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Public finance and service delivery

What's new, what's missing, what's next?

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Abstract

Since 2010, there has been growing interest in understanding how reforms to public financial management (PFM) systems can support improvements in spending on basic services. This paper takes stock of the emerging agenda on PFM and service delivery by asking what's new, what's missing and what (should be) next?

What's new?

This emerging agenda has offered important new insights into the way PFM systems are operating, particularly in the health sector. It has raised the importance of understanding the trade-offs between the various objectives of PFM, and of the need to look beyond ministries of finance to understand how budgets are allocated and spent to support service delivery.

What's missing?

Debates often oversimplify the relationship between PFM and service delivery and consequently risk overstating what can be achieved solely by PFM reform to improve public spending.
There is too little discussion of the links between the budget cycle and other public sector systems; limited attention is paid to the political factors that shape spending on basic services; and the continuing focus on models of good practice ignores the diversity of government systems for providing basic services.

What's next?

The next phase of the agenda should take a broader 'public finance' perspective that draws into the debate a wider set of professions, disciplines and country voices to explore the complex challenges involved in improving spending on public services. This will require greater examination of how institutions work in different countries, rather than relying on good practices drawn from just a handful of international experiences, and on drawing lessons from similar issues and systems across sectors.

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Acronyms

IMF	International Monetary Fund
LIC	low-income country
LMIC	low- and middle-income countries
MIC	middle-income country
OECD	Organisation for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability framework
PFM	public financial management
UHC	universal health coverage
WHO	World Health Organization

1 Introduction

It is not possible to predict the full impact of the Covid-19 pandemic, but its legacy is likely to be deep and long lasting. The International Monetary Fund (IMF) forecasts that the world is facing its sharpest contraction since the Great Depression (IMF, 2020a; 2020b). The Sustainable Development Goals (SDGs), adopted in 2015, were already off track before the pandemic and many gains are now being eroded (The Lancet Public Health, 2020). The likelihood of meeting the ambition of universal access to basic public services[1] looks increasingly under threat, at a time when this is needed more than ever. If there are any prospects of 'building back better', success will depend on governments' ability to raise, allocate and use public funds effectively (Cotlear et al., 2015; Manuel et al., 2018; World Bank, 2018). This raises important questions about the quality of public financial management (PFM) and is a timely moment to review the emerging international agenda on strengthening PFM for service delivery.

1.1 An emerging international agenda on PFM and service delivery

Governments around the world have long grappled with the issue of how to spend public money effectively. All finance ministries are acutely aware of the pressures of controlling spending in service delivery sectors that make up a large proportion of public budgets. Government agencies responsible for spending public money also face the daily challenges of balancing limited funds with public demands, and navigating the government rules and processes on public spending. For decades, the international community has supported countries at all levels of income to identify ways to improve their PFM systems.

While such challenges may be longstanding, there has recently been a growing interest in understanding *how* changes to PFM systems can contribute to improved service delivery outcomes. In the words of a landmark text from the IMF, 'PFM in the narrowest, and perhaps most traditional, sense is concerned with how governments manage the budget in its established phases – formulation, approval, and execution. It deals with the set of processes and procedures

1 On social transfers: Goal 1 End poverty in all its forms everywhere, target 1.3: Implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable.
On health: Goal 3 Ensure healthy lives and promote well-being for all at all ages, target 3.8: Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.
On education: Goal 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all, target 4.1: By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes; target 4.2: By 2030, ensure that all girls and boys have access to quality early childhood development, care and pre-primary education so that they are ready for primary education; and target 4.3: By 2030, ensure equal access for all women and men to affordable and quality technical, vocational and tertiary education, including university (see https://sdgs.un.org/goals).

that cover all aspects of expenditure management in government' (Cangiano et al., 2013: 1). International organisations including the IMF, the United Nations Children's Fund (UNICEF), the World Bank, the World Health Organization (WHO) and the Bill & Melinda Gates Foundation have invested considerable finance and intellectual energy to find reforms to PFM systems that can strengthen service delivery in low-income countries (LICs) and middle-income countries (MICs).

This agenda on PFM and service delivery has been underpinned by a growing body of research, focused mainly on the health sector. New frameworks to conceptualise the important links between PFM and service delivery results have been developed (Welham et al., 2013, 2017; Cashin et al., 2017; Barroy and Gupta, 2020). Econometric studies have investigated the relationship between the quality of PFM systems and service delivery outcomes (Fritz et al., 2014; Welham et al., 2017; Piatti-Fünfkirchen and Smets, 2019). Other research has provided case studies or comparative analysis on specific aspects of PFM with a more detailed sectoral lens (Barroy et al., forthcoming; Welham et al., 2017; Barroy and Kabaniha, 2018; Lakin et al., 2018; de Renzio et al., 2019).

The agenda has also led to demands from development agencies for a new generation of diagnostic tools that can help donors identify PFM bottlenecks that are holding back service delivery performance (Hadley et al., 2020; PEFA Secretariat, 2020). Bottlenecks may describe the way PFM weaknesses are directly undermining the basic provision of public services (Welham et al., 2017; Cammack et al., 2020). Alternatively, PFM systems may be a bottleneck for implementing sector reforms that are expected to strengthen services (Cashin et al., 2017; Piatti-Fünfkirchen and Schneider, 2018). Identifying and addressing these bottlenecks is a central concern for many involved in the new agenda.

The growing influence of this agenda is also evident from the new forums and practices the international community has established. In 2014, the World Bank created the PFM for Service Delivery Community of Practice. This initiative was relatively short lived, but others have emerged in its place, including the Universal Health Coverage 2030 Technical Working Group for PFM and Health. It is also increasingly common for capacity-building support for basic services to include components for strengthening PFM, at least among some development agencies (International Working Group on Public Financial Management, 2020).

The direction of this agenda is not simply an academic concern, but it is also likely to have far-reaching effects on practice. Work by organisations like the World Bank has had considerable influence over the definition of good practices for PFM since the 1990s (Campos and Pradhan, 1996; Schick, 1998a). Similarly, the work of WHO has a strong influence on the way health financing systems are assessed (Kutzin, 2001; Cashin et al., 2017). Work undertaken by such international organisations shapes ideas for how countries can improve governance and diffuses these ideas around the world. In the field of PFM, for example, over 100 countries reportedly introduced a formal medium-term expenditure framework as part of the budget process between 1990 and 2008 (World Bank, 2013).

1.2 The aim and structure of this paper

This paper takes stock of the emerging agenda on PFM and service delivery, reviews how it has advanced existing knowledge and practice, and offers an opinion on how it should change in the coming months and years. The discussion considers these basic questions in three chapters: What's new? What's missing? What's next? It looks mainly at the way the agenda has played out in relation to health services, where there has been more sustained attention and research than for other social sectors such as education or social protection, before considering the prospects for a broader public finance agenda on service delivery in the final chapter.

What's new?

The first part of the paper explores the emerging agenda on PFM and health to understand the new insights it has offered so far. It concludes that, to date, many of the discussions are consistent with established views on PFM, and particularly what constitutes an effective, modern PFM system. However, the paper also identifies three ways in which the new agenda has changed the nature of the debate. First, it has encouraged a greater emphasis on how PFM processes and laws can be adapted to the needs of the health sector. Second, greater attention is being paid to the ways that PFM systems shape spending choices at the front line of service delivery. Finally, the debate has reinforced the fact that PFM systems must be able to balance competing interests and goals, which means there is no single optimal design for the PFM system.

What's missing?

The second part explores some of the limitations that come with the established framework for understanding what a 'good' PFM system looks like in the health sector. Most importantly, it overlooks considerable complexities involved in the allocation and use of public revenues to deliver services. One of the clearest gaps concerns the politics of public spending decisions, which tends to be lost behind technocratic ideas for institutional reform and normative sector spending goals. Another important gap is that the simplified framework of budget authorisation, execution and oversight at the national level, which is so often the focus of PFM analysis, fails to respect the large differences in the way services are delivered and the implications this has for how they are financed and controlled. An effective PFM system for a centralised health service will not be the same as for a decentralised one, for example, because the levers to improve equity or efficiency will be different, as will the associated coordination challenges and trade-offs.

What's next?

The final part of the paper reflects on the future of the agenda. It first sets out some of the areas where the agenda on PFM and service delivery needs to go further, and provides some examples to help fill the gaps in the agenda identified in part two. To do this, it calls for a more inclusive and inter-disciplinary agenda with greater learning across professions, specialisms and sectors. This is needed to avoid both a narrow framing of PFM and siloed discussions within specific disciplines and communities, which can overlook the complexity of issues and variations in contexts that underlie the goal of improving public spending on basic services in different countries. ODI's new working paper series on public finance and service delivery aims to support the documentation and dissemination of knowledge that could support this approach.

2 What's new?

Although various motivations gave rise to the agenda linking PFM and health services, much of the analysis retains the basic conceptual frameworks offered by the discipline of PFM. It retains a focus on the budget process, how it is organised, how it shapes incentives for public spending and how reforms can remove weaknesses in these institutions and improve the quality of spending. While there may be disagreements about which parts of the PFM system need to be strengthened, and how this should be approached, these critiques are not new. The focus on service delivery goals has, however, changed the way the PFM system is analysed in some important ways. These themes, old and new, are discussed here.

