

Budget Support and Managing Fiduciary Risk – a Consultant Perspective

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Basic Premise

From a donor perspective, budget support should be accompanied by measures to manage fiduciary risk i.e.:

- Initially assess fiduciary risk;
- Quantify that risk; and then take measures to:
- Safeguard donor funds against, at least, excessive risk;
- Monitor performance.

Absolute safeguard is not possible and therefore from a donor point of view risks need to be assessed and managed.

The measures to assess risk and to develop safeguards

Assessment actions can include measures such as: PEFA, FRAs, PFMA reforms.

Annual monitoring is also desirable although PEFA assessments are not carried out annually. The trends are significant as is the pace of reform.

Assessments are usually completed by consultants acting on behalf of aid agencies, although self assessment are carried out.

PEFA assessments – the process a consultant view

- The main value of the PEFA assessments is to identify trends. Are improvements occurring or not?
- They are not suitable for in-depth reviews.
- The consultant in one brief visit is expected to understand a country and its environment.
- Rarely will the same consultant be employed to make subsequent visits.
- PEFA assessments occur periodically not annually.
- Consultants who have country experience have usually been party to reforms in that country and therefore could be prejudiced.

PEFA assessments

Self assessments:

- Encourage countries to make their own reviews;
- Therefore increase ‘ownership’ of the review process;
- But can they be regarded as an ‘independent’ assessment of value to donors trying to assess fiduciary risk?
- Avoid the risk of outside consultants ‘prejudicing’ the results or misunderstanding the operating environment.
- Yet they can also present a ‘gloss’ which is inappropriate and are influenced by the local culture.

PEFA assessments

What PEFA assessments do not do is to look at the factors impacting on performance such as the legal framework or the hierarchical culture and nor do they involve policy analysis.

All the appropriate arrangements can exist but actual implementation depends upon 'real' practice.

The question for consultants is how can they make judgements about:

- 'Real' practice, as opposed to the 'legal form',
- Whether the country is just aiming to meet the assessment measures rather than improve performance?

Questions from a consultant viewpoint

- Are these assessment arrangements necessarily the best way of proceeding?
- If they are, are they always well executed?
- How good are self assessments?
- Are consultants the best people to lead/undertake PEFA assessments?
- Can country experience always be relevant or can it lead to wrong judgements?
- Are there any other models that should also be looked at?

Comparison with countries wishing to join the EU – improving public financial management (PFM)

In these circumstances the PFM arrangements that are required are based upon a policy known as Public Internal Financial Control (PIFC) with an effective external audit.

The PIFC requirements cover budgetary management, financial management and control and internal audit. The critical element is the capability and authority of the management.

The specific requirements are set out in Chapter 32 of the Accession Treaty.

Role of consultants in EC assessments

Consultants support countries with the development of the PIFC arrangements, but do NOT undertake country reviews or annual assessments.

The Commission has its own key staff who require and review country strategies.

It has an agreement with the OECD/SIGMA who employ experienced staff to undertake periodic reviews (often critical), assist countries through the initial steps and carry out annual assessments of progress. OECD/SIGMA employ experts to assist them but they are very much under the guidance of SIGMA.

Periodic reviews and assessments are undertaken to a defined timetable with considerable notice.

Problems with the employment of consultants for PEFA

1. The timetable: often notice for an assessment is far too short – much longer notice should be given.
2. Often the team required have not worked together before and strengths and weaknesses may not be matched.
3. The period allowed for the assignment may be too short and the budget too small.
4. The experts may not be that good – you get what you pay for.
5. Country experience but there are risks that it can be misused or misapplied?
6. The leadership role: can consultants properly lead PEFA assessments or is the SIGMA model a better one?

Comparison with the EC accession state approach

1. With the EU there is a very powerful incentive;
2. Strong monitoring by staff professionals who are expert in the subject and country;
3. Therefore capability to assess whether there is substance in the reforms or mere legal form;
4. Expert support is selected on the basis of expertise, not either competition or money or an ability to write a proposal;
5. A forward timetable is available so planning is more effective;
6. Close and intense discussion occurs between the EC staff and OECD/SIGMA.

Questions

- Do the present arrangements for budget support provide enough confidence to safeguard against fiduciary risk?
- Is the coverage of the PEFA indicators appropriate or are more 'in-depth' indicators required in some areas?
- Are there alternatives or could reforms be introduced to the implementation of PEFA, such as longer term planning that could result in significant improvements?