Trend in Papua New Guinea’s public financial management

SlideShare presentation

We have prepared a SlideShare presentation that discusses the desperate state of Papua New Guinea’s public financial management (PFM). The presentation highlights a deteriorating trend in the country’s PFM over recent years and its very poor recent performance compared with most other countries based on Public Expenditure and Financial Accountability (PEFA) assessment methodology. The presentation recommends the government publishes its recently prepared PFM reform road map to facilitate an open evaluation of the root causes of Papua New Guinea’s poor PFM performance and reform options by a full range of stakeholders. We end the presentation by reiterating our view that in its current form PEFA methodology is unsuited to play a really constructive role in the reform of PFM practice in fragile states.

Papua New Guinea’s poor and deteriorating financial management: can it be turned around?

By David Fellows and John Leonardo[1]

Background on Papua New Guinea (PNG)

Papua New Guinea (PNG) is a lower-middle-income economy heavily dependent upon commodity exports. It has an extremely diverse social structure with fierce clan loyalties, characteristics that provide severe challenges to the effective working of government that have not yet been successfully addressed.[2] [3] The country's social development[4] trails its economic status. Overall, the performance of the PNG public sector is weak, the lower tiers of government are dysfunctional and corruption is rife.

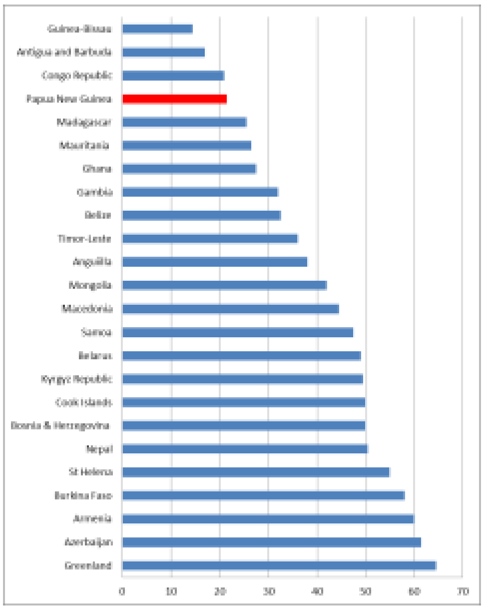
Key findings of PNG's latest PEFA assessment

The latest PNG Public Expenditure and Financial Accountability (PEFA) assessment completed in August last year has been published. Scores for the various public financial management (PFM) performance indicators (PIs) were determined using both a new so-called "testing" methodology and the existing 2011 methodology. Details of the scores are available in this spreadsheet and a summary of the new testing methodology scores are given at the end.

The PEFA exercise gives ranking for about 30 criteria on a scale from A to D. In the 2015 assessment, A and B scores represented a very disappointing 17% of all PI scores applying the new testing methodology or 18% using the 2011 methodology. Nine out of the ten scores under the two key headings of 'Predictability & Control in Budget Execution' and 'Accounting, Recording and Reporting' were 'D' or 'D+'. In many cases financial regulations and improvements recommended by internal audit review were simply not observed reflecting perhaps a mixture of poor oversight, inadequate training, lack of basic ability and blatant disregard for proper practice.

Twenty-four PEFA assessments have been completed since 1 January 2014 and published by the PEFA Secretariat. (In addition, six completed assessments have not been published to date.) As the graph in Figure 1 below shows, Papua New Guinea's overall score was ranked 21st out of the twenty-four countries. (Details are available here, including our methodology to derive aggregate scores from PEFA rankings.) Only Congo Republic, Antigua and Barbuda and Guinea-Bissau recorded lower overall scores than Papua New Guinea.

Figure 1: Aggregate PEFA scores for 24 countries



Note: The PEFA scores are aggregated by us using a methodology set out in the spreadsheet mentioned above. The highest possible score is 84.

PNG is also one of the poorest countries rated, but its overall performance is weaker than some other even poorer developing countries as set out in Table 1 below.

Table 1: PEFA scores sorted by Gross National Income (GNI) per capita (US$)

	GNI per capita 2014	HDI* 2014	PEFA score
Papua New Guinea	2,463	0.505	21.5
Nepal	2,311	0.548	50.5

Burkina Faso	1,591	0.402	58
Gambia	1,507	0.441	32
Madagascar	1,328	0.510	25.5

*Human Development Index

What is also disturbing is the suggestion that financial management in PNG has worsened. Two earlier PEFA exercises have been carried out for PNG, in 2005 and 2009. While these have not been released, we know from the ADB's Country Operations Business Plan 2015-2017 that in 2009 32% of PIs were scored an A or a B. The fall from 32% to 18% suggests a major deterioration in public financial management in PNG. (The 2005 methodology used in 2009 and the 2011 methodology used in 2015 are not identical, but sufficiently similar for this comparison to be made.)

