Background Paper 2:

The Core PFM Functions and PEFA Performance Indicators

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Table of contents

Tables

PREFACE

This document has been prepared as a background paper to The Good Practice Note on Sequencing PFM Reforms, and should be read in conjunction with Background Paper 1, "Sequencing PFM Reforms", by Jack Diamond, January 2013.

This paper has been prepared for the European Commission in the context of its involvement in the OECD DAC task force work on PFM. As a part of this involvement, the Commission has agreed with the IMF to work jointly to prepare a note on good practices on PFM reform and its sequencing. Thus, in this framework two papers have been prepared by Jack Diamond for the IMF ("Good Practice Note on Sequencing PFM Reforms" and the "Background Paper 1: - Sequencing PFM Reforms"). The present paper examines the relationships between the core PFM functions and the PEFA performance indicators.

This paper identifies the core PFM functions and maps them against the PEFA scoring system, when relevant. The definition of the core PFM functions adopted in this paper meets the priority order between the deliverables (or management objectives) of PFM systems suggested by Jack Diamond in GPN and the BP1.

The PEFA assessments, which have been carried out in over 100 countries, provide a valuable base to assess the PFM system of a country. Establishing the relationships between the core PFM functions and the PEFA performance measurement framework scoring system will help in identifying whether the core PFM functions are present in a PFM system. The PEFA framework covers the majority of core PFM processes defined in this paper. The relationship between the PEFA framework and the core PFM functions is not straightforward however, notably because the PEFA scores associated to the core PFM functions vary from one PEFA performance indicator to the other.

By identifying the core PFM functions and, where relevant, the PEFA performance indicators (PIs) scores associated with these functions, this paper can help to identify priority actions for a PFM reform programme. However, identifying these actions and sequencing a PFM reform should also take into account many factors that are not discussed in this paper, including among others the country's specificities, the linkages between PFM sub-systems and the factors external to PFM.

Section 1 presents the core PFM functions and discusses the relationships between the core PFM functions and the PFM system management objectives (or deliverables). Generally, the core PFM functions discussed in this paper deal with the "financial compliance" deliverable.

Section 2 presents the methodology used in this report to map the core PFM functions into the PEFA framework.

Table 1 summarizes table 2 and shows the scores of PEFA PIs associated with the core PFM functions. These last scores have been calculated from the scores of the PI dimensions according to the PEFA methodology. They must be interpreted with caution. To make this calculation possible a score “D” has been assigned to non-core dimensions, whatever their importance is in a specific context.

Table 2 presents the scores of the dimensions of the PEFA performance indicators (PI) associated to a core PFM function. For that purpose, table 2 lists the dimensions of the PEFA PI dealing with a PFM process, whether it is a core PFM process or not, and assign to these dimensions a PEFA score that corresponds to a core PFM function, as defined in section 1. In addition, a few core PFM functions that are not taken into account by the PEFA framework have been included in table 2 because they contribute to achieve financial compliance (see section 2.3 below).

Table 3 comments briefly the PEFA PIs dealing with the quality of the resulting budget (PI-1, PI-2, PI-3, PI-4-(i)) but not directly related to specific PFM processes. These results indicators can depend on different sets of PFM processes. They are not included in table 2, which deals with PFM processes not with their outcomes.

1 The core PFM functions and PFM management objectives

1.1 What are the core PFM functions?

Schematically, the core PFM functions are a set of functions needed to make the other PFM functions working effectively in a sustainable manner *and* can be operational effectively without absorbing an excessive level of resources.

The core PFM functions can be also defined on the basis of the priorities between the PFM management objectives presented below in section 1.2. To a certain extent, these objectives are mutually supporting, nevertheless achieving a good degree of financial compliance (or establishing due processes) is a necessary condition for ensuring that the other PFM objectives can be met in a sustainable manner.

Depending on the context, progress in developing non-core functions in some PFM subsystems can be made even if the core functions are not fully operational in other PFM sub-systems. Nevertheless, such a progress will remain fragile until the core functions are operational in these other PFM systems. Thus, “islands of excellence" or pilot experiences do not necessarily need the core PFM functions be in place for the whole government. However, such initiatives are not sustainable in the long term, if the core PFM functions identified in this paper are not operational. Developing tax administration sub-system does not necessarily require the full implementation of the core PFM functions in personnel and payroll management. However, to achieve aggregate fiscal discipline efforts on revenue collection need to be accompanied by an increased financial discipline in expenditure management. In addition, many PFM sub-systems are closely interdependent. For example, effective budget execution controls require adequate accounting and reporting systems. Sophisticated budget preparation systems will not be effective if the budget is badly executed because the core PFM functions are missing in the budget execution area.

The core PFM functions should ensure financial compliance. Financial compliance means probity and regularity in public finance management, notably in budget management, in high risks areas management such as the management of payroll, procurement and physical assets subject to wastes and embezzlements. Ensuring financial compliance requires adequate control systems, but controls must be fair, that is based on clear and transparent financial regulations and not arbitrary. They should not hinder future development towards the other specific objectives of PFM.

Setting up an adequate system of internal control within the executive should have the higher priority to ensure that the PFM processes operate properly. However, transparency and accountability to the legislature and the citizens are important to encourage compliance within the executive. Therefore, the core PFM functions should include procedures to ensure a certain degree of external accountability and transparency.

To support the core PFM functions adequate systems and infrastructure are needed. These include robust accounting and reporting systems and an appropriate legal and regulatory framework. IT systems are aimed at supporting PFM functions, but their effectiveness depends closely on each country context and technical capacity. In any case, implementing IT systems in

areas where transactions are numerous, such as payroll management, can support in a cost-effective manner expenditure control.
The main output of PFM systems is the budget, through which public policies are financed. An expected result from financial compliance functions should be a “compliance budget” implemented in conformity with the existing regulations. However, such a “compliance budget” can be unsatisfactory, because it can be the result of a permanent budgeting, or bargaining, exercise consisting of making frequent in-year budget revision. The budget will be credible only if it is implemented as initially planned without arrears generation. Making a credible budget requires, in addition to financial control functions, a disciplined budget preparation process involving the decision makers in a transparent manner and a few PFM functions aimed at achieving the control of the totals, including, among others, the control of the public debt.

Thus this paper distinguishes within the set of core PFM functions:

- functions required to ensure financial controls (e.g. controls of transactions, assets and liabilities);

- functions that ensure that controls in place are enforced according to law/regulation in a transparent and not arbitrary manner;

- functions that contribute to the credibility of the budget together with financial control functions.

In countries where the PFM systems are completely disrupted building financial compliance functions should have the higher priority. In addition, in such countries, special management procedures led by the donors may be also needed temporarily. However, this paper, which deals with the building of national PFM systems, does not review this last issue.

A PFM function may have different degree of implementation. For example, it can concern all government expenditures or present some loopholes. The basic requirement will be that the degree of implementation of the core PFM function leads to effective results for most transactions, the exceptions being comparatively minor.

Several countries are undertaking ambitious PFM reforms that go far beyond the core PFM functions, despite the fact that the core PFM functions are poorly implemented. This paper does not deal with such situations. It does not discuss reform sequencing issues.

1.2 Financial compliance and other PFM systems objectives

The “Good Practice Note on Sequencing PFM Reforms” to which this paper is attached defines the following hierarchy between the deliverables (or the management objectives) of a PFM system, in order: (i) financial compliance/fiscal control; (ii) stabilization and sustainability (i.e. aggregate fiscal discipline); (iii) efficiency and effectiveness in resource use.

“Traditional” budget management puts an emphasis on financial compliance, which consists of ensuring compliance with regulations and budget authorizations and probity. Such an approach has been also referred to as "due process in budgeting[1]". In most countries, ensuring financial compliance has been the starting point of building or reforming PFM systems. Thus, Schick notes[2]: "In the first stage [of reform], dating roughly from 1920 to 1935, the dominant emphasis was on developing an adequate system of expenditure control".

Dissatisfaction with traditional budget management, which focuses on inputs, not on results, the fiscal stress and the political will to limit the weight of the government sector in the economy has favoured the development of policy planning and performance approaches in PFM. Thus, since the 90s an emphasis has been put on policy and performance. Thus, in 1996, Campos and Pradham focus on "three basic objectives that any public expenditure management system needs to achieve: (i) to instil aggregate fiscal discipline; (ii) to facilitate strategic prioritization of expenditures across programs and projects; and (iii) to encourage technical efficiency3"

However, it is doubtful that these three objectives can be met when there is no compliance with laws and regulations. Aggregate fiscal discipline would be difficult to ensure without compliance with financial regulations. Allocating totals according to the policy objectives would not have much meaning, if there is no aggregate fiscal discipline to keep these totals under control.

If there are waste and embezzlements, it would be illusory to manage efficiently government activities, except perhaps for few insulated "pilot" experiences during a limited period of time. Actually, in many developing countries substantial progress in achieving operational efficiency will be achieved through measures aimed at meeting financial compliance such as implementing better input control and eliminating waste. In many developing countries, limiting waste in the use of inputs, ensuring compliance with the budget and regulations can contribute more effectively to operational efficiency than developing sophisticated PFM tools focused specifically on performance.

1.3 The core PFM functions and financial compliance

The core PFM functions will focus on financial compliance. However, defining the functions that ensure financial compliance in the most cost-effective way is not straightforward. The nature of controls needs to be specified in function of the country context. In addition, with the PFM objectives interacting, limiting strictly the core PFM functions to financial compliance may be too schematic.

