

Let's talk
PFM
 **PEFA**



**STRENGTHENING THE LINKS BETWEEN PFM
AND SERVICE DELIVERY IN SECTORS**
Summary of key messages from Roundtable Conference

Public Financial Management (PFM) matters for service delivery, as it can enable implementation of governments' key policy objectives for better service delivery (SD), and implementation of the Sustainable Development Goals (SDGs)



PEFA Secretariat

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Summary

Public Financial Management (PFM) matters for service delivery, as it can enable implementation of governments' key policy objectives for better service delivery (SD), and implementation of the Sustainable Development Goals (SDGs). PFM is only one of the many factors affecting the quality of public services delivered. Therefore, it has been difficult to isolate PFM effects from broader institutional and public sector management issues in the literature.

Assessing PFM performance at the SD level comes with significant challenges, due to variations in the level of centralization/decentralization of PFM functions to line ministries, different funding models, delivery arrangements, etc. Some countries allocate resources through the budget; some rely on insurance (e.g., health, employment); some countries channel resources from development partners; some use a mix of public and private finance, while others rely on local governments as delivery agents. As a result, there is no single PFM model of service delivery.

Strengthening the links between PFM and SD is an issue of increasing interest and importance. Several organizations are heavily engaged in research on the topic and in some cases provide technical assistance to member countries – including the World Bank (WB), the World Health Organization (WHO), the Gates Foundation, United Nations International Children's Emergency Fund (UNICEF), etc.

The key messages from the two Global Virtual Roundtables organized by the PEFA Secretariat on May 25 and 27, 2021 are as follows:

- **There is a broad consensus that weaknesses in the PFM system can have consequences for SD outcomes.** Some elements of PFM are especially important, for example: (i) the PFM legal and regulatory framework for delivering public services; (ii) the roles and functions of line ministries and associated agencies; (iii) financing mechanisms for the sectors; (iv) processes of allocating resources to service delivery units and executing these budgets; (v) adjustment of PFM functions in SD departments to better respond to the COVID-19 health crisis; (vi) public investment as a critical component of the post-crisis recovery; and (vii) transparency and accountability in the delivery of public services, especially related to the health sector.
- **A better understanding of the appropriateness and adequacy of the mechanism used for costing the delivery of services in the sectors is important.** This should be accompanied by an assessment of the extent to which the sector tracks and uses data on the level of and changes in the cost per unit of goods/services delivered in taking decisions on resource allocation.
- **The PEFA framework is the most used PFM diagnostic tool and could help sectors better understand the PFM bottlenecks on better SD and how these can be mitigated.**

Background

Around the world, there are major failings in the provision of core public services. PFM is expected to play a crucial role in the implementation of national and sectoral policies and ensuring more effective and efficient provision of public services. However, PFM is only one of the many factors affecting the quality of public services delivered. It has been difficult to isolate PFM effects from broader institutional and public sector management issues impacting service delivery. Further, the COVID-19 pandemic crisis has significantly impacted Public Financial Management (PFM) systems, and their relationships with the Service Delivery. Globally health sector has seen significant amount of service delivery focused examination of PFM processes. Other sectors including education, water, social protection etc., have also seen increasing focus on implications of PFM systems on service delivery.

In this background, to explore key strategic issues on how to strengthen the links between PFM and SD in sectors, the Public Expenditure and Financial Accountability (PEFA) Secretariat convened two Global Virtual Roundtables on May 25 and 27, 2021. The roundtables brought together senior public finance and sector professionals from different organizations leading the work on PFM and sectors. The organizations included the World Bank (WB), the European Commission (EC), the Norwegian Agency for Development Cooperation (NORAD), the UK's Foreign Commonwealth and Development Office (FCDO), the IMF, the Organization for Economic Cooperation and Development (OECD), the World Health Organization (WHO), the United Nations International Children's Emergency Fund (UNICEF), the Global Fund (GF), and the Overseas Development Institute (ODI).

Summary of key discussions and views emerging from roundtable:

Three aspects of interaction between PFM and Service Delivery – (i) the importance of PFM for SD; (ii) expenditure efficiency (iii) what PEFA Program can do; were discussed at the two global roundtable brainstorming sessions. This note summarizes the key discussions and emerging views.

