**Global Initiative for Fiscal Transparency (GIFT) Coordination Team:**

**Comments on ‘Updating the PEFA Indicators – Draft for Public Consultation,**

**August 7, 2014’[[1]](#footnote-1)**

October 1, 2014

These comments respond to the invitation by the PEFA Partners on August 7, 2014 for comments on the draft updated version of the PEFA indicator set. They are made from the perspective of the Global Initiative for Fiscal Transparency’s role of promoting improvements in the coverage, consistency and coherence of existing standards and norms for fiscal transparency, participation and accountability.

**Summary of main points:**

1. The GIFT Coordination Team welcomes the opportunity to comment on the draft revised PEFA indicators. PEFA is playing an increasingly important role in supporting the move to more effective and accountable management of public finances. The revision to the framework, at a time when other fiscal transparency standards have just been revised, provides an important opportunity both to update the PEFA framework and to improve the alignment and coherence of the normative architecture in this field.
2. The updated framework contains a number of welcome new elements, and important fine tuning and improvement. We welcome the three new indicators, as well as new dimensions such as PI-26 (iv) and PI-28 (iv) that are intended to strengthen accountability for fiscal management. Our detailed comments in this note are, however, confined to areas where we consider further analysis and revision is required, focusing on the cross-cutting dimensions of transparency of and public participation in public financial management.
3. While transparency is recognised in the PEFA framework as a core cross-cutting element of accountability, it is not fully integrated across the draft Indicator set and is treated inconsistently. It is therefore suggested that a thorough review be conducted of the information the PEFA indicator set requires be published to ensure it is complete, consistent and coherent (see Section IV below).
4. While the draft Indicator set contains some welcome new provisions on public participation, the fact that these do not cover the budget preparation phase is anomalous given the inclusion of public participation in budget preparation in the revised IMF Fiscal Transparency Code, the OECD Principles of Budgetary Governance 2014, and the Open Budget Survey. It means that PEFA would be out of step with the other key international standards in this increasingly recognized core element of public financial accountability (see Section V).
5. The removal of the three donor indicators appears to be a backward step from a transparency and accountability perspective, and it is unclear why they have been removed (Section VI).
6. It is unclear exactly what information governments are required to produce and publish on fiscal risks, and this needs clarification, while the omission of implicit fiscal risks creates a major inconsistency with the new IMF Fiscal Transparency Code (Section VII).
7. **Introduction**

This note:

* Briefly describes GIFT and the GIFT High Level Principles (Section II).
* Maps the draft PEFA Indicators against the GIFT High Level Principles (Section III).
* Contains some observations on the draft PEFA Indicators from a GIFT perspective (Sections IV - VIII).

All references to PEFA indicator numbers are to the 7 August 2014 draft of the indicator set that has been released for public consultation, not to the existing PEFA indicators.

1. **The Global Initiative for Fiscal Transparency and the GIFT High Level Principles**

GIFT is a multi-stakeholder action network working to advance and institutionalize global norms and significant, continuous improvements in fiscal transparency, participation, and accountability in countries around the world. The Lead Stewards of GIFT are the Brazilian Ministry of Planning, Budget and Management, the Philippines Department of Budget & Management, the World Bank, the International Monetary Fund, and the International Budget Partnership.

One of GIFT’s four streams of work is developing and strengthening the global architecture of norms on fiscal transparency, participation, and accountability. The first action step was the development of a set of internationally accepted high-level principles, as outlined in Box 1. These Principles were endorsed by the United Nations General Assembly on 21 December 2012.[[2]](#footnote-2)

GIFT’s work on advancing global norms also includes promoting improved alignment across the different international standards, and addressing gaps in standards. Improvements in alignment, coherence and comprehensiveness are likely to strengthen incentives on governments to implement good practices and to strengthen accountability for public financial management. In contrast, inconsistencies between standards create uncertainty, increase costs for all parties, provide opportunities for ‘standard shopping’, and weaken incentives to meet standards.