1.3.1 The basic control functions

Compliance requires an adequate control system, but controls may be performed in different manner and may involve different institutions. Controls must be fair, that is based on clear and transparent financial regulations and not arbitrary. They should not hinder future development

[1] A. Schick. "A Contemporary Approach to Public Expenditure Management". World Bank 1998.
[2] A. Schick. "The road to PPB: The stages of budget reform". Public Administration Review. December 1966
[3] E. Campos and S.Pradhan. "Budgetary Institutions and Expenditure Outcomes". World Bank 1996. In relation with these three basic objectives the Public Expenditure Management Handbook of the World Bank developed in 1998 the concept of three levels of outcomes: (i) aggregate fiscal discipline; (iii) strategic prioritisation; (iv) efficiency and effectiveness in service delivery.

towards the other specific objectives of PFM. This does not challenge the priority given to financial compliance, but it requires designing properly the control procedures.

a) *Control of expenditures and revenues*

On the revenue side effective control functions should be in place, but tax players' obligations should be transparent, the tax administration should carry out its activities in a fair manner and appeals procedure should be in place. These requirements are well described by the PEFA the performance indicators 13 to 15. However, there may be some difficulties in many countries to make some desirable institutional arrangements effective, such as the tax appeals mechanism.

When reinforcing expenditure control, it is necessary to find an adequate mix between: (i) controls performed by the ministry of finance, or other central agencies (e.g. the Prime Minister office in some countries), and controls performed within the spending agencies; (ii) ex-ante controls and ex-post controls; (iii) audit on systemic issues and inspections focused on individual transactions; (iv) external to the executive controls and internal controls. This optimal mix depends on various factors, such as human resources capacity, administrative and budgeting culture and the degree of compliance with law and regulations. It has to be determined country by country.

Centralised (external to the agencies) controls can be "the building blocks for a formal, rule-based, honest public sector[4]". However, such an approach can be effective only if these centralised controls are exercised in a fair manner. This is not always the case. In several developing countries the main issues are not related to the lack of controls, but to misdirected controls. Some areas with high financial risks may be not covered, while in other areas, control procedures have been piled up making them cumbersome and duplicated, often because line managers are systematically attempting to circumvent controls.

Control procedures should not impede further progress toward the other PFM objectives. Thus, while in many countries reinforcing centralised controls may be required to ensure financial compliance, in other countries such controls may need to be reinforced in some areas and simplified in other areas. To avoid conflicting with other PFM objectives, measures of control on overall spending, such as cash and commitment control need to be predictable.

Ex-ante centralised controls of transactions (notably commitment and payment controls) are aimed at preventing mismanagement and fraud. However, in some countries with poor governance there are many controls, but the controllers are themselves corrupted, the control points being sorts of toll-houses. In such cases, reinforcing financial controls could consist of reinforcing ex-post controls, such as inspections. Reinforcing ex-post controls is also generally required when some ex-ante controls are simplified.

Centralised management procedures should be transparent and allow line ministries to verify transactions made under their budget. For example, where the payroll is established centrally by the MoF, the payroll should be communicated to line managers to enable them to verify whether

[4] A. Schick. "Why Most Developing Countries Should Not Try New Zealand's Reforms". World Bank Reaserach Observer.1998.

only their staffs are paid under their budgets. Also, in countries with a centralised payment system, payments made by the Treasury should be disclosed in a transparent manner.

The scope of ex-post control and audit must take into account the country context. For example, implementing internal audit in conformity with international standards will require adequate capacities and significant cultural change in many countries. The PEFA PI 21 suggests that at least 50% of staff time should be allocated to audit systemic issues (requirement for score "A"). However, in many low income countries, streamlining the ex-post controls of transactions made by internal audit offices or inspectorates may be more effective than starting by developing internal audit according to international standards.

Payroll management and procurement are significant financial risk areas. Control procedure for payroll management should be in place. A good degree of transparency is needed in procurement activities.

Control of cash is essential. This requires consolidation of government bank account, control of imprest accounts, and rules and systems to minimize cash handling in revenue collection and expenditure payments, these last rules depending on the country infrastructure.

In democratic societies at least, external (to the executive) control, accountability to the legislature and citizens are important functions of PFM. They contribute to ensure that internal control functions properly. Transparency and external accountability may help in limiting grand corruption and in better responding to citizens' aspirations. If the values of a democratic society are adopted, it will be important to start building the institutions for effective legislative oversight at an early stage of the reform process. Therefore, the core PFM functions should include measures aimed at developing external control and accountability.

b) *The control of physical assets*

Accounting for physical assets according to the accrual accounting methods goes far beyond the core PFM functions. However, the more expensive assets and the assets subject to waste and embezzlements should be registered in asset registers regularly updated. This basic requirement does not consist of assessing the "fair value" of these assets and depreciating them. It consists, for example, of assessing whether the cars are still running and whether the computers are still in the offices. The physical asset register should be verified by a person independent from the register keeper.

1.3.2 Support functions and activities

a) *Accounting and financial reporting*

Accounting and reporting procedures should be properly designed to support effectively budget execution control, accountability and analytical works for budget preparation[5]. Of course, the degree of sophistication of accounting methods and classifications depends on priorities between PFM objectives.

[5] See the post of Vani http://blog-pfm.imf.org/pfmblog/2010/05/prioritizing-pfm-reforms-a-robust-and-functioning-accounting-and-reporting-system-is-a-prerequisite-.html

The core PFM functions should include reliable and comprehensive accounting and timely reporting. Accounting and financial reporting should cover all government units. Expenditure should be accounted for at both the commitment and the payment stage (and also at the payment order stage in the francophone systems). Arrears should be accounted for.

Comprehensive monitoring of expenditures financed from external sources depends on donors' procedures. Nevertheless at least, financial reports should cover expenditures financed by external loans on the basis of the disbursements notified by the donors to the debt office, and expenditures financed by grants managed by a "national authorizing officer".

In-year reports, at least quarterly but preferably monthly, should be produced and available within both the MoF and line ministries for budget implementation supervision. An annual financial report should be audited by the Supreme Audit Institution then submitted to the legislature. This last measure is essential for accountability to the legislature. However, it can be effective only if the accounting procedures are clear and enforced. The regular production of in-year financial reports is essential to ensure the quality of the annual report.

b) *The legal framework*

The legal framework should be properly designed to ensure that core PFM functions are legally defined. When reviewing the core PFM functions, it should be verified whether the legal framework is enforced in the relevant area.

c) *Information Technology*

Many budget reforms include an IT component, which is often of a significant size. Computerisation may facilitate PFM, provided that there are national capacities to supervise the implementation, the operations and the maintenance of these systems. Experience shows, however, that results in this area are uneven, especially when it is planned to implement an integrated financial management information system (IFMIS). Even implementing an FMIS limited to a Treasury system poses difficulties and needs several years. As noted by Dener *et al.*, there are "FMIS prerequisites" that should be substantially completed before contracting for an FMIS[6]. These include technical, human resources and functional prerequisites, which meet the core PFM functions in budget execution and accounting areas. FMIS may reinforce the effectiveness of core PFM functions, but they cannot be a substitute for these functions.

IFMIS and FMIS of a large coverage cannot be included in the core functions. IT developments are desirable, but they should be considered on the basis of the review of elements such as the organisation of the budget system, the number of transactions, the existing IT systems, and the existing capacity to supervise the preparation of IT systems, operate and maintain them. Managing the payroll involves a high number of transactions and calculation. Implementing a payroll information system at an early stage of the PFM systems development is generally desirable.

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[6] Cem Dener, Joanna Alexandra Watkins, William Leslie Dorotinsky "Financial Management Information Systems: 25 Years of World Bank Experience on What Works and What Doesn't." World Bank. 2011.

1.4 The resulting budget

1.4.1 The compliance budget

The main output of PFM systems is the budget, through which public policies are financed. As stated by the budget principles of unity and universality, comprehensiveness of the budget is required for financial compliance.

In addition, an expected result from financial compliance functions should be a "compliance budget" implemented in conformity with the existing regulations. This will mean: (i) the expenditure out-turns comply with legislature's authorisations; (ii) there is no arrears generation. Except under special circumstances, compliance with legislature authorizations should mean that budget revisions are approved by the legislature before they are implemented, not after.

1.4.2 The budget credibility

However, such a "compliance budget" may be the result of a permanent budgeting exercise consisting of making frequent in-year budget revision. Such "methods" are the opposite of good budgeting. The budget will be credible only if it is implemented as initially planned without arrears generation. As noted earlier, functions that contribute to the credibility of the budget are included in the PFM core functions.

According to the PEFA framework a credible budget is a budget implemented as initially planned, without arrears generation. The PEFA framework assesses the credibility of the budget through four performance indicators (PEFA PI 1 to PI 4)[7]. Generally, progress along these indicators depends on several PFM functions in both budget preparation and budget execution areas. Only the dimension (ii) of PEFA PI 4, which refers to the quality of arrears monitoring, and the dimension (ii) of PEFA PI 2 (new version), which refers to the amount of contingency reserves, are related to specific PFM functions.

Improving budget credibility will require identifying the causes of poor budget credibility, which may include, among others, poor budget preparation, without prioritization, and/or poor expenditure controls. It requires effective control and accounting functions and adequate technical capacity to forecast revenue and cost the planned activities[8]. Budget credibility, may be also affected by external factors, such as the nature of the formal and informal policy and political dialogue between the decision makers.

