



ADVICE, MONEY, RESULTS

Rethinking International Support for
Managing Public Finance

Report by an International Working Group



June 2020



NYU

**ROBERT F. WAGNER GRADUATE
SCHOOL OF PUBLIC SERVICE**

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New York University
Robert F. Wagner Graduate School of Public Service

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ABBREVIATIONS

ADB	Asian Development Bank
BMZ	Federal Ministry of Economic Cooperation and Development (Germany)
CABRI	Collaborative Africa Budget Reform Initiative
CPIA	Country Policy and Institutional Assessment
DAC	Development Assistance Committee (OECD)
Danida	Danish International Development Agency
DeMPA	Debt Management Performance Assessment
DFAT	Department for Foreign Affairs and Trade (Australia)
DFID	Department for International Development (United Kingdom)
EC	European Commission
EU	European Union
FMIS	Financial Management Information System
G20	Group of Twenty
GDP	Gross Domestic Product
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation)
IADB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFI	International Financial Institution
ILO	International Labour Organization
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
MDB	Multilateral Development Bank
MTEF	Medium-Term Expenditure Framework
NGO	Non-governmental Organization
NYU	New York University
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
PEFA	Public Expenditure and Financial Accountability program
PEMNA	Public Expenditure Management Network in Asia
PEMPAL	Public Expenditure Management Peer-Assisted Learning network
PFM	Public Financial Management
PIMA	Public Investment Management Assessment
SARA	Semi-Autonomous Revenue Authority
SDGs	Sustainable Development Goals
SNA	System of National Accounts
TADAT	Tax Administration Diagnostic Assessment Tool
TOSSD	Total Official Support for Sustainable Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UK	United Kingdom
US	United States
USAID	United States Agency for International Development

ABSTRACT

The current paradigm of public financial management (PFM) in international development has proved remarkably successful as the basis for a common approach, supported by a wide consensus among practitioners, advisers, and researchers. That approach emphasizes conformity with a set of processes and conventions aimed at achieving a standard trinity of PFM objectives: fiscal discipline, allocative efficiency, and operational efficiency. The approach is powerful and has provided practical means for those seeking to strengthen the institutional foundations of PFM. Improvements are still needed, however, to make external interventions on PFM more effective and to connect PFM more strongly to all levels of public policy.

Further enhancing the effectiveness of external interventions within the current paradigm will require better sharing of evidence and knowledge about intervention design. This could arguably be facilitated by a stronger role for debate and government choice among external advice options. This is a demanding technical agenda.

Strengthening links between institutional arrangements for public financial management and country-specific public policy raises more challenging conceptual questions, however. From a policy perspective, the PFM paradigm is at the limits of relevance and utility in its current, inwardly focused form. It is constrained in its capacity to engage with real-world choices and dilemmas.

The current approach treats PFM as a “closed” system, in which the PFM processes and conventions that drive operational performance are considered to be unchanging ends in and of themselves. Viewing PFM instead as an “open” system that interacts more fluently with all aspects of public policy—namely, government policy choices, government actions (especially service delivery), and development results—offers the potential for developing a new generation of approaches to managing public finance. This broader perspective would better reflect the complex realities of context and the unavoidable nature of trade-offs in policy objectives.

This “open” conception of PFM, proposed by the International Working Group on Managing Public Finance, is distinguished by a willingness to revise and expand the guiding objectives for managing public finance and to reappraise the conventions that drive the form and content of external technical advice in this area. It sees conventions about the operational performance of PFM processes as useful benchmarks, without considering them to be set in stone or remaining blind to their purpose of informing and delivering wider public policy outcomes.

The report motivates and frames this ambitious and challenging agenda. It identifies problems with current approaches to external assistance in PFM and offers specific proposals on how to move toward a new, more “open” model of managing public finance that is fit for the 2020s and a post-COVID world grappling with climate change.

1. INTRODUCTION: SETTING THE AGENDA

Scope of inquiry

Advice, money, and results are central concerns in international support for managing public finance. Technical advice is the mainstay of external assistance for strengthening fiscal institutions. Effective use of development finance and domestic resources is a priority for donors and governments alike. Development results are ultimately the *raison d’être* of managing public finance. As a raft of recent reviews, evaluations, and policy initiatives indicates, these matters are persistent preoccupations for the international community when considering lower-income countries, and there is strong demand for ideas, innovation, and progress (Coady & Murgasova, 2019; IMF, 2018a, 2019; IEG, 2018; Lagarde, 2019; Shanmugaratnam et al., 2018; World Bank, 2019b). This report speaks directly to the question of how the self-described domain of public financial management (PFM) can contribute more, and more quickly, to development results.

The report argues that now is the right time to review and re-evaluate the scope, objectives, and results of the PFM agenda and the development assistance that supports it. It sets out some of the frontier challenges confronting PFM and considers how the PFM community should respond. In doing so, it poses several questions. First, long-standing PFM objectives have shaped the design of external technical advice based on an increasingly standardized set of PFM processes and conventions. To the extent that these conventions reflect a widely accepted set of institutional practices, how can external support for reforms be made more effective? Second, greater choice by client governments is often suggested as a way to drive up effectiveness. How

could greater contestation of ideas and intervention approaches be deployed to support institutional reforms? Third, a strong PFM system is assumed to contribute to service delivery and sector outcomes. What is actually known about those connections and the ways in which PFM makes a difference for development results? Fourth, major policy concerns such as tackling climate change and boosting infrastructure development will require massive reprioritization in budget policies. Are the standard PFM processes and conventions up to the task? What changes are needed? What can PFM do to support better analysis of the trade-offs in policy objectives posed by socioeconomic concerns such as inequality, which are regaining political salience but are crowded out by other fiscal objectives?

The analysis and recommendations presented here draw on 18 months of in-depth and wide-ranging deliberations by an International Working Group on Managing Public Finance. The questions examined by the Working Group are at the forefront of debates among policy makers, practitioners, and academics concerned with international support to PFM. They intentionally push at the boundaries of what has conventionally been considered the terrain of PFM and its primary areas of concern. For the purposes of this report, PFM is treated in broad terms as a set of processes that connect public resources with public policy while serving the wider financial purposes of accounting and accountability. Although it is a highly technical topic, discussion of PFM is often accompanied by terms that are generalized and ambiguous rather than specific and consistent. To avoid confusion, this report employs a standard lexicon of relevant “terms of art,” which is set out, with examples, in Annex A.

The state of PFM in 2019

The scope and objectives of PFM are not timeless; they can and should be reviewed, refreshed, and expanded to reflect the full range of contemporary policy concerns and goals. Fiscal discipline, allocative efficiency, and operational efficiency have been adopted widely by the international PFM community as the explicit aims of the PFM system—the “holy trinity” of standard PFM objectives. These objectives have had a powerful impact on the content of technical advice to governments over the past two decades. They have, however, created a bias toward short-term measures to ensure fiscal discipline. More generally, the broad consensus around these proximate and technical objectives has masked an underlying normative and value-based conflict about the aims of government policy. Obscuring the inherent tensions among fiscal objectives and broader socioeconomic outcomes does not remove those tensions. They are always present, and it is a fundamental task of democratic politics to try to mitigate or resolve them. Refreshing and expanding the objectives of PFM—as proposed in this report—would play a part in helping to rebalance policy priorities in a way that allows these normative conflicts to surface and be resolved through consultative and political processes.

International support for PFM has assumed a distinctively strong place in development, with its own professional discipline and a strong set of conventions about desirable practices. While it is challenging to impose a single framework on the analysis of public finance writ large, PFM has emerged as a more distinct and tractable domain within this larger and conceptually more uncertain context. The term leaned strongly toward the management of general government expenditures in the 1990s, but most standard definitions of PFM have broadened since then to encompass the revenue side of the budget, the wider public sector, and the relationship to fiscal policy. PFM has risen rapidly in importance within

development assistance overall, and a distinct PFM “discipline” has emerged. The associated disciplinary approach encompasses a set of strong normative conventions about what PFM institutional arrangements should be, built on the premise that conformity with these conventions is necessary, if not sufficient, to achieve the trinity of objectives. The discipline has more recently evolved to recognize the significance of problem-based and adaptive approaches, which are offering increasingly nuanced advice about sequencing the standard PFM objectives and how conformity with PFM conventions might realistically be achieved.

Four problems for the PFM community

The central argument of the Working Group is that the paradigm of PFM in international development has become too inwardly focused and needs to reconnect with broader policies and results. Although the current disciplinary approach has been of considerable value and still has much to offer in accelerating improvements in PFM, further progress could be made through better sharing of evidence and knowledge about intervention approaches and by introducing a stronger role for debate and government choice over external advice options. This approach would strengthen PFM within the terms of its current framing, but is insufficient on its own. The current overall framework for PFM is limited and self-referential. It assumes a “closed” system in which PFM processes and conventions are considered to be ends in themselves, independent of variations in policy objectives. While these conventions may provide useful guideposts, they are a weak alternative to a more “open” model, in which the influences of PFM on government policy choices, government actions (especially service delivery), and development results are the central focus (see Annex A for definition of specific terms, and Annex B for an elaboration of the integrated public policy framework used in this report). Refreshing and expanding the objectives of PFM to bring in these wider agendas is a starting

point in highlighting the complex trade-offs involved and thus strengthening the role of PFM in helping policy makers to address real-world priorities, choices, and decisions. Treating PFM as an “open” system that interacts fluently with the policy domain would bring the development sector into line with how managing public finance is viewed in emerging and advanced economies (Schick, 2019).

Improving support for strengthening PFM on its own terms and restoring the influence of PFM on wider development outcomes are the twin concerns of this report. While the ambition of the Working Group is to motivate a change in the PFM paradigm and in the mindset of the PFM community, it is clear that such an evolution may take time. In the meantime, there remains an immediate opportunity to improve the effectiveness of technical advice on current terms. The challenges addressed by this report reflect this two-track approach, focusing first on how to build on the current “closed” PFM system and then contemplating the shift to an “open” model of PFM.

Rethinking international support for managing public finance embodies a vast agenda, but some clear and strong contentions have emerged about a set of top-order issues. Drawing on extensive consultations with practitioners, academics, and policy makers engaged in PFM across a wide spectrum of organizations, countries, and perspectives, together with an in-depth review of the literature and available evidence, this report takes a focused and propositional approach by selecting and examining four interrelated challenges or “problems” in PFM that respond to the key questions explored above.

Problem 1: The pace of learning about how external assistance can better support improvements in PFM is too slow

Countries have made progress in strengthening their PFM processes, but the contribution of external support is hard to disentangle. Some countries have shown improvements in PFM according to assessment frameworks such as the Public Expenditure and Financial Accountability (PEFA) indicators, which reflect the current disciplinary conventions. The evidence is limited, however, and the picture is mixed. Lower-income countries have made gains from a low base, and improvements link closely to country income, in that countries with higher income per capita show evidence of a stronger PFM system (de Renzio, 2009; Fritz, Verhoeven & Avenia, 2017). Countries may be making progress, but it remains unclear how international assistance providers can best support those improvements. Assuming there is no universal and unchanging approach waiting to be revealed, the focus needs to be on a continuous process of discovery and learning across different contexts and requirements.

Technical advice is at the heart of external support for PFM. It may be provided by international organizations, donor governments, consulting firms, non-profit organizations, or individual advisers. Often it is funded, designed, delivered, and evaluated by a combination of them. Technical advice is embedded in many forms of intervention: technical assistance missions or projects, investment projects, financial support through government systems, pooled funds, policy or structural reform conditions, and results-based funding. These interventions are influenced increasingly by problem-driven and adaptive approaches to institutional reform. Surprisingly little is known, however, about the effectiveness of any of these instruments and approaches. Proposals for improving the effectiveness of external interventions are often based more on orthodoxy or belief than on evidence. Can the evidence base be strengthened and mobilized so that learning and improvement happen faster?

Problem 2: Development agencies' preference for following a common approach has reduced opportunities to test ideas through competition

Debates about donor coordination and the risks of competition among assistance providers are long-standing. There is a growing range of new sources of development finance and technical assistance to governments (Custer, DiLorenzo, Masaki, Sethi & Harutyunyan, 2018; Greenhill, Prizzon & Rogerson, 2013; Hudson Institute, 2016; Schmaljohann & Prizzon, 2015). Despite renewed efforts and initiatives to improve donor coordination and agree on common rules and standards (Shanmugaratnam et al., 2018), effective coordination remains hard to achieve (Annen & Moers, 2012; Bourguignon & Platteau, 2015; Koch, Leiderer, Faust & Molenaers, 2017). Approaches to external assistance for PFM have sought to reduce conflicting donor requirements through a “strengthened approach” that emphasizes government leadership and “coherent, co-ordinated and programmatic” support by donors (OECD, 2006, p. 76). But there are critiques about the realism and success of attempts at harmonization and alignment (Booth, 2011). The debate about whether and under what conditions some degree of competition in development assistance might be preferred to coordinated approaches—and the desirable balance between these approaches—remains a live one, without any clear-cut answer.

Rather than chasing a fully coordinated approach, which seems unattainable, a more promising avenue may be to promote greater contestation among alternative intervention design options and to ensure greater choice on the part of client governments. While competition among technical assistance providers could in theory drive those effects, it would carry risks and require donors to unbundle their funding and advice or to submit themselves to genuine competition (Barder, 2009; Easterly, 2002, 2009; Klein & Harford, 2005). That is simply not realistic. Instead, a more modest and

possibly more powerful way forward may be to ensure the development and rigorous assessment of alternative intervention options proposed by a particular organization or group of coordinating development agencies to foster proper debate and allow for an informed choice among these options. This might incidentally involve a larger number of funders or providers, but it need not do so. It would strengthen the emphasis on ideas and evidence about why different PFM interventions and approaches might be expected to work. Would the introduction of such approaches have positive results? How could greater contestation and choice realistically be put into effect and tested?

Problem 3: The ways in which PFM matters for service delivery and development results are not well understood

Despite the growing influence of problem-based and adaptive approaches to development assistance, the PFM arena remains dominated by certainty rather than experimentation. Standardized PFM assessment frameworks are a growth industry, and there is a propensity to look for “fiscal machinery” that will be applicable across all countries in supporting government actions and development results (PEFA Secretariat, 2018). The obvious risk is that one size is assumed to fit all contexts, with the underpinning assumption that the desirable “look and feel” of PFM processes are fixed rather than remaining subject to continuous reappraisal based on new evidence about what matters for development results. One way in which the PFM system can be envisaged as more “open” is by reviewing how processes and conventions can evolve in relation to evidence and objectives. Could extrapolating significantly beyond emergent approaches in adaptation and learning help to identify new or alternative PFM conventions and manage the life cycle of existing ones to better understand linkages with service delivery and development results (Andrews, 2013; Pritchett, Samji & Hammer, 2013)?

Experimentation is needed to learn about the impact of different PFM conventions on the

efficient and effective provision of collective goods and services. The case is easily made that strong PFM is *necessary* if the public sector is to be able to ensure effective service delivery, whether through direct provision, commissioning, or only government funding (see Table 6 in Annex B for an elaboration of these alternative modes of delivering public services). Strong procurement systems contribute to efficiency in service delivery by ensuring better value for money in government purchases, while effective public investment management arrangements underpin successful infrastructure development. Analysts have found it distinctly harder to specify exactly which features of PFM, when combined with other management capabilities, are *sufficient* to ensure that these functions are undertaken well. The link between PFM and service delivery is typically described without any specific explanations or evidence, and it often remains generic across sectors with widely varying characteristics (Welham, Hart, Mustapha & Hadley, 2017, p. 18).¹ How can the ways in which PFM matters for the provision of collective goods and services be investigated and identified?

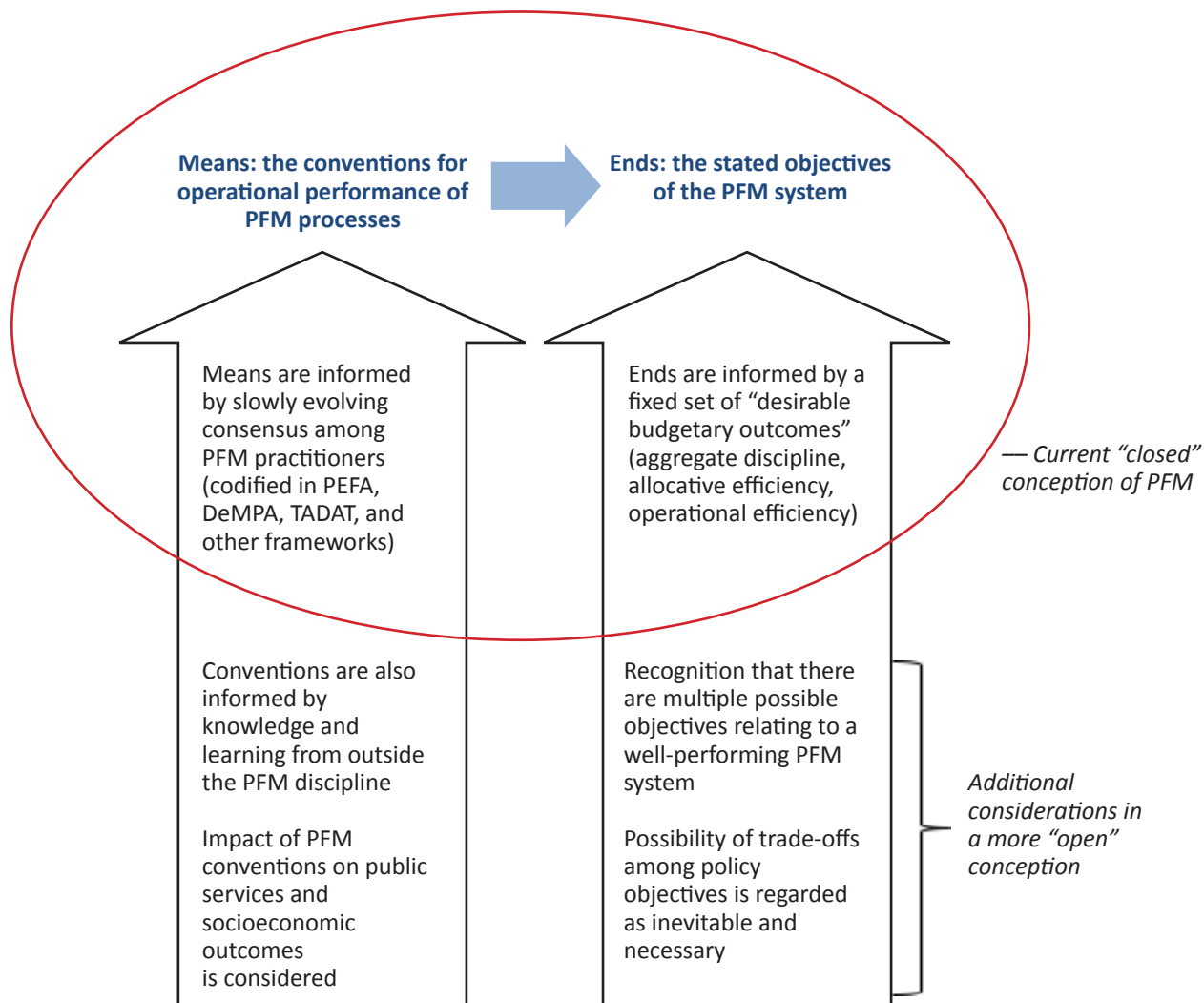
Problem 4: The standard objectives and conventions of PFM are not equipped to deal with political trade-offs or major policy change

The pace and scale of political demands for policy change to respond to new priorities will test increasingly the versatility of PFM systems. Recent announcements or proposals to address climate change and inequality in countries of the Organisation for Economic Co-operation and Development (OECD) are emblematic of some of the radical new policy directions that are envisaged. Budgeting is inherently an incremental process, however (Wildavsky, 1992). Efforts to promote large-scale policy change—such as the massive investments implied by climate change

mitigation measures (Gilmore & St. Clair, 2018)² or accelerating progress toward the Sustainable Development Goals (SDGs)³—raise concerns that PFM is not well-suited to facilitating significant reprioritization and reallocation across sectors—especially at a time of slower economic growth.⁴ PFM processes may need tailoring, or even more fundamental adaptation, to facilitate these new policy directions (Schick, 2013).⁵ How could PFM processes and conventions be re-envisaged to better support or enable major policy change?

Mounting pressure on politicians to tackle economic inequality is exposing the tensions and trade-offs among policy objectives. The erosion of real incomes (ILO, 2018; Rios-Avila, 2015)—particularly in a context of declining trust in government (Manning & Wetzel, 2010) and rising intolerance—is making countries more vulnerable to populism and authoritarianism (Dijkstra, Poelman & Rodríguez-Pose, 2018; OECD, 2018). Current policy debates across OECD countries make an empirical case for more progressive, comprehensive, and redistributive social agendas (Milanovic, 2016; van der Weide & Milanovic, 2014). The tensions and trade-offs in lower-income countries are just as acute—and may be rising despite progress in overall poverty reduction and favorable economic growth rates.⁶ These tensions are most apparent in the debates about how to secure inclusive growth that addresses inequality at the same time as overall prosperity (Lagarde, 2019). A similar tension exists in how to balance fiscal discipline against the need for massive scaling up of public investment, especially for infrastructure. Understanding the impact of PFM on policy objectives beyond the trinity of standard PFM objectives exposes unavoidable policy trade-offs. Can the PFM system be envisaged as more “open” to debates about trade-offs and the possibility of major policy change?

Figure 1: “Opening up” perspectives on means and ends in managing public finance



Source: Authors’ formulation.

Guiding framework: an “open” model of PFM

A more “open” conception of PFM is proposed as the guiding framework for rethinking international support for managing public finance. It would respond to knowledge and learning from outside the PFM discipline, be sensitive to the impact of PFM conventions on public policy (choices, actions, and results) (Annex B), and recognize the inevitability of trade-offs among policy objectives. The current

archetype of PFM has been powerful and productive, creating a culture of inquiry within the PFM discipline about means and ends—namely the institutional arrangements for achieving a given set of objectives. Yet, as revealed by the four problems identified by the Working Group, that inquiry takes place within a constricted space. The objectives that PFM aims to support are limited to a narrow and standard set formulated in the mid-1990s. Moreover, the conventions for operational performance of PFM processes that are considered necessary to support these objectives follow the

consensus of PFM practitioners. The field of PFM in development has become focused on standardized assessments of these conventions, with less active consideration of the ways in which the conventions relate to policies and results. In sum, while the current conceptual model for PFM has underpinned considerable progress, its limitations are now evident. It is detached from the realities of policy making and closed to new ideas and evidence from outside the PFM discipline. In response, this report envisages a new model of PFM, with a more “open” conception, as the analytical lens for proposed future inquiry by the PFM discipline and the wider development assistance community (Figure 1).

Developing some responses

Based on the Working Group’s deliberations, and in response to the identified problems, this report sets out seven proposals for a new direction of travel for the PFM discipline in the 2020s (Table 1). The first set of three proposals builds on the strengths of the existing “closed” model of PFM. These proposals argue for more rigorous assessment of technical advice offers,

based on evidence supporting the validity of the intended approach and plans for the dissemination of results, as well as for establishing practitioner groups to share sensitive information confidentially so that they can begin to identify ways to improve performance. In other domains these groups are known as “data clubs” (Chapter 3). The proposals also recommend experimenting with “managed choice” in the provision of technical advice to give client governments a greater say in deciding among intervention options. A second set of four proposals envisages PFM as an “open” system that learns and interacts with the broader public policy domain. These proposals argue for a review of the current conventions embedded in standard PFM assessment frameworks to test their validity, and for the collection of data and evidence “at the frontier” about which aspects of PFM operational performance matter for service delivery. They propose investigating how PFM conventions can better support major policy change through strategic reprioritization in budget policies, and expanding the PFM toolkit to analyze trade-offs among policy objectives and to assess socioeconomic impact.

Table 1: Proposals for a new direction for managing public finance

Building on the strengths of the current approach to PFM in development
1. Assess offers of technical advice against standards for the provision of information and evidence justifying the approach and for the planned dissemination of data about impact
2. Establish practitioner groups to share sensitive performance information on PFM interventions on a voluntary and confidential basis to identify ways of improving performance
3. Experiment with “managed choice” in the provision of technical advice, with a coalition of funders and client governments and the creation of a dedicated funding facility
Moving toward a more “open” system for managing public finance
4. Review the current conventions embedded in standard PFM assessment frameworks to test evidence of results and the degree of applicability in advanced economies
5. Use PFM assessment frameworks to collect data and evidence “at the frontier” to build insights about which aspects of PFM operational performance matter for service delivery
6. Investigate how PFM conventions and processes could better support non-incremental policy change through strategic reprioritization in budget policies
7. Expand the toolkit of PFM to analyze the trade-offs among policy objectives and to consider the socioeconomic impact of fiscal and budgetary policy choices

Building a strong case for change will be critical in navigating adverse organizational incentives in development agencies and making progress on this new agenda. Through this report, the Working Group sets out a view on the current state of PFM and proposes an agenda for substantive change. While the Working Group has the benefit of an independent perspective and has been informed by extensive consultation and engagement, not all readers will agree with the perspective or the agenda. Even where the arguments are convincing, vested interests may not wish to see some changes occur. It is hoped, however, that the ideas developed and discussed in the report will, in and of themselves, provide sufficient countervailing motivation to move forward with practical actions and the piloting of initiatives.

The public management community might require more than technical arguments if the agenda is to be taken seriously. There is a strategic rationale for proactive leadership to ensure the relevance of PFM and make external support more effective, as a means to counter the risk of losing ground on institutional strengthening as a development priority. The primary risk foreseen by the Working Group is that institutional reform may lose its place as a prominent point of entry for improving development results. It could come to be seen as an expensive and optional agenda, rather than as a precondition for sustainable outcomes. The incentives could diminish for development agencies to focus on complex institutional reforms that cannot readily be shown to have tangible results and cannot be explained in terms of bilateral donors' national interest. In this possible future, the emphasis on country-level institutional strengthening would likely be displaced by a redoubled focus on direct interventions in sectors and increasing attention to global public goods, begging many questions about sustainability.

While the Working Group contends that its proposals will contribute to the future relevance

and effectiveness of the PFM discipline, they do pose financial and opportunity costs in the short term. In looking at these proposals from the point of view of an international development agency, there is a question about why one agency would invest in significant new research and learning that will benefit the field as a whole, allowing free riding. Leadership will be needed at an institutional level, along with some willingness to direct financial resources to these ideas or new approaches with the wider strategic rationale in mind. Active experimentation and learning will be required from the outset. Leaders within the PFM discipline might take up these ideas, and progress might be kick-started by funding for one or more of the proposals under a pilot approach.

Organization of the report

In the following chapter, we define PFM and take stock of how it has evolved as an area of work and a focus of development assistance over the past two decades. We describe the emergence, conventions, and approaches of the “discipline” of PFM within the overall field of international development. Finally, we review the standard objectives of PFM and consider the case for refreshing and expanding them.

In Chapter 3, we discuss how to build on and improve the existing “closed” model of PFM. We explore how to drive improvements in external support and how to make choices among technical advice options more meaningful. The chapter considers whether there may be a need and opportunity to accelerate knowledge sharing and learning in technical advice for PFM and then discusses whether increased contestation among different intervention options and ideas could drive greater effectiveness and encourage more meaningful government choice.

In Chapter 4, we examine the possibilities that may emerge if we envisage PFM as an “open” system and consider questions regarding how PFM influences public policy. The chapter begins with an examination of how PFM can be related

more directly to service delivery and development results, and the need for PFM conventions to evolve in response to new evidence. It then reviews how PFM can support major policy changes and promote the consideration of trade-offs among policy objectives, including socioeconomic priorities.

Finally, in Chapter 5, we put forward seven proposals for how to put this agenda into practice. The chapter concludes with some propositions for further debate and by addressing the case for change and the incentives of development assistance providers.

2. MANAGING PUBLIC FINANCE: A REAPPRAISAL

This chapter provides a framing of the core subject matter to be discussed through the report—managing public finance, broadly defined, and public financial management more specifically. It sets out key definitions and takes stock of how PFM has evolved as an area of work and a focus of development assistance over the past two decades. It describes the emergence of a “discipline” of PFM within the overall field of international development—complete with its own set of approaches and “conventions” for the desirable operational performance of PFM. The impact and limitations of contemporary ideas about applying problem-based and adaptive approaches to PFM are explored. The chapter then reviews the standard “trinity” of PFM objectives and considers the case for refreshing and expanding them. It proposes broadening the objectives to address additional considerations such as fiscal risks, policy change and reprioritization, modes and quality of service delivery, macroeconomic stability, fairness and legitimacy, and democratic accountability.

Managing public finance and PFM: meaning and definitions

The phrase “managing public finance” directs attention toward a large conceptual territory with little certainty about its boundaries. It comprises objectives and policies on the one hand and institutional arrangements and systems on the other. It covers a broad swath of state engagement with the economy and society. Fiscal policy, budgets, budgetary processes, expenditure management, financial management, accountability, and finance ministries all sit within the domain of managing public finance. Finding a single organizing framework for all of these dimensions and elements has proved difficult.

The narrower concept of “public financial management” has emerged as a more distinct and tractable domain within this larger and conceptually more uncertain context. It is

delimited by the institutional arrangements that support public finance objectives. In international development circles, PFM has become an increasingly proprietary term that is “owned” by a distinct group of professionals. While there is no consensus, this report follows a recent formulation by the International Monetary Fund (IMF):

PFM in the narrowest, and perhaps most traditional, sense is concerned with how governments manage the budget in its established phases—formulation, approval, and execution...[I]ts relevance in fiscal policymaking has evolved over time,...broadened its focus...to all aspects of managing public resources, including resource mobilization and debt management, with a progressive extension to the medium- to long-term implications and risks to public finances from today’s policy decisions. The coverage of PFM has thus expanded from the narrowly defined central government budget to all levels of government and the broader public sector, including state enterprises and public-private partnerships. Furthermore, PFM is now seen as an ‘umbrella’ definition, covering a set of systems aimed at producing information, processes, and rules that can help support fiscal policy-making as well as provide instruments for its implementation. (Cangiano, Curristine & Lazare, 2013b, pp. 1-2)

Using this broad definition, PFM refers to the systems that connect public resources with social and economic policy while serving the wider financial purposes of accounting and accountability. In its economic and policy functions, PFM supports analysis and decision making for government allocation, distribution, and stabilization objectives and choices—principally through the budget (Musgrave & Musgrave, 1989). In its financial functions, PFM covers the use of money for public purposes. It

involves an accounting function for revenue and expenditure and a system of accountability to support public scrutiny (Hughes, 2018).

Public financial management in context

PFM is not an independent variable. In seeking to improve development results, factors such as the wider public management systems in play, the social and political environment, and the capacity of government cannot be disregarded. In considering the long chain of connections linking government policy choices to development results (Annex B), there is no institutional dimension which is *primus inter pares*.

Broader developments in public management

The 1990s were a momentous time for public management in general. Dominant ideas about how to improve public sector performance, however that slippery term may have been defined, were changing—and not just in Anglophone advanced economies. Prior to that period, views on improving public sector performance were essentially “managerialist,” with the idea that organizations would perform as well as they were managed and that similar managerial skills were needed in the public and private sectors (Drucker, 1974). These ideas had been dominant since the 1970s and had themselves seemed revolutionary, a promising way to open up the previously “self-contained world” of public administration and its arcane traditions (Sayre, 1958). Over time, however, this approach proved unconvincing in the face of the evident difficulties in reforming large public bureaucracies.¹ By the 1990s, new thinking had emerged that the route to public management improvements lay in rethinking the institutional arrangements that underpinned them—the structures and incentives of the public sector. Research insights about the nature of public sector institutions (Bakir & Jarvis, 2018) contributed to new ideas in the public sectors of advanced economies (Gore, 1995; OECD,

1995) and in developing countries (World Bank, 1997). How public officials approached their task remained important, but this was a time when the formal and informal rules that motivated those staff were now thought to be both more fundamental and more tractable.²

This rewiring of public management was more evolution than Copernican revolution. While institutional reform became more central as the point of entry to public sector improvements, not everything changed. The shift toward institutional innovation, and away from the stability and certainty of merit and hierarchy, left in place several assumptions that still influence PFM thinking today. For example, the general approach to PFM has continued to assume that improvements can be achieved by filling institutional gaps; that the public sector is homogenous enough that lessons concerning policy implementation are generalizable across sectors, implying that what has worked in health could work in education; and that the public sector runs on somewhat mechanical principles—get the machine right and it can execute any feasible and legitimate political directives.

The implications of country context

Allowing for country context and other distinctive political economy factors has always been challenging for reform initiatives. The public sector reform menu during the last three decades has been extensive (Annex C). But critics of this period of busy institutional change point out that, while much was being learned, the study of public management had become unhelpfully “decontextualized” (Pollitt, 2008). They argued that the field was prone to offering ill-fitting reforms in the name of modernization. The obvious challenge for those seeking to learn lessons has always been that, if context is dominant, few principles can be applied beyond a high level of generality.

Political and contextual factors mean that the same institutional arrangements for PFM may have different effects in different settings.

Although some observers suggest that recent progress toward a normative field of public management has been limited because of the problem of understanding and controlling for context (Roberts, 2018), there has been some progress within the development community—at least in scoping the territory. Research shows that seemingly similar institutions work differently in different contexts. For example, social accountability and “demand-side” mechanisms can channel local expenditure flexibility toward higher-priority results, or they can be blocked (Ringold, 2012; Sheely, 2014),³ or they can be actively distorted in the presence of non-programmatic political parties and vote buying (Keefer, 2013; Khemani, 2013).⁴ In the same vein, similar budgetary institutions can support ministerial accountability or, by contrast, allow overspending (Alesina, Hausmann, Hommes & Stein, 1999).

Political context also affects PFM reform possibilities. It can be harder, for example, to implement “basic” reforms that focus on control of public expenditures (including commitment control, prevention of leakages in procurement and payroll, or reliable accounting) in political contexts where leakages benefit well-connected interest groups than it is to overcome more advanced technical challenges such as the introduction of medium-term expenditure frameworks (MTEFs) (Fritz et al., 2017). Further down the results chain, Batley and McLoughlin (2015) show that the political challenges to service delivery reform are affected by the characteristics of the particular sector and by the legal assignment of functions to different levels of government. All in all, it is hardly surprising that general principles are hard to find.

The role of government capacity and capability

There is a large and occasionally rather abstract literature concerning the development of government “capacity,” with a growing focus

now on building the “capability” of finance ministries. While there are no stable definitions of either term (Morgan, 2006), capacity can be usefully seen as the endowment of human, financial, technical, and physical resources available to an organization or a government, while capability captures the practical reality of whether or not that capacity results in the achievement of specific tasks. Recent research has pushed beyond the traditional focus on capacity inputs, and whether that capacity should be built or otherwise acquired, to emphasize the functional capability of finance ministries as an essential ingredient of effective PFM (Allen & Grigoli, 2012; Allen, Grigoli & Howard, 2011; Allen & Krause, 2013; Dressel & Brumby, 2009; and Krause, Hadley, Mustapha & Welham, 2016).

There is a risk that definitional uncertainties leave capacity and capability as the default culprits when performance failures cannot otherwise be explained. Such an approach cannot identify specific changes that need to be made (Zafarullah & Huque, 2012). That said, the growing literature on these issues is usefully highlighting neglected factors in the “production function” of a central finance agency, “such as the culture, morale and incentives of the organization; the quality and experience of its management and staff; the organizational structure; the business processes that support and underpin the organization; and the supporting information and human resource management systems” (Allen et al., 2011, p. 4).

PFM as a “professional discipline” and its conventions

Public financial management is its own distinctive field in international development. This section considers the reasons for that distinctive significance and what underpins it. It argues that PFM can be viewed as a professional “discipline” with its own conventions, which have a powerful effect on how the technical advice provided by PFM experts is understood, codified, and deployed.

The importance of PFM in development assistance

Donor countries champion and support PFM for the rather obvious reason that how public finances are managed plays an important part in the achievement, or not, of development results (Andrews, 2007; Cangiano et al., 2013b). There is little dispute about the essential features of PFM institutional arrangements that, at a minimum, provide financing for sectors in line with policy objectives, ensure timely and predictable resource flows to agencies and between levels of government, and assist in the effective management and use of resources at the facility level (Andrews, 2007; Cangiano et al., 2013b).⁵ These contributions to service delivery are reasonably assumed to contribute, by extension, to the achievement of sector outcomes. There is a matching consensus among development agencies that arrangements for ensuring aggregate fiscal discipline are the key to the long-term sustainability of government policy actions to improve service delivery and development results. As discussed below, however, there are some signs of growing uncertainty about the right sequencing of these two objectives.

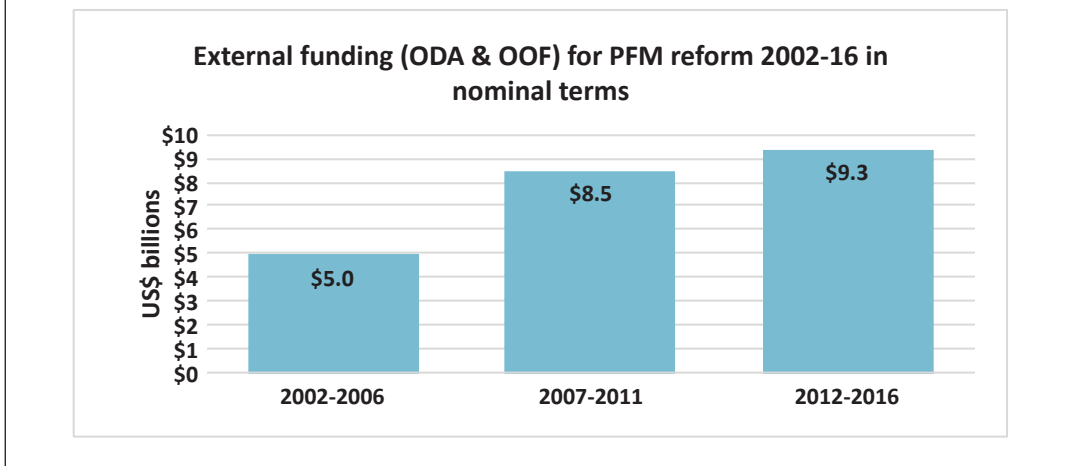
Donor countries have placed a greater emphasis on the importance of PFM in lower-income countries since the 1990s.⁶ Official finance providers are prepared to invest considerable effort in assessing the performance of PFM arrangements, seeking preemptive assurance that finances will be used as intended and used well. Arguably, they sometimes trade off development impact against fiduciary risk when sacrificing programs that are effective but not accountable enough (Bain, Booth & Wild, 2016; Derviş,

Chandy, Kharas, Medler & Unger, 2011).⁷ The move toward general budget support in the 2000s—and then away from it again in the 2010s—underscored concerns about managing fiduciary risk (de Renzio, 2006). Limited risk tolerance on the part of donor countries, particularly during the time of austerity and heightened skepticism about the utility of foreign aid following the global financial crisis of 2007–08, has undoubtedly been a major impetus for the recent focus on PFM.

