FINAL TEXT OF THE THREE REVISED INDICATORS
FOR THE PERFORMANCE MEASUREMENT FRAMEWORK

PI-2 Composition of expenditure out-turn compared to original approved budget

Where the composition of expenditure varies considerably from the original budget, the budget will not be a useful statement of policy intent. Measurement against this indicator requires an empirical assessment of expenditure out-turns against the original budget at a sub-aggregate level. As budgets are usually adopted and managed on an administrative (ministry/department/agency) basis, this is the preferred basis for assessment, but a functional or program basis is acceptable, provided that the same basis is used for both appropriation and reporting execution. At the administrative level, variance is to be calculated for the main budgetary heads (votes) of ministries, departments and agencies, which are included in the approved budget.[1] If a functional classification is used, variance should be based on the GFS/COFOG ten main functions. If a program basis is used, they should be high-level "main" programs.

Changes in the overall level of expenditure (assessed in PI-1) will translate into changes in spending for administrative (functional/program) budget heads. The first dimension of this indicator measures the extent to which reallocations between budget heads during execution have contributed to variance in expenditure composition. In addition to excluding debt service and donor funded project expenditure (as in PI-1), contingency items[2] are not included in the calculation.

The second dimension recognizes that while it is prudent to include an amount to allow for unforeseen events in the form of a contingency reserve (although this should not be so large as to undermine the credibility of the overall budget), accepted 'good practice' requires that these amounts be vired to those votes against which the unforeseen expenditure is recorded (in other words, that expenditure is not charged directly to the contingency vote). Assessors should discuss the budgeting and accounting treatment of discernable contingency items in the narrative. The calibration is based on the volume of expenditure recorded against the contingency vote (except for transfers to a Disaster Fund or something similar) as this represents a deviation from policy intent.

Where part of the budget is protected from spending cuts for either policy (e.g. poverty reduction spending) or regulatory reasons (e.g. compulsory welfare payments), this will show up as a composition variance. Assessors are requested to report on the basis for and extent of protected spending.

---

[1] In case the number of main budgetary heads exceeds 20, the composition variance shall be assessed against the largest heads that together make up 75% of the budget – there should be a minimum of 20 heads represented in the case of administrative or program classification – with the residual heads (excluding contingency items) aggregated into one line.

[2] Contingency items should only include clearly defined items which are unallocated at budget preparation time but used to cover shortfalls in spending in any budget unit during execution. They can include a reserve allocation for wage increases, say, held centrally but distributed to budget users once the level of increase has been settled (or agreed with unions). These are usually established either as a separate vote, or as a sub-vote under the Ministry of Finance, with a clearly marked title such as "contingency reserve" or "unanticipated/miscellaneous expenditure". Contingencies established within budget user votes, as well as any vote suspected of really being allocated for contingencies, should NOT be included.

Dimensions to be assessed (Scoring Method M1):

(i) Extent of the variance in expenditure composition during the last three years, **excluding** contingency items (the methodology to rate this dimension is set out in the footnote[3]).

(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.

Score	Minimum Requirements (Scoring Method M1)
A	(i) Variance in expenditure composition exceeded 5 % in no more than one of the last three years. (ii) Actual expenditure charged to the contingency vote was on average less than 3% of the original budget.
B	(i) Variance in expenditure composition exceeded 10 % in no more than one of the last three years. (ii) Actual expenditure charged to the contingency vote was on average more than 3% but less than 6% of the original budget.
C	(i) Variance in expenditure composition exceeded 15 % in no more than one of the last three years. (ii) Actual expenditure charged to the contingency vote was on average more than 6% but less than 10% of the original budget.
D	(i) Variance in expenditure composition exceeded 15 % in at least two of the last three years. (ii) Actual expenditure charged to the contingency vote was on average more than 10% of the original budget.

