would also be more comprehensive as to the criteria for accepting a project into the MTEF beyond the current two criteria - links to sector strategies and recurrent cost implications in forward budget estimates. The latter of these criteria is not meaningful in cases where the project completion date is close to or after the end of the horizon of the forward budget estimates – a typical situation for large projects during the stages leading up to final project selection.

Table 2.a Proposed amendments to Indicator PI-12

dimension	Proposed Content – required for an 'A' score
(i) Preparation of multi-year fiscal forecasts and functional allocations	• Forecasts of fiscal aggregates, on the basis of main categories of economic and functional/sector classification, are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained.
(ii) Scope and frequency of *long-term fiscal* sustainability analysis	• *A long-term fiscal sustainability analysis has been undertaken/updated within the last three years and considers demographic changes, entitlement programs, debt service obligations and extraction of natural resources (as appropriate) in relation to stable economic growth, inter-generational fairness, government solvency and stable taxation.*
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	• Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with *a comprehensive national development strategy and related* fiscal forecasts *that extend at least (5) years beyond the current year*
(iv) *Screening of* investment *proposals for inclusion in* forward expenditure estimates	• *Capital investment projects included in multi-year expenditure estimates*[27] *are included in a central projects database and consistently screened according to:* o *inclusion in the national or relevant sector strategic plans;* o *recurrent cost implications estimated and consistent with national/sector plans;* o *full investment financing identified.*

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In addition, the government sector coverage of the indicator – as stated in the PEFA Fieldguide – should be amended. At present all four dimensions are supposed to cover 'budgetary central government'. However, both dimensions (iii) and (iv) should at the minimum cover the entire central government sector i.e. also all extra-budgetary funds and operations by AGAs. To be useful, sector strategies need to consider the roles and activities of all sector players, also beyond the central government sector where at

[27] MTEF or in its absence a PIP

least in some major sectors sub-national governments, state-owned enterprises, NGOs and private companies may all have important roles to play and contribute significant investments.

For easy reference, the corresponding current content of PI-12 is included in table 2.b.

Table 2.b Current content of Indicator PI-12

Indicator dimension	Current Content – required for an 'A' score
(i) Preparation of multi-year fiscal forecasts and functional allocations	• Forecasts of fiscal aggregates (on the basis of main categories of economic and functional/sector classification) are prepared for at least three years on a rolling annual basis. Links between multi-year estimates and subsequent setting of annual budget ceilings are clear and differences explained.
(ii) Scope and frequency of debt sustainability analysis	• DSA for external and domestic debt is undertaken annually
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	• Strategies for sectors representing at least 75% of primary expenditure exist with full costing of recurrent and investment expenditure, broadly consistent with fiscal forecasts.
(iv) Linkages between investment budgets and forward expenditure estimates	• Investments are consistently selected on the basis of relevant sector strategies and recurrent cost implications in accordance with sector allocations and included in forward budget estimates for the sector.

5.3. Recommendations for PI-6

Include disclosure of information on PPP projects in budget documentation as part of 'fiscal risk and contingent liability disclosure' already proposed for inclusion in the PEFA Framework, ref. AN2 proposal (d) for PI-6.

5.4. Recommendations for PI-16

The requirements for an 'A' rating of dim(ii) – 'Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment' - could include an additional requirement of 'Existence and use of multi-year appropriations for all large projects' and for a 'B' rating 'Existence and use of carry-over of unused capital spending appropriations from one year to the next (at least for major projects)'.

Please also note a potential *inconsistency issue*: Use of virements is covered by PI-16(iii) but where the PIM-IF (indicator PIM-21) favors active use of virements, PI-16(iii) favors infrequent use of virements. This seeming inconsistency may relate to the nature, approving authority and timing of virements and may be resolved by clarification in the guidance accompanying the indicator.

5.5. Recommendations for PI-26

Include a more specific reference to the frequency and coverage of performance audits – as already proposed in AN2 - which would include ex-post evaluation of major projects.

5.6. Recommendations on donor funded expenditure outturn

The gap regarding 'Outturn of estimated donor project expenditure' (or other foreign funded expenditure) could be covered in PI-1, D-1 or D-2.

