Less can be more when small isn't always beautiful

by Tobias Haque 22 July 2013



Public Financial Management (PFM) systems in Pacific contexts are often very different from the sophisticated and comprehensive systems operating in larger, wealthier countries. Those working on PFM in Pacific contexts must grapple with difficult questions: What needs to be done, when achieving across-the-board "good practice" standards is not feasible? What should be done immediately, and what can wait? How can reforms be implemented and sustained in the context of very small public services and shortages of staff with vital specialized skills (as described in our previous blog post here)?

My new Guidance Note [pdf], produced jointly by the World Bank and IMF/PFTAC, is intended to help government officials and donor agencies answer such questions. Drawing on regional experience, the note emphasizes the importance of: i) prioritizing PFM reform efforts towards specific development problems; and ii) considering a broader range of mechanisms to address capacity constraints.

Prioritize PFM reforms towards specific development problems

With limited capacity and resources available to support improved PFM systems in Pacific Island Countries (PICs), plans to implement the full range of "good practices" seen in developed countries (and measured in PEFA assessments) are seldom feasible.

Prioritization of reforms is therefore vital and should be guided by identification of the PFM reforms that are likely to have the greatest impact in achieving development objectives and policy goals. Development priorities will vary according to country context, and PFM priorities should therefore also vary across countries.

By linking PFM-related development challenges firstly to PFM weaknesses and then to specific reforms to address weaknesses, PFM priorities can be identified that reflect national development priorities. PFM practitioners can begin with the broad problem they wish to address and then target resources towards a small number of specific reforms that might address that problem. A framework to guide this process

is presented below and elaborated in the table below:

ff Development Challenge	Because Secondary problem	Because PFM weakness causing the problem	Then Priority reform to address the problem
Budgets lead to unsustainable deficits	Revenue falls short of forecasts	Revenue forecasts are unrealistic	Improve forecasts
	Revenue forecasts are adequate, but expenditure exceeds sustainable levels	Upcoming expenditure obligations are not reflected in the budget Allocations are increased to finance new discretionary programs during the year	Improve tracking and budgeting for possible liabilities and pressures Improve transparency and justification of expenditure decisions, and build buy-in to the budget
		 Inadequate controls to prevent aggregate expenditure exceeding allocations 	Ensure controls are appropriate and enforced
Budget allocations do not reflect Government priorities	Plans are inadequate to inform budget development	 Plans are not prepared, or have weak ownership or do not provide a realistic basis for prioritizing resources 	 Improve quality of plans and build ownership through consultation
	 Plans are adequate, but not reflected in budgets 	 Administrative problems impede integration of planning and budgeting 	 Alignment of budgeting and planning, through shared staff, timelines, and documents
		 The Executive and Parliament have inadequate opportunity to ensure that their priorities are reflected in budgets 	 Strengthen processes for Cabinet and Parliament oversight of budget formation and execution
		 There is insufficient flexibility in the budget to give effect to plans 	 Provide executive with sufficient information to make substantial reallocation decisions
	 Cash flow problems disrupt execution 	 Expected cash is not available to the Ministry of Finance 	 Improve revenue forecasting and build cash reserves
v		 Information on line ministry cash needs is inadequate 	 Improve forecasting of cash needs and information on flows
Budgets are not executed as appropriated		 Additional expenditure during the year forces cash rationing 	 Improve processes for authorization and financing of new spending
	 Ministries reallocate resources away from allocations 	 Expenditure controls are inadequate, unsuitable, or not enforced 	Improve expenditure controls
	 Allocations are changed throughout the year to meet in- year pressures 	 Inadequate allocations to anticipated in-year expenditure pressures 	 Ensure anticipated pressures are budgeted for
Inefficiency and ineffectiveness in spending undermine service delivery	 Inadequate systems to ensure good- 	Weak internal controls lead to low- quality inputs and waste	Improve the quality of controls
	quality spending	Systems provide excessive or inadequate flexibility in input mix	 Achieve balance between control and flexibility in budget systems
	Inadequate transparency and	Insufficient information is available to Cabinet and Parliament	 Improve quality and dissemination of budget and service delivery information
	oversight of spending decisions	Available information is not being used	 Ensure processes encourage use of available information by Cabinet and Parliament

Consider a broader range of mechanisms to address capacity constraints

Shortage of staff with required technical skills is one of the primary constraints to PFM reform in PICs. Capacity building is commonly cited as a means to address

capacity constraints. But capacity building will not be an adequate solution if there is an absence of specialized technical skills that cannot be acquired through short-term, on-the-job training. Capacity building efforts may also be undermined if there are simply not enough staff available to undertake required tasks or if there is high staff turnover. As a result, advisors formally engaged in capacity building roles often find themselves undertaking capacity supplementation and capacity substitution. Such non-transparent arrangements lead to inadequate accountability and inappropriate reporting arrangements.

In certain contexts, capacity supplementation and capacity substitution can be legitimate alternative mechanisms for filling capacity gaps. "Capacity supplementation" involves the provision of continuing support to staff undertaking certain functions, delivered through advisors, regional institutions, internship schemes, and regional professional bodies. "Capacity substitution" involves "outsourcing" of specific PFM functions on a long-term basis, with external specialist individuals or agencies performing line functions on a long-term or permanent basis.

Claims that such solutions are less sustainable than capacity building need to be carefully tested given the opportunity costs of staff time used in acquiring and applying new PFM skills, and the mixed success of capacity building efforts in the region. The possible benefits and necessary conditions for capacity supplementation and capacity substitution are outlined in the following table:

Possible benefits		Necessary conditions	
Capacity Supplementation	Allows access to skills that are not available locally Can be quickly deployed	 Adequate financing required Need to ensure sustainability, either through certainty that required resources will be available for continued TA assistance, or by ensuring that there is adequate transfer of skills to allow local staff to continue the function once TA is complete Requires adequate oversight and monitoring to ensure that TA is providing appropriate advice and assistance. 	
Capacity Substitution	Allows access to skills that are not available locally Can reduce burden on existing staff, allowing them to focus on other tasks Can be quickly deployed with skills accessed only when needed	 Sovereignty concerns must be managed Adequate resources to finance outsourcing required over the long-term to avoid disruptions in functions due to financing constraints Sufficient local capacity is required to manage an outsourcing process, including procurement and contract management. 	

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Link: https://devpolicy.org/less-can-be-more-when-small-isnt-always-beautiful-20130722/