

Strengthening public financial management (PFM):

How are we doing?

What is next on the agenda?

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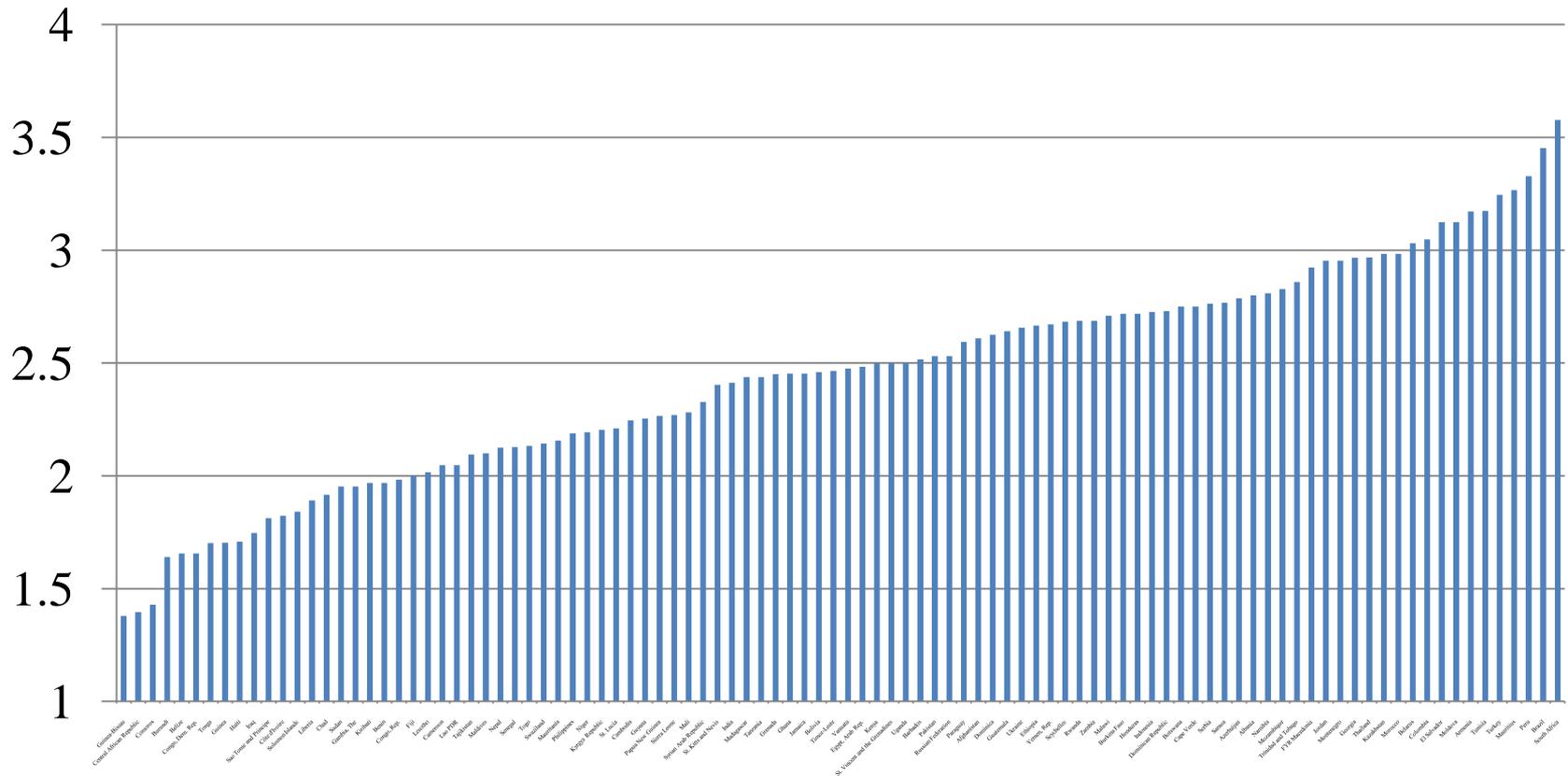
Creating strengthened FM systems in developing countries: the legacy

- Significant resources
 - Especially since mid-1990s
 - DAC: > \$45 million on PFM in average country (2000-2005)
- Clarity about what to do
 - Institutionalism: ‘Right rules of the game’ = better game!
 - Mechanisms to guide reforms, allow comparisons
 - 1990s (WB handbook), early 2000s (PEFA, international standards)
- Significant access and coverage
 - Over 100 countries with PEFA (around 80 are final)
 - Donors in 96 (IMF in 93, World Bank 65, UK 46, US 39)

Results?