2.1 The origins of a PFM and service delivery agenda

The current debates on the links between PFM and service delivery reflect a range of concerns and interests across the international community. These have emerged within different sectors and disciplines and in many cases remain disconnected from each other. One set of discussions arose from the field of PFM, looking at ways to demonstrate the relevance of existing reform efforts to specific sectors. Another set reflects the specific interests of sector experts and is most clearly articulated in the health sector. A third set aims to integrate issues like gender equity or climate change more systematically into national PFM systems, but this is less concerned with the provision of basic services and is not discussed in this paper (Buntaine and Pizer, 2015; Mechkova and Carlitz, 2020).

PFM interests in service delivery

For over 30 years the international community has supported governments to strengthen their PFM systems. Organisations like the IMF and the World Bank have played a leading role in providing financial and technical support for PFM reforms. Debt relief and the emergence of budget support as a new aid modality increased the attention given to, and donor spending on, PFM in the early 2000s. Donors were keen to avoid future bailouts and to ensure that the additional resources were used effectively to support growth and reduce poverty (Simson, 2012). These reforms were framed as not just contributing to the maintenance of fiscal sustainability, but also to improving the allocative and technical efficiency of public spending (Campos and Pradhan, 1996). PFM reforms were intended 'to carry out deliberate changes in the structure and processes of the public sector to get them to run better' (Wescott, 2011: 10). There has thus been a longstanding interest in PFM in how institutional reforms can improve the efficiency of public spending.

Changes in the aid landscape over the last decade have increased the interest in demonstrating the role that PFM reforms can play in strengthening service delivery (ODI, 2008; 2014; 2020). Official aid to PFM reform peaked in around 2010, just when many large bilateral donors began to shift away from using general budget support (Fritz et al., 2017; Orth et al., 2017). This period was also characterised by criticism of the good governance agenda and many of the 'best practice' reforms associated with it, including those in the field of PFM (Grindle, 2007; Andrews, 2008a; 2020b). There was thus a shift away from the cross-cutting PFM support programmes associated with general budget support, as well as increased scepticism that donors had supported the right set of reforms. This scepticism intensified as donor agencies faced broader pressures to demonstrate the tangible impact of official development assistance (ODA), which diverted attention away from long-term institution building in favour of more measurable results (Holzapfel, 2016; Valters and Whitty, 2017).

The PFM discipline has responded by emphasising the links to service delivery results and other development outcomes (Welham et al., 2013; Fritz et al., 2014; PEFA Secretariat, 2020). The World Bank set up dedicated communities of practice for PFM in the health and education sectors, and tried to connect its lending support to PFM more closely with programming in health and education (International Working Group on Public Financial Management, 2020). In the wake of the global financial crisis of 2008, the IMF has also increased support for strengthening public-investment management, as a means to enhance outcomes from capital spending and spur economic growth (Miller and Hart, 2017). The economic fallout from the Covid-19 pandemic has led to a more general resurgence in the interest in PFM as countries have sought to develop and implement emergency measures to save lives and support their economies (IMF, 2020c; CABRI, 2020).

Sector interests in PFM

While there is evidence that PFM is a concern in a number of sectors, it is in the area of health financing where the most visible agenda has emerged in recent years. In other sectors, there are examples of dedicated work on PFM in education, agriculture and social protection, including UNICEF's programme on public finance for children (UNICEF, 2017) and the World Bank's education financing platform (World Bank, 2019). It is only in the health sector, however, that the concern with PFM has become a clear agenda involving multiple international organisations (UHC2030, 2016; Barroy et al., 2019a ; Gurazada, 2019). This agenda has been motivated by several related issues that have required the health sector to engage more closely with finance ministries:

- There has been growing acceptance that health systems should aspire to universal health coverage (UHC), and that this requires health services to be publicly funded (Cotlear et al., 2015; WHO, 2019). In addition, the declining role of aid and formal 'transition points' that determine eligibility for support from donor programmes like Gavi, The Vaccine Alliance (formerly GAVI) have raised questions about the sustainability of donor investments in the sector. The international response has emphasised the need to raise more domestic revenues for health services and strengthen domestic health-financing systems (Engen and Prizzon, 2019; Yamey et al., 2019).
- If health services are primarily funded by domestic revenues, there will be inevitable resource constraints and ministries of health will need to take action to maximise the value of this spending as well as seeking to raise additional resources. The health financing community

identified a number of approaches to improve the efficiency of health spending, including prioritising an essential package of services and paying hospitals and other health facilities based on the level and quality of outputs they provide. This generated both a greater interest in national systems and a concern that PFM systems may constrain these health financing reforms (Cashin et al., 2017; Piatti-Fünfkirchen and Schneider, 2018).

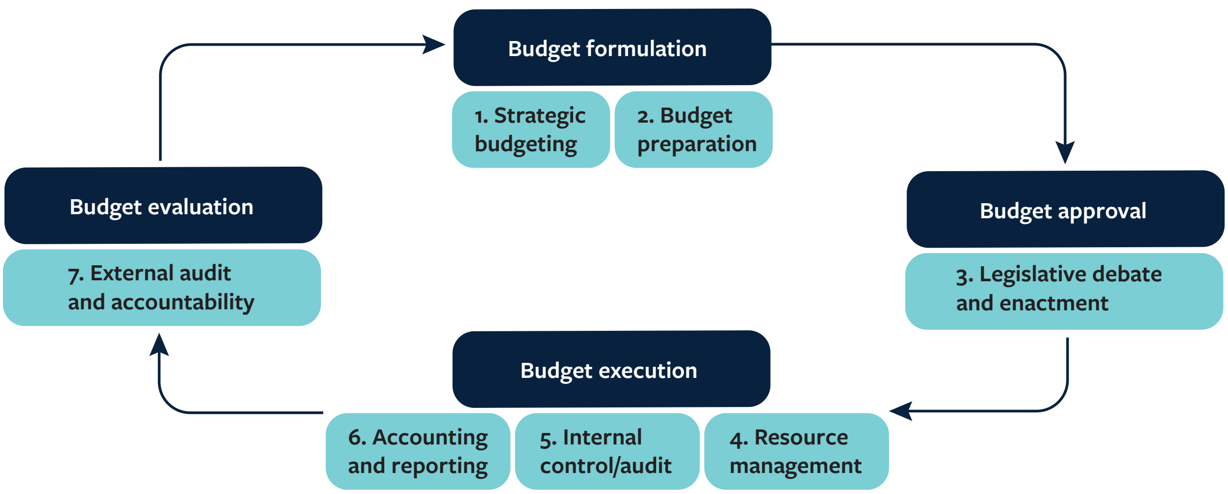
2.2 An established framework for understanding PFM

Although there may be varied motivations behind the growing interest in PFM and service delivery, there has also been a general unifying question: how can improvements to PFM systems support the provision of better basic services? To answer that question, most organisations continue to rely on the same well-established frameworks for understanding the role and organisation of the PFM system. In other words, the way that PFM is analysed has remained largely unchanged by the growing concerns with service delivery. This approach has some common themes which have been developed and applied over 30 years or more and include a focus on the budget cycle, a concern with the way systems help control spending and shape incentives, and a tendency to rely on diagnostic tools to shape reform choices.

A focus on the budget cycle

PFM is usually described in terms of a 'cycle' that follows the different stages of the budget process (Shah, 2007; Andrews et al., 2014). As is shown in Figure 1, this provides a simple framework that incorporates a much more complex set of processes that involve virtually all public sector entities and guides the work of a wide range of economists, accountants, auditors, procurement officers and administrators. It also describes important accountability relationships between the executive and the legislature and between the ministry of finance and spending ministries within the executive.

Figure 1 The PFM system and stages of the budget cycle



Source: Andrews et al. (2014)

The agenda on PFM and health services has retained the same general framework (Cashin et al., 2017; Piatti-Fünfkirchen and Schneider, 2018; Barroy et al., 2019b; Piatti-Fünfkirchen and Smets, 2019). As with PFM reforms more generally, this new agenda argues that improvements in the budget processes will support more effective spending on health care. The literature also suggests this could work by enhancing the fiduciary functions of the PFM system (essentially the way spending is planned and controlled) or by trying to shape the incentives within the public sector to achieve better results.

The control and administration of public spending

At its most basic level, the PFM system is a tool for administering public money and assets. PFM systems enable resources to be collected, allocated and channelled to different organisations within the public sector so that they can fulfil their agreed roles. It is also a means of controlling what public money is spent on and how it is spent – ensuring, for instance, that appropriate rules are followed and that spending is consistent with the purpose and limits that the legislature has authorised. Ultimately, if money does not get to where it is needed or if there is no control over how it is being used, then a government cannot realise its public spending objectives irrespective of the particular goal.

The health sector and the PFM discipline clearly share concerns with the administration and control of public spending in low- and middle-income countries (LMICs). The donor community is of course interested in managing the fiduciary risks to aid spending associated with weak spending controls, and the health sector is no exception (Coffey International Development, 2010; Global Fund, 2018). Corruption is perhaps the most obvious example of a fiduciary risk. Already the focus of dedicated research in the health sector (Hutchinson et al., 2019), concerns about corruption have only magnified with the emergency spending needed to respond to the Covid-19 pandemic (Bruce, 2020).

