Helpdesk Research Report: Public Financial Management and Frontline Service Delivery
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Query: What are the key issues to consider when designing a PFM reform programme which targets effective frontline service delivery? Please also provide examples of successful PFM interventions which have improved frontline service delivery and lessons from cases when this has not worked and why.

Enquirers: DFID Uganda

Contents
1. Overview
2. Key Documents
3. Guidance for designing PFM reforms
4. Case Studies
5. Additional Information

1. Overview

Literature which specifically focuses on the links between public financial management (PFM) reform and frontline service delivery is limited. Most of the literature available addresses wider public sector reform, or deals with the relationship between PFM and development results or poverty reduction more generally. This review therefore also includes literature on approaches to PFM reform in a more general sense, whilst highlighting material which is of most relevance to frontline service delivery. A number of case studies which refer to how PFM reform impacts service delivery are also presented.

A review of the literature suggests that in designing PFM reform programmes it is essential to consider that:

- PFM reforms must be understood as part of a more general public sector reform process.
- PFM reforms should have poverty reduction as a central objective.
- PFM reforms need to be designed at sector level in order to accommodate the needs, capacities and willingness of public sector workers in different areas of service provision.
- PFM reforms and their effects on service delivery require rigorous monitoring and evaluation.
- Donors must ensure coordination between programmes, approaches and funding mechanisms in order to streamline reform activities, avoid duplication and avoid increasing the chances of corruption within the public sector.
- Civil society (including parliamentarians and audit institutions) have a crucial role to play in demanding, sustaining and promoting PFM reforms in order to enhance service delivery.
PFM reforms are seen as crucial for the success of government and donor efforts to reduce poverty through the provision of effective services such as health, water and education. However in practice the reform process has met a number of problems:

- Capacity amongst staff often remains weak
- A long-term perspective for reforms needs to be adopted
- Coordination between the Ministry of Finance and other ministries/agencies is often weak
- Whilst promoting openness and transparency of government finances, the reform process is often hindered by a lack of information.

2. Key Documents


This document consists of 3 presentations on the subject of PFM and sector-specific service delivery.

In ‘Sector Budgeting and Resource Allocation’ Mick Foster suggests the following principles to ensure that sector PFM supports service delivery. These are:

- The sector budget derives from service delivery objectives by presenting the cost of services rather than a particular activity.
- The budget structure reflects these objectives by distinguishing the level at which centrally-procured resources are used and the spending purpose.
- Delegation to cost-centre managers by increasing managers’ control over budgets.
- Budgets ‘get where they are needed’ and are not absorbed into line Ministry or local government administration.
- The approved budget is a reasonable guide to funds available despite potential delays in disbursement, delayed procurement processes and budget approval.
- Information is timely, relevant and widely shared.
- PFM accountability reinforces incentives for improved service delivery by holding managers to account for service delivery performance.

However it should be noted that whilst necessary, improving financial management is not sufficient to improve service delivery.

Tim Williamson (‘Sector PFM and Service Delivery’) argues that the ‘pipe work’ which consists of resource allocation, management and accountability is in ‘a mess’. Service delivery is affected due to the unpredictable nature of resources which is a result of both donors and national treasuries. In general managers and service providers lack both knowledge and control in regard to resources, which leads to: a) weak service delivery institutions and systems; b) weak/poorly tailored PFM systems for service providers. In sum, weak financial systems lead to poor service delivery. Although some progress is being made in detecting the ‘leaks’ in service delivery (through internal and external audits and tracking systems) these mechanisms fail to target the network as a whole.

Florence Malinga’s presentation on ‘Efforts to Improve Performance in the Education Sector in Uganda’ summarises how the Sector-Wide Approach (SWAP) in education has been supported by PFM reforms. On the basis of the Ugandan experience Malinga argues that the
following lessons can be drawn from Uganda’s adoption of both a Medium-Term Expenditure Framework (MTEF) and a Medium-Term Budget Framework (MTBF):

- Articulation of and commitment to priorities make it easier to allocate resources strategically;
- Rationalisation of resources through the linking of outcomes, outputs and costs;
- Openness and transparency within the system aids strategic resource allocation.