- Are PFM systems stronger?
 - Are rules better?
 - Is behavior inspired by rules better too?
 - Does it all facilitate better government?
- Let's look at PEFA scores
 - An indicator of what systems look like
 - Not necessarily whether reforms are the cause
 - But a measure of whether countries have established systems that our community has deemed 'necessary' to 'good PFM'

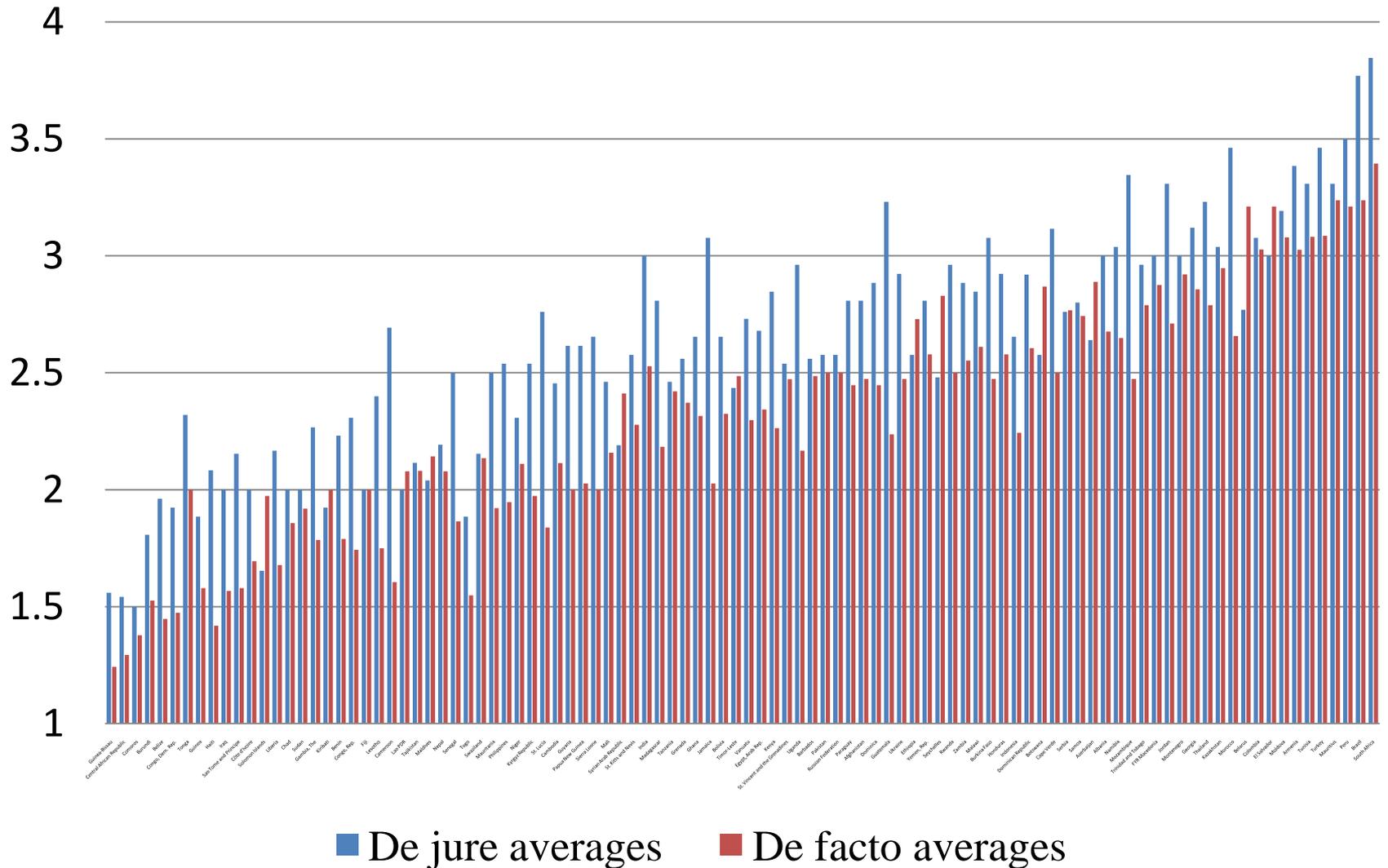
Lots of variation in 'strength' of PFM: According to average PEFA scores (1=lowest, 4=highest)