Even beyond the issue of corruption, the emerging literature on PFM and health service delivery offers evidence of a long list of challenges with the administration and control of spending. These include weak links between plans and budgets (Tsofa et al., 2016; Barroy et al., 2019b); the credibility of budget allocations (Barroy et al., 2019b; de Renzio et al., 2019; Griffiths et al., 2020); the erratic and unreliable nature of funding flows (Gauthier, 2010; Welham et al., 2017); and timeliness, integrity and value for money in procurement (Silverman et al., 2019). Such challenges are rarely confined to the health sector, and general reforms to the PFM system may be needed in areas like planning, budgeting, accounting, internal controls, cash management and auditing in order to address them.

Institutional incentives for making better spending decisions

Since the late 1990s, writing on PFM systems has placed particular emphasis on how these can shape political and bureaucratic incentives to improve fiscal outcomes (Campos and Pradhan, 1996; Schick, 1998a; 2013; World Bank, 1998). According to this view, it is not enough to ensure that officials follow the rules of public spending if the government still spends more than it can afford, if schools are built in areas that do not need them, or if health facilities are fully staffed but lack essential equipment. A modern PFM system should, therefore, also support three objectives: aggregate fiscal discipline, allocative efficiency and operational (or technical) efficiency. It can do this by establishing institutions that encourage better behaviours, as shown in Box 1. For example, by offering ministries greater flexibility over spending choices within strict budget constraints the PFM system 'creates incentives for budget managers to identify and exploit efficiency savings' (Harris et al., 2013: 142).

Box 1 Institutional arrangements for modern public expenditure management

Objective 1: Aggregate fiscal discipline

- Limits on total spending (in some cases sectoral spending as well) are established before individual spending bids are considered.
- Total spending must be consistent with these limits.
- The limits are set for the medium term (between three and five years) and budget decisions are made within a medium-term expenditure framework.

Objective 2: Allocative efficiency

- Spending limits are established for sectors or portfolios, and ministers are encouraged to reallocate within these limits.
- Bids to reallocate must be based either on evaluative findings of programme effectiveness or on plans to evaluate policy initiatives.

Objective 3: Operational efficiency

- Operating costs are cash limited, but managers are given broad discretion in using these resources, including (in some countries) discretion to carry over unused funds or to pre-spend a small portion of the next year's running costs.
- Budgeted outputs are specified in advance, and actual outputs are compared to the targets. Costs are allocated (ideally, on an accrual basis) to the activities responsible for them.

Source: adapted from Schick (1998a: 2)

Opportunities to use the PFM system to incentivise allocative and operational efficiency are also closely aligned with health financing objectives (equity, efficiency, transparency and accountability) and common reforms in the health sector (Cashin et al., 2017). Strategic purchasing reforms are being introduced in a growing number of countries to use evidence to decide 'what services should be covered, which providers should deliver them, and how should they be paid for' (Hanson et al., 2019: 502). Echoing earlier debates in PFM on how to orient the system to providing outputs rather than funding inputs, the health financing community is calling for reforms that relax input controls in favour of a stronger focus on accountability for results, and that help establish a clearer link between budget allocations and services provided (Barroy et al., 2018; 2019b).

Programme (or performance) budgeting is one reform that has attracted considerable attention as a result of these concerns (Robinson, 2013). Budgets have historically been controlled on the basis of the department responsible (e.g. the ministry of health) and the inputs that the government is paying for (e.g. salaries, drugs). Controls over inputs are often tightly specified, leaving limited room to amend the budget during implementation. This traditional approach to budgeting has been remarkably resilient, but is criticised because efficiency savings are hard to identify and because the incentives to implement efficiency measures are limited if the savings cannot be reprioritised within the budget to areas of greater need. Since the 1960s, a wide range of higher-income countries have opted to reduce the number of budget lines and authorise spending on a programme basis rather than by input (World Bank, 1998; Robinson, 2013; Moynihan and Beazley, 2016; Lakin et al., 2018). Accelerating this reform at the national level has been one area of priority for the health financing community, along with more flexible budgets for health facilities (Barroy et al., 2019b; Piatti-Fünfkirchen et al., 2019).

Identifying PFM bottlenecks for improving service delivery

This description of the different functions of a PFM system provides a basis for understanding the ways in which better PFM could contribute to stronger service delivery. Better PFM systems can support the logistical flow of resources to service providers, enforce fiduciary controls on spending and provide incentives for politicians and public officials to allocate and spend public money effectively. If budgets are credible, and allocative and operational efficiency is improved, the simple working assumption is that the government will then be able to achieve more with fewer resources.

If this reasoning is accepted, it follows that weak or poorly designed PFM systems can have the opposite effect. In this regard, PFM is seen either as a bottleneck or an enabler of better service delivery (Piatti-Fünfkirchen and Schneider, 2018). Considerable attention has been paid to identifying weaknesses in the PFM system that could be addressed. This is reinforced by the argument that any weak link in the budget cycle undermines the quality of the system as a whole (Andrews, 2007). A wide range of diagnostic methods have been developed to help do this, including several new tools that are specifically considering PFM issues for service delivery (PEFA Secretariat, 2018; 2020; Hadley et al., 2020).

The debate on sequencing

The codification of international practices into diagnostic frameworks and guidance materials has largely set the standard for what a ‘good PFM system’ looks like (Andrews, 2007). These standards have proved to be a powerful guide for reformers in countries of all levels of income (Andrews, 2010; Wescott, 2011; PwC, 2012; World Bank, 2013). Although the value of some of these practices continues to be questioned in the academic literature, the debate in the field of PFM is mainly focused on the choice of practices to introduce and in what order. The debate is not on the ultimate destination of reforms, but on the sequence of actions a government needs to take to get there (Schick, 1998b; 2018; Peterson, 2011; Cangiano et al., 2013; Diamond, 2013).

The two opposing views in the debate are between advocates of a 'best practice' approach and a 'basics first' approach. The former suggests that in all countries, reforms should seek to follow the best available models to the extent possible. The basics first approach argues that governments in most LMICs need to strengthen the basics of PFM before undertaking more advanced reforms (Schick, 1998b; 2018; World Bank, 1998; Peterson, 2011). These differences are most entrenched in relation to reforms, which have not yet been adopted in all member states of the Organisation for Economic Cooperation and Development (OECD), such as accrual accounting (Lapsley et al., 2009; PwC, 2012); but they are relevant to many other common reforms, and particularly those that try to reshape the PFM system to improve government incentives to spend money more effectively.

These debates have carried over into the recent literature on PFM and health. A previous ODI paper that reviewed available evidence on links between PFM and delivery of health services tentatively recommended a 'basics first' approach to PFM reform as a way to improve service delivery (Welham et al., 2017). This paper found substantial evidence of problems with the reliability of resource flows to health facilities, for example, while there were few published studies that linked more advanced reforms to improved spending in the health sector. Although there are few disagreements that 'the basics matter', it is clear in the discussion of PFM and health services that incentives are also important, which supports continued interest in more advanced PFM reforms like programme budgeting (Barroy et al., 2018).

2.3 New features of a PFM and service delivery agenda

The research described so far has used a common framework for understanding the PFM system. The core literature on PFM reform is intended to be relevant to all aspects of government spending in all sectors. As a result, it is quite general, often focusing on guiding principles or important features, such as changes to processes, structures or legislation that apply to all spending managed through the national budget. Such an approach can, and does, gloss over operational details that vary by country and also how they deal with the needs of different public services. The codification of standards adds a further level of abstraction and simplification.

The emerging research and discussions on PFM and health have followed this framework and have thus not profoundly changed the way PFM is analysed. The new focus on service delivery is, however, raising some important and longstanding issues that have hitherto received too little attention. New research offers insights into how general principles and processes for PFM are being operationalised in the health sector in different countries. Discussions on the budget autonomy of health facilities and the use of health priority-setting bodies have shifted the traditional focus of PFM from the finance ministry to incorporate a wider range of organisations and interests. Consequently, old concerns with the trade-offs between the different goals that the PFM system can prioritise are resurfacing. These are useful and important contributions to international discussions on PFM reforms.

Understanding the operational details

Research on PFM and health services has produced useful insights into the way that PFM systems work in the specific context of the health system. This provides operational details that are often missing from the more general literature on PFM. It also helps to unpack the tensions between the overarching goals of a finance ministry (and its partners) and the goals and motivations of the finance ministry (and its stakeholders). We discuss this issue below in more detail.

There are many examples of this emerging work, but two include:

- **programme budgeting in the health sector**. Recent work has, for instance, looked at how programme budgets can be structured in the health sector, such as organising the budget by disease programmes or by levels of care, and what the advantages and disadvantages of different approaches might be (Barroy et al., forthcoming; Lakin et al., 2018; Griffiths et al., 2020). This offers a richer picture of how governments have structured programme budgets than is typical in PFM handbooks (Allen and Tommasi, 2001; Shah, 2007).
- **procurement in the health sector.** Research on procurement in the health sector is also raising questions about whether standard public sector rules and processes set by central agencies are appropriate for the sector. Silverman et al. (2019: xvii) point to problems 'such as onerous registration processes, inefficient local purchasing preferences, and legal strictures against more effective procurement modalities, which artificially constrain competition, raise transaction costs, and inflate prices'.