A number of issues to be considered when reforming sector financing are identified, including:

- Ensuring sustainability by reducing deficit and increasing revenue
- Ensuring that both governments and donors adhere to policies and principles (e.g. in the releasing of funds)
- Ensuring coordination between the Ministry of Finance and other ministries
- Increasing capacity for the successful implementation of PFM reforms.


This paper is concerned with how results-based budgeting impacts upon the services which deliver the reduction of poverty. Results-oriented (or ‘performance’ or ‘output’) budgeting is the planning of public expenditures for the purpose of achieving explicit and defined results. The paper summarises seven case studies of low income countries and their PRSPs (Bolivia, Burkina Faso, Cambodia, Ghana, Mali, Tanzania and Uganda). Performance-based budgeting is seen to have a positive impact on how beneficiary governments work towards poverty reduction. However several authors have expressed concerns that:

- Budget financing of spending agencies’ programmes is unpredictable, and funds released may be misapplied.
- Spending agencies lack the administrative capacity to set targets, evaluate results and make use of performance assessments in their resource allocation and management decisions.
- Contracts are not enforced in institutional settings characterised by ‘informality’, meaning that public service delivery functions are often outsourced to autonomous public or private sector agencies.

Case study countries
The evidence from the case studies provides divergent information on performance-based budgeting:

- Tanzania and Uganda have made sustained and successful, multi-sectoral, endeavours to implement a results focus into both budgeting and performance management at both central and local levels.
- Bolivia and Ghana have made extensive and repeated efforts to introduce a results focus, but have been at least partially frustrated by implementation failures and political factors.
- Burkina Faso and Mali have begun systematically to introduce results-based programme budgeting and to deconcentrate and decentralise hitherto highly centralised administrative structures, but progress in institutionalising a focus on results is limited by shortages of experienced staff and information.
- In Cambodia there is impending public financial management reform. Initiatives for performance budgeting and management are still mainly confined to education and
health. Responsibility for much service provision lies with provincial authorities which enjoy *de facto* autonomy of decision.

The implications for donors are that they should:

- Acknowledge, encourage and support own-country initiatives, accepting that it will take time to 'bed down' (p. 78) before tangible results are shown.
- Offer support in the form of expertise and performance management, in particular diagnosis and performance assessment.
- Avoid implementing their own initiatives which lead to competing systems and institutions.
- Encourage the demand for results accountability by parliament and civil society.


This review attempts to identify knowledge gaps in PFM literature and subsequently highlights the lack of literature addressing PFM reform and service delivery, amongst other issues. Crucially there are no evaluations which examine how far PFM reforms impact upon inter-governmental fund flows. Key questions this review suggests for further enquiry include:

- Have PFM reform contributed to improved service delivery?
- Have any PFM reform programmes and sector programmes been mutually reinforcing or contradictory?
- Have PFM reforms resulted in greater predictability of funding flows or transparency for sub-national bodies?

The review notes the importance of PFM in current literature on poverty reduction and goes further by making an explicit connection inter-governmental funding flows and service delivery. The review identifies a number of issues within the literature:

- The focus on sector budgets and line ministries takes focus away from services which are delivered across government and overall budget allocations.
- Relatively little has been written about financial accountability in regard to the autonomous and semi-autonomous agencies which have emerged.
- Financial reforms have taken place alongside wider public sector reforms. The success of PFM reforms depend on the effective reforms in other areas.

### 3. Guidance for designing PFM reforms

The following documents are concerned with PFM in a more general sense, offering guidance and an examination of approaches taken.