To achieve a credible budget, in the PEFA sense, the core PFM functions must cover some aspects of budget preparation, notably those dealing with the quality of revenue projections and expenditure costing. They should include at least partly functions aimed at achieving aggregate

[7] PI 1. Aggregate expenditure out-turn compared to original approved budget; PI 2. Composition of expenditure out-turn compared to original approved budget; PI 3. Aggregate revenue out-turn compared to the original approved budget; PI 4. Stock and monitoring of expenditure payment arrears.

[8] These functions are presented under the umbrella of basic financial compliance in box 2 of Diamond's paper op.cit.

fiscal discipline. The control of totals, at least in the annual budget framework, is at the base of budgeting.

The credibility of the budget may be seriously affected by political and informal factors. For example, budget variance (PEFA PI 2-(i)) may be affected by pressure from politically powerful ministers, which had their original approved budget underestimated for window-dressing, because they manage a so-called “non-priority sector”. Dealing with the political factors goes beyond the object of the present paper, but it should be ensured that the PFM procedures encourage decision-makers to reveal their choices during budget preparation. For example, the Council of Ministers should be involved at the key steps of the budget preparation procedure, not only when the draft budget bill is finalised.

In aid-dependent countries, the credibility of the budget, in the PEFA sense, depends also on the predictability of the budget support, which is assessed by PEFA indicators D-1. This last indicator must be taken into account when looking for the causes of weak budget credibility.
In addition to be implemented as planned, the budget will be credible as PFM tool and instrument for accountability to the legislature only if its coverage is fairly comprehensive (cf. PEFA PI 7 and 9).

The sustainability of the budget goes beyond its credibility as defined above, but in the medium-term at least the budget will be credible, only if it is sustainable. For ensuring expenditure control beyond the current year a multi-year approach may be required in some specific areas (e.g. assessing the forward costs of investment projects and some form of debt sustainability analysis). In addition, it should be noted that macro-fiscal stability is a key component of the financial programmes supported by the IMF. The countries must be able to analyse and negotiate these programmes. Preparing a medium-term fiscal framework (MTFF) is generally needed in the context of IMF programme. Even where the MTFF is prepared by the IMF, the MOF should have some capacity to analyse it and to prepare fiscal projections at least for a period of 2 to 3 years.

Therefore, some functions dealing with budget preparation and aimed at ensuring the credibility of the budget can be included in the core PFM functions. However, in countries where the PFM systems are completely disrupted, they have a lesser priority than the functions related to financial controls of the transactions.

2 The core PFM functions and the PEFA

The PEFA framework has been used to identify core PFM functions, but it has been completed when necessary.

This section describes the method used to compare the PEFA PIs and scoring system with the core PFM functions. This comparison is shown in table 2. Table 2, has been built according to the following steps:

- The PEFA dimensions of the PIs that deal directly with specific PFM processes, whether there are core functions or not, have been included in the table 2 (see sub-section 2.1).

- The core PFM functions not covered by the PEFA framework have been included in table 2 (see sub-section 2.2).

- For each PEFA PI dimension, the PEFA score that corresponds to a PFM core function operating at an acceptable level has been estimated. The method used to estimate this score is discussed in sub-section 2.4.

- To assess the relevance and the feasibility of these scores, the table 2 shows the average scores of PEFA assessments (see comment on these results in sub-section 2.3).

2.1 The PEFA framework and the PFM processes

The PEFA indicators can be grouped in three categories, according to the type of objects they measure:

a) PEFA indicators that deal with specific PFM processes [dimension (ii) of PI 2 (new version), dimension (ii) of PI 4 and PIs 5 to 28]

b) PEFA indicators on budget credibility that deal with the results of PFM functions as well as of external factors [PI 1, dimension (i) of PI 2, PI 3 and dimension (i) of PI 4].

c) PEFA indicators on donors practice (indicators D 1 to D 3). These indicators, particularly indicator D1, have an impact on the PFM processes, but they are not under the governments' control.

The table 2 includes only the first of these groups (group a) above.

PEFA PI 1 and 3 and the dimensions (i) of PI 2 and 4 (group b above) indicate whether the budget is implemented as planned. This requires that the core PFM functions are functioning and budget support predictable, in aid dependent countries. Such indicators are also highly influenced by external factors, notably by political factors. The monitoring of these four indicators will alert on the existence of significant weaknesses in the PFM processes, but only the other PEFA PIs will help in identifying these weaknesses.

2.2 The PEFA framework and the donors' practice

The PEFA framework indicators on donors' practice (group c above) do not deal with the national PFM processes, but they have an incidence on them:

- D1 deals with the predictability of budget support. Predictability of budget is key for achieving a credible budget. As noted, this indicator must be taken into account when looking for the causes of weak budget credibility.

- D2 deals with the financial information provided by donors on project aid. Such information is important to assess the quality of national data and will complete national data for grants directly managed by the donors. However, data on project financed by loans, at least at the disbursement stage, and on projects financed by external grants with a "national authorizing officer" are available locally. A weak score for D-2 should not be an excuse for not including such data in financial reports.

- D3 deals with the proportion of aid that is managed by use of national procedures. This has no direct impact on the definition of the core PFM functions. Nevertheless, special procedures for project aid may favour the creation of loopholes in the PFM system. They may encourage questionable practices from suppliers. Thus, arrears are often generated on the domestic counterparts of projects externally financed, when suppliers are covering the risk of being unpaid by the external financing of their contract.

In aid-dependent country a score of at a minimum "B" for the dimension (i) and (ii) of the PEFA PI D-1 dealing with the predictability of budget support will generally be necessary to achieve a satisfactory degree of budget credibility. The requirements for this score are the following:

- PI-D-1-(i): In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 10%.

- PI-D-1- (ii): Quarterly disbursement estimates have been agreed with donors at or before the beginning of the fiscal year and actual disbursements delays (weighted) have not exceeded 25% in two of the last three years

2.3 The core PFM functions not covered by the PEFA framework

The PEFA framework covers most core PFM functions, but not all. In particular the PEFA does not deal directly with the legal framework, while the key PFM procedures should have a legal status. Assessing the degree of compliance with the legal framework is required to assess the capacity of the PFM systems to ensure financial compliance.

The PEFA framework does not cover IT systems. Managing the payroll involves a high number of transactions and calculation. Implementing a payroll information system at an early stage of PFM systems development is generally desirable. As noted above, other IT developments are desirable, but provided that core PFM functions in accounting and budget execution areas are already operational.

Concerning financial compliance, table 2 includes the following core PFM functions that are not covered by the PEFA framework:

- Limited use of suspense accounts and special payment procedures. Problems related to such procedures are met in different budget systems. Even under a treasury single account such questionable procedures may be found, when the Treasury pays special payment requests, generally issued by high authorities, without controlling them against the appropriations.

- Treasury and line ministries reconciliation of accounts.

- Controls of payroll by line managers when payroll management is centralized (see comments made above).

- Assets registering, for assets that may risk to be wasted, poorly maintained and embezzled.

- Rules and systems should be in place to minimize cash handling in revenue collection and expenditure payments.

To ensure that the budget will be implemented as planned it will be needed, among other factors, to have some technical capacity for: (i) forecasting fiscal aggregates; (ii) forecasting revenue; and (iii) costing expenditure programmes. The two later are only partially covered by the PEFA framework. Assessing such capacity will require reviewing issues such as organisational arrangements, procedures, tools, and human resource capacity.

2.4 Grouping and characterizing the PFM functions

Table 2 includes all PFM functions covered by the PEFA framework (either core or not core) and few PFM core functions not covered by the PEFA framework. In that table, the PFM functions are grouped as follows:

Functions aimed at ensuring financial compliance/due processes

- Due processes in tax administration.

- Compliance in spending.

- Compliance in managing physical assets.

- Cash control.

Functions aimed at ensuring financial compliance and that respond to societal values

- External accountability.

- (See also budget classification, accounting and reporting)

Functions that ensure equity and transparency between the levels of government

- Intergovernmental fiscal relations.

Functions that contribute to budget credibility (in PEFA sense) together with the other core PFM functions

- Capacity to prepare a budget that will be implemented as planned.

Functions that support other functions

- Budget classification, accounting reporting.
- Legal framework.
- IT systems (*With some caution*, starting with a payroll system).

The PFM functions presented in table 2 have been characterized by an indicator put in the column “Characteristic” of table 2:

- Indicator “1” concerns functions aimed at ensuring that financial controls are in place.
- Indicator “1F” concerns functions aimed at ensuring that controls in place are performed in a transparent and not arbitrary manner.
- Indicator “2” concerns some functions required for a credible budget, together with the functions qualified by the indicator “1”.
- Indicator “3” concerns the dimensions of PEFA indicators aimed at ensuring allocation of resources in conformity with policy objectives or efficient public service delivery. These functions are not included in the core PFM functions, except when they also meet financial compliance objectives.
- Indicator “4” concerns the dimensions of PEFA indicators dealing with intergovernmental fiscal relations (PI-8- and PI-9-(ii)). Whether these functions should be included in the group of core PFM functions or not depends on the degree of decentralisation of the country and the size of sub-national governments. In table 2, the core PFM function correspond to a score “A” for PI-8-(i) and PI-8-(ii) and to a score “B” for PI-9-(ii) when sub-national expenditures account for more than 10% of general government expenditures.

2.5 The PEFA scores of core PFM functions

In table 2, a PEFA score corresponding to the “core PFM functions” has been assigned to each dimension of PEFA performance indicators. This score corresponds to the minimum level at which the relevant PFM function contribute effectively to achieve the objectives assigned to the core PFM functions (mainly financial compliance, as discussed in section 1).