1. **Mapping the draft PEFA Indicators against the GIFT High Level Principles**

Table 1 on page 5 shows the pattern of ‘fit’ between the draft PEFA Indicators and the ten GIFT High-Level Principles (HLPs). In brief, Table 1 shows that:

1. HLP 3 (‘The public should be presented with high quality financial and non-financial information on past, present and forecast fiscal activities….’) is the HLP that overlaps most with the PEFA indicators, reflecting the fact that transparency is a core cross-cutting feature in the PEFA framework. It also reflects the fact that HLP 3 has a relatively wide coverage in the set of ten GIFT HLPs.

|  |
| --- |
| **Box 1: The GIFT High-Level Principles on Fiscal Transparency, Participation, and Accountability***Access to Fiscal Information*1. Everyone has the right to seek, receive and impart information on fiscal policies. To help guarantee this right, national legal systems should establish a clear presumption in favour of the public availability of fiscal information without discrimination. Exceptions should be limited in nature, clearly set out in the legal framework, and subject to challenge through low-cost, independent and timely review mechanisms.2. Governments should publish clear and measurable objectives for aggregate fiscal policy, regularly report progress against them, and explain deviations from plans.3. The public should be presented with high quality financial and non-financial information on past, present, and forecast fiscal activities, performance, fiscal risks, and public assets and liabilities. The presentation of fiscal information in budgets, fiscal reports, financial statements, and National Accounts should be an obligation of government, meet internationally-recognized standards, and should be consistent across the different types of reports or include an explanation and reconciliation of differences. Assurances are required of the integrity of fiscal data and information.4. Governments should communicate the objectives they are pursuing and the outputs they are producing with the resources entrusted to them, and endeavor to assess and disclose the anticipated and actual social, economic and environmental outcomes.*The Governance of Fiscal Policy*5. All financial transactions of the public sector should have their basis in law. Laws, regulations and administrative procedures regulating public financial management should be available to the public, and their implementation should be subject to independent review.6. The Government sector should be clearly defined and identified for the purposes of reporting, transparency, and accountability, and government financial relationships with the private sector should be disclosed, conducted in an open manner, and follow clear rules and procedures.7. Roles and responsibilities for raising revenues, incurring liabilities, consuming resources, investing, and managing public resources should be clearly assigned in legislation between the three branches of government (the legislature, the executive and the judiciary), between national and each sub-national level of government, between the government sector and the rest of the public sector, and within the government sector itself.8. The authority to raise taxes and incur expenditure on behalf of the public should be vested in the legislature. No government revenue should be raised or expenditure incurred or committed without the approval of the legislature through the budget or other legislation. The legislature should be provided with the authority, resources, and information required to effectively hold the executive to account for the use of public resources.9. The Supreme Audit Institution should have statutory independence from the executive, and the mandate, access to information, and appropriate resources to audit and report publicly on the raising and commitment of public funds. It should operate in an independent, accountable and transparent manner.10. Citizens should have the right and they, and all non-state actors, should have effective opportunities to participate directly in public debate and discussion over the design and implementation of fiscal policies. |

**Table 1: Mapping the draft PEFA Indicators to the GIFT High Level Principles on Fiscal Transparency, Participation and Accountability**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **HLP 1: A right to fiscal information** | **HLP 2: Macro-fiscal policy** | **HLP 3: High quality data** | **HLP 4: Outputs and outcomes** | **HLP 5: Rule of law** | **HLP 6: Government and private sector** | **HLP 7: Clarity of roles and responsibilities** | **HLP 8: Legislative oversight** | **HLP 9: SAI** | **HLP 10: a right to direct public participation** |
| No explicit provision in PEFA. | PI-CFS | PI-5 PI-6PI-7 (i, ii)PI-8 (iii) PI-9 (i, ii)PI-10 (i)PI-12 (i, ii, iii)PI-13 (i, ii)PI-16 (iv)PI-19 (iii)PI-23 (i, ii)PI-24 (i, ii, iii)PI-25 (i, ii, iii)PI-PAM(i, ii, iii) | PI-23 (i, ii) | PI-14 (i)PI-19 (i, iv) | PI-19 (i, ii ,iii)PI-PAM (iii) | PI-8 (i) | PI-11 (iii)PI-27 (i -iv)PI-28 (i-iv) | PI-26 (i-iv)PI-28 (i, ii) | No explicit provision.[[3]](#footnote-3) |

