CAPE CONFERENCE 2007

Tales of the unexpected: PFM reform in difficult environments

14 – 15 November 2007
Overseas Development Institute, London, UK
Tales of the unexpected: PFM reform in difficult environments

Session 1
PFM and Governance
How are they related?

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Tales of the unexpected:
PFM reform in difficult environments

Sanjay Pradhan
World Bank

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The Relationship Between Governance & Public Financial Management

Presented to:
CAPE PFM Conference 2007
Overseas Development Institute (ODI)
London, UK

Presented by:
Sanjay Pradhan
Director, PREM
The World Bank

November 14-15, 2007
Outline

A. Governance & Public Financial Management (PFM): Framework

B. Monitoring PFM

C. Tailoring PFM Reforms to Country Context

D. Political Economy & Drivers of Reform
Definitions

**Governance**
The manner in which the state acquires and exercises its authority to provide public goods & services to achieve societal goals

**Public Finance Management**
Institutional arrangements governing the mobilization, allocation and use of public finances to achieve aggregate fiscal discipline, strategic priorities and operational efficiency
Governance has many dimensions: PFM is integral to good governance

Political Governance
- Political competition, broad-based political parties
- Transparency & regulation of party financing

Formal Oversight Institutions
- Independent judiciary
- Legislative oversight
- Independent oversight (SAI)
- Global initiatives: UN, OECD Convention, anti-money laundering

Public Sector Management
- Public finance management & procurement
- Civil service meritocracy & adequate pay
- Service delivery and regulatory agencies in sectors

Decentralization and Local Participation
- Decentralization with downward accountability
- Community Driven Development (CDD)
- Oversight by parent-teacher associations & user groups

Civil Society & Media
- Free press, FOI
- Civil society watchdogs

Private Sector Interface
- Streamlined regulation
- Extractive Industry
- Transparency Initiative
- Collective business associations

Outcomes: Services, Regulations, Corruption

Citizens/Firms
Countries differ in trajectories & entry points

- Trajectories are driven by political forces
- Some countries have strengthened bureaucracy (e.g., PFM) before broader checks and balances; others have done the reverse
- Key issue: How to sequence reforms?

<table>
<thead>
<tr>
<th>Quality of bureaucracy</th>
<th>Quality of checks and balance institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indonesia-1970s; Uganda-1980s</td>
<td>I</td>
</tr>
<tr>
<td>Albania-1990s; Nigeria-2000s</td>
<td>II</td>
</tr>
<tr>
<td>Mozambique-1990s</td>
<td>III</td>
</tr>
</tbody>
</table>

Source: Global Monitoring Report, 2006

In some countries, this will mean moving from reforms of bureaucracy to support checks and balances.
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Public Sector Management Systems are Gradually Improving

Source: Colum Garrity, World Bank, based on governance CPIA Data, 2001 and 2006. CPIA scales are from 1 to 6.
**PFM operations perform satisfactorily regardless of governance starting point, but civil service operations are successful only in stronger settings**

<table>
<thead>
<tr>
<th></th>
<th>All projects</th>
<th>CPIA (Q16) &lt; 3.0</th>
<th>CPIA (Q16) from 3.0 to 3.5</th>
<th>CPIA (Q16) Greater or equal to 3.5</th>
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<tbody>
<tr>
<td></td>
<td>No. of</td>
<td>Projects</td>
<td>No. of</td>
<td>Projects</td>
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<tr>
<td></td>
<td>projects</td>
<td>with Satisfactory</td>
<td>projects</td>
<td>with Satisfactory</td>
</tr>
<tr>
<td></td>
<td></td>
<td>or better (%)</td>
<td></td>
<td>or better (%)</td>
</tr>
<tr>
<td>PFM</td>
<td>39</td>
<td>85%</td>
<td>15</td>
<td>87%</td>
</tr>
<tr>
<td>ACSR</td>
<td>24</td>
<td>58%</td>
<td>11</td>
<td>36%</td>
</tr>
</tbody>
</table>

OED Evaluated PSGB-mapped projects with PFM (without Administrative & Civil Service Reform) and ACSR (without PFM) primary themes, FY00-FY05
Trends in PFM can be monitored
Net Change in HIPC Tracking Indicators, 2001-2004

- Decline in 3 categories: 2
- Decline in 1-2 categories: 6
- No change: 1
- Improvement in 1-2 categories: 6
- Improvement in 3 or more categories: 7
PFM Progress Can Be Monitored

**PEFA's Performance Measurement Framework**

- **Comprehensive Fiscal oversight:**
  Are the aggregate fiscal position and risks are monitored and managed?