The scale and composition of international support for PFM

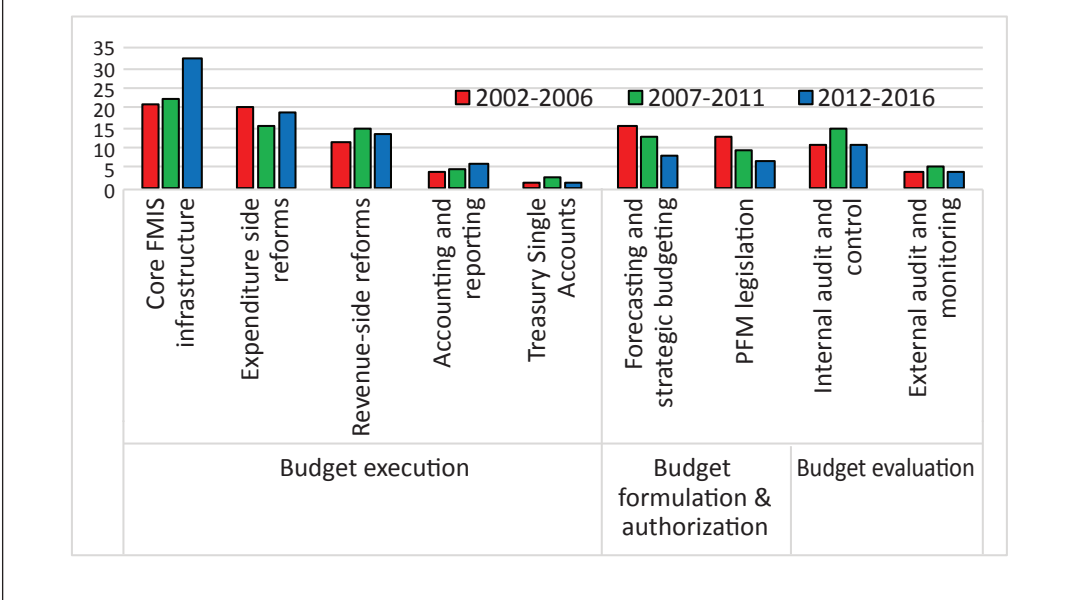
Measured in financial terms, PFM is a substantial program of development cooperation activity. Recent research shows the trends in development finance, including official development assistance (ODA) and other official flows (OOF) from governments and multilateral organizations, directed toward technical assistance for PFM (AlphaBeta, 2018). Rapid growth in the first part of the 2000s remained buoyant into the 2010s, with average annual spending of US\$ 1.86 billion globally between 2012 and 2016 (Figure 2). The picture is uneven across geographical areas, with absolute spending per year in Latin America increasing by 217 percent between 2002–06 and 2012–16 and overtaking the amounts directed to Sub-Saharan Africa, which increased by only 6 percent in absolute terms over the same period. International support for PFM has grown faster (86 percent) than overall volumes of development finance (69 percent) over the same period, suggesting an uptick in PFM’s relative importance. If general budget support and other programmatic financing linked to strengthening the fiscal sector were to be included, the figures for PFM support would be even higher.

Figure 2: External funding for PFM, comparison of five-year totals (US\$ billions)



Source: AlphaBeta (2018).

Figure 3: Internal and external funding by PFM reform area for a basket of countries (US\$ billions)



Source: AlphaBeta (2018).

Notes on Figures 2 and 3

External sources of financing for PFM reform: Disbursements from external sources in support of PFM reform were obtained from a sample of 18 countries. For those countries, in-depth analysis and adjustment of external funding data for PFM under the 15111 code on the DAC database from 2002–16, using additional sources such as donor project documents and alternative databases, revealed that 46% of donor-reported project disbursements over 2002–16 were in fact PFM reform-related spending. The remaining disbursements were removed from the totals.

Analysis of internal spending in Figure 3: The totals spent by governments from domestic sources were derived from analysis of 7 of the 18 countries and estimations for the other 11.

Definition of reform areas: See endnotes.⁸

Recent attempts to disaggregate PFM reform spending indicate priority areas and dominant funders. The most significant areas of spending within PFM—looking at a sample of 18 countries and including governments’ own allocations as well as development assistance—have been core financial management information system (FMIS) infrastructure and budget execution reforms in procurement, service delivery, and payroll (Figure 3). These funding figures may understate the volume and relative significance of external support for PFM, as they include the OECD Development Assistance Committee (DAC) category of “public finance management” but exclude the separate categories for domestic revenue mobilization, local government finance, and public procurement (AlphaBeta, 2018).⁹ Yet all of these categories are considered as part of this report’s “umbrella” definition of PFM, following Cangiano et al. (2013b). The most significant providers of external finance for PFM, by some considerable margin, are the World Bank, Inter-American Development Bank (IADB), and Asian Development Bank (ADB). Despite the prominent role and influence of IMF advice on PFM, the financial scale of its capacity development support is modest (AlphaBeta, 2018).

There is some evidence that PFM is becoming a larger component of sector assistance programs as well. The World Bank, as the largest PFM assistance provider, is a guide. The growing relative significance of PFM as an area of focus for development assistance is illustrated by its share in other World Bank portfolios (Annex D). In health and education programs, PFM has grown to a share of roughly 9 percent over the past 15 years, and in governance it has held steady at around 50 percent over the past decade.

Data on the volume and disaggregation of PFM support are interesting, but also unreliable. Despite apparent trends, particular caution is required in using or interpreting the data, as there are well-known problems of collection, recording, reporting, and comparison. The overall quality of available data is poor, and this remains a live

research agenda (Annex E). For full discussion of these data, see AlphaBeta (2018).

The PFM “discipline” in international development

The emergence of PFM as a professional discipline

An academic or subject discipline is a common language, spoken by a select group.¹⁰ It comprises a focus area for discussion, concepts and theories for organizing that discussion, and some institutional arrangements for imposing discipline by correcting or at least identifying those who have erred.¹¹

A professional discipline goes one step further; it is an academic discipline plus career paths with opportunities for advancement in work and reputations (Nikitina, 2005). As such, it brings together a “sociology of the profession—career incentives, norms, socialization patterns” (Naidu, Rodrik & Zucman, 2019, p. 1). International development has few professional disciplines. This is not to say that development is without expertise or research, but it has few distinctive bodies of knowledge and even fewer that combine such knowledge with distinct career paths. Agronomists and epidemiologists draw on rich bodies of academic work, but do not form large cadres within development organizations with clear lines of career advancement. Economics is the most evident professional discipline found in the development field (Stein, 2008). Although still some distance behind economics, PFM is emerging as a distinct professional discipline in international development, with a common language and an associated career path.¹²

PFM experts act as the guardians of the professional discipline

PFM expertise is carried by a distinct body of staff within the development community. Much of the expertise in PFM in official development agencies is concentrated in the IMF, World Bank, IADB, and other international financial

institutions (IFIs). The degree to which these staff adhere to both explicit technical knowledge and tacit knowledge is noted in the IMF case, with a recent high-level review group concluding that "...part of the Fund's success has been that it is a strongly normed organization, with many staff deeply committed to the mission and mandate of the Fund, to professional and disciplinary norms, and to the often implicit culture and norms of the organization" (IMF, 2018a, p. 6). Many staff in the IMF Fiscal Affairs Department are former finance ministry officials and most are economists by training, with both factors serving to reinforce the sense of PFM as a select professional discipline. The financial management and procurement cadres in the World Bank form "chapters" of the PFM discipline. The interchange of staff between IFIs and client country finance ministries, especially from developing countries, strengthens the disciplinary connections (Fritz, Fialho Lopes, Hedger, Tavakoli & Krause, 2011).¹³

Once located within international cooperation agencies, many PFM experts remain there and envisage completing their careers there.

In an exploratory survey of self-identified PFM specialists undertaken for this report,¹⁴ the majority of respondents identified most closely with general financial management, economics, or governance fields. Their related professional experience was gained almost equally across public sector, consulting, international organization, and academic work. Respondents were overwhelmingly senior (with 15 or more years of experience), and most had spent their careers in the public sector or in an international development organization. Most of those who responded to the survey stated that the nature of their work was as staff of a single, generally multilateral, organization (as opposed to as an expert working with multiple organizations). A majority of respondents envisaged their future careers continuing in an international development agency.

Beyond the official development agencies, a large cadre of international PFM experts are

located in consulting and accounting firms, universities, research institutes, and think tanks. Although not revealed to a great extent by the survey, these experts are prevalent in the extensive and growing literature on PFM issues.

There is also a large community of independent PFM experts, or those with multiple affiliations, who work as technical advisers on projects and other assistance interventions in lower-income countries.

Experts from all of these different constituencies within the PFM discipline learn from each other. Respondents identified the views of counterparts and other stakeholders, along with their own professional practitioner experience, as the most significant in forming their views. Almost all survey respondents were familiar with formal assessment frameworks (Annex F). The most commonly cited were PEFA, the IMF Fiscal Transparency Code, and the Tax Administration Diagnostic Assessment Tool (TADAT).

Strong professional associations offset some gaps in theory and evidence

PFM experts have a common professional language and frame of reference, underpinned by three structural features of PFM. First, despite many political and constitutional differences, similar PFM processes have developed in most countries, represented by an annual cycle of fiscal decision making, implementation, and review centered on the budget process.¹⁵ While there are many complicating factors, not least that these stages overlap and that multiple agencies are involved in each one (Andrews et al., 2014), the annual milestones in the budget cycle provide a way of structuring discussion about PFM. Second, strong forms of professional association have emerged for specific subgroups in PFM, such as auditors and accountants (Squire & Beazley, 2016; Unegbu, 2014). Professional bodies set widely accepted standards for individual and organizational behaviors, ranging from the International Public Sector Accounting Standards¹⁶ to the Standards for Internal Controls.¹⁷ Disciplinary enforcement

is primarily reputational, but some additional force is given by the membership basis of some of these organizations—usually at the individual level and with the possibility, at least in theory, of cancellation.¹⁸ Third, the articulation of standard PFM objectives in the late 1990s (described below) has had a significant influence in establishing and consolidating a sense of shared purpose among PFM experts.

The challenge for the PFM discipline is to provide practical guidance, because the “institutions matter” mantra alone does not get us far. The underpinning theory for PFM is at the same high level of generality as in other governance domains, all of which have found it difficult to define a practical approach to uniting concerns for due process, efficiency and economic growth, and politics and inclusion (Andrews, 2008a, 2008b; de Renzio, 2013; Plant, Stalebrink & Vasavada, 2010; Thomas, 2010).¹⁹ The evidence base concerning what works where and under what circumstances remains too patchy to supplement the theoretical shortcomings,²⁰ and the PFM discipline thus finds itself without a strong theoretical or empirical anchor for its practical recommendations (Key, 1940). In response, it has found two ways of navigating past these gaps to develop recommendations for action: focusing on a general set of conventions for the operational performance of PFM processes and, increasingly, emphasizing local, context-specific problem solving as an approach to PFM reform.

Strong conventions as the mainstay of PFM

The specification of a set of conventions concerning the desired operational performance of PFM processes has emerged as the dominant disciplinary approach. The increasing emphasis on consensus-based conventions in PFM is reflected in the swelling numbers of assessment frameworks and tools (Annex F; PEFA Secretariat, 2018b). Their proliferation does not signal an end to contentious debates such as that on the degree to which performance incentives should

be emphasized in PFM. Some of the dimensions covered in these frameworks are based on internationally agreed standards, but many are not. While the organizations or groups responsible for devising and refining the frameworks are clear that they are intended as a basis for discussion rather than as conclusions regarding actions that need to be taken,²¹ they are undoubtedly normative.

These frameworks and the conventions they reflect provide a powerful and succinct codification of the tacit knowledge of many generations of practitioners, gained over many years and in many contexts.²² Proposing conformity with the conventions is tantamount to learning from others about how to strengthen the “fiscal machinery” that is put in place to address the common pool problem in public expenditure management (Annett, 2002; Hallerberg & Yläoutinen, 2010; von Hagen & Harden, 1995; Wyplosz, 2011).²³ A similar picture emerged for tax administration in the 1990s and 2000s, where a standard set of reforms such as semi-autonomous revenue authorities developed based on ideas surrounding new public management and observed practices in advanced economies (Dom & Miller, 2018).²⁴ While there has long been some acknowledgment that different PFM objectives require different emphases in PFM systems,²⁵ there has been an equally long-held assumption among technical assistance providers that, for all practical purposes, the PFM conventions are independent of any sector policies and objectives (Premchand, 1993).

A specific definition and usage of “PFM conventions” is applied for the purposes of clarity in this report. We use PFM conventions to refer to the normative assumptions about desirable “operational performance of key elements of the PFM system” based on “international standards and good practices on crucial aspects of PFM, as identified by experienced practitioners” and as expressed in standard PFM assessment frameworks such as PEFA and TADAT (PEFA Secretariat, 2016, pp. 1–4). Those assessment frameworks typically include graduated performance scores.

There is a normative assumption that a stronger and more capable PFM system is one in which processes and procedures fulfill requirements at the top end of the measured scales. The PFM conventions might thus be represented by the highest-scoring attributes captured by the various assessment frameworks. A distinction is drawn here between the PFM conventions, the PFM assessment frameworks that incorporate and represent them, and the PFM processes that form the technical building blocks for the overall PFM system (Annex A).

While the PFM conventions are generally viewed in terms of their contribution to a standard set of PFM objectives, evidence to support that relationship is limited. Various studies find no statistically significant relationship between a PEFA-based measure of overall PFM quality and the fiscal balance—for both non-fragile and fragile states (Mustapha & Long, 2019; Fritz, Sweet & Verhoeven, 2014; Alesina et al., 1999; von Hagen & Harden, 1995). Evidence is more positive on the impact of MTEFs on fiscal discipline (World Bank, 2012a). The imposition of fiscal rules (numerical limits on budgetary aggregates), driven by recent fiscal consolidation experiences (IMF, 2010; Lassen, 2010; OECD, 2010), has had at best a marginal impact on actual behaviors. Finally, countries that credibly enforce penalties for non-compliance do tend to collect more taxes (Mustapha & Long, 2019).

Problem-based and adaptive approaches

Problem-based and adaptive approaches are increasingly supplementing the disciplinary emphasis on PFM conventions. The “new realist”²⁶ approach did not originate in PFM but has found particular resonance there (CID, 2014; Andrews, 2013; Andrews, Pritchett & Woolcock, 2012; Blum, Manning & Srivastava, 2012; Booth, 2014; Booth & Unsworth, 2014; World Bank, 2000, 2012b). The approach rests on two insights. First, it is hard to predict what will change the behavior of public officials in a given context. Conformity with the PFM conventions might

have a positive impact on behavior or, given complex local conditions, it might not. Second, it is expensive and difficult to find out what is really happening. We can perhaps see what the “concentrated agents” at the center are doing, but it is hard to see what behaviors may be changing among “distributed agents” such as “budgeters, accountants, and such in sector ministries, provinces, and districts” (Andrews, 2014, p. 1).²⁷

The information problem undermines the “conformity as lesson learning” idea at both ends. On the theory side, the behaviors and procedures identified as preferred standards might represent the distilled essence of what was claimed rather than what was done. On the practice side, the emulation of those changes might not be genuine, with changed rules disguising unchanged behaviors. Proponents of a problem-based and adaptive approach argue that, while an understanding of performance failures can be informed by wider lessons and experiences, the specific causes and purposes of a given apparent dysfunction have to be determined case by case through “guided incremental experimentation” (Pritchett et al., 2013, p. 48). They assert that institutional reforms are addressing “adaptive” rather than “technical” problems.²⁸ In its draft guidance on improving PFM, the PEFA Secretariat (2019, p. 27) highlights contingency to country context in deciding whether a formal comprehensive reform strategy or an informal iterative approach would be more appropriate.

These approaches have emerged amid an increasingly nuanced understanding of the significance of political context. The insight that PFM is entangled with politics is not new. There has long been discussion of “big politics,” with identifiable elites driven by the self-interest of remaining in power or in office and of self-enrichment. That phenomenon is well-documented in weak governance environments with “extractive institutions” (Acemoglu & Robinson, 2012) or in “limited access orders,” in which the consensus among elites about rent distribution is unstable (North, Wallis, Webb & Weingast, 2007). There

is also a growing awareness of the significance of the “small politics” reflected in interministerial rivalries, union concerns, and cadre and bureaucratic rivalries.²⁹ Recent work in this area is moving beyond broad analyses, pointing the way toward more grounded theories about why institutions are working as they are and about how change might be feasible (Booth, 2011; Fritz, Levy & Ort, 2014; Fritz et al., 2017; Yanguas & Hulme, 2014).

Bridging conventions and adaptation

Using PFM conventions as reference points in assessing performance and following adaptive approaches to reform design need not be in tension. Adaptation and agnosticism are not necessarily good things in themselves. They are part of the general tactical case for cautious incrementalism in reforms, along the lines of the observations made by Lindblom (1959) concerning “muddling through” within large bureaucracies and by Pressman and Wildavsky (1973) on policy implementation. Those are rational ways of managing complexity and the uncertainty inherent in predicting the exact consequences of reforms at each stage. But reforms have to begin somewhere. It is necessary to “develop initial responses which are then modified over the life of the project” (Brinkerhoff & Ingle, 1989, p. 490). After all, it is “difficult to hold the attention of those eager for progress and clear answers with responses that amount to ‘Well, I’m not sure, but let’s explore this more and perhaps we can generate some ideas...’” (Grindle, 2013, p. 400). Conformity with conventions can provide that starting point.³⁰ “In reality, reform strategies need to be both problem-driven and solution driven” (Allen, 2018, p. 402). This is a point echoed in a recent study of PFM reforms in eight East Asian countries, which concludes that “‘innovative’ means—by definition—not holding unwaveringly to predetermined plans and not insistently using standard techniques in standard ways” (So, Woolcock, April, Hughes & Smithers, 2018, p. 4).

Guiding objectives of PFM and their evolution

The purpose of PFM must drive the content and the approach. The PFM discipline offers its own distinctive set of objectives which the discipline holds up as the ultimate justification for the conventions it recommends. These standard PFM objectives have come to be seen as universal, transcending the specificities of country and context. There is a real world case for refreshing and expanding them. This section proposes a broadening of the objectives to address additional considerations such as fiscal risks, policy change and reprioritization, modes and quality of service delivery, macroeconomic stability, fairness and legitimacy, and democratic accountability.

The rise and dominance of standard PFM objectives

PFM has achieved a broad normative consensus that conformity with the established conventions is necessary, if not sufficient, to achieve a standard set of objectives. Over the last 25 years, PFM reforms in lower-income countries have been widely assessed in terms of their contribution to what is often referred to in the literature as “desirable budgetary outcomes” (Campos & Pradhan, 1996; PEFA Secretariat, 2016; Schick, 1998a; World Bank, 1998). Although originally described merely as desirable outcomes, they have come to define the purpose of the PFM system and have become the de facto objectives. They are widely viewed as the gateway through which PFM contributes to other government objectives.

In one of their classic formulations, the three standard objectives are:

- “Aggregate fiscal discipline – Budget totals should be the result of explicit, enforced decisions; they should not merely accommodate spending demands. These totals should be set before individual spending decisions are made, and should be sustainable over the medium term and beyond.

- Allocative efficiency – Expenditures should be based on government priorities and on effectiveness of public programs. The budget system should spur reallocation from lesser to higher priorities and from less to more effective programs.
- Operational efficiency – Agencies should produce goods and services at a cost that achieves ongoing efficiency gains and (to the extent appropriate) is competitive with market prices” (Schick, 1998a, p. 2, developed from the original framework by Campos & Pradhan, 1996).

These objectives emerged originally to cover public expenditure management—as a narrower domain than contemporary PFM. It is useful to recall that these objectives were the product of their time. They reflected a preoccupation with fiscal stability, top-down expenditure control, and efforts to bring order and restraint to bottom-up budgeting approaches. They emerged as attention was beginning to shift from government policies toward the institutional arrangements that enabled or incentivized policy making and implementation. Most particularly, they came into being at a time when a normative version of the “Washington Consensus” (Williamson, 2004)—arguably differing from its original intention to observe rather than to recommend—was ascendant. The objectives were led by an emphasis on fiscal discipline and supported by a view, emerging at the time, that incrementalism might need to be challenged in order to achieve this discipline.³¹

This standard trinity of PFM objectives is strongly value-laden, but was not intended as hierarchical. The objectives were originally envisaged as interdependent, without any hierarchy or proposed sequencing (Campos & Pradhan, 1996; World Bank, 1998). Contrary to this vision, however, they are often treated in practice as three levels of priority, with fiscal discipline at the apex. This point is illustrated by the proliferation of numerical fiscal rules and

targets over the past 15 years, which “have often been seen as a means for addressing all fiscal problems—chiefly rising deficits and debt levels but also accountability and responsibility gaps—while relegating other vital PFM elements to a supporting role” (Cangiano et al., 2013b, p. 5). Some institutional arrangements, including fiscal rules, fiscal councils, multiyear frameworks, and accrual regimes, actively reinforce fiscal discipline as the primary and dominant concern. This shift arguably represents a misreading of two formative case studies from the 1980s and early 1990s—New Zealand and Australia—which heavily influenced the objectives, but for which the relative emphasis among objectives differed (Campbell, 2001; Keating & Holmes, 1990; Schick, 1996; Scott, Bushnell & Sallee, 1990). These standard objectives have a powerful grip on PFM work, and addressing fiscal discipline and related considerations of financial control is often the recommended first step for reforms (Brooke, 2003; Diamond, 2013). The consequence of this assumed rank ordering of the objectives is that the focus on fiscal discipline has the potential to override values such as improving public services or moving toward more equal income distribution.

Discussion of these PFM objectives should not be confused with government policy choices in the context of their domestic public policy framework. We refer to PFM “objectives” throughout this report because that is how they have been defined and described in the public finance literature. Annex B sets out a framework for domestic public policy, and it is clear that these PFM objectives are at a distinctly higher and more generic level than the choices, actions, and results that one particular government might make, or wish to make. It is more accurate to view the objectives as an orientation for the PFM discipline. They are a way of structuring problem analysis in public finance (Dunn, 1988) and a means to reduce complexity through a set of concepts that “simplify and abstract from reality with limiting assumptions” (Love & Stockdale-Otárola, 2017, p. 17).

The objectives of fiscal discipline, allocative efficiency, and operational efficiency have been widely adopted and applied by the international PFM community. The consensus around the three objectives has been entrenched by their incorporation into standard PFM assessment tools such as the PEFA framework (PEFA Secretariat, 2016). They have been highly effective in shifting attention from theoretical concerns to real-world recommendations for PFM reforms (Andrews, 2007; PEFA Secretariat, 2016). They have proven remarkably durable, and their original formulation remains largely unchanged in substance almost 25 years later. Allocative efficiency tends now to be described as the “strategic allocation of resources” and operational efficiency has become “efficient service delivery” (PEFA Secretariat, 2016), but they appear to have changed little in substance from their formulations two decades ago (Schick, 1998a; World Bank, 1998). Although PEFA now refers to fiscal risks in its description of fiscal discipline (PEFA Secretariat, 2016), it is much less apparent that the explicit focus on service delivery has yet succeeded in addressing the dimensions of quality and accessibility alongside efficiency.³²

The standard objectives remain valid but are insufficient

PFM is often presented as a set of technical processes that are neutral to particular policy directions. The approach to managing public finances that has held sway for some three decades views a relatively standard set of institutional arrangements as essential in limiting the ability of politicians to use revenues raised from the many to satisfy the few and thus deny them corresponding opportunities to privilege their base and overspend (von Hagen, 2006). The dominant “institutional” perspective that emerged from studies of budgeting in OECD countries in the 1990s sees the budget primarily as an instrument to control deficits and debt levels through a set of institutional arrangements to negotiate and adjudicate among competing interests (von Hagen, 1998; von Hagen & Harden, 1995). Some consensus emerged that

a common “fiscal machinery” (Premchand, 2000) for achieving this could be identified and that this machinery was policy-neutral: it would be fit for purpose across a range of policy directions and institutional settings.

In reality, the PFM system cannot easily be disconnected from policy for two reasons: the need to be responsive to policy change and the need to support fairness in outcomes. The standard PFM objectives are silent on these challenges. This is not a criticism—the objectives have performed strongly as a guide to expenditure management and as a framework for budgeting, and they have set the scene for practical considerations about the nature of the institutional arrangements needed to achieve the objectives. But it is becoming clear that these challenges cannot be ignored.

Major global and national policy priorities—such as climate change, inequality, and infrastructure development—are demanding a fundamental reorientation or rebalancing in public finance and how it is managed. By contrast, PFM systems are designed to orient fiscal outcomes toward caution and inertia. PFM conveys norms that may predispose policy makers toward short-term fiscal restraint or retrenchment in pursuit of stabilization. At the same time, PFM has always embodied a tendency toward “incrementalism” in budget formulation, not least because of the complexity in costing and financing significant policy reorientation (Wildavsky, 1992). Incremental changes are a pragmatic response to complexity and a way to reduce conflict over resource allocation. The advent of multiyear frameworks and accrual regimes has reinforced multiyear continuity and stability in PFM.

The power of the standard trinity of objectives has derived from their seemingly neutral and universally relevant nature. There are presumably no circumstances under which fiscal indiscipline, allocative inefficiency, or operational inefficiency would be desirable. Yet policy agility in the face of pressing economic, social, and

environmental challenges, and the distribution of income to address questions of fairness and legitimacy, are also important. The current PFM objectives are not technically disputed or wrong. The problem is that they are incomplete, and the prominence that their success and influence have given them is stifling the attention needed to other valuable socioeconomic objectives.

Updating and expanding the standard PFM objectives

Recognizing the reality of multiple perspectives on PFM

Despite the prominence of the standard PFM objectives, underpinned by an extensive literature, there is no consensus about their theoretical basis. At least three different perspectives have informed thinking about the purpose and development of PFM. The dominant influence on the standard formulation of objectives has been the institutional perspective (Campos & Pradhan, 1996; Schick, 1998a; von Hagen, 1998; von Hagen & Harden, 1995), which draws on the insights of public choice theory and new institutional economics. Yet de Renzio (2009, 2013) highlights two alternative ways to interpret budgeting objectives. An administrative perspective emphasizes the financial functions of PFM through management systems and associated integrity and compliance mechanisms (Cangiano et al., 2013b; Diamond, 2013; Hughes, 2018). An economic perspective draws on public economics to consider fiscal and budget policies (Musgrave & Musgrave, 1989). While there are some areas of overlap among these three ways of considering PFM, their differing content provides a prima facie case for considering whether to expand the standard objectives.

PFM has always been broader than the budget process, which is the main focus of the dominant institutional perspective, and it has continued to expand in its scope since the 1990s. Beyond budgeting itself, the PFM system represents the regulations and procedures needed

to ensure compliance with budgetary decisions. Accordingly, “management systems must also be in place to execute the budget in line with resource allocation decisions, (i.e. resource use is accounted for, monitored, reported and audited); treasury operations exist so this execution takes place smoothly in terms of cash availability; and resource use is financed efficiently through debt management operations” (Diamond, 2013, p. 12). The purview of PFM has also grown markedly in recent years to incorporate additional dimensions and domains. These include resource mobilization (in other words, the “revenue side” of the budget), to a “progressive extension to the medium- to long-term implications and risks,” and to an expansion “to all levels of government and the broader public sector, including state enterprises and public-private partnerships” (Cangiano et al., 2013b, pp. 1-2). Heightened attention to fiscal risks, fiscal transparency, and whole-of-government fiscal activity—especially following the global financial crisis—has been a major driver of this expanding scope (IMF, 2018b).

The economic functions of PFM have been less prominent over the past two decades, especially outside of OECD countries. The classic public finance literature is clear about their centrality. Public finance policy is about the role of government in the economy and classically covers the objectives of allocation, distribution, and stabilization (Musgrave & Musgrave, 1989). Budget policy in the form of revenue and expenditure policies, and broader fiscal policy including public debt and surplus/deficit levels, both concern the choices and actions taken by government in pursuit of these objectives.

In considering the expansion and updating of the standard PFM objectives, it may be useful to step back and consider the objectives of public finance more broadly. Public finance objectives are classically defined in another set of three:

- “The provision for social goods, or the process by which total resource use is divided between private and social goods and by which the mix

of social goods is chosen. This provision may be termed the allocation function of budget policy.

- Adjustment of the distribution of income and wealth to ensure conformance with what society considers a ‘fair’ or ‘just’ state of distribution, here referred to as the distribution function.
- The use of budget policy as a means of maintaining high employment, a reasonable degree of price level stability, and an appropriate rate of economic growth, with allowances for effects on trade and on the balance of payments. We refer to all these objectives as the stabilization function” (Musgrave & Musgrave, 1989, p. 6).

The three public finance policy objectives, like the trinity of objectives in the PFM literature, reflect the times in which they were developed.

The notions of allocation, distribution, and stabilization come from a time that emphasized government’s ability and duty to implement policy in the light of “community values,” including fairness (Case, 2008). This formulation is arguably also now incomplete as a set of objectives. While the institutional perspective omits consideration of distribution, fairness, and accountability, the economic perspective on public finance omits reference to management processes and how services are delivered (Annex G). It is important to note, however, that the expansion of PFM objectives to include service delivery is still relatively recent, as “budgeting has become more intimately linked with other processes—planning, operational management, and performance management” (Pollitt & Bouckaert, 2018, p. 78). The contribution of PFM processes to service delivery is acknowledged to be more modest and less direct than to fiscal discipline, for example, owing to the role of other processes such as human resources management (World Bank, 1998).

Reassessing the PFM objectives for the 2020s

The trinity of PFM objectives has stood the test of time impressively well. Certainly,

neither aggregate fiscal discipline, nor allocative efficiency, nor operational efficiency seems a candidate for retirement as an objective. The question is whether some expansion and change in emphasis would better equip the objectives for the demands of the coming decade. Although it may seem a big step to suggest that these time-honored objectives might be changed, the general principle that such objectives should be dynamic and able to respond to contemporary challenges, rather than static and immutable, seems unobjectionable.

The standard PFM objectives have three apparent limitations:

- First, they may not adequately address all **policy considerations**:
 - o The standard objectives are usually taken to suggest by their ordering a hierarchy, with *fiscal discipline as foremost*. That objective dominates as a priority and drives the sequencing of measures to strengthen the PFM system.
 - o Fiscal discipline has become closely associated, or even synonymous, with fiscal tightening rather than allowing for a broader interpretation of maintaining a sustainable fiscal position to support *macroeconomic stability and growth*.³³
 - o They exclude one of the three classic public finance objectives, which is concerned with the *distribution of income and wealth*. While this could, in principle, be treated as an implicit consideration through allocative efficiency, it typically is not the case.
 - o There is a fulsome treatment of allocative efficiency, but in practice the emphasis on reallocation is insufficient and incremental adjustments are the norm. A focus on *strategic reprioritization* is missing.
- Second, they may not cover sufficiently all **institutional domains**:
 - o The focus is limited to *core expenditure* management. The objectives do not include wider concerns, such as resource mobilization

and the revenue side of PFM, the wider public sector beyond general government, and fiscal risks over the medium to long term.

- o They do not cover the *delivery choices facing government* for the provision of collective goods and services. Strategic allocation of resources decides the level of budgetary provision, but not the mode of provision.
- o They do not consider the *accessibility and quality of public service delivery*. Efficiency and cost effectiveness, as covered by operational efficiency, are necessary but insufficient dimensions in the provision of collective goods and services.
- Third, they may not be explicit enough about **democratic accountability**:
 - o They do not address the *oversight and accountability* purpose of PFM in ensuring proper scrutiny of the use of public

sector resources. There is no reference to democratic accountability through the role of legislatures or public participation to build state legitimacy.

This report takes the position that the standard PFM objectives would benefit from some expansion to address the observed limitations.

The insights of Musgrave and Musgrave (1989) suggest how the objectives might better reflect fiscal policy objectives, and Cangiano et al. (2013b) offer an example of how they might be extended into other institutional domains. Table 2 sketches out how these perspectives suggest expanding PFM objectives: broadening the policy objectives to address risk; responding to the need for major policy change and reprioritization; broadening the institutional coverage to include modes of delivery; and adding policy objectives concerning stability, fairness, and accountability.

Table 2: Refreshing the PFM objectives – proposals for discussion

Standard PFM objectives or “desirable budgetary outcomes” (often treated in practice as hierarchical or sequential)	Nature of proposed update and expansion	Updated PFM objectives (no assumed hierarchy or sequence; focus on the overall balance and trade-offs)
<u>Aggregate Fiscal Discipline</u> : Budget totals should be the result of explicit, enforced decisions; they should not merely accommodate spending demands. These totals should be set before individual spending decisions are made, and should be sustainable over the medium term and beyond.	<i>Broaden policy objectives concerning risk</i>	<u>Fiscal Discipline and Managed Risk</u> : Budget totals should be the result of explicit, enforced decisions; they should not merely accommodate spending demands. These totals should be set before individual spending decisions are made, <i>and debt and deficit levels</i> should be sustainable over the medium term and beyond. <i>Medium-term fiscal risks across the entire public sector should be assessed and managed.</i>
<u>Allocative Efficiency</u> (or strategic allocation of resources): Expenditures should be based on government priorities and on the effectiveness of public programs. The budget system should spur reallocation from lesser to higher priorities and from less to more effective programs.	<i>Broaden policy objectives concerning change</i>	<u>Allocative Efficiency and Strategic Reprioritization</u> : Revenue and expenditure policies should be based on government priorities and on the effectiveness of public programs. The <i>fiscal</i> system should spur reallocation from lesser to higher priorities and from less to more effective programs <i>across the public sector, with the capability to manage fundamental policy change.</i>

Standard PFM objectives or “desirable budgetary outcomes” (often treated in practice as hierarchical or sequential)	Nature of proposed update and expansion	Updated PFM objectives (no assumed hierarchy or sequence; focus on the overall balance and trade-offs)
<u>Operational Efficiency</u> (or efficient service delivery): Agencies should produce goods and services at a cost that achieves ongoing efficiency gains and (to the extent appropriate) is competitive with market prices.	<i>Broaden institutional coverage to include modes of delivery</i>	<u>Operational Efficiency and Service Quality</u> : <i>Government should provide goods and services at a cost that achieves ongoing efficiency gains and (to the extent appropriate) is competitive with market prices. It should use modes of delivery that optimize service quality and ensure accessibility.</i>
	<i>Add policy objectives concerning stability</i>	<u>Macroeconomic Stability</u> : <i>Fiscal policies should support high employment and price level stability, and an appropriate rate of economic growth, with allowances for effects on trade and on the balance of payments. Trade-offs with other socioeconomic objectives should explicitly inform fiscal decisions.</i>
	<i>Add policy objectives concerning fairness</i>	<u>Fairness and Legitimacy</u> : <i>Budget policy choices should produce a distribution of income and wealth that conforms to what society considers a “fair” or “just” state of distribution. There should be sufficient transparency, participation, and accountability for the public to be satisfied of the legitimacy of processes and decisions.</i>
	<i>Add policy objectives concerning accountability</i>	<u>Democratic Accountability</u> : <i>The exercise and manner of raising revenues and of allocating, executing, and accounting for expenditures should contribute to confidence in the capabilities and discretion of the state. These processes and routines, appropriately conducted, should build and sustain capable and accountable institutions.</i>

*From Campos and Pradhan (1996); PEFA Secretariat (2016); Schick (1998a); and World Bank (1998). Schick formulation used here.

*Drawing on Working Group deliberations and consultations, and literature including Allen, Hemming, and Potter (2013); Andrews et al. (2014); Cangiano et al. (2013b); Cangiano, Gelb, and Goodwin-Groen (2019); de Renzio (2009); Diamond (2013); Hughes (2018); and Musgrave and Musgrave (1989).

Note: Italicized words in the final column mark changes or additions to the language of the standard PFM objectives.
Source: Authors’ formulation, drawing on literature cited above.

Expanding the roster of PFM objectives as proposed here will inevitably increase the probability of conflict among them. Normative tensions emerge when considering emphasizing one objective over another or when pursuing several in conjunction. While conflicts in policy design are not in fact new (Musgrave & Musgrave, 1989), they have been somewhat submerged or obscured by the standard PFM objectives. One consequence of the expansion proposed here is to

restore a political dimension to the consideration of objectives. While no position is taken in this report about their relative merits, Chapter 4 explores some of the tensions and potential trade-offs—especially between stabilization and distribution. It is a fundamental task of democratic politics to resolve these normative conflicts over socioeconomic objectives in ways that advance the overall goals of government.

Moving on from here

This chapter has reviewed the assumptions inherent in the current approach to strengthening PFM in development. Put broadly, the story comprises two strands. First, the assumptions draw from a set of conventions concerning the desired operational performance of PFM processes. This approach underpins the growing professional “discipline” of PFM specialists within development agencies, consulting firms, universities, and think tanks, or working as independent consultants. Second, these conventions are seen as the path to achieving a standard set of PFM objectives representing a universal statement of the purposes

of strengthening PFM and implicitly prioritizing fiscal discipline.

These assumptions represent a “closed” model for diagnosing shortcomings in the operational performance of PFM processes and for developing reform measures to address those shortcomings. Within this model, political and contextual variables are important in understanding reform tactics and sequencing, but wider considerations about the impact of PFM processes on public policy, service delivery, and development outcomes such as citizen well-being are not major variables in determining desirable institutional arrangements. The next chapter examines the influence and results of this “closed” model and proposes some ways to build on its demonstrated strengths.

