

Experiences in implementing the PEFA tool

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Background

PEFA - potentially a valuable tool to assess public financial management.

However, is it being misused, misapplied or misinterpreted?

What steps can be taken to prevent this?

Objective: how can we ensure that a PEFA assessment provides an accurate picture of the real state of financial management in a country?

Three aspects to a critical assessment of PEFA

1. How PEFA assessments are undertaken
2. The problems with PEFA
3. PEFA assessments and donors
4. PEFA assessments and consultants
5. An alternative approach to undertaking PEFA assessments

How PEFA assessments are undertaken

Two methods of PEFA assessment:

1. Self assessment
2. Assessment by external consultants or individual experts

Benefits of 1. include:

- Greater degree of local ownership
- Better understanding of local circumstances
- More opportunities to secure continuous reform based on PEFA findings.

Benefits of 2. include:

- Potentially a more dispassionate approach
- Greater expertise
- Less or no commitment to existing policies

Problems with PEFA

Culture – understanding the culture is extremely difficult.

Most consultants come from a developed country background and this influences assumptions.

But self assessment usually means that the problems with the current cultural approaches are not identified.

The PEFA indicators do not allow for a detailed understanding of the quality of PFM and in particular ought to have more regard to the quality of management.

‘Games’ can be played by under or over scoring to present the ‘political’ position that is desirable – e.g. we are good already, or we are improving. Donors can then also choose low score areas to support ‘quick wins’ funding.

Examples of cultural issues

- The minister or mayor is responsible for everything – there is no delegation and no management
- Society is very hierarchical and therefore no challenge to senior staff is possible
- Politics reaches down into the civil service and senior civil servants change on a change of minister
- Criticism is not possible
- A low score can result in the loss of a job
- Form and process are more important than results
- The consultant will be told what the civil servant thinks he wants to know.

Problems with Governance

Governance – a critical issue:

- That the minister is responsible for all appointments and for all decisions raises serious governance problems
- Political ‘friends’ are appointed – part of the ‘spoils’ process
- Decisions are not made in the public interest, but in the private/political interest
- Accountability is lacking except superficially
- Transparency does not exist except superficially.

Some developed country assumptions

A public financial management strategy exists: means in developed country terms that:

- Managers know their budgets and their costs
- Managers have some discretion in decision making and that they know what is expected of them

Value for money means that:

- Expenditure is assessed to ensure 3 'e' s apply
- Spending is under tight control
- Managers have this responsibility and thus the tools

Expenditure control means that;

- Both cash and expenditure is under control

Rarely are any of these correct in developing economy countries.

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?

Problems with PEFA approach adopted by donors

- PEFA assessment is based upon what is happening – meaning that PFM reforms may not be coordinated and are out of order: result distorts the PEFA assessment
- ToR do not recognise sufficiently the managerial and cultural context: as a result neither do the PEFA reports
- ToR are not well defined, nor is sufficient time or funding allowed for the assessment
- The reason for the assessment is not available
- Open competition is not the best way of choosing a consultant where special expertise is required
- There is no longer term published programme of assessments so consultants cannot plan long term.

Problems from a consultant's point of view

- How to respond to the problems created by the donor approach?
- How to build the team to undertake the assessment and in particular to find a suitable team leader?
- How to educate the team in the managerial and cultural problems that exist as well as the governance problems and to ensure that the team works well together and understands the country background?
- How to ensure that the PEFA indicators (which are limited in scope) provide the information that the donor really needs to make decisions?

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.

An alternative approach – the EC approach to accession country PFM

To meet Chapter 32 the EC requires:

- Specific processes to be followed
- Works with OECD/SIGMA to undertake peer reviews of countries and annual assessments of progress.

OECD/SIGMA employs on its own staff knowledgeable specialists in countries and supports their work with practitioners, not consultants.

Peer reports are discussed in detail with countries including facts and recommendations: annual assessments are also discussed to agree facts but not recommendations.

Close liaison between EC and OECD/SIGMA.

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 practical experience, 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.

Criticism of PEFA?

No, the criticism is more in the application of PEFA.

However, if these comments about the application of PEFA are not addressed this could bring the PEFA assessment process into disrepute.

Yes, improvements do need to be made to the indicators to put more emphasis on management, governance and expenditure management, instead of cash management.

But what is more crucial is to get right the application because problems with application would apply whatever the indicators.

Summary

PEFA - is potentially a valuable tool to assess public financial management.

However, the risk is that it is being misused, misapplied and misinterpreted.

To prevent this:

- First donors must think more carefully about using the tool
- Secondly, consultants need to be better organised - this is partly a function of improved donor approaches.
- The experiences of OECD/SIGMA can provide a valuable model to both donors and consultants with the use of country experts and practitioners.

In addition some changes to the indicators are also required.