



What is effective government? And especially effective public financial management

Ideas to move the discussion from
convergence to contingency

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Effective government

- We know it is important
 - Especially in development
- But do we know what it is?
 - Broadly
 - And in key areas like PFM
- Let's hope so; given that we advise on the issue!



My questions

- Does the development community have an idea of what effectiveness is; in PFM area?
- How well does this idea hold up when we look at really effective governments?
 - Focused especially on advice to African governments



How do we think define what is effective?

- In sports
- We look at the best
 - Michael Jordan, Larry Bird
- We note their characteristics, and say these should be emulated
 - But do these all define effectiveness?
 - Which ones really matter? (How do we decide?)
 - Can we converge on a list?
- Does this define effectiveness for all? (if I'm advising my son for example)



Sound ridiculous?

- But governance indicators seem much like this
 - Be decentralized and fiscally disciplined, politically neutral and business friendly, etc.
- Various best practice ideas combined
- What about PFM?



The community has converged fairly tightly...

- On what effectiveness means in terms of results
 - Famous trio, PEFA additional (add transparency, reliability, etc.)
- On what effectiveness means as process
 - Top-down, structured budgeting (strong MoF, rules and laws, MTEFs),
 - Relaxed input controls with program/functional focus and ex-post performance measures,
 - The use of modern financial management practices (including accruals, capital charges, internal audit and carry-overs, and FMIS-type systems), and
 - Budget transparency (including active legislative engagement).



How do I say this?

- Strongly reflected in PEFA (even the functional is better focus)
- Reflected prominently in handbooks and policy documents of WB, IMF, ADB, DfID, IADB
- Reflected in WB projects in Africa:
 - 15 randomly chosen since 1996 (11 countries)
 - All 4 elements reflected in all projects
 - Most mature convergence in first three areas (MTEFs, program and function, FMIS, internal audit...)
 - Growing convergence on importance of last area (parliamentary engagement, external audit)



Conclusions? (Part 1)

- Research expanding to bigger set of projects, also examining PRSCs
- But preliminary YES to first question:
 - The development community does have an idea of what effectiveness is in PFM area?
- A hard statement:
 - Donors have converged on a series of Michael Jordan, Larry Bird type ideas and asks all governments to introduce these...
 - To become effective



So...part 2

- How well does the converged model hold up when we look at really effective governments?
 - Do governments we consider effective all look like this?



Basic approach

- Look at 9 OECD governments consistently rated as effective in WGI
 - Australia, Belgium, Canada, Denmark, Germany, Netherlands, Sweden, UK, USA
 - Using OECD budget survey data, ask what their PFM systems look like
 - Control for quality using independent sources (case studies, etc.)
- Here are some of the results



Are budgets all managed in a strong top-down fashion?

- Starting point from organizations perspective; do they all centralize control similarly?
- No:
 - 2 have 2 or more agencies running the budget process
 - 4 have single entity in MoF running the process
 - 1 has 2 entities in MoF running the process
 - 1 has the process run from the Chief Executive's Office
- Also:
 - Staff numbers differ significantly in the MoF budget entities
 - Suggesting very different roles
 - \$ budgeted per staff member is 5 X higher in Sweden than in Belgium



Are all budget processes tightly structured, with disciplined MTEF-type arrangements?

- At general level YES
 - All budgets cover multiple years
- But procedures to get there differ significantly, for example:
 - Different bodies develop economic assumptions
 - Some assumptions are independently reviewed others not
 - Some publish forecasting methodologies, assumptions, others do partially, others do not
 - Multi-year allocations are treated differently in budget documents provided to legislatures



Are budgets rule based, with ceilings?

