

CAPE Public Finance Conference 2008

Reforming for Results: Can Public Finance Management reform improve government performance?

12 - 13 November 2008
Overseas Development Institute, London, UK

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Session 2:
The role of sectors and sector spending agencies

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Reforming for Results:
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Mick Foster
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12 - 13 November 2008
Overseas Development Institute, London, UK

Sector Budgeting and Resource Allocation

Mick Foster

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Some Suggested Principles for Ensuring Sector PFM Supports Service Delivery

- Sector budget derives from service delivery objectives
- Budget structure reflects those objectives
- Delegation to cost centre managers
- Budgets get where they are needed
- Approved budget is a reasonable guide to resources actually available for spending
- Timely, relevant information is accessible and widely shared
- Approach to accountability reinforces incentives for service delivery

Sector budget derives from service delivery objectives

- A costed sector plan, consistent with resources available
- Cost of delivering services – not detailed activity costing (PNG NEFC example)
- Budget preparation reflects and is based on the plan:-
 - Top down ceilings reflect strategic shifts, not incremental adjustment to historical allocations
 - Sector budget preparation engages senior management and minister, not seen as routine low-level function
 - MOF challenge function focuses on how sector budget proposals will achieve service delivery and outcome objectives
 - A political process – easier to manage when resources are increasing (hence, need realistic MTEF ceilings that reflect future growth in resources)

Budget structure reflects those objectives

- Plans need to map to the way the budget is structured – but often don't
- Common problems are that budget coding may not distinguish:-
 - Level of the system at which centrally procured resources are used, e.g. drugs;
 - Purpose of spending, e.g. we know what was spent on fuel or per diems, but not what was spent on immunisation.
 - For transfers to autonomous institutions or lower levels of Government, may only know the amount transferred.
- Ideally, Chart of Accounts for the sector should allocate funds and report on spending using codes that relate in a meaningful way to the objectives of policy

Increase delegation to cost centre managers

- Cant hold managers accountable if they do not control the resources they need e.g. Bangladesh only 9% of spending on Upazila health services is controlled by managers at that level.
- Centralised **staff budgets**, cause shortages, ghost workers, staff not getting their pay, or being paid when absent or working elsewhere. Might still want staffing norms, but strong case for decentralising.
- **Reduce dependence on HQ for in-kind supplies**, by giving the budget to the service delivery departments to purchase what they need- even if some procurement is centralised
- **Virement**:- give enough flexibility to manage achieving the intended objectives, but may want to limit changes that undermine them, e.g. recurrent to capital when operating costs are insufficient.
- **How much earmarking?** Tension between ensuring funds are used in support of national policy – without excessive restrictions (e.g. proliferation of conditional grants in Uganda)

Budgets get where they are needed

- Budgets to line ministry or local Government may get absorbed in administration, never reach service delivery level
- Responses:-
 - Chart of Accounts specifies the cost centres
 - Transparency and community accountability
 - Shortest possible route (direct to school or health facility bank account?)
 - Tracking studies

Approved budget is a reasonable guide to resources actually available for spending

- Quality of budget preparation degrades rapidly if resources received do not reflect the approved budget
- Common problems:-
 - Cash Budgets for macro-stability disrupt services
 - Delayed budget approval with further delays while line-ministry re-allocates changed totals
 - Late and uncertain releases plus long procurement processes equals under-spending or arrears
- Responses:-
 - Automatic releases for identified high priorities;
 - Better timetabling and cash forecasting (with donors timing their support to even out the cash-flow);
 - Free to commit x% of previous budget;
 - Financial sector development in longer-term.

Improved Expenditure Management: Necessary But Not Sufficient

- Getting resources to the right places on time gives an opportunity for other interventions to improve service delivery to work
- PFM reform can also support down-stream service delivery via a broader approach to accountability – with more emphasis on accountability for results

Approach to accountability reinforces incentives for service delivery

Build Capacity and Delegate:-

- Capacity building must be accompanied by control over resources
- Giving managers increased authority over a reliable budget can improve motivation from doing a good job even if can't raise pay

But hold managers accountable for service delivery:-

- Work towards linked physical and financial reporting, one system
- Develop and use a limited number of key indicators to include output, productivity and cost-effectiveness measures
- Provide support, recognition, challenge through regular supervision, regional and national review and peer comparisons
- Improve short-route accountability by giving users information, power
- Reinforce discipline over cases of poor performance as well as financial malfeasance

Implications for PEM Reform

- Budget focus on SD objectives –line ministry responsibility, but MOF can guide, support, challenge
- Flexible, timely resources under the control of those accountable for SD (MOF systems, but also depends on Line Ministry)
- Good information systems, widely shared
- Simplify accountability, build capacity, focus on results as well as inputs (MOF and LM)
- Effective chain of supervision and review – including communities and independent voices (mainly LM)
- Ensure reforms are compatible with incentives

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Tim Williamson
Research Associate, ODI