The IMF team observes that PNG's budget process is orderly and well understood, and that some progress has been made in embedding the medium-term dimension into fiscal planning. The aggregate credibility of the budget appears satisfactory though only with some serious caveats. Most of the 2015 report, however, contains a damning indictment of financial administration: control over budget execution is weak; there are high levels of variance between budget and expenditure; expenditure control is weak; project implementation is weak; budgets contain insufficient analytical detail; many bank reconciliations are not carried out in a timely manner and contain significant unresolved items; the coverage and classification of in-year data does not allow comparison with original approved budgets; many state owned enterprises receive very poor audit reports; there is no overall PFM reform strategy; and much else besides.

In our recent blog "Proposals for PEFA reform", we remarked on the failure of the PEFA methodology to come to terms with fundamental institutional weaknesses. The PNG assessment contains a short section on institutional factors but fails to establish the root causes of the perceived deficiencies. The remedies proposed – including the use of a longer time span, creating a more structured approach and the formation of a Ministerial steering committee – are worthy but unequal to the task of addressing the long list of recommended priority improvements that end the report.

Readers of the report are left asking for an explanation of underlying reasons for this catalogue of critical deficiencies, the lack of progress made and the decline in standards in some areas.

PNG's response

The PNG government has made no formal response to the latest PEFA assessment but the recent Budget Speech contains reforms concerning state-owned enterprises, Government Finance Statistics and debt management that partially address material weaknesses identified in the latest PEFA assessment. There were no specific initiatives to promote increased accountability in PFM activities in either the 2016 Budget Speech or supporting volumes.

The government's stated expectation in the 2016 Budget that the 2015 PEFA assessment "should provide confidence to development partners to gradually rely on government systems" (Vol. 1, p. 46) appears optimistic to say the least.

Following the completion of the PEFA assessment the IMF and the Government of PNG created a "road map" for public financial management (PFM) reform. This is referred to in the IMF 2015 Article IV report, but has not been published, as far as we can tell. It seems to have been designed to give effect to the extensive list of priority reforms identified in the 2015 PEFA assessment but the published fragments are lacking in explanation about how these improvements are to be achieved. It was not, as far as we are aware, created out of any form of extensive public or corporate consultation.

Conclusions

PFM reform is not an end in itself nor can it be achieved in isolation from the broader condition of a fragile state. Good PFM is, however, an essential component of policy development, service and project implementation, obtaining value-for-money, promoting economic development, fighting corruption and providing public accountability.

Clearly, financial management in PNG is in a parlous state. No significant progress has been made in most PFM activities at government level in recent years; indeed there is evidence of regress.

The failure to publish previous PEFA reports has denied both the tax payers and the people of PNG with any real appreciation that the resources expended on PFM enhancement activities have generally failed to produce material overall improvements in key PFM areas. A stance must now be taken by international development agencies that all future work in relation to the reform of PFM in PNG must be undertaken in a much more transparent manner. A good start would be to publish the road map.

There is an opportunity for progress with a Finance Minister, James Marape, committed to reform and a Finance Secretary, Dr Ken Ngangan, who is well-respected and capable. However, the effort, to be successful, must go beyond a small number of individuals. We suggest that, given the relative failure of reform activity to-date, there should be an open assessment of the public financial management reform challenges and their root causes involving the full range of stakeholders. This should result in an agreed set of objectives, reform processes, expected performance levels and timescales designed to deliver feasible and desirable improvements in administrative practice, governance and political relationships to achieve an acceptable minimum overall PFM standard. External agencies should require evidence of extensive support from the government of PNG as a condition of continued participation in the reforms. A collective approach to the problems of PNG involving Government and development partners could provide added value from the future resources deployed by all parties.

Unlikely though the achievement of these proposals may seem, donors must now ask themselves what purposes further reform activities are expected to serve if they choose to ignore their lack of results. The ADB country plan for PNG expected the proportion of As and Bs to rise from 32% in 2009 to 50%[5] in 2015. Instead, it has fallen to 18%.

As we have said before, the PEFA methodology can no longer ignore the need to identify the root causes of poor PFM in fragile states. PNG seems to offer a perfect case in point.