3. BUILDING ON THE STRENGTHS OF THE “CLOSED” PFM MODEL

This chapter builds on the significant body of practitioner and academic work that has constructed and reviewed the dominant current approach to strengthening PFM in development. That work has usefully set out the assumed trinity of standard objectives in PFM and the set of public sector institutional arrangements and processes that are thought to strongly influence the achievement, or not, of those objectives. As the previous chapter noted, these assumptions represent a “closed” model for diagnosing shortcomings in the operational performance of PFM processes and for developing reform measures. This chapter considers the utility of the conventional model and proposes some ways to build on its strengths in order to improve the effectiveness of external technical advice. It addresses two of the problems that were identified and discussed in the introductory chapter. First, the pace of learning about how external assistance can better support improvements in PFM is too slow. Second, development agencies’ preference for following a common approach has reduced opportunities to test ideas through competition.

Faster learning about external support for PFM

More and better evidence about PFM support interventions is needed to accelerate learning about the effectiveness of external technical advice. Knowledge and learning about the role and use of PFM conventions in external support and the evidence of impact both fall short of what is required to drive real improvements. Within the “closed” model, the first question is what would enable faster learning about how external assistance can better support improvements in PFM.

PFM conventions as a route map for external support

Assessing progress in strengthening PFM is tough. The sheer complexity of managing public

finance makes analysis difficult, as it is an area of significant “causal density” characterized by “high uncertainty, which is a function of the numerous pathways and feedback loops connecting inputs, actions and outcomes, the entity’s openness to exogenous influences, and the capacity of constituent elements (most notably people) to exercise discretion” (Woolcock, 2013, p. 8). Most public sector systems are a bewildering mix of cause and effect in relation to any results achieved. Finding a way of breaking this down into manageable pieces, however imperfect, is in itself a notable accomplishment (Simson, Sharma & Aziz, 2011). In this respect, the PFM discipline has been enormously successful at imposing some simplified order on the conceptual territory of interventions, institutional reforms, and intermediate PFM results. The degree to which this conceptual simplification has enabled real-world development results is less clear, however.

Conceptual simplification has permitted a focused discussion about institutional reforms.

The public sector results chain is long and open to so many influences that the relative significance of each one cannot be assessed. In consequence, a model for examining public sector results that attempts to consider all of the relevant influences and variables provides domestic reformers and providers of external support with little practical guidance to be applied in context. As discussed in Chapter 2, the response of the PFM discipline has been to collate and standardize the observed features of effective operational performance in PFM processes into a set of conventions that describe an “effective” PFM system (Simson et al., 2011). For example, the convention regarding performance evaluation for service delivery, as set out in the PEFA framework as the targeted performance standard, is that “independent evaluations of the efficiency and effectiveness of service delivery have been carried out and published for most ministries at least once within the last three years” (PEFA Secretariat, 2016, p.

28). Here the test is not whether evaluations are used in practice to improve service delivery—or other outcomes that relate to the standard PFM objectives of fiscal discipline, allocative efficiency, and operational efficiency. The test instead focuses on the degree of conformity with a general standard.

Identifying conformity with conventions as the stepping stone to results and as the proximate target for external interventions reduces the number of confounding factors in play. It offers a shorter and more tractable model of the public sector results chain. The fault lines in this simplification are well-recognized, however. The conventions are not as well-known, as fixed, or indeed as proven to be central to results as the model suggests. Arguably, removing consideration of many external political, social, cultural, and context-specific influences on the achievement of results is to move in exactly the wrong direction.¹ There is a risk of rendering PFM as a technocratic domain and disregarding crucial non-technical drivers of reform (Fritz et al., 2017). Having said that, many PFM experts see value in this simplifying archetype. Although there are significant limitations and risks in this “closed” conceptualization (Schick, 2019), its ability to make a complex territory legible is clear. Moreover, despite offering little help in interpreting the significance of context, it has led to a culture of inquiry within the PFM discipline about the nature of institutional arrangements for PFM and their place in achieving results.

It is sometimes suggested that the development of PFM assessment frameworks containing conventions for operational performance in PFM may encourage gaming (Hadley & Miller, 2016; Krause et al., 2014). Gaming refers in a strict sense either to strategic, self-interested manipulation of the scales or criteria used for measurement (such as selecting the indicators that give the preferred results) or to manipulation of the data resulting from those measurements (Courty & Marschke, 2004; Hood, 2006; Van Dooren et al., 2006).² In the case of standard

PFM assessments, incentives for gaming may be attenuated, as the financial rewards for conformity with the conventions are not particularly high and there is considerable transparency within the frameworks about how the ratings are calculated.³ The risk of gaming cannot be entirely disregarded, however, especially with respect to the replication or imitation of formal PFM processes in relation to disbursement triggers for development assistance.

Limited knowledge and the slow pace of learning

The record of evidence and results is hard to decipher

Measuring the impact of technical advice on strengthening PFM is a difficult task. There is surprisingly little to be concluded from research concerning the effectiveness of development assistance in improving PFM. In principle, research might look at evidence that external interventions can have a causal role in improving conformity with PFM conventions or that strengthening the conventions can be necessary for achieving development results. The case may even be made that PFM interventions can in some other way have a directly causal role in achieving development results. Given this high “causal density,” it is important also to look from the other end of the public sector results chain, identifying observed improvements and scanning the horizon of possibilities in considering what caused them. Annex H offers a partial summary of the literature reviewed for this report and provides some representative research summaries.

Recent analyses of the evaluation literature note that the evidence base concerning the impact of PFM support is patchy at best (De Lay, Mills, Jadeja & Lucas, 2015; de Renzio, Andrews & Mills, 2010; Mills, 2018; Pretorius & Pretorius, 2009). A major evaluation of “Public Finance for Development” being undertaken by the World Bank’s Independent Evaluation Group (IEG) includes support for PFM. It will assess whether the design and implementation of World

Bank interventions have contributed to better PFM outcomes—both intermediate outcomes, such as improved predictability and control in budget execution, and final outcomes, such as the achievement of a strategic allocation of resources (IEG, 2018).

The current state of knowledge about the impact of external PFM support can be summarized as follows. There is some, distinctly limited, evidence that donor interventions—such as investment projects or technical assistance missions—can lead to improved conformity with PFM conventions. For example, in examining a number of case studies, Orth, Schmitt, Krisch, and Oltch (2017) found that budget support (comprising funding through government systems, conditionality, policy dialogue, and technical assistance) was associated with increased government spending in social sectors, stronger PFM, and less corruption. There is perhaps more compelling evidence that interventions can lead to improved results by linking resource allocation more directly to policy intentions and by improving transparency, but the evidence points toward participation and consultation as the drivers of these improvements more than institutional reforms (De Lay et al., 2015). Finally, there is some limited evidence that, however it is achieved, conformity with the conventions can improve fiscal and service delivery results. For example, Welham et al. (2017) find that better public financial management, as measured by PEFA, is associated with lower variance in overall budget execution rates and improved health outcomes. But there are many identified cases in which there is seemingly no connection.

The same challenges affect assessments that look back up the results chains to detect the contribution of external PFM support. Evaluations that look back from improved development results at the national or sector level and ask whether these are attributable to donor interventions in PFM have largely drawn a blank—whether these concern general development progress, as measured by economic

growth and poverty reduction (Radelet, 2015), or improvements in the health sector (Morrison, 2013). Similarly, evaluations have not shown that improved development results can be attributed to improvements in PEFA ratings, for example. When there has been an identified improvement in country PEFA ratings, implying improved conformity with the PFM conventions, this has rarely been attributable to donor interventions (Lawson, 2012).

The pace of learning remains frustratingly slow

The challenges of evaluation in PFM echo those faced by social science research more broadly.

Empirical work on public sector management and, within it, PFM offers just one particular case of a larger difficulty. The definitional challenges in capturing institutional changes and measuring results are enormous. The hunt for quasi-scientific “single treatments” that might lead to specific results is undoubtedly misplaced. With so many contextual factors in play, the attribution issues are confounding. The time lags between interventions and effects are outside the scope of most available data. Controlled experiments are seldom feasible, and natural experiments are rare.⁴ PFM, at least, is a domain in which at least some of the measurement challenges have been addressed, particularly in relation to assessing conformity with conventions and with fiscal results (Schick, 1998a). Nonetheless, there has been disappointment that empirical findings have not emerged more rapidly. PFM interventions may be good enough, but they could still be better. The question is how to achieve that.

There have been some promising ideas about how to accelerate improvements in knowledge about PFM support, but no breakthroughs. The question of how to embed political and contextual considerations in technical analyses has been the subject of intense debate in recent years (Annex I). Ideas about “adaptive management,” “doing development differently,” and “thinking and working politically” in governance reforms have

become increasingly sophisticated (Andrews, 2012; Green, 2018; Teskey & Tyrrel, 2017) but show some clear similarity to ideas from the early 1990s (Berg, 1993). Similarly, deliberations about optimal PFM reform sequencing have found little to agree on beyond an entrenched assertion that basic disciplines matter (Diamond, 2012; Fritz, Hedger & Lopes, 2011; USAID, 2014).⁵ The practical result has been a series of relatively distinct ideas about supporting and sequencing institutional change. Each one has seemingly been clear and self-standing until the next one arrives (Pretorius & Pretorius, 2009) (Annex J).

Some ways forward: better data collection and knowledge sharing

If better and faster learning is the goal, then action is needed on the part of both individual agencies and the wider PFM discipline.

Individual agencies can make a difference, such as when the World Bank acted as a catalyst for research on economic growth in the 1990s. That example showed that detailed tracking of country-level institutional reforms through high-quality case studies, coupled with greater experimentation with impact evaluations (in the occasional cases when “natural experiments” can be found), can be a useful contribution. But the biggest gains could come from mobilizing the PFM discipline as a whole. If assistance providers and client governments had stronger incentives to release information about interventions and results using standardized metrics—moving away from the current situation, in which most relevant knowledge remains tacit and unshared—then richer and more powerful analysis could be brought to bear.

One key to progress lies in moving beyond the current fragmentation among agency-specific research and evaluation initiatives and data sharing. Open-source data on public sector institutional change could spur both external research and internal learning, supporting the development of a secondary industry of analysis of project data. Alongside the IMF, multilateral

development banks (MDBs) are the most significant providers of technical advice and funding for PFM (Simson et al., 2011). However, the track record of deep collaboration among international organizations is not encouraging, as they each maintain separate analytical and knowledge functions. “There are only a few examples where MDBs have worked together and taken advantage of the capabilities in sister institutions. More commonly, they operate independently. For example, each MDB has its own research department and independent evaluation office. They each develop individual country strategies. They have their own assessment frameworks for development effectiveness” (Bhattacharya, Kharas, Plant & Prizzon, 2018, pp. 11–12). The coordination of data collection in other areas suggests that progress in knowledge sharing across agencies is likely to take the form of agreement on principles and classifications accompanied by persistent small steps in the right direction, rather than a major breakthrough (Inter-Agency Group on Economic and Financial Statistics, 2019). Two ideas may hold some promise.

Developing new standards for data collection and sharing

Proposal 1: Assess offers of technical advice against standards for the provision of information and evidence justifying the approach and for the planned dissemination of data about impact

One potential way forward is the use of a standardized framework for data collection and sharing. Current strategies for learning about the effectiveness of development interventions are of limited utility in the face of provider agencies’ incentives to restrict information about their activities and to make excessive claims about their impact, and of client governments’ incentives not to challenge that behavior. Exposing more clearly the basis on which offers of technical advice are made and the claims that they entail could initiate a virtuous circle. Governments would have a basis for making more informed

choices among providers of technical advice and potential approaches, and providers of technical advice would have greater incentive to share data and justify claims. Such a framework could include standardized data categories to allow for comparison among design options and among results achieved.

Assessing how well the operational performance of PFM processes conforms to PFM conventions follows a well-established pattern of using standard frameworks to design external interventions (World Bank, 2010). The PFM discipline could develop a tool to assess how well PFM support interventions conform to open data standards on program design and results. Such a tool would ask how clearly the proposals developed by technical advice providers are elaborated along two dimensions. First, an efficiency justification dimension would rate proposals according to the degree to which they show the potential costs involved, such as financial and transactional costs, and the likely returns. Second, an empirical justification dimension would rate proposals on the availability of evidence on which they draw to make their case. Development of this tool could draw from cross-country and multisector studies about how this type of reform proposal has worked out in general, and from impact evaluations or other research that can test for the salience of distinctive contextual conditions.

The data assessment tool could be used as part of “quality at entry” processes within international agencies. While the tool would assess the transparency with which project proposals are justified financially and empirically, it would not be used to collect actual project data. Use of the tool could be combined with some form of independent, non-binding review or validation—possibly by an arm’s-length agency or entity of some form—that the appropriate procedures for using the assessment tool had been followed. The “PEFA Check” provided by the PEFA Secretariat is one such example.⁶

The results measurement component could spur a much-needed step-change in measuring the results achieved through complex institutional reforms, including how to treat different types of evidence (Bates & Glennerster, 2017; Pritchett & Sandefur, 2013). The current “publish what you fund” movement is of value for input coordination. Here, though, we propose a new “reveal what you are proposing and what you did” movement, which would be of greater value in enriching the PFM discipline with more solid evidence about successes and failures, perhaps supporting client governments through access to greater choice among different technical advice options.

The pressure to publish standard data might prompt innovations in the means of data collection and stronger leadership by international organizations. Developments such as algorithmic learning and cell phone surveys could emerge as mechanisms for collating expert assessments and amassing data on implementation and results. While the hope may be overblown that “big data” might rapidly find meaning within a mass of metrics about reforms, results, and contexts (Lazer, Kennedy, King & Vespignani, 2014), some large-scale data collection approaches could help to indicate which avenues to explore further (Calvard, 2016). Official fora such as the OECD DAC and the United Nations Department of Economic and Social Affairs (UNDESA) might shift their focus toward assessing whether advice providers and client governments are willing to open up their reform approaches to contribute to the global data pool.

Lowering risk in sharing project shortcomings

Proposal 2: Establish practitioner groups to share sensitive performance information on PFM interventions on a voluntary and confidential basis to identify ways of improving performance

A complementary approach may be to open up a smaller dataset for more in-depth review and lesson sharing. Robust and comparable external measurement of results can seem risky for providers

of technical advice that need to make claims about the benefits of their interventions. Provider agencies face strong incentives to demonstrate to their shareholders or funders that they are highly effective, which means that rigorous, verifiable, and comparable measurement of results by third parties may not be a high priority (Barder, 2009). Political pressures on provider agencies instead emphasize the need to demonstrate visible, short-term results to shareholders, taxpayers, or other principals (Gulrajani, 2017; Honig, 2018; Koch et al., 2017; Power, Scheytt, Soin & Sahlin, 2009; Valters & Whitty, 2017). Risk aversion is especially high among providers in fragile states (Dendura & Flynn, 2011; McKechnie & Davies, 2013). Open data, deep knowledge, and sharing of learning are not likely to be the primary concern.

In some other sectors in OECD countries, these concerns have been addressed through the creation of “data clubs,” or private networks for sharing sensitive data, which operate along reciprocal lines. This approach could be considered for the PFM sector as well. Submission of a base set of data and the commitment by all participants to treating all data shared in strict confidentiality would be conditions of joining a PFM data club. Such an approach has been shown to overcome government concerns and to facilitate the sharing of sensitive safety data concerning large city subway systems (Hood, Dixon, & Wilson, 2009; Wilson, 2010) as well as potentially damaging information on school performance (Glaister & Anderson, 2005). Membership would provide access to an aggregate, anonymized summary of the data that have been shared by others, and would allow individual members to approach each other for more tailored sharing of information. Club membership could be offered to entities or individuals, whether from client governments, international organizations, or donors and other assistance providers. Opting into the club would entail careful specification of the parties or types of parties with whom the data may be shared as well as whether and when the data must be anonymized (Glaister & Anderson, 2005).

New advances in blockchain technology could offer a mechanism for permitting secure sharing of sensitive information within an approved group of disparate participants among whom trust needs to be established (Reinsberg, 2018).

Members, serving as representatives of their respective agencies, would thus be able to obtain authoritative technical support and data and have the credibility to speak critically about their agency’s approach. They would decide which data mattered and how to obtain information for sharing, with an emphasis on practical and implementable actions and explicit protocols about how the data could be used in their respective agencies. Members would establish the governance arrangements for the club. Agencies would be able to opt out of the club at any time, with all references to their data removed (Anderson, 2005; Glaister & Anderson, 2005; Hood et al., 2009; Wildy, 2004; Wilson, 2010).

An important distinction is that these confidential data clubs are not peer learning exercises. Peer learning focuses on the individual and is intended to contribute to individual-level gains in knowledge and insights—although with a view to their making impacts at the organizational, sector, or national level (Andrews & Manning, 2015). The Collaborative Africa Budget Reform Initiative (CABRI), the Public Expenditure Management Network in Asia (PEMNA), and the Public Expenditure Management Peer Assisted Learning (PEMPAL) network for the Europe and Central Asia region are examples of successful initiatives in the peer group mold (PEMPAL Steering Committee, 2012; World Bank, 2013). By contrast, data clubs are intended to provide insights at the system-wide level.

Contestation and choice in PFM advice

The growing diversity in providers of development assistance and the increased choice experienced by some governments could strengthen the market for technical advice. Despite concerted efforts over 15 years

to improve donor coordination, success continues to be limited and sporadic. There may be some conditions under which greater competition would be a desirable or even superior approach. This section explores that possibility with regard to technical advice on strengthening PFM. It builds on the consensus of the “closed” PFM model regarding the operational performance of PFM processes needed to achieve the trinity of standard PFM objectives. The core question is whether greater contestation among intervention ideas and options, and greater government choice over those options, could help to improve innovation and results in external assistance for PFM.

Donor coordination and its emerging limits

Rationale and future prospects

Effective coordination among donors in the provision of development assistance has long been stated as an important principle and objective. Coordination is pursued primarily to maximize the impact of development financing, either by reducing unintended overlaps in interventions (Barder, Gavás, Maxwell & Johnson, 2010) or by encouraging compliance with a larger technical agenda or set of standards determined by the international community. Harmonization and alignment of international aid were central features of the 2005 Paris Declaration and its successor agreements. The “Strengthened Approach to Public Financial Management” was put forward as a common technical agenda and made a strong case for coordination as part of the PEFA program (OECD DAC, 2003). Coordination with reference to a technical agenda was given extra force by the concern that independent actions by development agencies “may postpone necessary adjustment because there is so little conditionality” (Woods, 2008, p. 1207) and so could be wasteful (Klein & Harford, 2005, p. 3). The arguments for coordination are bolstered by a transaction costs argument that fragmented external support can further burden already overloaded client governments.

There is a contrary case to be made that coordination may not always be desirable or realistic. Coordination, in the sense of compliance with a common set of assumptions about technical approaches, seeks by definition to reduce experimentation and choice. It locks in the presumption that adherence to current conventions is the right way to go (Scharfstein & Stein, 1990). Separately, and regardless of whether coordination can in principle achieve the aim of more effective development assistance, there is a more pragmatic argument that preaching coordination can be unrealistic, as it is often not delivered in practice. Despite concerted efforts and a series of global commitments, the evidence suggests that coordination efforts have been only moderately successful. Many attempts at coordination have failed to impose a rational division of labor among donors based on comparative advantage (CABRI, 2014; Brookings Institution and CGD, 2011) because there is no effective “umpire” to impose discipline (Harris, 2011).

Recent research is pessimistic about the prospects for improved donor coordination at a general level in development cooperation. Incentives to disregard coordination include the need to pursue the national interests of the donor country even at the expense of greater transaction costs, and the need to appease interests in partner countries in order to maintain a longer-term relationship (Bourguignon & Platteau, 2015; Olivé & Pérez, 2016). The increase in aid impact evaluations and the growing prominence of indices comparing donor performance are contributing to increased fragmentation, as these metrics inherently promote competition among development agencies. Thus, at least according to some analysts, “efforts to improve donor coordination are doomed to failure, ‘cheap talk’, since they do not change the incentives underlying donors’ strategic interaction” (Annen & Moers, 2012, p. 30). Although the reality may be somewhere in between, the track record of effective coordination without corresponding change in incentives is not strong.

Structural changes in the supply of development assistance

Coordination is likely to become more challenging as new sources of development finance create greater choice for client governments. As countries move into middle-income status and the landscape of development finance diversifies to include new players, the traditional model of coordination is coming under strain (Greenhill et al., 2013; Prizzon, 2014; Schmaljohann & Prizzon, 2014). Recent evidence shows significant heterogeneity among a growing group of non-DAC providers of development cooperation (Lauria & Fumagalli, 2019). This trend suggests that client governments may gain access to greater and more meaningful choices among all donors, rather than merely a binary distinction between DAC and non-DAC alternatives. Well-established major funders and advice providers appear to be relinquishing some of their ownership of and influence on PFM advice in the face of alternative development finance sources—most notably China, but also Turkey, the Islamic Development Bank, and other “new donors” (Greenhill et al., 2013; Hanauer & Morris, 2014).⁷ China, in particular, brings a corresponding increase in the volume of public management technical assistance embedded within projects—especially infrastructure initiatives (Lum, 2009). The product being offered may also vary with the type of provider. Such products could range from the explicit provision of technical advice by development agency staff to assist in the implementation of an institutional reform agenda, to implicit or informal advice associated with large infrastructure financing on near-market terms, to advice provided by a major consulting firm working under contract on a full cost-recovery basis.

New sources of technical advice may further increase the degree of country choice. The proliferation of small interventions (Fengler & Kharas, 2010), combined with a growing diversity

of assistance providers, are allowing countries such as Ethiopia, Rwanda, and Sierra Leone to exercise greater choice in selecting preferred providers of technical advice.⁸ There are signs that a growing number of “challenger agencies” are emerging, offering advice without funding and espousing innovative methods or ideas.⁹ Typically these organizations are small, non-governmental, non-profit, and independently funded, often connected to policy think tanks, research institutes, or universities. These agencies tend to be proponents of problem-based and adaptive approaches to PFM support, and they appear less likely to be bound by the prescriptive influence of the conventions or incentives of the PFM discipline. They often work directly for client governments, rather than merely with those governments at the behest of other organizations such as donors and IFIs.

The improbability of achieving a market-based approach at scale

Donor aversion and demand-side constraints

A more open and competitive market for technical advice in development is often invoked and has long been predicted by some commentators (Barder, 2009; de Renzio & Rogerson, 2005; O’Keefe, 2007).¹⁰ A full market would be characterized by many buyers and sellers, distinct products, low barriers to supplier entry and exit, and robust information about prices. Those features largely do not apply in the case of technical advice for lower-income countries on PFM (or indeed on other technical development concerns). Although there is often, de facto, considerable competition among development agencies for projects and influence at the country level, the strength of the coordination paradigm makes explicit consideration of competition in development assistance an awkward topic and a contentious proposal.¹¹ It is also likely to be too disruptive and costly to the integrated business models of the IFIs, which bundle together their functions of financing and technical advice—typically along with broader global public goods.

Decoupling of funding for technical advice from the selection of providers would need to be a central feature of a proper market. A structural change of that type is highly improbable at scale in the case of development assistance to lower-income countries.¹² Any model in which funders detach themselves from influence over the external providers of advice and assistance to governments (Barder, 2009; Booth, 2013; Klein & Harford, 2005) would remove the key device by which donors provide assurance to their political principals and their ultimate customers—namely, domestic taxpayers in donor countries—that their funds are well used (Booth, 2013; Klein & Harford, 2005; Martens, 2005; Mosley, 1985). Donors themselves would resist strongly, since they “proceduralize” operations, imposing internal steps and hurdles as a proxy for ensuring quality in an environment where final results are hard to determine (Power et al., 2009). This is only possible if the funder has some significant control over the type of advice that the disbursed funds are used to purchase. In addition, since a significant proportion of donor financing is ultimately used to finance the donors’ own professional services (Browne, 2012), there would be significant internal resistance.¹³

Any serious debate about a market for technical advice must also recognize that there are significant constraints on the demand side. While governments in lower-income countries may in principle seek to maximize the quality of technical assistance, they are likely to be as much or more concerned with maximizing concessional financial flows (Greenhill et al., 2013; Prizzon, 2014; Schmaljohann & Prizzon, 2014).¹⁴ Governments have mixed and multiple motives when expressing demand. They may be reluctant to express clear and reliable demand for the external support they require when a wider partnership and financing agenda are at stake (Khemani, 2017). Just like provider agencies, client governments are influenced by notions of comparative good practice in other countries and “cutting-edge” ideas and models, with the

corresponding temptation to choose based on notions of modernity more than on effectiveness (Lawson, 2012).

Possible evolution in the longer term

The market for technical advice in lower-income countries will evolve over the longer term in response to the influx of new sources of finance and new providers of advice, but current donors are likely to resist that disruption. For the foreseeable future, OECD-DAC donors and long-standing IFIs will continue to provide the predominant share of concessional financing to lower-income countries, with the notable exception of China in some cases. These well-established actors have, in effect, formed a cartel—both for the external funding of technical advice, and for determining the providers and often the content of that technical advice. This syndrome is observed clearly in the funding and provision of advice on PFM (AlphaBeta, 2018). As discussed above, the business model, risk management, and quality assurance pressures and requirements faced by donors and IFIs make it unlikely that they would yield a substantial degree of choice to client governments about advice, services, and even providers. The rise of new sources of financing and technical advice—for example, from donors outside the OECD-DAC or from foundations and non-profit actors—might eventually start to reduce the dominance of some long-standing donors and IFIs across all areas of technical advice on PFM. However, the heads of those agencies are unlikely to acquiesce to, or to collaborate readily with, plans that would put them at odds with the interests of their political principals and, ultimately, with those of taxpayers in donor countries (Mosley, 1985; Martens, 2005). Donors and IFIs are likely also to argue that they are the guardians of quality assurance and results attainment when considering requests by client governments for technical advice on PFM.

Middle-income countries are a different case. More comprehensive competitive market approaches are already emerging in middle-income

contexts, with both beneficial and challenging features. Those countries tend to be characterized by some or all of the following features: greater fiscal capacity to self-finance technical advice, greater access to diversified sources of development finance (including from international capital markets), and a higher-capacity bureaucracy with stronger commissioning acumen. In those contexts, there is evidence of a wider array of management consulting firms working directly for governments. Following this trend, some IFIs have started to offer technical advisory services on a directly reimbursable basis, outside of the main lending relationship (for example, the World Bank’s Reimbursable Advisory Services), and the IMF has been scaling up its program of regional Technical Assistance Centers. The message, therefore, is that competition is likely to emerge naturally as countries develop economically—provided that they are not afflicted by conflict—but the transition is necessarily slow.

One way forward: managed options and greater choice

Contestation of options, not competition among providers

More active country choice in technical advice is possible for lower-income countries in the short and medium term, but the reality is that funders will continue to manage that choice. The strongest steps that provider agencies might take are to develop a comparable range of intervention options, all of which meet their quality standards, and to provide a choice to governments among the set of options that have been assessed and verified. The essential distinction here is that the number or diversity of credible providers of technical advice ceases to be the main consideration, replaced by the number and heterogeneity of credible intervention options. This shifts the debate from donor coordination versus donor competition toward contestation among ideas. It could, in principle, apply with equivalent effect to one provider or many providers.

Choice mechanisms that use reputational feedback on providers can help to identify promising or proven types of interventions, even when a fully competitive market is not possible. The theoretical and empirical literature on quasi-markets for public service delivery in OECD countries shows that greater choice and competition can lead to improvements in innovation, diversification, and performance when users are able to indicate preferences and use the threat of exit (Le Grand, 2010; Le Grand, 2007; Lubienski, 2009). Some commentators argue that the basis for a market in development assistance is already in place (O’Keefe, 2007),¹⁵ since client governments have at their disposal information about the characteristics and performance of assistance providers (de Renzio & Rogerson, 2005). It is further argued that existing competitive procurement methods for selecting technical assistance providers could be extended radically through electronic auction formats in tendering and better information about the reputation and past performance of providers (Barder, 2009).¹⁶ What these commentators are really pointing to is the potential for greater government choice to stimulate innovation and fresh ideas and to improve the comparative assessment of different intervention designs or variations in the “intervention logic.”¹⁷

Alternative options proposed by providers of technical advice could each be analyzed based on their proposed or implicit intervention logic. Several overlapping questions are generally considered explicitly or, more often, implicitly in the design of external interventions and the “theories of change” on which they rest.¹⁸ One question is the degree to which it is assumed that the specified input (such as a training program or new procedures) will lead in a linear fashion to the intended output and outcome as set out in a results chain (OECD, 2017), logframe (DFID, 2009; Team Technologies, 2005), or equivalent. This approach is standard for most technical assistance interventions. A second, contrasting question concerns whether the theory of change

suggests uncertainty about the consequences of any intervention and the need for flexibility and participation on the part of local actors (Valters, 2015), thereby emphasizing the need for iteration and adaptation. A third question is whether incentives to achieve a specified outcome could be combined with flexibility concerning the choice of input (Birdsall & Savedoff, 2010). Examples of intervention types that follow a pure outcome-based logic include “cash on delivery” aid and development impact bonds. Finally, a fourth question concerns the technical sequencing of the proposed PFM content (Diamond, 2013), including whether to strengthen “basic” or foundational PFM processes first. These four questions underpin the variety of intervention designs that can reasonably be proposed.

In practice, governments are typically offered few meaningful choices when deciding which PFM reforms to pursue and the intervention logic that underpins the reform model. An evaluation of external PFM interventions in three African countries found that “government authorities were presented with a limited range of options...and were not encouraged either to consult or to reflect more widely on the choice of reform models....There were apparently neither financial constraints nor political constraints determining the choice of reform model, so we interpret this as simply as a lack of adequate ideas: a policy space constraint” (Lawson, 2012, p. 68, 72). The absence of alternative ideas and propositions leads to a corresponding lack of debate about different reform options.¹⁹ Despite the strengthening of business case processes, quality-at-entry reviews, and economic appraisal by many assistance providers when it comes to project or program design—including, in some cases, borrowing from domestic options appraisal techniques (HM Treasury, 2018)—it is evident from the examination of development agency project documentation that the alternatives considered tend to be treated in a distinctly cursory way. Projects typically propose one single, first-best

intervention logic. In light of these challenges, the Working Group proposes a potential way forward.

Piloting “managed choice” in external PFM advice

Proposal 3: Experiment with “managed choice” in the provision of technical advice, with a coalition of funders and client governments and the creation of a dedicated funding facility

In a “managed choice” model, providers of PFM support would prepare more than one intervention design option as the basis for comparison, discussion, and—ultimately—choice by the client government. Each option would be subjected to a quality assurance process, for example through robust peer review,²⁰ and would explicitly harness available research evidence. Offering multiple intervention options is more expensive than asserting that there is just one correct or superior way forward. However, given the lack of certainty about what works and the need for greater experimentation, it would be a more honest and open-minded approach. When offering options to a client government, any differences in the intervention logic or technical design would be emphasized and discussed openly. Accordingly, each option would need to make explicit the technical content and intervention logic that underpinned it and the logical and empirical justification for that approach.

The potential benefits of this approach stretch beyond creating more experiments to assist in learning about what works in PFM support interventions. Other benefits could include the incentives that such arrangements would provide for strengthening relationships among different parts of government as they explore the implications of options together, the increased motivation inherent in giving key actors the opportunity to express their views and influence reform design, and the possibility that the problems to be addressed would incorporate locally identified issues more centrally. This approach also brings risks, however, including that preparing several options would increase

costs unreasonably and that government might be unable to achieve a consensus choice—especially if choices set up conflicts along existing fault lines within government.

While this proposal is still a long way from creating a competitive market for PFM support, it would move the PFM discipline toward greater contestability of ideas. It may not be known whether, for example, the IMF, the World Bank, the United Kingdom’s Department for International Development (DFID), or the European Commission has the best track record in supporting a particular dimension of PFM reform. Equally, it may not be known what degree of balance between standard technical design on the one hand and problem-driven and adaptive assistance on the other hand is likely to be most effective. As noted in Annex H, the research evidence is simply not good enough to provide clear, definitive, or general answers. The benefit of introducing options and choices more strongly into PFM support is that it would provide more data to support choices among different types of interventions and more information on which approaches are most credible from the perspective of the client government. It should also strengthen the quality of the dialogue and relationships between advice providers and client governments.

More vigorous and explicit contestation of the ideas put forward by external advisers in their engagement with government counterparts would need to cover two facets. First, it must entail a plurality of diverse viewpoints to counterbalance the tendency of advisers to argue for their own agency’s or their own discipline’s position on PFM reform.²¹ Second, it must shift the incentives faced by external advisers so that they can act in a more disinterested fashion. This would mean that advice would not be unduly influenced by other objectives or agendas, such as a parallel financial relationship between the agency and the government or an organizational predisposition toward a particular approach or reform proposal (in other words, a “house view”). While truly disinterested advice may not be a realistic aim,

reducing conflicting incentives and introducing a mechanism for structured contestation of ideas would be important steps in that direction (Annex K).

This proposal would ideally be coupled with improved availability and sharing of information about the impact of external interventions and projects (Proposal 1). Even without much improvement in impact measures, there is still a prima facie case for harnessing the data and analysis that already exist. The increased demand on the part of both technical advice providers that are developing their options and client governments that are assessing those options for evidence of impact could itself drive the requirement for more open and routine sharing of assessments. So, while these two proposals ought to be complementary, introducing choice among options is still potentially worthwhile even if better availability of impact measurement has yet to emerge. In addition, donors that fund the PFM advice provided by IFIs and consulting firms could begin stipulating that the funded content (such as manuals, guidance notes, and forecasting models) be placed accessibly in the public domain as a means of making PFM knowledge more of a public good that is readily available to governments.

A major consideration about feasibility is how to create incentives for agencies to develop alternative intervention designs and offer genuine choices to governments. This approach could harness the intellectual energy of those who are hoping to see a more competitive approach to technical advice for PFM. At the same time, it is sufficiently modest that it should be able to gain acceptance among providers that might otherwise be concerned about the loss of control implied by a more open market and about the risks of detaching advice from funding. The starting point is twofold: appealing to PFM professionals’ desire to improve their impact and, at the same time, encouraging a couple of progressive donors to test the proposed “managed choice” approach.

Consultations with bilateral PFM donors suggest that some choice is implicit in dialogue with client governments, but typically focuses on the use of bilateral versus multilateral channels.

Some useful distinctions in the intervention design and approach are revealed by choices among these channels—for example, on issues such as the approach to change management—and the client government’s preference may be given some weight in the decision. This is the case especially when there is already a strong partnership between the donor agency and the client government. These are all positive steps in the direction of “managed choice” and are supportive of a partnership approach. However, there do not yet appear to be instances of full implementation of the proposal, as it is broadly set out here, to experiment explicitly with “managed choice” in the provision of technical advice. Further steps to build on current practices could include making more explicit the differences in intervention logic when comparing two delivery channels, and for a group of bilateral donors to request a multilateral agency to pilot a “managed choice” approach as part of granting them trust fund resources.

To bring more powerful incentives into play, there would need to be a separate and independent funding mechanism or facility.

With that established, options might include giving a consortium of donor agencies access to funds that would enable them to finance the development and peer review of, for example, three different approaches to improving PFM. Alternatively, client governments could be given a modest financial incentive if they were able to show that they had insisted upon the production, scrutiny, and deliberation by PFM donors of a credible choice of interventions. Most ambitiously, an entirely separate funding mechanism could create some degree of split between funding and advice. A significant test would be whether official donors or private foundations would be willing

to give third parties commissioning control over such a technical advice fund.

Moving on from here

This chapter has proposed some ways to build on the strengths of the current “closed” model of strengthening PFM in development.

They respond to two problems identified in the introductory chapter of this report: first, that the pace of learning about how external assistance can better support improvements in PFM is too slow, and second, that development agencies’ preference for following a common approach has reduced opportunities to test ideas through competition. The first three International Working Group proposals are as follows:

- (1) Assess offers of technical advice against standards for the provision of information and evidence justifying the approach and for the planned dissemination of data about impact;
- (2) Establish practitioner groups to share sensitive performance information on PFM interventions on a voluntary and confidential basis to identify ways of improving performance; and
- (3) Experiment with “managed choice” in the provision of technical advice, with a coalition of funders and client governments and the creation of a dedicated funding facility.

The next chapter considers how to rethink managing public finance as an “open” system in which the influences of PFM on government policy choices, government actions (especially service delivery), and development results are the central focus. An effort to introduce more real-world complexity into thinking about PFM raises many questions. How can the conventions that provide the benchmark for assessing the operational performance of PFM processes be used to investigate the links between PFM, government actions, and development results? How can PFM processes better support policy change and become more responsive to a broader set of socioeconomic objectives?

4. RETHINKING MANAGING PUBLIC FINANCE IN AN “OPEN” SYSTEM

This chapter explores ways to rethink the paradigm of PFM in international development in order to reconnect it with public policy. Refreshing and expanding the trinity of standard PFM objectives would help to sharpen focus on how PFM influences government policy choices, government actions, including service delivery, and—ultimately—development results. Once the complex trade-offs are apparent, PFM can work to help policy makers address real-world priorities, choices, and decisions (Schick, 2019).

This is difficult territory, as it begins to depart from the concrete and “universalist” assumptions of the “closed” model. Accordingly, this chapter considers the potential for developing a new generation of approaches to international support for managing public finance that better reflect the real world. It addresses specifically two of the problems that were identified and discussed in the introductory chapter. First, the ways in which PFM matters for service delivery and for sector outcomes are not well understood. “Service delivery” is used in this chapter as an example of a government action—a particularly important action given the emphasis and priority attached to public services by the international development community. Second, the standard objectives and conventions of PFM are not equipped to deal with political choices and trade-offs or major policy change, especially in the context of wide-ranging and complex sets of government policy choices and intended development results. (See Annex B for a fuller discussion of the public policy framework underpinning these concepts and their interactions.)