1. Many of the PEFA indicators cover internal processes within government, or measure PFM system outturns e.g. size of deficit compared to forecast, and are therefore not covered by the GIFT HLPs. For instance, PEFA CFS-1 (iii), PI-1, 2, 3, 13 (iii), and 19 (ii), cover PFM system outturns, while indicators CFS (ii), PI-14 (ii, iii, iv), 15, 16 (i-iii), 17 (ii), 18, 20, 21 and 22 cover PFM processes that are internal to government. This lack of overlap between the two instruments is generally appropriate given their different objectives and scope: PEFA is attempting to measure the performance of the PFM system, of which transparency and participation are two dimensions.
2. The draft Indicators contains three elements that require direct public participation in fiscal policy implementation - although they do not assert a right to public participation – *which is core to GIFT HLP10.* The first (PI-14) is a new indicator relating to revenue administration and the treatment of taxpayers. Dimension (i) of the indicator covers the existence of a right of redress for taxpayers. The second, PI-19 (iv) relates to a procurement complaints mechanism and is also in the current PEFA indicator set. The third element relating to public participation is PI-27 (ii), which requires direct participation in the legislative scrutiny of the annual budget in order to score an ‘A.’ The issue of coverage of public participation in fiscal policy by the PEFA indicator set is discussed further in section IV below.
3. As with the current PEFA indicator set, there are no provisions in the draft Indicators that explicitly reflect a public right to fiscal information (GIFT HLP 1) – although the text of PI-14 in the draft indicators contains the strong statement that ‘the government *must* [emphasis not in original] provide those responsible for providing revenues with a clear understanding of their obligations and the procedures to be followed.’
4. The draft Indicators contain a new indicator, PI-CFS, which, inter alia, sets out in dimension (i) that the government sets medium term fiscal objectives. This relates to GIFT HLP2 (‘Governments should publish clear and measureable objectives for aggregate fiscal policy, regularly report progress against them, and explain deviations from plans’). There is nothing in the current PEFA indicators that relates to HLP 2. However, it is not clear that the new draft PEFA indicator set requires that the fiscal objectives should be published – see the discussion in section IV below. And there is nothing in the draft PEFA indicators that explicitly incorporates the last part of HLP 2 on reporting progress against fiscal policy objectives and explaining deviations. This should be picked up in the next revision of the draft PEFA indicators in view of the importance of reporting progress against objectives to close the accountability loop.

vi. Areas where the draft PEFA Indicators contain only limited provisions include:

a. Transparency of outputs and outcomes (GIFT HLP 4).

b. The overall legal framework for PFM (GIFT HLP 5).

c. Clarity of roles for fiscal management (GIFT HLP 7).

The remainder of this note contains observations on the draft PEFA Indicators from a GIFT perspective, relating to the treatment of transparency issues (Section IV); the treatment of public participation (Section V); the removal of the donor indicators (Section VI); the treatment of fiscal risks (Section VII); and other observations (Section VIII).

1. **The way in which transparency issues are handled in the Indicator Set**

At the risk of over-simplification, it appears that a requirement that specific fiscal information should be published is handled in the draft PEFA indicator set in one of two ways:

* Through inclusion in one of the two umbrella PEFA indicators that are specifically devoted to the publication of fiscal information – PI-6, ‘comprehensiveness of information included in budget documentation’, and PI-10, ‘Public access to key fiscal information’.
* Through specific reference in other indicators to the need for information to be published or disclosed e.g.
	+ PI-7 on unreported extra-budgetary operations.
	+ PI-9 (ii) which states, for score ‘A’, that ‘contingent liabilities… are…reported as part of the annual financial report’.[[4]](#footnote-4)
	+ PI-23 (i, ii) refer to disclosure of the information.
	+ The new indicator PI-PAM (i, ii), where the formulation is that information should be ‘…reported annually….and disclosed.’ Here it appears that the word ‘reported’ may not be intended to mean ‘publicly available’ so the word ‘disclosed’ has been included to make it clear.

This treatment of transparency results in it being unclear in a number of cases whether information described in an indicator needs to be published, or just available within the executive branch.