Documenting this knowledge will clearly support a richer discussion of the ways that PFM systems can (or should) be adapted to the needs of different sectors.

A wider range of organisations and perspectives

One consequence of the simplified framework for understanding the PFM system is that it has come to focus mainly on the central government budget and the way this supports aggregate fiscal control and accountability to the legislature (Shah, 2007; Schiavo-Campo, 2017). Discussions on PFM tend to assume that 'resource allocation is something that occurs only (or at least mostly) in the central budget office or in the legislature' (Joyce, 2003: 7; see also Robinson and Brumby, 2005). This is perhaps surprising, because the model institutions for improving efficiency, as set out in Box 1, delegate substantial autonomy and discretion to sector ministers and managers for allocating and spending funds. Technical assistance also tends to focus on central finance agencies, partly due to the limited official mandate of the IMF and a focus on managing budget deficits and debt. PFM reform has, consequently, been focused mainly on strengthening centrally managed systems (AlphaBeta, 2018).

A positive development in the literature investigating PFM issues in the health sector is the growing attention given to a wider range of actors and processes outside the finance ministry. It asks important questions that have received little attention in the mainstream PFM literature on what 'good' or 'appropriate' spending controls look like for front-line service delivery units with small budgets, such as schools and health facilities (Piatti-Fünfkirchen et al., 2019). This service-provider perspective has led to arguments that facilities should be their own budget holders with more autonomy regarding spending decisions (Barroy et al., 2019b). Understanding the challenges in the PFM system as they are seen from the front line of service delivery has been a feature of some PFM diagnostics in the past, but has tended to be lost with the rise of tools like the Public Accountability and Financial Expenditure (PEFA) framework that offer a broader and more standardised view of the PFM system. The emergence of these perspectives is therefore an important addition to the debate and understanding of PFM systems and why they matter for service provision. It is also important that this emphasis on a wider range of actors and processes outside the finance ministry continues because discussions do not yet cover the full range of organisations that matter for service provision (e.g. line ministries and local governments), and the evidence remains thin – an issue that is discussed further in Chapter 3.

Renewed attention on trade-offs

A third contribution of the emerging debate on PFM and service delivery is to raise to the fore the inherent tensions between different objectives of the PFM system. Early papers and handbooks on PFM regularly referred to trade-offs between the three objectives of aggregate fiscal control, allocative and operational efficiency (Campos and Pradhan, 1996; World Bank, 1998). The discussion on trade-offs lost prominence (Wehner and de Renzio, 2013), but has resurfaced as voices from sectors become more involved in PFM debates.

One example is the tension between probity and performance. PFM rules are often imposed to restrict the discretion of public sector workers in order to prevent wasteful (even corrupt) spending. Doing so does not, however, always lead to better spending decisions. A study of procurement reforms in Rwanda concluded that practices were 'excessively concerned with transparency and competition at the expense of economic efficiency' (Chemouni, 2017: 15). Similarly, in South Africa's health sector, financial control was centralised at provincial level in response to a history of poor audit findings, but according to clinical managers this focus on financial compliance negatively affected planning and decision-making and the functioning of health facilities (Wishnia and Goudge, 2020). In the international debates, it is increasingly common for commentators in the heath sector to argue for greater control and flexibility over budgets at the facility level (Barroy et al., 2019b). In doing so they argue that facility funding is too small to present a significant risk of waste or corruption, but that tight rules at this level restrict the flexibility needed to respond to changing local needs and preferences (see Box 2).

Box 2 Facility-level grants

The advantage of facility-level grants is that they align responsibility for financial management with managerial responsibility for delivering services. Facility-level grants give head teachers in schools or officers in charge of health facilities greater influence over the appropriate balance of inputs required to provide the agreed services or to improve their quality. While this has been accepted practice in some countries for many years, it is not universal. For instance, in Malawi, no actual cash reaches health centres. Decisions on how to allocate the various inputs to them are taken by district health officers based in offices that are often hours away.

A system of facility-level grants should not be particularly challenging for a government to integrate into a PFM system once this course of action has been agreed. Furthermore, these reforms can typically proceed pragmatically, as grants for each facility are often quite small. For example, in 2013 a Kenyan health centre received $1,306 each quarter and a dispensary $319 each quarter; in Uganda the average annual budgets for primary facilities in 2020/21 are between $2,342 and $10,013 (depending on the type of facility). That would translate to a range of $586–2,503 per quarter, so this is not high-stakes spending.

The PFM issues involved in financing facilities with direct grants often involve some budget restructuring, so that facilities are represented in the budget as an organisational unit or cost centre that can be assigned funds. The degree of complexity of reporting they are required to undertake and internal controls they are obliged to demonstrate may also differ.

Uganda has decided that funds for such facilities should be classified as grants, so that facilities are not represented individually in the budget (only the total amount of funds for such facilities in each district). Consequently, facilities have simplified reporting, as they are only required to present a budget and report authorised by the head of the school board, backed by receipts, as evidence for spending. In Tanzania, in contrast, the government has expended effort on introducing a customised financial management system to all health facilities. Drawing lessons from cases such as these would help governments in other countries to decide on how to balance financial control and provider autonomy in practice.

Source: Waweru et al. (2016), Kapologwe et al. (2019) and Ministry of Health (Uganda) (2020)

There are also many other trade-offs that have received less attention. The PFM system must balance the need to provide predictable budgets to line ministries and service delivery units with the goal of maintaining control over aggregate spending and inflation in the face of changing political demands and economic uncertainties. The practice of rationing funds in line with available cash has been widespread since the 1990s. This may help to maintain macroeconomic stability but at the cost of a less reliable flow of funds to sector ministries (Stasavage and Moyo, 2000). So, while the emerging agenda clearly raises the importance of such trade-offs, there is still more to do to understand them and how governments have sought to balance different goals across different contexts.

In summary, while discussions linking PFM reforms to health service delivery have maintained a longstanding approach to understanding the PFM system and its goals, it has also led to some important discussions on the way the PFM system operates in different organisations in the health sector and the trade-offs between different goals. This is already a respectable contribution and these topics should remain a focus of the agenda as it develops in the coming years. It clearly provides a positive basis on which to build.

3 What's missing?

The emerging agenda on PFM and health is motivated by a desire to improve the efficiency and equity of public spending on health services. While discussions have offered some new insights into the way the PFM system works in the health sector, the PFM arrangements needed to support front-line service providers, and the trade-offs between different goals, they have not yet paid sufficient attention to three areas that will be critical for realising these broader goals. First, the PFM system is not self-contained and the effective delivery of public services relies on a wide range of public sector systems working together. Second, there is considerable diversity in the way PFM systems look and function. Third, the emphasis on technical issues in the PFM system overlooks the way systems are shaped by the broader context, including the politics of spending and of public service provision more generally. This chapter focuses on these questions.

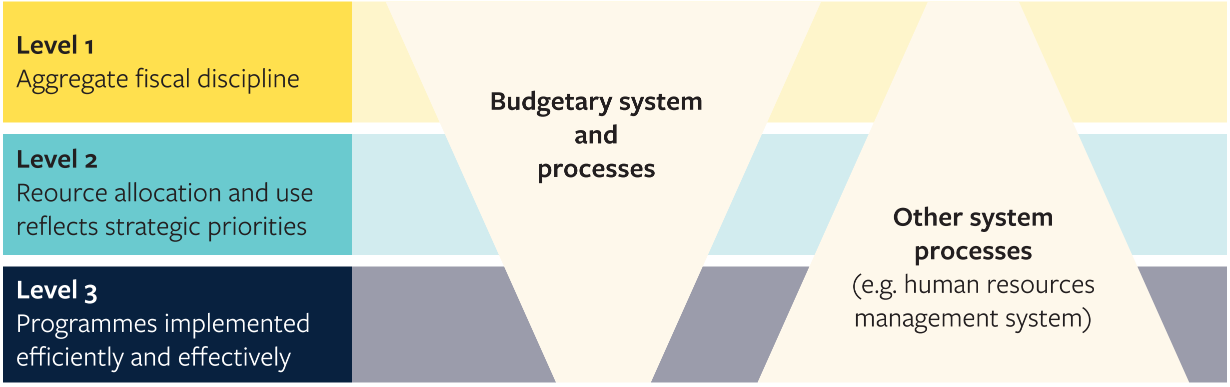
3.1 The links between PFM and other systems

Systems for delivering public services involve complex interrelated processes. As a result, 'systems' thinking is becoming increasingly influential on the analysis of service delivery performance, spanning multiple sectors and disciplines. While the approaches to thinking about systems vary considerably, they are underpinned by a desire to recognise and make sense of the complexity of delivering services (Mansoor and Williams, 2018). The importance of process linkages is well recognised in PFM, though the focus tends to be on links within the PFM system rather than between the PFM system and other aspects of governance (Andrews, 2007). This has its benefits, but is less useful for understanding how to strengthen spending on public services.

