What do we know about finance ministries?

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Overview

1. Finance ministries for what?
2. What is capability?
3. The external environment
4. A look inside
5. Conclusions
1. Finance ministries for what?
General Government Balance in % of GDP

-20.0 -15.0 -10.0 -5.0 0.0 5.0 10.0 15.0 20.0 25.0


Germany
Denmark
Sweden
Finland
Italy
France
United Kingdom
Spain
Greece
Fiscal Discipline (2)

General Government Balance in % of GDP

- Botswana
- Côte d'Ivoire
- Ghana
- Lesotho
- Mozambique
- Sierra Leone
- South Africa
- Uganda
Socio-economic results

Mortality rate (under-5 per 1000 live-births)

- Chile
- Germany
- Mexico
- Nepal
- Sierra Leone
- Mexico
- South Africa
- United Kingdom
- Low income
- High income
- Upper middle income
2. What is capability?
Tasks differ between countries

1. Macrofiscal forecasting and analysis
2. Fiscal policy formulation
3. Fiscal risk analysis
4. Interface between monetary and fiscal policy
5. International economic and financial relations
6. Tax policy
7. Budget preparation
8. Treasury and cash management
9. Internal control
10. Internal audit
11. Accounting policy
12. Debt management
13. Tax administration
14. Customs administration
15. Intergovernmental financial relations
16. Regulation of banks and other financial institutions
17. Management of public assets, including public enterprises
18. Public procurement
19. Monitoring and management of performance
20. Strategic planning
Capability as the ability to get things done

Analytical Capability
1. Fiscal forecasting
3. Fiscal risk analysis

Coordinative Capability
2. Fiscal policy formulation
4. Interface between monetary and fiscal policy
5. International relations
6. Tax policy
11. Accounting policy
20. Strategic planning

Delivery Capability
7. Budget preparation
10. Internal audit
16. Public procurement

Regulatory Capability
8. Cash management
9. Internal control
13. Tax administration
14. Customs administration
15. Intergovernmental relations
16. Performance management
17. Asset management
18. Debt management
19. Intergovernmental relations
20. Strategic planning
Analysis of capabilities

- Delivery capability matters less as incomes increase, administrative delivery tasks are outsourced, budget delivery remains core task.

- Analytical capability becomes broader and deeper with income. Production of forecasts often outsourced, sector policy analysis grows more and more.

- Coordinative capability is crucial to the ministry and stays crucial. No successful coordination, no results.

- The less direct delivery, the more finance ministries start to regulate (rather than command & control) the financial actions of the public sector.
3. The external environment
Against the common pool problem
Institutions enable and constrain
Distribution of central finance functions

- Sierra Leone: Limited or no responsibility
- Uganda: Limited or no responsibility
- Nepal: Limited or no responsibility
- South Africa: Limited or no responsibility
- Mexico: Limited or no responsibility
- Chile: Limited or no responsibility
- UK: Limited or no responsibility
- Germany: Limited or no responsibility

Legend:
- Limited or no responsibility
- Shared responsibility
- Full responsibility
Coordination via politics and bureaucracy

Minister of Finance

Minister of Planning

Director-General

Director-General

Director
Director
Director
Director
Director

Cabinet/Politics
Senior officials
Working level
4. A look inside
Richer countries, bigger ministries?

The graph illustrates the relationship between the natural logarithm of GDP PPP (Ln GDP PPP) and the staff complement for several countries. The points on the graph correspond to:

- **Sierra Leone**
- **Uganda**
- **Nepal**
- **South Africa**
- **Mexico**
- **Germany**
- **UK**

The data suggests a positive correlation between Ln GDP PPP and staff complement, with countries like Germany having a higher Ln GDP PPP and correspondingly larger staff complements.
Organizational structures

<table>
<thead>
<tr>
<th></th>
<th>Simple structure</th>
<th>Machine bureaucracy</th>
<th>Professional bureaucracy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 = top management;</td>
<td>2 = middle management, technostructure and support services;</td>
<td>2 = middle management, technostructure and support services;</td>
<td>3 = operating core</td>
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<table>
<thead>
<tr>
<th>Coordination by top management</th>
<th>Coordination by standard procedures</th>
<th>Coordination by standard skills</th>
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</thead>
<tbody>
<tr>
<td>Simple to set up</td>
<td>Stable but cumbersome?</td>
<td>Lean but demanding</td>
</tr>
<tr>
<td>Does not scale</td>
<td>Does scale</td>
<td>Not equally suitable for all tasks</td>
</tr>
</tbody>
</table>
German Finance Ministry (2014)

Minister

State Secretary

Z-Division
- HR & ministry organization (5 sections)
- Public service (6 sections)
- IT & services (6 sections)

Federal Budget
- General budget, debt & general revenue (8 sections)
- Departmental budgets (7 sections)
- Departmental budgets (5 sections)

Customs & excise
- Customs admin. (7 sections)
- Customs & excise (8 sections)
- Departmental budgets (8 sections)

Federal financial relations & legal
- Local government (5 sections)
- WWII & unification (5 sections)

Taxation
- Tax policy & reform (7 sections)
- International & EU tax (6 sections)
- Labours & business tax (6 sections)
- VAT & other taxes (5 sections)

State assets & privatisation
- Agencies and corporations (4 sections)
- Privatisation & govt holdings (4 sections)
- Postal reform & govt holdings (5 sections)

General Affairs
- Fiscal policy (6 sections)
- Economic policy (6 sections)
- Finance & monetary policy (5 sections)

Financial markets
- Federal institutions & international (5 sections)
- Regulation (5 sections)
- Stability & guarantees (5 sections)

Europe
- Financial issues (7 sections)
- Monetary union (6 sections)
Ministers’ tenure in office

- Germany
- UK
- Chile
- Mexico
- South Africa
- Nepal
- Uganda
- Sierra Leone

Year:
- 1990
- 1995
- 2000
- 2005
- 2010
- 2015

- Minister 1
- Minister 2
Tenure of ministers and top civil servants

Average tenure in years

- Uganda
- Nepal
- South Africa
- UK
- Germany

Top officials
Ministers
Salaries, compression and competitiveness

[Bar chart with data points for each country: Uganda, Nepal, South Africa, Mexico, Chile, UK, Germany. The x-axis represents different countries, and the y-axis represents salary levels, ranging from $0 to $350,000. The chart includes bars for PS salary, entry level salary, differential, and PS' salary as a proportion of GDP p.c.]
5. Conclusions
Conclusions

- The link between capable finance ministries and results is indirect. More of a necessary condition - but not sufficient.
- The institutional environment matters - it enables and constrains what a finance ministry can do.
- Organizational structures differ, but match the tasks, the institutional space, history and culture.
- We know very little about organizational structures, tenure, salaries - the civil service underpinnings of finance ministries.
- Every aspect of the organization: staff, work flow, institutions, politics, come into play for each capability - how can we analyse this better?
Thank you...

Questions, comments? Happy to share sources!

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