APPENDIX

PNG 2015 PEFA Scores (using "testing" methodology)

PFM Pillars	Performance Indicator (PIs) Scores*			
	A	B	C	D
Credibility of Fiscal Strategy *(PI:1-3)*	1	1		1
Comprehensiveness and Transparency *(PI:4-9)*		2	1	3

Asset & Liability Management *(PI:10-13)*				4
Policy-based Planning & Budgeting *(PI:14-18)*		1	2	2
Predictability and Control in Budget Execution *(PI:19-25)*			1	6
Accounting, Recording and Reporting *(PI:26-28)*				3
External Scrutiny and Audit *(PI:29-30)*				2
Total scores	**1**	**4**	**4**	**21**

**each column includes '+' scores, so 'D'; includes D and D+*

[1] The authors are Principals of PFMConnect. They have been engaged on projects in Africa, Asia and the Pacific funded by major development partners. A slightly abbreviated version of this blog is available at the Devpolicy Blog of the Development Policy Centre based at the Australian National University's Crawford School of Public Policy.

[2] The three Political Economies of electoral quality in PNG & Solomon Islands by T. Wood ANU DevPolicy Centre

[3] Political Governance & Service Delivery in the Western Highland Province, PNG by J. Ketan ANU ISSN: 1328-7854

[4] Asian Development Bank Country Partnership Strategy Papua New Guinea 2016–2020, March 2015, page 1

[5] This was an objective included in ADB's Country Operations Business Plan 2015-2017 "Updated Country Partnership Strategy Results Framework" published in October 2014. This document was superseded by ADB's Country Operations Business Plan 2016-2018, published in March 2015, from which this objective

was omitted

The need to improve the PEFA methodology

We have prepared a SlideShare presentation that recommends improvements to the current Public Expenditure and Financial Accountability (PEFA) methodology for assessing public financial management. You can view the presentation at: http://www.slideshare.net/johnleo/the-need-for-improvement-in-public-expenditure-and-financial-accountability-pefa-assessment-methodology. This presentation supplements the material presented in our recent blog at: [Proposals for PEFA reform](#).

Proposals for PEFA reform

Posted by David Fellows and John Leonardo[1]

The problem

Failings in public financial management span the breadth of the Public Expenditure Financial Accountability (PEFA) scores. Our work suggests that numerous African governments that had very low scores from initial PEFA assessments[2] 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 for all PIs. 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 facilitating this task.
- **ICT capacity:** This is increasingly important – affecting both the ability to operate current processes and an organisation's improvement potential – but completely overlooked.

- **Extraneous policy effects:** requires discipline to avoid concurrent policy changes that will pose unsustainable demands on top of the combined burden of PFM reform activities and the daily routine.
- **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.

An unacceptable state of affairs

Poor PFM performance is not unique to an African environment or developing nations in general or indeed to developed nations throughout the world. The problem for developing nations is that they are by their very definition less richly resourced. The administrative basis from which they play out their current experience is lower and the safetynets are less robust. They can less readily afford their mistakes and recover from them less rapidly.

The questions that we pose from our analysis are these: (i) is it reasonable to continue to do such a limited evaluation of the overall PFM environment given the evident complexity of the PFM context as we have set out in very brief terms in this note; (ii) given that the PEFA methodology has been in operation for almost ten years and numerous major countries are making relatively little progress with some key PFM functions, is the PEFA methodology and its underlying scope entirely satisfactory; (iii) are not assessments being underutilised in that their scope and the circulation of completed work is often restricted to finance ministries – even where activities outside the central finance function are subject to review there is often limited involvement of staff from such areas in assessment planning, task team membership and post hoc discussion; and (iv) is the best use being made of the insights gained by review teams given that there is no assured linkage between the assessment study and any consequent reform proposals?

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, that is no reason to ignore them.

Proposals

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.

Notes:

[1] The authors are Principals of PFMConnect. They have been engaged on projects in Africa, Asia and the Pacific funded by the World Bank, EU, ADB and DfID, including PEFA assessments. They are grateful to Rajiv Sondhi, Head Loans and Grants at the International Fund for Agricultural Development, who reviewed the draft and offered helpful guidance; nevertheless views expressed remain the responsibility of the authors.

[2] See: www.pefa.org

[3] A slightly abbreviated version of this blog is available at the Devpolicy Blog from the Development Policy Centre based at the Australian National University's Crawford School of Public Policy: Proposals for PEFA reform