PFM as part of a broader system of governance for service delivery

Analysis of PFM has tended to adopt a 'closed' model that considers the interactions within the PFM system and how these influence budget outcomes. This has arguably been reinforced by the international aid architecture, where bodies like the IMF have a limited mandate to work outside the finance ministry or engage in political issues. Changing the emphasis to service delivery results requires the analysis of a more 'open' system in which different parts of the PFM system interact with other systems needed to improve public spending and provide better basic services (International Working Group on Public Financial Management, 2020). Indeed, one reason this is so important to the agenda at hand is that the importance of stronger PFM systems to the efficiency of spending on basic services is more limited than the influence they have on aggregate fiscal policy and control – a point made by the World Bank over 20 years ago (see Figure 2).

Figure 2 Relative importance of management systems for achieving PFM objectives



Source: World Bank (1998)

The example of resource allocation

A practical example that demonstrates the neglect of how systems interact is the difficulties of linking policy priorities to spending plans. Aligning stated policy priorities to resource allocations has been a key feature of PFM reforms over the past 20 to 30 years. Consistent with seeing PFM as a 'closed' system, there has been considerable emphasis placed on linking up national and sectoral planning processes with the processes of budget formulation. Poverty Reduction Strategy Papers (PRSPs), for example, were accompanied by medium-term expenditure frameworks and programme budgeting reforms that would help set priorities and develop a more harmonised planning and budgeting process. However, these have had limited success in implementation (CABRI, 2006; Wilhelm and Krause, 2008; Robinson, 2013; Allen et al., 2017). These experiences are also echoed in the health sector. As part of work to promote UHC, there have been various efforts to align government budgets with spending priorities articulated through health benefits packages. Some forms of an explicit benefit package have been established in at least 64 LMICs (Glassman and Chalkidou, 2012).

Ensuring that spending priorities are implemented, however, goes beyond simply linking planning and budgeting processes. This does not mean that the PFM systems are not important, nor that the goal of linking plans to budgets should be left behind. Indeed, the need to use PFM systems to support the implementation of a set of prioritised services in a health benefits package is another issue that has received relatively little attention (Glassman, 2017; Witter et al., 2019). Yet, the challenges of delivering a health benefits package are far broader and include, for example, 'delays and inadequate remunerations to health care providers', and also 'inadequate supervision, poor facility infrastructure, limited availability of equipment and supplies, and shortages of workers' (El-Jardali et al., 2019: 23). In other words, one cannot assume that effective planning and budgeting for health services will support improvements in front-line delivery without paying close attention to how this interacts with the broader health system.

3.2 Diversity of institutional arrangements

Although there are often similarities in budgeting and accounting processes across countries, there is also a tendency to downplay significant diversity in institutional arrangements, in particular those that form the basis of control over public spending and accountability for its quality. Too often in the field of PFM, lessons are drawn only from a small group of (mainly Anglophone) OECD countries that were strongly influenced by New Public Management. The health financing community is better at using MICs as benchmarks. Thailand is regularly used as a benchmark performer for UHC. These models cannot be used to guide reforms in all countries, however, and there is a need to offer a wider array of international experiences and theories from which reformers can draw.

The focus on good practice models disguises the large differences in PFM systems in advanced economies. Among OECD countries, Anglophone, Francophone, Lusophone, central European and ex-Soviet countries all use different systems for controlling expenditures (Lienert, 2003; Pattanayak, 2016). Germany and Japan, for instance, maintain thousands of budgeting line items to give them detailed control over line ministries, while others like the Netherlands or the United Kingdom have opted to let go of such micro-level control (Krause, 2009; Krause et al., 2016; Hadley et al., 2019). The diversity of approaches to spending control is, therefore, not simply the result of differing country income levels, but it also reflects differences in administrative traditions and political structures which are shaped over decades, or even centuries (Lienert, 2013; Wehner and de Renzio, 2013; Pattanayak, 2016).

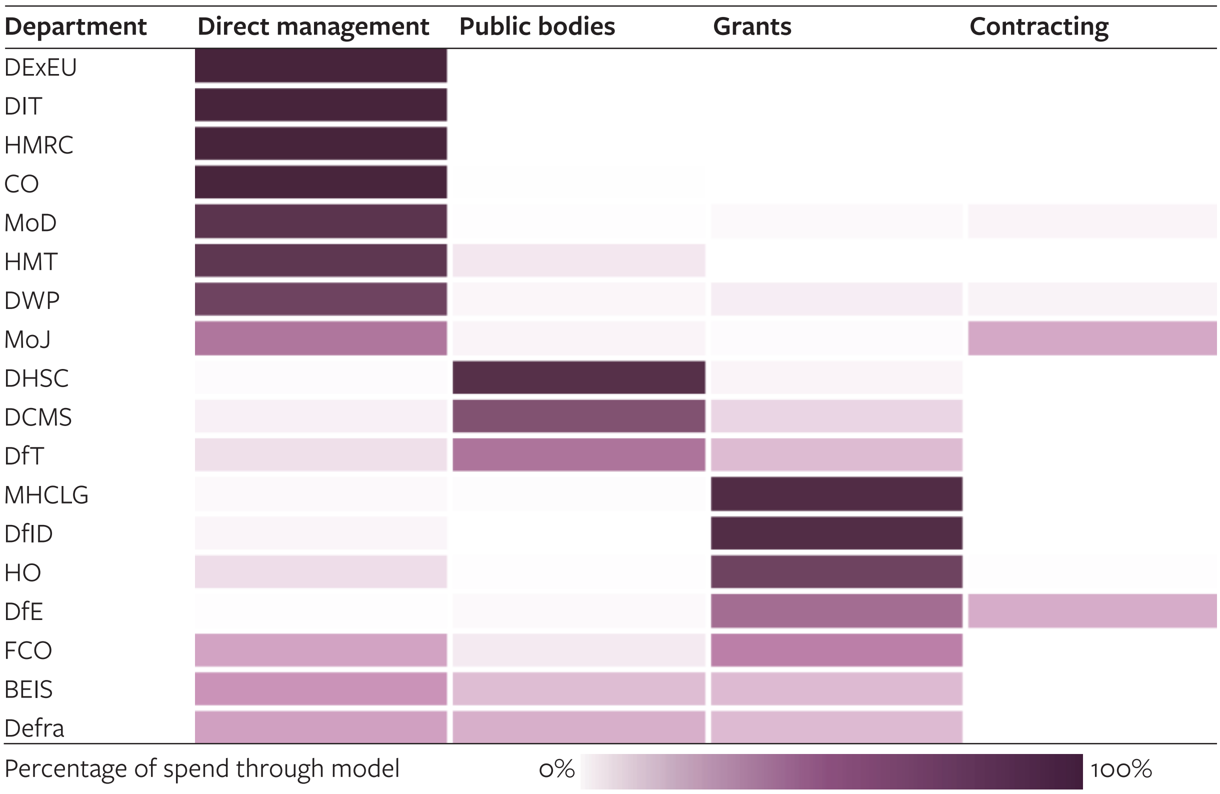
The current agenda has paid too little attention to the diversity of structures that shape the behaviour of different actors across the public sector, including front-line service providers. It is, however, critical to understand these in order to determine what types of reform will be appropriate for improving the quality of public spending. For example, the mode of service delivery and financing, especially whether services are delivered through centralised or decentralised structures, will affect the appropriate model of financial control. Relatedly, financial controls are one among a number of different systems used to regulate performance of public services. The specific role of financial control will, therefore, depend on how it relates to these other regulatory systems. These examples are elaborated below.

Different modes of financing and delivering public services

Services can be delivered and financed in different ways, even within a country or a sector such as health. Figure 3 shows that in the UK, some departments spend most of their budget directly (e.g. the Ministry of Defence), some operate through arms-length public bodies (e.g. the Department for Health and Social Care), and others provide grants or contracts to a variety of providers (e.g. the Department for Education). Even within a sector such as health, many countries use a mix of different forms of delivery in different types or levels of care. In Eswatini, for example, hospitals operate as autonomous agencies that receive grants from the government, while primary health facilities are included as an entity within the budget of the Ministry of Health so follow general government spending rules.

This institutional variation in how services are delivered, whether directly by central government departments, arms-length agencies, local authorities, or non-governmental providers, will affect how the PFM system is configured, and thus the role it can play in helping to improve the quality of service delivery. In a centralised system, traditional performance budgeting approaches of trying to link performance information to the budget through formulating programmes and associated indicators may be feasible. In a decentralised system this may not be possible, and reforms may need to focus on designing grant-management systems that ensure sufficient quality of financial management and reporting in decentralised entities – the complexities of service delivery across multiple levels of government is explored further below. Where service delivery is subcontracted, the focus may be on regulating the financial performance of autonomous providers to prevent risky financial practices (such as over-expanding or running up unsustainable deficits) and preventing perverse incentives such as ‘cherry picking’ or ‘cream skimming’, where providers only take on the lowest-cost users (Le Grand, 2010). In such a system, government plays more of a regulatory role, rather than exerting direct control and limits on spending. This variation in PFM function, depending on the model of financing service delivery, suggests there is not a single set of reforms that will be appropriate to all contexts.

Figure 3 UK government department management of recurrent budgets, 2018/2019



Note: For full names of organisations visit www.instituteforgovernment.org.uk/publication/whitehall-monitor-2020/abbreviations.