With all this variation: is anything common to all countries?

- Yes.
 - There are patterns that hold across all
- I will focus on one: the reality gap
 - FM systems look better than they are
 - What I call a de-jure/de-facto gap
- Apparent when looking at the data:
 - Gaps exist between
 - PFM forms (laws, formal standards) and PFM practice

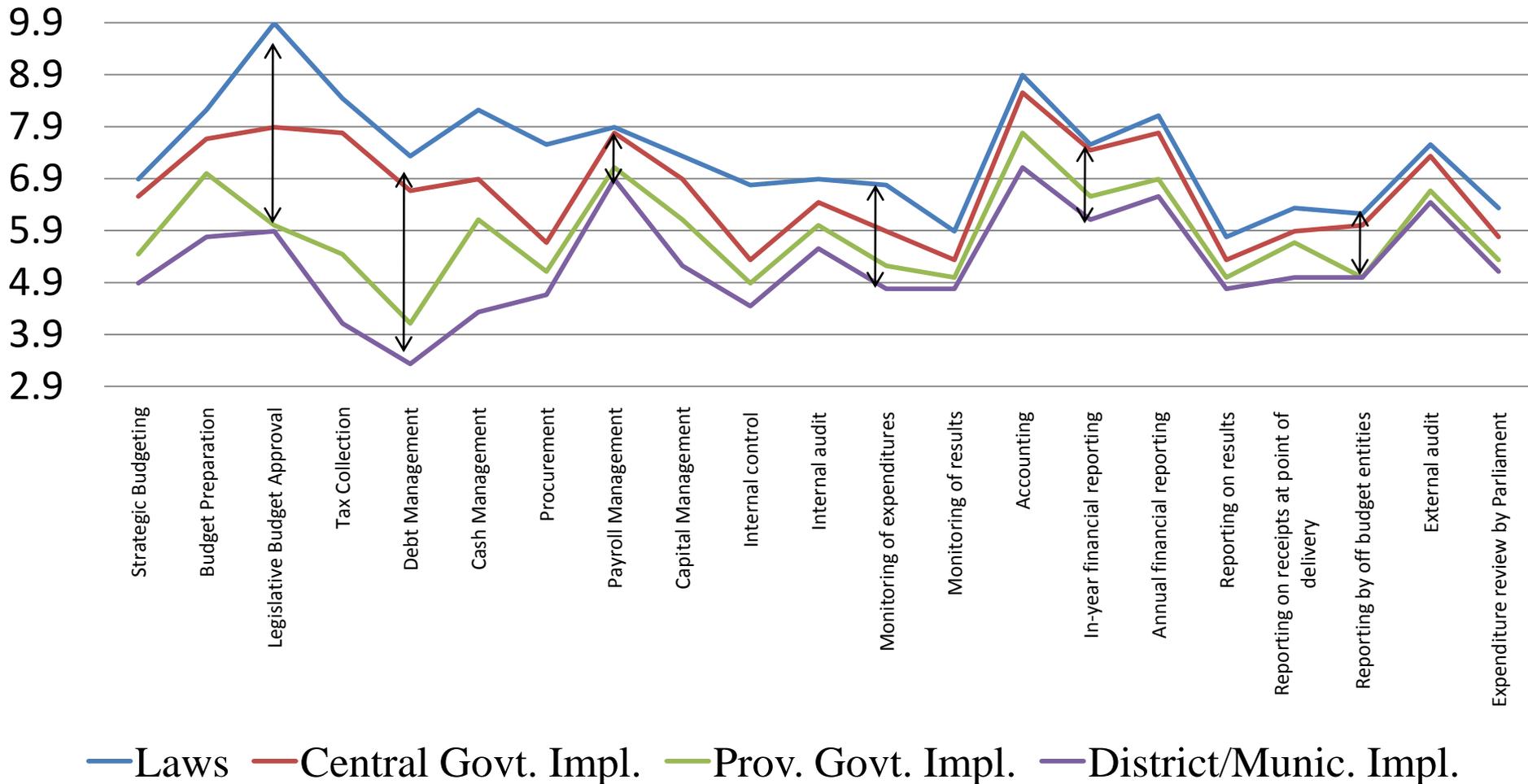
PFM: PEFA de jure dimensions are stronger than de facto dimensions