[3] The steps in calculation for each year are as follows (an Excel for easy formula-based calculation can be downloaded from the website www.pefa.org, which also includes an example):

- For each budget head selected for composite variance analysis (i.e. excluding contingency items), calculate the "adjusted" budget (this is {the original budget for each head, multiplied by {aggregate actual expenditure divided by aggregate budget}}).
- For each budget head, calculate the deviation between actual expenditure and adjusted budget.
- Add up the absolute value of the deviations for all budget heads (absolute value = the positive difference between the actual and the budget figures). Do not use percentage deviations.
- Calculate this sum as a percentage of the total adjusted budget (i.e. total actual expenditure).
- Establish in how many years the percentage points exceeded 5, 10 or 15, and go to the scoring PI-2 table to determine the final score.

PI-3 Aggregate revenue out-turn compared to original approved budget

An accurate revenue forecast is a key input to the preparation of a credible budget. Optimistic revenue forecasts can lead to unjustifiably large expenditure allocations and to larger fiscal deficits should spending not be reduced in response to an under-realization of revenue. On the other hand, pessimism in the forecast can result in the proceeds of an over-realization being used for spending that has not been subjected to the scrutiny of the budget process. As the consequences of under-realization are more severe, especially in the short term, the criteria used to score this indicator allow comparatively more flexibility when assessing revenue over-realization.

It is recognized that the revenue out-turn can deviate from the originally approved budget for reasons unrelated to the underlying quality of the forecast, such as a major macroeconomic shock. For this reason, the calibration allows for one unusual or 'outlier' year to be excluded by focusing on significant deviations from the forecast which occur in two or more of the three years covered by the assessment.

The indicator is limited to domestic revenue, which may include 'windfalls' such as proceeds from the sale of assets.

The narrative to support the rating should:

- describe the sources of data (which will normally be drawn from budget execution reports or annual financial statements), noting any concerns about their suitability and reliability;
- provide background information on the institutional arrangements for revenue forecasting;
- note any special factors that affect revenue composition, forecasts, and performance (e.g., dependence on revenue from natural resource; sources of economic and revenue volatility; significant tax reforms; unanticipated macroeconomic developments; 'windfalls'); and,
- discuss any inter-dependence between PI-3 and other indicators, especially PI-1 (expenditure out-turns) and D-1 (direct budget support, which includes external revenue and concessional loans).

Dimension to be assessed

(i) Actual domestic revenue compared to domestic revenue in the originally approved budget.

Score	Minimum Requirements (Scoring Method M1)
A	Actual domestic revenue was between 97% and 106% of budgeted domestic revenue in at least two of the last three years
B	Actual domestic revenue was between 94% and 112% of budgeted domestic revenue in at least two of the last three years
C	Actual domestic revenue was between 92% and 116% of budgeted domestic revenue in at least two of the last three years
D	Actual domestic revenue was below 92% or above 116% of budgeted domestic revenue in two or all of the last three years

PI-19 Transparency, competition and complaints mechanisms in procurement

Significant public spending takes place through the public procurement system. A well functioning procurement system ensures that money is used effectively for achieving efficiency in acquiring inputs for, and value for money in, delivery of programs and services by the government. The principles of a well functioning system need to be stated in a well defined and transparent legal framework that clearly establishes appropriate policy, procedures, accountability and controls. One of the key principles established by the legal framework is the use of transparency and competition as a means to obtain fair and reasonable prices and overall value for money.

While the procurement system operates within its own framework, it benefits from the overall control environment that exists in the PFM system, including public access to information, internal controls operated by implementing agencies, and external audit. The procurement system also contributes to many aspects of the PFM system, providing information that enables realistic budget formulation, providing access to information to stakeholders that contribute to public awareness and transparency, and supporting efficiency and accountability in delivery of government programs. (The following indicators impact on or are influenced by procurement: PI-4, PI-10, PI-12, P-20, PI-21, PI-24, PI-26 and PI-28).