Source: Freeguard et al. (2020)

Intergovernmental arrangements for service delivery

Basic services like primary health care, primary education, and water and sanitation often tend to be local government responsibilities, yet there is limited discussion of decentralisation in the PFM community and health financing community. Work on PFM has tended to organise thinking around the finance ministry and national spending agencies. Where the PFM community has considered decentralisation, the focus has been on the fiscal risks that accompany subnational budgets (Fedelino and Smoke, 2013). Much of the work on PFM and health has been influenced by work on health financing and the split between purchaser (who pays for the service) and provider (who delivers the service). This has tended to concentrate on the roles of the central government and the health facility, and discussions on health financing tend to see decentralisation of finances to subnational governments as a barrier to effective governance of the relationship between these two entities (Cashin et al., 2017).

The concern with central government (and particularly the finance ministry and policy-making ministries) overlooks the sheer number of entities involved in spending public money. The centre of government will often decide on the overall level of spending that is affordable and take a decision on high-level spending priorities and policies. In some countries the finance ministry may also authorise spending or process payments during the year. Nonetheless, decisions on what inputs to pay for are taken by different actors all along the service delivery chain: the sector ministry, local government and service provider. So, while the finance ministry may be the custodian of the PFM system for the government as a whole, it is only able to exercise this mandate by delegating powers to other organisations in the public sector (Krause, 2009). The question of to whom to delegate spending decisions within the intergovernmental system is a fundamental question for both public finance and service delivery institutions.

Across many areas of service delivery, there has been a strong push towards decentralising responsibility (through deconcentration, delegation or devolution) regarding decisions on expenditure allocation away from central government towards subnational governments, independent agencies and front-line providers in order to promote greater flexibility and to 'let managers manage'. This greater flexibility in resource allocation for actors closer to the front line of service delivery, and with greater information on local needs, is understood to be a key driver of improved allocation choices both by health financing actors (Barroy et al., 2019b) and in the fiscal decentralisation literature (Channa and Faguet, 2016).

However, this common view masks some differences. Is allocation authority to be held at facility level or at local government level? How do these relate to each other, and to the central government? Could greater autonomy at the facility level undermine local government autonomy, especially if it results in facilities receiving funding directly from central government? These questions add a layer of complexity that is often overlooked when focusing on the role that national budgetary systems play in delegating spending authority. Furthermore, answering them requires understanding political as well as technical factors. Decentralisation rarely takes place solely as a result of a direct desire to improve service delivery. Broader and more complex factors usually lie behind the restructuring of the state, for example, a desire to improve governance, inclusion and participation, often in response to major events, such as a political or economic crisis (Eaton et al., 2010; Faguet, 2014). This will constrain options for how central, local and facility authority to allocate funding can be (re-)configured.

Different models for regulating public sector performance

As well as needing to respond to different models of delivering services, the role of the PFM system in supporting improved spending will depend on the broader institutional set-up for regulating the public sector. Financial controls are not the only basis for regulating the quality of spending. The PFM system operates alongside ‘a collection of waste-watchers, quality police, sleaze-busters, and other “regulators”’ (Hood et al., 1999: 4). The role of financial control, and PFM systems more generally, in improving the quality of spending, will depend on how they interact with these other elements. The PFM system will not always lead the way in these reforms. Rwanda, for instance, has achieved considerable progress in establishing a performance-oriented public sector and improving the access to and quality of basic services, despite scoring poorly on the PEFA indicator for the use of performance information.[2] This illustrates the basic point that there can be no single preconceived notion of what a good PFM system is and how it supports service delivery, as this needs to reflect the broader regulatory context.

Different roles for sector ministries

The importance of spending agencies in budget processes has been recognised since at least the 1960s (Wildavsky, 1964), but analysis of their role in managing public finances has been relatively neglected in research (Kraan, 2017). This is despite the fact that the processes and procedures for managing expenditure are often delegated to line ministries in advanced economies like Australia, New Zealand and the UK which have had a considerable influence on PFM ‘best practice’.

This neglect of the function of line ministries is part of a broader neglect of organisational capabilities in the PFM system, which has only recently begun to be addressed. A range of material has been produced since 2015 on the organisation and work of the finance ministry (Allen et al., 2016; Krause et al, 2016; Hadley et al., 2018). Work to extend this to the sector finance functions is still at an early stage with few case studies or conceptual models on which to draw (Kraan, 2015; 2017). The Centre for Excellence in Finance, which initiated one of these studies, offers training courses that aim to strengthen links between the finance ministry and spending ministries and hosts a dedicated digital portal for knowledge sharing among line ministries.[3]

2 In 2017, Rwanda scored a D for the performance-oriented nature of the budget, yet is lauded for improving the performance culture of the public sector and for improving basic services.

3 See www.lineministries.org/dashboard.

The fact that there has been relatively little study of what line ministries actually do in managing public spending matters not just because different sectors will have different challenges or types of expenditure, but also for two further reasons. First, different line ministries have different capacities and capabilities and will make different use of common PFM processes. Although this will be obvious to almost any close observer or practitioner of PFM across government, there has been relatively little systematic study of differences in PFM practices across different line ministries (Williams, 2015; Martínez Guzmán, 2020).

Second, the line ministries have different relationships with the finance ministry in each country. The political power of ministries of finance and line ministries in a given country will affect what reforms are possible and how they will be implemented. The distinction between 'spenders' and 'savers' in budgeting and expenditure management, given their propensity to either spend (line ministries) or conserve funds (finance, potentially finance committees in the legislature, fiscal councils), goes back to Wildavsky (1964); and the balance between them will be decided by broader political factors, not by narrow technical ones. In Westminster-type systems, the finance ministry is typically powerful, with the finance minister occupying a senior cabinet position. In many other countries, however, the finance ministry and finance minister have much weaker powers, and this is especially associated with multi-party coalitions (and also with presidential systems where the constitution gives the legislature substantial power over the budget) where more than one party is represented in the cabinet. In the first institutional set-up, the finance ministry can typically dictate rules and processes for the management of public spending quite effectively across government, whereas in the second they may have to be more extensively negotiated (von Hagen, 2008).

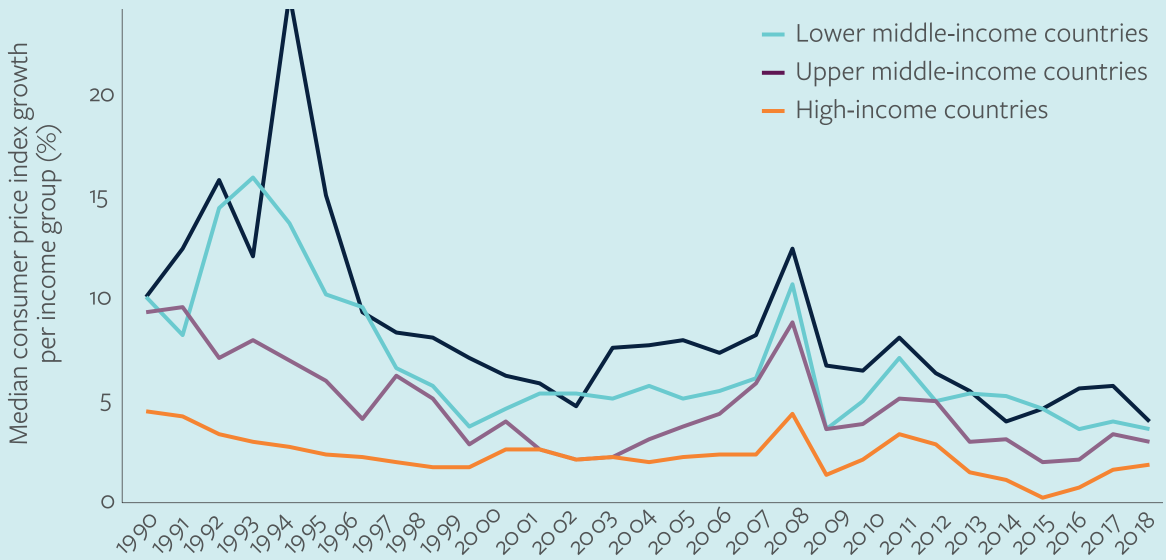
An example of how broader political factors can shape the relationship between line ministries and finance ministries is shown in Thailand's UHC reform, which involved a major change in how the annual health budget was negotiated between the health sector and the Ministry of Finance's Bureau of Budget (Tangcharoensathien et al., 2019). This in turn was one part of a major reform that had roots in electoral reforms that gave parties greater incentives to develop programmatic policies (Selway, 2011), and on longstanding activism by the Rural Doctor's Movement, including as bureaucrats inside the state (Harris, 2015).

Both of these points have implications for how PFM reforms to improve service delivery can be designed and implemented, and for how reforms are prioritised generally. Many PFM reforms implicitly assume that the role of the finance ministry is to set and monitor rules for managing public expenditure, but in many countries, this may not be the case. Similarly, the relationship between a sector ministry and the finance ministry will determine the extent to which it is able to propose deviations or adaptations from the standard system to meet sector needs, and this will be determined by broader political factors. In turn, PFM reforms do not necessarily have neutral effects on the power and autonomy for different actors – greater autonomy for the finance ministry can mean less control for line ministries, as is the case with cash rationing (see Box 3).