Linking PFM to service delivery and development results

There are clear linkages among levels of public policy—namely, government policy choices, government actions, and development results—although the direction of causation is not easily

determined. Government policy choices concern government intentions, as expressed through statements and decisions about what it will prioritize in principle and as revealed through its actions. Public service delivery is one dimension of government actions and outputs, concerning specifically the provision, commissioning, or funding of collective goods and services. Development results, as a subset of wider policy impacts, are the outcomes related to government choices and actions (Annex A; Annex B).

This chapter considers these issues in the context of rethinking PFM as an “open” system. Service delivery is considered first as an example of how PFM conventions relate to government actions. Governments do much more than ensure the delivery of services, but that particular task clearly forms a crucial link between policy choices and development results.

Understanding the link between PFM and service delivery—as a means to improving sector outcomes and other development results—is a growing preoccupation for many providers of development assistance. From this agenda flows the general question of how PFM conventions could be refreshed, harnessing better evidence about the relevance and contribution of specific PFM processes. Answering this will require tools and techniques both to identify new conventions and to manage the life cycle of existing conventions. This effort should be accompanied by a willingness to discard conventions that have outlived their utility or their evidence base.

The dominance and the limits of PFM conventions

The PFM conventions, discussed in Chapter 2, bring together lessons learned and the tacit knowledge of practitioners to define a powerful and precise set of prescriptions. These conventions are most readily observed in the wide array—45 at current count—of PFM assessment

frameworks that have been developed (PEFA Secretariat, 2018), including most prominently the PEFA methodology, TADAT, the Debt Management Performance Assessment (DeMPA), the Public Investment Management Assessment (PIMA) tool, and the IMF’s Fiscal Transparency Code (Annex F). Each framework is powered by propositions about the “correct” configuration and operational performance of PFM processes. For example, the DeMPA framework asserts that:

to be predictable and transparent, government should prepare an annual plan of aggregate amount of domestic borrowing. The plan—based on the annual budget cash flow forecasts—should be made public. The overall borrowing plan should preferably be broken down on a monthly basis in an internal document based on monthly cash flow forecasts. The government should prepare the market for the issuance by publishing a borrowing calendar in advance for wholesale instruments. (Panzer et al., 2015, p. 38)

This guidance about PFM processes is not invented from thin air. It draws on the wisdom and experience of generations of practitioners and often from the observation of PFM systems in a wide array of OECD countries. Multiplied across the many dimensions of 45 separate frameworks, this represents a substantial canon of conventional wisdom about the PFM system.

This disciplinary approach of specifying conventions concerning the desirable performance of PFM processes has high practical utility. As discussed earlier, the approach has provided a conceptual map of complex territory and is used to serve multiple purposes. Assessment of conformity with the conventions, through formal frameworks or otherwise, provides a starting point for discussing the PFM system in a particular country (PEFA Secretariat, 2019). The use of convention-based assessment frameworks can also satisfy an innate tendency to want to emulate successful peers (Lawson, 2012; Di Maggio & Powell, 1983).

These assessments are convenient for assessing the strength and integrity of government systems when deciding whether to channel external funds through government budgets. External finance providers, including donors and IFIs, can use the independent assessments as “ready reckoners” to anchor their judgments. Finally, having a consistent set of generally applicable metrics over a long time period permits comparative research and analysis of trends and correlations.

The benefits associated with PFM conventions also mean, however, that they can become fixed and entrenched, without continuous evolution based on emerging evidence. There is a recognized distinction in organization theory between “single-loop” and “double-loop” learning within disciplines and organizations (Argyris, 1977) and a wider and closely related discussion in the literature on learning within organizations (Argyris & Schön, 1978, 1996; Senge, 1990). Single-loop learning involves settling on a conceptual framework and continuing to apply it, refining the application of the framework but not the framework itself. In double-loop learning, feedback from the real world shapes the model as well as the way in which it is applied. Public management in general is stuck in a single loop. The approaches described in the previous chapter for learning better ways to help countries conform more closely to the PFM conventions are important—but ultimately this is still single-loop learning. Continuously assessing whether the conventions themselves could be improved would represent double-loop learning.

The conventions need refreshing

Despite the impressive and valuable disciplinary strength of PFM as a standalone agenda in the development sphere, better PFM is not a result that matters on its own; PFM is part of the means not of the ends. Chapter 2 discussed the evolving objectives of PFM, noting that it is important largely because of its assumed contribution to government actions and development results. Those include service

delivery and sector outcomes, both of which are of particular interest in this report. The potential of PFM to make a positive contribution to tangible results in socioeconomic development has, over the past decade, prompted a renewed focus by the international community on trying to understand the specific ways in which PFM may be relevant to service delivery.

The knowledge underpinning the PFM conventions is not certain and has a limited empirical basis. The performance specifications referenced in PFM assessment frameworks have not been proven empirically for their contribution to development results and may not even be widely observed in OECD countries. For example, “if there were bullet proof evidence that having competitive procurement generates reliable and efficient provision of goods and services, for instance, we would be safe in only measuring compliance with competitive procurement procedures. Unfortunately, we do not have this evidence, and it must be said that many OECD countries achieve relatively high levels of functionality without necessarily complying with these processes” (Andrews et al., 2014, pp. 11–12). As noted in Chapter 2, the evidence indicating that conformity with PFM conventions is either necessary or sufficient to achieving the three standard PFM objectives is limited.

Finding the links between PFM and development results: the example of service delivery

While it is clear that sound PFM relates to the government’s effective provision of collective goods and services, the important empirical question is how.¹ Those collective goods and services (often described in shorthand as “public services,” “public goods,” or “service delivery”) typically include—but are not limited to—education, law and order, environmental protection, national defense, roads and bridges, hospitals and health care, welfare services, and public transport. A distinction is made here between provision through the budget and provision through other

instruments of government, namely subsidies (although often technically considered a subset of provision), production, and regulation (Hughes, 2018). Explaining the relationship between PFM processes and service delivery results in these areas is difficult. Sound PFM systems are generally thought to be necessary for delivery, but there is not a strong or extensive evidence base for that contribution. The effects of other factors such as the human resource management system (for example, inadequate staff competencies and perverse motivations) makes it clear that PFM systems alone are also not sufficient for delivery (Campos & Pradhan, 1996; PEFA Secretariat, 2016; Schick, 1998a; World Bank, 1998). While it is widely accepted that PFM matters for service delivery, the specific ways in which it matters are not well established.

Research into the relationship between PFM processes and service delivery offers tantalizing glimpses but few certainties—even in the health sector, where work is most well-advanced (Annex H). Focusing on the delivery of efficient, high-quality, accessible, and equitable public services is rising fast as a priority for donors and client governments. It is relatively straightforward to identify the relevance of PFM conceptually and anecdotally, but harder to show systematically the relationships and dependencies. Emergent work to investigate the links between PFM and service delivery has looked at the issues in general and in some specific country cases (Goryakin et al., 2017; Krause, Sweet, Hedger & Chalise, 2013; Welham et al., 2017; Welham, Krause & Hedger, 2013; World Bank, 2016). The most intensive efforts have focused on the health sector, where there is burgeoning analytic work starting from both the PFM and sector perspectives (Goryakin et al., 2017; Krause et al., 2013; Welham et al., 2017; Welham et al., 2013; World Bank, 2016; Barroy, Kabaniha, Boudreaux, Cammack & Bain, 2019; Cashin et al., 2017; Piatti-Fünfkirchen & Schneider, 2018). The relationship between PFM and service delivery has also been the focus of an increasing amount of work on diagnostic frameworks in the health sector

(ODI, forthcoming). Yet, despite these initiatives, knowledge remains partial and tentative.

Health care provides a stark example of the challenges involved in determining the precise ways in which PFM matters for service delivery and, in turn, exactly how service delivery drives sector outcomes. Welham et al. (2017) find that a stronger PFM system is associated with lower under-five and infant mortality, and higher life expectancy at birth. Goryakin et al. (2017) show the challenges in attributing these outcomes to PFM systems and refer to Filmer and Pritchett (1999), who find that public spending accounts for less than 1 percent of the variation in child mortality rates, whereas 95 percent can be explained by national income per capita, inequality in income distribution, female education, and religious and ethno-linguistic diversity. In such a situation, it is not clear whether the problem is that the services are not delivered well, that the services are not delivered at all, or that the services are delivered but are not relevant to the desired outcomes.² In all of these cases, little is known about the contribution of the PFM system beyond some general ideas.

The structure of PFM for service delivery has to deal not only with sectors but also with subnational governments of various types and with varying levels of autonomy. Global agendas such as the SDGs, the Addis Ababa Action Agenda on financing for development, the Paris Agreement on climate change, and the New Urban Agenda (Habitat III) emphasize the critical role of subnational governments in service delivery and financing for sustainable development. Some of these agendas specifically argue that urban and metropolitan governments are in a much better position to manage and coordinate the financing of integrated territorial development and to deal with some elements of climate change than sector siloes of central government agencies. Multiple development assistance interventions are already specifically targeting subnational PFM—probably more than the number focused on PFM in sectors. Accordingly, decentralization and levels of

government must be considered centrally in any thinking on how PFM relates to service delivery.

Refreshing the conventions is necessary but will be challenged

It is not a point of minor pedantry to suggest a more dynamic approach to revising the conventions and the frameworks in which they are embedded. If the conventions stand as guideposts indicating where discussions might begin on strengthening PFM processes, then incorporating or retaining less relevant content distracts attention and precludes alternative and better ideas. Revisions to the PEFA framework in 2016 placed greater emphasis on transparency and management of liabilities and fiscal risks, and on internal control, and widened the scope of the framework to include extrabudgetary units and the management of social security funds. While extensive consultations identified these areas as priorities, the revisions were not as significant as some PFM experts and researchers thought necessary (Krause et al., 2014). Others have argued more recently that the PEFA framework focuses excessively on formal procedures and on form over function (Hadley & Miller, 2016) and ignores strategic interactions in the budgeting process (Andrews, 2007; Dabla-Norris et al., 2010). Comparing the conventions in the PEFA framework with assessments conducted by the United Kingdom’s National Audit Office of the multiyear spending reviews undertaken in the United Kingdom in 2010 and 2015 (National Audit Office, 2012, 2015, 2018) points to some dimensions that are not covered by the PEFA framework (Hood, King & Piotrowska, forthcoming in 2019).

Adjusting the conventions is not a straightforward task and will be challenged—not least because it has implications for the composition and use of standard PFM assessment frameworks. For example, PEFA asks whether a country’s PFM system conforms to a set of standards that implicitly represent the conventions. Stability in the conventions and,

hence, in the assessment frameworks allows time series comparisons by providers of financial and technical assistance and by researchers and analysts. To assess country progress, the frameworks need to be relatively stable over time and revisions to them need to prioritize comparability between versions. Furthermore, technical advisers in PFM and wider groups of development assistance professionals are now accustomed to treating the conventions embodied in PFM assessment frameworks as universally valid and applicable—across countries and across government objectives.³ These conventions have become highly normative, and there are powerful organizational and professional incentives that perpetuate them (Scharfstein & Stein, 1990). Despite these evident difficulties, rethinking the conventions will be important in ensuring the continued relevance of PFM as a discipline. Two approaches may hold promise in this area.

Some ways forward: updating and adapting the conventions

More actively curating the life cycle of PFM conventions

Proposal 4: Review the current conventions embedded in standard PFM assessment frameworks to test evidence of results and the degree of applicability in advanced economies

The proposal is to make more explicit the currently tacit criteria by which PFM conventions are established and become

embedded in standardized PFM assessment frameworks. Focusing first on foundational PFM processes remains the accepted wisdom of the PFM discipline, and those “basic” elements have not ceased to matter (Schick, 1998b). Accordingly, this report proposes a set of criteria for judging whether it is appropriate to treat any particular PFM process and its operational performance as a “basic,” or foundational, convention that might then be relevant across countries (Table 3). The three proposed criteria of rationality, universality, and empirics echo in part the approach proposed by Andrews (2008) for how to move “beyond indicators without theory” in work on good governance.

Along with establishing which particular specifications of PFM processes may be suitable for inclusion in standard frameworks, a corollary is to consider which established PFM conventions might be “retired” from the assessment frameworks. That would apply if the evidence on their applicability turns out to have been overstated or if there is concern about excessive promotion in contexts where they are not well suited. The same criteria would apply in both instances: considering potential new conventions and reviewing existing conventions. Among the many PFM assessment frameworks in existence, an obvious candidate for such a review would be the PEFA framework because it covers the whole PFM system and is among the best-known and most widely used.

Table 3: The basis for recommending specific PFM conventions

Case	Criteria (✓ or X)			Implication
	1. Rationality Is it based on clear reasoning or well-accepted theory?	2. Universality Is it observed in all advanced economies?	3. Empirics Is there systematic evidence on results?	
A	✓	✓	Not required	Qualifies as a foundational element of PFM in all settings, suitable for use in standard assessment frameworks
B	✓	X	✓	Qualifies for further consideration as a recommended arrangement across country settings
C	✓	X	X	Not recommended for adoption without careful experimentation in each setting

Note: Case A addresses instances in which particular specifications of PFM processes pass both the tests of rationality and universality. Case B refers to situations in which PFM process specifications pass the first test of rationality but not the second test of universality, and thus would need to be backed up by systemic evidence of results. Case C applies where the specification of a PFM process is neither universally observed nor supported by systematic evidence of results.

Source: Authors’ formulation.

The starting point for curating the PFM conventions is to only consider particular PFM process specifications foundational or generally valid if they satisfy two criteria. The first is that they are rational and based on accepted theory or other logic. For example, budgets should be comprehensive so that all claims are considered together to avoid logrolling. The second is that they are universal, in the sense that they are found in all advanced economies. Universality is a proxy for assuming that the particular PFM process specifications are achievable, practicable, and strongly associated with successful socioeconomic development—even if the exact causal link cannot be ascertained. If particular specifications of PFM processes pass both these tests of rationality and universality (Case A in Table 3), then it is reasonable to treat them as PFM conventions without requiring further evidence. Meeting these two criteria would therefore be enough to justify inclusion in standard PFM assessment frameworks as a working convention.

Where a particular specification of a PFM process is not universally observed, then

systematic evidence of results across a range of relevant settings becomes important for assessing suitability. If proposed PFM process specifications pass the first test of rationality but not the second test of universality, then to achieve the status of recommended conventions they must be backed up by systematic evidence of results (Case B). Meeting those two tests would suggest that the PFM process specification can be treated as a recommended arrangement across country settings. The challenge here is that the external validity of empirical findings—that is, their generalizability to other settings—is always limited.

In cases where the specification of a PFM process is neither universally observed nor supported by systematic evidence on results, then much greater care would be needed with regard to its application in practice (Case C). MTEFs and performance-based budgeting provide examples. To receive an “A” score on indicator 16.2 on medium-term expenditure ceilings, the PEFA assessment framework requires that “aggregate and ministry-level expenditure

ceilings for the budget year and the two following fiscal years are approved by government before the first budget circular is issued” and an “A” score on indicator 16.4 on consistency of budgets with the previous year’s estimates requires that “the budget documents provide an explanation of *all* changes to expenditure estimates between the last medium-term budget and the current medium-term budget at the ministry level” (PEFA Secretariat, 2016, p. 48). This specification would not qualify automatically as a PFM convention because it is not universally found in advanced economies. Although there is some positive supporting evidence (Vlaicu, Verhoeven, Grigoli & Mills, 2014), it is not conclusive across countries (World Bank, 2012a). Pending clearer empirical evidence, such PFM process specifications would not be promoted as conventions through standardized assessment frameworks.⁴

Identifying new PFM conventions that matter for service delivery

Proposal 5: Use PFM assessment frameworks to collect data and evidence “at the frontier” to build insights about which aspects of PFM operational performance matter for service delivery

Potential future conventions could be found through data collection “at the frontier” by scoping out new ideas about how the performance of PFM processes affects service delivery, as a prominent example of government actions. Almost all country-level assessments of PFM performance are currently both formal and official. They are formal in the sense that they rely on the application of one or more assessment tools and accompanying guidelines about their methodology and use. They are official in the sense that international organizations, donors, or official secretariats are typically responsible for running, authorizing, validating, or assuring the assessments and their results. These standard assessments could be complemented by use of the same tools—or components of them—for informal or experimental inquiry with the aim of generating

knowledge rather than measuring performance.

A parallel and complementary step would be to reappraise how service delivery is addressed in the standard PFM objectives and to propose revisions to make the relevant objective more fit for purpose. Table 2 set out an indicative proposal for a potential reformulation of this objective to focus more on operational efficiency and service quality: “Government should provide goods and services at a cost that achieves ongoing efficiency gains and (to the extent appropriate) is competitive with market prices. It should use modes of delivery that optimize service quality and ensure accessibility.” This proposed recasting enhances the existing coverage of operational efficiency by bringing quality, accessibility, and mode of delivery explicitly into scope. Once rigorously developed based on strong theory and evidence, the proposed new version of the objective would be disseminated for wide discussion and consultation.

The dimensions of PFM operational performance that are most relevant to this revised objective on service delivery are likely to be found in the intermediate functions of well-performing PFM systems. Whereas many of the current conventions in standard PFM assessment frameworks are “forms” (or de jure dimensions) of PFM (Hadley & Miller, 2016; Krause et al., 2014), there has not been a systematic attempt to distinguish the conventions that are “functions” with relevance to service delivery and sector outcomes. Andrews et al. (2014) posit that a set of functional specifications for PFM processes could be identified and tested with reference to desirable intermediate results such as “prudent fiscal decisions, credible budgets, reliable and efficient resource flows and transactions, and institutionalized accountability” (p. 6). They break down these result areas into sixteen more specific “functional concerns” of PFM that seem to matter for service delivery. Those range from “cash is provided to spending agencies when agreed, in agreed amounts” to “concerns raised by independent assurance exercises are transparently

discussed by citizens’ representatives, receive timely follow-up and redress by the executive” (Andrews et al., 2014, p. 6).

These intermediate result areas represent attempts to find further stepping stones in the results chain, in this case moving from PFM conventions toward service delivery and development results. Not all of these result areas are missing from the standard assessment frameworks, but current PFM frameworks are incomplete when it comes to some aspects of functional performance (Andrews, 2007; Hadley & Miller, 2016; Hood et al., forthcoming in 2019). Aspects to integrate might include government staff perceptions of budget credibility, the reliability of resource flows and the accuracy of transactions, sequencing of reforms, and external assessments of accountability arrangements. Such metrics would focus on ideas that are of interest but have not achieved the status of conventions accepted by the PFM discipline.

Existing PFM assessment approaches can be accompanied by institutionalized collection of data that are more speculative and draw on a wider array of frameworks. This could involve adapting or honing assessment frameworks or other analytical tools such as public expenditure reviews, public expenditure tracking surveys, and service delivery surveys to learn more about the relationships between PFM processes and operational performance on the one hand and service delivery on the other (Welham et al., 2017). The tools currently under development by sector experts and decentralization specialists provide a rich menu of potential metrics. While some preliminary work has been done in the health sector to trace the contributory relationships through the delivery chain from financial allocations and PFM processes downstream to results (World Bank, 2016), there are few experiments that compare variations in existing and potential PFM conventions.

The mechanism for achieving this institutionalized data collection could be a

virtual and open-access “beta” or “sandbox” space for experimentation that would be independent of the funding and affiliation pressure of major assistance providers. It would be partly an observatory and partly a mechanism to support inquiry, testing, piloting, and learning about the effectiveness of PFM (Foster, Rinehart & Springs, 2019).⁵ There is currently no particular institutional location for data and emergent ideas on how PFM processes relate to service delivery. The IMF, World Bank, PEFA Secretariat, and other assistance providers already act as custodians of most of the PFM assessment frameworks (Annex F). Those entities, together with some research institutions, already conduct long-term tracking of country progress and trajectories. In expanding this tracking capability, it would be essential to involve specialists beyond the PFM discipline. For example, people working in the sectors and on subnational or decentralization issues could collaborate with PFM specialists to develop metrics and lessons, working backward from the point of delivery. Government officials and service users would also be important constituencies to include in the task group.

Harnessing PFM for policy change

We now build on the proposed expansion of the standard PFM objectives to consider how PFM processes and technical PFM advice could better inform and support policy change. The remainder of this chapter considers how to harness PFM and its disciplinary conventions to assist governments in driving strategic reprioritization in budget policies and scrutinizing the choices and trade-offs among socioeconomic policy objectives.

Rethinking how PFM relates to public policy

Pressure is mounting for policy change

Policy and political pressures are driving demand for fundamental changes in how public finance is managed. A decade ago, Caiden (2010) observed the looming demands of major policy challenges:

In the face of global developments... governments will be called on to expand their investments in infrastructure, education, research, energy, and technological innovation, and to meet urgent challenges, such as nuclear waste disposal, climate change, terrorism and natural disasters. Many ‘big questions’ may not have been settled at all. Can existing budget institutions and processes transcend their current modes of conducting business to cope with the demands that will be placed on them? (p. 209).

Caiden (2010) further anticipated a resurgent concern for equity and social justice in public finance, arguing that: “budgets...are what people and their governments choose to make of them. They are instruments of economic and social policy, so budgetary values may need to be sacrificed to more important societal values, social stability, compassion for those who are unable to care for themselves, justice, and equity” (p. 209).

Reprioritization of public resources and redistribution of income and wealth have recently gained political salience in both advanced economies and lower-income countries. Climate change mitigation, infrastructure development, universal health care, and reducing marginalization and inequality have all assumed an even greater force and resonance in public finance over the past decade, following the global financial crisis in the era of the SDGs, the “leaving no one behind” agenda, and the Paris Agreement on climate change. At the forefront of this movement, one country has shifted to a “well-being budget” (Government of New Zealand, 2019) and others have made statutory commitments to mitigate climate change or have significant political interests in doing so (Prime Minister's Office, 2019; U.S. House of Representatives, 2019). The IMF is increasingly concerned about balancing economic prosperity with adequate social sector spending and reduced inequality (Lagarde, 2019).

The PFM discipline has remained detached from policy questions

An emerging critique of the PFM discipline in the development sector is that it has added more inertia into budgetary institutions, detaching PFM from evolving policy concerns. “Grand challenges” such as eradicating poverty, mitigating climate change, and expanding public infrastructure require reprioritization and reallocation of public resources on a scale without much precedent outside of fiscal crisis episodes. Rising inequality demands a fundamental rebalancing of fiscal policy norms to consider the distribution of income alongside aggregate fiscal objectives. Yet neither of these two objectives is well-supported by the PFM discipline’s conventions and approaches.

Managing strategic reprioritization

Budgeting inherently constrains reallocation

Current PFM conventions struggle to support the pace and scale of policy change and reallocation needed to tackle grand challenges. Those conventions are strongly associated with incrementalism in budgeting (Wildavsky, 1992). Indeed, the budgetary process in essence “recognizes the priority of old claims, stabilizing government, giving citizens clear expectations of continuity in services and entitlements, and diminishing conflict” (Caiden, 2010, p. 208). Several factors converge to make incremental adjustment the dominant paradigm over a more “rationalist” approach in budgeting that elevates information and analysis as the basis for budgetary decision making (Fozzard, 2001).⁶ These incrementalist traits have increased in recent years, enhanced by developments such as medium-term fiscal frameworks and baseline budgeting that incorporate multiyear incentives for policy stability into budgeting arrangements (Schick, 2013).⁷

Just as conformity with PFM conventions contributes to incrementalism in budgeting, so problem-based and adaptive approaches lean

toward incremental change in institutional reform.⁸ In time-honored tradition, decision makers and their advisers “muddle through” using a process of “disjointed incrementalism” (Fozzard, 2001; Lindblom, 1959). The combined effect is a bias toward continuity and stability in budgeting and budgets. Even the most concerted attempts at innovation in tools and processes—such as the Planning Programming Budgeting System, zero-based budgeting, Rationalisation des Choix Budgétaires, and spending reviews—have not succeeded in overcoming the inherent inertia in budget policy making (Robinson, 2016).

Learning from past attempts at supporting policy change

Adjusting the system of conventions to better equip PFM processes to support major changes in policy direction will not be an easy task. The obvious precondition is strong political intention at the highest level to reallocate resources of any scale or significance. Beyond episodes of crisis or emergency, which can suspend the usual rules of the game, the question is how PFM conventions might be reconfigured to facilitate change instead of continuity. Even if the desirable direction were more apparent, the conventions embraced by the PFM discipline are sticky and only slowly responsive to new evidence and research findings.

Attempts to learn lessons from past efforts at reprioritization and reallocation of public finance will need to look across country contexts. There is a rich set of illustrations within OECD settings of approaches to adapting PFM processes to address particular policy concerns.⁹ The experience of spending reviews has been a focus of analysis, including studies of episodes of budgetary reallocation outside of crisis periods up to 2005 (Kraan & Kelly, 2005). More recently, in the context of the global financial crisis and subsequent austerity programs, the OECD Working Group of Senior Budget Officials has been reviewing the experience of “strategic spending reviews”¹⁰ to address the prioritization of public expenditure and the dimensions of influence on

allocations (Catalano & Erbacci, 2018; Lau, 2011; Robinson, 2013).¹¹ There are some lessons but few convincing conclusions about what has worked and what has not. The conclusion for the OECD is that, although some countries became more adept at prioritizing the allocation of new fiscal space, “little attention was paid to mechanisms to reprioritize (reallocate) baseline expenditure” and there is now “widespread desire to build strong institutions and processes capable reallocating expenditure, including—but not limited to—spending reviews” (Robinson, 2016, p. 31).

Some lessons may be learned from previous attempts in lower-income countries although, again, there are few successful and positive examples. Initiatives include pro-poor budgeting approaches in the 1990s (Carter, 2015),¹² attempts at gender budgeting that emphasize policy-related expenditure proposals (Elson, 1999),¹³ proposals on climate change mitigation through a more fundamental review of budgetary and accounting procedures as well as options for modeling climate-related spending (Gilmore & St. Clair, 2018; Ricke, Moreno-Cruz, Schewe, Levermann & Caldeira, 2016), and the examination of pension and infrastructure liabilities (IMF, 2018).

Support for pro-poor budgeting initiatives is an instructive case study. Reforms to PFM processes introduced in lower-income countries during the 1990s and 2000s, when “pro-poor” expenditure reforms were heavily promoted, often proved insufficient to match countervailing incentives and vested interests.¹⁴ When institutional changes did lead to increased spending, it was not sufficient to drive improved results in most cases. Evidence on the effectiveness of pro-poor budgeting remains ambiguous (Simson, 2012; Wilhelm & Fiestas, 2005; Williamson & Canagarajah, 2006),¹⁵ in much the same way that spending reviews in OECD countries have struggled to drive successful strategic reprioritization.¹⁶ International agencies eventually lost interest in pro-poor budgeting approaches, as can be seen from their disappearance from the discourse on PFM. It may be the case, though, that these

efforts were simply not sustained or supported sufficiently well, instead becoming procedural triggers for debt relief under the Highly Indebted Poor Countries initiative.

Managing trade-offs among policy objectives

Balancing stabilization and distributional objectives in public finance

Tensions are increasing between policies to achieve macroeconomic stabilization on the one hand and more equitable income distribution on the other. At a time of high and rising inequality in income and wealth (Milanovic, 2016; van der Weide & Milanovic, 2014), the negative impact of fiscal consolidation linked to stabilization lies behind many current socio-economic concerns.¹⁷ Changing perceptions about social justice are creating pressure on governments to implement stronger and more active redistribution policies (Mason & Kluegel, 2000; Munro, 2017). Evidence shows that major episodes of fiscal consolidation are associated with a persistent rise in income inequality (Ostry, Loungani & Berg, 2019). There is growing support for the argument that the economic benefits of fiscal consolidation must be weighed more carefully against the short-run social costs (Lagarde, 2019).¹⁸ This notion has prompted greater interest in PFM processes for examining the likely distributional impact of fiscal adjustments, and in institutional arrangements for incorporating equity considerations and ensuring that the burden of fiscal adjustment is spread fairly and sustainably. The latest IMF review of program conditionality between 2011 and 2017 found that the quality of fiscal adjustment under IMF programs was inadequate and recommended a greater focus on the quality of social spending and the impact of program policies on poor and vulnerable groups (IMF, 2019, p. 26).

Austerity policies implemented in the wake of the global financial crisis are an acute, but by no means exceptional, example of how aggressive

short-term fiscal contraction can impose severe welfare costs. Fiscal structural reforms in Greece starting around 2010 offer an illustration of the tensions between aggressive fiscal austerity, wider social welfare, and political exigencies (OECD, 2018).¹⁹ It is now widely argued that the bailout plans were based on overly optimistic economic scenarios and unrealistic assessments of what would be politically achievable goals (Alesina, Favero & Giavazzi, 2019). Indeed, “the May 2010 agreement committed Greece to an adjustment that, while not unprecedented in its size, was unprecedented in the adversity of the macroeconomic context within which it was to be implemented” (Ardagna & Caselli, 2014, p. 30). The general lesson is that more and better analysis of the effects of austerity policies on income distribution is required across all cases (Rogoff, 2019).

These concerns and policy dilemmas are now more routinely debated across country income groups, from advanced economies to lower-income countries. That is not to suggest an equivalence in terms of the levels of hardship or the obstacles to policy change, but to consider how better analysis might help in considering trade-offs. Although the example of the Greek bailouts is the cause *célèbre*, fiscal policies pursued since 2010 in the United Kingdom are also under growing international scrutiny. There is greater questioning of the choice to prioritize deep and rapid fiscal retrenchment in pursuit of macroeconomic stabilization over distributional concerns (Alston, 2018, pp. 22–23).²⁰ While clearly the choice is political, this emphasizes the importance of using impact analysis more effectively to inform and support both the development and the implementation of fiscal policy. In the United Kingdom case, it is argued that “...the government should initiate an expert assessment of the cumulative impact of tax and spending decisions since 2010 and prioritize the reversal of particularly regressive measures” (Alston, 2018, p. 23).

Balancing stabilization and allocation objectives in public finance

Governments across the country income spectrum are starting to rethink their approaches to debt and deficits. Debates about the long-term fiscal sustainability of high levels of public debt—and the balance between fiscal and welfare costs—are now a live feature in OECD countries and most conspicuously the United States (Blanchard, 2019; “Economists Are Rethinking Fiscal Policy,” 2019; Furman & Summers, 2019). The same applies in lower-income countries with regard to infrastructure investment. The prescription of tight fiscal policy faces a renewed test as China’s Belt and Road Initiative reveals some incompatibility between the fiscal stringency of conventional PFM and a debt-financed and infrastructure-led economic growth model.²¹ Increasing governments’ access to borrowing from alternative concessional sources and international capital markets further compounds those tensions (Haque, Bogoev & Smith, 2017; Presbitero, Ghura, Adedeji & Njie, 2015). Continuing debates about the merits and risks of international financing from capital markets or Chinese investment in African infrastructure are a clear illustration (Chen, 2019). That realpolitik could shift the nature of analysis and debate away from efforts to dissuade from borrowing and toward consideration of trade-offs.

New PFM conventions and new PFM objectives

Global policy and research initiatives to address inequality are attempting to alter the policy bias toward aggregate outcomes and to shift political incentives toward distributional action and trade-offs. The economics discipline in international development has already started to respond.²² Norms in fiscal policy share the bias toward aggregate effects such as fiscal discipline and have given a powerful role to fiscal rules, fiscal councils, multiyear frameworks, and accrual accounting and budgeting. Stronger frameworks and tools will be needed to assist governments

in evaluating distributional considerations and examining trade-offs with other policy objectives. Without taking any political or policy position on the choices, the case is growing for better and more multidimensional information and analysis—allied with stronger participation and legitimacy—to inform those choices.

This report has proposed expanding and adapting the three standard objectives of PFM to support a rebalancing of policy priorities between fiscal and socioeconomic outcomes. Expanding and adapting the PFM objectives reveals long-standing normative conflicts more strongly and explicitly. “Budget policy involves a number of distinct objectives, but these overlap in practice, thereby complicating an efficient policy design.... It is important to keep in mind that there are three distinct policy objectives and policy should try to minimize conflicts among them” (Musgrave & Musgrave, 1989, pp. 13–14). It is a fundamental task of democratic politics to address these conflicts and attempt to mitigate or resolve them.

The space for the PFM discipline to contribute lies in developing processes and conventions for more active consideration of potential spillover effects and trade-offs in fiscal policies.²³ The potential for conflicts applies to both the revenue and the expenditure side of the budget but, as noted above, is often most pronounced and most contentious in the balance between maintaining a sustainable fiscal position and ensuring an equitable distribution of income. Underlying PFM processes are needed to produce the information that can help to expose and scrutinize tensions between prosperity and inclusion in fiscal policy choices.

Reconnecting the demand side of fiscal governance

Social justice and the strength of the social contract have re-emerged as dominant concerns in public policy. Participation and accountability matter, both as intrinsic values and as functional contributions to the achievement

of fiscal objectives and other policy outcomes (Alt, 2019). Accountability and transparency emphasize the nuts and bolts of democracy, equity, and trust (de Renzio, 2019).²⁴ The connections to rising concerns about fairness, social justice, intergenerational equity, and environmental sustainability are clear to see—although finding the right response is challenging (Finger & Gressani, 2014).²⁵

The PFM discipline can play a stronger role in opening up PFM processes and conventions to foster citizen influence and participation in fiscal governance. Closely related to policy choices and effects are the processes needed to permit civic participation in ways that can inform policy decisions and establish their feasibility and legitimacy. While mainstream advice now recognizes transparency and participation as significant outcomes (IMF, 2017a), these values seem to be subsidiary rather than foundational. PFM must retain its classic job description of supporting fiscal policy objectives, but not at the expense of failing to address growing economic inequality and the erosion of real incomes, declining trust in government, and rising intolerance and vulnerabilities to populism and authoritarianism. The next generation of ideas and tools for strengthening the voices of citizens in fiscal governance must rise to this challenge.

Proponents of a more inclusive perspective have yet to identify how local- and municipal-level actions can meaningfully be scaled up to the national level. It is not clear how to move beyond small-scale local participatory budgeting processes (Montambeault, 2015). Few governments have successfully replicated this type of experience at the national level or extended public engagement beyond small infrastructure projects. Mainstream advice positions transparency and participation as distinctly modest contributions to this agenda (IMF, 2017a). Technological advancement may prove to be a positive driver or enabler of change, but much of that potential has yet to be achieved (Peixoto & Sifry, 2017). Some argue that moving from the small-scale and local to the national level

requires the inclusion of rights-based indicators that measure whether revenue and expenditure policies meet people’s needs for food, health care, housing, education, social protection, and a healthy environment (Rudiger, 2018). These are dauntingly high bars to clear (Ubaldi, 2013).²⁶ Two ideas explored below may help open up PFM to supporting major policy change and analyzing policy trade-offs.

Some ways forward: new conventions and new analytical tools

The comparative advantage of the PFM discipline lies in its focus on processes and conventions. PFM processes create a framework for managing public money and reinforcing fiscal policy decisions. The resulting PFM conventions have tended to emphasize arrangements that lock in incrementalism and continuity, while fiscal policy norms lock in a bias toward prioritizing fiscal constraints or other fiscal objectives. These issues are predominantly the preserve of fiscal policy experts, but the PFM discipline and its PFM conventions can play an important role.

Exploring how PFM can better support major policy changes

Proposal 6: Investigate how PFM conventions and processes could better support non-incremental policy change through strategic reprioritization in budget policies

Better understanding how PFM processes could be used to support changes in policy direction is a priority. Some investigation of examples and lessons regarding how PFM process and conventions have accommodated or supported instances of major reallocation could shed light on how innovations in PFM may be helpful. Given the limited reference points or case examples of successful strategic reprioritization, a broader review might need to include episodes of significant spending increases (that is, the allocation of additional public revenue rather than reallocation within a fixed envelope) or cases of major subsidy reductions. The focus would be on

PFM dimensions (Kraan & Kelly, 2005), although the dominant policy dimensions and political factors would also need to be recognized and understood.

The starting point would be to take stock of the lessons learned through many previous attempts to overcome incrementalism and increase policy responsiveness in budgeting.

The review would identify the incentives toward incrementalism, the historical track record of attempts to move away from incrementalism in OECD countries, and the lessons emanating from past and current tools and initiatives. Examples may include program budgeting, performance-based budgeting, pro-poor budgeting, spending reviews or cross-sectoral public expenditure reviews, MTEFs, and country-specific approaches such as Public Service Agreements in the United Kingdom. Examining the success factors in cases involving the politically difficult task of explicitly transferring funds from a relatively low-priority policy area to fund increased spending in an area of higher priority will be critical.

Another way to approach this question is to consider the fit between particular policy directions and the PFM processes and conventions that underpin them. Judgment will be needed to determine which processes and conventions are versatile across multiple policy objectives and which are more bespoke elements that will support a particular policy orientation. For example, there may be concurrent but incompatible needs or pressures to constrain spending and reduce the deficit, to boost the volume and flow of funds to infrastructure development and service delivery, and to increase redistributive transfers to marginalized constituencies facing severe hardship and lack of opportunity. A strong foundational set of PFM processes can help with good information and analysis across any of these priorities. However, different fiscal policy orientations may indicate the need for different processes to try to make those policies effective. Fiscal rules and independent fiscal councils are examples of such institutional innovations.

The purpose behind this proposal is to bring the PFM discipline and thinking on the budget process back into the political realm in a way that functions across, or conforms to, the specific realities of distinctive political systems. One approach would be to study a specific policy area, such as climate change, to draw lessons on the ways in which current PFM processes and conventions may impede or facilitate grand policy adjustments. Drawing wider lessons from efforts to achieve major sector reprioritization in budget policy, concrete ideas, and proposals could be piloted in countries in real time, building on political demand for these policy changes. Achieving this would require assembling a group of policy makers (including climate policy specialists and finance ministry officials) and politicians that extends beyond the PFM discipline. This multidisciplinary group would lead the analysis and recommendations, then the design, implementation, evaluation, and dissemination of potential solutions. With the growing emphasis by IFIs and other development assistance providers on global public goods, the venture would take advantage of the expanded strategic space and demand.

It would be helpful if the work were not limited to one country income group but conducted instead as a collaborative initiative across the income spectrum. Many of the policy challenges and political pressures are common across countries—whether as a result of the links to global public goods or owing to the increasingly convergent reference points and aspirations among citizens (Kim, 2017). Many existing tools, such as spending reviews or their equivalents, are used across groups of countries. Political challenges and obstacles apply in all contexts. Consequently, some innovation in the types of partnerships that are formed to investigate this agenda would be valuable, reaching beyond the usual organizational suspects and bringing in former political leaders to help with insights about better connecting technocratic PFM processes with policy and political considerations.

