Proposals for PEFA reform

By David Fellows and John Leonardo
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The problem

Failings in public financial management (PFM) span the breadth of Public Expenditure Financial Accountability (PEFA) scores. Our work suggests that numerous African governments that had very low scores from initial PEFA assessments, conducted up to nine years ago for some Performance Indicators (PIs), still present low or failing scores – 'C', 'D+' or even 'D' – for many of the same PIs in the most recent assessments.

PEFA assessments and PEFA-based reforms do not seem to be working effectively. Why? There are two main problems.

First, the current PEFA methodology results in assessments often giving little attention to some of the broader institutional causes of poor performance, including:

- **Staff capability:** The selection, availability, training, ambition and management of staff are typically ignored. Even when they are considered, boundaries are often too narrowly drawn around central finance functions.
- **Finance professionalism:** PEFA assessments do not consider the capacity to adapt PFM practice to local characteristics and pressures, to share knowledge and promote essential values.
- **Management:** PEFA assessments rarely question the fitness of the management chain to carry the burden of the finance function and its reform or the commitment of top management and ministers to facilitate this task.
- **Reform implementation capacity:** The administrative consequences of policy changes can distract management from the vital task of facilitating the often-exacting daily routine unless there is adequate implementation capacity. PEFA doesn't judge this.
- **ICT capacity:** This is increasingly important – affecting both the ability to operate current processes and an organisation's improvement potential – but completely

overlooked.

- **The behaviour of politicians and top officials:** In what is the most glaring limitation, corruption at a senior level, capricious decision-taking, unreasonable favouritism and lack of apparent consideration for staff or citizens can have disastrous implications, but features nowhere in the PEFA.

Such omissions can result in PFM reform programs failing to address fundamental problems.

Second, there is a disconnect between analysis and reform, with the two stages often developed by different groups, and reforms often having little relation to key underlying problems.

The very mixed history of PFM reform is a testament to these two problems.

A way forward

We believe that – at least for those governments in serious difficulty – the scope of the PEFA methodology is too narrow and that there must be a more wide-ranging diagnostic review at the PEFA assessment stage that helps concentrate minds on the root causes of serious PFM shortcomings.

It is not uncommon for governments to express doubt about the failings identified in PEFA assessments and reaffirm the validity of plans already made for the future that do not address fundamental problems. Such conclusions are more easily reached when causation is not addressed.

The current PEFA methodology requires the preparation of concept notes to inform decisions concerning the scope of proposed PEFA assessments. We suggest that the merits of undertaking a broader institutional assessment should represent an additional topic to be addressed in the preparation of future concept notes. If evidence of widespread poor performance emerges unexpectedly during an assessment, then the possibility of undertaking a wider institutional review should be considered at that stage.

Whilst it is accepted that political economy factors will have a material influence on PFM outcomes in many countries, this is no reason to ignore them.

Once the PEFA diagnosis is complete, and the underlying performance factors laid bare, the same reviewers should be asked to present views on reform priorities, time-scales and the reasons for previous reform failures. This work differs from the main assessment process and should therefore be included in an accompanying memorandum.

An extended review process – under which the traditional assessment and an examination of underlying factors are both examined, and reform priorities discussed – would make much better use of the assessment experience as a whole. Such an approach would be more conducive to strong, informed advocacy for prompt and effective decision-taking.

We also believe that assessment reports should be more widely circulated and that a wider group of staff involved in key PFM work activities should be consulted during the assessment process.

Conclusion

The proposed broader-based and extended PEFA assessment methodology falls far short of creating a design tool for PFM reform. It does, however, make better use of the effort and expertise employed and the collaborative environment established during the assessment process. Consequent reform strategies should, therefore, become more effective.

David Fellows and John Leonardo are Principals of PFMConnect. They have been engaged on projects in Africa, Asia and the Pacific funded by major development partners, including PEFA assessments, and have formulated proposals for PFM reforms based on PEFA assessments in a number of countries. They are grateful to Rajiv Sondhi, Head of Loans and Grants at the International Fund for Agricultural Development, who offered helpful guidance; nevertheless the views expressed here remain the responsibility of the authors.

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