Table 1 summarizes table 2 for the core PFM functions covered by the PEFA framework and presents the scores for the core PFM functions by PEFA indicator, using the PEFA methodology to calculate these scores from the scores of the dimensions given in table 2. The method used to estimate the PEFA scores corresponding to the core PFM functions is summarized below.

Score "D"

The score "D" has been assigned to the dimensions of the PEFA PIs that are not considered as being related to core PFM functions either because they do not deal with the priority PFM objectives or because the requirements to achieve a score corresponding to effective results are high:

- The score "D" has been assigned to the PEFA PI dimensions that deal will policy formulation. These include the PEFA PI 8-(iii) ("extent of consolidation of fiscal data for general government according to sectoral categories"); PEFA PI-12-(iii) ("existence of costed sector strategy"); and PI-23 ("availability of information received by service delivery units").

- Score "D" has been also assigned to two PEFA PI dimensions related to financial compliance PFM functions that will require time to be effective. An acceptable level of financial compliance to move beyond the core functions can be achieved before these PFM functions are effective. These functions include: PI-13-(iii) (existence and functioning of a tax appeals mechanism) and PI-19-(iv) (existence of an independent administrative procurement complaints system).

Score "C"

A score "C" has been assigned in the following situations:

- the requirements for score A and B go beyond the priority PFM objectives;

- the PEFA scores "A" and "B" meet the financial compliance objective but they are difficult to achieve in the short/medium term in many countries while under score "C" a certain degree of financial compliance can be achieved. Difficulties to reach the scores "A" and "B" may come from various factors. For example, scores "A" and "B" may require significant improvement in the methods of the work and change in the administrative culture, or they require an adequate technological infrastructure that cannot be found in every country;

- the PEFA indicators deal with processes depending in a large part on the legislature, in the core PFM functions the higher priority should be granted to processes managed by the executive (including the relationship between the executive and the legislative branches of government). The oversight function of the legislature is crucial, but the executive is responsible for making the budget preparation and execution processes effective.

The PEFA requirements for score A and B go beyond financial compliance and macro-fiscal fiscal control for the following PEFA indicators:

- PI-5: for financial compliance an economic and an administrative budget classifications are required (score "C"), but not the COFOG (scores "A" and "B").

- PI- 12-(i)): score “C”’ is related to aggregate fiscal discipline (forecasts of fiscal aggregates on the basis of the main categories of economic classification are prepared) while scores “A” and “B” include elements related to inter-sectoral policy decision making (forecasts are prepared on the basis of both main economic categories and functional/sector classification).

- PI-12-(iv): scores “A” and “B” require a strong link between investment decisions and sector strategy.

For some indicators the scores “A” and “B” require the adoption of new standards and/or changes in the methods of work that need time to implement:

- PI-14-(iii): scores “A” and “B” require “clear risk assessment criteria” for tax audits;

- PI-21-(i): scores A and B require the audit being based on systemic countries, while in many developing countries internal audit still deal with individual transactions and reinforcing inspections may have a higher priority;

- PI-25-(iii): scores “A” and “B” refer to “IPSAS or corresponding national standards” depending on the meaning of the term “corresponding”, such requirement goes beyond the core PFM functions.

Linking the different tax payers’ data-base (scores B and A for PI-14-(i)) needs time and requires an adequate technical infrastructure, but the score “C” meets a minimum requirement which consists of registering taxpayers in database system for individual taxes”.

Priority should be granted to the processes that depend on the executive. Therefore a score “C” has been assigned to PI-28-(i) and PI-28-(ii) that deal with the method of work of the legislature.
The score “C” has been also assigned to the components of the PEFA indicators in the following situation: (i) it will need time to reach the score “B”; and (ii) the score “C” corresponds to an effective level of financial control. Thus the score “C” has been assigned to the following indicators: PI-15-(i); PI-15-(iii); PI-16-(i); PI-18-(i); PI-18-(ii); PI-19-(ii); PI-20-(ii); PI-21-(ii); PI-21-(iii); PI-24-(iii); PI-25-(i); and PI-26-(i).

Score “B”

Concerning the PEFA indicators dealing with financial compliance, the score “B” corresponds generally to effective achievements. Therefore, with two exceptions for which a score “A” has been assigned, the score “B” has been assigned to the indicators dealing with financial compliance not mentioned above. These include the following indicators : PI-2-(ii); PI-4-(ii); PI-7-(i); PI-7-(ii); PI-9-(i); PI-10; PI-13-(i); PI-13-(ii); PI-14-(ii); PI-15-(ii); PI-16-(i); PI-16-(ii); PI-17-(i); PI-17-(ii) ; PI-17-(iii); PI-17-(iv); PI-18-(ii); PI-19-(i); PI-19-(iii); PI-20-(i); PI-20-(iii); PI-22-(i); PI-22-(ii); PI-24-(i); PI-24-(ii); PI-26-(ii); PI-26-(iii); PI-27-(i); PI-27-(ii); PI-27-(iii); PI-27-(iv); PI-28-(iii).

Specific issues concerning PI-26-(ii) are discussed below.

In addition the score "B" has been assigned to the indicators related to PFM functions that contribute to a credible budget. These include: PI-11-(i); PI-11-(ii); PI-11-(iii); PI-12-(ii)

Scores "A"

Score "A" has been assigned to PI-6 ("comprehensiveness of information included in budget documentation") because, except one, the required elements of information for score "A" are can correspond to a core function. However, in practice on the basis of PEFA assessments, only 50% of MIC meets this score, the elements of information included in the budget documentation differing from one country to another.

Score "A" has also been assigned to PI-25-(ii) ("timeless of submission of the financial statements"). Score "A" for PI-25-(ii) requires that the financial statements be submitted for external audit within 6 months of the end of the fiscal year. This requirement is not met in many countries. According to the PEFA assessments only 30% of low income countries (LICs) and 50% of middle income countries (MICs) meet this target.

To ensure that they play an effective role in PFM, the audited accounts for year t-1 should be available before the budget bill for year t+1 is tabled in the legislature, or at least at the same time. This will not be possible if the statements are submitted to the external audit office belatedly. In addition, if the financial statements are submitted for external audit 6 months after the end of the fiscal year, the audited financial statements should be submitted to the legislature within 3-4 months from their receipt by the audit office. PI-26-(ii) deals with the timeliness of submission of audits report to the legislature. While for most audit reports, a score "B" for PI-26-(ii) is acceptable (audit reports submitted within 8 months), for the financial statements the score "B" could be insufficient to ensure that they are submitted to the legislature in time.

Table 1

Summary table: PEFA Indicators and scores for the core PFM functions

		Dimensions Score				PI Score
		(i)	(ii)	(iii)	(iv)	
PI-2-(ii) Actual expenditures charged to the contingency vote			B			
PI-4-(ii) Arrears monitoring			B			
KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency						
PI-5 Classification of the budget	M1	C				C
PI-6 Comprehensiveness of information included in budget documentation	M1	A				A
PI-7 Extent of unreported government operations	M1	B	B			B
PI-8 Transparency of inter-governmental fiscal relations	M2	A to C	A to C	D		
PI-9 Oversight of aggregate fiscal risk from other public sector entities	M1	B	B to C			
PI-10 Public access to key fiscal information	M1	B				B
POLICY-BASED BUDGETING						
PI-11 Orderliness and participation in the annual budget process	M2	B	B	B		B
PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	B	D	C	C
PREDICTABILITY AND CONTROL IN BUDGET EXECUTION						
PI-13 Transparency of taxpayer obligations and liabilities	M2	B	B	D		C+
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	M2	C	B	C		C+
PI-15 Effectiveness in collection of tax payments	M1	C	B	C		C+
PI-16 Predictability in the availability of funds for commitment of expenditures	M1	C	B	B		C+
PI-17 Recording and management of cash balances, debt and guarantees	M2	B	B	B		B
PI-18 Effectiveness of payroll controls	M1	C	B	C	C	C+
PI-19 Competition, value for money and controls in procurement	M2	B	C	B	D	C+
PI-20 Effectiveness of internal controls for non-salary expenditure	M1	B	C	B		C+
PI-21 Effectiveness of internal audit	M1	C	C	C		C
ACCOUNTING, RECORDING AND REPORTING						
PI-22 Timeliness and regularity of accounts reconciliation	M2	B	B			B
PI-23 Availability of information on resources received by service delivery units	M1	D				D
PI-24 Quality and timeliness of in-year budget reports	M1	B	B	C		C+
PI-25 Quality and timeliness of annual financial statements	M1	C	A	C		C+
EXTERNAL SCRUTINY AND AUDIT						
PI-26 Scope, nature and follow-up of external audit	M1	C	B	B		C+
PI-27 Legislative scrutiny of the annual budget law	M1	B	B	B	B	B
PI-28 Legislative scrutiny of external audit reports	M1	C	C	B		C+

This table deals with PFM functions. It does not include the PEFA PI 1, PI 2 component (i), PI 3 and PI 4 component (i) because the scores of these resulting indicators depend on several PFM functions.
Score “D” means that the PFM function is not considered as being a core function.

2.6 Comparison with available PEFA assessments

To compare the scores assigned in table 2 to the PEFA PIs with the current level of development of PFM functions, the table 2 presents the average scores of low income countries (LICs), lower middle income countries (LMICs) and upper middle income countries (UMICs) calculated from the existing PEFA assessments.