- **Budget Realism:**
  Is the budget realistic, and implemented as intended in a predictable manner?

- **Comprehensive, Policy-based, budget:**
  Does the budget capture all relevant fiscal transactions, and is the process, giving regard to government policy?

- **Information:**
  Is adequate fiscal, revenue and expenditure information produced and disseminated to meet decision-making and management purposes?

- **Control:**
  Is effective control and stewardship exercised in the use of public funds?

- **Accountability and Transparency:**
  Are effective external financial accountability and transparency arrangements in place?
Outline

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# Tailoring Reforms in Different Governance Contexts

<table>
<thead>
<tr>
<th>Type of States</th>
<th>Key Challenges</th>
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</table>
| **Fragile States** *(Guinea-Bissau, Haiti, Equatorial Guinea)* | ➢ Low political leadership and managerial commitment to anti-corruption reforms  
➢ Absence of rules and regulations (authoritativeness) governing the budget process  
➢ Poor quality fiscal information  
➢ Civil Society is not engaged in the budget process  
➢ Absence of internal and external oversight |
| **Reforming States** *(Ghana, Armenia)* | ➢ Improving the accuracy of fiscal information  
➢ Disregard for rules governing the budget process  
➢ Limited transparency of budgetary information  
➢ Ineffective internal and external audits  
➢ Sustaining political commitment to reform |
| **Capable States** *(Brazil, South Africa)* | ➢ Increase performance orientation in public spending, increase coordination and integration between central institutions  
➢ Strengthening transparency, external audit and external scrutiny of public spending  
➢ Strengthening accountability and enforcement |
Improving PFM – A Platform Approach

Cambodia – Sequence of Platforms

Platform 1
A credible budget delivering a reliable and predictable resource to budget managers

Platform 2
Improved internal control and public access to key fiscal information to hold managers accountable

Platform 3
Improved linkage of priorities and service targets to budget planning and implementation

Platform 4
Integration of accountability and review processes for both finance and performance management

Broad Activities
- Re-design budget cycle (e.g. MTEF)
- Pilot program based budgeting & budget analysis
- Further fiscal
- Decentralization

Enables focus on what is done with money

Enables a basis for accountability

Enables more accountability for performance management

Source: See "Study of measures used to address weaknesses in Public Financial Management systems in the context of policy-based support," by Peter Brooke, at www.pefa.org
## Likely PFM platforms and governance characteristics

<table>
<thead>
<tr>
<th>Advanced (Accountability for programs) (Platform 4)</th>
<th>Comprehensive (Affordable and prioritized) (Platform 3)</th>
<th>Transitional (Financial accountability) (Platform 2)</th>
<th>Credible (Aggregate control) (Platform 1)</th>
<th>0</th>
<th>Failing (or collapsed) states</th>
<th>Personal rule</th>
<th>Minimally institutionalized</th>
<th>Institutionalized non-competitive</th>
<th>Competitive</th>
</tr>
</thead>
</table>

Governance categories from Merilee Grindle “Good Enough Governance Revisited” (2007).
Level of MTEF Development

MTEFs in Africa

Degree of Development

Mozambique  Malawi  Rwanda  Guinea  Kenya  Tanzania  Ghana  South Africa  Uganda
## MTEFs