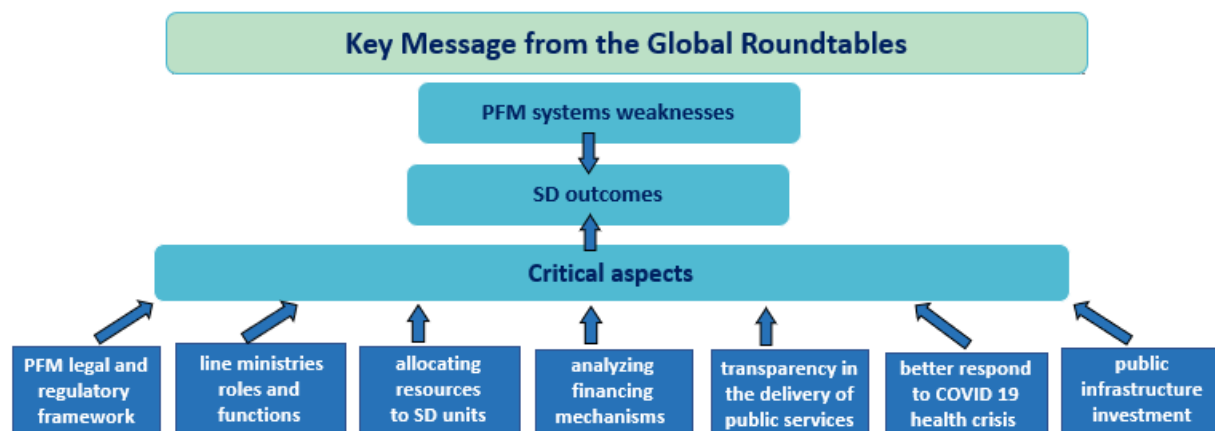
1. Importance of PFM for Service Delivery

The key message from the global roundtables was that weaknesses in the PFM system can have significant consequences for the service delivery outcomes as outlined in Fig.1. However, participants agreed on the importance of deepening understanding of some critical aspects, including:

- **The PFM legal and regulatory framework for delivering public services.** Are the powers and responsibilities of SD sectors and ministries adequately described in the country's core PFM Act? Does the implementation of the law enable efficient service delivery in practice, and what modifications to the law would be appropriate?
- **The roles and functions of line ministries and associated agencies in delivering public services.** A lot is known about PFM as a central function of public finance, including the role and functions of the central budget office (CBO), much less about the role and functions of line ministries and associated agencies in delivering these services. Questions raised at the roundtables included: What are the mechanisms used to deliver services such as health and education to end users, and how efficient and effective are they? What functions have been devolved to the ministries and agencies responsible for service delivery? How are the planning and finance functions structured in the SD departments and how are decisions on resource allocation made? What are the capacity gaps in terms of human resources and IT systems of these departments? Are there any international benchmarks of good performance? Much more research on these matters is required to provide clear answers.
- **All stages of the PFM cycle are important for efficient and effective service delivery, but especially the processes of allocating resources to SD units and executing these budgets.** There are other challenges also. Cash resources can be constrained because of inadequate cash management by the CBO, or by inefficiencies in service delivery. Procurement can be a challenge, exacerbated by the relaxation of controls during the COVID crisis. Corruption may lead to waste and inefficient resource use, such as the accumulation of spending arrears.
- **Financing mechanisms for the sectors vary wildly across countries and need to be carefully analyzed.** The impact of the PFM system on resource mobilization depends on the methods and sources of financing SD. In cases where the public sector is significantly involved in service provision and financing, the sector will have a higher level of exposure to country-level PFM rules than a system where the government is neither the major provider nor financier of the services (e.g., health services in many countries).
- **The COVID-19 health crisis has highlighted the need for more transparency in the delivery of public services, especially related to health, the importance of internal controls and “keeping the receipts”, and strong internal and external audit.** Such provisions are required to balance the relaxation of various PFM regulations during the crisis – for example: streamlined public procurement rules, more flexible execution of budgets, simplified payment processes, bypassing of parliamentary oversight. More timely audits of emergency spending have been useful in some countries to enhance transparency and rebuild public trust in the accountability of public officials.