Analyzing trade-offs among policy objectives

Proposal 7: Expand the toolkit of PFM to analyze the trade-offs among policy objectives and to consider the socioeconomic impact of fiscal and budget policy choices

Demand is growing for the PFM discipline to play a stronger contributing role in ensuring that decision makers are better informed about policy trade-offs and potential socioeconomic impacts. The dominance of aggregate fiscal concerns has arguably biased PFM toward giving insufficient weight to wider socioeconomic values and objectives. Yet aims such as reducing poverty, improving sector outcomes, narrowing income disparities, and strengthening citizen voice in governance are increasingly on the radar in discussions about PFM. There may be objections from within the PFM discipline, and especially from fiscal policy experts, about the risk of overreach into policy matters. While some debate is needed about whether this is an appropriate future direction for the PFM discipline, it is notable that leading players such as the IMF already appear to be moving in this direction (Lagarde, 2019).

A useful first step would be to launch a reappraisal of the standard objectives in PFM to make the case for their expansion and to propose specific new formulations for debate. Expanding the three long-standing PFM objectives would make those objectives more relevant to contemporary priorities and policy concerns. It would also re-focus attention on the tensions and trade-offs that exist among some of these objectives, which had gradually become obscured over the past two decades. Chapter 2 of this report sets out an indicative proposal for the potential reformulation of these objectives (Table 2). Moving forward, the expanded objectives would be developed more rigorously based on strong theory and evidence. Most critically, the potential trade-offs and tensions could be explained with some concrete illustrations and current case examples, especially concerning distributional incidence.

The revised proposed objectives would then be put out for wide discussion and consultation.

There is a particular need to develop and test new PFM conventions and supporting processes that can be used to analyze the distributional implications of policy choices, as this is a significant omission in the current setup of conventions and frameworks. Several tools and approaches could be tested, including greater emphasis given to the revenue side of PFM. Publication of socioeconomic impact statements could be required or recommended when a government proposes a specific fiscal course—for example, requiring the assessment of impacts on public services, income distribution, and poverty levels. The government or an independent entity could be required to produce assessments of the distributional effects of fiscal and budget policy—for example, impacts on distinct income quintiles or on young or old populations in particular. Governments could be required to publish a pre-budget statement to encourage public debate and analysis of policy options, thereby helping to strengthen the role of the demand side in fiscal governance.

Links could be made to the separate proposal to introduce greater contestation of ideas as part of the external technical advice provided to client governments (Proposal 3). The main intention would be to equip governments themselves with better analytical tools and operating conventions as part of their PFM system. These tools could also be used by external actors to inform dialogue with governments and technical advice. The core idea would be to make explicit the trade-offs among different objectives in managing public finance as the basis for informed debate and government decision making (Annex K).

Moving on from here

This chapter has explored some ideas for how to engage with PFM as a more “open” system that interacts fluidly with public policy—covering policy choices, government actions, and development results. The proposals reconsider

the objectives of managing public finance and look at the operational performance of PFM processes from the perspective of their real-world impact. They respond to two problems identified in the introductory chapter of this report: first, that the ways in which PFM matters for service delivery and development results are not well understood and, second, that the standard objectives and conventions of PFM are not equipped to deal with political trade-offs or major policy change. The final four International Working Group proposals are as follows:

- (4) Review the current conventions embedded in standard PFM assessment frameworks to test evidence of results and the degree of applicability in advanced economies;
- (5) Use PFM assessment frameworks to collect data and evidence “at the frontier” to build

insights about which aspects of PFM operational performance matter for service delivery;

- (6) Investigate how PFM conventions and processes could better support non-incremental policy change through strategic reprioritization in budget policies; and

- (7) Expand the toolkit of PFM to analyze the trade-offs among policy objectives and to consider the socioeconomic impact of fiscal and budget policy choices.

The next and final chapter summarizes the proposals made throughout this report and considers some of the potential implementation challenges. It locates the discussion within the strategic context of how external support for institutional strengthening may be evolving and looks at tactics to navigate the organizational incentives that will affect progress on rethinking international support for managing public finance.

5. PUTTING IDEAS INTO PRACTICE

An agenda for change: some proposals for the PFM discipline

The purpose of this report is to provoke debate and drive positive change. The report began with four current problems identified by the International Working Group on Managing Public Finance based on extensive consultations and literature review. Chapter 1 set out the guiding parameters of the argument developed in this report about how to rethink international support for managing public finance in order to make it more fit for purpose in the 2020s.

Chapter 2 summarized the “state of PFM.”

It noted the distinctive strength of the PFM “discipline” and the path that it has followed, combining a strong set of conventions about desirable practices with the growing adoption of more problem-based and adaptive approaches. It examined whether the standard PFM objectives fully reflect the range of contemporary policy concerns and objectives. The chapter concluded that current working assumptions in PFM represent a “closed” model for diagnosing shortcomings and developing proposals for action.

Chapter 3 examined the influence and utility of the “closed” model and proposed some ways to build on its strengths without overstretching the model. It recommended the development of better data collection and knowledge-sharing protocols to drive faster learning about how technical advice can best support improvements in PFM. It went on to recommend the introduction of greater contestation among intervention options and greater choice by governments as a means to drive effectiveness.

Chapter 4 proposed some ways to open up the model that underpins conventional thinking about the objectives and operational performance of PFM processes. This thinking affects the diagnosis of PFM shortcomings and the development of proposals for action. The chapter acknowledged that this is difficult territory, as it begins to depart from the concrete and “universalist” assumptions of the “closed” model. It considered the potential for developing a new generation of approaches to international support for managing public finance that better reflect the real world. The chapter recommended the more active curation of PFM conventions based on emerging evidence, along with experimentation “at the frontier” to build insights about how the PFM conventions relate to service delivery and development results. It also recommended investigating how PFM can better assist governments in driving strategic reprioritization in budget policies and in scrutinizing trade-offs among socioeconomic policy objectives.

While the Working Group had the benefit of an independent perspective and extensive consultations, not everyone will agree with the perspective or the agenda set out in this report. The aspiration is that the ideas developed and discussed in the report will form the basis for some practical action and experimentation—either through the proposals put forward in response to the identified problems (Table 4) or through reactions to them. Improving the international discourse on PFM and how it relates to advice, money, and results will require action. This report attempts to stimulate that action.

Table 4: A recap on the problems and proposals

Problem identified in this report	Working Group proposals
	<i>Proposals that build on the strengths of the existing “closed” model</i>
Problem 1: The pace of learning about how external assistance can better support improvements in PFM is too slow	(1) Assess offers of technical advice against standards for the provision of information and evidence justifying the approach and for the planned dissemination of data about impact
	(2) Establish practitioner groups to share sensitive performance information on PFM interventions on a voluntary and confidential basis to identify ways of improving performance
Problem 2: Development agencies’ preference for following a common approach has reduced opportunities to test ideas through competition	(3) Experiment with “managed choice” in the provision of technical advice, with a coalition of funders and client governments and the creation of a dedicated funding facility
	<i>Proposals that envisage PFM as an “open” system</i>
Problem 3: The ways in which PFM matters for service delivery and development results are not well understood	(4) Review the current conventions embedded in standard PFM assessment frameworks to test evidence of results and the degree of applicability in advanced economies
	(5) Use PFM assessment frameworks to collect data and evidence “at the frontier” to build insights about which aspects of PFM operational performance matter for service delivery
Problem 4: The standard objectives and conventions of PFM are not equipped to deal with political trade-offs or major policy change	(6) Investigate how PFM conventions and processes could better support non-incremental policy change through strategic reprioritization in budget policies
	(7) Expand the toolkit of PFM to analyze the trade-offs among policy objectives and to consider the socioeconomic impact of fiscal and budgetary policy choices

Building a persuasive case for change: some initial ideas

Navigating development agency incentives is critical

Another report, another set of recommendations. Why would any official funder or development agency want to take action to pursue the ideas or implement the proposals in this report? While the Working Group takes the view that these recommendations will contribute to the effectiveness of the PFM discipline in the medium term, we acknowledge that they pose non-trivial financial and opportunity costs in the short term. There are challenging time inconsistencies and free-rider problems at play. Looked at from the point of view of individual development agencies,

there is a question about why any one agency would choose to invest in significant new piloting, research, and learning that would benefit the field as a whole. Collective action among agencies may be even more difficult to muster.

The Working Group recognizes the entrenched and long-standing challenges of navigating and influencing development agency incentives (Coyle et al, 2005; de Renzio et al, 2005). A good place to start might be in thinking about how to maintain a development focus on strengthening public sector institutions. This agenda is a major claimed comparative advantage of the multilateral development system that provides most international support for PFM. If agencies

recognize the strategic necessity to evolve—for both external impact and institutional self-interest—it may then be possible to mobilize effort in support of ideas such as those set out in this report.

The “institutions matter” argument may be losing its force

There is a risk in not taking action. Professionals in the PFM discipline, and in development agencies more generally, are now used to an environment in which institutional reform is accepted as the point of entry to sustained improvements in public sector performance. However, institutional reform has been a relatively recent focus of development assistance—dating largely from the mid-1990s (Annex J). There is no reason to assume that it will remain central to development assistance efforts if it cannot make a direct and convincing claim to supporting the evolving set of high-priority development objectives. As this report has highlighted, causal linkages between PFM systems and results are currently more suggestive than established. Combining the approaches of conformity with conventions and of politically aware diagnosis is promising, but it owes more to recent development assistance traditions than empirically based confidence.

Development fashion could change again, with a shift toward emphasizing policy outcomes while leaving institutions to follow however they can. Development assistance is diminishing in political significance as it declines in relative financial weight. Non-aid instruments are coming to the forefront, including trade, remittances, other financial flows, and more general cultural links. Similarly, classic development concerns are waning as the number of lower-income countries declines and more countries start to transition from aid.¹ This change may well have political consequences for the commitment to support institutional reform and, more broadly, the “governance agenda” of the past two decades. PFM is a prominent aspect in that agenda and is currently emphasized in external support for

lower-income and aid-dependent countries.

Predictions suggest that the focus on country-level institutional strengthening may be displaced in the future by a wider, more dynamic set of priorities for development cooperation. These arguments have been building in force since the start of the decade as part of the growing agenda on cross-border issues and global public goods. One prominent thought leader in global development has articulated this direction of travel as follows:

Instead of today’s ODA there will be two other major sources of official outside funding for developing countries. First will be lending by multilateral...and national... development finance institutions from their hard windows at below market prices... Second will be transfers from high-income countries to developing countries in support of global public goods, e.g. to protect forests, to subsidize clean energy and compensate for fossil fuels not exploited, to underwrite pandemic surveillance, and for spending to undercut cross-border non-state terrorism, piracy, drug and sex trafficking, etc. Transfers in support of global public goods will not necessarily go more to poorer than to middle-income countries, as tends to be the case today; they will go where they can be most effectively deployed at the lowest cost. (Birdsall, 2013)

The incentives could diminish for development agencies to focus on complex institutional reforms that cannot readily be shown to have development impact or satisfy donor countries’ national interest. The risk is that agencies will shift their strategic focus, instead redoubling their efforts to tackle the symptoms of poverty, where there will be quicker, more tangible, and more certain results—in other words, politically visible results (Barder, 2018). PFM may therefore lose support on two fronts as development cooperation focuses on global public goods such as climate change mitigation and post-pandemic reconstruction and infection control, and on direct

development results in areas such as humanitarian aid, health, nutrition, and sustainable water sources.

A call for proactive leadership

As a professional group, the PFM discipline has made significant and well-recognized progress in analyzing and arguing the case for PFM strengthening to be a central issue in development. There has evidently been impressive leadership and consensus building on an agenda, its pertinence, and its conventions. Each of the 45 different PFM assessment tools (PEFA Secretariat, 2018) is associated with a distinct group of experts who understand and own that framework. There are also some well-published “new realist” thought leaders who have been critical and influential in the task of developing more problem-based and adaptive approaches (CID, 2014; Andrews, 2013; Andrews et al., 2012; Blum et al., 2012; Booth, 2014; Booth & Unsworth, 2014; World Bank, 2000, 2012b). Bringing together the insights and tools of these complementary groups of thinkers and practitioners might produce powerful leadership in rethinking how institution building can support a changing development agenda. They could act as a powerful guild for the development and implementation of recommendations. The coronavirus pandemic has started to catalyze some thinking about the task for PFM (Gupta and Barry 2020; Gurazada et al., 2020; Saxena and Stone, 2020).

Development agencies will need to demonstrate institutional-level leadership and some willingness to direct financial resources to these ideas or new approaches. This is uncertain

territory, and some of the proposals are deliberately speculative. Active experimentation and learning will be required from the outset. Leaders in the PFM discipline might take up these ideas, and progress might be kick-started by funding for one or more of the proposals set out in this report. It is hoped that a small coalition—perhaps comprising bilateral, multilateral, and foundation actors—could come together to explore the agenda and drive tangible progress. The Working Group itself has no leverage or vested interest in any particular way of proceeding. These ideas are submitted for further debate, development, and testing in the interest of contributing to improvements in PFM and, ultimately, development results.

Moving on from here

This report contains a lot of words but not the final one. The Working Group has been privileged with the time and opportunity to reflect on a vital area of international development activity. It has benefitted from extensive and generous advice, as well as lessons and insights from experience and from a large number of practitioners, policy makers, and researchers. Although the Working Group stands by the proposals and hopes they will be picked up and taken up, they are ultimately just examples of how to push PFM forward. The mission now is to continue to learn more from empirical observations, celebrate rather than obscure political debate, and ensure the continued contribution of a group of development practitioners who have already contributed to significant results, with the aim of ensuring the future relevance and effectiveness of the PFM discipline within the overall development agenda.

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ANNEXES

Annex A: Key concepts and terms used in the report

This annex defines a number of the operative terms and concepts used in this report. There are very few settled definitions in the PFM literature, and the intention is to explain and clarify the usage in this report—not to join wider debates about definitions or preferred usage.

For ease of explanation, four categories are used here: public policy, fiscal policy, public financial management, and external assistance. Underlined terms are those defined in Table 5 below.

1. **Public policy:** Public policy is a three-level framework encompassing government choices, actions, and results. Government policy choices cover stated and revealed intentions and objectives. Government actions and outputs are policy choices being put into action, including service delivery (or the provision of collective goods and services). Development results (including sector outcomes) are the policy impacts that stem from government choices and actions, or lack thereof (see also Annex B).
2. **Fiscal policy:** Fiscal policy covers government public finance policies. It is characterized by fiscal policy norms that

influence strategy and choices. The norms are often expressed or observed through fiscal rules of different types (such as numerical limits on budgetary aggregates). Choices about fiscal rules also feed back into fiscal policy norms.

3. **Public financial management:** The standard PFM objectives define the purpose of PFM. The PFM system in a country consists of all of its separate PFM processes and how they fit or work together. The PFM conventions are the orthodoxy about how each of the individual PFM processes should look or perform. The PFM assessment frameworks measure the performance of individual PFM processes against the prevailing PFM conventions. The PFM discipline is the professional guild of experts and practitioners who work in the field of PFM.
4. **External assistance:** The intervention logic explains the design assumptions about how/why the intervention is expected to work. Development assistance modalities are the mechanisms or instruments through which external support is provided. Problem-based and adaptive approaches are a way of attempting to ensure that the intervention logic is not prescriptive and that the assistance modalities are not rigid.

Table 5: Terms of art used in the report

Term of art	Definition	Examples (if applicable)
A. Public policy (see also Annex B)		
Public policy	<p>“Anything a government chooses to do or not to do” (Dye, 1972, p. 2).</p> <p>“Public policy-making involves a fundamental choice [that is deliberate and conscious] on the part of governments to do something or to do nothing with respect to a problem” (Howlett & Cashore, 2014, p. 18).</p>	
	Represented by a three-level framework comprising: government intentions or policy choices, government actions and outputs, and policy impacts (or, more narrowly, development results). (See also separate definitions.)	
Government policy choices	<p>“Decisions made by politicians, civil servants, or others granted authority that are directed towards using public power to affect the lives of citizens” (Peters, 2018, p. 4).</p> <p>A government’s intentions and decisions. These include both policy choices explicitly stated by government, and those revealed implicitly by government actions.</p>	Improved prosperity, well-being, equity, and sustainability—as expressed, for example, through specific commitments on public services and public management, on regulation of economic behavior, and on responses to a changing macro environment.
Government actions	<p>“Policy choices being put into action” (Peters, 2018, p. 4).</p> <p>Government actions cover economic instruments (including public services and financial incentives), regulatory instruments, information instruments, and administrative measures.</p>	Provision of public services, cash transfers, regulation, information campaigns, budget system reforms, human resource management reforms, and so on.
Service delivery	<p>Service delivery encompasses the range of collective goods and services within the sphere of government action. These goods and services are either provided by government through the budget, or fall under the remit of government production, subsidy, or regulation (Hughes, 2018).</p> <p>Service delivery is a subset of government actions taken to implement its public policy intentions, typically with an emphasis on government provision and its outputs.</p>	Collective goods and services include education, law and order, environmental protection, national defense, roads and bridges, hospitals and health care, welfare services, public transport, and so on.
Development results	<p>“The effects that policy choices and policy outputs have on citizens” (Peters, 2018, p. 4).</p> <p>A broad category covering the impacts of government policy choices and actions (see separate definitions). For the purposes of this report, it is restricted to the subset of policy impacts with which the international development community is typically most concerned and which are treated as desirable development outcomes.</p>	<p>The most generally used and accepted contemporary formulation of development results is the 2030 Agenda for Sustainable Development:</p> <ul style="list-style-type: none"> • “Ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth—all while tackling climate change and working to preserve our oceans and forests” (United Nations, 2015).

Term of art	Definition	Examples (if applicable)
	<p>A distinction may be drawn between intermediate results such as the outputs from service delivery by government, and the outcomes in sectors to which that service delivery has contributed.</p> <p>Development results extend beyond a focus on sectors to cover governance issues, including fiscal and institutional sustainability (Kaufmann, Kraay & Mastruzzi, 2010).</p>	
B. Fiscal policy		
Fiscal policy	Measures employed by governments to stabilize the economy, specifically by manipulating the levels and allocations of taxes and government expenditures.	
Fiscal policy norms	<p>The orthodoxies that govern, determine, or constrain public finance policy actions and parameters. They are also the normative assumptions that inform and influence external ideas and advice about suitable policy directions and strategy.</p> <p>They are often formally codified as “fiscal rules” that focus on fiscal discipline and sustainability.</p>	
Fiscal rules	<p>“A fiscal rule is a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates” (Lledó, Yoon, Fang, Mbaye & Kim, 2017, p. 8).</p> <p>Types of fiscal rules include budget balance rules, debt rules, expenditure rules, and revenue rules—applying to the central or general government or the public sector (Eyraud, Debrun, Hodge, Lledo & Pattillo, 2018; Lledó et al., 2017).</p>	<p>Examples of fiscal rules:</p> <ul style="list-style-type: none"> • “EU Member States are constrained by the rules of the Stability and Growth Pact. This includes a requirement to keep borrowing below 3% of GDP. • Structural borrowing (borrowing adjusted for the ups and downs of the economy) of the German federal government is capped at 0.35% of GDP in the country’s constitution. Germany also has targets for the Länders (states)” (Keep & Ward, 2019, pp. 3–4).
C. Public financial management		
Standard PFM objectives	The stated “desirable outcomes” of a PFM system, reflecting a normative orientation to particular objectives that have become the orthodoxy over the past 20–25 years (Campos & Pradhan, 1996; Schick, 1998; World Bank, 1998). These are in effect a “holy trinity” of PFM objectives: fiscal discipline, allocative efficiency, and operational efficiency.	<p>The standard PFM objectives may be described as follows:</p> <ul style="list-style-type: none"> • <u>“Aggregate fiscal discipline</u> requires effective control of the total budget and management of fiscal risks. • <u>Strategic allocation of resources</u> involves planning and executing the budget in line with government priorities aimed at achieving policy objectives. • <u>Efficient service delivery</u> requires using budgeted revenues to achieve the best levels of public services within available resources” (PEFA Secretariat, 2016, p. 2).

Term of art	Definition	Examples (if applicable)
PFM system	<p>The amalgam of all PFM processes and procedures in a particular jurisdiction.</p> <p>In effect, these are the institutional arrangements for PFM and how it operates in a given country (or subnational domain). “PFM is now seen as an ‘umbrella’ definition, covering a set of systems aimed at producing information, processes, and rules...” (Cangiano et al., 2013, pp. 1–2).</p>	
PFM processes	<p>The technical elements or components of the PFM system.</p> <p>These are not in and of themselves normative propositions, unlike the PFM conventions (see separate definition). They are technical building blocks about which design choices can be made.</p>	<p>Budget calendar, fiscal strategy paper, financial statements, audit report, budget hearings, cash-flow forecast, payroll records, procurement method, and so on.</p>
PFM assessment frameworks (or tools)	<p>The “tools available for assessing PFM systems as a basis for developing and monitoring reform plans and thus strengthening PFM processes” (PEFA Secretariat, 2018, p. 1).</p> <p>These frameworks and tools not only capture the PFM processes that comprise the overall PFM system, they also reflect the prevailing “conventions” about the desirable operational performance of the PFM system (see separate definition).</p>	<p>PEFA, TADAT, DeMPA, PIMA, Open Budget Index, Fiscal Transparency Code, and others (Annex F).</p>
PFM conventions	<p>The normative assumptions about desirable “operational performance of key elements of the PFM system” based on “international standards and good practices on crucial aspects of PFM, as identified by experienced practitioners” and as expressed in the standard PFM assessment frameworks and tools (PEFA Secretariat, 2016, pp. 1–4).</p> <p>The frameworks typically include graduated performance scores, so the conventions represent a targeting of the highest scores. There is a normative assumption that a stronger and more capable PFM system is one in which processes and procedures fulfill requirements at the top end of the measured scales.</p> <p>Generally speaking, the PFM conventions can be seen in the descriptions of key elements of the PFM system that garner the highest score in the various assessment frameworks.</p>	<p>System for allocating transfers (PEFA dimension 7.1)</p> <ul style="list-style-type: none"> • An A score = “The horizontal allocation of <u>all</u> transfers to subnational governments from central government is determined by transparent, rule-based systems” (PEFA Secretariat, 2016, p. 26). <p>Performance evaluation for service delivery (PEFA dimension 8.4)</p> <ul style="list-style-type: none"> • An A score = “Independent evaluations of the efficiency and effectiveness of service delivery have been carried out and published for <u>most</u> ministries at least once within the last three years” (PEFA Secretariat, 2016, p. 28). <p>Countries should have:</p> <ul style="list-style-type: none"> • “Systems for publishing an annual plan of aggregate domestic borrowing based on the annual budget cash flow forecasts • Systems for publishing a borrowing calendar in advance for wholesale instruments” (Panzer et al., 2015, p. 38).

Term of art	Definition	Examples (if applicable)
PFM discipline	<p>A professional discipline combining academic subject matter with career paths that include opportunities for advancement in work and reputation.</p> <p>A “sociology of career incentives, norms and socialization patterns” (Naidu et. al, 2019, p. 1).</p>	
D. External assistance		
Intervention logic (intervention design)	<p>Several overlapping questions are generally considered explicitly or, more often, implicitly, in the design of external interventions:</p> <ul style="list-style-type: none"> • The degree to which it is assumed that the specified input (training, new procedures) will lead in a linear fashion to the intended output and outcome as set out in a results chain (OECD, 2017), logframe (DFID, 2009; Team Technologies, 2005) or equivalent. • Whether the theory of change suggests uncertainty about the consequences of any intervention and the need for flexibility and participation by local actors (Valters, 2015) and hence emphasizes the need for iteration and adaptation. • Whether incentives to achieve a specified outcome could be combined with flexibility concerning the choice of input (Birdsall & Savedoff, 2010). Examples of intervention types that follow a pure outcome-based logic include “cash on delivery” aid and development impact bonds. • Questions about the technical sequencing of the proposed PFM content (Diamond, 2013). 	<p>“The National Assembly of Zambia component operates on the demand side of PFM. It seeks to improve the processes of accountability and transparency by strengthening the ability and capacity of the legislature to hold the Executive responsible for its plans and actions. Strengthening the demand for better PFM, including greater accountability and transparency, is seen as an effective mechanism for encouraging improved performance” (DFC Consortium, 2016, p. 67).</p>
Development assistance modalities (or instruments)	<p>The formal structures of intervention through which PFM ideas and knowledge are deployed or delivered to clients/beneficiaries (by international organizations, donor governments, consulting firms, non-profit organizations, individual advisers, and so on).</p> <p>This covers design, implementation, and evaluation stages of support, as applicable.</p> <p>Different components or instruments may be bundled together as part of a single intervention.</p>	<p>Technical assistance missions or projects, investment projects, financial support through government systems (including general budget support and sector budget support), pooled funds, policy or structural reform conditions, results-based funding (such as cash on delivery and payment for results), and so on.</p>

Term of art	Definition	Examples (if applicable)
Problem-based and adaptive approaches	<p>Techniques for investigation, dialogue, and intervention, which:</p> <ul style="list-style-type: none"> • Emphasize the locally-specific causes and purposes of a given apparent dysfunction (Andrews et al., 2012) • Assert that institutional reforms are addressing “adaptive” rather than “technical” problems (Heifetz, 1994, p. 121) • Emphasize trial and error through “guided incremental experimentation” (Pritchett et al., 2013, p. 48). 	<p>“Problem-Driven Iterative Adaptation” (Andrews et al., 2012).</p> <p>Flexible processes (Brinkerhoff & Crosby, 2002; Brinkerhoff & Ingle, 1989).</p> <p>“Trying out” new approaches to budgeting, accounting, procurement, and so on, in finance ministries for a limited number of agencies for a limited period of time to test how things work (Kristensen, 2019; CID, 2014).</p>

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Annex B: A framework for public policy—government policy choices, government actions, and development results

A central proposition of the Working Group is the need to ensure that there is an explicit and dynamic connection between PFM and public policy. While this report offers a reappraisal of the scope and objectives of PFM, we do not attempt a comparable assessment of public policy as a topic. Instead we invoke well-established definitions and frameworks from the public policy literature to organize the arguments of the report.

This annex provides a description and explanation of the framework for public policy that is adopted by the Working Group. In particular, it highlights some of central concepts used in this report—namely, “policy choices,” “service delivery,” and “development results”—and it locates those within the framework. Recognizing that there is no consensus on the terminology and concepts discussed here, our purpose is not to suggest any sort of general resolution, but rather to provide a readers’ guide to the particular usage in the present report. Annex A on key terms, and Annex H on results chains, provide additional and complementary background.

Public policy as choices, actions, and results

Articulating the chain of connections between intentions and outcomes, beyond broad generalities, is challenging. To start with, there are few settled definitions of what constitutes public policy. Peters (2018) captures the ambiguity well: “Samuel Johnson once commented that patriotism is the last refuge of fools and scoundrels. To some degree, public policy has become just such a refuge for some academic disciplines” (p. 4).

As a starting point, it is necessary to note that public policy is not merely a list of government intentions. “Policy is both the plan and the ensuing course of action” (Biggs & Helms, 2007, p. 7). Accordingly, Peters (2018, p. 4) identifies three levels of public policy:

- *Government policy choices*, comprising “decisions made by politicians, civil servants or others granted authority that are directed towards using public power to affect the lives of citizens.”
- *Government policy outputs* or “policy choices being put into action.”
- *Policy impacts* or “the effects that policy choices and policy outputs have on citizens.”

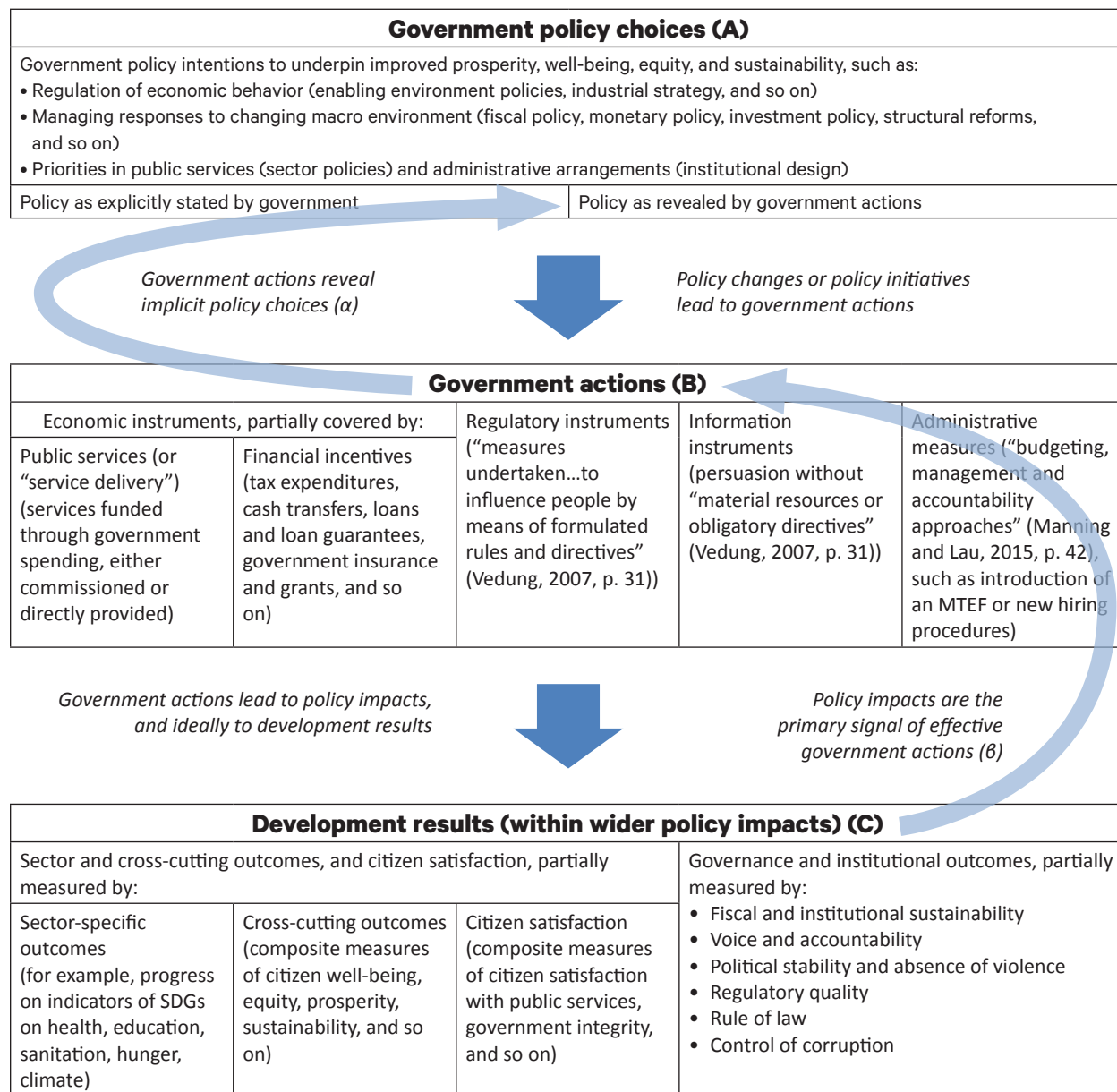
We adopt these three levels as our framework in the report. We re-label them slightly as “government policy choices,” “government actions,” and “development results.” One important departure from Peters (2018), however, is that we focus on development results as a narrower category than policy impacts—covering the subset of policy impacts with which the international development community is typically most concerned and which are captured in global normative frameworks such as the SDGs.

Even with an agreed disaggregation and taxonomy, there remains substantive difficulty in interpreting the relationships between the three levels of public policy. These links between government policy choices (in the sense of what governments say—or even don’t say—they want to do), government actions, and the observed policy impacts (incorporating development results) are not automatic, linear, or unidirectional. Moreover, the literature on policy reform in developing countries largely avoids this question by focusing instead on normative policy proposals or on the political economy of adopting those proposals (Jones, 2009).

Figure 4 depicts the full framework for public policy—government policy choices (A), government actions (B), and development results (C)—used in the Working Group report, along

with some illustrative content. We briefly explain each of the “public policy” levels in turn, flagging some pointers and caveats about the interactions between the three dimensions.

Figure 4: Links and interactions between the dimensions of public policy



Source: Authors’ compilation, drawing principally on Kaufmann et al. (2010), Manning and Lau (2015), Peters (2018), Vedung (2007), and World Bank (2012b).

Government policy choices (A)

Government policy choices are a compound of government's stated intentions and objectives on the one hand (Evans & Manning, 2003) and, on the other, its policy as revealed de facto by its actions (Glismann & Horn, 1988; Skrbinjek, Šušteršič & Lesjak, 2018, pp.168-186; Stolper, 1972). The first level in Figure 4 shows these policy choices (A), which will underpin objectives such as improved prosperity, well-being, equity, and sustainability—and which may be expressed through specific commitments or proposals about priorities in *public services and public management, regulation of economic behavior, and responses to a changing macro environment*.

Policy choices can be seen both in what a government says it is going to do and in what it actually does. The feedback loop (α) in Figure 4 shows that interaction. For example, a government that states it will improve maternal health care for rural villages, and then does it, is showing its stated intentions and its actions. A government that allows teacher absenteeism to go unchecked may be revealing that its policy includes deferring to a powerful voting bloc (Keefer & Vishwanath, 2003). Administrative measures, such as reforms in PFM or human resources management, may also create a feedback loop from government actions to government policy choices. They may affect or reveal policy choices, even if those effects are unintended. For example, the introduction of an MTEF or a change in senior staff employment contracts may serve, respectively, to introduce inertia into policy change (Schick, 2013) or to increase loyalty to political principals (Pollitt, 2015).

Added to the challenge of discerning a government's policy choices, the stated policy objectives may be closer to a political façade than a genuine government commitment to provide the resources and authority needed for the stated policy to be implemented in a meaningful way (Rakner, Mukubvu, Ngwira, Smiddy & Schneider, 2004;

Sabatier & Weible, 2014). Many policy statements are concerned with political positioning and agenda setting rather than with forming a reliable indication of a government's intentions. Examples range from the Armenian "economic program" introduced to parliament by the Prime Minister in February 2019, to the annual "US Economic Report of the President," to the (typically) annual "Queen's Speech" to Parliament in the United Kingdom (and its equivalent, the "Speech from the Throne," in Canada), to the National Development Plans that have been prepared and published by 134 countries. In those National Development Plans the costing of policy choices and associated financing plan are often "the weakest element" (Chimhowua, Hulme & Munroc, 2019, p. 83).

More specific and, arguably, reliable government policy commitments are set out in budget documentation—as proposed by the executive and approved by the legislature. Shapiro (2001) notes that the "budget is the most important economic policy instrument for governments. It reflects a government's social and economic policy priorities more than any other document, translating policies, political commitments, and goals into decisions on where funds should be spent and how funds should be collected" (pp. 6–7).

In a development cooperation setting, there is the additional complication that there may not be alignment between the preferences and priorities of a government on the one hand and development assistance providers on the other. "Country ownership" is often assumed or invoked without sufficiently careful consideration or foundation (Booth, 2011). Government incentives to provide private goods may conflict with donors' concerns for the provision of broad-based public services in sectors such as health and education (Keefer & Khemani, 2003; Khemani, 2017). These tensions or mismatches in preference give further weight to the argument that government policy choices are often revealed by what gets done as much as by what was promised.

Government actions (B)

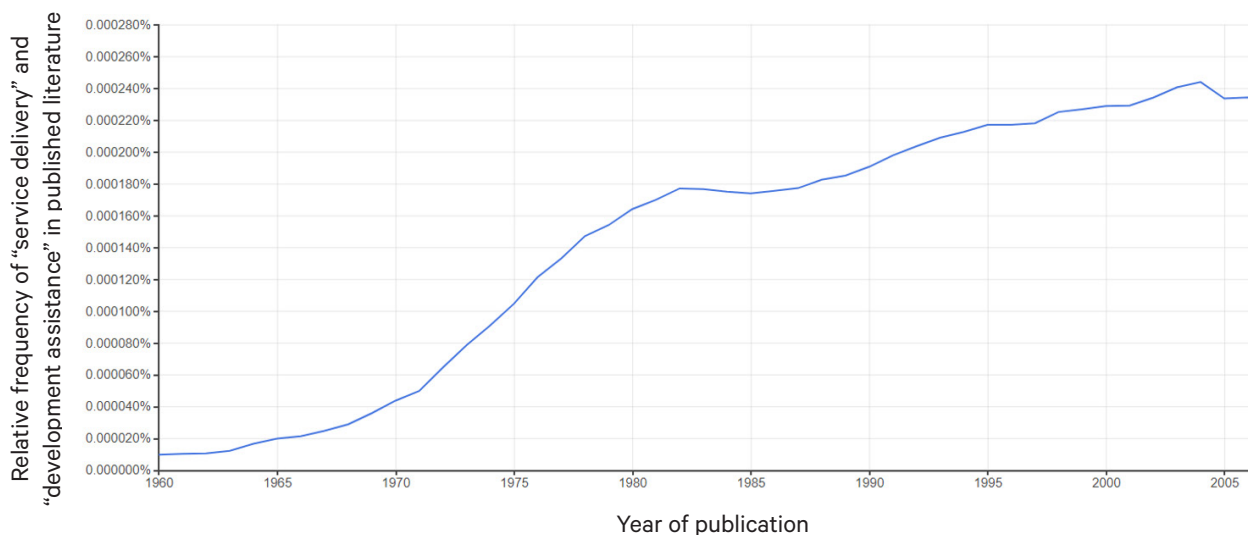
Government actions are “policy instruments... [which are] concrete and specified operational forms of intervention by public authorities” (Bemelmans-Videc, 2007, p. xi). Such actions may or may not be taken as a result of government policy and it is those actions, not the intentions, that may (or, again, may not) contribute to development results. The second level in Figure 4 shows these government actions (B), which consist of economic instruments (*including public services and financial incentives*), *regulatory instruments, and information instruments*.¹ As shown in the framework, administrative measures could be considered an additional category of government actions in response to policy changes (Manning & Lau, 2015).