Box 3 Cash rationing as an expression of interests and trade-offs

A number of the discussions that follow in this paper refer to the challenges associated with cash rationing – a term used to describe the way that actual spending is limited during the fiscal year based on the money available. In most cases it is associated with the finance ministry restricting the monthly or quarterly releases so that the authorisation to spend is less than the budget allocated at the start of the year. This generally comes at the cost of less predictable budget allocations; spending units may not know how much of their budget will be released in the month ahead, let alone in the full fiscal year.

Cash rationing is often necessitated by a lack of realism in the annual budget, but may also be caused by uncertainties regarding financing and the performance of the economy. These issues are clearly more acute in LICs where political priorities are more fluid, economies are more volatile, and debt markets are more limited (IMF, 2011; North et al., 2013; Levy, 2014). Ultimately, however, cash rationing is an expression of the trade-offs that the finance ministry must manage – balancing changing political demands with the need to maintain control over aggregate demand and inflation and the goal of providing reliable spending allocations to those delivering services (see figure).



Source: Authors' elaboration of World Economic Outlook consumer price index data.

Given the pervasiveness of this problem, research on the approach to and impact of cash rationing is noticeably absent from the literature on PFM reforms, with just a handful of studies last prepared in the early 2000s (Stasavage and Moyo, 2000). How governments have managed to increase the predictability of budget releases over time (as some clearly have) merits further exploration. Key points of comparison here are not OECD countries, but governments that have managed to provide some degree of predictability, despite economic uncertainty, shallow debt markets and weak programmatic politics.

3.3 Politics of public spending

Discussions of how PFM can help improve public spending on service delivery have tended to remain highly technocratic and focus on how management arrangements influence the incentives of different actors and their spending decisions. In reality, of course, choices about whether to fund services and who should decide how funding is allocated are highly political (Wehner, 2008; Hallerberg et al., 2009; Krause, 2009; Smoke, 2015; Chemouni, 2018). Politics is also central to the success of PFM reforms, both because the rules and processes of PFM need to resolve conflicts and disagreements over spending choices, and because changes to PFM rules will create further winners and losers.

Preferences and interests in public spending choices

Competing political interests influence resource allocation and use. Interest groups such as public sector unions, and the bureaucracy itself, can have major effects on how budgets are allocated and spending is managed. Indeed, in countries where aid makes up a significant proportion of funding for public services, donors constitute a further interest group; and donors' preferences do not necessarily align with those of elites or of ordinary citizens (Dionne, 2012). The sectors that donors prioritise may not correspond to those of the aid-recipient countries (see Figure 4). So, it makes a difference who funds services, and donors have historically wielded significant authority over expenditure allocations in the health sector.

Figure 4 Budgetary responsiveness in Burkina Faso and Uganda

Functions of government (COFOG)	Main problem in 2012 (%)	Public spending allocation in 2013 (%)		
Burkina Faso		**Government (88%)**	**Foreign aid (12%)**	**Aggregate budget**
04 – Economic affairs	39%	32%	38%	33%
06 – Housing and community amenities	24%	1%	5%	1%
07 – Health	20%	4%	7%	5%
09 – Education	8%	14%	15%	14%
03 – Public order and safety	7%	2%	4%	2%
10 – Social protection	0%	3%	9%	4%
02 – Defence	0%	2%	0%	2%
05 – Environmental protection	0%	0%	7%	1%
08 – Recreation, culture and religion	0%	6%	0%	5%
Uganda		**Government (77%)**	**Foreign aid (23%)**	**Aggregate budget**
04 – Economic affairs	46%	22%	23%	22%
07 – Health	13%	7%	42%	15%
03 – Public order and safety	10%	7%	5%	7%
06 – Housing and community amenities	8%	2%	3%	2%
09 – Education	8%	16%	5%	13%
10 – Social protection	1%	4%	10%	5%
02 – Defence	0%	8%	0%	6%
05 – Environmental protection	0%	0%	5%	2%
08 – Recreation, culture and religion	0%	0%	0%	0%

Note: COFOG = Classification of the functions of government.

Source: King (2020)

As well as shaping *what* those allocations are, competing interests also influence *how* resources are allocated. In India's most populous state, Uttar Pradesh, for example, teachers' unions have had a major impact on the evolution of education expenditure over time, and on the centralisation of the administration and management of schools and reducing accountability to local managers (Kingdon and Muzammil, 2009). Yet these issues are rarely discussed in any great depth in the current debates on PFM and service delivery.

Policies and budgets change slowly in most years

Much of the interest in the politics of the budget from development agencies comes from an interest in how to promote greater spending allocations in their particular sector(s) of interest. However, a research programme on budgeting across a number of European and North American countries found a pattern of 'punctuated equilibrium' in the evolution of budgets (Jones et al., 2009). In most years, budgets change incrementally, if at all, but there are occasionally large increases or decreases. More broadly, this is connected to models of the policy process where policy change either tends to be incremental, or we see rare bursts of activity. The degree of punctuation versus more gradual changes is predicted to be dependent on the institutional constraints on budgetary decision-making, such as executive strength, single-party government, the degree of federalism or decentralisation and a unicameral or bicameral parliamentary system. Similar results have been found for budgetary changes in MICs including Brazil, Russia and Turkey (Baumgartner et al., 2017), where budget changes across more authoritarian and more democratic periods were compared. A lesser degree of punctuation was found in more democratic periods, consistent with the idea that although there may be fewer institutional constraints during authoritarian periods, greater information and feedback on policies in democracies leads to greater responsiveness of the budget.

The implications of this are that policies and budgets will usually be stable, apart from periods when these are being reformulated. This also suggests that, in most circumstances, there should be a focus on improving the effectiveness of existing levels of spending, rather than seeking to increase resources. The likelihood of major policy and budgetary changes is also likely to be systematically related to the political decision-making structures in each country.

The politics of PFM reforms

The ways in which the financing and management of public services are organised are as much shaped by politics as by broader spending allocations. Reforms to the PFM system or the approach to service delivery are not simply technocratic decisions, but political choices that can potentially serve certain ideas and interests better than others (Andrews and Bategeka, 2013; Wehner and de Renzio, 2013; Chemouni, 2017; Fritz et al., 2017). This was illustrated in the earlier discussion on the relationship between finance and sector ministries, and in the example of the management of education spending in Uttar Pradesh.

These are not simply technical matters susceptible to apolitical institutional engineering which can be abstracted from context. Much work on the role of PFM in supporting service delivery has, however, tended to treat it as such and has focused on technical debates regarding which institutional arrangements may be best suited for improving public services. Discussions on ‘letting managers manage’, for instance, owe much to ideas adapted from new institutional economics about how institutional reforms can reshape public sector incentives (Campos and Pradhan, 1996). Less importance has been attached to how these institutional structures themselves respond to the wider political, social and economic structures in which they are embedded. The general critique of new institutionalism – that the impact of institutional reforms will ultimately depend on the broader economic and political context in which they operate (Bates, 2014) – is also relevant for institutional reforms for public spending.

For example, institutions aiming to support better prioritisation of resources are unlikely to work where political actors do not see doing this as in their interest. Rather than policy and planning processes informing the challenge of allocating scarce resources, they may side-step it. A key issue with both development plans and health benefits packages has been a lack of clarity about their purpose. Although they are primarily meant to set priorities and guide resource allocation, they are frequently also used to advocate or fundraise for more resources, especially in aid-dependent countries. If they are unfunded, they do not effectively prioritise limited resources (Manthalu et al., 2017).

These three areas – the connections between PFM and other public management systems, the diversity of institutional arrangements for managing spending and the politics of public spending – have all been neglected in debates on how PFM can support improved public spending. The PFM and service delivery agenda needs to better recognise the linkages between PFM systems and other parts of the public sector, to ensure that analysis and diagnosis recognise the institutional diversity of systems for service delivery; and to understand that differing political contexts will need differing institutional solutions, and that the same institutional reform may have different effects depending on this context. Chapter 4 addresses how this might be done.

4 What's next?

All countries will clearly be grappling with difficult decisions on how to finance public services in the coming decade. The Covid-19 pandemic has already slowed economic growth, reduced domestic revenues and increased public debt (IMF, 2020b). Governments will be looking for ways to get the most from the remaining resources; and, if the current crisis is anything like the fall-out from the global financial crisis of 2008, PFM systems will be seen as a means to help achieve these aims (Schick, 2013).

At the same time, as this paper has argued, the focus on PFM systems tends to overlook the complexity of improving spending on public services. While PFM reform may be important, the links between these and service results are often indirect, involve the interaction between PFM and other systems of governance, and will play out differently depending on the institutional and political contexts. These important gaps will need to be addressed so that the agenda on PFM and service delivery can respond to the challenges of improving public expenditure on service delivery. The final chapter of this report offers four broad suggestions to help close these gaps and to provide some useful boundaries to shape overall programmes of work:

- First, efforts to identify reforms to central PFM systems should look in depth at the important systems for services, rather than attempting to assess all challenges relevant to individual sectors in isolation from each other.
- Second, a more country-focused lens is needed to understand the challenges involved in improving public spending, instead of relying on good practices drawn from just a handful of international experiences.
- Third, research and discussions should adopt a *public finance* (rather than PFM) analysis for how to improve the allocation and use of resources in a given sector or service type.
- Finally, to support these changes, the new agenda should be more inclusive of different voices, geographies, disciplines and experiences.