* For example, as noted above, the new PEFA indicator, PI-CFS, assesses whether the government sets medium term fiscal objectives. It also assesses whether the annual budget is based on medium term macroeconomic forecasts. *But it is not clear that the fiscal objectives or the macroeconomic forecasts need to be published.* For instance, PI-6 refers to information to be included in the annual budget documentation submitted to the legislature. However, the references in PI-6 are to ‘documentation on the medium-term framework’, and ‘the macroeconomic assumptions’, without any specificity, and no reference to fiscal objectives or to the macroeconomic forecasts themselves. On the other hand, PI-10 (public access to key fiscal information) refers to a Pre-budget statement, defined as the broad parameters for the executive budget proposal. As defined in that indicator, this may not necessarily include medium term parameters.
* Other examples of this lack of clarity over whether information needs to be publicly available include:
	1. PI-13 (i) refers to medium term forecasts of all government revenues produced in a report as part of the annual budget process, but does not refer to publication of this information. And PI-6 does not refer specifically to this information.
	2. PI-6 (7) refers to the budget documents needing to contain details on the debt stock. PI-17 (i) refers to more detailed data on debt, without being entirely clear whether this information needs to be published. It refers to ‘management and statistical reports’, the latter perhaps implying publication without being explicit.
	3. PI-1, PI-2 and PI-3 are very pertinent to assessing exposure to fiscal risks, but it does not appear that the information needs to be published, despite references in the text of other indicators to the desirability of all fiscal risks being disclosed. See also the discussion of fiscal risks in section VII below.

In some other cases there is a difference between what is specified in one indicator, and what is required to be publicly available in another, which may or may not be deliberate but appears again to suggest that there is an attempt to distinguish between internal availability and public availability. For example, PI-13 (ii) states; ‘Proposed policy changes to *all* government revenues are supported by well-evidenced forecasts of the fiscal impacts for each measure including assumptions and methodology.’ PI-6 (10) says that the budget documentation should include…estimates of the budgetary impact of all *major* revenue policy changes…’ In PI-10 (3) in-year budget execution reports are required to be publicly available within one month of period end. This does not correspond to the timeliness of any of the scores in PI-24 on the timeliness of in-year budget reports. And while PI-24 could be read to imply that the reports are publicly available, it is not explicit.

Overall, it is not clear exactly what information the PEFA indicator set requires should be published. The separation of the description of information in indicators, from references to whether that information needs to be publicly available, was presumably an attempt to avoid repetition i.e. referring to publication both in a specific indicator and in one of the two omnibus indicators (PI-6 and PI-10). However, this approach is not followed consistently, with some individual indicators also referring to publication, and there are apparent gaps in the information specifically required to be publicly available.

It is therefore suggested that a thorough review be conducted of the information the PEFA indicator set requires be published, to ensure it is complete, consistent and coherent. In addition, whether the current way in which references to public transparency is handled is the most effective and clearest way to handle the transparency dimension of PEFA should be reviewed.

1. **The way in which public participation is handled in the Indicator Set**
* The title of PI-11, ‘Orderliness and participation in the annual budget preparation process’, sounds like it could/should cover ‘public participation in fiscal policy’, although at the moment its scope is confined to engagement by official actors (MDAs, Cabinet, the Legislature).
* Dimension (i) of PI-11 covers the existence of and adherence to a fixed budget calendar. There is no reference in that dimension to the budget calendar being published (as there is for instance in the Open Budget Survey). Nor is there reference to the budget calendar in the two other indicators that list the information that should be publicly available (PI-6 and PI-10). Publication of the calendar is desirable to facilitate broader public participation, making it clearer at which times there may be scope for public input to influence budget strategy or sector and program/project decisions. It is recommended that a requirement for publication of the calendar be inserted, perhaps in dimension (i) of PI-11.
* A new reference has been added to dimension (ii) of PI-27 on legislative scrutiny of the annual budget law. A score of ‘A’ now requires that the legislature’s procedures for budget review are comprehensive, including ‘arrangements for public consultation.’ There is no reference to public consultation in the scores for B and C, nor is there room to add another dimension to PI-27 devoted to public consultation, given the PEFA Partner’s aim to restrict each indicator to no more than four dimensions. But at least direct public participation has been incorporated to some extent in the legislative phase of the budget cycle (in a binary, yes/no way).
* A new dimension has been inserted in PI-28 on legislative scrutiny of external audit reports. Dimension (iv) covers the transparency of the legislative scrutiny function, such as the extent to which hearings are conducted in public and debated in the full Chamber and published. While the text of the indicator makes it clear that it does not assess whether members of the public are invited to speak at the hearings – which would be a good practice - at least the need for public hearings is an advance with respect to accessibility to the public.

