

# **The need for improvement in Public Expenditure and Financial Accountability (PEFA) assessment methodology**





# Hello!

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## **What is public financial management (PFM)?**

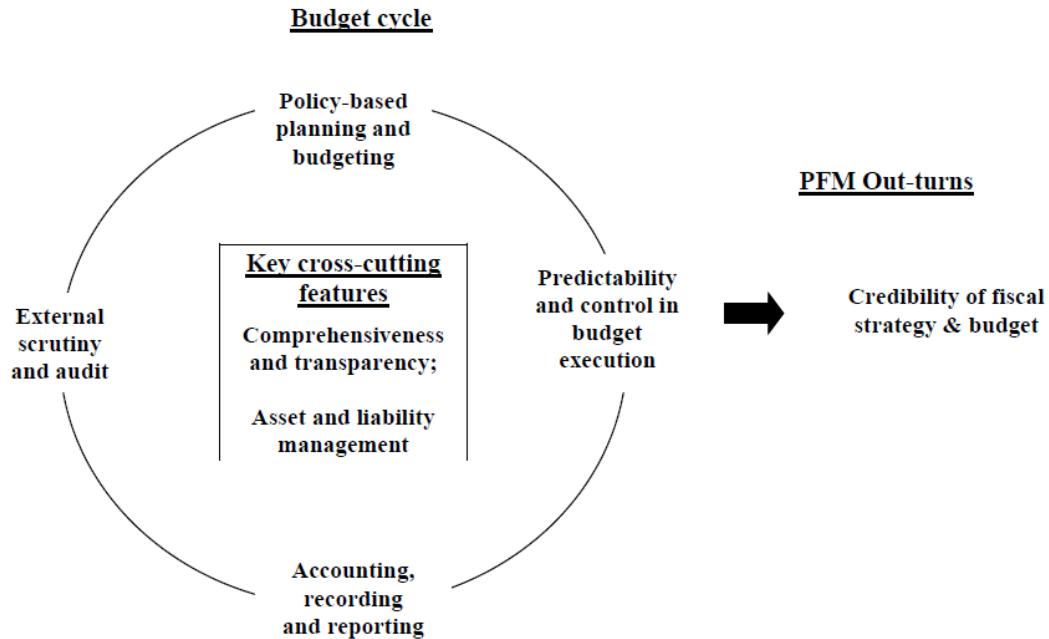
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**⦿ PFM covers all government activities associated with budgeting, expenditure, revenue management and accounting**



# PFM system: structure and coverage

(source: PEFA Secretariat)





## **Why is PFM important?**

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- ◎ **Good PFM ensures that public money (paid in taxes) is spent in a planned, approved and effective manner**
- ◎ **Good PFM ensures that there is a satisfactory record that official auditors, the press and ordinary citizens can check be sure that money has been properly spent**
- ◎ **Good PFM is a key weapon in fighting wasteful expenditure, theft of public money and corruption**



## **How do we know that PFM is being conducted properly?**

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- ◎ **Currently, the Public Expenditure and Financial Accountability (PEFA) framework is the most common government PFM assessment methodology**
- ◎ **PEFA was developed by IMF, World Bank and leading European donors a decade ago in an attempt to achieve a common approach and reduce duplication of PFM assessments**
- ◎ **Approximately 138 country PEFA assessments completed to date**



## **Key features of the PEFA Methodology**

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- ⦿ Assesses the quality of national and local government PFM systems using a scoring system**
- ⦿ Uses Performance Indicators (PIs) to assess performance levels of PFM activities**
- ⦿ Assessments are often undertaken at intervals of 3 to 5 years**
- ⦿ Methodology does not identify the reasons contributing to any reported PI poor performance**

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# Why government organisations fail to improve their PFM Performance

Root causes of poor PFM are not addressed



*“If one is master of one thing and understands one thing well, one has at the same time, insight into and understanding of many things”*: Vincent Van Gogh



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## **Our findings**

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- ⦿ Numerous African (and other) countries show no significant improvement in key PFM performance areas over lengthy periods of time**
- ⦿ Too often poor PI scores continue after some PFM reform measures have been implemented**



## **Why are poor PEFA PI scores of concern?**

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**⦿ Put simply, service delivery is undermined by  
poor PFM!**



## **Why do low PI scores often persist through numerous repeated PEFA assessments?**

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- **Because broader institutional causes of poor PFM performance are excluded from PEFA methodology resulting in their omission from PFM reform programmes.**



**We believe there is a gap in  
the PEFA methodology**





## Some common institutional causes of poor PFM performance

### Staff capacity

Deficiencies in staff selection, availability, training, ambition and management.

### Finance professionalism

Inability to adapt PFM practice to local characteristics and promote essential values.

### Management

PEFA assessments rarely question ability of top management to manage finance function and lead PFM reforms.

### ICT capacity

Inadequate or ineffective ICT capacity weakens current PFM practices and supporting PFM reforms.

### Policy Discipline

Concurrent but extraneous policy changes must be minimised.

### Leadership weaknesses

Politicians and senior officials compromise PFM practices by corrupt behaviour, poor decision-making and unreasonable favouritism.



## **Suggestion**

**Introduce a wider institutional assessment when evidence of significant poor PFM performance arises**



## **Proposed PEFA methodology changes**

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- ⦿ **Currently, a concept note is prepared during PEFA planning process which guides the PEFA assessment work.**
- ⦿ **In future, merits of a broader institutional assessment to be decided by stakeholders during concept note preparation.**
- ⦿ **PEFA methodology should also permit an institutional assessment to be introduced at a later stage if poor performance is identified unexpectedly during an assessment**





## Summary of proposed PEFA methodology changes

Current	Proposed concept note change	Change due to surprise adverse PI scores
<ul style="list-style-type: none"><li>• Concept note</li></ul>	<ul style="list-style-type: none"><li>• Consider merits of institutional assessment</li></ul>	<ul style="list-style-type: none"><li>• Concept note omits institutional assessment</li></ul>
<ul style="list-style-type: none"><li>• Terms of reference</li></ul>	<ul style="list-style-type: none"><li>• Terms of reference</li></ul>	<ul style="list-style-type: none"><li>• Terms of reference</li></ul>
<ul style="list-style-type: none"><li>• PEFA assessment</li></ul>	<ul style="list-style-type: none"><li>• PEFA assessment may include institutional assessment</li></ul>	<ul style="list-style-type: none"><li>• PEFA assessment PIs disappoint and institutional assessment added</li></ul>



## **Benefits of recommended institutional assessment**

### **Value for money**

- PEFA assessors well placed to help identify causes of poor PFM through knowledge gained during PEFA assessment
- Participants in subsequent design of PFM reforms may not have the same knowledge.

### **Better formulation of subsequent PFM reforms**

- Institutional assessment should enhance the formulation of future PFM reforms by incorporating specific measures to address identified institutional constraints.



## **New tasks for PEFA Assessors**

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- ⦿ **Complete institutional assessment addendum when required by concept note or by unexpected findings from basic assessment work**
- ⦿ **Identify reform priorities, time scales and reasons for reform failures in an addendum to the main report**



## Read some PEFAs

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⦿ All the most recently published PEFAs can be downloaded from PFMConnect's website:

<http://www.pfmconnect.com>



## Conclusion

- The need to identify institutional constraints to good performance in PEFA assessments is essential for these problems to be effectively dealt with in PFM reform programmes



# Thanks!

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