Evidence in written form

- PEFA reports describe this gap
 - In 31 reports from African countries
 - **14 references identified per country, on average (22% of the dimensions)**
- Consider some examples:
 - Uganda: “**Legislation and procedures have been improved** ...However fair and effective ***implementation has not yet been achieved.***”
 - Country 20: “While a number of innovations have been introduced ***implementation has been weak*** and the impact of these actions on institutional capacity and budget outcomes have not been significant.”
 - Zambia:, “As a result of the hearings and the committee’s deliberation, recommendations are issued but responses from the Executive are often delayed and **recommendations are not implemented.**”
 - Kenya: “Significant progress has been made in the procurement law and regulations, but procurement ***practice remains weak.***”
 - Country 2: “Formally, the procedure of budgeting is organized *but* the participative system in which the budget procedure is supposed to be processed **remains theoretical.**”

Government officials recognize differences between laws and implementation, at all levels of government: Evidence from Mozambique



Does this matter?

- The theme has a long history in development, and contemporary authors ‘see’ it as well
 - Caiden ,Wildavsky, Schick, McCourt and Ramguttty-Wong, etc.
 - **“Many developing countries have formal management control systems that prescribe how government should operate ... On paper everything is done according to rule ... [but]... Where informality flourishes ... this is not the way [things are done] ... there are two coexisting systems—one based on formal rules, the other on actual practices.”** (Schick 1998, 128)
 - Also in western literature: Lapsley, Ezzamel, in the UK.
 - Organizations produce plans, budgets and standardized accounts because **“creating a myth of compliance with such rational systems can endow ... bodies with legitimacy.”** (Ezzamel et al. 2007, 32)
- Messages = this is a real problem
 - Changes in form do not facilitate better functionality
 - ‘Laws’ lose credibility over time
- But, you say, we just need time and enforcement
 - The laws, systems, processes are necessary and will pay off.
 - I don’t think so, but let us see

Will time make a difference?

- Argument: these are new laws, ideas, and in time they will be properly implemented
 - As they have been elsewhere
- If true, 'time' alone does not matter
 - You need to use the time
 - So: do we know how to use time to close the gap?
 - And do we know how long it will take?
- But history suggests we should be less enthusiastic
 - Most effective laws were pushed by practice
 - The history of much western accounting, PFM reform
 - And others (Dahl, Ingraham, Wildavsky, etc.)
 - We have less experience imposing laws that do not emerge endogenously
- What does the evidence suggest?