Overall there is now some coverage of direct public participation in fiscal policy in the draft indicator set. However, it is confined to budget implementation.

While public participation received limited attention in the first generation of fiscal transparency standards, it is increasingly accepted that public participation in both the development and implementation of fiscal policies can strengthen accountability for public financial management. This is reflected in the increasing recognition of public participation in international fiscal transparency standards and norms, which, in addition to Principle 10 of the GIFT High Level Principles, includes:

• The revised Fiscal Transparency Code released by the International Monetary Fund in August 2014 incorporates direct public participation in budget preparation (Principle 2.3.3).

• The incorporation of citizen engagement and ability to influence discussions on budget policy options in Principle 5 of the OECD Principles of Budgetary Governance 2014.

• Expanded coverage of public participation in the Open Budget Survey implemented by the International Budget Partnership from 2012 (Section 5 of the OBS).

The treatment of public participation in the draft PEFA indicators is therefore inconsistent with the other main international standards on government financial accountability. The omission of direct participation in budget preparation can be seen as an anomaly. It could be addressed by adding a fourth dimension to PI-11 dedicated to public participation, or preferably by adding a new indicator devoted to public participation, which would enable the inclusion of dimensions to cover participation across the whole budget and PFM cycles.

1. **The removal of the three donor indicators (D1-D3).**
* D-1, Predictability in direct budget support, does not seem to be covered explicitly now in the new draft indicator set. The indicator that it most closely relates to, ‘PI-3 Aggregate revenue outturn compared to original approved budget’ does not refer, even in the narrative, to budget support as a potential source of unexpected variance between revenue forecast and outturn. Yet donor budget support is a significant source of fiscal risk in recipient countries. Moreover, in the *current* PEFA indicator set, PI-3 on aggregate revenue outturn compared to budget – which is used to measure the quality of the government’s revenue forecasts - is defined as ‘aggregate domestic revenue’, because donor budget support is covered by D-1. In the *new* draft indicator set, PI-3 is defined as aggregate revenue, with no mention of external/donor revenue. So revenue variance due to budget support will be part of an aggregate revenue variance number that is used to measure the performance of the government’s revenue forecasts. This reduces transparency as far as the performance of donors and budget support is concerned, and could weaken accountability for accurate forecasting of domestic revenues. It is desirable for the amount of variance due to unpredictability in budget support to be published separately so there can be an informed discussion on the issue.
* The current indicator D-2 ‘Financial information provided by donors for budgeting and reporting on project and program aid’, relates most closely to PI-7 in the new draft indicator set, which is ‘Extent of reporting on extra-budgetary operations.’ Table 7, to be completed as part of the assessment of PI-7, shows the level of externally financed projects and whether they are off-budget/off-account with respect to the recipient government’s reporting. This is also assessed in the current PI-7 ‘Income/expenditure information on donor-funded projects which is included in fiscal reports.’
In other words, at the moment, in the current indicator set, donor-funded project reporting is measured from both sides: the performance of donors in providing the information to the recipient government, in indicator D-2, and the performance of the recipient in reporting it publicly, in PI-7. It appears that, in the new indicator set, only the performance of the recipient will be assessed - in PI-7 - and with the removal of D-2 there will be no information in a PEFA on the performance of donors in providing relevant information to the recipient to facilitate reporting by the recipient.
* Finally, the current indicator D-3, ‘Proportion of aid that is managed by national procedures’ is not covered at all in the new draft indicator set. Yet this is an important element in international agreements on effective development cooperation, and transparency around this is important for accountability.

Overall, the removal of the three donor indicators appears to be a backward step from a transparency and accountability perspective, and it is unclear why they have been removed.

