Joint response to the PEFA consultation: For a stronger summary assessment

We welcome the opportunity to respond to the consultation on the new Public Expenditure and Financial Accountability (PEFA) framework. The PEFA framework has become the most widely used indicator for public finance management (PFM) in developing countries. It is now a major part of the global PFM architecture – critical for donors, countries and intermediaries, such as ourselves. It is our belief that while revisions to the indicator framework are important, a more significant issue is to improve the way it is used. As a starting point, we recommend that the revisions are accompanied by a stronger summary assessment.

Worldwide, PFM reforms are suffering from interventions that are over ambitious and too closely tied to interventions that constitute international 'good' practices. When Matt Andrews suggested that "reform similarities belie country differences" he showed that out of the 31 counties from sub-Saharan Africa that were in the PEFA data base, nearly all had or were developing medium-term expenditure frameworks; performance, programme or activity-based budget systems; Government Finance Statistics classification schemes and treasury single accounts. Many more were pursuing new financial management systems and international accounting standards. Similarly, the World Bank has documented the explosion of medium-term expenditure frameworks since 2000, including in advanced economies. This 'isomorphism' very often seems to be driven by the benefits of mimicking a strong PFM system, rather than genuinely developing one.

We believe that the similarity of PFM reforms is partly tied to the way the PEFA indicators are used. The PEFA framework was not designed to identify why indicators were scoring poorly and can only suggest crudely which broad areas that might require attention – and more specific diagnostics. Yet in developing countries, PEFA assessments are sometimes used formulaically to develop a detailed PFM reform plan or to justify a wide range of highly ambitious interventions. One example is the 2009 Maldives' Action Plan for PFM Reforms, though there are many others such as Sierra Leone's PFM Reform Strategy and Tajikistan's PFM reform programme.

Though it is difficult to evidence, in our experience the abuse and misuse of the PEFA framework increases when assessments are tied to aid allocations. This is consistent with theories on incentives, behaviour and "gaming". It is also clear that these practices undermine the principles of the Strengthened Approach, which is based on the principle of country ownership through government-led analysis and prioritisation.

The misuse of PEFA indicators is not under the direct control of the Secretariat, but we would like to see new requirements for the Summary Assessment to mitigate the problem. The Secretariat has successfully put in place measures to improve the legitimacy of PEFA assessments, including by offering the "PEFA Check". We are asking for this regulatory role to be used to protect the integrity of the indicator framework – and national governments – from poor reform practices. One way to do this would be to improve the Summary Assessment.

Under existing guidance, the Summary Assessment should cover the likely impact of PFM weaknesses on fiscal discipline, strategic allocation of resources and efficient service delivery. In practice, the Summary Assessment commonly resembles an executive summary followed by a list of recommended reforms, often based on the indicators that scored poorly. The 2010 PEFA assessment for Bhutan and the 2007 assessment for Lesotho are just two randomly picked examples. A quick scan of the PEFA assessment database did not yield any examples of the Summary Assessment even following the existing guidance more than formulaically. The current practice encourages the view that a low score should trigger interventions, particularly in an environment where the political or technical capacity of the government to argue for a different set of priorities is low.

A stronger Summary Assessment would interpret how the scores relate to one another and on that basis identify which scores merit priority attention and why. We think that PEFA assessments often create or reinforce the wrongly-held view that all indicators are a priority, which leads to reform programmes that are both highly similar and cover a multitude of PFM areas at the same time. The PEFA Secretariat cannot control this behaviour, especially when donor funding creates strong incentives to game, but it can make the summary assessment a better tool.

A simple change is to require greater justification for why a poor score requires (or does not require) further interventions or diagnostics. This would give assessors the space to discuss the patterns and interrelationships between scores and to think through the implications of scores. Where the evidence or linkages are ambiguous, more specific consultation and further work will be needed. A stronger summary assessment would not replace the crucial work of designing PFM reforms, but it would make it easier for stakeholders to interpret the PEFA results, and more difficult to confuse a PEFA assessment for a reform diagnostic or action plan.

To make this explicit, the Secretariat should (a) provide more detailed guidance on the content of the Summary Assessment in writing and through the PEFA training programme; (b) require more explicit analysis of which indicators are reform priorities, and why; and (c) require assessors to include the main reasons clearly in the Summary Assessment in order to receive a “PEFA Check”. In addition, we feel that this same message could be reiterated within an appropriately worded pre-amble to the revised PEFA framework.

The PEFA indicator framework remains a good overall measure of the quality of PFM systems, and is rightly considered an integral tool for PFM reform. The current consultation proposes a large number of changes to the indicator framework. In our view, some are better than others, but the most important issue is for the Secretariat to facilitate appropriate application – to discourage the view that a poor score requires immediate, priority action. Norway’s self-assessment in 2008 revealed that even an advanced economy with strong institutions will not always score ‘A’ on all indicators, and nor does it need to.

The most pragmatic option is to improve the summary assessment – requiring upfront an explanation of which indicators are reform priorities, and why, in order to be legitimised through a “PEFA Check.” So while the focus is on the indicator framework, we urge the Secretariat to turn its attentions back to the Summary Assessment as well. Our recommendations are unlikely to change behaviour overnight, but will send a clear signal to donors and governments that there is no automatic link between a PEFA score and a reform priority.

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