Using economic instruments—comprising either public services or financial incentives—to implement government policy choices involves “the handing out or the taking away of material resources, be they in cash or in kind” which “make it cheaper or more expensive in terms of money, time, effort or other valuables to pursue certain actions” (Vedung, 2007, p. 10).

Public services involve budgetary actions by the government related to collective goods and services (Hughes, 2018), especially in sectors—such as education, law and order, environmental protection, national defense, roads and bridges, hospitals and health care, welfare services, and public transport. Government may provide these public goods directly through its own agencies and staff, or it may commission them through non-state actors,² or it may only fund them through transfer of resources (Biggs & Helms, 2007). Table 6 presents a more detailed analysis of the options available to government concerning public services.

In the context of development cooperation in lower-income countries, the language of “service delivery” is used regularly and has become a prominent focus for many development assistance providers. Figure 5 shows the rising number of references to service delivery in relation to development assistance in publications between 1960 and 2005. In line with this emphasis and trend, this report examines more specifically the relationship between PFM and service delivery, as one critical element of government actions through its economic instruments.

Figure 5: Ngram plot of references in literature published in English containing the terms “service delivery” and “development assistance”



A complication arises when assessing government actions concerning public services. To make a credible claim that service delivery has “improved,” there must have been a significant downstream contribution to development results, especially in terms of related sector or cross-cutting outcomes. The quality of an output, or service, is ultimately a measure of “the attributable incremental contribution of the service to the outcome” (Atkinson et al., 2005, p. 42).³ In other words, policy impacts are the primary signal of effective government actions. The feedback loop (β) in Figure 4 shows this interaction.

As an alternative to public services, a government can use financial incentives to influence individuals and firms to adopt particular behaviors. These incentives may consist of tax expenditures, cash transfers, loans and loan guarantees, government insurance and grants, and so on. This instrument, in essence, involves a specific cash-based offering (or levy) from government that leaves individuals and firms with options about their behaviors—albeit with potential penalties for making the wrong choice.

Alongside economic instruments, there are other actions that governments can take in relation to their policy choices. Either they can mandate actions to be taken or not taken by individuals and firms through regulation, or they can provide information with the aim of changing views on why particular actions should be preferred. In contrast to funded or taxable options implemented through economic instruments, these actions do not involve the flow of funds as the primary mechanism.⁴

Regulatory instruments are “measures undertaken...to influence people by means of formulated rules and directives” (Vedung, 2007, p. 31). These can, of course, have a public service intention if they affect how market and non-profit providers deliver services that specific groups are able to receive (Biggs & Helms, 2007).

The information instrument “covers attempts at influencing people through the transfer of

knowledge, the communication of reasoned argument, and persuasion,” in which “the absence of obligation makes information different from regulation which, by definition, contains mandatory rules of conduct” (Vedung, 2007, pp. 11–13). It does not involve “material resources or obligatory directives” (Vedung, 2007, p. 31).

Development results (C)

Development results are the subset of potential policy impacts that are of greatest concern to the international development community. They represent those policy impacts that are considered to be critical for sustainable economic and social development. The third level in Figure 4 shows these development results (C), which include sector outcomes, cross-cutting outcomes, citizen satisfaction, and governance and institutional outcomes.

Development results at the sector level can include progress toward desired outcomes in health, education, sanitation, hunger, climate, and so on. Cross-cutting outcomes may include progress in areas such as citizen well-being, equity, prosperity, and sustainability. These may be viewed as composite objectives that draw on outcomes across sectors. Related to these sector and cross-cutting outcomes is the level of public confidence in and satisfaction with the quality of public services, the degree of government integrity, and so on. Development results can also include, broadly, governance and institutional outcomes as a distinct category. The scope of such a category would include fiscal and institutional sustainability, voice and accountability, political stability and absence of violence, regulatory quality, rule of law, and control of corruption (Kaufmann et al., 2010).


We lay no claim to an authoritative typology of development results here. In a domestic public policy setting, configuring the framework for capturing and assessing policy impacts rests with government and civil society. At a global level, the SDGs provide the most comprehensive and widely accepted results framework. But the SDGs will

not necessarily align tightly with the way governments track the impacts of their policy choices and actions. For example, governments often include among their objectives strengthened security forces, but consideration of policy impacts in the defense and security sector is unlikely to feature so strongly in the results frameworks used by development assistance providers.

Peters (2018) offers a useful reminder that policy impacts are “the effects that policy choices and

policy outputs have on citizens” (p. 4). There can be a tension between what the development community regards as policy priorities and what an individual government considers it has to do to manage domestic constituencies and real-world pressures. The framework for public policy presented in this annex does not suggest that the latter should be made subject to the former, or vice versa. It simply notes that, in considering the development of public policy, both considerations are prominent.

Table 6: Government actions for public services range from direct provision to regulation

How transactions are recorded in the system of national accounts (SNA)	Examples of agencies responsible for a service	Government actions to ensure that services are provided in line with government policy decisions	
Administrative units in government	Direct production of services by ministries and departments in central government	Direct provision of services, for example teaching in state schools	 <p style="text-align: center;">Direct provision</p> <p style="text-align: center;">Regulation</p>
All non-market non-profit institutions that are controlled and more than 50 percent financed by government units	Schools, hospitals, and similar institutions that are funded and controlled largely by central government but not owned by government	Commissioning or funding of services, for example state funding of student places in religious schools that are also required to follow national curricula and standards	
Market producers, controlled by government, selling goods or services at an economically significant price (“public enterprises”), including public financial (quasi-) corporations and public non-financial (quasi-) corporations, as defined by S. 11 and S.12 in the SNA	Publicly owned banks, publicly owned harbors, airports	Commissioning or funding of services, for example state funding of socially significant ferry routes with requirements concerning frequency	
Market producers whose indirect public funding comprises more than 50 percent of total revenue, including non-profit and for-profit institutions, as defined by S.11, S.12 in the SNA	For-profit or non-profit private hospitals accessible to publicly insured clients	Regulation and commissioning or funding, for example regulation of hospitals concerning provision of care to uninsured patients and reimbursement mechanisms	
Non-profit institutions serving households, financed more than 50 percent by government, but not controlled by government, including non-profit institutions serving households, as defined by S.15 in the SNA	Schools, hospitals, and other institutions that are funded largely by government but neither owned nor controlled by government	Regulation and commissioning or funding, for example education vouchers and regulation of schools that can accept them	
Private enterprises with a distinctive and statutorily privileged market position, including private sector utilities licensed to operate in limited markets (such as water, energy, sewage, waste disposal, and postal services, but not telecommunications) and legal monopolies, as defined by S.11 in the SNA	Energy companies, local public transport companies, national train company	Regulation, for example requiring minimum service standards	
Market producers not financed or controlled by government	Private enterprises	Regulation, for example concerning transparency in sales of services	
Non-profit institutions serving households, not financed or controlled by government	Charities	Regulation, for example concerning equity in treatment of applicants for assistance	

Note: Some classifications in this table were developed by Pilichowski and Turkisch (2008). This table omits social security funds at each level of government—for example, a health fund, unemployment fund, or pension fund—which are included in the SNA.

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Annex C: Public financial management reforms in context

Technical reforms in how money, people, and organizations are managed within the public sector—and how risk is shared among the various actors who are responsible for producing public services—have been common in advanced and developing economies over the last three decades. The selections at a particular time in a particular place might vary, but the overall menu (set out below) is likely to be familiar to many public managers.

Introducing new institutional options for managing budgetary practices and compensation and careers are the most well-known. Both of these areas have been associated closely with the development of

performance metrics, generally for informational purposes but with growing use of spending reviews that draw on performance evaluations to create fiscal space for higher-priority spending or for deficit reduction.

In many advanced economies, changes to budgetary procedures since 2008 have also been driven by fiscal consolidation in the wake of economic downturn. Many recent developments in the establishment of fiscal rules (for example, numerical limits on budgetary aggregates), bolstered by the creation of independent fiscal institutions that provide independent analysis of fiscal policy and long-term fiscal sustainability and by the monitoring of compliance with fiscal rules, were driven by consolidation experiences (IMF, 2010; Lassen, 2010; OECD, 2010).

Table 7: Recent public sector reforms

Public sector domain	Common reform measures and innovations
Institutional changes for budgeting and public financial management	
Budget practices and procedures	<ul style="list-style-type: none"> • Input-oriented line item budget—incremental or with some performance information • Budget procedures and timing based around performance reporting in the 1990s • Consideration of accruals budgeting • <i>Use of fiscal rules (expenditure, budget balance, debt, and revenue) and establishment of independent fiscal institutions</i> • <i>Medium-term perspective in budget preparation, top-down budgeting, and budget flexibility (for example, the carryover of unused funds)</i> • <i>Fiscal transparency</i>
Accounting	<ul style="list-style-type: none"> • Cash-based • Double-entry bookkeeping • <i>Accrual accounting with extended cost calculation supported by performance measurement system</i>
Audit	<ul style="list-style-type: none"> • Traditional financial and compliance audit • <i>Value-for-money focus with elements of performance audit and evaluation</i>
Institutional changes for human resource management in the public sector	
Workforce size and composition	<ul style="list-style-type: none"> • Incentives for workforce reduction • <i>Strategic workforce planning</i> • <i>Greater use of lateral entry, particularly for senior staff</i>
Compensation and careers	<ul style="list-style-type: none"> • Moves toward a position-based system (or even toward the use of a general labor law) • <i>Decentralization of the employer and personnel management functions</i>

Public sector domain	Common reform measures and innovations
	<ul style="list-style-type: none"> • <i>More explicit codes of conduct and codes of ethics</i> • <i>Limited introduction of performance-related pay</i> • <i>Moves toward defined-contribution pension schemes</i> • <i>Creation of senior civil service or equivalent</i>
Institutional changes for regulation, service delivery, and intergovernmental relations	
Regulatory management	<ul style="list-style-type: none"> • <i>Growth in independent regulators</i> • <i>Creation of central bodies for regulatory management</i>
Intergovernmental decentralization	<ul style="list-style-type: none"> • <i>Some functional and fiscal decentralization to subnational governments</i>
Organizational diversification	<ul style="list-style-type: none"> • <i>Unbundling: creation of “arm’s-length” agencies</i> • <i>Delegation of managerial authority within central ministries and departments</i>
Institutional changes for sharing risks	
Outsourcing and public private partnerships	<ul style="list-style-type: none"> • <i>Increased outsourcing</i> • <i>E-procurement</i> • <i>Use of public private partnerships at the expense of traditional infrastructure procurement</i>
Institutional changes for empowering citizens	
Market-based mechanisms	<ul style="list-style-type: none"> • <i>Market-based approaches to delivering public services (including the introduction of user charges and some use of vouchers)</i> • <i>Market-based approaches to delivering internal government services</i> • <i>Market-based approaches to setting regulatory standards or prices</i>
Open government	<ul style="list-style-type: none"> • <i>“Passive” openness: provision of information about services and entitlements through charters; freedom of information legislation</i> • <i>“Active” openness: open government data; open services; open policy making, citizen engagement, and user participation</i> • <i>Extension of offices of ombudsman</i>
E-government	<ul style="list-style-type: none"> • <i>Integrated service delivery, in particular through one-stop shops, based on aligned infrastructure and legal frameworks</i> • <i>Shared back-office services</i> • <i>Applications, data storage, and computing power through cloud computing rather than publicly owned systems</i> • <i>Mobile government</i>

Note: Items in italics are those that have become more prominent within the last three decades.

Sources: This is developed from Manning & Lau (2015) and draws on Joumard, Kongsrud, Nam & Price (2004); OECD (2005a, 2005b, 2007, 2009, 2011, 2013); and Pollitt & Bouckaert (2011).

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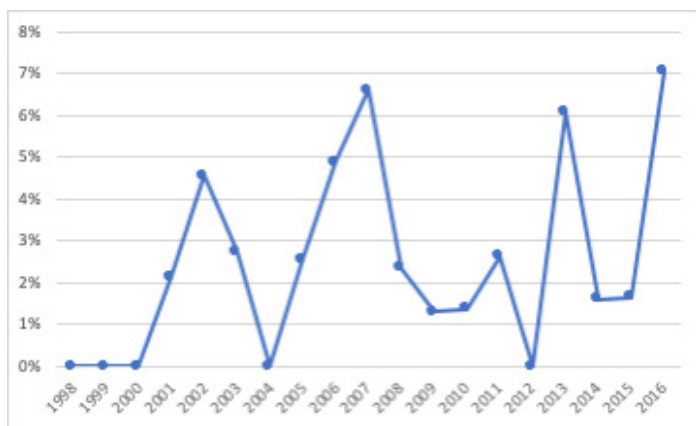
Annex D: PFM focus within World Bank sector activities

World Bank project data allows analysis of activities by Global Practice (the World Bank’s 15 Global Practices map roughly to the “sector,” or the part of the economy that the activity is supporting)¹ and by theme (the specific purposes of the support).² Theme taxonomies were changed in 2017, so longer time series data are available only before that date. Examining the proportion of activities within a particular Global Practice that

contain significant PFM thematic content³ gives a snapshot of the changing significance of PFM as a body of knowledge and area of concern within that Global Practice.

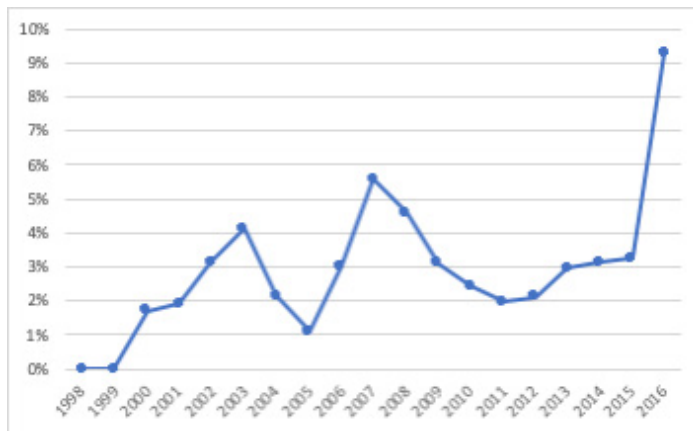
The activities shown in the figures below encompass all lending instruments (except those that were closed before implementation) by year of approval, including development policy loans, investments, Program for Results, non-project technical assistance, and other advisory services and analytics.

Figure 6: Proportion of activities with a significant PFM component in the Health, Nutrition, and Population Global Practice



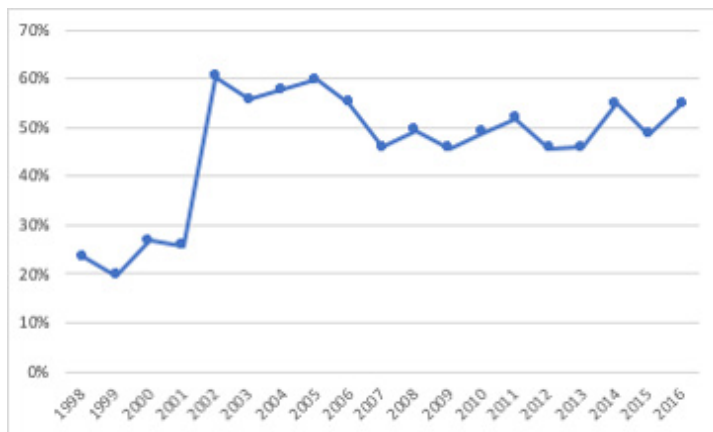
Note: The activities included contain at least 30% PFM thematic focus.
Source: Authors’ calculations from World Bank project data.

Figure 7: Proportion of activities with a significant PFM component in the Education Global Practice



Note: The activities included contain at least 30% PFM thematic focus.
Source: Authors' calculations from World Bank project data.

Figure 8: Proportion of activities with a significant PFM component in the Governance Global Practice



Note: The activities included contain at least 30% PFM thematic focus.
Source: Authors' calculations from World Bank project data.

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Annex E: The quality of data on development financing for PFM

Determining the size or impact of mainstream donor influence on PFM reform in client countries remains a daunting challenge, constrained by data weaknesses and definitional difficulties (AlphaBeta, 2018). Current measures of development financing for PFM stem largely from OECD DAC data on official development assistance (ODA).¹ These data can be somewhat problematic, but it is likely that accompanying data on other official flows (OOF) are even more poorly captured (Hynes & Scott, 2013).

ODA captures official aid from most major providers, whether they are formal members of the OECD’s DAC (such as the United States, United Kingdom, France, and Germany) or have a reporting relationship with DAC (including Russia, Turkey, the United Arab Emirates, Kuwait, and Saudi Arabia). Other donors do not currently report to DAC (including China, Brazil, India, and Qatar). ODA funds are channeled largely via multilateral and regional development banks as well as bilateral foreign affairs, finance, and development ministries and agencies. Under the OECD’s classification, Public Finance Management (code 15111) is classified as part of the subgroup Government and Civil Society (code 151). PFM includes donors’ efforts to assist countries in fiscal policy design and implementation, together with more narrowly defined PFM reforms such as revenue collection, expenditure management, and public debt management. Currently available data track annual financial flows from DAC countries, multilateral agencies, and regional development banks from 2002 to 2016.²

OOF data are recorded separately, recognizing a proportion of loans at market or near-market interest rates and bilateral export credits. OOFs are largely loans for general development or fiscal reforms, or other similar activities. Reported OOF disbursements for PFM are widely thought to be somewhat inflated, with a significant proportion supporting fiscal policy reforms. It is estimated

that the proportion of OOF spent on PFM lies, in reality, between 5 and 20 percent of what was reported.

Other financial flows are not captured in ODA or OOF totals:

- The IMF has noted that, in recent years, China has become the largest single trading partner for Africa and a key investor and provider of aid. Moreover, China has become the largest financier of Africa’s infrastructure, accounting for around one-third of total financing. Chinese banks have provided around US\$ 132 billion in financing to Africa and Latin American countries since 2003 (Bräutigam & Gallagher, 2014; Evans, 2018; Gallagher, 2016; IMF, 2013; Lin & Wang, 2017).
- Besides China, new government funders of development activities are emerging, with so-called “non-traditional” development actors (such as India and Turkey) growing in their indirect influence on the field of PFM and on PFM reform advice in lower-income countries. Over the past 10 years, these (non-China) emerging economies have become major sources of international development finance, infrastructure investment, and outward foreign direct investment.
- Some funding is provided by large-scale private philanthropy, and this can be construed as quasi-official support. The Bill & Melinda Gates Foundation, for example, now reports to DAC and is increasingly deemed to hold de facto official status.³

Total non-ODA, non-OOF financing that is provided for PFM is likely to be small (AlphaBeta, 2018). The picture may change, however, with the development of measures of “total official support for sustainable development” (TOSSD) as a complement to ODA. This new measure may provide a clearer indication of the resources invested to achieve sustainable development. It is expected to encompass all financing provided by official bilateral and multilateral institutions, regardless of the level of concessionality involved

or the instrument used—whether grants, loans, or other equity—and to include contributions to global public goods. In sum, while current ODA totals measure the grant equivalent of resource flows, registering donor “effort” in making resources available, the new measure will consider the full face value of the flow (gross amounts),

thereby providing a fuller picture of resources available to developing countries (Benn & Ibanez, 2018). As yet, we do not have estimates of the likely differences that might be picked up by the use of the TOSSD methodology (Delalande, Rühmann, Bejraoui & Benn, 2019).

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Annex F: Mapping of PFM assessment frameworks

The 2005 Paris Declaration on Aid Effectiveness committed donors to harmonizing diagnostic reviews and assessment frameworks for PFM to lessen the burden on governments. The Public Expenditure and Financial Accountability (PEFA) program led the field, but assessments have subsequently proliferated, with the World Bank’s Debt Management Performance Assessment (DeMPA), the IMF’s Tax Administration Diagnostic Assessment Tool (TADAT), and the Public Investment Management Assessment tool (PIMA) among the most well-known. A recent review (PEFA Secretariat, 2018b) identified 45 distinct frameworks for assessing PFM performance (Table 8), some of which cover the entire government PFM system, while others were

developed exclusively for assessing subnational governments, for evaluating specific elements of the PFM system, or for development partners to assess fiduciary risk.

These tools make a distinction between measures for “benchmarking against good practices, professional standards or thematic principles” and “database tool(s) for comparison across governments” (PEFA Secretariat, 2018b, p. 10). The former seem to be standards, particularly when they entail a non-narrative scoring system.

There is some uncertainty about terminology. It seems that these should be referred to as assessment tools rather than diagnostic tools, since they assess against a framework rather than identifying some underlying pathology. Yet they are called diagnostic tools in much of the literature. This report uses the terms “assessment frameworks” and “assessment tools.”

Table 8: Mapping of PFM assessment tools

Custodian	Tool	Technical Coverage	Institutional Coverage
A. Broad PFM diagnostics: diagnostic or analytical tools covering the whole of the PFM system			
PEFA	PEFA Framework for Assessing Public Financial Management	All of PFM	National Subnational
IMF	Fiscal Transparency Evaluation (FTE)	Transparency in all of PFM	National
OECD	Recommendation of the Council on Budgetary Governance (RCBG)	All of PFM	National
OECD	International Budget Practices & Procedures Database (IBPPD)	All of PFM	National
OECD	SIGMA Principles of Public Administration (PPA)	All of PFM Public administration broadly	National
International Budget Partnership	Open Budget Survey (OBS)	Transparency in all of PFM	National
Global Initiative for Fiscal Transparency	Principles on Fiscal Transparency (PFT)	Transparency in all of PFM	National
World Bank	Public Expenditure Review (PER)	Expenditure policy Expenditure administration	National Subnational Sector
European Union	ECFIN Operational Assessment (OA)	All of PFM	National

Custodian	Tool	Technical Coverage	Institutional Coverage
World Bank	Rapid Assessments and Action Plans to Improve Delivery in Subnational Government (RAAP-ID)	All of PFM Development outcomes and outputs	Subnational
World Bank	MiGestion Institutional Capacity Diagnostic	All of PFM Public administration broadly	Subnational
Council of Europe	Benchmarking Fiscal Decentralisation (BFD)	Fiscal decentralization	Subnational
B. Diagnostic tools that focus on individual PFM elements, institutions, or sub-systems			
IMF	Tax Administration Diagnostic Assessment Tool (TADAT)	Revenue administration	National
World Bank	Integrated Assessment Model for Tax Administration (IAMTAX)	Revenue administration	National
OECD	Tax Administration Comparative Information Series on OECD and other Advanced and Emerging Economies (TACIS)	Revenue administration	National
USAID	Collecting Taxes Database (CTD)	Revenue administration	National
European Union	Fiscal Blueprints (EU-FB)	Revenue administration	National
World Bank	Handbook for Tax Simplification (HTS)	Revenue administration	National
IMF	Revenue Administration Fiscal Information Toolkit (RA-FIT)	Revenue administration	National
IMF	Revenue Administration Gap Analysis Program (RA-GAP)	Revenue administration	National Sector
World Bank	Customs Assessment Trade Toolkit (CATT)	Revenue administration Trade facilitation	National
EITI	Extractive Industries Transparency Initiative (EITI)	National resource Revenue administration Expenditure management	National Subnational
World Bank	State Owned Enterprise Corporate Governance and Risk Toolkit (SoE Toolkit)	Public corporations	National Sector Single institution
World Bank	Debt Management Performance Assessment (DeMPA)	Debt management	National
IMF	Public Investment Management Assessment (PIMA)	Investment management	National
World Bank	Diagnostic Framework for Assessing Public Investment Management (DF-PIM)	Investment management	National Subnational
OECD	Methodology for Assessing Procurement Systems (MAPS)	Procurement	National
World Bank	Public Expenditure Tracking Surveys (PETS)	Expenditure management	National Subnational Sector

Custodian	Tool	Technical Coverage	Institutional Coverage
World Bank	Diagnostic Framework to Assess the Capacity of a Government Financial Management Information System as a Budget Management Tool (DF-FMIS)	Management information systems	National
International Records Management Trust	Integrating Records Management in FMIS Design (IRM-FMIS)	Records management	National Subnational Single institution
World Bank	Gap Analysis Framework for Comparing Public Sector Accounting and Auditing to International Standards (AA-GAP)	Accounting Auditing	National
World Bank	Report on the Observance of Standards and Codes Accounting and Auditing (AA-ROSC) covering accounting and auditing, corporate governance, and insolvency and creditor rights	Public corporations	National
Institute of Internal Auditors	Internal Audit Capability Model (IA-CM)	Internal audit	National Single institution
International Organization of Supreme Audit Institutions	Supreme Audit Institution Performance Measurement Framework (SAI-PMF)	External audit	National
African Organisation of English-Speaking Supreme Audit Institutions	Institutional Capacity Building Framework (ICBF)	External audit	National
Chartered Institute of Public Finance and Accountancy	Financial Management Model (FMM)	All of PFM	Single institution
<i>C. Tools used by development partners to make decisions on fiduciary risk</i>			
ADB	Assessing and Managing Governance Risks in ADB Operations (AMGR)	All of PFM	National Subnational Sector
ADB	Financial Management Assessment (FMA)	All of PFM	Single institution
IADB	Tool for Determining the Level of Development and Use of PFM Systems (GUS)	All of PFM	National Subnational
World Bank	Assessment of the Use of Country Financial Management Systems in Bank-Financed Investment Projects	Cash and expenditure management	National Subnational

Custodian	Tool	Technical Coverage	Institutional Coverage
European Union	Budget Support Guidelines (EU-BSG)	All of PFM	National Subnational Sector
DFID	Fiduciary Risk Assessment (FRA)	All of PFM	National Subnational
Federal Ministry for Economic Cooperation and Development, Germany (BMZ)	Budget Support in the Framework of Programme-Oriented Joint Financing (BMZ-BSG)	All of PFM	National
Danish Development Cooperation (DANIDA)	Guidelines for Risk Management (GRM)	All of PFM	National
USAID	PFM Risk Assessment Framework (PFMRAF)	All of PFM	National Subnational Sector

Source: Adapted from PEFA Secretariat (2018).

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Annex G: Relating the institutional and economic perspectives on PFM—a thought experiment

Among the most difficult and elusive questions explored by the Working Group was the one that may sound as if it should be the most straightforward: how does PFM relate to public finance? Part of the challenge is that PFM has established its own standard objectives or “desirable budgetary outcomes” (Campos & Pradhan, 1996; Schick, 1998; World Bank, 1998), which exist alongside, and somewhat independently of, the classic public finance policy objectives (Musgrave & Musgrave, 1989). This observation prompted the Working Group to ask how the two sets of objectives might relate to one another—whether incidentally or intentionally.

It is striking that very few papers in the canon of PFM literature since the mid-1990s even reference Musgrave and Musgrave (1989). Notable exceptions are Fozzard’s analysis of approaches to resource allocation in budget policy (2001) and de Renzio’s review defining budget institutions and their desirable features (2009). To the extent that it was a conscious choice over the past 25 years to keep PFM and public finance policy separate (Premchand, 1996), has that dichotomy become too entrenched? Is it time for a reappraisal?

Conventional thinking on PFM since the late 1990s has concentrated on identifying and strengthening the elements of a PFM system that will contribute to budget credibility and, thereafter, to the goals of aggregate fiscal discipline, allocative efficiency, and operational efficiency.

The total amount of money a government spends should be closely aligned to what is affordable over the medium term and, in turn, with the annual budget; spending should be appropriately allocated to match policy priorities; and the spending should produce intended results at least cost. (World Bank, 1998, p. 3)

These PFM objectives are often described as “desirable budgetary outcomes” (Campos & Pradhan, 1996), although the labelling as outcomes is misleading. They are arguably more like the means to an end than the end itself. Drawing on literature about the administrative capacities of the state, they might better be considered as a set of institutional capabilities through which the PFM system can support wider public policy objectives (Krause et al., 2016; Lodge & Wegrich, 2014). What is certain is that these capabilities (or standard PFM objectives, as described in this report) have been highly influential in producing and reinforcing a strong set of conventions for how the underpinning PFM system should look. This leads to a further question: do the recommended PFM capabilities enable governments to make informed choices across all policy objectives, or do they tilt the policy playing field? In other words, is there a policy bias inherent in the three PFM capabilities?

Although the classic formulation of public finance policy objectives—allocation, distribution, and stabilization (Musgrave & Musgrave, 1989)—predates the three PFM capabilities—aggregate fiscal discipline, allocative efficiency, and operational efficiency—it does not appear to have driven their development and specification. The fit between the two sets is ambiguous and imperfect (de Renzio, 2009).

Table 9 below conducts a thought experiment about some of these relationships. It asks in which ways the three PFM capabilities may be relevant to the three public finance objectives and suggests the relative strengths of those connections. What emerges is a moderate-to-strong orientation of standard PFM capabilities toward stabilization and allocation, but only a weak-to-moderate orientation toward distribution. (The analysis assumes that operational efficiency does not have a strong implicit focus on the quality and accessibility of service delivery.)

This focus on objectives compatible with stabilization is not surprising given the prime

placement of aggregate fiscal discipline in the trinity of PFM capabilities and its conventional primacy in the hierarchy. The emergence of this formulation in the late 1990s, at a time when macroeconomic stabilization was high on the fiscal policy agenda and when debt forgiveness under the Heavily Indebted Poor Countries initiative was prominent, makes it more evident why aggregate fiscal discipline was emphasized (Premchand, 1996). To a secondary and subordinate extent, expenditure allocation and efficiency (allocative and operational efficiency) were on the agenda because of concern about the use of fiscal space following debt relief and in the presence of program/budget support. Distributional concerns such as inequality were less in focus for fiscal

policy and appear to receive less emphasis among the PFM capabilities.

What is revealed most clearly is that the PFM capabilities as laid out by Campos and Pradhan (1996) appear to lack an emphasis on distributional issues, whereas the public finance functions described by Musgrave and Musgrave (1989) appear not to focus on the choice of instrument (or mode of delivery/intervention by government). There seems to have been no intention by the original proponents of the three PFM capabilities to relate them to the three objectives of public finance. This exercise lends weight to the argument that some reappraisal and debate may be needed. To borrow from Premchand (1996), the “hierophanies” of PFM may need to be reconsidered.

Table 9: Capabilities of an effective PFM system and their relationship to public finance objectives

		Public finance objectives (Musgrave & Musgrave, 1989)		
		Allocation: “The provision for social goods, or the process by which total resource use is divided between private and social goods and by which the mix of social goods is chosen. This provision may be termed the <i>allocation function</i> of budget policy” (p. 6).	Distribution: “Adjustment of the distribution of income and wealth to ensure conformance with what society considers a ‘fair’ or ‘just’ state of distribution, here referred to as the <i>distribution function</i> ” (p. 6).	Stabilization: “The use of budget policy as a means of maintaining high employment, a reasonable degree of price level stability, and an appropriate rate of economic growth, with allowances for effects on trade and on the balance of payments. We refer to all these objectives as the <i>stabilization function</i> ” (p. 6).
Institutional capabilities of the PFM system (Schick, 1998; Campos & Pradhan, 1996; World Bank, 1998; PEFA Secretariat, 2016)	Aggregate Fiscal Discipline: “Budget totals should be the result of explicit, enforced decisions; they should not merely accommodate spending demands. These totals should be set before individual spending decisions are made, and should be sustainable over the medium-term and beyond” (Schick, 1998, p. 2).	Fiscal discipline is relevant for allocation because it determines and fixes the overall levels of public revenue and expenditure, thus effectively setting the level of social goods in the economy. <u>Moderate relationship</u>	Fiscal discipline is relevant for distribution because it ensures that the agreed levels of public revenue and expenditure are not breached, thus making it feasible for distributional incidence implied by the budget to be implemented in practice. <u>Weak relationship</u>	Fiscal discipline is relevant for stabilization because it ensures aggregate control over revenue and expenditure levels, thus keeping debt and deficit levels within agreed policy thresholds and supporting broader macroeconomic management. <u>Strong relationship</u>
	Allocative Efficiency: “Expenditures should be based on government priorities and on effectiveness of public programs. The budget system should spur reallocation from lesser to higher priorities and from less to more effective programs” (Schick, 1998, p. 2).	Allocative efficiency is relevant for allocation because it determines the mix of social goods, based on political priorities and program effectiveness. <u>Strong relationship</u>	Allocative efficiency is relevant for distribution because decisions about the composition of public expenditure across sectors and public programs will determine directly, or affect indirectly, the distributional incidence of the budget. <u>Weak relationship</u>	Allocative efficiency is relevant for stabilization because decisions about the spread of public expenditure across sectors and programs may affect the balances of consumption/ investment, wage bill/goods, imports/ exports, and so on, with knock-on effects for macroeconomic variables. <u>Moderate relationship</u>
	Operational Efficiency: “Agencies should produce goods and services at a cost that achieves ongoing efficiency gains and (to the extent appropriate) is competitive with market prices” (Schick, 1998, p. 2)	Operational efficiency is relevant for allocation because efficiency gains (or losses) and thus savings (or overspending) within or across years may lead to changes in the composition of spending, and thus the mix of social goods. <u>Weak relationship</u>	Operational efficiency is relevant for distribution because the mix of inputs in providing social goods may affect public sector employment and thus incomes, and the degree of flexibility may affect wage levels. <u>Weak relationship</u>	Operational efficiency is relevant for stabilization because unit costs and output efficiency may have an indirect effect on prices, and outsourcing of production or provision to the private sector may have an effect on the economy. <u>Weak relationship</u>

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Annex H: A partial summary of PFM research

In looking for cause and effect in moving between “PFM interventions” and “results that matter,” it is useful to review the causal evidence that: (i) interventions as the unit of analysis have led to improved conformity with basic conventions in PFM; and (ii) they have led, along whatever route, to improvements in final results that matter. We can also consider: (iii) whether the norms and standards as the unit of analysis are themselves associated with better results.

Given the high “causal density” (Woolcock, 2013, p. 8) of the territory, with many factors in addition to planned PFM development interventions possibly leading to change, we can also look at observed improvements and ask what caused them. The questions here are: (iv) whether there is a credible case that improvements at the national level as the unit of analysis are attributable to development interventions; (v) whether any improved results are attributable to improvements in conformity with the PFM conventions; and (vi) whether improved conformity is itself attributable to donor interventions (Figure 9).

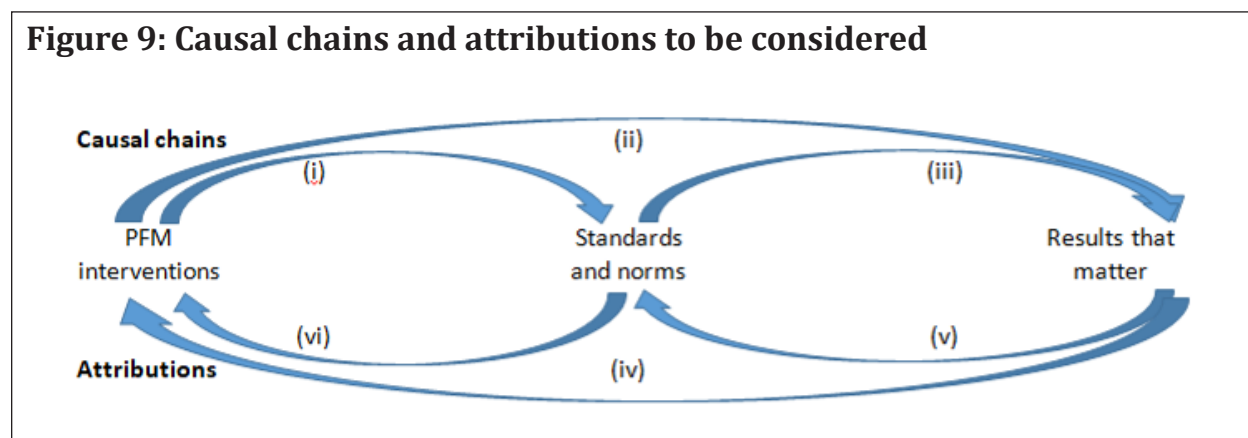


Table 10 offers a partial summary of the literature reviewed for this report, with some representative research summaries shown.