The increasing emphasis of government ownership of donor funded projects, and responsibility for their execution would suggest that donor-funded project expenditure should no longer be excluded from PI-1 i.e. PI-1 would be amended to cover outturn on all primary expenditure irrespective of source of funding – in line with the approach in the PIM-IF[28]. That would simplify the task of separating donor funding from other funding when collecting and processing data for PI-1. This approach would assess outturn of donor-funded project expenditure which is reflected in the budget – with PI-7 assessing the extent to which such expenditure is unreported in the budget documentation[29].

The outturn of donor funded project expenditure could also be assessed under the donor indicators where it would cover all such expenditure, irrespective of whether the expenditure is reflected in the government budget. It would assess outturn on the basis of the donors' estimation of annual project/program disbursement. This aspect could be included in D-1 e.g. by replacing D-1(ii) as this dimension has proven difficult to assess. Alternatively, predictability/outturn of *all* foreign assistance could be combined in D-1(i) thus avoiding the practical problem of distinguishing budget support from program/project support – always an issue in respect of sector budget support.

Another option is to incorporate outturn of donor funded project expenditure as a third dimension in D-2, thus maintaining the current structure of the donor indicators where D-1 is focused on budget support and D-2 is focused on project and program support.

Whether assessment of quantitative project expenditure outturn should be added to the donor indicators depends on whether the donor indicators are going to be retained in the future or whether the monitoring of donor practices will be left to global initiatives such as the monitoring of the Paris Declaration.

5.7. Summary of Recommendations

In summary the above recommendations include:

- Substantial changes to the details of existing indicators PI-11 and PI-12 including an additional dimension of PI-11 which would serve a wider purpose than PIM. Only one dimension of each of PI-11 and PI-12 would remain unaffected by the changes. However, the topics assessed by the two indicators would not change.
- Relatively small changes to indicators PI-6 and PI-26 could be incorporated into proposals for revision already made in AN2;
- A proposal for including outturn of all externally/donor funded project expenditure in PI-1, which would simplify data collection and processing for assessors. Additional coverage of this aspect by the donor indicators is also proposed;
- A minor change to the 'A' rating of PI-16(ii) is proposed;
- No additional indicators would be suggested to cover elements of PIM.

Some of the PIM gaps identified in PEFA do not require specific new recommendations in this note as the subjects are already broadly covered by proposals made in the previous notes AN2 and AN3 e.g. the proposed new indicator on assets management (ref. AN3) would cover assets registers, performance information would be covered by proposed enhancements in this area (re. AN1) and a more well-defined progression towards accrual accounting in PI-25 (ref. AN2) would cover that aspect of emerging good practice.

[28] but not as separate dimensions, since the volume of domestic and foreign funded expenditure may be very different and separation would typically give far too much weight to foreign funded project expenditure.
[29] If this approach is taken, it should also be considered – for the sake of consistency - to change PI-3 on revenue outturn to include external revenue (including donor funded budget support)

The above proposals only cover the most important aspects of PIM identified as gaps in the PEFA Framework through comparison with specialized tools under development and literature on emerging good practice. About half of the gaps identified in relation to the PIM-IF will not be covered by the proposals, and the detailed calibration of several other gaps in relation to that tool would only be picked up by PEFA at one performance level. The PEFA Framework cannot cover everything in detail, however, which is exactly why there is need for detailed drill-down instruments for specific topics such as the PIM.

6. The Way Forward

A major challenge for the revision process is to combine the many demands for enhancement of the Framework into one coherent set of changes. Proposals made in preceding Analytical Notes 1, 2 and 3 have already been taken into consideration for the recommendations in the present note. In parallel, the PEFA Secretariat has issued a draft set of revisions based on incorporating generic clarifications and several proposals have been submitted by other stakeholders as part of the consultation process, some of which touch on PIM.

The proposals in the present note mostly affect the indicators under the 'Policy-Based Budgeting' dimension of the Framework and therefore have to be considered by Task Team B. PIM is a cross-cutting issue, however, with implications across all six core dimensions of the Framework even if the need for changes appear less urgent under other core dimensions.