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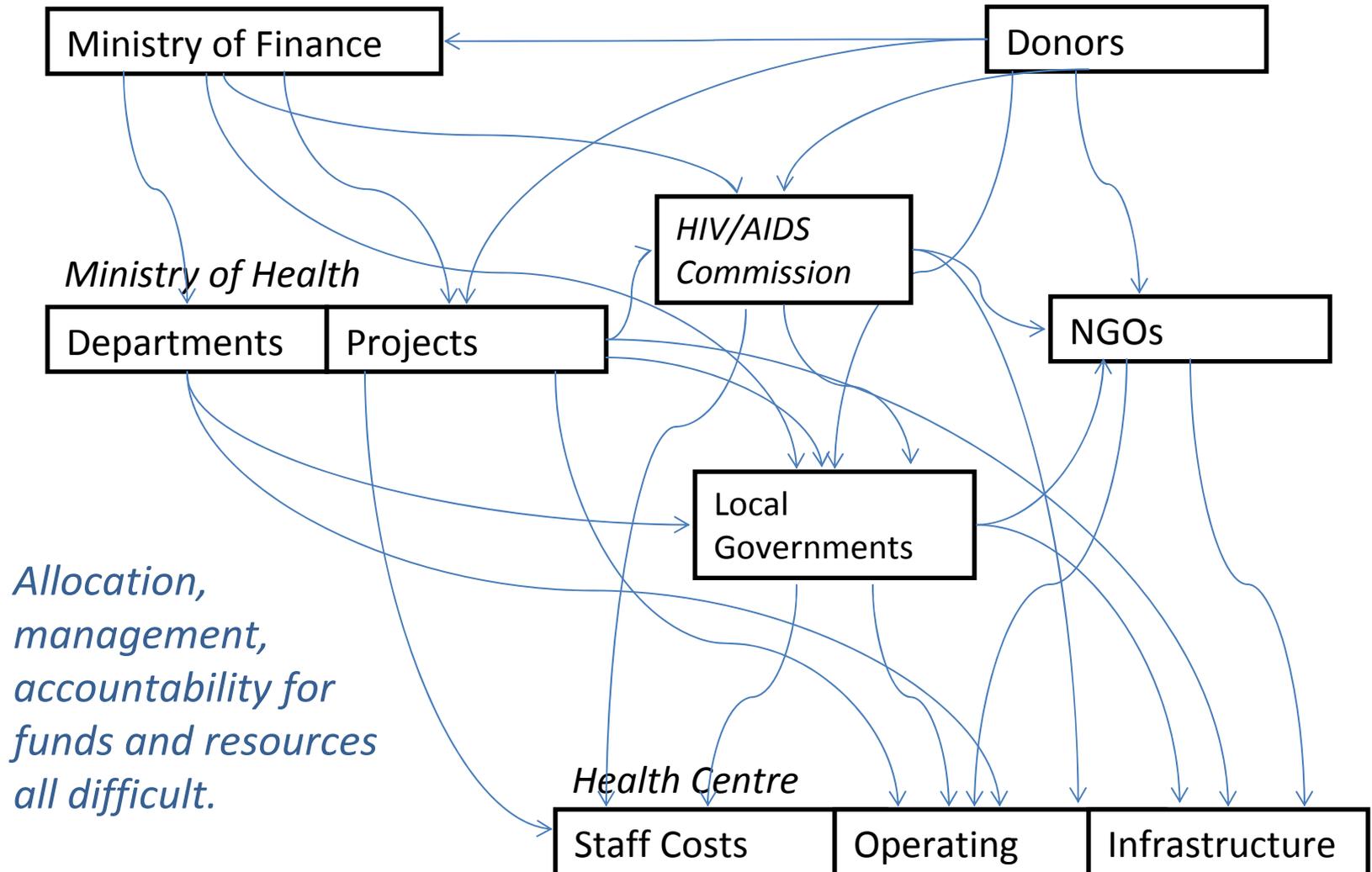
Sector PFM and Service Delivery

Tim Williamson
Research Associate, CAPE, ODI

Typical PFM Problems facing Service Delivery

A plumber's nightmare

The pipe-work is a mess



The water supplied through the pipes is inappropriate and unreliable

Inappropriate resource allocation to:

- Policy priorities/levels of delivery
- Different sector institutions (e.g. Ministry, agencies service providers, NGOs)
- Salaries, operational and capital budgets

Managers and service providers don't what to expect from where, when. What does arrive precludes quality services delivery.

Funding/Resources Unreliable

- On treasury funding
 - Cash-based budgeting results in unpredictable in-year revenues.
 - Weak cash management
 - Irregular timing and quantity of budgetary funding
- Donor project funding:
 - Differing financial years
 - Timing of disbursements different for different projects.
- Many blockages and leaks
- Mix of funds and inputs in-kind

What goes through the pipes must be “controlled”

- The Ministry of Finance
/ Treasury

MDAs can't be trusted

- Tight control over inputs
via cash controls
- Centralised virement
approval
- Centralised procurement
and payment processes

*Managers and Service Providers are
kept in the dark, processes often
opaque and controls bypassed*

- The MDA Finance
Department

*Line Managers and LGs
can't be trusted either*

- Line managers need to be
controlled
- The finance department
decides what gets paid (the
MoF has told it what to do)
- No-one needs to know
anything more

What's at the end of the pipes?

- Weak Service Delivery Institutions and Systems
 - Unclear institutional responsibilities for delivery
 - Inadequate and/or poorly motivated human resources
 - Multiple/unclear lines of accountability (who appoints staff)
 - A lack of standards and guidelines for service providers

- Weak/poorly tailored PFM systems for service providers
 - Guidelines for use of funding
 - Bookkeeping, accountability requirements
 - Unclear roles of staff in managing funds

Inadequate capacity and systems to manage what resources do arrive. Weak Service delivery.

Detecting *(and sometimes causing)* Blockages and Leaks

Internal Audit

- Pre audit involves checking payments. But isn't that the job of the finance dep't?
- Purely financial
- Another hurdle for managers/providers to leap over

Important, but often focused on individual pipes, not the network. Also, input focused. But diagnostic only – what next?

External Audit

- External audit involves looking for mistakes
- Purely financial (leaks)
- Once leak found, job done
- Delayed, little follow up
- Public Accounts Committees inactive

Tracking Studies

- Where are the blockages to funding reaching service providers?