### Highly complex technological and institutional task

<table>
<thead>
<tr>
<th>Aspects of a working MTEF</th>
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<tbody>
<tr>
<td>Envelope creation</td>
<td></td>
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<tr>
<td>▪ Macroeconomic and public sector envelopes developed</td>
<td></td>
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<tr>
<td>Determination and articulation of high level policy priorities</td>
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<tr>
<td>▪ Policies and objectives constrained by resources, involves reallocation between sectors</td>
<td></td>
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<tr>
<td>Departments bidding in compliance with amounts agreed</td>
<td></td>
</tr>
<tr>
<td>▪ Implementation of policies proposed by sector, can involve reallocation between ministries, and within ministries</td>
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<tr>
<td>Iterated consideration of bids</td>
<td></td>
</tr>
<tr>
<td>▪ Recasting of departmental and sectoral bids to take account of emerging preferences and any changes in macro conditions</td>
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<tr>
<td>Finalized credible budgets</td>
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<tr>
<td>▪ Reconciled policy, implementation and means</td>
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<table>
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<tr>
<th>Implies these PFM system needs</th>
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<tbody>
<tr>
<td>A credible macro framework</td>
<td></td>
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<tr>
<td>An ability to set priorities</td>
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<tr>
<td>Acceptance of the central co-ordination role</td>
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<tr>
<td>Gate-keeping discipline, including management of budget bids and baseline control</td>
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<tr>
<td>Enforcement and control in budget execution to make bids credible</td>
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MTEF Conclusions & Lessons

- MTEFs in Africa have largely failed in their promise to deliver improved PEM in a number of countries where operational MTEFs do not closely resemble their textbook cousins.
- In the two countries where it seems that the MTEF had some impact – South Africa and Uganda – the MTEF process started from very different “initial conditions” in terms of PEM capacity. In both cases they also enjoyed strong political support.
- MTEF reforms have not paid sufficient attention to initial PEM conditions.
- MTEF reforms have not been properly sequenced/phased.
- MTEF reforms have not paid sufficient attention to political-institutional issues.

Source: Philippe Le Houerou, Rob Taliercio, World Bank 2004
Outline

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Drivers of PFM Reforms in Different Contexts

- High-level Political & Bureaucratic Leadership (Uganda)
  - Political and bureaucratic leadership crucial in initiating reform (Museveni & Tumusiime-Mutebile)

- Technocrats in government working with demand-side actors on specific reforms:
  - Utilizing civil society & media (G-Watch and Philippines textbook)
  - Empowering local communities with information (Uganda primary education)
  - Fostering broad coalitions to overcome vested interests against reform (Philippines Procurement)

- Role of donors
  - HIPC Debt Relief and HIPC Expenditure tracking indicators
  - Budget support, scaling up and PEFA

Forging Coalitions for Reform
Philippines: Procurement Reform

Transparency and Accountability Network (20+ member groups)

Walang Ku-Corrupt Movement (Youth)

Procurement Watch:
Drew other civil society groups into the advocacy efforts and coordinated the activities

PAGBA & AGAP (w/in Gov’t)

Local chambers of Commerce (Private sector)

CBCP (Church)

Philippine Contractors Association (private sector – main stakeholder)
Reform-minded technocrats in Department of Education requested G-Watch to track production and distribution of textbooks to schools.

In 2002, 40% of textbooks had disappeared.

The Partnership for Transparency Fund (PTF, partially funded by the World Bank) has supported G-Watch effort for 3 years.

In 2006, 6,000 Boy and Girl Scouts recruited to monitor delivery at school level.

Coca-Cola delivered to every community.

Successful delivery of over 95% of textbooks, saving $450,000.
To quench our students’ thirst for knowledge,
we called on COCA-COLA to help deliver textbooks to hard-to-reach schools.

From August to October, CORE delivery trucks will help bring badly needed textbooks to the far-flung schools in areas they cover. It’s a great example of how the DepED, local communities and the private sector are all working together to make sure our schools come first.

You can help the students in your area get their books on time. To volunteer as a textbook delivery watcher, call the following numbers: Philippine Governance Forum at 899-4990 • Instructional Materials Council Secretariat, DepED at 634-1072 Or use the DETxt Hotline: 2622 (Globe & SMART) and G-Watch Text: 0928-3347831.
(Translation: Help our students get their books on time. To volunteer as a textbook delivery watcher in your school, call the following numbers...)
Empowering Local Communities with Information Can Reduce “Leakages”

Tracking Education Dollars in Uganda

Equiv. US$ per student


1999

Public info campaign

Intended grant

Actual grant received by primary school (means)

Source: Uganda Public Expenditure Tracking Surveys
PFM transformations require different drivers at different points

Governance categories from Merilee Grindle “Good Enough Governance Revisited” (2007).
Discussion
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