When all analytical notes have been considered by the Task Teams, there will be need for adjustment to and consolidation of the proposals based on PEWG decisions on the major proposed changes (new indicators and coverage of cross-cutting issues) as well as Task Team decisions and comments at the level of existing indicators.

ANNEX A. WORLD BANK PIM-IF PERFORMANCE INDICATORS

	Area/Indicator	*Relation to PEFA*	*Relation to PIM's eight 'must-have' features*
A. PFM OUT-TURNS: Credibility of the Budget			
PIM -1	Aggregate capital expenditure out-turn compared to original budget	PEFA PI-1 indicator adapted to capital spending including *extra dimension on donor project funding*	
PIM -2	Composition of capital expenditure out-turn compared to original budget	PEFA PI-2 indicator adapted to focus on capital spending	
PIM -3	Aggregate revenue out-turn compared to original budget	PEFA PI-3 indicator adapted to include donor budget support	
PIM -4	Stock and monitoring of capital expenditure payment arrears	PEFA PI-4 indicator adapted to focus on capital spending	
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency			
PIM -5	Classification of the budget	PEFA PI-5 adapted by addition of project classification	
PIM -6	Comprehensiveness of information included in budget documentation	PEFA PI-6 *changed significantly* to focus on capital spending	
PIM -7	Extent of unreported capital spending	PEFA PI-7 adapted to focus on capital spending	
PIM -8	PIM-related inter-governmental fiscal relations	PEFA PI-8 adapted to focus on capital spending with *extra dimension on policy coherence*	
PIM -9	Management of fiscal risks from capital spending outside central government	*Adaptation of PEFA PI-9*	
PIM -10	Public access to key information on capital spending	PEFA PI-10 adapted to focus on capital spending	
C. BUDGET CYCLE			
C(i) Policy-Based Budgeting			
PIM -11	Investment guidance, project development, and preliminary screening	*Not in PEFA*	**I. Investment Guidance, Project Development & Preliminary Screening**
PIM -12	Formal project appraisal	*Not in PEFA*	**II. Formal Project Appraisal**
PIM -13	Independent review of appraisal	*Not in PEFA*	**III. Independent Review of Appraisal**
PIM -14	Orderliness and participation in the annual budget process	PEFA PI-11 adapted to focus on capital spending	
PIM -15	Multi-year perspective	*Adapted from PEFA PI-12*	
PIM -16	Project selection and budgeting	*Not in PEFA*	**IV. Project Selection and Budgeting**
C(ii) Predictability and Control in Budget Execution			
PIM -17	Project implementation	*Not in PEFA*	**V. Project Implementation**
PIM -18	Predictability in the availability of funds	Same as PEFA PI-16	**V. Project Implementation**

PIM -19	Procurement	Same as PEFA PI-19	**V. Project Implementation**
PIM -20	Effectiveness of internal controls and audit for capital spending	PEFA PI-20 and PI-21 adapted to focus on capital spending	**V. Project Implementation**
PIM -21	Project adjustment	*Not in PEFA*	**VI. Project Adjustment**
PIM -22	Facility operation	*Not in PEFA*	**VII. Facility Operation**
C(iii) Accounting, Recording, and Reporting			
PIM -23	Basic completion review and evaluation	*Not in PEFA*	**VIII. Basic Completion Review and Evaluation**
PIM -24	Quality and timeliness of in-year budget reports	PEFA 24 adapted to focus on capital spending	
PIM -25	Quality and timeliness of annual financial statements	PEFA 25 adapted to focus on capital spending	
C(iv) External scrutiny and audit			
PIM -26	Scope, nature and follow-up of external audit	PEFA 26 adapted to focus on capital spending	
PIM -27	Legislative scrutiny of capital spending in the annual budget	PEFA 27 adapted to focus on capital spending with *extra dimension on extent of legislature's amendment of project portfolio*	
PIM--28	Legislative scrutiny of external audit reports	PEFA 28 adapted to focus on capital spending	
D. DONOR PRACTICES			
PIM D-1	Financial information provided by donors	Same as PEFA D-2, for capital spending	
PIM D-1	Proportion of aid that is managed by use of national procedures	PEFA D-3 focused on capital spending	