1. **The treatment of fiscal risks**
* In PI-6 on the comprehensiveness of budget documentation there is a reference to ‘summary information on fiscal risks (including contingent liabilities, guarantees, PPP etc).’ The term ‘etc’ does not seem appropriate in a standard/norm; the phrase should either end after ‘guarantees’, or be specific about what additional fiscal risks should be summarised. Secondly, guarantees *are* contingent liabilities. Thirdly, Public Private Partnerships should not be described simply as ‘fiscal risks’ (or as ‘contingent liabilities’ as they are described in PI-9 (ii)). PPPs are more than just fiscal risks or contingent liabilities; they often contain debt-like fixed obligations which should be subject to specific reporting requirements unrelated to risk reporting. Of course, PPPs also often contain fiscal risks, such as guarantees and other contingent exposures. Suggested wording would therefore be (‘including contingent liabilities, such as guarantees, and including contingent obligations embedded in PPP contracts’).
* The treatment of implicit fiscal risks: the text of PI-9 on fiscal risk management contains the following statement: ‘While implicit contingent liabilities (bailouts, failure of non-guaranteed pension funds, risks from natural disasters, armed conflicts etc) pose a significant risk as well, they are not legally binding, difficult to quantify and thus are not assessed as part of the indicator.’ However, many legally binding fiscal risks are also difficult to quantify e.g. indemnities and warranties, which governments that disclose them typically report under the heading ‘unquantifiable contingent liabilities.’ Furthermore, implicit fiscal risks in practice often turn out to be the largest fiscal risks (aside from general macroeconomic risks) e.g. financial sector bailouts, natural disasters in smaller economies. So to leave them out is to leave out some of the most material risks. The description of score A for PI-9 (i) states ‘…and consolidates all fiscal risk issues into an annual report.’ This sounds like it goes beyond just risks from autonomous government agencies and public enterprises (the definition of the dimension) to include all risks, when in fact it doesn’t, given the definition of the scope of the dimension. On the other hand, the text of PI-9 states that fiscal risks should be disclosed with the annual budget documents, including a discussion of ‘the main risks faced by central government and quantify their potential impacts on its fiscal position.’ As noted above, the reference to publication of information on fiscal risks in PI-6 does not define the coverage clearly. It says ‘…including contingent liabilities, guarantees, PPPs etc’, thus only referring directly to the explicit obligations covered by PI-9.

It is therefore very unclear what governments are required to do with respect to reporting - either within government or publicly - comprehensive information on all fiscal risks, as called for in GIFT HLP 3. This needs to be clarified. One approach would be to make it clear e.g. in PI-6 that governments need to publish comprehensive information on all fiscal risks, explicit and implicit. To leave out implicit fiscal risks will create a major inconsistency with the new IMF Fiscal Transparency Code with its detailed requirements for transparency and management of explicit and implicit fiscal risks in Pillar III of the Code.
1. **Other points of detail**
* In PI-10 (7), the accessible Budget Summary (or ‘Citizens’ Budget) may be presented two weeks after the main budget is presented to the legislature. It is not clear why any delay should be allowed, especially as a Budget Summary is only an additional element in PI-10, not a basic requirement. If the delay is purely to allow it to be translated into multiple languages, then perhaps this should be left out of this specification, or a two week delay allowed only for the translated versions.
* The terms ‘unfunded quasi-fiscal operations’ used in two places in the draft (PI-8, paragraph 4, and PI-9, second paragraph), and ‘AGAs and PE’s quasi-fiscal activities’ used in the scoring of PI-9 (i), need to be defined. The more commonly used term “quasi-fiscal activities’ is used by different people to mean quite different things, and the term is often itself a source of non-transparency. Generally speaking the concept of ‘quasi-fiscal’ is badly in need of greater clarity in the PFM literature and amongst practitioners. It is unhelpful to have it used in a carefully-drafted PFM instrument without it being defined.
1. Prepared by Murray Petrie, Lead Technical Advisor, GIFT, with input from Vivek Ramkumar (International Bubget Partnership), Warren Krakchik (IBP), Sanjeev Khagram, Randall Kemp and Juan Pablo Guerrero. [↑](#footnote-ref-1)
2. UNGA Resolution 67/218. See http://fiscaltransparency.net/2013/01/united-nations-adopts-transparency-resolution/ [↑](#footnote-ref-2)
3. Although PI-14, PI-19 and PI-27 in practice requires direct public participation in specific domains. [↑](#footnote-ref-3)
4. Assuming that the annual financial report is published, which may not always be the case. [↑](#footnote-ref-4)