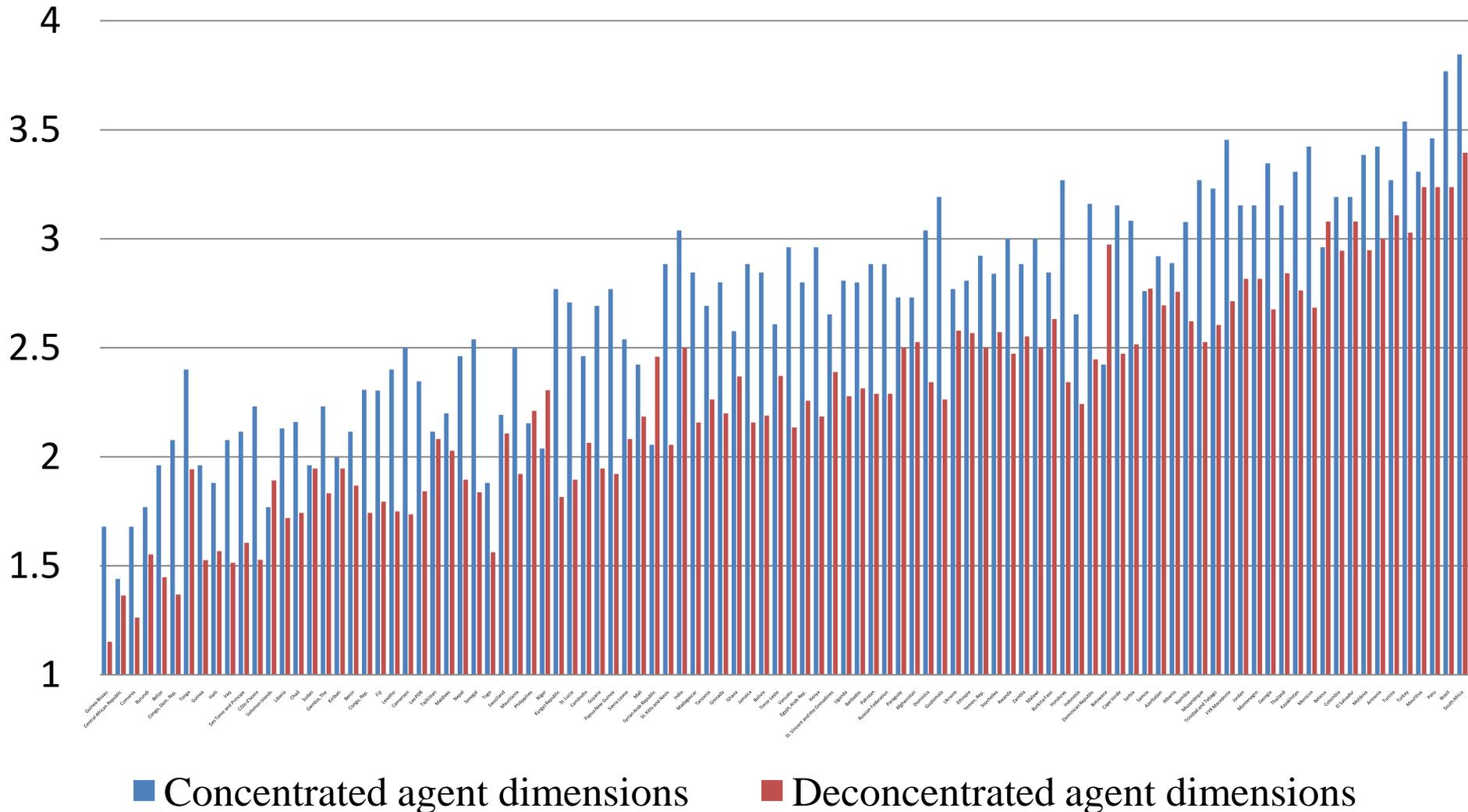
Literature tells us that many countries have sound laws, but they are not used

- Olowo-Okere and Tomkins (1998) on Nigeria: “Many [formal accounting] changes were not implemented.”
 - “The usual syndrome is good intention, bad performance.”
 - “We create institutions and systems, and we fail to use them.”
 - “The 1979 Constitution gave Parliament powers to investigate [that were] never implemented.”
 - “The Public Accounts Implementation Tribunal seems to exist only on paper.”
- From a PEFA report:
 - **“The current weaknesses in the PFM system derives less from deficiencies in the legal framework and more from underutilization of the accountability and control mechanisms that have been in place for many decades.”**

Will better enforcement make the difference?

