Public Financial Management in Pacific Island Countries

The World Bank

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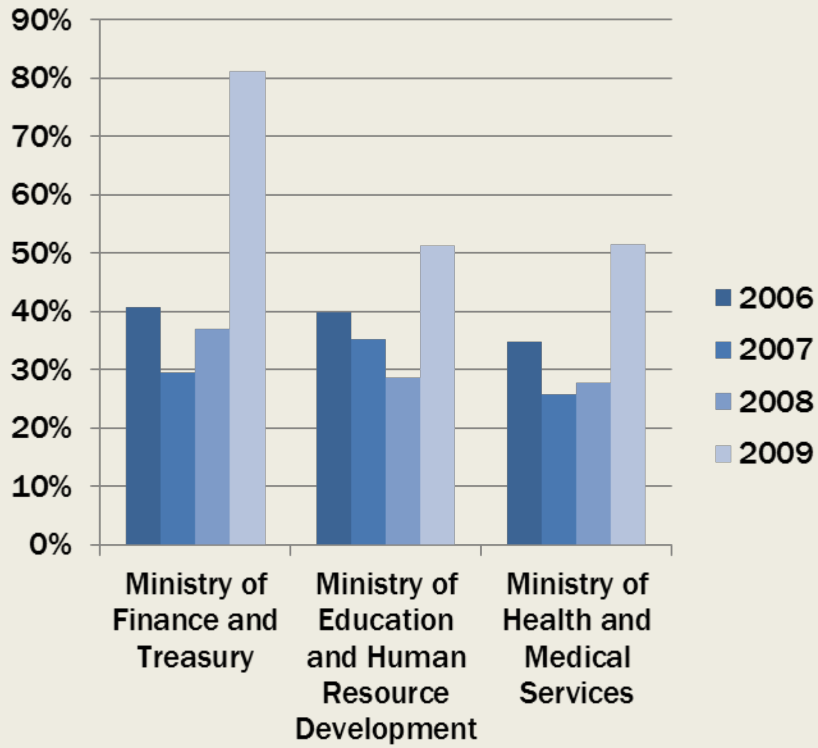
WHY WORRY ABOUT PFM?

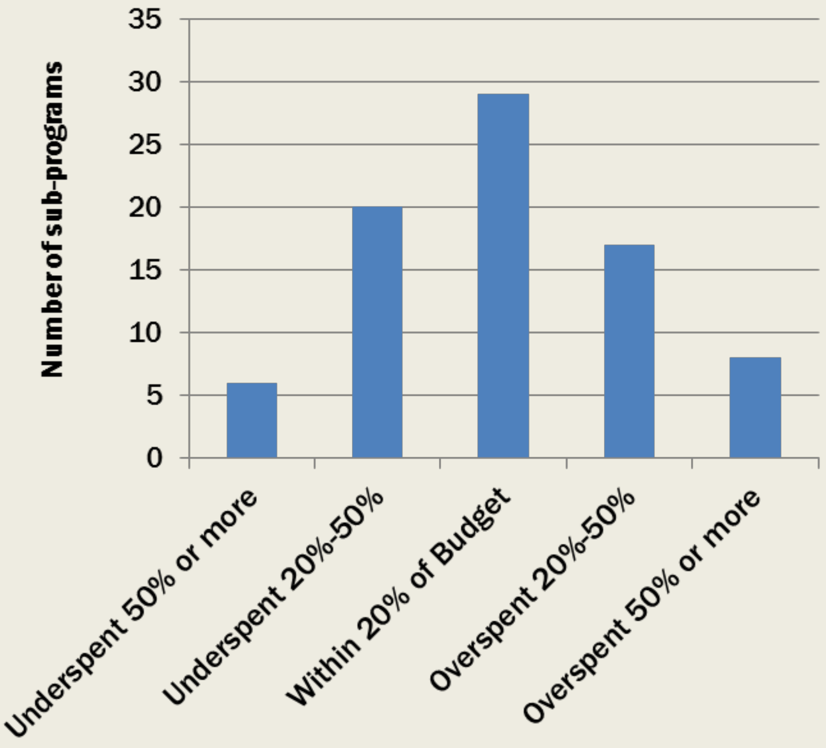
What we want from budget systems	What we often get from budget systems
• Sound macroeconomic management • Efficient revenue mobilization • Allocative efficiency • Technical efficiency • Accountability	• Unsustainable deficits or cash shortages • Incremental budgets that don't reflect priorities • Inefficiency in resource use • Limited accountability • Fictional budgets