ANNEX B. Comparison of World Bank PIM Framework and the PEFA Framework

The table only includes PIM indicators where there are significant differences to PEFA i.e. those highlighted in *italics* in annex A

Standard/Practice	***Comments on corresponding PEFA coverage.***
PIM-1 Aggregate capital expenditure out-turn compared to original budget	
(ii) Where relevant, the difference between actual donor project expenditures and the original estimate of donor project expenditures at budget time	**Gap:** No reference in PEFA to donor project expenditure outturn (only outturn of budget support in D-1)
PIM-6 Comprehensiveness of information included in budget documentation	
1. Summarized data on central government capital expenditure for the budget year, by MDA (or by sub-function or program), according to the main heads of the classification used (as defined in PIM PI-5). Data should also include budget and estimated outturn for the current year i.e. the year prior to the budget year. 2. The amount appropriated by MDA for the budget year for each major central government budget-financed capital spending project. 3. The total approved multi-year cost of each major capital project (in 2 above), and the total estimated amount spent up to the end of the current year i.e. the year prior to the budget year. 4. Details as in 2-3 above for all central government capital projects financed by donors (with information by MDA and by donor). 5. A brief description of the multi-year budgetary impact, and policy justification for all new major capital spending policy initiatives being introduced in the budget (including those financed by donors). 6. Details of capital grants or transfers, and of lending (including on-lending) by central government to State Owned Enterprises and/or Sub-national Governments that is predominantly intended to finance capital expenditure. 7. Details of contingent liabilities of central government relating to capital spending, such as guarantees of SOE or Sub-national Government borrowing to finance capital projects. 8. The nature, rationale for, and estimated fiscal impacts of any quasi-fiscal activities relating to capital spending, where of fiscal significance18; and of any tax expenditures relating to capital spending. 9. For any PPPs, disclosure of the long term stream of purchase	PIM-6(1) and (2) represents information that for the total budget is taken for granted in PI-6 when combined with PI-5 (budget proposal for capital spending by MDA). (3) **Gap:** PI-6 does not require total multi-year estimates for approved projects but does require estimated amount spent till end of current year – PI-6(7). (4) Inclusion of donor funded projects in the budget is covered by PI-7(ii) (5) corresponds to PI-6(9) (6) budgeted grants/transfers are standard items in the budget proposal under economic classification, but may not detail the intended use for capital spending. **Gap:** PI-6 does not require disclosure of planned lending/on-lending to SOEs and SNGs. (7) **Gap:** PI-6 does not require disclosure of contingent liabilities. (8) QFAs that are not disclosed in the budget documentation are assessed as part of PI-7(i). (9) **Gap:** Disclosure of PPP information is not covered by PI-6

payments and receipts; details of contract provisions that give rise to contingent payments or receipts; amount and terms of financing provided by entities owned or controlled by government; and disclosure of how the projects affect the reported fiscal balance and public debt.	
PIM-8 PIM-related inter-governmental fiscal relations	
(i) Policy coherence across levels of government with respect to PIM.	**Gap:** No reference in PEFA to inter-governmental policy coherence (for projects or in general)
PIM-9 Management of fiscal risks from capital spending outside central government	
(i) The extent of central government monitoring of SOEs that are recipients of on-lending and/or government-guaranteed lending.	This content is broadly covered by PI-9(i)
(ii) The extent of central government monitoring of SNGs that are recipients of on-lending and/or government-guaranteed lending.	This content is broadly covered by PI-9(ii)
(iii) The estimated size of capital spending-related QFAs	QFAs are included in the assessment of PI-7(i) in terms of the magnitude that is not reported in budget documentation - also if they are implemented by entities outside the central government (which is often the case) – ref. PEFA Fieldguide clarification 7-g
PIM-11 Investment guidance, project development, and preliminary screening	
(i) A national economic and social strategy is in place which helps to guide prioritisation of capital spending decisions, supported by detailed sector strategies for at least the main sectors	Sector strategies in the main sectors are the subject of PI-12iii. **Gap:** PEFA makes no reference to a national economic and social strategy.
(ii) MDAs initiate projects by submitting a project profile for central agency/LM review	MDA submission of project proposals is included in submission of budget proposals in PI-11(i). **Gap:** PEFA does not specify any particular format or project specification, or any specific review process.
(iii) Evidence that larger projects at least are subject to preliminary screening that on occasion has resulted in re-design, deferral or rejection	Same as the gap described for PIM-11(ii) above
PIM-12 Formal project appraisal	
(i) Clarity of planning roles (ii) Defined procedures for preparation and appraisal of projects (iii) Availability of technical guidance on project appraisal (iv) Extent of project appraisal (v) Quality of project appraisal (vi) Proportionality of appraisal	**Gap:** There is no reference in PEFA to any kind of project appraisal

