Testing the new PEFA methodology in Mauritius

By Mary Betley

Introduction

Accountability and transparency in public financial management (PFM) continue to be the focus for both governments and development partners. As such, the Public Expenditure and Financial Accountability (PEFA) framework, the main tool used to assess strengths and weaknesses in PFM, is undergoing a transformation.

This is the first significant change to the PEFA framework since its inception ten years ago. It aims both to incorporate the lessons from the 500 PEFA assessments that have been carried out to date, and to address the changing emphasis of PFM oversight, particularly following the weaknesses exposed by the global financial crisis. As part of the development of the enhanced assessment framework, a number of pilot exercises have been carried out over the past year, including recently with the Government of Mauritius (GoM). The following paragraphs provide a personal view of the new framework, based on the lessons gleaned from the Mauritian exercise.

Quick note on PEFA

The PEFA assessment tool consists of a number of indicators and uses a standardised methodology to come up with a set of ratings for these indicators. The results, and an explanation of the results, are contained in a report, which also highlights the evidence on which the results were based. The strong focus on documentary evidence is a particular characteristic of the PEFA framework. The purpose of using a standardised methodology is to facilitate comparability of the country's assessments, and thus show relative progress, over time.

PEFA exercise in Mauritius

Two PEFA exercises were carried out in Mauritius – the first using the current methodology (and following two earlier exercises in 2007 and 2010/11), and the second testing the draft new methodology. Both exercises were carried out by a joint WB-EU funded team, working together with GoM officials. The Mokoro team comprised Mary Betley and Carole Pretorius. The exercises were characterised by very active participation of Ministry of Finance and Economic Development (MoFED) and other GoM officials.

The field work for the two assessments was conducted in June 2015, and the final (assignment-end) workshop was held in December. During the assessment, the external team worked together with a small team of senior officials from MoFED. There was excellent co-operation with the joint team, and it was encouraging to see such active participation and eagerness to share data, documents and other evidence.

For the first exercise (that based on the current framework), the methodology used for the follow-on assessment was somewhat different from previous exercises, which served to hamper direct comparisons with the results of the earlier assessments. In particular, the last assessment was conducted initially by the government itself, and this was followed by an external team's validation of the results (but not a re-running of the assessment). Given that there is a learning curve involved in applying the PEFA framework, in practice, it may be difficult to ensure that the results are directly comparable in such cases. The other main issues affecting comparisons between 2011 and 2015 assessments were a change in the measurement of 3 indicators in 2011 and the 2012 issuance of a set of clarifications for the measurement of each indicator.

Testing the new PEFA framework

In addition to carrying out the repeated PEFA assessment using the current framework and set of indicators, the Mauritian government agreed to be one of the pilot countries testing the draft new PEFA framework. The testing was focused on the assessment of performance indicator ratings, rather than also on the accompanying performance report.

As part of the orientation on the new framework, the PEFA Secretariat conducted a video conference with the team to discuss lessons from the early testing of the new framework and to answer questions. The session was very useful, particularly as it helped set expectations for the team. The outcome from the testing exercise was a set of ratings covering the new indicators plus a separate detailed commentary by the assessors on the revised methodology.

Overview of the draft new PEFA framework

The new framework is more than simply an update. Based on the results from the most recent 5-year evaluation of the PEFA programme (co-authored by Alta Fölscher), the PEFA Steering Committee (representing 7 development partners and the PEFA Secretariat) felt that there was a need to refresh the framework substantially to ensure its continuing relevance for the future. Specifically, the revisions were intended to improve relevance and clarity, fill major subject gaps, update accepted good practices, strengthen areas of weakness, as well as incorporate the more than 200 clarifications to the framework that had been issued since 2005. However, in revising the framework, it was considered very important that the revised framework did not change the purpose of PEFA, nor undermine comparisons over time (while, above all, ensuring relevance).

Overview of the changes to the framework

Overall, the new framework is characterised by two main changes in focus. Firstly, there is a greater emphasis on transparency and management of liabilities and fiscal risks, and on internal control, based on The International Organisation of Supreme Audit Institution's (INTOSAI) internal control framework. Secondly, there is a widening of the scope of the PEFA framework to the whole of central government (from the relatively greater emphasis on the more narrow scope of budgetary central government, as currently). In addition to budgetary entities, the widened scope includes assessing the practices of extra-budgetary units and the management of social security funds.

In terms of the set of performance indicators themselves, the changes are reflected in both new and revised (new elements) indicators. Specifically, a number of new indicators have been introduced to address issues not covered in the existing framework. These include the assessment of the existence of a credible fiscal strategy, of public investment management, and of public asset management. In addition, some of the existing indicators have been reformulated, particularly those for revenue, to broaden the coverage to include non-tax revenues. There is also a greater emphasis on non-financial performance information for service delivery. Finally, the three indicators for development partners have been discontinued, with information on donor-funded revenue and expenditure incorporated into other performance indicators.

Implications of the changes to the PEFA framework

From a practical point of view, more entities to meet could mean significantly more meetings will be required. More broadly, those countries who have created significant numbers of extra-budgetary units in order to provide greater flexibility to their management arrangements, for example, may find that the PEFA could highlight areas of concern (e.g. fiscal risk), a situation which would be reflected in the ratings.

More comprehensive data requirements mean that, in some cases, the criteria could make it potentially time-consuming (or difficult) to get the relevant data. In addition, the fact that there is no longer a "no data available" option (i.e. part of an indicator rated as N/A) may result in more D (lowest) ratings. The process of testing the new framework identified some issues in coming up with ratings, for example in terms of the balance in gradation between rating levels, and, in some cases, an emphasis on numbers of entities, rather than their relative fiscal importance, in distinguishing between rating levels. The accompanying PEFA report requires greater explanation and analysis of the internal control framework; this requires a special emphasis and a clear understanding of INTOSAI's guidelines on internal control standards.

Finally, PEFA's emphasis on documentary evidence (and particularly on "published" information), which is intended to ensure consistency across assessments and contestability of the results, may serve to penalise some countries. For those countries with a less formal approach to their management of public finance, for example, in small-island states where everyone (and everything) is known and where formal (documented) procedures are seen as unnecessary, the lack of formal documentation is likely to result in relatively lower ratings, even where such processes seem to work well. In such cases, governments should focus their reform plans on their internally-determined priorities, not on PEFA ratings.

Next steps for the PEFA update

The final version of the new methodology is currently being prepared, following lessons gleaned from the piloting exercises. The new/revised PEFA framework is expected to be launched in February 2016. During December and January, final revisions were made, based on lessons from the pilot exercises. The PEFA Secretariat are planning to run a 4-day PEFA conference in April in Istanbul to introduce the new framework to interested parties. In the meantime, the current draft guidance documents are available on the PEFA website.

What next for PFM in Mauritius?

After the completion of the PEFA assessments, the government is currently undertaking an exercise to identify and prioritise the PFM reform activities it intends to implement. In line with some other countries having undertaken PEFA assessments, the government plans to group the prioritised activities into a wide-ranging PFM Action Plan. These types of Action Plans tend to be more narrowly focused on, and linked to, the results of PEFA assessments. Such a focus may imply an overall goal for PFM reform of improving PEFA ratings. In these cases, such plans may not fully reflect government's real priorities on PFM. At the same time, they may not take into account fully the required sequencing and institutional (including political economy and capacity) constraints on implementing the reforms. As noted by the PEFA Secretariat, the PEFA indicators are only one dimension in the reform process.

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