Chapters 6 and 7 of this handbook address the PFM reform planning process and specific reform issues, respectively. Starting with how to plan PFM reforms, the handbook suggests using PFM assessments in order to understand the weakness of the financial system and its
impact on poverty reduction. Correspondingly, PFM reforms need to be designed to facilitate poverty reduction. In designing such reform programmes a number of issues may arise:

- A lack of capacity for reform planning within the Ministry of Finance which indicates the need for comprehensive reform programmes to have a long-term perspective of 10-15 years.
- Donor coordination in reform programmes
- Ensuring ownership, understanding and commitment of and to the reform process, such as the inclusion of cross-cutting stakeholders (e.g. the Ministries of Finance and Local Governance, public service commissions)
- Deciding whether a reform programme needs to be comprised of isolated reforms or a hybrid attempt to bring in all elements of a reform programme.
- Prioritisation of reforms based on the need to remove ‘binding constraints’ (p. 93) upon poverty reduction/service delivery. This may involve grouping reforms into high, medium or low priorities and considering options with lower costs.
- Formulating a monitoring and evaluation process using measurable performance indicators, user surveys and Public Expenditure Tracking Surveys.

In terms of specific reform issues the handbook identifies a number of considerations for donors:

- Country-level capacity for implementing reform plans and the need for external assistance
- The need to alter existing legal frameworks in order to successfully implement PFM reforms as intended. This may mean establishing a new legal component to ensure that legislation and regulations are consistent.
- An assessment of the existing operational setup (e.g. roles, responsibilities, and mandates of government departments) and what may need to be changed as part of the PFM reforms. This is with particular regard to the Ministry of Finance, auditing institutions and the Ministry of Planning or Development (if it exists).
- A need to approach PFM reform horizontally (across sectors) as well as vertically. Reforms will have to adapt to ‘local’ needs, such as different demands for information. Some reforms may need to be carried out only at sector level.
- The introduction of the Integrated Financial Management System (IFMIS) which despite offering a host of benefits is also a considerable investment, risks being controlled by a handful of experts and places an often unrealistic level of reliability on data held within the system. In general focus should be placed upon using technically simpler hardware and software.
- The awareness that PFM-related activities can lead to a greater risk of corruptive behaviour than otherwise. Examples include biased planning to particular regions or expenditure areas, off-budget resources not being subject to public control, leaking payment systems, lack of accountability control by parties outside of government, and a lack of sanctioning when misuse has been confirmed.
- The importance of Parliamentary oversight and external audit. Care should be taken to ensure that the Supreme Audit Institution is not dependent on funds that are handled by an authority under government.


This paper provides an initial assessment of public expenditure reform in low income countries in the six key areas which make up the New Public Management model: the role and structure of the state; attempts to improve agency performance; the introduction of resource and expenditure planning tools; measures to improve governance; the development
of new aid management instruments; and attempts to enhance the poverty reduction impact of public expenditure. In terms of the final component of reform – poverty reduction – the paper emphasises how the need to adjust expenditure to policy goals has been of recent interest following the formulation of PRSPs, and how government performance in expenditure management is assessed.

Across the six areas a number of points are made:

- The reform of public sector structures has been embarked upon in order to streamline service delivery and make available increased state resources for wider consumption. However, services are often obtained privately, or from the non-governmental sector, meaning that the government is often in competition with other actors;
- The reform of agency structure has been particularly successful in Ghana, where some agencies have been granted autonomous status. This is also found in examples from Malawi, Zambia and Uganda where this model has been applied to universities, hospitals and road authorities;
- There is a greater emphasis on sector performance and the alignment of budgets with objectives and activities, with countries such Bangladesh offering block budget allocations to the Ministry of Health. This is supported by donors through a Sector Wide Approach (SWAP) in which all significant funding supports a single sector policy or programme;
- Programme design is crucial because it links resources to government activities and ultimately to outputs. The Medium Term Expenditure Framework (MTEF) helps to do this by articulating an aggregate budget expenditure which is aligned with government policy. In general the introduction of the MTEF aids ministries and agencies in clearly defining their objectives, plans and outputs.
- Public Expenditure Reviews (PERs) have been introduced by the World Bank to provide feedback on the efficiency and effectiveness of public expenditures;
- PRSPs have aided governments prioritise services such as health, education, rural water supply, and rural infrastructure. On this basis, ‘pro-poor’ funding reallocations are made. However, there is a danger that in focusing upon short to medium-term poverty reduction goals, wider macroeconomic goals will be obscured.

The paper concludes that public expenditure reform cannot be divorced from wider public sector reforms.