PIM-13 Independent review of appraisal	
(i) Project appraisals are subject to independent review	**Gap:** There is no reference in PEFA to any kind of project appraisal
PIM-15 Multi-year perspective	
(i) Preparation of multi-year aggregate fiscal forecasts, including multi-year estimates for capital spending.	This dimension is identical to PI-12(i) except for the specific focus on capital expenditure.
(ii) Existence of sector strategies, consistent with the aggregate multi-year fiscal forecasts, with multi-year costing of recurrent and capital expenditure.	This dimension is identical to PI-12(iii) except for the specific focus on capital expenditure (and percentages referring to capital expenditure rather than total primary expenditure.
(iii) Maintenance of multi-year project databases of all proposed and approved projects	**Gap:** No reference in PEFA to projects databases
(iv) Quality of a PIP (where relevant).	**Gap:** No reference in PEFA to a Public Investment Plan/Program (PIP)
PIM-16 Project selection and budgeting	
(i) Transparent criteria are in place and adhered to for selecting projects for budget funding based on contribution to national and relevant sector strategies.	Selection of projects/investments on the basis of sector strategies is covered by PI-12(iv)
(ii) Explicit attention is given to ensuring that on-going projects receive sufficient funding to allow efficient physical progress.	**Gap:** No reference in PEFA to priority funding of on-going projects
(iii) Provision for multi-year budget authority.	**Gap:** No reference in PEFA to multi-year budget authority
(iv) The extent to which capital and future on-going recurrent spending requirements of projects are integrated within MDA budgets	Budgeting of recurrent spending requirements of projects is covered by PI-12(iv)
PIM-17 Project implementation	
(i) Guidelines for operational staff in MDAs on project implementation	**Gap:** No reference in PEFA to project implementation guidelines
(ii) Clear organisational and management responsibilities for delivering on a comprehensive implementation plan	**Gap:** No reference in PEFA to organization/management or plan implementation for projects (or service delivery functions in general)
(iii) Existence of multi-year total project cost management system	**Gap:** No reference in PEFA to multi-year project cost management
(iv) A formal project completion report	**Gap:** No reference in PEFA to project completion report
PIM-21 Project adjustment	
(i) Regular routine reporting of financial and physical progress against plans. (ii) Active monitoring of project progress. (iii) Appropriate use of virement. (iv) Nature of project adjustments.	(i) Financial progress reporting is covered by PI-24 but (**gap**) does not include reference to non-financial information and progress against multi-year implementation. (ii) **Gap:** No reference in PEFA to active monitoring of projects, other than monitoring undertaken by an internal audit function.