- Argument: Economic new institutionalism
 - Institutions = **rules= laws + enforcement**
 - Laws need regulatory, enforcement agencies to work
- If true, then we can blame the gap on a lack of such agents
- But evidence suggests this is not the problem
 - Enforcement agents exist in respect of PFM
 - And they are the most capable and strongest performers in most country systems
 - Better resourced, staffed, and connected than implementers

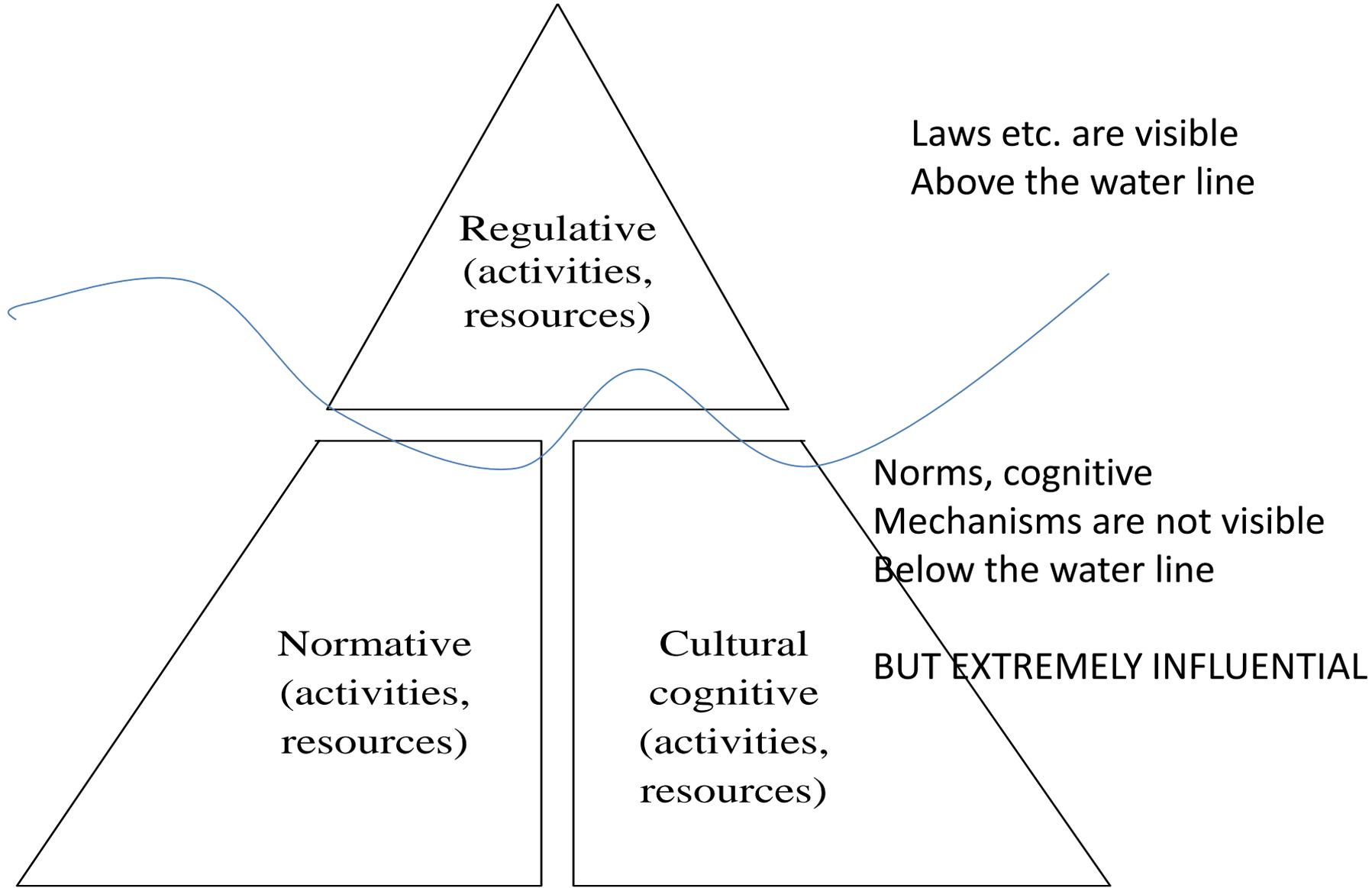
In PFM: Concentrated agents—regulators, enforcers—are much stronger than deconcentrated agents—implementers