However, unique to the public procurement process is the involvement of participants from the private sector and the civil society who are key stakeholders in the outcome of the procurement process. A good procurement system uses the participation of these stakeholders as part of the control system in the process for submission and resolution of complaints in a fair, transparent, independent and timely manner. The timely resolution of complaints is necessary to allow contract awards to be reversed if necessary and limit remedies tied to profit loss and costs associated with bid or proposal preparation after contract signatures. A good process also includes the ability to refer the resolution of the complaints to an external higher authority for appeals.

Public dissemination of information through appropriate means (e.g. government or agency level websites, procurement journals, national or regional newspapers, on demand from procurement bodies) on procurement processes and its outcomes are key elements of transparency. In order to generate timely and reliable data, a good information system will capture data on procurement transactions and be secure.

Dimensions to be assessed (Scoring method M2):

(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.

(ii) Use of competitive procurement methods.

(iii) Public access to complete, reliable and timely procurement information.

(iv) Existence of an independent administrative procurement complaints system.

While dimension (i) is concerned with the existence and scope of the legal and regulatory framework, dims (ii), (iii) & (iv) focus on the operation of the system.

Dimension	Minimum requirements for dimension score (Scoring Methodology M2)
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	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 funds[4]; (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; (v) provide for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints; (vi) provide for an independent administrative procurement review process for handling procurement complaints by participants prior to contract signature. **SCORE = A:** the legal framework meets all six of the listed requirements **SCORE = B:** the legal framework meets four or five of the six listed requirements **SCORE = C:** the legal framework meets two or three of the six listed requirements **SCORE = D:** the legal framework meets one or none of the six listed requirements
(ii) Use of competitive procurement methods	When contracts are awarded by methods other than open competition, they are justified in accordance with the legal requirements: **SCORE = A:** In all cases. **SCORE = B:** For at least 80% of the value of contracts awarded. **SCORE = C:** For at least 60% of the value of contracts awarded. **SCORE = D:** For less than 60% of the value of contracts awarded, **OR** reliable data is not available.
(iii) Public access to complete, reliable and timely procurement information	Key procurement information (government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints) is made available to the public through appropriate means. **SCORE = A:** All of the key procurement information elements are complete and reliable for government units representing 90% of procurement operations (by value) and made available to the public in a timely manner through appropriate means. **SCORE = B:** At least three of the key procurement information elements are complete and reliable for government units

[4] N.B. Coverage is limited to Government funds, excluding SOEs (the OECD DAC *'Methodology for Assessing Procurement Systems'* covers all public funds).

Dimension	Minimum requirements for dimension score (Scoring Methodology M2)
	representing 75% of procurement operations (by value) and made available to the public in a timely manner through appropriate means. **SCORE = C:** At least two of the key procurement information elements are complete and reliable for government units representing 50% of procurement operations (by value) and made available to the public through appropriate means. **SCORE = D:** The government lacks a system to generate substantial and reliable coverage of key procurement information, **OR** does not systematically make key procurement information available to the public.
(iv) Existence of an independent administrative procurement complaints system.	Complaints are reviewed by a body which: (i) is comprised of experienced professionals, familiar with the legal framework for procurement, and includes members drawn from the private sector and civil society as well as government; (ii) is not involved in any capacity in procurement transactions or in the process leading to contract award decisions; (iii) does not charge fees that prohibit access by concerned parties; (iv) follows processes for submission and resolution of complaints that are clearly defined and publicly available; (v) exercises the authority to suspend the procurement process; (vi) issues decisions within the timeframe specified in the rules/regulations; and (vii) issues decisions that are binding on all parties (without precluding subsequent access to an external higher authority). **SCORE = A:** The procurement complaints system meets all seven criteria. **SCORE = B:** The procurement complaints system meets criteria (i), (ii) and three of the other five criteria. **SCORE = C:** The procurement complaints system meets criteria (i), (ii) and one of the other five criteria. **SCORE = D:** The procurement complaints system does not meet criteria (i) & (ii) and one other criterion, **OR** there is no independent procurement complaints review body.