



**Contemporary Issues in PFM**  
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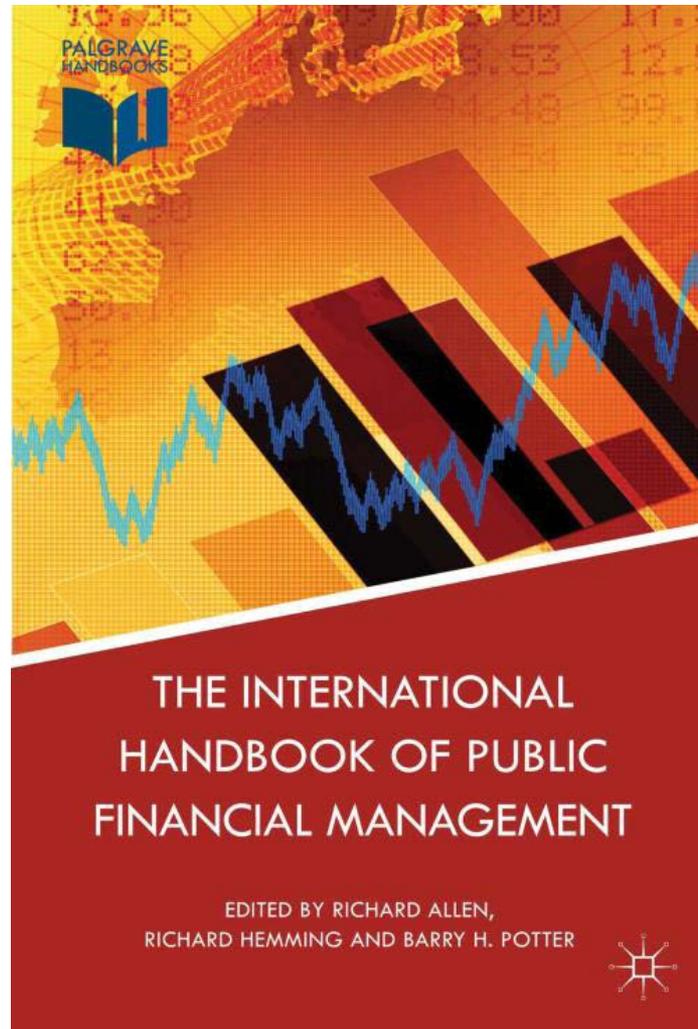
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- ▶ Part 1

- ▶ The International Handbook of Public Financial Management





# Why is this Handbook relevant and important?

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- ▶ First comprehensive reference book on PFM to be published for 10-15 years
- ▶ Many important advances in practices and literature have made during this period
- ▶ PFM is included as a core topic in Master's and Ph.D. programs in public finance and public administration
- ▶ The global financial crisis has increased interest in the quality and performance of budgetary institutions



## Why has interest in PFM expanded so fast?

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- ▶ PFM is no longer seen as a narrow technical subject
- ▶ Important link between macroeconomic factors (fiscal policy, fiscal rules, efficient allocation of resources) and microeconomic factors (role of markets, incentives, behavioral responses) is recognized
- ▶ Interdisciplinary nature of PFM: economics, public finance, political science; law; organization theory, etc.
- ▶ Surge of interest in making governments more accountable for their decisions, and more transparent



## Important features of the Handbook

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- ▶ Target audience includes policymakers and practitioners; professors and students of public administration and public finance; writers and commentators on public policy
- ▶ Handbook takes full account of both cutting-edge research and TA reports over the last 10-15 years
- ▶ Authors are top selection of policymakers, practitioners and academics in the field. Many with a background in the IMF and the World Bank, and experienced in TA work
- ▶ Book well reviewed in *International Public Management Review*, *Governance*, *Public Budgeting & Finance*, etc.