Strengthening Sector PFM

The reach and role of Ministry of
Finance reforms and sector led
initiatives

Thoughts on the Potential and Limited Actual Reach of “Comprehensive” MoF Reforms

	MTEF	Chart of Accounts	Results Orient.	Cash Manag't	IFMS	Audit & PAC
Clear Funding Channels	Partial	None	None			
Appropriate Allocation	Partial	None	Partial			
Reliability of Funding	Partial			Partial	Partial	
MoF Delegates to MDAs	Partial			None	None	
Managers Empowered	<i>Shaded areas – potential reach</i> Text - Actual Reach in Uganda Health up to 2007			None	None	
Service Provider FM Systems				None	None	
Accountability to Users	None		None			None
Results & Fin Accountability	Partial	None	Partial		Partial	Partial

MoF led reforms do not address sector bottlenecks automatically

- Although they have potential to do so, MoF led reforms are not necessarily well targeted to relieving the bottlenecks in service delivery:
 - MoF may want to use reforms to increase “control”
 - Focus of reforms on the most pressing bottleneck (e.g. GFS compliant rather than administrative structure)
 - Reforms not well linked to each other
 - Capacity to ensure sector bottlenecks addressed from the centre
- There is therefore a case for working at a sector level to reinforce MoF led reforms and develop sector level systems
 - Must be within the framework of the MoF reforms.

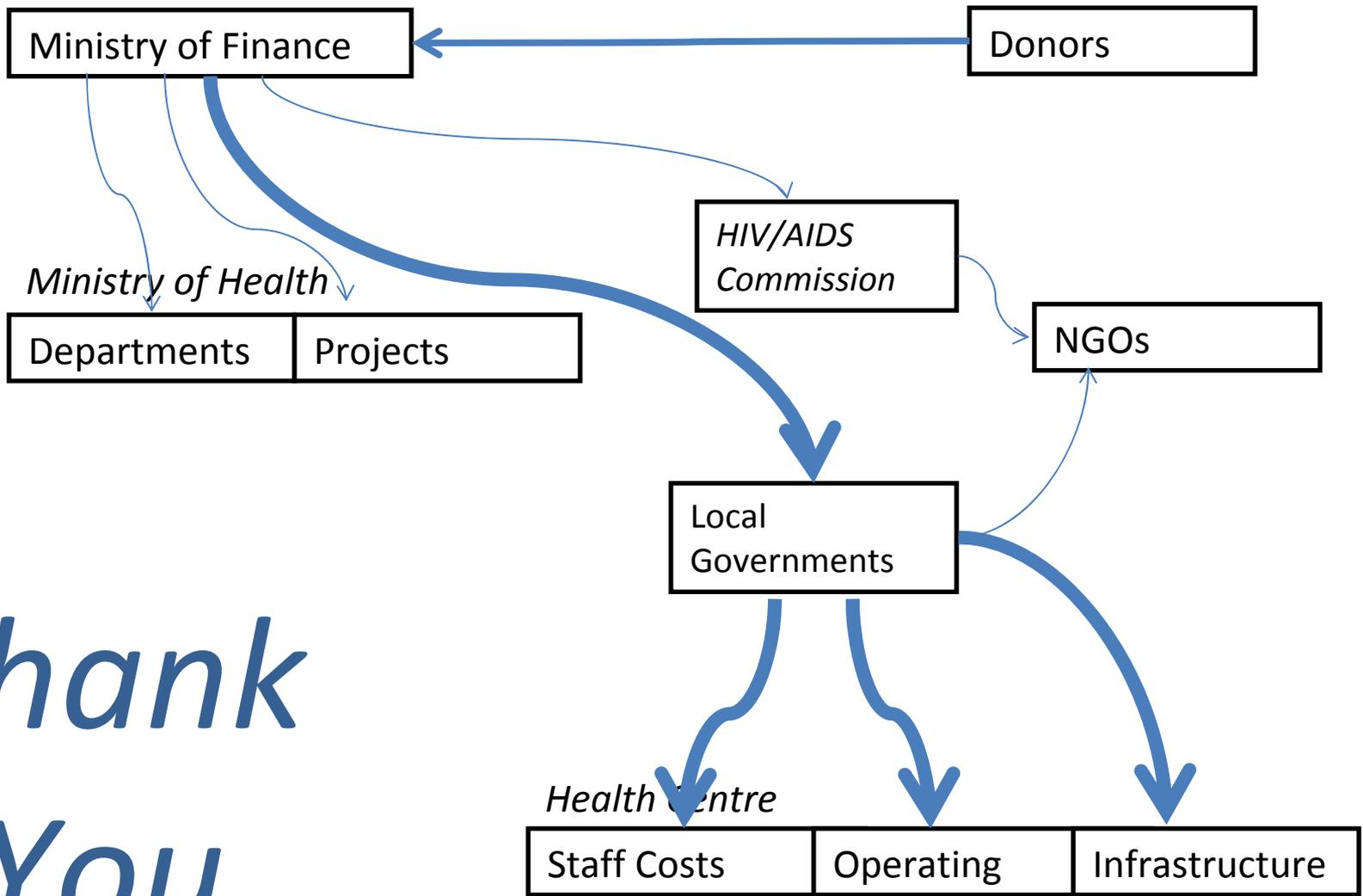
NB: But also cabinet, civil service and where relevant local government reforms

Complementary Sector and MoF Roles

	MoF Reforms	Sector Role	Donor Alignment
Clear Funding Channels	Clear chart of accounts, incl. cost centre structure and transfers classification	Clarify institutional roles for Service delivery and align the Admin. budget structure to them.	Align aid instruments to administrative structure of budget. Use Gov't Channels (GBS/SBS)
Appropriate Allocations	Budget presentation allows clear link to policies, institutions, and inputs. Delegate to MDAs and play challenge function.	Allocating resources to policy priorities, institutions, and economic item	Aid funding is discretionary / promote fungibility.
Reliability of Funding	Improved cash manag't. Reliable quantity and timing of disbursements.	Allocating funds to managers /service providers in year based on budget	Provide funding in synch with FY, in year budget disbursements.
MoF Delegates to MDAs	Virement, Cash Management, IFMS give MDAs flexibility, but require accountability	N/A	Provide discretion to MDAs & their Managers in use of aid funding