Sound PFM systems are crucial to achieving the Millennium Development Goals (MDGs) and have therefore been a focus of the World Bank’s work. PFM has two objectives: a) enhancing development results; b) the application of appropriate fiduciary arrangements to the Bank’s financial support. The Bank’s ‘strengthened’ approach to supporting PFM includes:

- Emphasis on enhancing country PFM performance by working with clients to develop capacity and implementing integrated programmes.
- Customising PFM analytical work to country PFM reform needs in a responsive, flexible and needs-based manner.
- Providing a results framework to monitor PFM performance using tools which provide objective and consistent information about country PFM systems.
- Emphasis on improving collaboration between the Bank and other donors.
In general, the strengthened approach calls for ‘greater links between the development and fiduciary objectives of PFM work’ (p. 8). This concern underlies the Bank’s emphasis on donor harmonisation and the use of country systems in order to allow investment lending to contribute to improved institutional performance.

3. Case Studies


Although the focus of this paper is on wider public sector reform a number of observations relevant to public financial management are made. The paper is based on public sector reform experiences in Kenya, Uganda, Tanzania, Ghana and Zambia.

The relation between public sector reform and service delivery has been high on the donor agenda since 2000, at the start of the ‘third wave’ of reform in Africa. This has comprised a entails a focus on the following considerations:

- The need to demonstrate early results, e.g. Tanzania’s ‘quick wins’ service improvement scheme and Uganda’s Results-Oriented Management (ROM) approach.
- Public demands for transparency and accountability.
- The shift to market-led economics and private sector growth.
- The influence of ‘new public management’, e.g. the ‘agency model’ applied to the Rural Water and Sanitation Department in Ghana and the Executive Agencies programme to enhance staff performance in Tanzania.
- The need for PRSPs to support sector-wide approaches.
- The pursuit of an integrated systems approach.


This case study principally concerns sector budget support as an aid modality and its impact on the education sector in Rwanda. However the relation between sector budget support and PFM is considered throughout the case study. In Rwanda, PFM reforms have been undertaken alongside a shift to sector budget support by donors in order to promote country systems. In general, PFM reforms (including fiscal decentralisation, the introduction of a Medium Term Expenditure Framework which aligns budgets and policies, and the increased predictability of funds) have led to more efficient service provision in the area of education.

The Rwanda case study throws up a number of lessons to consider when implementing sector budget support which also supports wider PFM reforms:

- The need for capacity building and knowledge-sharing: a training course for school directors, district education officers and directors on school management was provided in 2007 and 2008. Further training on budget monitoring is planned for Parent Teacher Associations. Schools have also received directives on disbursements and budget preparation mechanisms.
PFM has been facilitated as a result of general budget support and sector budget support complementarity. This would not have been possible with sector budget support alone.

The sector has focused upon improving financial management at the service delivery level, thereby addressing sector-level issues which are often beyond the reach of more general PFM reforms.

The level of success sector budget support has met in promoting PFM reforms has been compromised by in-year unpredictability of both quantity and timing.


Chapter 8 of this review (‘Delivering Services to the Afghan People’) argues that the main objective of PFM reform is the delivery of services. The report describes the progress of subnational administrations in Kabul, indicating that in terms of financial management and service delivery the management of the education budget presents a major problem within the reform process. Generally speaking, the system of transferring positive balances into the provinces’ expenditure account is effective in terms of getting cash out to the provinces but often results in unnecessary delays and constraints in spending at local service level.

In terms of lessons learned to be drawn from Afghanistan, managing the financing of service delivery cost-recovery is identified as a crucial issue:

- In some cases, there are ‘good technical grounds’ for cost-recovery in public services (p. 72).
- Cost recovery will facilitate accountability for improving service delivery, e.g. the willingness of the Afghan people to pay for power.
- Higher tariffs on power and natural gas should be enacted in areas where they are low.
- Higher education is another good example of where cost-recovery could be implemented in order to free budgetary resources for quality enhancement.

4. Further resources

Relevant GSDRC Resources:

- Gateway Guide to Public Financial Management and Accountability:

- Service Delivery Topic Guide:
  http://www.gsdrc.org/go/topic-guides/service-delivery
5. Additional information

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Websites Visited

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