# The Handbook is comprehensive

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- ▶ 37 authors
- ▶ 38 chapters
- ▶ 928 pages
- ▶ 197 figures, tables and boxes



## It is divided into 7 parts

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- ▶ Introduction
- ▶ Institutional and legal framework for PFM
- ▶ Allocation of resources
- ▶ Managing budget execution
- ▶ Managing government revenues
- ▶ Liability and asset management
- ▶ Accounting, reporting and oversight of public finances



# Topics covered by the Handbook

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- ▶ **Important “bread-and butter” PFM topics** such as the legal framework, budget classification, budget formulation, cash and debt management, internal control, financial accounting and reporting, external audit, etc.
- ▶ **Specialized topics** such as the macroeconomic foundations of PFM, fiscal risk analysis, payroll management, extra-budgetary funds, tax design, managing external aid, sovereign wealth funds, generational accounting, state enterprises, FMIS, fiscal councils, etc.



# Cross-cutting themes of the Handbook

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- ▶ Political economy and institutional aspects of PFM
- ▶ Relationship between macroeconomic policy, fiscal risks and PFM
- ▶ Improving the delivery of public services
- ▶ Strengthening fiscal transparency and accountability
- ▶ Making more effective use of overseas development assistance



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▶ Part 2

▶ Contemporary Issues in PFM



# Existing approaches to PFM reform are not working well

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- ▶ World Bank (CPIA) and PEFA data suggest that progress in improving budget institutions in developing countries was slow at best through 2000s
- ▶ PFM is a much more complex, multidisciplinary subject than previously considered
- ▶ Diagnostic tools (PEFA, FTE) have advanced but take little account of institutional aspects of PFM
- ▶ Context is critically important – solutions cannot be developed without detailed analysis of countries' history and culture
- ▶ Handbooks or guides that focus on simplistic “how to” solutions have limited value



## “Best practice” idea is perceived as less relevant

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- ▶ Big change from prevailing view in 2000 – emphasis is now on “good practice” or “good enough practice”
- ▶ Increasing focus on what is reasonable and practical taking account of a country’s legal, administrative and governance arrangements
- ▶ Recognition that informal rules of behavior are often more important than formal laws and other rules, especially in developing countries
- ▶ Skepticism about relevance of “New Public Management” ideas and market-based solutions (e.g., PPPs)



## But .... donors and IFIs continue to promote advanced country models in developing countries

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- ▶ Fiscal responsibility laws
- ▶ Medium-term budget frameworks
- ▶ Performance-related budgeting and program budgeting
- ▶ Advanced IFMIS solutions
- ▶ Accruals-based accounting

Little attention is given to whether these solutions fit the needs of the countries concerned, or whether essential PFM preconditions have been met

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## Is a “New Consensus” on PFM emerging?

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- ▶ **Pace of reform** is very important – budget institutions cannot be changed like software systems
  - ▶ **Political economy issues and contextual factors are key**
  - ▶ **Prioritization and sequencing are essential** – focus on basic reforms first – e.g., macrofiscal, accounting, cash management, internal control **before** advanced reforms
  - ▶ **Capability is as important as capacity** – central financial agencies (CFAs) must be well organized and well managed
  - ▶ **Decentralized PFM solutions** are a mixed blessing
  - ▶ **Reforms should start by analyzing problems** not solutions (Andrews)
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# What should a well-designed PFM reform strategy look like?

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- ▶ Tailor reforms to needs of the country, and ensure reforms are genuinely owned by government not by donors/IFIs
- ▶ Integrate institutional analysis into TA work
- ▶ Focus on the structure and organization of CFAs
- ▶ Use the power of transparency to promote improvements
- ▶ Be realistic about the pace of reform – in advanced countries reforms have taken many decades to implement
- ▶ Give basic reforms priority and simplify PFM reform strategies
- ▶ Face up to new challenges – e.g., managing resource revenues and pressures for decentralization – both challenging for PFM



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# QUESTIONS and DISCUSSION