Complementary Sector and MoF Roles

	MoF Reforms	Sector Role	Donor Alignment
Managers Empowered	IFMS, Cash Man. Systems give info to managers, clear roles to Finance Departments	Finance departments become service oriented; managers adhere to rules	Provide discretion to MDAs & their Managers in use of aid funding
Service Provider FM Systems	Require sector ministries develop appropriate systems	Develop simple accounting systems and guidelines for service providers	Donor funding uses gov't accounting systems and guidelines for service providers
Accountability to Users	Require sector ministries develop appropriate systems	Mechanisms for transparency and involvement of end users in managing services	- Ditto -
Results & Fin Accountability	Framework for results oriented budgeting and reporting linked to admin. budget structure.	Clear results definitions. Actual budgeting and accounting for results	Align funding instruments to administrative structure of budget.



*Thank
You*

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Florence Malinga

Education Adviser, Commonwealth Secretariat;
former Commissioner for Planning, Ministry of
Education, Uganda

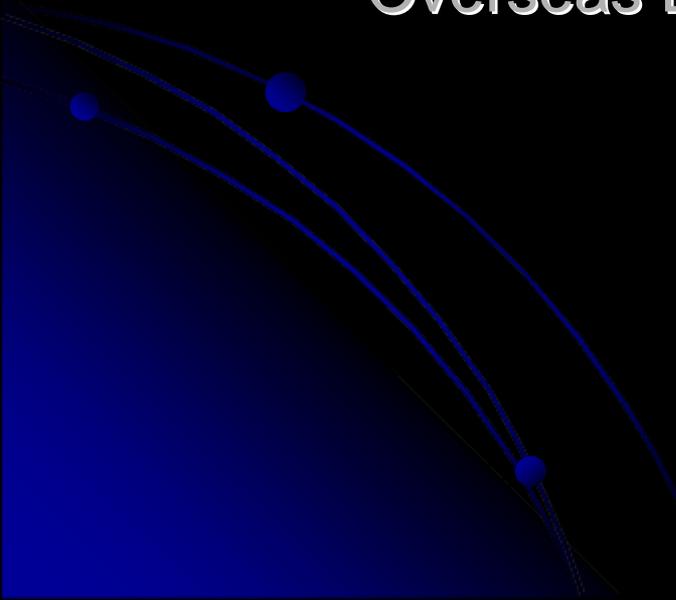
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The Role of Sectors and Sector Spending Agencies

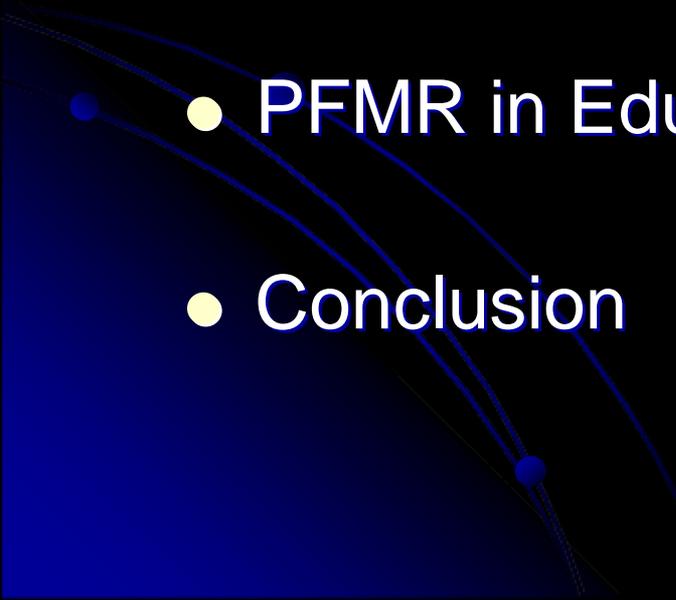
Efforts to Improve Performance in the Education Sector in Uganda

Paper Presented at the 5th Annual Conference of the
Centre for Aid and Public Expenditure (CAPE) at the
Overseas Development Institute. London

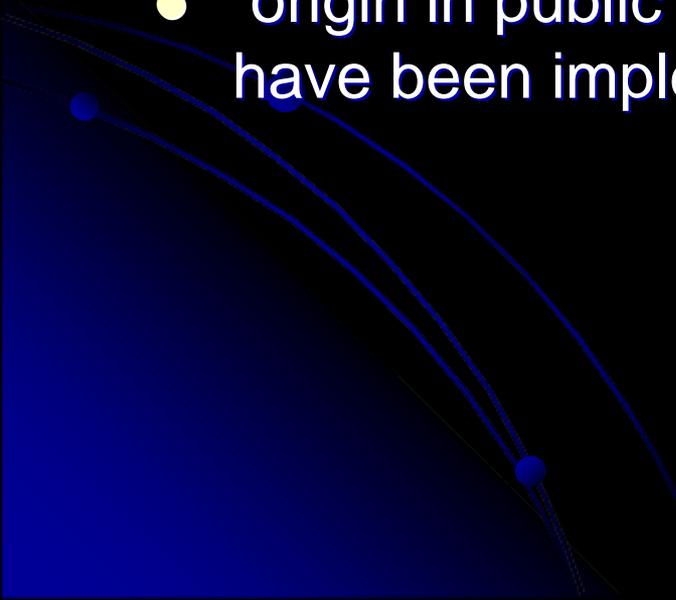
by
Florence Malinga
Adviser Education



Outline

- Background to PFMR in Uganda
 - The Sector wide Approach (SWAP)
 - PFMR in Education Sector
 - Conclusion
- 

Background

- Extensive budget reform since the launch of its Poverty Eradication Action Plan (PEAP) in 1995
 - guided by the current institutional context of planning and budgeting in Uganda,
 - origin in public expenditure management reforms that have been implemented since the early 1990s
- 

The Sector Wide Approach (SWAP)

- **SWAP in Uganda has been operationalised through the formulation of Education Sector Strategic Plans.**
- **Key Features;**
 - I. Partnership Principles, Agreed Medium Term Sector Plans, Priorities and targets
 - II. Medium Term Budget Framework and Budget Ceilings
 - III. Agreed Review and Audit Mechanisms

Management & Coordination: practices which anchor the SWAP

- I. The ESSP is respected as a planning framework.
- II. A common financial and narrative reporting
- III. A common overall strategic policy framework (MTBF and MTEF frameworks).
- IV. National institutional structures.
- V. Streamlined modalities for disbursement, management, and accountability.