PROBLEMS WITH BUDGETING ARE WIDESPREAD

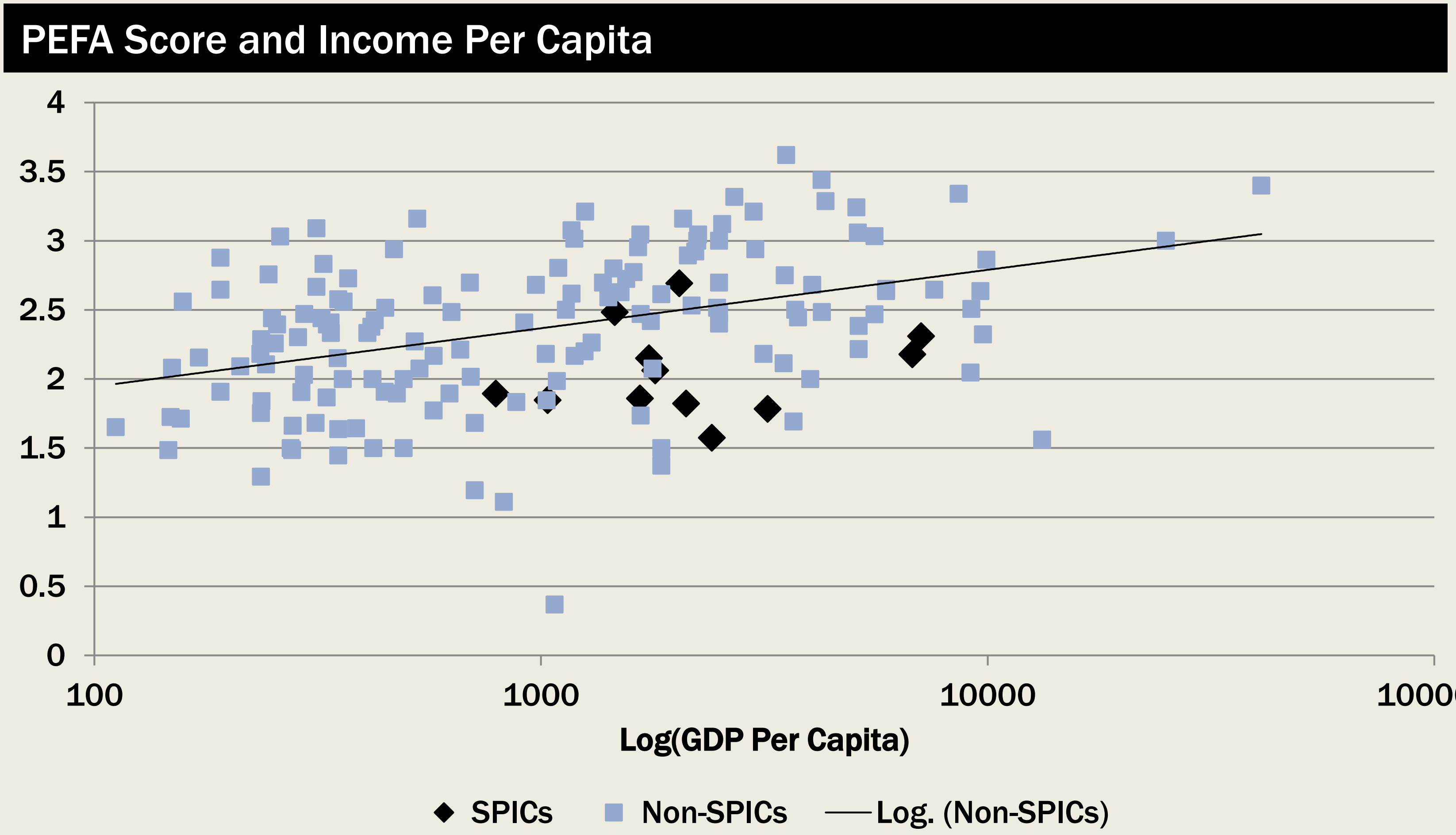
Country A: Variance from Budget by Ministry