Country	Fiscal Rule	Expenditure rule	Limits for spending requests
Australia	No Rules		No
Belgium	Budget Balance Rule		For some types of expenditure at a chapter level
Canada	Expenditure, Budget Balance, Debt Rules	Targets nominal growth rate, covering central government only, dependent on political commitment of government	For all expenditure at chapter level
Denmark	Expenditure, Revenue, Budget Balance Rules	Targets real growth rate, covering entire government sector, dependent on political commitment of government	For some types of expenditure at a chapter level
Germany	Debt Rule		For all expenditure at line item level
Netherlands	Expenditure, Revenue, Budget Balance Rules	Targets real expenditure ceiling, dependent on formal agreement of parties in government	For all expenditure at chapter level
Sweden	Expenditure, Budget Balance Rules	Targets nominal expenditure ceiling, covering central government only, based in legislation	Other
United Kingdom	Budget Balance, Debt Rule		No, but indicative limits
United States	No Rules		No, but indicative limits



Are they commonly adopting more relaxed input controls?

Country	Lump sum appropriations?	Performance against objectives routinely presented to legislature
Australia	Yes, for operating expenditures	Yes each ministry prepares performance reports accompanying the budget
Belgium	No, expenditure specified below agency level	No
Canada	Yes, for operating expenditures, but a sub-limit on wages	Other
Denmark	Yes, for operating expenditures, but a sub-limit on wages	No, only on ad hoc basis
Germany	No, expenditure specified below agency level	No, only on ad hoc basis
Netherlands	Other	Yes, integrated into main budget documents
Sweden	Yes, for operating expenditures	Yes each ministry prepares performance reports accompanying the budget
United Kingdom	Yes, for operating expenditures, but a sub-limit on wages	Yes each ministry prepares performance reports accompanying the budget
United States	Other	Other



What about the adoption of new FM methods; Internal audit

- Recent paper purports to find “similarities in legal requirements, organizational structure, and future challenges” in OECD countries
- But it suggests these differences:
 - Some governments legislate internal audit, some do not;
 - Most governments have internal audit in all budgetary entities, some provide internal audit through central entities
 - Some have central standard-setting entities for internal audit while others do not
 - Internal audit entities all produce similar reports (reviews of internal control systems, financial audits, legislative compliance audits, and performance audits) but the time spent on the various types varies considerably (as does time spent on assurance and consulting activities)
 - The ratio of civil servants to internal auditor varies significantly, from 247 in the United States to 752 in the Netherlands and 979 in Canada.



And how about legislative engagement; surely all reserve a vigorous role for the legislature?
NO!

Country	Legislature's budgetary authority
Australia	1
Belgium	4
Canada	1
Denmark	5
Germany	4
Netherlands	6
Sweden	9
United kingdom	1
United States	10

Oppenheimer's 1983 methodology, Wehner and Lienert numbers,
Corroborated in 2007 OECD data and documents



What do I conclude

- Donors have converged on a model
 - to advise African governments on how to become effective
 - But the more effective governments of the world exhibit less convergence on such model!



Interestingly

- One can go into the past of the more effective governments, and the degree of convergence is even lower
 - But effectiveness is still high
 - The US managed to fund programs to go to the moon before its flurry of 1970-2000 budget reforms
 - Sweden ensured sufficient, focused resources to deal with its maternal and infant mortality problems 100+ years ago (before MTEF, PBB, internal audit, etc.)



Where to now? (merging basketball and PFM)

- Larry Bird and Michael Jordan were effective for many reasons beyond their core characteristics
 - Some to do with their past
 - Some to do with their team mates
 - Etc.
- Other players who looked very different (Shaq, John Stockton) were also effective, but in different contexts
- The most effective middle schooler looks quite different to Jordan
 - Reflecting his different context!



A contingency approach to PFM effectiveness

- Similarly, the US system's effectiveness has much to do with its context
 - As does Belgium's, Sweden's, etc.
- Some of these are current and some have been entrenched over time, eg.
 - Type of government (legislative engagement)
 - National culture (performance management)
 - Professionalization of national accounting practices (Budget formality, internal audit)



Implications for future

- Research:

- Let's try and understand variation and contingencies, rather than jump to converge
- What are the contextual factors that matter
 - Across countries
 - Across time

- Operations:

- Can we focus more on the context than on the technicality?
- Create space for countries to reform appropriately...