To calculate these average scores, the alphanumeric PEFA scores have been translated into numeric equivalents (A=4, B=3, C=2, D=1). For the countries that have done repeated PEFA assessments, only the last assessment has been taken into account. The PI component not scored and marked “NR” (not scored due to insufficient information) or “NA” (not applicable) or “NU” (not used) have not been considered in the calculation of the average scores.

The majority of identified scores for core PFM functions are higher than the current average scores of the PEFA assessments but not excessively. However, as discussed above a score “A” has been assigned to PI-6 and PI-25-(ii), while for LICs the average score of these indicators is between “C” and “B”. In some cases, the scores assigned to the core PFM functions are inferior to the scores of PEFA assessments. As noted above a score “D” has been given to PFM processes that do not deal directly with the priority PFM management objectives or that may need time to be operational. The score “C” has been assigned to 12 components of PEFA indicators for which the average score of LICs is slightly above “C”.

Generally the countries’ average scores are progressing according to the level of income of the group of countries LICs with lower scores and UMICs with the highest average score. There are a few exceptions however[9], which concern the procurement complaints mechanisms (previous PI-19-(iii)) and internal and external audits (PI-21-(i); PI-21-(ii); and PI-28-(ii)). For example, for the previous PI-19-(iii) (procurement complaints mechanisms), four LICs among 26 have a score “A”, but only one UMIC among 19. For PI-21-(i) (coverage and quality of the internal audit function), three LICs among 26 have a score “A”, but none LMIC among 32. Concerning PI-21-(i), possibly the expression “[audit] focused on systemic issues” may have different interpretations in the PEFA assessments. Such higher scores of LICs in areas related to accountability could come from several factors, including the historical context of certain sub-groups of countries. Also if a score “A” indicates that procedures are formally in place, it does not always inform on their quality and their outcomes.

2.7 The resulting budget

Table 3 presents the expected result from the core PFM functions on the implementation of the budget. Generally, the budget should be implemented as initially planned (i.e. it should be credible in the PEFA sense). However, in countries with very poor PFM systems, the objective should be more modest. It will consist of implementing the budget according to the regulations

[9] This point has been noticed by J. Diamond.

(“compliance budget”) and ensuring that budget revisions are submitted to the legislature for approval.

2.8 Are the PEFA scores that meet the core PFM functions common to all countries?

Reform sequencing and the first phase/platform of a reform programme, must be determined country by country. In some countries the core PFM functions are implemented to a satisfactory degree, in others not.

While reform sequencing depends on the country, most core PFM functions are common to all countries. For example, an economic and administrative budget classification is required in every country. However, some scores presented in table 2 may need to be specified according to the country context:

- For certain functions, higher scores could be expected in countries with good infrastructure and Internet access than in the others (see some comments in table 2).

- Special attention should be paid on intergovernmental fiscal relationship in decentralised countries. Consolidating the general government accounts is always desirable, but is less crucial in countries where sub-national governments account for a little share of general government spending;

There may be also some differences between countries in the way certain procedures should be specified, but not necessarily in the PEFA scores. While the PEFA scores for core PFM functions are generally independent from the nature of the budget system, the detailed specifications of the procedures will have to take into account the nature of the budget system. For example, reinforcing the controls from ministry of finance may be needed in several countries. However, in over-centralized budget system, a special attention on the fairness of ministry of finance controls should often be put. In African countries, generally, the role of legislature in budget control should be increased. However, in other countries disciplining parliamentary processes should have a higher priority.

Generally, the budget expected from the core PFM functions will be a credible budget. However, sequencing the implementation of the core PFM functions will be needed in several countries. In a first step, in the countries where the PFM systems are completely disrupted, or with informal and non-transparent decision making processes or in most post-conflict countries a more modest objective than a credible budget will be to achieve a “compliance budget” as defined above. This will reduce the number of core PFM functions to the functions with indicator “1” in the column PFM objectives of table 2.

Possibly, for some sophisticated PFM systems, a very few core PFM functions identified in table 2 could be deemed not relevant (for example, daily consolidation of central government’s bank accounts balances may be not needed, if a capital charge is applied to these accounts). But such exceptions, if any, will concern only a few industrialised countries.

Table 2
Core PFM functions, PEFA indicators and Scores

The quotations are from the PEFA PFM Performance Measurement Framework
The numeric scores for low income countries (LICs), low middle income countries (LMIC) and upper middle income countries (UMIC) are the average of the scores of the PEFA assessments (A=4, B=3, C=2, D=1). For example, a numeric score 2.5 means that in average the country scores are between C and B.

PFM function	PEFA PI					Characteristic	Comments
	PI no	Scores					
		LIC	LMIC	UMIC	Core		
Tax administration: due processes							
Transparency of tax-payer obligations							
Clarity and comprehensiveness	PI-13 (i)	2.5	2.6	3.0	B	1F	Score "B" meets the objectives of transparency and fairness for most taxes. Score "B": "Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved" Score "C" would not meet the objective of fairness because there will be "substantial discretionary powers of the government entities".
Access to information	PI-13 (ii)	2.6	2.9	3.4	B	1F	Score "B" meets the objective of fairness Score "B": Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for some of the major taxes, while for other taxes the information is limited. Under the score "C" the "usefulness of the information is limited"
Tax appeals	PI-13 (iii)	2.4	2.5	2.9	D	1F	Despite their importance, tax appeals mechanisms are not included in the core PFM functions, because making them effective is difficult in many countries, particularly in LICs. If a tax appeal mechanism is deemed to be a part of the core PFM functions, the core PFM function should correspond to score "B" or

PFM function	PI no	LIC	LMIC	UMIC	Core	Characteristic	Comments
							"A". The score "C" corresponds to an established tax appeal mechanism that needs "substantial redesign to be fair, transparent and effective". Even under the score "B" the effectiveness of the mechanism is uncertain. Score B: "A tax appeals system of transparent administrative procedures is completely set up and functional, but it is either too early to assess its effectiveness or some issues relating to access, efficiency, fairness or effective follow up on its decisions need to be addressed."
Effectiveness of taxpayer registration and tax assessment							
Controls in the taxpayer registration system	PI-14 (i)	2.0	2.4	3.0	C	1	Taxpayers should be registered. This is achieved under the score "C" Score "C": "taxpayers are registered in database systems for individual taxes, which may not be fully and consistently linked." Implementing links between tax databases, as required for scores "A" and "B", is desirable but it needs time and adequate infrastructure.
Effectiveness of penalties	PI-14 (ii)	2.4	2.7	3.0	B	1	A penalty system should exist and be effective Under score "B": penalties exist for "most relevant areas" and are at, least partly, effective ("not always effective") Under score "C" penalties exist but are not effective.
Planning and monitoring of tax audit programme	PI-14 (iii)	2.3	2.5	3.0	C	1	Under the score "C", "there is a continuous programme of tax audits and fraud investigations, but audit programmes are not based on clear risk assessment criteria". Scores "B" and "A" require "clear risk assessment criteria". Implementing effectively such auditing methods may need time, particularly in LICs.

PFM function	PI no	LIC	LMIC	UMIC	Core	Characteristic	Comments
Effectiveness in collection of tax payments							
Collection ratio of tax arrears	PI-15 (i)	1.4	2.1	2.3	C	1	Score "C": "The average debt collection ratio in the two most recent fiscal years was 60-75% and the total amount of tax arrears is significant" Differences between the scores "B" and "C" concern only the percentage of debt collection (75-90%, for score "B"; 60-75% for score "C").
Frequency of account reconciliation	PI-15 (iii)	2.2	2.7	3.0	C	1	Score "C" corresponds to annual reconciliations, which is a minimum requirement. Score "C": "Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury takes place at least annually within 3 months of end of the year." Score "B" (quarterly reconciliation) is desirable, because making only annual reconciliation leads to accumulate discrepancies over a long period, thus making corrections more difficult.
Compliance in spending							
Control procedures							
Internal control for non-salary expenditures							
Commitment control	PI-20 -(i)	2.4	2.7	3.0	B	1	Score "B" because effective commitment control should be a part of the core PFM functions. Exceptions will concern mainly mandatory expenditures committed de facto (e.g. debt servicing). PEFA score "B": "expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations for most types of expenditure, with

PFM function			PEFA PI					Characteristic	Comments
			PI no	Scores					
				LIC	LMIC	UMIC	Core		
									minor areas of exception." Score "C" may be acceptable if the exceptions are clearly defined and justified. PEFA score "C": "expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditures or they may occasionally be violated." Arrears come often from multi-year commitments. It is unclear whether PEFA PI-20 deals with multi-year commitment.
		Other administrative control	PI-20 (ii)	2.6	3.1	3.5	C	1	Score "C" because controls are deficient only in areas of minor importance. Score "C": "Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance"
		Cash handling	Not in PEFA					1	Rules and systems should be in place to minimize cash handling in revenue collection and payments. New forms of electronic payment systems and spread of internet access and (more so) mobile phones make this more and more accessible to LICs.
		Compliance with rules for processing and recording transactions	PI-20-(iii)	2.4	2.7	3.5	B	1	The core PFM functions correspond to score B, because in many countries the use of unjustified "emergency" procedures is a major concern. Score "B": "Compliance with rules is fairly high, but simplified/emergency procedures are used occasionally without adequate justification." Under score "C": "Rules are complied with in a significant majority