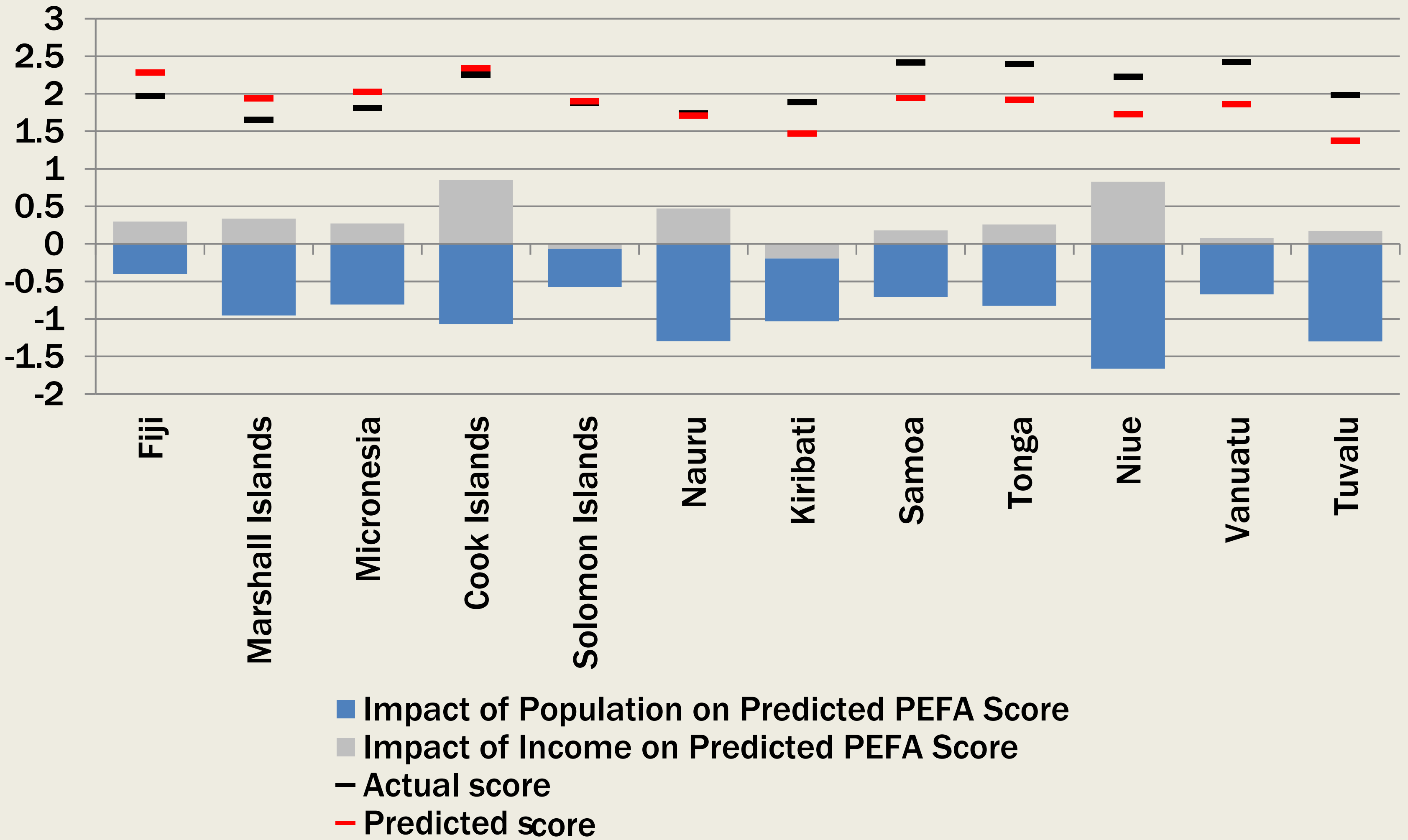
Country B: Variance from Budget by Sub-Program



WHY WEAKER THAN PREDICTED BY INCOME?