Table 10: A partial summary of key research

Element of the results chain	Summary of evidence
(i) Did interventions lead to improved conformity with the conventions?	<p>Limited evidence</p> <p>There is some broad evidence that budget support can improve the conformity of financial management and budget processes with standard conventions (Orth et al., 2017, for example). A much earlier study found that improvements in PFM (then measured using the Country Policy and Institutional Assessment, or CPIA) had taken place in the majority of countries that obtained projects in those areas (IEG, 2008).</p> <p>Most recently, however, Fritz et al. (2017) found that, despite efforts made to strengthen PFM systems in developing countries over many years, for all low- and middle-income countries collectively, both the PEFA indicators and the CPIA-13 indicator showed only small aggregate improvement over time.</p> <p>The observation made by de Renzio et al. (2010) remains a confounding factor: there is a possibility that donors back winners or maybe losers, suggesting that study results could incorporate unknown degrees of bias in either direction.</p>

Element of the results chain	Summary of evidence
(ii) Did interventions lead, along whatever route, to improvements in final fiscal results that matter?	<p>Some evidence—particularly concerning participation and consultation</p> <p>De Lay et al. (2015) mapped interventions to results, finding that interventions could improve the policy relevance of resource allocation, transparency, and scrutiny. They found that reforms that improved participation and consultation had the greatest impact.</p>
(iii) Did conformity with the conventions lead to better results?	<p>Some evidence—particularly concerning openness and transparency</p> <p>Studies that focus on the introduction of specific institutional arrangements and practices show that these have some, although rather limited, impact on results (see, for example, Goryakin et al., 2017; Mills, 2018). Welham et al. (2017) find that better PFM is associated with lower variances in overall budget execution rates and that a better PFM system yields lower under-five and infant mortality, and higher life expectancy at birth.</p> <p>In reviewing case studies of fragile states undergoing PFM reform, Hedger, Krause, and Tavakoli (2012) found that it was not clear if and when progress on PFM reform would contribute to the state’s participation in service delivery (World Bank, 2012).</p> <p>The imposition of fiscal rules (numerical limits on budgetary aggregates), driven by recent experiences of fiscal consolidation (IMF, 2010; Lassen, 2010; OECD, 2010), has at best a marginal impact on actual behaviors. The World Bank (2012) was more positive with regard to the impact of MTEFs on fiscal discipline, but noted that the impact of MTEF adoption on technical efficiency is less pronounced.</p> <p>In analysis by Mustapha and Long (2019), countries that credibly enforced penalties for non-compliance collected more taxes. Knack, Biletska, and Kacker (2017) found that stronger procurement procedures led to fewer kickbacks. de Renzio and Wehner (2017) found that fiscal openness had a beneficial impact.</p> <p>However, Mustapha and Long (2019) and Fritz, Sweet, and Verhoeven (2014) found no statistically significant relationship between a PEFA-based measure of overall PFM quality and the fiscal balance in both non-fragile and fragile states, consistent with Alesina et al. (1999) and von Hagen and Harden (1995).</p>
(iv) Is there a credible case that improved results at the national or sector level are attributable to development interventions?	<p>No evidence either way</p> <p>There is evidence of general development progress, but this is not evidently attributable to PFM (see, for example, Radelet, 2015). The same applies to major sector improvements, as in the health sector (Morrison, 2013).</p>
(v) Are any improvements in results attributable to improvements in conformity with conventions?	<p>Little evidence that improvements are attributable to PFM</p> <p>A recent review of health service delivery improvements and the degree to which these were driven by PFM reforms, seemingly assessed largely in terms of conformity with accepted PFM conventions, found that there is little evidence of a causal relationship and the results are often conflicting (Welham et al., 2017).</p>

Element of the results chain	Summary of evidence
(vi) Is improved conformity with the PFM conventions attributable to donor interventions?	<p>No evidence either way</p> <p>This is difficult to answer, as there is limited evidence of improved conformity with PFM conventions (see, for example, Vani, 2012). de Renzio et al. (2010) found a mixed picture in Sub-Saharan Africa, although the German Society for International Cooperation (GIZ, 2015) found a slightly more positive trend. Ronsholt (2012) found a somewhat positive picture in examining changes in PEFA scores over time in 32 countries that had been the subject of repeat PEFA assessments.</p> <p>Lawson (2012) looked at countries where budget institutions had improved, both those with “high donor effort” (Burkina Faso, Tanzania, and Zambia) and those with “low donor effort” (Ethiopia, Ghana, and Mali). They were able to say little about how the donor interventions might have caused the institutional improvements, other than through recognized generalities like strong political commitment, reform designs and implementation models that were suited to the context, and strong government-led coordination arrangements.</p> <p>Fritz et al. (2017) analyzed the causes of cross-country variations in the quality of PFM systems, finding these to be associated most significantly and robustly with country income per capita (positively) and the share of revenues obtained from natural resources (negatively). These findings are consistent with de Renzio et al. (2010) concerning the weak correlation between PFM systems and ODA support for PFM reform. To the extent that there is any improvement in PEFA scores, de Renzio et al. (2010) showed that most country variation in PFM quality is due to economic and institutional factors.</p>

Note: The units of analysis are italicized.

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Annex I: The elusive hope of incorporating context

Problems in providing effective technical assistance (or technical cooperation or capacity building) are perplexingly persistent. Observations made in 2001 are not vastly different from those that might be made today:

In contrast to the historical process of countries purchasing skills and know-how from suppliers, the relationship now appears very different...

- **Control:** Demand was manufactured, not self-generated. The capacity gaps came to be perceived and funded by donor country governments, not the recipients, and control of the transfer arrangements shifted accordingly. The recipient countries owned neither the gaps nor the resources put up to fill them. For as long as there has been aid, there have been concerns about country ownership.
- **Public sector bias:** The reversal of control was facilitated by the fact that aid was in the public funding domain of the donors. This had various consequences:
 - o Technical cooperation became the preserve of bureaucratic minds and processes in the donor countries, with an often limited comprehension of the

character and context of the recipient countries;

- o Each donor bureaucracy devised its own set of procedures and practices for administering [technical cooperation], resulting in a proliferation of administrative paperwork;
- o “Projectization” became a feature. Technical cooperation was conceived in time- and money-bound segments, a configuration which best suited public spending patterns.
- **Accountability:** Aid had key stakeholders in the donor countries, but beneficiaries elsewhere, setting up a potential tension between two sets of objectives.
 - o The stakeholders had expectations of how aid should “perform”, and the criteria of success were often commercial, political or in other ways strategically significant, rather than developmental. (Morgan, 2001, as cited in Browne, 2002, pp. 19–20)

These observations themselves showed that the hope that the United Nations Development Programme’s (UNDP) 1993 report on rethinking technical cooperation (Berg, 1993) would represent a “breakthrough in critical thinking” had not been fulfilled (Table 11).

Table 11: Adaptive Management, Doing Development Differently, and Thinking and Working Politically vs. Berg’s ideas from the early 1990s

Theme	Andrews (2012)	Teskey & Tyrrel (2017)	Green (2018)	Berg (1993)
Bigger view		Must be able to develop multiple theories of change or theories of action (in particular, political action) for every problem	Systems thinking: constant interaction and feedback mechanisms between economic, social, and political factors that can variously enable and inhibit change	Focus on the wider public sector environment within which new systems are meant to work
Learn as you go	Problem-driven learning Purposive muddling	Embedded monitoring and learning	Uncertainty and learning by doing/ failing; nature of the problem not known in advance	
Local solutions	Welcome local hybrid institutions if they function Mobilize local agents into communities of change	Prioritize tacit knowledge, focus on recruiting staff with political knowledge and “insider” networks specific to the reform problem at hand High numbers of national staff in program management positions	Give priority to local knowledge: “always give the work back to government—it’s a coaching role, not us doing the work” (as quoted in Green, 2018)	Prioritize cultural sensitivity over technical competence Greater focus on training/capacity building and coaching and on using local staff
Flexibility in allocation of resources and in definition of objectives		Ability to make activity and budget modifications; adapting the program in real time Delegation of discretion over budget, activity decisions, and local networks/ relationships to program managers	Opposite of donors’ preference for control, logframes, risk minimization, and predictable, tangible results	Delegation to local staff Move beyond projects to programs <i>Emphasize measurable outputs</i>
Some things just have to be done				<i>Don’t be ashamed of filling gaps if that is what is needed</i>

Theme	Andrews (2012)	Teskey & Tyrrel (2017)	Green (2018)	Berg (1993)
Change the donor architecture				Expose/create a market for technical assistance; charge full price (even if government is reimbursed by donors in some way) and unbundle projects/programs so that governments can pick and choose what they want

Note: Italicized phrases are those that are different from or not found in the other ideas.

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Annex J: Evolution in theories of externally supported change in the public sector

models for achieving change—each of which has appeared to be clear and self-standing until the next one arrived (Pretorius & Pretorius, 2009).

Historically, the field of PFM advice has been prone to advancing a series of relatively distinct

Table 12: Stylized theories of growth and of externally supported change in public management

Decade	Broad theories of economic growth	Theories about public sector reform	
		Theories of externally supported change	Underlying ideas
1960s	Development promotion more about capital flows, less about government policies and institutions. Emphasis on capital accumulation, technological adoption, and import substitution under state guidance.	Theories of public sector institutional reform were implicit, comprising embedded and unstated assumptions about filling capacity gaps (knowledge, ability, technical expertise), particularly in newly independent countries.	Gap filling in capital and in capacity
1970s	Capital flows not enough; turn to macro policies.		
1980s	Macro not enough; turn to a more comprehensive package, including fiscal discipline, broadening of the tax base, and outward orientation through freeing and enabling markets. Emergence of the Washington Consensus (Williamson, 1989). ¹	Theories of public sector management reform begin to emerge more explicitly, with a greater focus on incentives inside the public sector that can be changed through the transfer of best practices (Levy, 2010). Broader incentives of state actors, including politicians, excluded from debate.	Reform content begins to dominate (as in, this reform is universally the right thing to do).
1990s	Donors see high growth in mediocre policy environments, slow growth in good policy environments. Policies not enough; turn to “institutions” within “new growth theory” (World Bank, 2005), though the notion of institutions is broadly and ambiguously articulated.	High noon of “fiscal machinery” perspective (Premchand, 2000), with its emphasis on linking expenditures, at least conceptually, with outcomes (World Bank, 1998). “Basics first” makes an appearance (Schick, 1998).	
2000s	Begin to add “political incentives to pursue development” into the mix. Demise of the original Washington Consensus; some argue that inadequate attention was paid to original institutional concerns of the Washington Consensus (Singh et al., 2005), others that the list of institutional	Theories become more explicit about matching reform content to the country institutional context. Good fit develops as a concern (World Bank, 2000). Contextual considerations broadened to include political actors’ incentives to implement reform. Increasing concern with shaping interventions to meet political realities; nibbling away at	

Decade	Broad theories of economic growth	Theories about public sector reform	
		Theories of externally supported change	Underlying ideas
	concerns needed to be augmented (Rodrik, 2006).	political constraints at the margin (as in transparency initiatives (UNDESA, 2001)). The concept of context also deepened to extend to sequencing theories, such as the PFM platform approach (Brooke, 2003) and the “Strengthened Approach” (Joint World Bank/IMF/PEFA Public Expenditure Working Group, 2006).	
2005 and beyond	Continuing slow progress suggests need for experimentation/ diversity. Recognition that there are multiple paths. “Another mistake...in the 1990s has been the translation of general policy principles into a unique set of actions” (World Bank, 2005, p. 11). Overall, argument for moving away from formulaic policy making to focus on binding constraint(s).	Theories start to embrace actors’ subjective understanding of the reform process more directly, since the problem that is to be solved in public sector management reforms is not primarily “technical” but “adaptive” (Heifetz, 1994). Notions of change space emerge (Andrews, 2013).	The process of understanding the problem has now become the first-order task. Context remains critical, and reform content is whatever can be contained within the space that is found to be available.
2010 and beyond	Social mobilization is associated with changed political incentives that constrain growth, although there remains uncertainty about which way the causality runs (Fukuyama, 2010; Rodrik, 2011). Infrastructure begins to take a larger place in policy discussions.	Theories start to suggest that intervention requires a finer-grained view of the context (Kelsall, Booth, Cammack & Golooba-Mutebi, 2011). Good governance can sometimes be demanded, and changing political incentives to supply good governance may mean improving citizen capacity to demand good governance.	The process of understanding the problem remains preeminent, but context considerations have become more complex. Reform content is the residual.

Source: This table draws on World Bank (2005, 2012).

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Annex K: Putting external contestation of policy ideas into practice

Institutionalized and disinterested contestation of external policy ideas and advice will require effort, as well as a change among and within development assistance providers. Client governments could draw more actively on multiple sources of advice to inform their own independent positions and choices. That would require structured contestation among providers. At the same time, international agencies and other providers of external advice could introduce greater contestation of ideas as part of their internal processes. They would need to become more accustomed to their advice being contested by client governments and compared to alternative ideas and options.

Actions by client governments to promote contestation

Several precedents can help in devising models that support disinterested contestation of ideas among multiple experts. They include the Elders group of wise persons on international affairs, the “Brain Trust” used by Franklin Roosevelt for the first and second New Deal in the 1930s, the G20 Eminent Persons Group on Global Financial Governance in 2017–18, the “Balcerowicz Plan” and commission of experts on economic reforms in Poland in 1989, the Independent Challenge Group for the United Kingdom’s 2010 spending review, the “Brain Trust” of advisers to Shinzo Abe on economic policy from 2012 in Japan, the “Wise Men” of economic forecasting in the United Kingdom in the early 1990s, the “Iwakura Mission” by Japan to the United States and Europe in the 1870s, and the “Tswalu Dialogues” run by the Brenthurst Foundation.¹

None of these examples is advocated as a template for the contestation model proposed here—nor are they without critique and criticism—but they illustrate some possible variants. They all exhibit a notable difference in character compared to standard official mechanisms such as the IMF’s

Article IV reviews and technical assistance missions, the OECD DAC’s peer reviews, and the European Commission’s Structural Reform Support Service missions. In particular, they have the inherent characteristics of a plurality of perspectives beyond those provided by official agencies and the studied absence of any official positions or influences. The plurality of perspectives and views contrasts with the model of individual high-level experts appointed as independent external advisers to governments.

A shift is already underway from the consultant-centric and supply-driven model of advice to one in which multiple advisers present and debate ideas and the government then decides which approach to pursue. China has used this model for external fiscal advice on its domestic reforms, although the incentives at play for such a major economic actor that does not require external funding for advice are somewhat different than those encountered in some other emerging and lower-income economies. Emulating this type of approach would involve a mechanism for independent funding of external advisers and for the government to set the agenda and control the process, separate from the role and influence of development assistance or finance providers and their downstream implementation consultants.

There are some relevant examples of the provision of independent research, evidence, advice, and ideas in lower-income settings to provide alternative options for governments. One is the role played by the International Growth Centre on enterprise mapping and industrial policy in Ethiopia. Other examples, which have been deployed in Ethiopia and Rwanda, include third-party funding for independent advice on tax policy and external review of progress on Integrated Financial Management Information Systems reforms by a group of independent advisers. The former was pre-funded, on-demand advice from the United Kingdom’s Institute for Fiscal Studies, and the latter was a mid-course review function to examine and provide advice on challenges around reform sustainability. In a similar mold,

the G7 CONNEX Initiative provides on-demand independent advisory support to governments of low-income countries in the negotiation of complex commercial contracts in the extractive sector. While institutionalized consideration and contestation of alternative ideas is still novel, these examples show that independent advice and a “second opinion” approach are gaining ground in lower-income countries.

There will inevitably be questions as to whether structured contestation of ideas in a process led by government is applicable and appropriate in all country settings—especially in fragile states. Ethiopia and Rwanda may well be on track to following China’s approach of creating mechanisms for institutionalized consideration of alternative ideas and perspectives. There are legitimate concerns, however, that some other governments may lack capacity to orchestrate and exploit this type of contestation and debate, or that in practice the donors and IFIs that are funders or financiers of government will hold too much passive influence and thus crowd out real choice.

There is no clear indicator or proxy for the conditions that are required in order for contestation of ideas to be feasible and productive. It may be that access to alternative and more diverse sources of external finance, such as international capital markets borrowing on competitive terms, signals government capacity and downgrades donor influence (Haque et al., 2017). It may be that strategic capability in government to articulate priorities and make choices (as distinct from technical capacity to run systems and processes) is the important factor (Fritz et al., 2011; Krause, 2012). It may be that governments need to reach the point where PFM shifts from a technocratic concern of the finance ministry into a broader policy concern for ministers of spending departments, so that it is about government as a whole and not just the finance ministry. Under these circumstances, the salience of results from public spending could override tradition in asserting the importance of particular institutional arrangements for PFM.

The approach taken for the present report is to avoid country categorization and instead to consider how mechanisms can accommodate risks as well as benefits. It seems an unreasonably constraining and short-term—and even condescending—view to argue that some governments cannot cope with options and choice, or that they need not be fully informed about the spillovers and trade-offs associated with particular choices.

Drawing on positive examples of putting external contestation of policy ideas into practice, from the full range of country settings, is an important starting point. As Booth and Unsworth (2014) point out, contestation is often part of the process of working with complex coalitions during reform.

Actions within international agencies to promote contestation

More debate and contestation of ideas is also needed within international agencies to challenge potential policy biases and reveal potential spillovers and trade-offs. The difficulty is to devise mechanisms and provide models that encourage group deliberation among people who may disagree but who have a common interest in developmental outcomes (World Bank, 2014, p. 183). It is a well-established finding that “contestatory modes of communication” are helpful for “more fully exploring all sides of an issue, for uncovering shared information, and for reducing confirmatory bias” (Bächtiger & Gerber, 2014, p. 116) through a process of “collaboration engineering” (Kolfschoten, de Vreede & Briggs, 2010). Within donor agencies there are frequent rejoinders to strengthen the peer review process, “institutionalizing teams that review plans in an explicitly argumentative manner” or creating teams that are institutionally distinct from the proponents to create space for more candor and critique (World Bank, 2014, p. 184). In addition, exhausting available research evidence is necessary, if far from sufficient (Ravallion, 2011).

Behavior change by the international agencies that provide financing and policy advice is difficult to

effect. The need for change and the obstacles to change apply both to these agencies’ approaches to external engagement with client countries and to their internal ways of working in areas such as peer review. The External Advisory Group to a recent IMF review of capacity development noted that: “...even when all parties agree that change would, in principle, be a good thing, [it] is

difficult. Paradoxically perhaps, internally strong and broadly effective organizations, like the Fund, can suffer from status quo bias and inertia. Many of the recommendations require that people in the Fund do things differently than in the past and ... have a more concrete plan for how [to] ... overcome the powerful inertia of “business as usual.” (IMF, 2018a, p. 5).

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Endnotes

Chapter 1

1. The Australian Department for Foreign Affairs and Trade (DFAT), in its note urging development staff to address PFM issues centrally, observes that:

Poor PFM can prevent governments from achieving their policy objectives, create uncertainty for the private sector, and hamper growth and poverty reduction efforts. Unsustainable or volatile spending may cause debt blowouts that limit a government’s capacity to pursue its objectives, and make it hard for the private sector to plan and invest for the future. Inefficient resource allocation means funds may not go to the top priority policies and most effective programs. Inefficient spending wastes scarce public resources and can limit the quality and coverage of public services. Dysfunctional PFM, including low levels of transparency and accountability, also raises the risk of corruption. (DFAT, 2019, p. 3)

DFAT suggests that the relationship must hold true, but the problem in proving the connection more specifically lies in the challenges of evaluating impact (Keating, 2001). In a similar vein, the IMF in its recent review of capacity building for public financial management argues that:

Institutions are the foundation that supports sustainable economic development. They facilitate access to economic opportunities, play a key role in the efficient allocation of resources, and in rewarding human and capital investment, protect property rights and the rule of law, and help build resilience to shocks and crises. (IMF, 2018a, p. 9)
2. Experiences with pro-poor budgeting suggest that there is a dilemma about how starkly to reveal the trade-offs entailed: too stark, and vested interests would ensure that technical warfare over models and assumptions would engulf the budgeting process; too nuanced, and the impact would be lost. The question is how to make distributive impacts a standard feature of policy making and reporting. A useful start could be to add impact statements to the budget and government accounts, but the challenge is to find a stronger and more universal version of the arrangements attempted during the pro-poor budgeting era. Gender budgeting proposals of a few years ago emphasized policy-related expenditure proposals (see, for example, Elson, 1999). More recent proposals for climate change and mitigation approaches advise a more fundamental review of budgetary and accounting procedures as well as options for modeling climate-related spending, suggesting that there are lessons to be learned from recent experiences in examining pension and infrastructure liabilities (Gilmore & St. Clair, 2018).
3. In September 2019, heads of state attended the High-Level Political Forum to review progress on the SDGs. They were confronted with the facts that only 35 percent of low- and middle-income countries are “on track” to achieve SDG targets related to meeting basic needs that are essential for a decent quality of life (such as proper nutrition, access to sanitation, and gender equality of opportunity) and that only 18 percent of fragile states are “on track” (Bill & Melinda Gates Foundation, 2018; IMF, 2018b; Kharas, McArthur & Rasmussen, 2018; Samman et al., 2018). The meeting concluded that the world is not on track to achieve the target of bringing the population living in extreme poverty under 3 percent of the world population by 2030 (United Nations, 2019). Financing of the SDGs is, unsurprisingly, also off track. For emerging market economies, the average additional annual spending required in 2030 to reach key SDGs stands at 4 percentage points of gross domestic product (GDP), compared to 15 percentage points of GDP for the average low-income developing country (Gaspar, Amaglobeli, Garcia-Escribano, Prady & Soto, 2019).
4. At times of rapid growth, new challenges can be addressed through distribution, rather than redistribution, of the benefits of growth. At times of slower growth, this strategy is ineffective, since resources have to be taken away from existing commitments and constituencies—a much higher political bar to clear. This paper comes at a time of weakening in global growth. Trade tensions are high, developing economies are experiencing financial stress, and risks to global growth have increased. Emerging markets (most prominently Argentina, Brazil, China, Mexico, South Africa, and Turkey) and developing economies face some of the greatest risks. The slowdown is most marked in Africa and East Asia. While per-capita GDP continues to increase, the growth slowdown signals a major challenge for those who manage public finances as they seek to respond to expectations for public services, particularly from the more politically connected middle classes. Deterioration in services will place poor people under particular pressure. Austerity measures imposed by countries to offset budget deficits could prove to be politically difficult to maintain and may lead to destabilizing protests, as in the case of the July 2018 disruptions in Haiti (Coats, 2019; World Bank, 2019a).

5. The trend toward refocusing on ends more than institutional means, and on policy objectives more than on the stability of the fiscal machinery, is a reminder that PFM can have only a partial influence alongside broader economic, social, and political factors (Weingast, Shepsle & Johnsen, 1981).
6. As the IMF acknowledges in a review of its own program design and conditionality between 2011 and 2017, “there was limited focus on the quality of social spending, and on social protection and inequality, more generally” (IMF, 2019, p. 24).

Chapter 2

1. Any allusion to history in public management risks the accusation that it has failed to acknowledge key historical developments. To avoid this criticism, tribute should be paid here to the writings of Max Weber who noted that a modern bureaucracy acts, in principle, as a lasting, impartial, rule-abiding, and non-partisan executor of laws and regulations, which are devised by the political leadership (Weber, 1978). Weber observed (but did not prescribe) that these traits were more likely to be found in hierarchical organizational structures staffed by career officials operating within stable and comprehensive sets of rules. Pritchett and Woolcock (2004) remind us that, while Weber made these observations in Western Europe, Western Europe did not invent rational bureaucracy, as shown by the long history of bureaucracy in China and India).
2. This thinking opened up contentious debates following some initial enthusiasm for flexibility and internal trading arrangements branded as “new public management” (Hood, 1991), quickly giving way to skepticism about the feasibility of such dramatic moves (Manning, 2001; Schick, 1998b).
3. Drawing on evidence from Brazil, Peru, Indonesia, Madagascar, and Cambodia, Ringold (2012) points out that PFM and other institutional weaknesses act as a block on social accountability.
For social accountability mechanisms to influence service delivery, changes are needed in the behavior and the content of the work of frontline service providers. If the incentive framework under which providers operate isolates or protects them...social accountability mechanisms, such as scorecards or hotlines, are unlikely to work well. Social accountability is not just a ‘demand-side’ concern. The mechanisms...cannot be considered separately from the broader incentive framework under which providers operate. (Ringold, 2012, pp. 94–95)
There is similar empirical evidence from Kenya (Sheely, 2014).
4. Detailed survey evidence and robust research in the Philippines have shown that vote buying is robustly correlated with lower levels of services that are within local control, that are pro-poor, and that are not targeted at particular groups. Thus, for example, expenditures on local health services, which the rich tend not to use, diminish in the presence of vote-buying (Khemani, 2013). Non-programmatic parties do not have a broad membership base that is able to discipline party leaders. Again, research has shown that, under these circumstances, party leaders are less likely to focus public expenditures on:
the more proximate determinants of development: education and the accumulation of human capital; infrastructure; security, including the protection of property and contract rights; public health; or the proper regulation of market failures, ranging from the environmental to the financial. (Keefer, 2013, p. 2)
5. The starkest example of PFM constraints to effective service delivery are cash budgeting and cash-rationing practices. There are, of course, factors outside of PFM that are also essential for effective service delivery—not least oversight and accountability, managerial attitudes, and staff engagement with the tasks at hand.
6. See IMF World Economic Outlook (WEO) definitions and classifications, in particular (IMF, 2018c).

7. Fiduciary risk tools include:

ADB	Assessing and Managing Governance Risks in ADB Operations
ADB	Financial Management Assessment
IADB	Tool for Determining the Level of Development and Use of PFM Systems
World Bank	Assessment of the Use of Country Financial Management Systems in Bank Financed investment Projects
EU	Budget Support Guide lines
DFID	Fiduciary Risk Assessment
BMZ	Strategy 181: Budget Support in the Framework of Programme-Oriented Joint Financing
Danida	Guidelines for Risk Management
USAID	Public Financial Management Risk Assessment Framework

Source: Developed from PEFA Secretariat (2018b).

Donors often accompany these assessments with a parallel, but strictly unrelated, concern about fungibility: did the aid provided for one donor-approved purpose free up government financing for a different purpose that the donor might consider unproductive? Donors are frequently subject to intense scrutiny from politicians who are skeptical about the use of taxpayers' money to finance activities in other countries and prompt to condemn spending on activities they do not support. When donors doubt the capacity of the government to reallocate financing in line with development priorities, they often turn to distinctive project instruments that seek to limit fungibility as well as to provide fiduciary assurance.

8. The reform areas captured in Figure 3 are defined as follows:

Forecasting and strategic budgeting – Macro and revenue forecasting, program-based budgeting, zero-based budgeting, medium-term expenditure frameworks, participatory budgeting, program impact studies, gender budgeting

PFM legislation – Introduce budget circulars, committees for budget debates, create budget office in parliament to help assess proposals, increased legislative oversight, fiscal decentralization, enact fiscal rules, budget classification systems, debt management frameworks, budget cycle changes, public-private partnership legal framework

Treasury Single Accounts – Consolidate governments' cash resources to ensure that revenue is stored in one place. In countries with fragmented government banking arrangements, the establishment of a Treasury Single Account should receive priority in the PFM reform agenda to increase overall traceability and accountability of funds

Core Financial Management Information Systems (FMIS) infrastructure – Refers to an ecosystem of information technology (IT) infrastructure that supports the daily functions of public entities by tracking and summarizing financial events and data. These systems automate core activities such as budget preparation (e.g. compiling of expenditure plans from different departments), financial reports generation, and improved ease of access to financial data. Reforms include capex on hardware and software, digitization of (including historical) data, and capacity building within the civil service to use the IT systems proficiently

Expenditure side reforms – More efficient and transparent practices (independence of procurement bureaus, promote transparent bidding through electronic and competitive procurement, standardized forms), effectiveness of service delivery, improved subsidy targeting mechanisms such as identification means (e.g. Aadhaar in India), payroll reforms including human resource management systems

Revenue side reforms – Digital tax collection, increasing taxpayer convenience, remittances management, increased taxpayer buy-in, effectiveness of revenue collection agencies, promote and strengthen independence of collection body

Accounting and reporting – Adopt accrual accounting standards, professionalizing the accounting function, standardizing charts of accounts, applying international standards to classification of fund stocks and flows
Internal audit and control – Programs to support Office of the Auditor-General, capacity building (e.g. analysis of public expenditure reports), strengthen internal controls and monitoring standards, procure and use of software to improve productivity, increased ability to prosecute, internal control and compliance

External audit and monitoring – Publish civilian budgets, maintain updated fiscal portals to increase transparency,

PEFA assessments, public reports to raise awareness on budget matters, public investment information systems, funding non-governmental organizations (NGOs) in audit and monitoring (AlphaBeta, 2018)

9. The sector classification of OECD DAC Purpose Codes is defined as follows: “The sector of destination of a contribution should be selected by answering the question ‘which specific area of the recipient’s economic or social structure is the transfer intended to foster’” (see <https://www.oecd.org/dac/stats/purposecodessectorclassification.htm>). In this classification of development finance statistics, “public finance management” (purpose code 15111) is treated as separate from “domestic revenue mobilisation” (purpose code 15114), “local government finance” (purpose code 15128), and “public procurement” (purpose code 15125). AlphaBeta (2018) follows the OECD DAC classification and includes only data under the 15111 “public finance management” purpose code in its analysis of external finance.
10. “Men [sic] of the sociological tribe rarely visit the lands of the physicists and have little idea of what they do over there. If the sociologists were to step into the building occupied by the English department, they would encounter the cold stares if not the slingshots of the hostile natives” (Becher & Trowler, 2001, p. 45). “Despite decades of talk about ‘interdisciplinary courses’...there is a strong belief that such talk is just talk. Those thought to be sober mostly presume that real scholarship means getting on with the advancement of knowledge organized exclusively by disciplines and sub-disciplines. It does not seem to matter that some knowledge may not contribute to an intelligible whole...” (Orr, 1993, p. 10).
11. “...academic discipline can be seen as a form of specific and rigorous scientific training that will turn out practitioners who have been ‘disciplined by their discipline’ for their own good. In addition, ‘discipline’ also means policing certain behaviours or ways of thinking. Individuals who have deviated from their ‘discipline’ can be brought back in line or excluded” (Krishnan, 2009, p. 8).
12. The existence of disciplines within development can have a downside. Levy (2014) identifies the somewhat shameful conflicts within the World Bank when considering governance reforms between, on the one hand, “governance advisers who saw the strengthening of ‘country systems’ within the public sector as key to effectiveness” and, on the other, “protagonists who gave priority to more bottom-up, community-based approaches” and champions of “vertical global programs” which, the governance advisers felt, undercut country ownership and “added new difficulties to the challenge of strengthening country systems” (p. 5). In a zero-sum competition for prominence and project finance, the “wins” for one side can mean that the knowledge of the other side is lost.
13. “...in five of the eight cases (Afghanistan, DR Congo, Liberia, Sierra Leone, and West Bank and Gaza), the appointees formerly worked for international financial institutions for a period of time. From a government’s perspective, such appointments serve a dual purpose. A minister with an international background may be expected to serve as a champion of PFM reforms while at the same time being expected to liaise effectively with the international community and to ensure external assistance flows. In Afghanistan and the DR Congo, in particular, such appointments were made during early post-conflict years when relations with the international (aid) community needed to be established” (Fritz et al., 2011, p. 6).
14. Sixty-eight self-identified public financial management specialists working in development completed an online survey.
15. Commonly recognized as:
 1. Budget preparation and approval phase with strategic decisions made that translate policy objectives into financing in the context of revenue forecasts with budgets then prepared, generally for submission to the legislature
 2. Budget execution phase in which governments implement, or not, the actions necessary and agreed for financing to achieve their policy objectives, with revenues collected and resources distributed to spending agencies with cash liquidity and debt managed. Internal control and audit procedures ensure compliance with rules and manage risks, the maintenance of records, and reports on the execution of the budget, all with the aim of monitoring and controlling compliance with budget appropriations.
 3. The external audit and policy review phase completes the cycle. Supreme audit institutions are responsible for public external scrutiny of the government’s annual financial statements or equivalent, examining whether government financial activities were carried out in compliance with the original budget law, and respecting all other rules and procedures. Sometimes, although perhaps more often aspired to than achieved, this phase includes an ex-post analysis of impact of government policy programs.

16. “Many European countries have started changing their accounting systems by adopting a set of standards largely inspired by International Public Sector Accounting Standards (IPSAS) issued by the IPSAS Board (IPSASB). As the IPSASB has no legitimate power, the adoption of the IPSAS in local and central governments is completely voluntary. . . . In the European Union (EU), since 2012 Eurostat is working on a project for the harmonization of [public sector accounting] of member states and decided for the development of a European PSA standards set, which will consider IPSAS as a reference” (Rossi, Caperchione, Cohen & Brusca, 2019, p. 237).
17. These are set by the Committee of Sponsoring Organizations of the Treadway Commission.
18. Professional PFM bodies and their standards and basis for membership.

Professional body	Explicit standards	Implicit norms	Membership
Chartered Institute of Public Finance and Accountancy			Individual
Committee of Sponsoring Organizations of the Treadway Commission	Standards for internal controls		
Extractive Industries Transparency Initiative	EITI Standard		National level
IMF	Fiscal Transparency Code		
IMF		Revenue Administration Gap Analysis Program	
Institute of Internal Auditors	International Professional Practices Framework		Individual
International Accounting Standards Board within International Federation of Accountants	International Public Sector Accounting Standards		Individual
International Organization of Supreme Audit Institutions	International Standards of Supreme Audit Institutions		Agency level
World Bank		Customs Assessment Trade Toolkit	
World Bank		Report on Observance Of Standards and Codes – Accounting and Auditing	

Source: Developed from PEFA Secretariat (2018b).

- The depth of knowledge that these bodies are drawing on is reflected to some degree by the size of their membership. For example, the Institute of Internal Auditors, a professional body based in the United States, serves 185,000 internal auditors in nearly 190 countries (Allen, 2018).
19. Since their separation from political scientists a century or so ago, public administration and management specialists start with the problem that they do not draw on a distinct academic discipline (Guy, 2003; Raadschelders 2018). The study of public administration has multiple theories and many generalizations, but these have not coalesced into a distinctive body of knowledge recognized for its ability to predict the future course of organizational or societal behavior. Any broad progress is limited by the confounding effect of context and deeply embedded cultural traditions within the public sector, which prove difficult to pin down.
- For example, the Germanic tradition can be stated as an ideal type, but the structure and functioning of German and Dutch governments are very different. Historical occupation by France is generally seen as the test for what constitutes a Napoleonic country, but Italy and the Netherlands are hardly alike.
- The challenge of tradition is compounded by the cultural dominance of the Anglosphere; American and British textbooks are translated into Chinese, Korean, and Spanish, but the reverse is not (as) true. Blurring the conceptual boundaries even further, the language used to distinguish key components of the public sector can confuse. The position of civil servant in the Netherlands and China is legally defined; in the United Kingdom it is sociologically defined as someone who works in Whitehall or for the government; and in France and Germany the distinction

between higher- (fonctionnaire, Beamte) and lower- (employee, Angestellte) level civil servants is both legally and sociologically defined (Raadschelders 2018).

Although never stellar, the prestige of the public administration field has waned in the last half century, overshadowed by economics and widely seen as craft-based rather than knowledge-based work, drawing on practical skills required for work in the public sector (Kettl, 2000; Vitale, 2013).

20. While Evans and Rauch (1999) show a causal link between the quality of public administration and economic growth, for example, examination of growth accelerations such as those in China after the late 1970s and in South Korea from the early 1960s do not reveal any significant public sector management reforms that preceded them (Hausmann, Pritchett & Rodrik, 2005). Current evidence points to those that protect the returns on private investment, in particular property rights and the rule of law, but beyond that, it is not clear which institutions are causally related to economic development and, in fact, the direction of causation might be the reverse, with richer societies demanding better governance structures (Booth, 2015).

21. For example, “a TADAT assessment report will not...include recommendations for specific reforms...Rather, the report will—in highlighting weaknesses of administration—provide the basis for discussions about reform goals, implementation strategies, and prioritization and sequencing of interventions” (TADAT Secretariat, 2015, p. 6).

22. For example, “the PEFA methodology draws on PFM international standards and good practices as identified by experienced practitioners and academics...” (PEFA Secretariat, 2018a, p. 3).

23. The use of convention compliance as the approach for understanding PFM arrangements has arguably been strengthened by two other factors. First, as credit rating agencies have broadened their scope and increased their activities, they have found indicators such as those elaborated by the PEFA program useful in justifying their claim that many countries need oversight because of their institutional weaknesses (Paudyn, 2014). Second, in contexts of low staff capacity, the existence of a set of standards facilitates the efficient development of staff competencies (Kirkpatrick & Kirkpatrick, 2009).

There is an evolving “ecology” of diagnostic tools as well. For example, as China provided support to the belief that economic development required large investments in infrastructure, public investment management became more prominent in the tools. As domestic resource mobilization became recognized as a key constraint, revenue gap analysis emerged.

24. “The influence of the ‘good governance’ debate saw a convergence in thinking about tax administration in much the same way as the previous period led to convergence in tax policy advice. Today, most developing countries have not only rationalised their tax systems by replacing trade taxes by indirect taxes but have also invested in a standard set of reforms with a view to modernising their administrations. This is best illustrated in the establishment of semi-autonomous revenue authorities (SARAs), which can be defined as tax administrations which operate with a degree of autonomy from their finance ministries. First established in Jamaica, the model has spread to Latin America, Africa, Asia and recently Greece. In line with [New Institutional Economics] thinking, ring-fencing the administration from political interference supposedly signals a credible commitment to a less discretionary tax collection process, which in turn should boost compliance... However, the effect of SARAs is subject to debate.

The creation of these new authorities coincided and sometimes facilitated the modernisation of specific tax administration processes and brought them into line with best practices from NPM. Reforms focused on increasing efficiency by reducing collection costs and increasing compliance by approaching taxpayers as customers. ... (E) examples of some of the key reforms:

- Increasing the reliance on information technology.
- Introducing unique taxpayer identification numbers.
- Re-organising the collection system from one organised around different taxes, to one organised around individual taxpayers.
- Segmenting taxpayers by, for example, establishing large taxpayer offices.
- Separating back- and front-office functions to reduce the scope for bribery.
- Creating ‘one-stop shops’.
- Simplifying procedures” (Dom & Miller, 2018, p. 21).

25. Campos and Pradhan (1996) contrasted the emphasis on contracting and output specification in New Zealand with the emphasis on delegation within hard constraints in Australia in the 1990s.

26. A term coined by Richard Batley, Emeritus Professor of Development Administration, University of Birmingham.

27. The difficulties of obtaining data about the internal workings of the public sector have been noted in the social

science research literature for many years (Jakobsen & Jensen, 2014). New budgetary procedures can be proposed and agreed, but implementing a new accounting framework requires changing the hard-to-observe behavior of thousands of public servants, many of whom can continue old habits while claiming to have introduced the policy wholeheartedly.

