

Book Review

ADVICE, MONEY, RESULTS: RETHINKING INTERNATIONAL SUPPORT FOR MANAGING PUBLIC FINANCE. Report by an International Working Group. New York: New York University, Robert F. Wagner Graduate School of Public Service. 2020.

<https://wagner.nyu.edu/advice-money-results/about>

Richard Allen

This interesting monograph, written by a group of eminent academics and practitioners¹, sets out some radical new thoughts on public financial management (PFM), but falls somewhat short of a practical agenda for moving forward. Though the title of the paper focuses on rethinking international support for managing public finance, its coverage is much wider. The paper looks quite deeply into the fundamentals of PFM, its scope and application. The authors seek to move PFM from what they view as its present inward-looking and “closed” system to an “open” system that relates more directly to improvements in service delivery and development outcomes. But the paper does not fully succeed in that objective.

The paper starts with an appropriately broad definition of PFM, namely “a set of processes that connect public resources with public policy while serving the wider financial purposes of accounting and accountability” (page 1). It observes that the volume of global support for technical assistance on PFM is rising fast and almost doubled from around \$US 5 billion between 2002-2006 to \$US 9.3 billion a decade later (information from a cited AlphaBeta study).² The number and scope of PFM diagnostic tools has proliferated since the early 1990s and the paper draws a neat distinction between the concept of PFM *standards* (e.g., on public sector accounting, IPSAS, and audit, INTOSAI³) and PFM *conventions* defined as “a codification of the tacit knowledge of many generations of practitioners, gained over many years and in many contexts” which are built into these tools (page 17). The authors note that although PFM remains some distance behind economics, which is the leading professional discipline found in the development field, “[it] is emerging as a distinct academic and professional discipline in international development, with a common language and an associated career path” (pages 15-16).

PFM is not without its challenges, however. One major challenge is the lack of empirical evidence demonstrating that reduced corruption or other good development outcomes are associated with improved scores on Public Expenditure and Financial Accountability (PEFA) assessments—a leading PFM diagnostic tool. Sound PFM systems are generally thought to be needed for effective delivery of public services such as education and health but again there is no firm evidence to

support this proposition. Perhaps this lack of empirical evidence is not surprising, however. The authors note that “... 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” (page 30).

The core of the paper and perhaps its most valuable contribution is its critique of the “standard trilogy” of PFM objectives that was defined by Campos and Pradhan⁴ in 1996 and has continued virtually unchallenged ever since. The authors claim that these three objectives—fiscal discipline, allocative efficiency, and operational efficiency—were not intended as a hierarchy but that in practice the first objective (fiscal discipline) has assumed priority. In retrospect this seems unsurprising. The succession of financial crises over the past twenty-five years has greatly strengthened the hand of finance ministers to consolidate public finances and space remains limited for the kind of expansive fiscal policies—for poverty reduction, climate change, infrastructure investment and meeting other SDGs—which the authors insist “are demanding a fundamental reorientation or rebalancing in public finance and how it is managed” (page 22). The authors argue that the focus on fiscal discipline “has the power to override values such as improving public services or moving toward a more equal income distribution” (page 21) but perhaps it would be more accurate to regard fiscal discipline as a precondition for achieving these objectives?

Some of the authors’ criticisms of the Campos/Pradhan trinity seem unduly harsh. For example, they note that 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” (page 24). Yet many of these concerns are being addressed through new (or redesigned) diagnostic tools that have been introduced in the last few years, such as a modified PEFA framework, and the TADAT, PIMA, and DeMPA tools.⁵ A new Medium-Term Revenue Strategy is being applied in many countries. Fiscal risks are addressed extensively in the IMF’s revamped Fiscal Transparency Code, and there is a growing focus on analyzing public sector balance sheets. Finally, the IMF has recently endorsed a comprehensive framework for analyzing governance vulnerabilities in countries with corrupted institutions: a key element of this framework is fiscal governance, including PFM, revenue administration and the management of extractive industries.⁶

Despite these qualifications, the paper makes a good case for modifying and expanding the existing trinity of objectives as follows:

| Existing Objectives | Proposed Objectives |
|-----------------------------|--|
| Aggregate Fiscal Discipline | Fiscal Discipline and Managed Risk |
| Allocative Efficiency | Allocative Efficiency & Strategic Reprioritization |
| Operational Efficiency | Operational Efficiency and Service Quality |
| | Macroeconomic Stability |
| | Fairness and Legitimacy |
| | Democratic Accountability |

The paper rightly argues that there is scope for extending the boundaries of PFM, but goes too far in stating that: “PFM must retain its classic job description of supporting fiscal policy, but not at the expense of failing to address growing income inequality and the erosion of real incomes, declining trust in government, and rising intolerance and vulnerabilities to populism and authoritarianism” (page 54). Boundaries cannot be limitless, and the paper here seems to be conflating issues of fiscal policy and PFM which need to be clearly separated—the what and the how of policymaking, the two sides of the same coin. Some adaptations of PFM may be necessary to deal with emerging policy challenges, especially those such as climate change or gender-related budgeting which cut across traditional boundaries of public administration and for which there may be multiple “lead” agencies, but fundamental changes are not required. As the paper itself argues, somewhat contradictorily, the fundamental purpose of PFM is to provide a set of tools and conventions that support the process of setting fiscal and budgetary policies.