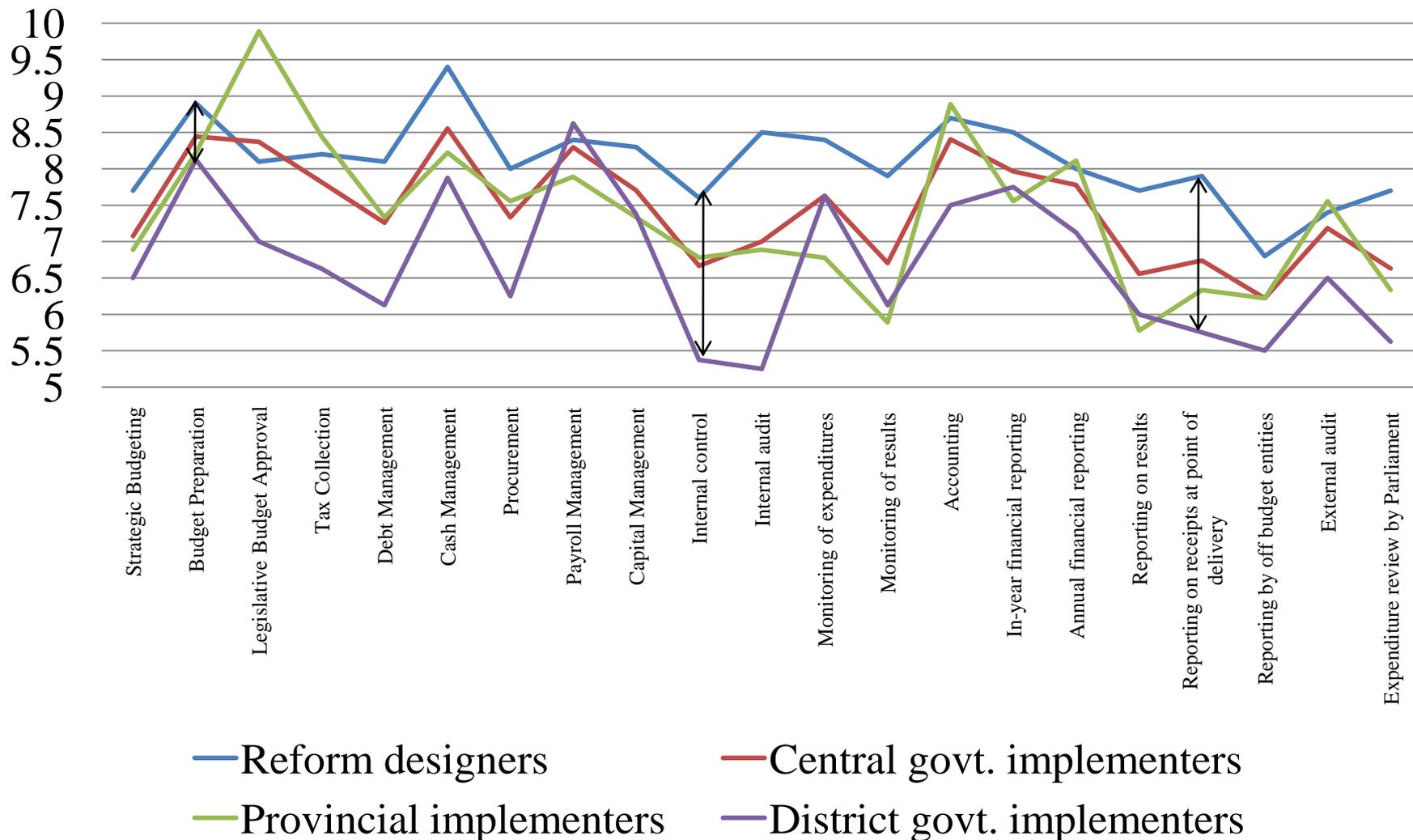
What is the real problem, then?