Donor Support to The Education Sector

Budget Support;

- General Budget support;
- Sector Budget support; and
- Earmarked sector support.

● **Project/Programme Support**

donors provide funds for agreed set of activities as defined in the project documents

Public Finance Management Reforms in Education Sector

- MTEF/MTBF
- Poverty Action Funds (PAF)
- Fiscal Decentralisation Strategy (FDS)
- Integrated Financial Management System (IFMS)
- Fiduciary Assurance
- Public Procurement.

The Medium Term Expenditure / Budget Framework (1997)

- I. The MTEF provides indicative resource ceilings at the sectoral and ministerial level over a rolling three year period
- II. Subsector ceilings agreed according to priorities eg UPE receives 65% of the sector budget.
- III. UPE, emphasis is on access ; classroom construction, capitation grants, wage bill for teachers and quality.

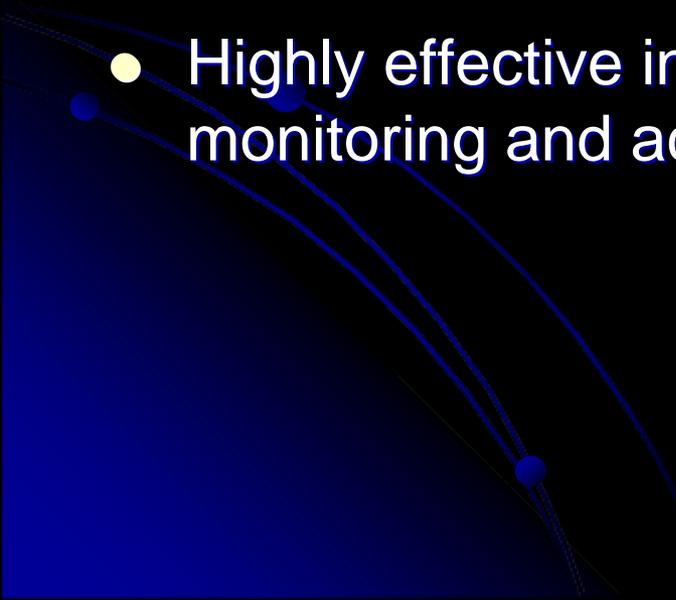
Lessons from the MTEF/MTBF process

- I. Articulation of and commitment to priorities makes it easier to allocate resources strategically.
- II. Linking outcomes, outputs and costs within a resource constrained PEAP helps to rationalize these resources and therefore, maximize the return on the investment.
- III. Strategic resource allocation is possible through an open and transparent system.
- IV. The MTEF is major tool in resource allocation and integrating budgeting and planning.

Challenges

- To ensure sustainability there is need to reduce the deficit and increase revenue (ceilings set by MOFPED as estimates)
- Adherence to principles and policies , from both the donors and the government. (non-release of funds/diversion)
- Macro-economic considerations
- Ensuring cost effectiveness and efficiency.

The Poverty Action Fund (PAF) 1998/99

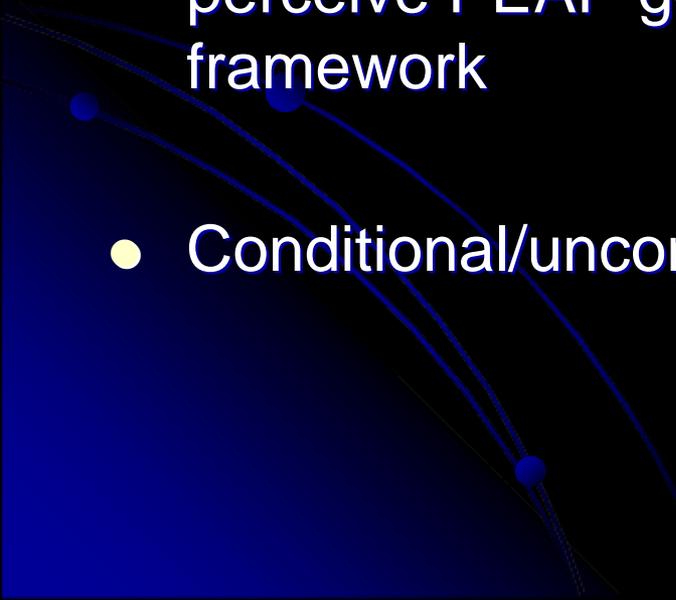
- PAF;
 - to direct debt relief funds from the HIPC initiative and other funds mobilised for poverty reduction.
 - 95% of all earmarked funds are safeguarded and spent on social sectors that address poverty.
 - Highly effective in ensuring increased transparency, monitoring and accountability.
- 

PAF (Lessons/challenges)

Implementing the PAF has also generated a number of challenges;