The proposals in the paper such for setting standards of data collection and sharing and establishing practitioner groups to share sensitive information seem over-ambitious. Coordination among development partners has forever been challenging, and governments are understandably wary of sharing information and advice received in confidence from their advisors. Similarly, the idea of experimentation and “managed choice” in the provision of technical assistance is close to Matt Andrews’ “problem-driven iterative adaptive” (PDIA) approach which has shown little traction in practical use, except possibly at the margins of PFM (where “hackathons”, a related approach linked to the application of IT systems to PFM have shown some value). For example, PDIA may be useful to reach agreement at a technical level on how to improve the efficiency of simple business processes, but not to decide on the design features of a medium-term budget

framework or a treasury single account (TSA). Big decisions on PFM require big players around the table and PDIA has not demonstrated that it can be applied at this level.

Clarke and Craft⁷ reach a similar conclusion in a recent article on design thinking, which is another term for PDIA-type approaches that take account of the views of different users, test these views through iterative prototypes, and come up with the best way forward. The authors conclude that these approaches may not work at the initial phases of determining policy objectives, when the high-level officials and advisors concerned will have a mixed bag of sharply competing needs. The act of weighing these needs is political, subjective, and needs to be done by accountable officials who have the power to define policy problems and goals, and to select tools to achieve those goals. Once these decisions are made, then design thinking can be useful at lower levels in coming up with a successful path to policy implementation.

Another controversial assumption of PDIA is that practitioners routinely impose on developing countries “best practice” PFM models of advanced countries that are alien to their local environments. In many areas of PFM, however, the available choices for countries to consider are limited. A TSA is essentially a TSA in whatever country it is found, with minor variations for local context. It is not clear how in practice a competitive market for PFM support, or increased contestability of ideas could be developed, or indeed whether such an approach would add value. Where choice is possible it may be on the selection of steps or stages to implement a reform (how to do rather than what to do), but unfortunately these critically important sequencing issues are barely discussed in this paper.

Some of the other ideas and proposals presented by the authors, while interesting, would benefit from further development. The paper contains few country-specific examples of how its proposals could be applied in the real world. Further, it approaches PFM from a largely donor-driven perspective, with too little consideration of the primary role of national governments and especially finance ministers who bear responsibility for conducting sound fiscal and budgetary policies and are the ultimate drivers of reform. Another highly relevant area that is little discussed in the paper is the relationship between PFM and corruption, which has featured in recent studies by the IMF and others⁸. There is little evidence, for example, that improved PFM reduces the outflow of illicit funds. This may be partly attributable to the networks of enablers (banks, brokers, estate agents, etc.) outside the countries of origin that provide legitimacy and diplomatic immunity for illicit transactions in countries with a good rule of law. Finally, while noting that institutional and political economy constraints to PFM reform are critically important (pages 11-12) the paper deals with these issues only briefly and has no fresh proposals to make.

To conclude, this paper contains a lot of original thinking on PFM and is worth reading both by academics and practitioners. Its ideas are challenging and to a degree controversial, which makes the paper more than welcome to stimulate debate. While the paper's core idea of updating the traditional trinity of PFM objectives is attractive, its claim that PFM conventions have become "fixed and entrenched, without continuous evolution based on emerging evidence" (page 43) seems overstated. More research is needed to identify the mechanisms through which PFM reforms are connected to development outcomes and the impact of these reforms, as well as filling other gaps in the paper's coverage. The paper is correct in arguing that the organizational linkages between policy-making and PFM need to be reassessed and strengthened but is mistaken in asserting that this requires a fundamental redefinition or repositioning of PFM itself.

Richard Allen International Monetary Fund

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NOTES

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² When development policy operations are included, the figures are even higher. Estimated support by the World Bank alone for public finance operations over the period FY2007 – FY2017 was \$35.6 billion, with additional spending on advisory services and analytical work and technical assistance provided through trust funds.

³ IPSAS = International Public Sector Accounting Standards; INTOSAI = International Association of Supreme Audit Institutions, a body which regulates the public sector auditing profession and sets audit standards.

⁴ Campos, E., and S. Pradhan. 1996. *Budgetary Institutions and Expenditure Outcomes*. Policy Research Working Paper, No. 1646. (Washington DC: World Bank).

⁵ TADAT = Tax Administration Diagnostic Assessment Tool (IMF); PIMA = Public Investment Management Assessment tool (IMF); DeMPA = Debt Management Performance Assessment tool (World Bank).

⁶ IMF, *Review of the 1997 Guidance Note on Governance—A Proposed Framework for Enhanced Fund Engagement*. April 2018 (Washington DC: International Monetary Fund).

⁷ Clarke A., and J. Craft. 2019. The Twin Faces of Policy Design. *Governance* 32: 5-21.

⁸ See, for example, IMF, *Fiscal Monitor: Curbing Corruption*. April 2019 (Washington DC: International Monetary Fund).