PFM function			PEFA PI						Comments
			PI no	Scores				Characteristic	
				LIC	LMIC	UMIC	Core		
									of transactions, but use of simplified/emergency procedures in unjustified situations is an important concern."
	Payroll control								
		Integration of personnel and payroll databases	PI-18 (i)	2.1	2.3	2.9	C	1	Score "C" allow the payroll to be reconciled with personnel records. Score "C": "A personnel database may not be fully maintained, but reconciliation of the payroll with personnel records takes place at least every six months." Score "B": "the payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data." PEFA score "A" requires to directly link personnel and payroll file, which needs adequate infrastructure.
		Changes recorded timely	PI-18 (ii)	2.0	2.8	3.7	C	1	Under score "C" there are retroactive adjustments but files are updated within 3 months. Score "C": Up to three months delay occurs in processing changes to personnel records and payroll for a large part of changes, which leads to frequent retroactive adjustments". Difference between score "B" and "C" concerns the significance of retroactive adjustments.
		Internal controls of changes	PI 18-(iii)	2.2	2.9	3.4	B	1	Score "B" should be a requirement Score "B" "authority and basis for changes to personnel records and the payroll are clear". Score "A" suggests the implementation of an audit trail, which is desirable but requires adequate software
		Existence of payroll audits	PI -18 (iv)	1.9	2.3	2.8	C	1	Score "C" because at least conducting comprehensive staff survey to identify ghost workers is required in countries that do not carry out full payroll audit. Score "C", "partial payroll audits or staff surveys have been

PFM function			PEFA PI					Characteristic	Comments
			PI no	Scores					
				LIC	LMIC	UMIC	Core		
									undertaken within the last 3 years." Under Score "B" payroll audit has been conducted at least once in the last three years. The audits are aimed at "identifying ghost workers, fill data gaps, and identify control weaknesses."
		Existence of dual controls of payroll	Not in PEFA					1	Where the payroll is established centrally by the MoF, the payroll should be communicated to line managers to enable them to verify whether only their staffs are paid under their budgets.
	Procurement								
		Transparency, comprehensiveness and competition in the legal framework	PI-19 (i)	2.2	2.3	2.3	B	1	Score "B" for the new component of PI-19 requires that the legal and regulatory framework meets 4 or 5 criteria among 6. Criteria (i) to (iv) correspond to core functions. According to these four criteria, the legal and regulatory framework for procurement should: (i) be organized hierarchically and precedence is clearly established; (ii) be freely and easily accessible to the public through appropriate means; (iii) apply to all procurement undertaken using government funds4; (iv) make open competitive procurement the default method of procurement and define clearly the situations in which other methods can be used and how this is to be justified For the criteria (v) and (vi) see comments on PI-19-(iii) and PI-19- (iv) The countries' current scores correspond generally to the previous definition of this component.
		Justification for use of less competitive procurement methods	PI-19 (ii)	2.2	2.6	2.5	C	1	Score "C" is a minimum requirement. Score "C" (new component of PI-19):

PFM function			PI no	LIC	LMIC	UMIC	Core	Characteristic	Comments
									“When contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements: for at least 60% of the value of contracts awarded” In the medium-term score “A” would be desirable. Score “B”: “... they are justified... for at least 80% of the value of contracts” Score “A” : “... they are justified... in all cases” The countries’ current scores correspond generally to the previous definition of this component
		Public access	PI-19 (iii)	New component			B	1F	The core PFM functions score is between B and C: (i) Under score “C”, only two key procurement pieces of information are made public. This could be acceptable if they consist of bidding opportunities and contract award; (ii) These two key information elements should cover at least 75% of procurement operations, as required by score “B”. Score B: “At least three of the key procurement information elements [procurement plans; bidding opportunities; contract awards; data on resolution of complaints] are complete and reliable for … 75% of procurement operations (by value) and made available to the public in a timely manner through appropriate means" Score C: “two key procurement information for 50% of procurement operations (by value)”
		Independent procurement complaint systems	PI-19 (iv)	2,6	2,1	2,2	D	1F	Score “D” because score “C” may be difficult to achieve. Score “C” requires three criteria among seven, including the criteria (i): “complaints are reviewed by a body which is comprised of

PFM function			PEFA PI					Characteristic	Comments
			PI no	Scores					
				LIC	LMIC	UMIC	Core		
									experienced professionals, familiar with the legal framework for procurement and includes members drawn from the private sector and civil society …” Implementing the criteria (i) will need time in many countries. The current countries’ scores correspond generally to the previous dimension (iii) of PI-19, which was slightly different.
	Internal audit								
		(i)coverage and quality	PI-21 (i)	2.0	1.5	2.6	C	1	Under score “C” internal audit is operational. Score C: “The function is operational for at least the most important central government entities and undertakes some systems review (at least 20% of staff time), but may not meet recognized professional standards.” Taking into account the administrative culture of many developing countries, the scores A and B of PEFA PI-21 seem over-ambitious (more than 50 % of systemic audit). Inspections could have a higher priority in many developing countries
		(ii) Frequency and distribution of report	PI-21 (ii)	2.3	2.1	2.6	C	1	The minimum requirements consist of producing audit reports for the management. Under score C, reports are issued regularly for most government entities but may not be submitted to the ministry of finance and the SAI
		(iii) Extent of management response	PI-21 (iii)	1.8	1.8	2.4	C	1	Score “C” requires a fair degree of action taken by managers on major issues, but often with delay.
	Predictability in the availability of funds for commitments of expenditures								
		Cash flows forecast and monitoring	PI-16-(i)	2.4	2.8	3.5	C	1F,	Score “C”: “A cash flow forecast is prepared for the fiscal year, but it

PFM function	PI no	LIC	LMIC	UMIC	Core	Characteristic	Comments
						3	is only partially and infrequently updated." Cash flows planning increases predictability in spending and facilitates overall fiscal control. However, compliance controls should be ensured first through commitment control. Under score "B" cash flow forecasts are updated quarterly.
Reliability and horizon of periodic information to MDAs on ceiling for expenditure commitment	PI-16-(ii)	2.3	2.8	2.8	B	1F, 3	Score "B" because commitment ceilings notified at the last minute are either ineffective or disruptive for sound management Score "B": "MDAs are provided reliable information on commitment ceilings at least quarterly in advance" Score "C": MDAs are provided reliable information for one or two months in advance.
Frequency and transparency of adjustments to budget allocation, which are decided above the level of management of MDAs	PI-16-(iii)	2.4	2.5	2.7	B	1F, 3	Score B because frequent adjustments lead often to confusion and can generate arrears Score "B": "Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a fairly transparent way." Score "C": "Significant in-year budget adjustments are frequent, but undertaken with some transparency."
Effective system of sanctions	Not in PEFA					1	
Comprehensiveness of the coverage of financial oversight							
Extent of unreported government operations							
Level of EBF expenditures not included in fiscal reports	PI-7-(i)	2.1	3.2	3.5	B	1, 2	Comprehensiveness is required for compliance, aggregate fiscal discipline and resource allocation. Score "B": "the level of unreported extra-budgetary expenditure (other than donor funded projects) constitutes 1-5% of total

PFM function	PEFA PI: PI no	Scores: LIC	LMIC	UMIC	Core	Characteristic	Comments
							expenditure." Score "C": "…constitutes 5-10% of total expenditure" Score "D": "…constitutes more than 10% of total expenditure"
Loans financed projects	PI-7-(ii)	2.1	2.9	3.5	B	1, 2 3	Expenditures financed by loans should be fully reported. Data is available, at least in debt management offices (even in the majority of LICs) Score "B", "Complete income/expenditure information is included in fiscal reports for all loan financed projects".
Grants financed projects with a national authorizing officer						1,2 3	Score B: "Complete income/expenditure information is included ….in fiscal reports for….at least 50% (by value) of grant financed projects". There are two categories of project-grant: (i) Grants managed by a national authorizing officer. Expenditures financed by these grants should be fully reported. (ii) Grants managed by the donors. Reporting on these grants require donors assistance (see PEFA indicator D-2).
Other Grants financed projects						2,3	
Oversight of public sector fiscal risks							
Extent of central government monitoring of autonomous agencies and public enterprises	PI-9-(i)	1.8	1.9	2.9	B	2	Score B because it requires an analysis of information. Score B: "All major AGAs/PEs submit fiscal reports including audited accounts to central governments at least annually, and central government consolidates overall fiscal risk issues into a report." The score C does not require any analysis of information. Score C: "Most major AGAs/PEs submit fiscal reports to central governments at least annually, but a consolidated overview is missing or significantly incomplete".