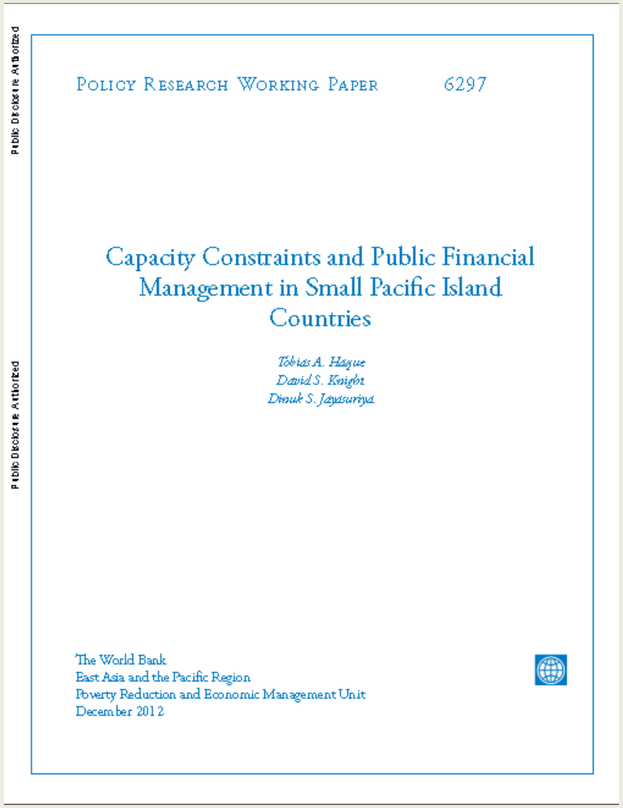


SMALL POPULATION/PUBLIC SERVICE EXACERBATES CHALLENGES



SMALL POPULATION/PUBLIC SERVICE EXACERBATES CHALLENGES

- Thin capacity – population impacts on overall score
- Capacity gaps – most severe impact on ‘high capacity’ functions
- Faced with ‘poor’ performance our typical response is to add more systems/processes/ functions
- But this is part of the problem!


POLICY RESEARCH WORKING PAPER 6297

Capacity Constraints and Public Financial Management in Small Pacific Island Countries

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Note: Lots of “noise” in results – capacity is not the only factors impacting PEFA performance

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Guidance Note:

Planning Public Financial Management Reforms in Pacific Island Countries

THERE CAN BE A MISMATCH BETWEEN WHAT WE DO AND WHAT WE KNOW

PFM reform often planned as if:	When we know that:
PFM systems in PICs can and should look like those in developed countries	Even basic systems are often weak – the ecosystem for performance-based PFM systems can be completely absent
Capacity constraints can be overcome with more workshops and TA	Thin capacity and staff churn create major challenges to sustainable capacity building
PFM institutions can be strengthened within a donor's program cycle	Institutional change takes decades and the process is poorly understood
We are in the business only of 'advising' not 'doing'	PIC Finance ministries often rely on international TA for completion of key tasks

FOCUS ON DEVELOPMENT CONSTRAINTS AND OUTCOMES

- Weaknesses in service delivery or macroeconomic management
  - Budgets lead to unsustainable deficits
  - Budget allocations do not reflect Government priorities
  - Budgets are not executed as appropriated
  - Inefficiency and ineffectiveness in spending undermine service delivery

- Different problems require different solutions – target reforms that address development problems
- Improved PEFA scores (or mimicry of developed country systems) is not necessarily a solution to anything

ACCESS A BROADER RANGE OF CAPACITY OPTIONS

Approach	Description
Capacity Building . Building up skills of existing staff.	• Assumes easily-acquired skills are the constraint • Relies on sufficient numbers • Assumes staff will stay
Capacity Supplementation. On-the-job support for as long as needed.	• Assumes someone can pay • Assumes that someone can pay for long enough to get the job done or build required capacity • Assumes that the right accountability arrangements can be applied
Capacity Substitution. Selective outsourcing, long-term or permanent.	• Assumes that someone can pay for the period the work is needed • Assumes that the contract can be appropriately managed with the right incentives in place

LESSONS FOR ALTERNATIVE CAPACITY OPTIONS

- Role clarity and appropriate accountability arrangements are important. We often call everything capacity building. This allows us to avoid difficult questions, but also muddies accountability and incentives.
- Sustainability can be achieved in different ways in different contexts. Capacity building is no more sustainable than other options if capacity cannot be built or if staff are likely to leave.
- Strong ownership and political leadership is required. Capacity gaps must be perceived as a problem by decision-makers.
- Extensive planning and long timeframes are necessary. Capacity development is a long-term game – churn leads to disruption and backsliding.

Thank you

http://documents.worldbank.org/curated/en/2013/01/17886478/

http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8392.pdf

http://elibrary.worldbank.org/content/workingpaper/10.1596/1813-9450-6297

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