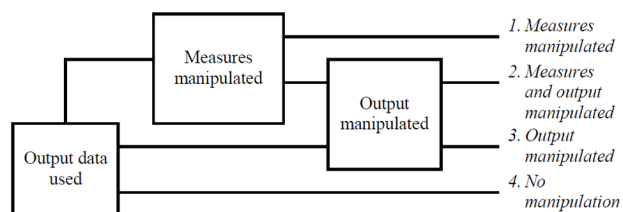
28. “In technical situations, where the authority has the expertise to define and solve the problem...let the experts do their job. Adaptive situations, however, tend to demand a more participative mode of operating to shift responsibility to the primary stakeholders” (Heifetz, 1994, p.121). As Booth (2014) rather memorably puts it in reference to some complex institutional reforms in the Philippines, “this was a guerrilla operation, not a war of fixed positions” (p. ix). Similar arguments have been made for OECD countries (Pollitt & Bouckaert, 2011). Melchor (2008) and the OECD (2005) both observe and welcome the prevalence of incremental adaptation in reform. We can see this in practice when finance ministries “try out” a new approach to budgeting, accounting, procurement, and the like for a limited number of agencies for a limited period of time to test how things work (Kristensen, 2019). This is consistent with the observed experiences of PFM reform in East Asia (So, Woolcock, April, Hughes & Smithers, 2018). Incrementalist and adaptive approaches are often attributed to the changing thinking in economics (Rodrik, 2008), but they have a history in public administration: the need for reform processes that allow iteration and adaptation has long been identified (Brinkerhoff & Crosby, 2002; Brinkerhoff & Ingle, 1989); Evans (2004) has warned against institutional “monocropping” when “deliberation” is more appropriate; and Ellerman (2005) set out a radical critique of donor agencies’ tendencies to know best. Much of the academic and research discussion of this comes under the broad heading of “design thinking” (Clarke & Craft, 2019; Howlett, 2009).
29. Ear (2009) provides a fascinating case study of donors confronted by bureaucratic politics and rivalries that they did not recognize or understand.
30. Andrews, McNaught, and Samji (2018) provide a good example of how PEFA scores were used as the basis for dialogue with financial management staff across government in Mozambique.
31. Williamson’s observations were that there was a consensus among IFIs in Washington concerning the need for: (1) fiscal discipline; (2) a redirection of public expenditure; (3) tax reform; (4) financial liberalization; (5) adoption of a single, competitive exchange rate; (6) trade liberalization; (7) elimination of barriers to foreign direct investment; (8) privatization of state-owned enterprises; (9) deregulation of market entry and competition; and (10) protection of property rights (Williamson, 1989).
32. There is arguably some difference in the formulations of the second objective (allocative efficiency) among Schick (1998a) (“expenditures should be based on government priorities and on effectiveness of public programs. The budget system should spur reallocation from lesser to higher priorities and from less to more effective programs”); World Bank (1998) (“allocation of resources in accordance with strategic priorities”); and PEFA Secretariat (2016) (“strategic allocation of resources involves planning and executing the budget in line with government priorities aimed at achieving policy objectives”). Whereas Schick includes an emphasis on performance in the second objective (that is, with regard to the effectiveness of public programs), the World Bank appears to address that dimension as part of the third objective on operational efficiency (“efficient and effective use of resources in the implementation of strategic priorities”). The PEFA Secretariat takes a more ambiguous middle path. In practice, these differences of emphasis across objectives and their formulation are not significant when all three objectives are treated interdependently. Nonetheless, they do reveal the important interpretive influence of the leading experts and organizations in the international PFM field.
33. Cangiano et al. (2013a) argue that:
It is important to dispel a potential misunderstanding of the meaning of the first PFM key objective, maintaining a sustainable fiscal position. This objective should not be seen as, and certainly does not imply, a bias toward fiscal tightening. It is a way to achieve legitimate macroeconomic objectives, most notably inclusive and balanced growth, in an orderly fashion without prejudging the state of public finances, which may, in turn, have negative repercussions on macroeconomic stability and growth. (p. 2)

Chapter 3

1. The literature points clearly to the important effects of country-specific factors on PFM reform outcomes (Evans, 2008; Peterson, 2010; Pretorius & Pretorius, 2009, p. x; Scott, 2011). The constraints posed by human capital limitations and economic endowments on PFM reform prospects have been explored in both case-specific and

cross-national analysis (Fritz, Sweet & Verhoeven, 2014; Haque, Knight & Jayasuriya 2012). Context is about both the intricate pressures that cause actors to adapt, perhaps even distort, budget practices to everyday realities (Stevens, 2004) and the features of the broader political system in which stakeholders engaged in PFM reforms are embedded. The overwhelming importance of country context in determining which reform approaches and measures will be successful, and in which ways, is a statement about both the primacy of country factors and the limits of external ones, most notably donor influence.

2. Two kinds of reactions can be distinguished. One entails the manipulation of the measures or criteria that are selected. In this case, the operations remain the same but the representation of these operations is deliberately skewed by selecting indicators that give preferred results. This results in a loss of data quality. The alternative is to alter the output itself. This usually results in a loss of output quality. A combination of both is also possible:



Source: Van Dooren (2006), cited in Van Dooren et al. (2006).

There is an extensive literature on the challenge of gaming, exemplified by Charles Goodhart’s “Law,” which he developed following his analysis of the consequences of the Government of the United Kingdom relying solely on money supply targets in the 1970s: “Any observed regularity will tend to collapse once pressure is placed on it for control purposes” (Goodhart, 1975). Risks and remedies are set out in Courty and Marschke (2004) and Van Dooren et al. (2006).

3. Knowledge transfer and the genuine replication of practices across settings are hard to achieve in an objective sense, irrespective of the possibility of an underlying incentive to game the assessments. Evidence from the corporate sector about “internal stickiness” is relevant and instructive here: “the major barriers to internal knowledge transfer are shown to be knowledge-related factors such as the recipient's lack of absorptive capacity, causal ambiguity, and an arduous relationship between the source and the recipient” (Szulanski, 1996, p. 28). Especially for those dimensions of the assessment frameworks that focus on “functional” reforms more than merely “formal” ones (Andrews, 2012), the likelihood of gaming may be further diminished.
4. De Lay et al. (2015) provide a more comprehensive treatment of the research difficulties.
5. The sequencing debate is based around the premise that some basic disciplines (typically around managing PFM inputs and human resource management) should be entrenched prior to more advanced public sector management reforms, including arrangements for measuring and managing outputs and/or performance. This case was most prominently articulated in Schick (1998b) and the associated mantra of “look before you leapfrog.” This was followed by the World Bank’s Public Expenditure Management Handbook (World Bank, 1998), which stressed the importance of getting the basics right first:
 - Control inputs before seeking to control outputs
 - Account for cash before moving to accrual accounting
 - Operate a reliable budget for inputs before moving to budgeting for results
 - Make a comprehensive budget and reliable accounting system before trying an integrated financial management system
 - Get a proper budgeting and accounting function before strengthening the auditing function
 - Do reliable financial auditing before trying performance auditing.

This logic was operationalized most clearly in PFM in the platform approach proposed by Brooke (2003) and in the “hurdle approach” to PFM reform in Thailand (World Bank, 2002), where competence in a set of internal ministry processes were prerequisites for enhanced autonomy, including budget planning, output costing, procurement management, budget and funds control, financial and performance reporting, asset management, and internal audit. A recent and comprehensive summary of assumptions concerning what comes first is set out in Diamond (2012).
6. See <https://pefa.org/news/enhanced-standards-pefa-reports-launch-new-pefa-check-criteria>.

7. A 2018 survey of leaders of development agencies found “a fragmented development ecosystem and an ever-expanding cast of players... During this upheaval, development leaders are innovating, harnessing technology in exciting ways, using data to drive decision-making, and empowering partners on the front lines. They are painfully aware that not all of their organizations are likely to accomplish their goals or continue to exist in their current form. Overall, the survey results paint a picture of a global development sector rife with experimentation and transition” (Ingram & Lord, 2019, p. 1). “Among issues seen as neglected or insufficiently resourced, climate change tops the list, followed by youth, state fragility, and governance” (Ingram & Lord, 2019, pp. 5–6).
8. See, for illustration, Eno, Glentworth, Hedger & White (2018).
9. Current and past examples include the Bill & Melinda Gates Foundation, the Tony Blair Institute for Global Change (formerly the Africa Governance Initiative), the CABRI network of African budget officials, the “Building State Capability” program at Harvard Kennedy School, the “Budget Strengthening Initiative” and Fellowship Scheme at the Overseas Development Institute, the International Growth Centre, the African Centre for Economic Transformation, the Harvard Institute for International Development, the Duke University Center for International Development, the National Institute of Public Finance and Policy in India, the Development Policy Centre at Australian National University, the Scott Fellows scheme at the Center for Global Development, the United Kingdom’s Institute for Fiscal Studies, the Korea Institute of Public Finance, the Center for International Development at Korea Development Institute, the Center for Excellence in Finance, the Oxford Policy Fellowship, and the Blavatnik School of Government at Oxford University.
10. “...unless developing countries are offered genuine choice about which aid agencies they want to work with, the effectiveness of aid in reducing poverty will decline and the rhetoric about recipient country ownership will remain empty” (de Renzio & Rogerson, 2005, p. 1). Moreover, Browne (2012) sees open choice and competition among different development models as key to major transformations in each of the last three centuries (Peter the Great’s modernization of Russia in the early 18th century, Japan’s opening up to economic and institutional advice from outside in the mid-19th century, and China’s request for modernization through capital investment and skill development from the League of Nations in the early 20th century). In these cases, the countries “decided on their best course of action and purchased overseas the skills that they lacked... The client country paid and the jobs got done the way the client wanted” (Browne, 2012, pp. 23–24).
11. The emergence of competition is generally accompanied by attempts to suppress it. “It is peculiar that an abundance of suppliers is criticised in the ‘aid market’, when economics underline the virtue of competition almost everywhere. However in the world of aid, the presence of many donors does not imply competition among them, but more often superposition of costs and administrative procedures” (Santiso & Frot, 2010). Interagency competition in development assistance is evidently present but publicly decried.
12. “Financing a separate facility with like-minded donors to compete directly with current players offering PFM advice and implementation support. One example of such a facility is the Global Fund for Women, where BMGF is a key contributor. The Global Fund for Women has group of core sponsors that appear to have little or no control over the decision making of the fund which is governed by a board of directors represented by personnel from diverse geographies and backgrounds. The board is supported by an extensive list of global experts that provide due diligence, outreach, and analysis which guide the fund’s activities” (AlphaBeta, 2018, p. 5).
13. This is the “expertise-and-policy-advice tail that wags the development dog” (Browne, 2012, p. 163).
14. Countries “value flexibility and the use of country systems, speed of delivery, and alignment to their national strategies. When considering the financial terms for debt resources, a minimum grant element of 35% of the nominal value of the loan (the IMF benchmark for low-income countries) would be the prevailing criterion for the Ministries of Finance in Ghana and Senegal when seeking project-type finance. However, both countries chose to pay significantly more for Eurobond issues and syndicated regional loans offering much larger volume and flexibility. Timor-Leste sets the return on its offshore reserves as a ceiling on borrowing rates” (ODI/OECD, 2014, p. 8).
15. “Viewed as a quasi-market, the aid industry is now maturing... [T]he consumers – in this case, the aid recipients – are beginning to have a modest influence on the pricing and product behavior of suppliers (aid donors). An interesting trend to track in the coming years will be whether concessional aid suppliers begin to compete with one another on the basis of brand and other non-price attributes” (O’Keefe, 2007, p. 10).
16. “For example, a market for technical assistance similar to ‘eBay’ would enable developing countries to set out their requirements, enabling a bigger variety of providers to bid according to the terms of reference. Service providers would [be] able to earn (or lose) [their] reputation based on feedback from previous clients provided through the online system. Reports and analysis from such technical assistance would all be shared online” (Barder, 2009, p. 35).

17. Seemingly, Barder (2009) has choice in mind when he argues for what he terms a “collaborative market.” “Aid funders could make more use of market incentives to encourage innovation and efficient delivery of services, and to close down ineffective or unnecessary programmes and organisations... Networks hold the promise of increasing and improving information and... reducing transactions costs, to help to close the feedback loop between beneficiaries and funders, and providing a platform for collaboration. Using markets and networks together more effectively may permit decentralized and uncoordinated decision-making to produce collectively beneficial outcomes in transparent and regulated markets” (Barder, 2009, p. 37).
18. It is currently popular in development circles to argue that the linear logic of logframes and so on, with their implication of an inevitable chain of cause and effect, from input to output to outcome (DFID, 2009; Team Technologies, 2005), should be replaced or at least supplemented by a “theory of change” that allows for uncertainty and unpredictable contingencies, reflecting a disorderly “real world” picture, with the possibility that different paths might lead to change (Valters, 2015).
- In reality, there is immense confusion about the meaning of theories of change, partly because they originate from two perspectives: an evaluation perspective, seeking to define how inputs are linked to outcomes, and a “social action” perspective, emphasizing participation and continuing reflection as action proceeds (Vogel, 2012). The result is that a theory of change can be anything between, on the one hand, a rebranded logframe and, on the other hand, an action perspective that suggests that there cannot be certainty about the consequences of any intervention and that small steps, informed by careful observation and participation, are the only way forward. While the Working Group is agnostic about whether current thinking offers practical ways forward, it endorses two ideas implicit in current debates about theories of change. First, it considers that the linear logic of logframes is more appropriate for building bridges than for reforming institutions. Local context matters and the responses of the actors cannot be fully predicted in advance (Porter, Allen & Thompson, 1991). Whatever the terminology, the design of an intervention must allow for contingency and must answer the question of why the relevant actors will make the changes assumed within a reform program. The design of programs must be “autonomy-respecting” (Ellerman, 2005). Simply asserting that a different way of doing things will be better is a weak lever, and compulsion in development cooperation has proved to be both infeasible and ineffective. Second, approaches to reforming institutional arrangements must always rest on a “theory” of some sort about why facilitating particular managerial or institutional changes will lead eventually to the desired improvement through the results chain. “All development activities – projects, programs, policy reform, technical assistance, training workshops, capacity building, research and evaluation – therefore operate on the basis of a theory of change, even if this theory is only implicit and never articulated” (Pritchett, Woolcock & Andrews, 2010, p. 1). The challenge is to make that theory more explicit so that it produces predictions that are capable of being falsified. Observations, insights, and lessons may then feed back into refined theory.
19. Lawson notes that many of the institutional reform case histories he analyzed raised examples of policy space constraints:
- “In Malawi, Procurement reforms and Internal Audit reforms were both premised on the use of ‘best practise’ models in which responsibilities would be decentralised. This would have required new skills to be developed and embedded in virtually all government institutions. These models were fundamentally inappropriate to a context of significant shortages of trained staff within the civil service, combined with the persistence of hierarchical modes of working, limited accountability and a culture of frequent disregard of rules. Simpler reform models were needed, less demanding of organisational and human resource capacities.
 - The BPMS reform in Ghana was based on a technology-driven model, which gave insufficient attention to change management issues, and to the assessment of capacity constraints and training needs. It was also based on an ambitious ‘big bang reform’ approach rather than a more gradual, ‘incrementalist’ approach. Again this was a ‘best practise’ model, which was inappropriate to the context.
 - The MTEF reform in Ghana presented a different type of policy space constraint, in that the consultants leading its introduction selected and promoted an idiosyncratic model, which was never likely to achieve the desired outcomes of an MTEF. The reform design was idiosyncratic firstly, in placing emphasis on the ‘bottom-up’ elements of an MTEF (programme-based budgeting, detailed costing of plans, integration of aid-financed projects) and barely mentioning the upstream elements (macro-fiscal framework, strategic policy and expenditure review processes) that are conventionally seen as the initial priorities in establishing a robust MTEF process. Secondly, it adopted an activity-based budgeting approach to the development of multi-year budgets, which generated voluminous, highly detailed documents, which made it very difficult to discern the strategies and priorities underlying MDA budgets, thus effectively defeating the purpose of the exercise.

- In Burkina Faso, the problem was essentially a failure to sequence work on the medium term expenditure framework and programme budgets in an adequate manner. It involved the attempted introduction of programme budgets before there was an aggregate medium term fiscal framework in place, when many sector policy and strategy frameworks were unclear and when the processes for tracking performance during budget execution at the programme level were yet to be designed.” (Lawson, 2012, p. 61)
- 20. Robust peer review must involve teams that are institutionally distinct from the proponents, in order to create space for more candor and critique (World Bank, 2014, p. 184).
- 21. The problem of “domain narcissism” (a phrase coined by Professor Richard Marcy, Assistant Professor of Organizational Behavior at the University of Victoria School of Public Administration)—in which one discipline seeks dominance over others, employing a narrowing of perception and rejection of incompatible information from other disciplines, and with an associated degree of emotionalism—is well-recognized (see, for example, Alexander & Lewis, 2015).

Chapter 4

1. The same is true of all “upstream” public sector management arrangements since “sustained improvements in education, health, and other sectors downstream often depend on institutional reforms upstream, at the center of government” (World Bank, 2012b, p. 18).
2. The connection between service delivery and outcome is about quality. In a seminal review of output measurement for the United Kingdom government, Tony Atkinson and others pointed out that the quality of an output, or service, is really a measure of “the attributable incremental contribution of the service to the outcome” (Atkinson et al., 2005, p. 42).
3. As a group of leading PFM experts noted in their evidence submission to the last PEFA review process:
The PEFA framework was not designed to identify why indicators were scoring poorly and can only suggest crudely which broad areas...might require attention – and more specific diagnostics. Yet in developing countries, PEFA assessments are sometimes used formulaically to develop a detailed PFM reform plan or to justify a wide range of highly ambitious interventions. One example is the 2009 Maldives’ Action Plan for PFM Reforms, though there are many others such as Sierra Leone’s PFM Reform Strategy and Tajikistan’s PFM reform programme. (Krause et al., 2014, p. 1).
4. For example, “the next generation of indicators will have to minimize the use of normative-based best practices and help devise better metrics, with shifted emphasis on contextual functionality and actual implementation rather than on announcement effect so that substance can prevail over form” (Cangiano, 2017, p. 380).
5. Although stronger or more intentional variants could be considered, there would be risks around mandate, legitimacy, and incentives. For example, the National Institute for Health Care and Excellence in the United Kingdom (<https://www.nice.org.uk/>).
6. “While the rationalist approach elevates information and analysis as the basis for budgetary decision making, seeking to achieve an optimal allocation of resources, the incrementalists demonstrate that political considerations, institutional role play and bounded rationality provide a more accurate depiction of budgetary behaviour” (Fozzard, 2001, p. 33). In addition, Fozzard (2001) writes:
The nature of the budget process also promotes incremental decision-making. Allocation decisions tend to be made sequentially – between Ministries of Finance and individual spending agencies and then by reviews of agency proposals within collegiate bodies such as Cabinet and in legislative committees – rather than by assessing trade-offs between alternative claimants. Furthermore, budgeting is repetitive, with the same allocation issues being addressed in successive budgeting exercises. In this way, participants arrive at a tacit agreement regarding each claimants ‘fair share’, constituting a ‘convergence of expectation on roughly how much an agency is to receive in comparison to others’ (Wildavsky, 1992: 87). Once the fair share is established, bargaining about allocational decisions is restricted to the distribution of additional resources rather than redistribution the budget base. This reduces the risk of cutthroat competition between rival claimants for resources and means that allocations do not have to be revised every year. Instead, the process is ‘premised on agreement on the size, scope and distribution of expenditure. Conflict was confined to the margins, a little more here, a little less there’ (Wildavsky, 1992: 73). Without this stability, incrementalists argue, the budgeting process would descend into chaos” (p. 30).
7. The argument here is that, with baselines, the starting point for producing next year’s budget is this year’s

budget plus built-in increases such (for example, an increased number of pensioners or inflation adjustments for benefits). Policy changes are defined as cutbacks when they reduce spending below the baseline, even when spending is above current levels. MTEFs extend the baseline to the medium term, incorporating only agreed spending increases and, only rarely, spending decreases, as the basis for future budgets (Schick, 2013).

8. The Building PFM Capabilities program was developed by CABRI, in collaboration with the Building State Capability Program at Harvard’s Center for International Development. The program uses the Problem Driven Iterative Adaptation approach to support PFM reform and was successfully completed by seven African countries in 2017 (Ababou, 2019).

9. There are diverse examples of how the design of the PFM system is overtly adjusted to reflect the policy goals and decisions of the government:

- The government may decide on a fiscal rule to contain public spending within a fixed ceiling of GDP, or to limit the annual growth of expenditure. The PFM challenge would then be to design the appropriate rule and develop a monitoring mechanism to ensure that it is enforced.
- The government may announce a new policy to achieve greater gender equality. The budget system may then need to be redesigned to include a gender budget statement, appropriate provisions in the annual budget circular, a framework for conducting gender impact assessments and gender audits, an extension of the performance budgeting system, and so on (IMF, 2017b).
- The government may decide that it wants to give a degree of preference to national contractors and suppliers in the procurement process. To implement this policy, the law may need to be changed and adjustments made to tendering procedures.
- The government may decide to boost tax collection by establishing a large taxpayer unit, providing special incentives for large taxpayers to comply with the statute, and streamlining collection procedures.

All of these examples may also require changes to the primary PFM law or other PFM-related laws or regulations, as well as changes to business processes, manuals, and instructions for financial managers; changes to IT systems; and so on (Allen, 2019).

There are also “covert” connections, such as the discontinuation of Public Service Agreements in the United Kingdom to facilitate austerity measures. The introduction of Public Service Agreements for public expenditure was devised as a means to justify and defend spending increases in the Spending Review. They were discontinued as a way to make spending cuts easier under austerity. The recent emphasis in the United Kingdom on the management of fiscal risks and of the government balance sheet (asset management) was an institutional response to a policy emphasis on (continuing) cuts and austerity, as well as a response to large outsourcing failures and greater post-crisis surveillance (Hughes, 2019).

10. “When evaluations are commissioned ex ante with a specific objective to identify budgetary savings across government, however, they require some specific characteristics in order to fulfil this role. These kinds of evaluations, or spending reviews, can be used to reduce the deficit and/or to make fiscal space for higher priority programmes either through restructuring or cutting activities. While spending reviews can also look at programme effectiveness, i.e. how to improve programme performance and design, their distinguishing feature is the focus on identifying and extracting savings through the budget process” (Lau, 2011).

11. The four dimensions proposed are political, social, organizational, and process (Catalano & Erbacci, 2018).

12. Experiences with pro-poor budgeting suggest that there is a dilemma about how starkly to reveal the trade-offs entailed: too stark and vested interests would ensure that technical warfare over models and assumptions would engulf the budgeting process, too nuanced and the impact would be lost. The question is how to make distributive impacts a standard feature of policy making and reporting. A gentle start would be to add impact statements to the budget and government accounts—but the challenge is to find a stronger and more universal version of the arrangements attempted during the pro-poor budgeting era.

13. Elson (1999) gives a flavor of this in her suggestions concerning the adjustments needed for effective gender budgeting:

1. Gender-aware policy appraisal

This analytical approach involves scrutinizing the policies of different portfolios and programs by paying attention to the implicit and explicit gender issues involved. It questions the assumption that policies are ‘gender neutral’ in their effects and asks instead: In what ways are the policies and their associated resource allocations likely to reduce or increase gender inequalities?

2. *Gender-disaggregated beneficiary assessments*

This research technique is used to ask actual or potential beneficiaries the extent to which government policies and programs match their priorities.

3. *Gender-disaggregated public expenditure incidence analysis*. This research technique compares public expenditure for a given program, usually with data from household surveys, to reveal distribution of expenditure between women and men, girls and boys.

4. *Gender-disaggregated tax incidence analysis*

This research technique examines both direct and indirect taxes in order to calculate how much taxation is paid by different individuals or households.

5. *Gender-disaggregated analysis of the impact of the budget on time-use*.

This looks at the relationship between the national budget and the way time is used in households.

This ensures that the time spent by women in unpaid work is accounted for in policy analysis.

6. *Gender-aware medium-term economic policy framework*

This attempts to incorporate gender into the economic models on which medium-term economic frameworks are based.

7. *Gender-aware budget statement*

This process may utilize any of the above tools. It requires a high degree of commitment and coordination throughout the public sector as ministries or departments undertake an assessment of the gender impact of line budgets. Elson (1999), cited in O'Hagan & Klatzer (2018, p. 24).

14. “Reforms in public expenditure management and in donor practice, combined in the pursuit of poverty reduction strategies, offer some grounds for hope of increased effectiveness in pro-poor social sector expenditure programmes. However, the implementation of reforms will be a slow process and resource reallocation to favour high impact programmes is likely to meet institutional and stakeholder resistance” (Roberts, 2003, p. xi).
15. A comparable initiative in climate budgeting, led by the UNDP and the World Bank in the late 2000s and early 2010s, revealed similar challenges and was also inconclusive on the evidence (World Bank, 2014a, 2014b).
16. There has been renewed interest in OECD countries—especially following the global financial crisis—in evidence and lessons on spending reviews to identify savings and reallocate them to higher priorities, as well as in the development of a framework to capture dimensions that support “cutback management” in public expenditure (Catalano & Erbacci, 2018; Lau, 2011; Robinson, 2013).
17. “The notion that fiscal consolidations can be expansionary (i.e., raise output and employment), championed, among others, in the academic world by Harvard economist Alberto Alesina or in the policy world by former European Central Bank President Jean-Claude Trichet, has been seriously debunked. Instead, the short-run costs must be balanced against the potential longer-term benefits that consolidation can confer” (Ostry et al., 2019, p. 78). Clements, de Mooij, Gupta & Keen (2015) “do not suggest that countries should not undertake fiscal consolidation...however...the benefits of fiscal adjustments should be weighed against their likely distributional impact... History shows that fiscal plans succeed when they permit “some flexibility while credibly preserving the medium term consolidation objectives”... (and) “equity considerations suggest that a larger share of the adjustment burden could be borne by the rich, which could be achieved through revenue measures targeted at the higher income segments of the population” (Clements et al., 2015, p. 156). “...the overall effect of redistribution is pro-growth, with the possible exception of extremely large redistributions. There is no negative direct effect, and the resulting lower inequality seems to be associated with longer growth spells” (Ostry et al., 2019, p. 105).
18. Fiscal biases play out very differently in advanced and low-income economies. In advanced economies, when the economy stagnates, built-in or discretionary fiscal policies enable an increase in deficit spending. When low-income countries stagnate (often because of a decline in the market price of critical commodities), the opposite occurs: the government is compelled to tighten its belt, thereby aggravating economic misery. The double standard that allows rich countries to use deficit financing and compels poor countries to austerity is not itself due to PFM, but it is critical that PFM institutions be mobilized to counter this bias.
19. See also European Union surveillance reports for a review of fiscal structural reforms (European Commission, 2019). There is much discussion of the tension between the approach adopted by the troika in Greece and the softer advocacy of IFIs. Ostry et al. (2019) write: “...on fiscal policy, the IMF’s then-chief economist Olivier Blanchard said ‘what is needed in many advanced economies is a credible medium-term fiscal consolidation, not a fiscal noose today’ (IMF, 2010). In October 2013, the IMF’s managing director Christine Lagarde applauded the decision by the U.S. Congress to raise the country’s debt ceiling. On the pace of U.S. fiscal consolidation, Lagarde advised: ‘we say slow down because the point is not to contract the economy by slashing spending

- brutally now as recovery is picking up’ (Howell, 2013). For the euro area, the IMF advocated that ‘those with fiscal space should use it to support investment’” (p. 108).
20. “Austerity could easily have spared the poor, if the political will had existed to do so. Resources were available to the Treasury at the last budget that could have transformed the situation of millions of people living in poverty...” (Alston, 2018, pp. 22–23).
21. The primary argument for increased public spending on infrastructure is that it will promote growth through the impact of improved transport, water supply and sanitation, and information and communications technology on the productivity of private enterprise and the rate of return on capital, particularly when stocks of infrastructure assets are starting from a relatively low base. Reliable power grids and well-maintained roads reduce the need for the private sector to spend on maintenance of its own stock of physical capital and have a direct impact on health and education outcomes. This previously theoretical claim is now backed up by some growing empirical evidence and has been given momentum by China’s “Belt and Road” infrastructure, trade, and investment initiative, which has attracted the participation of more than 70 countries since its launch in 2013. The initiative has benefitted from China’s framing of its engagement with the developing world as one of “non-interference” in implied contrast to the ideologically driven traditional donor model promoting democratic governance and human rights (Abiad, Furceri & Topalova, 2015; Agénor & Moreno-Dodson, 2006; Lin & Wang, 2017).
22. Questions about inclusion and broader well-being are now being more actively researched and debated in the context of economic prosperity. The case is growing for “inclusive prosperity,” under which “the ‘inclusive’ modifier demands both that we consider the whole distribution of outcomes, not simply the average, and that we consider prosperity broadly, including non-pecuniary sources of well-being, from health to climate change to political rights” (Naidu et al., 2019, p. 1).
23. Musgrave and Musgrave (1989) write:
As noted before, budget policy involves a number of distinct objectives, but these overlap in practice, thereby complicating an efficient policy design, i.e., a design which does justice to its diverse goals. Suppose first that the public wishes an increased supply of public services. Increased taxes are needed to pay for these, which leads in turn, to the question of how they should be distributed. Depending on what taxes are used, taxation may well change the distribution of income that remains available for private use. Hence some voters may favor (reject) the proposed change in public services because they like (dislike) the associated change in distribution rather than because they like (or dislike) the public service. Ideally, the two issues would be separated: Society would provide for what is considered a fair state of distribution and then adjust the financing of public services in line with the benefits which taxpayers derive there-from. Because this two-step procedure is difficult to accomplish, decisions on the provision of public services tend to be mixed with and distorted by distributional considerations. Similar reasoning also applies in the reverse direction, when the supply of public services and hence taxes are reduced.
Next suppose that society wishes to shift distribution in the direction of greater (lesser) equality. Such a shift may be accomplished by using progressive (regressive) taxes to finance transfers to lower (higher) incomes. But it may also be done by increasing (reducing) the supply of public services of particular value to low (high) income groups. This, however, interferes with the pattern of public services which consumers want to obtain at a given distribution of income. Once more, one policy objective may be implemented such that it interferes with another.
Finally, consider the role of fiscal policy in stabilization. Suppose that a more (less) expansionary policy is needed. This may be accomplished by raising (lowering) outlays on public services or by reducing (raising) the level of taxation. In the former case the allocation objective of fiscal policy is interfered with, whereas in the latter it is not. However, in the latter case there is the further question of how changes in the level of taxation are to be implemented. For stabilization measure to be neutral regarding both allocation and distribution goals, proportional changes in the level of taxes might offer the appropriate solution.
As we will see in the course of this study, there are many exceptions which call for qualification of the simple rules just given. Nevertheless, it is important to keep in mind that there are three distinct policy objectives and policy should try to minimize conflicts among them. (pp. 13–14).
24. Concerning the taxation-accountability relationship, Welham et al. (2013) argue that some of the political science accounts of how states came about in different historical contexts have been picked up by the development policy community and employed to understand contemporary states. They note that the most prominent account suggests

that today's states grew out of a mutually reinforcing process of tending to the needs of warfare, which led to ever-rising taxes, which in turn eventually prompted increasing accountability to taxpayers (Tilly, 1992). The observation that the nature of a state's tax regime strongly influences governance goes back to Schumpeter (1918), cited in Welham et al. (2013), and has been applied by Moore (2013) to contemporary developing countries. The detrimental effect of not needing to tax one's own citizens, mainly in the context of natural resource wealth, has been much debated in economics and political science (Collier & Hoeffler, 2005; Ross, 1999).

25. PFM and fiscal policy responses to the deficit-financed spending hikes in the aftermath of the Arab Spring risk adding to the very social pressures that led to the unrest in the "Arab Countries in Transition" (Finger & Gressani, 2014).
26. An open government in the OECD is understood as one under which businesses, civil society organizations, and citizens have increased their power to know what has been decided (transparency), to obtain their legitimate service entitlement (accessibility), and to be heard (consultation and participation) (OECD, 2005). Freedom of information legislation has been important in establishing rights of access to information and has been adopted by over 90 percent of OECD member countries. More "active" forms of openness involve publishing government datasets (Open Data), giving citizens greater opportunities to engage in the design and delivery of services (Open Services), and engaging with citizens in policy making (European Commission, 2013). The G8 Open Data Charter implicitly recognizes that making government data more open has an impact on improved governance and public sector innovation only if those data can be reused by others outside of government to interact with the public sector and create new services. For this to happen, datasets need to be open (unless there is a compelling reason against this), shareable, open-format, and machine-readable to allow mass processing (Ubaldi, 2013).

Chapter 5

1. To take the United Kingdom as an example, "...if development were only about aid, then someone would be bound to ask whether we need a Cabinet-level minister to manage aid to twenty or thirty mostly small low-income countries" (Maxwell, 2013).

Annex B

1. This typology of instruments available to governments follows the seminal classification by Vedung (2007), which distinguishes among economic means ("carrots"), regulations ("sticks"), and information ("sermons").
2. Amid many definitional uncertainties, this paper follows Sturgess (2018) in using "commissioning" to mean the assessment of a need and the design of a response in addition to its funding.
3. OECD (1997) gives the example of a health service spending money on outputs that evidence-based medicine suggests are useless—for example, most tonsillectomies. So even if lots of tonsillectomies are being performed and we see movement toward the social objective of improved public health, since no causality can be attributed to the surgeries, the quality of tonsillectomies as an output is zero.
4. Vedung (2007) addresses the question of what is the difference between a tax (economic policy action) and a regulation (administered action), since both involve a "measure of authority or obligatory force" (p. 10). Taking the example of tobacco purchasing, his explanation is that "a prohibition forbids the action proper—tobacco purchasing—while the obligation...applies to the payment of the tax when you purchase cigars, not the purchasing itself." In other words, the economic policy action allows certain behaviors but might make them more expensive, while the administered action can ban it outright under certain circumstances.

Annex D

1. Sectors are:
 - High-level grouping of economic activities based on the on the types of goods and services produced;
 - Used to indicate which part of the economy is supported by the World Bank intervention; and
 - Mutually exclusive.
 Sectors are not:
 - Reflections of the World Bank's administrative structure;
 - Used to indicate methods of delivery of World Bank support or ways of doing business; or

- Measures of outcomes (such as corporate priorities).
(World Bank, 2016a, p. i).
- 2. Themes are:
 - Goals and objectives of World Bank-supported activities;
 - Policy areas; and/or
 - Used to capture World Bank support to the Sustainable Development Goals.Themes are not:
 - Methods or instruments of delivery of World Bank support or ways of doing business; or
 - Mutually exclusive.(World Bank, 2016b, p. i).
- 3. More specifically, the themes included in the charts are:
 - Debt Management and Fiscal Sustainability
 - Macroeconomic Management
 - Municipal Finance
 - Public Expenditure, Financial Management, and Procurement
 - Tax Policy and Administration

Annex E

1. ODA refers to financial flows (both grants and loans) to countries on the DAC list of ODA recipients and multilateral institutions: (a) that are provided by official agencies, including state and local governments or by government agencies; and (b) for which each transaction is administered with the promotion of economic development and welfare as the main objective, is concessional, and conveys a grant element of at least 25 percent (discount rate of 10 percent) (AlphaBeta, 2018, p. 7).
2. Data prior to 2002 are incomplete and reportedly reflect only 70 percent of donors’ ODA reporting.
3. The Hudson Institute indicates that the total of private flows (US\$ 801 billion in 2014) are more than five times greater than official flows (US\$ 147 billion, including US\$ 137 billion from DAC donors and US\$ 10 billion from 11 non-DAC donors over the same period). However, these totals hide the obvious point that the majority of these private flows are comprised of foreign direct investment and remittances. Nevertheless, private philanthropy was US\$ 64.4 billion for that year, of which US\$ 63.7 billion was from DAC donors (Hudson Institute, 2016).

Annex I

1. This is a reference to the consensus that Williamson identified as emerging de facto, with its emphasis on a paradigmatic shift in favor of macroeconomic stabilization and market-based development—not the more ideological version that subsequently formed the basis for much controversy (Birdsall, de la Torre & Valencia Caicedo, 2010).

Annex K

1. See, for example:
 - The Elders (<https://www.theelders.org/>)
 - “Brain Trust,” such as that of Franklin Roosevelt in the United States in the 1930s (<https://www.nytimes.com/1932/11/20/archives/the-cabinet-mr-roosevelt-already-has-the-group-of-advisers-who.html>)
 - Economic policy “Brain Trust” to Shinzo Abe in Japan in 2012 (Abb, Köllner, and Maslow, 2016).
 - G20 Eminent Persons Group on Global Financial Governance (<https://www.globalfinancialgovernance.org/about-g20-epg/>)
 - Independent Challenge Group for the 2010 Spending Review in the UK (https://webarchive.nationalarchives.gov.uk/20130102173537/http://www.hm-treasury.gov.uk/spend_icg_members.htm)
 - “Wise Men” of economic forecasting in 1990s in the United Kingdom (<https://www.independent.co.uk/news/uk/the-not-quite-so-magnificent-seven-the-treasury-plans-to-set-up-a-panel-of-outside-advisers-robert-1563383.html>)
 - External Advisory Group for the Review of the IMF’s Capacity Development Strategy (<https://www.imf.org/~media/Files/Publications/PP/2018/pp1002182018reviewfunds-cdstrategyextadvisory.ashx>)

- “Iwakura Mission” by Japan to the United States and Europe in the 1870s (https://en.wikipedia.org/wiki/Iwakura_Mission)
 - “Tswalu Dialogues” on economic development run by the Oppenheimer family and the Brenthurst Foundation (<http://www.thebrenthurstfoundation.org/what-we-do/>)
 - “Balcerowicz Plan” and commission of experts to advise the Polish finance minister in 1989 (https://en.wikipedia.org/wiki/Balcerowicz_Plan)
2. See OECD DAC peer reviews of members (<http://www.oecd.org/dac/peer-reviews/>); IMF Article IV reviews (<https://www.imf.org/external/about/econsurv.htm>); and EC Structural Reform Support Service (https://ec.europa.eu/info/departments/structural-reform-support-service_en).
 3. Individual examples include Joseph Stiglitz advising the Papandreou government in Greece during the Eurozone crisis, Jeffrey Sachs advising the Polish government from 1989 during the economic transition, Paul Collier in Uganda in the 1990s, and Steven Radelet in Liberia in 1990s and 2000s. Independent agencies include AGI/TB-IGC, CABRI, HKS-BSC, HIID, ODI, IGC, Duke, ACET, NIPFP, ANU-DPC, Fiscus Ltd, and IFS.
 4. Based on the personal experience of one of the principal authors of the present paper, who participated in such an engagement in China.
 5. For further discussion of the incentives at play in lending operations and provision of policy advice between the Government of China and the World Bank, as one example of a multilateral development financing and advisory organization, see discussion by the panellists at a CGD event in April 2019 (<https://www.cgdev.org/event/future-world-bank-under-next-president>).
 6. International Growth Centre research and advice in Ethiopia on economic policy (<https://www.theigc.org/impact/mapping-industrialisation-africa/>) and (<https://www.theigc.org/publication/an-enterprise-map-of-ethiopia-by-john-sutton/>).
 7. G7 CONNEX Initiative and CONNEX Support Unit (<http://connex-unit.org/>)



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