PFM function	PI no	LIC	LMIC	UMIC	Core	Characteristic	Comments
							Score B requires in addition that the "central government consolidates overall fiscal risk issues into a report at least annually".
Extent of central government monitoring of sub-national governments' fiscal position	PI-9-(ii)	2.3	2.0	3.2	B to C	2, 4	The expected score depends on the degree of decentralisation. Score "B" will be expected for countries where sub-national governments' expenditures account for more than 10% of general government expenditures. Score "B": "The net fiscal position is monitored at least annually for the most important level of SN government, and central government consolidates overall fiscal risk into a report." Score "C": "The net fiscal position is monitored at least annually for the most important level of SN government, but a consolidated overview is missing or significantly incomplete."
Recording and management of debt and guarantees							
Debt	PI-17- (i)	2.4	2.8	3.4	B	1,2	For both financial compliance and macro-economic management score "B" is necessary Score "B": "Domestic and foreign debt records are complete, updated and reconciled quarterly. Data considered of fairly high standard, but minor reconciliation problems occur. Comprehensive management and statistical reports (cover debt service, stock and operations) are produced at least annually." Score "C" is insufficient for macro-economic management because " reports on debt stocks and service are produced only occasionally or with limited content"
Guarantees	PI-17-(iii)	2.7	2.9	3.3	B	1,2	Score "B" because for macro-fiscal control, ceilings are required Score "B": "Central government's contracting of loans and issuance of guarantees are made within limits for total debt and total

PFM function	PEFA PI					Characteristic	Comments
	PI no	Scores					
		LIC	LMIC	UMIC	Core		
							guarantees, and always approved by a single responsible government entity". Score "C": "Central government's contracting of loans and issuance of guarantees are .... not decided on the basis of clear guidelines, criteria or overall ceilings."
Compliance in managing physical assets							
Assets registers maintained and controlled	Not in PEFA					1	Expensive fixed assets potentially subject to waste and embezzlements should be registered. Fixed assets registers should be controlled by a person independent from the assets keeper. PEFA PI-20 (ii) deals with other administrative controls but for expenditures, assets are not mentioned.
Cash control							
Consolidation of government's cash balances	PI 17 -(ii)	2.3	3.0	3.0	B	1	Score "B" because for efficient cash management and for cash control cash balances in government bank accounts should be centralized at least weekly. Score "B": "Most cash balances calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement." A daily consolidation, which corresponds to score "A", will be desirable to minimize the borrowing costs (or maximise investment returns), but it requires adequate infrastructure in remote regions
Transfer of tax collection to the Treasury	PI-15 (ii)	3.0	3.7	3.7	B	1	Prompt transfer of the collections to the Treasury is essential for ensuring that the collected revenue is available to the Treasury for spending. Score "B"; "Revenue collections are transferred to the Treasury at least weekly". Daily transfers (score "A") are desirable but could be difficult for

PFM function	PI no	LIC	LMIC	UMIC	Core	Characteristic	Comments
							remote tax offices. Monthly transfers (score "C") will be inefficient on a cash management point of view and will increase risks of losses.
External accountability, Transparency							
Information in budget documentation	PI-6	2.8	3.3	3.4	A	1	Score "A" could correspond to 7 PEFA Information benchmarks from benchmarks 1 to 8 Benchmark 9 is related to the budget policy
Extent of unreported government operations	See above						
Availability of information on resources received by service delivery units	PI-23	1.4	1.8	2.7	D	3	Score "D" because the priority granted to the primary school and health centres is a policy issue. The internal control aspects should be covered by the item "other administrative control". This remark does not mean that PETS should not be included in an action programme.
Scope and nature of external audit							
Scope/nature	PI-26-(i)	1.9	1.9	2.6	C	1	Under score "C" audits are effectively carried out. Score "C": "Central government entities representing at least 50% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards may be disclosed to a limited extent only." The annual coverage of audits expected with score B (75% of total expenditures) may be difficult to reach. In addition, score "B" will require changes in the auditing methods in many countries. Score B: "Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and

PFM function	PI no	LIC	LMIC	UMIC	Core	Characteristic	Comments
							generally adheres to auditing standards, focusing on significant and systemic issues."
Timeliness of submission of audit reports	PI-26-(ii)	1.9	2.4	3.3	B	1	Between score "B" and score "A". Score "B": "Audit reports are submitted to the legislature within 8 months; of the end of the period covered and in the case of financial statements from their receipt by the audit office." However, concerning the financial statements a shorter time period than 8 months will be desirable (score "A" requires 4 months). Ideally, the audited financial statements for year t-1 should be submitted to the legislature no later than the budget bill for year t+1. Therefore, PI-26-(ii) and PI-25-(ii) should be reviewed together.
Evidence of follow up	PI-26-(iii)	1.7	2.6	2.6	B	1	Score "B" because at least a formal response to audit recommendations should be made in a timely manner. PEFA score "B": "A formal response is made in a timely manner, but there is little evidence of systematic follow up." Score A will be more satisfactory ("There is clear evidence of effective and timely follow up.), but implementing an effective follow up may need time.
Legislative scrutiny of annual budget law							
Scope of the legislature's scrutiny	PI-27-(i)	2.6	2.5	3.1	B	1	Score "B": "The legislature's review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue". Under score "C" the legislature does not review fiscal policies and aggregates.
Extent to which the procedure are well established	PI-27-(ii)	2.7	2.9	3.3	B	1	Score "B": "Simple procedures exist for the legislature's budget review and are respected."

PFM function	PEFA PI					Characteristic	Comments
	PI no	Scores					
		LIC	LMIC	UMIC	Core		
Adequacy of time	PI-27-(iii)	3.0	2.9	2.9	B	1	For PI-27-(iii) PEFA requirements for scores “B” and “C” are identical (“The legislature has at least one month to review the budget proposals.”)
Rules for in-year adjustment	PI-27-(iv)	2.4	2.7	3.1	B	1	Under score “B” the respective powers of the executive and legislative branch of government are clearly delimitated. Score “B”: “Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.” In a second step to better reinforce the role of the legislature, score “A” would be desirable (Score “A”: “Clear rules exist for in-year budget amendments by the executive, set strict limits on extent and nature of amendments and are consistently respected”).
Legislative scrutiny of annual audit report							
Timeliness of examination of audit reports	PI-28-(i)	1.6	1.9	2.2	C	1	PI-28-(i)) deals with the methods of work of the legislature. Score “C” because in the core PFM functions a higher priority is granted to the processes depending on the executive. Score “C”: Scrutiny of audit reports is usually completed by the legislature within 12 months from receipt of the reports” Score “B”: “….within 12 months …”. .
Extent of hearings on key finding	PI-28-(ii)	2.1	1.6	2.5	C	1	Regular hearings are an element of accountability. Nevertheless, score “C” has been selected because in a first step a higher priority is granted to the processes depending only on the executive. Score “C”: “In-depth hearings on key findings take place occasionally, cover only a few audited entities or may include with ministry of finance officials only”.

PFM function	PEFA PI					Characteristic	Comments
	PI no	Scores					
		LIC	LMIC	UMIC	Core		
							Score "B": "In-depth hearings on key findings take place with responsible officers from the audited entities as a routine, but may cover only some of the entities, which received a qualified or adverse audit opinion".
Issuance of recommended actions	PI-28-(iii)	1.7	1.8	2.0	B	1	Score "B" is needed to ensure the effectiveness of legislature's recommendations. Score "B": "Actions are recommended to the executive, some of which are implemented, according to existing evidence" Under score "C": "Actions are recommended, but are rarely acted upon by the executive".
Public access to key fiscal information	PI-10	2.2	2.7	3.1	B	1"	Score "B" because core requirements should at least include the elements of information (iii) to (v) indicated by the PEFA framework (year-end financial statements; external audit reports; contract awards) Score "B": "The government makes available to the public 3-4 of the 6 listed types of information"
Actual expenditure charged to the contingency reserve	PI-2 (ii)	New component			B	1,2	Score "B" because charging a significant amount of expenditures (more than 6% of the original budget) to the contingency reserve diminishes the role of the legislature in scrutinizing budget policies and can alter compliance. Score B:" Actual expenditure charged to the contingency vote was on average more than 3% but less than 6% of the original budget"
Intergovernmental fiscal relations							

PFM function	PI no	LIC	LMIC	UMIC	Core	Characteristic	Comments
Transparent and rule based transfer system	PI-8-(i)	2.9	3.1	2.9	A to C	4,1 F	The importance of this function depends on the degree of decentralisation. In countries where sub-national governments account for more than 10% of general government expenditure a score "A" should be sought. Score "A": "The horizontal allocation of most transfers from central government (at least 90% of transfers) is determined by transparent and rules based systems." Score "B": "The horizontal allocation of most transfers from central government (at least 50% of transfers) is determined by transparent and rules based systems." Score "C": "The horizontal allocation of only a small part of transfers from central government (10-50%) is determined by transparent and rules based systems."
Timelines of reliable information on the transfers from central government	PI-8-(ii)	2.4	2.3	2.9	A to C	4,2	See comment on PI-8-(ii).
Extent of consolidation of fiscal data according to sectoral categories	PI-8-(iii)	2.1	2.1	2.9	D	4, 3	Policy related function. Not a core PFM function
Capacity to prepare a budget that will be implemented as planned							
Forecasting capacity							
Forecasts of fiscal aggregate	PI-12-(i)	2.1	1.9	2.3	C	2	Score C requires projections of fiscal aggregates by broad economic categories over a two-year period.
Capacity to prepare reliable revenue forecasts	Not in PEFA					2	PEFA PI-3 compares forecasted revenue to actual data. However, the realism of forecasted revenue depends on both technical capacity and political or human factors. Politicians often over-estimate planned revenues to show a low planned deficit.

PFM function	PI no	LIC	LMIC	UMIC	Core	Characteristic	Comments
							Therefore, the capacity of staff involved in revenue projections should be assessed (skills, coordination with macro-economic projections and tax administration, methods used, etc.)
Capacity to fully cost expenditures	Not in PEFA					2	PEFA PI- 12—(iii) mentions the recurrent costs of investment, but costing includes also capacity to forecast inflation, estimate the “true” cost of mandatory expenditures (e.g. student allowances) , etc. It should be assessed whether such information feed into the budget preparation process .
Debt sustainability analysis	PI-12-(ii)	3.0	3.0	3.3	B	2	Score “B”: “DSA for external and domestic debt is undertaken at least once during the last three years.”
Linkages between investment budgets and forward expenditure estimates	PI-12-(iv)	1.5	1.7	1.9	C	2	Estimating the recurrent costs of large investment projects is required for assessing the sustainability of the fiscal policy. Score “C”: “Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few (but major) cases.” Scores “B” and “A” deal with policy issues (investments are selected “on the basis of relevant sector strategies”).
Disciplined budget preparation process							
Existence and adherence to a fixed budget calendar	PI-11-(i)	2.6	3.0	3.4	B	2	Score “B”: “A clear annual budget calendar exists, but some delays are often experienced in its implementation. The calendar allows MDAs reasonable time (at least four weeks from receipt of the budget circular) so that most of them are able to meaningfully complete their detailed estimates on time.”
Ceilings are notified	PI-11-(ii)	2.7	2.9	2.9	B	2	Involving the Cabinet in the definition of the ceilings, as required for score B, may contribute to limit requests for budget revisions during the budget execution phase and to implement the budget as planned.