- New institutionalism: Institutions are more than laws+enforcement
 - ‘Rules’ have many elements including norms, cognitive mechanisms
 - Influencing what agents view as appropriate, how they ‘see’ things
 - Reflect politics, embedded traditions, established ways of thinking
 - Typically informal, difficult to see: easy to discount, ignore or assume
- Referenced in accounting literature, however
 - Cultural influences on levels of disclosure, acceptance and understanding of ‘professionalism’, ‘standardization’ etc.
- Argument: If norms, cultural-cognitive scripts do not support new laws, the new laws are irrelevant
 - So institutions are like icebergs, with laws as the visible tip
 - Better laws alone don’t make better rules
 - Tips of icebergs sink when they don’t have their foundation

Institutions as icebergs; where reforms do not address content below the water line



Informal norms, cognition in Mozambique influence implementation: Reform designers and implementing agents 'see' things differently



How implementing agents explained themselves

- Officials in local govt, provinces, ministries said that:
 - The laws and new systems did not address their real problems (cognitive decoupling)
 - Laws required them to do things that they did not think were correct (norm decoupling)
 - If they followed the new laws they would be vulnerable to political pressure (norm decoupling)
 - They did not have people with capacities to work according to new laws (cognitive decoupling)

We see this in the literature; norms and cognitive ways of ‘seeing’ limit influences of formal interventions

- **“A lack of interest in, or ability to comprehend”** new accounting approaches **“ encourage[d] politicians to treat financial information as less relevant** to their deliberations” (Ezzamel et al. 2007, 30).
- **Health budgets are presented formally** to get money, **but do not represent the way work is done**; real budgets are kept in drawers for that. (From Petterson 1995, on Norway).
- **“A [budget reform] proposal which alters established relationships ... which changes prevailing expectations** about the behavior of key participants, or which leads to different calculations of an agency's fair share, **would have many consequences no one is even able to guess at today.”** (Wildavsky 1995).

Implications for what we do

- We need to look beyond laws, formal standards, best practice prescriptions
- These do not—alone—facilitate strong PFM
- We foster gaps between laws and practice
 - Which we should have expected
 - And probably do not know how to close
 - Like tips of bottom-less icebergs
 - That ultimately sink

Informal norms, cultural cognitive mechanisms are key to strong PFM

- “It is a mistake to believe that the public interaction around formal rules offers a complete understanding to public behavior. **Formal rules are designs, abstract and wishful; informal rules are reality, a description of the actual behavior of the people that populate the design.**” (Ingraham, Moynihan and Andrews 2008, 80).
- “Mainstream [work] focuses primarily on formal rules. Yet in many contexts, informal institutions, ranging from bureaucratic and legislative norms to clientelism and patrimonialism, shape even more strongly political behavior and outcomes. **[Failure] to consider these informal rules of the game risk missing many of the most important incentives and constraints that underlie political behavior.**” (Helmke and Levitsky 2004, 725)

How should we do this?

- Two options:
 - 1. Continue to push for our international standards
 - But developing the informal content that ‘give these institutions life’ (Berger and Luckman 1967: 75).
 - But do we know what these are? And do we know how to develop them?
 - Noting, with David Walker, that such cultural change is difficult (and rare)
 - 2. Pursue more contextualized reforms
 - Based on a better understanding of how things are currently done, what is currently appropriate, how people ‘see’ things
 - Which we could identify through careful research (of how things are, rather than how we think they should be)
 - Building change off the informal platforms that exist, gradually, solving problems that agents in the countries care about
- I contend that path 2 is the one by which PFM-and private accounting-systems developed in the west
 - And it is the most viable path for us to follow now
 - If we are serious about making PFM systems better—not just making PFM systems look better

Thank you