- **How have PFM functions in SD departments been adjusted to better respond to the COVID-19 health crisis?** Some countries have established COVID funds for delivering health services, transfers to needy households, etc. How effective have these arrangements been? Will they be retained after the COVID health crisis as permanent institutions?
- **Some countries have already increased public infrastructure investment to boost their economies as part of the post-crisis recovery.** Such investment projects include many key SD sectors (e.g., hospitals, health centers, schools, water and sewerage systems, drainage, and irrigation, etc.). This will require effective PIM institutions at the center of government and in-service delivery agencies to plan and allocate resources for investment, undertake appraisals, and implement selected projects.

Fig.1 – Key message from the roundtable



2. Expenditure Efficiency

The key message from the global roundtables was that a better understanding of the appropriateness and adequacy of the costing mechanisms used to estimate financing requirements in the sectors is important. In addition, participants agreed on the following:

- **Increasing the effectiveness of SD is just as important as efficiency.** Both should be reflected in a comprehensive performance monitoring and evaluation system.
- **An assessment of the extent to which the sectors track changes in the cost per unit of the goods/services they deliver, and how effectively they use such data in their decision making, is critical.** Performance-based budgeting systems (PBBS) have been set up in many countries but frequently do not deliver timely and reliable information on the delivery of key public services that can be used in negotiations between SD departments

and the CBO on their budget allocations, in monitoring and evaluating spending outcomes, and in informing CSOs and the wider public that money is being well spent.

3. What can the PEFA Program do?

The key message from the global roundtables was that PEFA reports are an important input for the practitioners working on PFM and sectors. In addition, participants agreed on the following:

- **Information in the PEFA reports is not directly understandable nor actionable, and the service delivery context is not sufficiently developed.** The PEFA framework is the most used PFM diagnostic tool with more than 677 PEFA assessments in 154 countries but has limitations in analyzing the efficiency and effectiveness of SD outcomes. PEFA 2016 includes only one indicator (PI.8) on performance information for SD. In addition, the executive summary and subsection 4.3 of PEFA assessment reports analyze the extent to which the performance of the assessed PFM system supports or affects the overall achievement of three important fiscal and budgetary outcomes, one of which is efficient service delivery. But these sections do not provide a robust analysis of the actual consequences of the PFM system for efficient SD.
- **Strengthening the PEFA approach to sectors could consist in better using the information in the reports to improve understanding of the PFM context in the sectors.**

Participants at the roundtable events (in alphabetical order):

- **Adenike Sherifat Oyeyiola**, Practice Manager, WB
- **Arvind Nair**, Senior Economist, World Bank Group
- **Alfrun Tryggvadottir**, Organisation for Economic Cooperation and Development
- **Eric Boa**, the Global Fund
- **Ellen Van De Poel**, Senior Economist, Health, World Bank Group
- **Eric Deschoenmaeker**, DG INTPAT, European Commission, member of the PEFA Steering Committee
- **Furqan Ahmad Saleem**, Lead Public Sector Specialist, World Bank Group
- **Guillaume Brule**, PEFA Secretariat
- **Hélène Barroy**, Senior Public Finance Expert, World Health Organization
- **Moritz Piatti**, Senior Economist, Health, World Bank Group
- **Mickey Chopra**, Lead Health Specialist, World Bank Group
- **Marion Jane Cros**, Senior Economist, Health, World Bank Group
- **Mark Blecher**, Treasury, Government of South Africa
- **Manoj Jain**, Lead Governance Specialist, World Bank Group
- **Maarten de Jong**, Public Sector Auditor, PFM consultant
- **Nicholas Travis**, Consultant on PFM and Sectors, World Bank Group
- **Ogalaletseng Gaarekwe**, Treasury, Government of South Africa
- **Qurat ul Ain Hadi**, Financial Management Specialist, World Bank Group
- **Richard Allen**, Public Finance Expert
- **Saw Young Min**, Senior Governance Specialist, World Bank Group
- **Sierd Hadley**, Research Fellow, Development and Finance, Overseas Development Institute
- **Sarah Alkenbrack**, Senior Economist, Health, World Bank Group
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- **Silvia Kirova**, PEFA Secretariat
- **Timothy Stephen Williamson**, Senior Public Sector Specialist, World Bank Group
- **Jennifer Asman**, Policy Specialist, Public Finance, UNICEF
- **Jim Brumby**, Senior Advisor, World Bank Group
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- **Yasuhiko Matsuda**, Lead Specialist, World Bank Group
- **Wangari Muikia**, PFM Specialist