PFM function	PEFA PI					Characteristic	Comments
	PI no	Scores					
		LIC	LMIC	UMIC	Core		
							Score B: "A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings approved by Cabinet (or equivalent). This approval takes place after the circular distribution to MDAs, but before MDAs have completed their submission."
Timely budget approval by the legislature	PI-11-(iii)	2.6	3.0	3.4	B	2	Score B, but delay should happen only under special circumstances (the legislature voted against the budget, elections, etc.) Score B: "The legislature approves the budget before the start of the fiscal year but a delay of up to two months has happened in one of the last three years.
Existence of costed sector strategies	PI-12-(iii)	1.9	1.8	1.9	D	3	This component which deals with resource allocation is not in the core PFM functions.
Budget classification-Accounting-Reporting							
Budget classification	PI-5	2.6	2.8	3.2	C	1	The administrative and economic classifications are required for expenditure control (score "C") The functional classification required by scores "A" and "B" is related to policy issues.
Accounting procedures and recorded transactions							
Budget monitoring at the stages of the budget execution cycle	PI-24-(i)				B		See comments below
Transparent and very limited uses of suspense account and special payment procedures	Not in PEFA					1	Extensive use of suspense accounts, or in francophone systems, payment before payment order procedure, reflects often poor budgetary controls. PEFA PI 22 deals with reconciliation, but in addition the volume of such transactions should be closely

PFM function	PI no	LIC	LMIC	UMIC	Core	Characteristic	Comments
							controlled.
Arrears monitoring	PI-4-(ii)	2.0	2.3	2.8	B	1	Comprehensive or nearly comprehensive assessment of arrears is required. Score "B": "Data on the stock of arrears is generated annually, but may not be complete for a few identified expenditure categories or specified budget institutions."
Accounting standard	PI-25-(iii)	2.3	2.2	2.6	C	1	Under score "C" financial statements are produced. Score "C": " Statements are presented in consistent format over time with some disclosure of accounting standards". According to score "B": "IPSAS or corresponding national standards are applied". Depending on the interpretation of the term "corresponding" score "B" goes far beyond the core PFM functions.
Timeliness and regularity of account reconciliation,							
Regularity of bank reconciliation,	PI-22-(i)	2.7	3.0	3.3	B	1	Score "B" : "Bank reconciliation for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from end of month" Score "A" is desirable but could be difficult to achieve in country with poor infrastructure. Score "A": " Bank reconciliation for all central government bank accounts take place at least monthly at aggregate and detailed levels, usually within 4 weeks of end of period."
Reconciliation and clearance of suspense and advance accounts	PI-22-(ii)	2.0	2.5	3.1	B	1	For fiscal discipline most suspense and advance accounts should be cleared at least annually. Score "B": Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have uncleared balances brought forward."

PFM function			PEFA PI					Characteristic	Comments
			PI no	Scores					
				LIC	LMIC	UMIC	Core		
									Score "C" should not be considered because under that score "a significant number of accounts have uncleared balances brought forward."
		Regularity of reconciliation of treasury and line ministries accounts	Not in PEFA					1	In Francophone systems, Treasury and authorizing officers accounts may differ significantly for the payment orders. Such a weakness should be addressed. Similar weaknesses may also concern some other countries.
	Quality and timeless of in year budget reports								
		Scope of reports and compatibility with budget estimates	PI-24-(i)	2.4	2.7	3.0	B	1	The budget should be monitored against initial and revised appropriation at least at the commitment and the payment stage. What is a commitment should be clearly defined in the financial regulations. Score "B": "Classification allows comparison to budget but only with some aggregation. Expenditure is covered at both commitment and payment stages." Score "A" is desirable, but depending on the country it can require adequate IT systems Score "A": "Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages."
		Timeliness of issue of reports	PI-24-(ii)	2.6	3.1	3.5	B	1	Score "B": "reports are prepared quarterly, and issued within 6 weeks of end of quarter. PEFA PI-24 does not specify whether expenditures financed by loans and grants are reported. All expenditure financed by loans and grants managed by a national authorizing officer should be reported at least

PFM function	PI no	LIC	LMIC	UMIC	Core	Characteristic	Comments
							every six-month
Quality of information	PI-24-(iii)	2.4	2.7	3.5	C	1	Under score "C" reports are generally reliable. Score "C": "There are some concerns about the accuracy of information, …, but this does not fundamentally undermine their basic usefulness".
Quality and timeless of annual financial statements							
A consolidated financial statement is prepared annually	PI-25- (i)	2.0	2.3	2.9	B	1	Taking into account the remark on AGAs in the PEFA manual as well as the reference to the Francophone "loi de règlement" the adjective "consolidated" refers to the State budget not to the whole central government. Score "B": "a consolidated government statement is prepared annually. They include, with few exceptions, full information on revenue, expenditure and financial assets/liabilities" Score "B" is preferred to score "C", because information on debt and arrears is needed. Score "C": "Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant".
Timeliness of submission of financial statements to the audit office	PI-25- (ii)	2.7	2.8	3.5	A	1	6 months should be the rule, despite the fact that many countries are in late Score A: "The statement is submitted for external audit within 6 months of the end of the fiscal year." Ideally, the audited financial statements for year t-1 should be submitted to the legislature no later than the budget bill for year t+1. Therefore, PI-26-(ii) and PI-25-(ii) should be reviewed together.

PFM function	PEFA PI						Characteristic	Comments
	PI no	Scores						
		LIC	LMIC	UMIC	Core			
Information systems								
Payroll system	Not in PEFA						1	For expenditure control, IT systems are theoretically desirable, but results are uneven. They require adequate capacity for supervising their development and maintaining them At least computerizing the payroll will be cost-effective.
Legal framework (not in PEFA)								
The legal framework should include, among others, the following provisions: • Specify the date by which the budget should be adopted by the legislature, and procedures if this is not met. • Comprehensiveness of the budget, enhanced data presentation in the budget documents. • Appropriation management rule that limit the freedom of the executive to make shifts between appropriations, without parliament's approval, in order to ensure that the policies stated in the budget will be effectively implemented. • Authority to contract loans and grant guaranteed. Procedure to submit them to Parliament approval. • Prohibition of the initiation of unbudgeted expenditures by the executive branch in the course of budget execution, except through supplementary appropriations. • Requirements for financial and fiscal reporting. • Timely submission of the end-of-year accounts. • Independence of the external auditor. • Transparent and rules based systems for intergovernmental financial relationships. • Appropriations should be "gross" so that expenditures should not be							1	It should be examined whether: (i) the legal framework include such provisions; (ii) these provisions are enforced. When relevant, the characteristics of the PFM functions listed above should be compared with the related provisions of the legal framework.

PFM function	PEFA PI					Characteristic	Comments
	PI no	Scores					
		LIC	LMIC	UMIC	Core		
offset against revenues • Specify rules for carry-over of budget authority at end of fiscal year, (usually requiring all to be re-appropriated although there may be some flexibility for investment spending). • Contingency and reserve provisions should be limited with clear rules for the use of such funds. • Limitations on the legislature's powers to change the executive draft budget (e.g. prevention of the legislature from revising revenue projections upwards in order to accommodate more expenditure). • Specify extent of the minister of finance's authority to cut appropriations, and the conditions under which this is permitted.							

Table 3 - Core PFM functions and resulting budget

		PEFA PI	Characteristic bjectives	Comments
		PI no		
"Compliance Budget"				
	Expenditure out-turns (totals and composition by main headings defined in the law) compared to the last version of the budget approved by the Parliament	Not covered	1	"Main headings" may correspond to the appropriation in the appropriation act, the chapter or the programme. Positive deviation and/ or arrears would reflect a lack of compliance
	Stock of expenditure payment arrears and any recent change in the stock	PI-4-(i)	1	PEFA score "B" shows an evidence that the stock of arrears has been reduced significantly
Credible Budget (in PEFA sense: budget implemented as initially planned)				
	Aggregate out-turn compared to original approved budget	PI-1	1 2	A PEFA score inferior to score "A" generally reflects weaknesses in the control of budget execution (cf. among others PEFA PI 17 to 20) and/or in budget preparation (cf. PEFA PI 11). However, this PEFA indicator may be also affected by informal rules, notably by political factors.
	Variance in expenditure composition excluding contingency items	PI-2-(i)	3	A PEFA score inferior to score "A" may reflect weaknesses in the control of budget execution and/or in budget preparation In addition, this indicator may be strongly affected by informal rules, e.g. the powers relationships between decision makers.
	Aggregate revenue out-turn compared to the original approved budget	PI-3	2	Concerning financial control, the scores for this PI needs to be analyzed in the fiscal policy context. Pessimism in the forecasts does not result systematically in over-spending.
	Stock of expenditure payment arrears and any recent change in the stock	PI-4-(i)	1	See above