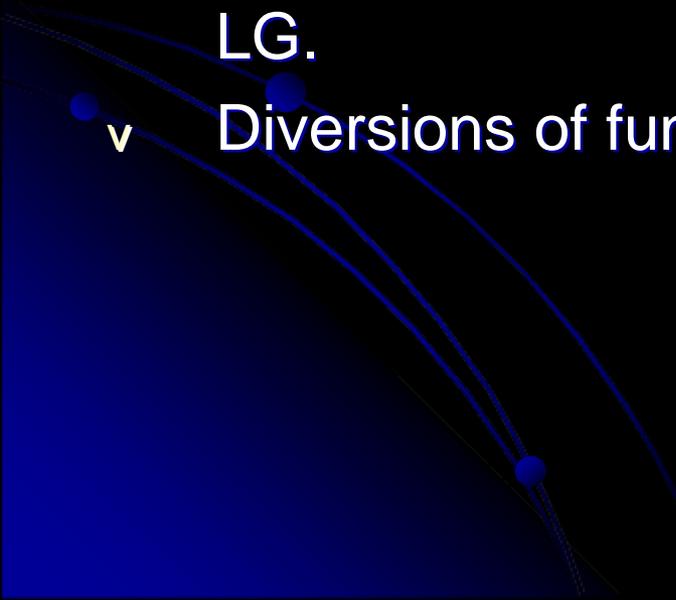
- All releases published in the print media for the public's consumption
- Releases made strictly after reports and accountability
- Limited discretion for the sector and LG
- Limited capacity results in loss of funds

4) Fiscal Decentralisation Strategy (FDS) 2001

- Strengthen and streamline fiscal transfer modalities between national and local governments
 - Increase efficiency and effectiveness of local govts to perceive PEAP goals in a transparent and accountable framework
 - Conditional/unconditional and equalisation grants
- 

FDS (Challenges)

FDS has the following challenges;

- v Centre has to mentor and provide policy guidance
 - v Too many conditional grants undermine autonomy
 - v Increased capacity will increase discretionary powers of LG.
 - v Diversions of funds from priority areas.
- 

5) Integrated Financial Management System (IFMS) 2004

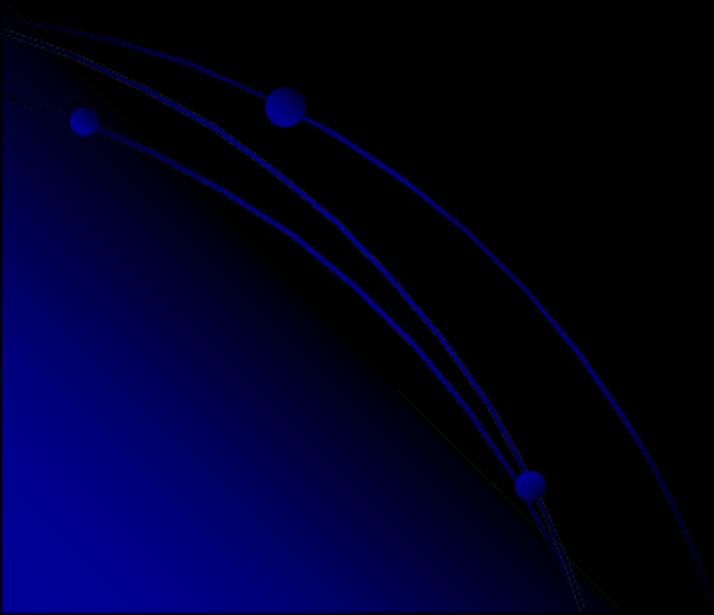
- **The IFMS ;**
 1. bundles all budgeting and financial management functions into one suite of applications.
 2. IT bases budgeting and accounting system designed to prepare budgets, plan requests and expenditures
 3. Financial transactions effectively and economically

IFMS (Lessons/challenges)

- **Has enhanced delivery as follows;**
 - I. Expenditures made according to budget
 - II. Ensures transparency
 - III. Improved efficiency
 - IV. Reduced budget overruns
 - v. Challenges of capacity, equipment

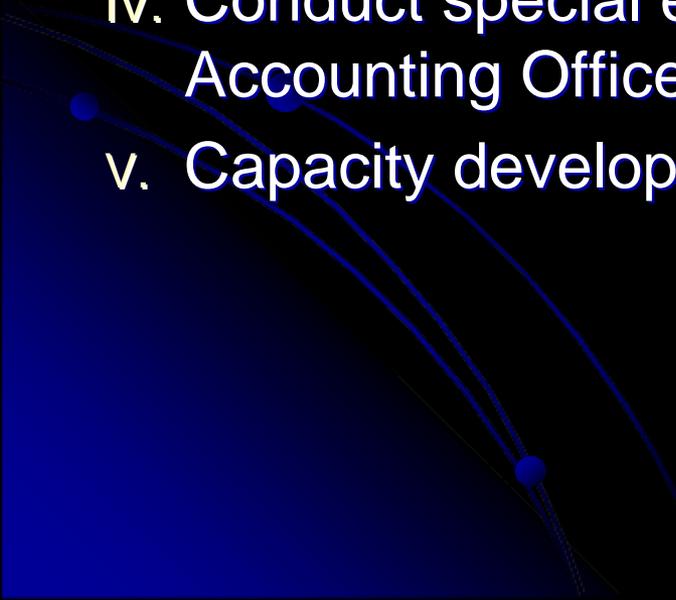
Fiduciary Assurance

- Internal Audit
- External Audit

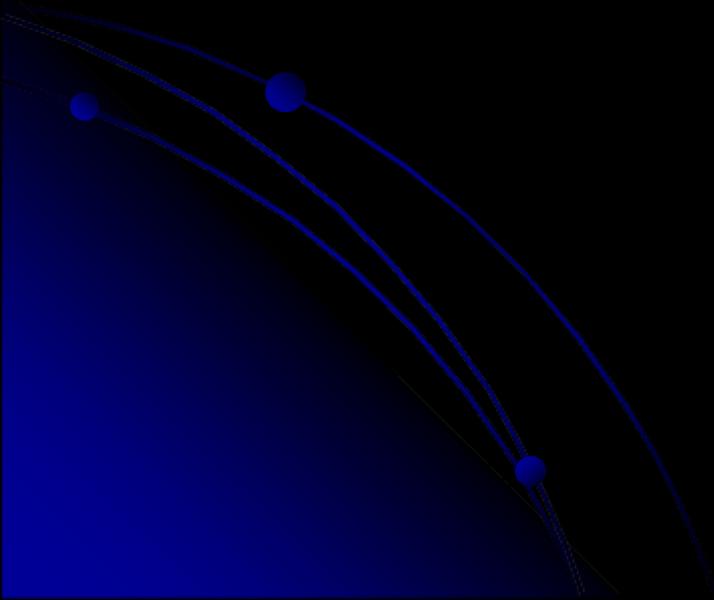


Internal Audits

Objectives;