(v) Explanations required from implementing agencies of significant departures from project plan. (vi) Project funding is in tranches linked to phases and physical completion. (vii) For major multi-year projects at least, a mechanism to trigger fundamental review of the rationale and justification for the project in specified circumstances.	(iii) Use of virements is covered by PI-16(iii) but there is an **inconsistency** in that PIM-21 favors active use of virements whereas PI-16(iii) favors infrequent use of virements. (iv) **Gap:** No reference in PEFA to project adjustments (v) **Gap:** No reference in PEFA to explanation of deviation from project plan (vi) **Gap:** No reference in PEFA to payment in tranches linked to project phases (vii) **Gap:** No reference in PEFA to fundamental review of ongoing projects, other than what emerges from updating of sector plans and annual budget submissions
PIM-22 Facility operation	
(i) Effective mechanisms for formal handover of management responsibility for using the assets to deliver public services. (ii) Comprehensive and detailed asset registry(s). (iii) Whether the assets are fit for purpose. (iv) Sufficient funding for asset operations and maintenance in MDA budgets. (v) Monitoring of service delivery using the newly completed capital assets.	(i) **Gap:** No reference in PEFA to formal project handover (ii) **Gap:** No reference in PEFA to assets registry (iii) **Gap:** No reference in PEFA to whether assets are fit for purpose (iv) **Gap:** No reference in PEFA to adequacy of budgets for any O&M activities or service delivery in general. Partly covered by PI-12(iv) and PIM-16(iv) in forward budget estimates (MTEF). (v) **Gap:** No reference in PEFA to monitoring of service delivery of any kind.
PIM-23 Basic completion review and evaluation	
(i) Existence of a policy requiring completion of basic post-project review, and guidance to MDA staff on how to complete a post-project review	**Gap:** No reference in PEFA to post-project reviews other than performance audits undertaken by internal audit (PI-21) and external audit functions (PI-26).
(ii) Extent to which project implementing agencies complete a basic post-project review for each completed capital project	As above
(iii) The extent to which evaluations of capital projects are completed that attempt to assess the impacts and outcomes of capital projects in comparison to what was anticipated at the project appraisal stage.	As above
PIM-27 Legislative scrutiny of capital spending in the annual budget	
(iv) Extent to which the legislature adds or amends projects to the budget during the legislative phase of the Budget that have not been subject to project appraisal.	**Gap:** No reference in PEFA to the ability of the legislature to change - or parachute projects into - the budget

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ANNEX C. PIM INDEX 2010 AND ITS USE OF PEFA DATA

Dimension/*Questions*	***Use of information from PEFA assessment reports***
1a. Strategic Guidance	
Q1. Are sector strategies prepared, including estimates of their costs, to guide identification of public investment projects?	Answer based PEFA assessments as well as other sources of country information
1b. Project Appraisal	
Q2. Is there a published document which details appraisal standards?	PEFA assessments did **not** contribute to answering the question
Q3. Are economic appraisals (or cost/benefit analysis) routinely undertaken, at least for large projects?	PEFA assessments did **not** contribute to answering the question
Q4. Is there an independent check or regulator of appraisals to ensure objectivity and quality of appraisals?	PEFA assessments did **not** contribute to answering the question
2a. Project Selection: Integration with Budget	
Q5. Is there a medium-term planning and budgeting framework; is this framework integrated with the annual budget?	Answer based PEFA assessments as well as other sources of country information
Q6. Are donor financed projects included in the budget?	Answer based PEFA assessments as well as other sources of country information
Q7. Are investments selected on the basis of relevant sector strategies and recurrent cost implications?	Answer based on PEFA assessments **only**
2b. Project Selection: Role of the Legislature	
Q8. What is the scope of Legislative scrutiny prior to voting on appropriations to fund projects?	Answer based on PEFA assessments **only**
2c. Project Selection: Public Scrutiny	
Q9. Does the government provide public access to key fiscal information?	Answer based on PEFA assessments **only**
3a. Project Implementation: Procurement	
Q10. Is there open competition for award of contracts?	Answer based PEFA assessments as well as other sources of country information
Q11. Is there existence and operation of a procurement complaints mechanism?	Answer based on PEFA assessments **only**
3b. Project Implementation: Timeliness	
Q12. During the past three years, has there been chronic under-execution of	Answer based PEFA assessments as well as other sources of country information

capital budgets?	
3c. Project Implementation: Internal controls and audits	
Q13. Are there effective internal controls, including controls on expenditure commitments?	Answer based PEFA assessments as well as other sources of country information
Q14. Is there an effective system of internal audit?	Answer based PEFA assessments as well as other sources of country information
4. Project Evaluation, Audit and Asset Management	
Q15. Is ex-post evaluation of domestic projects routinely undertaken?	PEFA assessments did **not** contribute to answering the question
Q16. Are external audits produced on a timely basis and scrutinized by the legislature?	Answer based PEFA assessments as well as other sources of country information
Q17. Does the government maintain an asset register or inventory of public sector property, equipment, vehicles, etc.?	PEFA assessments did **not** contribute to answering the question

ANNEX D. LIST OF REFERENCES

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