- I. Review , audit and report on the systems
 - II. Conduct value for money (performance) audit
 - III. Conduct periodic reviews to ascertain compliance to policies, plans and procedures.
 - IV. Conduct special examination/audit at the request of the Accounting Officer and Audit Committee.
 - v. Capacity development
- 

External Audit

- **To audit and report on the Public Accounts to Parliament in the areas of :-**
 - 1. Financial**
 - 2. Value for Money**
- 

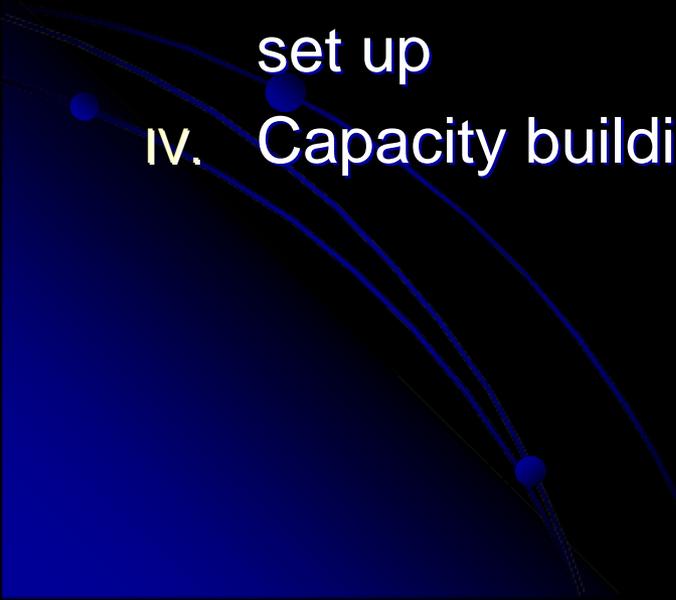
Public Procurement

- **1) Public Procurement and Disposal Assets Act 2003.**
- **The Procurement and Disposal Unit (PDU) performs the following functions;**
 1. Preparation of a consolidated Procurement Plans
 2. Advertising bid opportunities in a bid to promote Competition, transparency and offer equal opportunity to providers.
 3. Managing the evaluation process;
 4. Preparation of contract documents among others.

Public Procurement

- **PPDA supervises the sector unit to ensure;**
 - I. the application of fair, competitive, transparent, non-discriminatory and value for money procurement and disposal standards and practices;
 - II. monitor compliance of procuring and disposing entities; and
 - III. build procurement and disposal capacity in Uganda.

Public procurement

- **Sector Contracts Committee**
 - I. adjudication of PDU recommendations.
 - II. ensure that all decisions meet the basic principles and rules of public procurement and disposal
 - III. Similar structures at district and institutional levels set up
 - IV. Capacity building is essential at all levels
- 

Conclusion

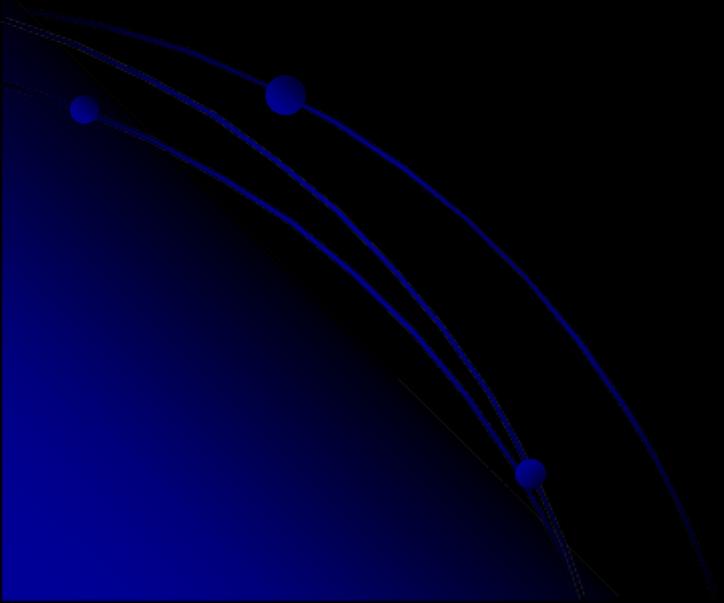
PFMR have to a certain extent facilitated service delivery however the sector is still faced with challenges;

- Coordination between the Ministries of Education and Finance
- MFPED represents the education sector during budget processes/setting ceilings
- Micro economic considerations limit access to resources
- Dichotomy of budget/project funding; several funding modalities/ earmarked funds

Conclusion

- Budget support funds can be diverted by MOFPED
- Expenditure framework based on assumption that revenue will be generated; affects low income districts
- Equalisation grants to assist poor districts
- Capital investments without provision for taxes and recurrent costs eg classroom construction, procurements
- Capacity development is essential for successful implementation of PFMR.
- Strategies to drastically cut short corruption

Thank You



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Leigh Sandals

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Getting the best return on your investment

Lessons learned from the education system in England

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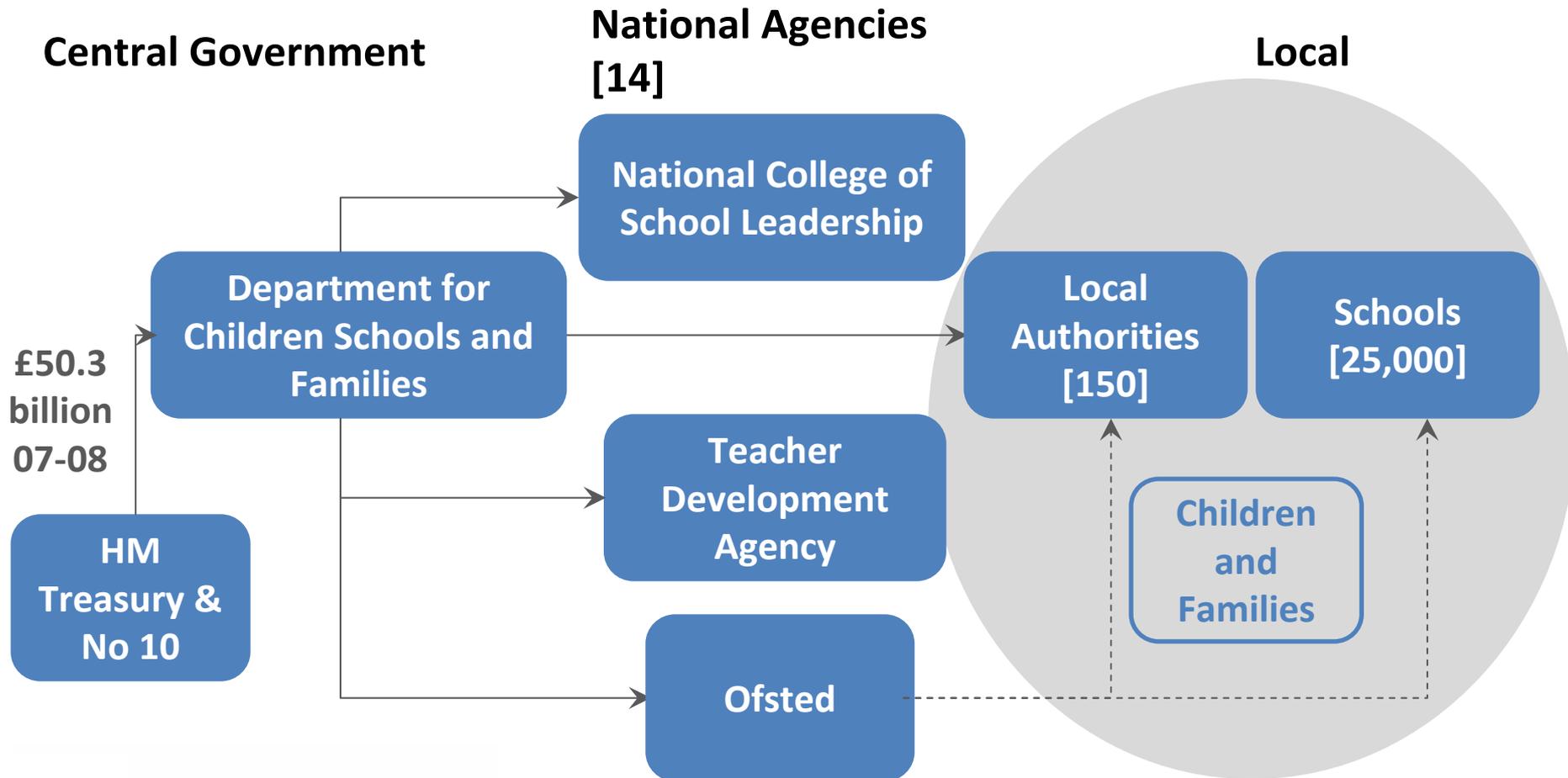


Outline

- The system
- Changes over time
- Lessons learned
- Future challenges
- Principles



Simplified system – key elements



Changes to *how* the system works

HM Treasury gives DCSF funding and negotiates the outcomes/ambition in return. DCSF does the same with its partners. *How* this is done has changed over the last 10 years

1998

- More prescriptive – defining how outcomes should be delivered
- More ring-fenced grants with conditions attached
- More ‘top-down’ direction to set levels of ambition/targets
- More single sector focus
- Narrower focus on core education
- Greater focus on the provider

2007

- More flexibility and autonomy over how to deliver
- More scope to pool grants and innovate
- More ‘bottom-up’ focus on priorities and ambition setting
- More working across boundaries
- Broader focus on well-being
- Greater focus on the user



Lessons learned – 1998 - 2007

Lesson	Example
Leadership from politicians and senior officials is key	London Challenge
Processes need to be proportionate to performance	Frequency of inspection
The outcome doesn't always capture what people want	GCSEs incl. Eng and Maths
Top-down targets will only take you so far	Key Stage 2 Eng and Maths
Some targets create unintended consequences	Unauthorised Absence
More than a single indicator is often needed	Value-added and thresholds



The challenges that remain

- How to deliver effective interventions for the most vulnerable?
- How to effectively work across sector boundaries throughout the system?
- How to align national and local ambition?
- How to ensure clarity over roles and responsibilities in a devolved system?
- How to build support among the professions from the start?
- How to stick to priorities and see them through?



Guiding principles for delivery

- Ensure there is **clarity of purpose**
 - Be clear what success looks like and the indicators that will show it
 - Engage, communicate and listen to ensure people connect with it
- Set clear **roles and responsibilities**
 - Ensure everyone knows what their job is and how jobs fit together
- Effectively **monitor performance** and respond
 - Know how well you're doing and why
 - Be aware of risks and spot problems early on
- Build **capacity**
 - Identify leading practice, share it and provide support
 - If support fails, be tough and intervene to tackle poor performance



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