4.1 Orienting PFM systems to support service provision

In its narrowest sense, PFM is about systems and processes overseen by finance ministries. These are generally developed to support effective spending across all spending ministries, agencies and local governments. From this perspective, 'sound' PFM practices – timely budget approval, more reliable resource flows, greater accuracy of financial reports – are desirable for any policy or sector. The budget for the ministries of health, education and transport will be prepared using the same timetable and overall guidance, authorised by the legislature in the same way, controlled using the same overall chart of accounts and audited following a common set of standards.

On the other hand, this paper has argued that there are many questions on how public money should be managed that can be answered only by understanding the specific challenges of service delivery in each sector. Whether central government rules support efficient procurement of medicines and other supplies in the health sector is one such example that is likely to gain further attention as governments review their response to Covid-19. The answers to these questions will often vary between different sectors and different service types. There are often trade-offs involved in balancing the different objectives of the PFM system and the needs of various sectors, and the preference for one goal over another may be a political, rather than purely technical, choice.

Help finance ministries by focusing on systems, not sectors

Each sector, led by its own organisational interests and professional ideas, has tended to develop diagnostics and analytical approaches to review the PFM system in its sector. These are rarely limited to the PFM processes under the control of the relevant sector ministry or agency, but are designed to raise issues that also require the attention of the finance ministry. As an increasing number of sectoral reviews are commissioned on how well the PFM system is adapted to the needs of different services (e.g. PFM and health, PFM and education, and PFM and nutrition), they will inevitably generate many of the same findings to which the finance ministry will have to respond.

There is a real risk that these overlaps create reform fatigue and unnecessary administrative burdens, particularly when these are coupled with other interests such as children, gender and climate change that are also being looked at through a PFM lens. The problems with multiple overlapping assessments were identified in the early 2000s and motivated the move to a more coordinated approach to strengthening PFM systems across international organisations (Allen et al., 2004). It will be important not to repeat these mistakes, particularly in countries with more limited capacity to coordinate donor interests. This does not take away from the need to look more deeply for ways to enhance the PFM systems that support basic services, but suggests that the approach used by the international community needs to be thought through more carefully.

Rather than seeking to repeat comprehensive ‘PFM and sector X’ diagnostics, international organisations could work with governments to undertake more focused reviews of specific aspects of the PFM system that are particularly relevant to the provision of a range of basic services. A burgeoning literature on public investment management has usefully set out some of the common challenges in effective management of investment spending (Rajaram et al., 2014; IMF, 2018; Kim et al., 2020; Schwartz et al., 2020) that cuts across infrastructure sectors.

Examples of such PFM and issues of service delivery where there might be a common interest across several sector ministries and the finance ministry include the evaluation of spending priorities, and how to make resource flows to service delivery providers more predictable.

To set expenditure priorities, the health sector has developed a range of processes to identify the most cost-effective interventions which should be prioritised for funding (Glassman and Chalkidou, 2012; Glassman et al., 2016; 2017). Challenges remain, however, in establishing how to effectively connect these to budget and PFM processes. Structuring project appraisal and linking it to the budget process has similarly been a major issue in managing investment in infrastructure (Rajaram et al., 2014). Compared to health and infrastructure, education economists are at an early stage in being able to make cost-effectiveness estimates across interventions (Angrist et al., 2020). There are surely lessons to be learnt across sectors in how to incorporate such cost-effectiveness evidence into sector planning and budgeting processes, and this an area in which a ministry of finance would be expected to have a major interest. For example, in the UK, the Green Book (HM Treasury, 2020) provides guidance to all government departments on evaluating new expenditure policies.

Similarly, the reliability and predictability of financing flows to front-line service delivery providers are common concerns across sectors. Issues such as cash rationing, the impact of financial rules and regulations and the opportunities and costs of making greater use of digital payments in service provision all mean this is an issue that needs to be discussed with both the ministry of finance and sector ministries. It is also striking that there appears to have been relatively little learning across sectors on this issue. In the education sector, there have been attempts to systematically document the experience with school grants. For example, the United Nations Educational, Scientific and Cultural Organization's (UNESCO) International Institute of Education Planning has documented their design and implementation across 14 countries (De Grauwe and Lugaz, 2016; Lugaz and De Grauwe, 2016; Chimier and Emeran, 2017). In contrast, there has been more limited analysis of the impact of direct facility transfers in the health sector, with studies limited to donor-supported pilots such as those in Kenya and Tanzania (Opwora et al., 2009; Kapologwe et al., 2019) but not where this has been a domestically driven reform such as in Uganda.

Support sector stakeholders to engage on common concerns

Previous reviews of PFM and health diagnostics have highlighted that they make an important contribution by providing a forum for structured discussion between the ministry of finance and sector ministries on spending challenges. Thus, one role that donor-funded analysis of PFM systems can offer is a space for dialogue and engagement. Who participates in the review of budgetary systems is clearly crucial. Where finance ministries (and their advisers) monopolise inputs to the design of PFM reforms, finance ministry concerns related to financial control are likely to dominate. This is highly likely when a PEFA assessment is led by the IMF or World Bank PFM team whose main partnership is with the finance ministry. On the other hand, finance ministries may be more sympathetic to making changes to processes where issues are common to various sectors, rather than a single sector which might be perceived as engaging in special pleading. Regulations that are excessively zealous are likely to frustrate police departments just as much as school managers and health professionals. Drawing together multiple actors to review specific processes that are managed by the finance ministry may be more effective than a review of multiple processes with a single department, unless limited to systems under the department's control.

4.2 A more country-focused approach

Much of the work to date on the PFM and service delivery agenda has tended to propose reforms based upon insights from standardised international diagnostics. Such studies tend to assess and compare national systems with a notional ideal standard, which is more or less explicitly embedded in the diagnostic tool. It would be worth supporting more in-depth, country-level understanding of how to build on what is already in place and not always focusing on what is missing:

> The best public finance system for any country is one that reflects its economic structure, its capacity to administer its public finances, its public service needs, and its access to different sources of finance such as taxation, debt, or aid. The public finance system of any country is both path-dependent and context-specific, reflecting the outcome of complex social and political interactions between different groups in a specific institutional context established by history and state administrative capacity. (Bird and Das-Gupta, 2014: 259)

Although Bird and Das-Gupta were writing about taxation systems, the same observation could equally be applied to the systems used for managing spending. There is no blank canvas on which an optimal institutional configuration can be derived from first principles. Changes in the way funds are allocated or managed need to build upon what is already in place. Too often this reality is overlooked because of the reliance on international standards, and general lessons are drawn from just a handful of countries that are considered to embody best practices. These best practices are codified in the diagnostic tools and used to benchmark government systems in LMICs, and shape national reform plans. The result is that there is too little discussion of the way PFM systems function in LMIC contexts, why they function the way they do and how they have evolved.

Obviously this issue is not specific to the PFM community. Good practice models of health systems interventions are just as prevalent. International donors, including the World Bank, have financed a wide array of pilots of performance-based financing for health services, but these projects have struggled to go to scale for various reasons (Shroff et al., 2017). The general approach of retrospective performance-based payments can be difficult to integrate into the financing arrangements used in the public sector to pay for health services. Areas of misalignment include differences in the way funds are allocated (with pilots run separately from domestic intergovernmental fiscal transfers) and controlled (as PFM systems traditionally check spending is authorised in advance rather than after services have been provided). More generally, there remain questions about the appropriateness of this quasi-contractual model for LIC settings where contract enforcement is difficult even in the private sector (Schick, 1998b).

Identifying problems with the PFM system is easier than finding solutions to address them. Governments need to identify the institutional changes that will be acceptable and implementable in their specific context, whether they are identified domestically or drawn from elsewhere. This is especially true when different professional groups are recommending different principles or contradictory models to guide national reform plans. To assist national reformers, researchers and practitioners should focus on understanding any variation in performance between national organisations and agencies, and broaden the range of international contexts from which to draw lessons.

Understanding and exploring variation in performance domestically

Governments may find that looking for solutions closer to home helps them develop more realistic options for reform than relying principally on ideas from abroad. Donors tend to offer diagnostic tools that use international benchmarks to guide reform choices. Moreover, most of the influential research on PFM and service delivery conducted to date has focused on comparing systems and outcomes across countries. These tend to produce aggregate scores for the PFM system as a whole. But public services may – and often are – delivered with very different levels of efficiency by different agencies within the same country (Rasul and Rogger, 2018; Bulula et al., 2020) and, as noted above, there has been relatively little systematic study of differences in PFM practices across different line ministries. This suggests that exploring variation in the quality of administration and service delivery within a country may be just as important, if not more so, than comparing differences across countries. This national-level analysis tends to receive less attention in low-income contexts than higher-income countries. Greater exploration of this variation in administration and in-country service delivery performance could lead to more realistic reform options and make the agenda more practical for policy-makers.

Generating a wider range of cases from which to learn lessons

Government officials will clearly still be interested in the lessons learned from other countries, so a country-level focus will need to be complemented with a broader range of international experiences. International organisations tend to look for reform ideas that can be applied to common problems across a wide range of countries. It is unlikely, however, that small island states will find viable reform strategies by benchmarking their PFM systems to those of a large country in Europe or North America (Haque et al., 2015). While this is an extreme contrast, it is clear that there has been far less thinking in the area of PFM about 'context' and 'second-best' solutions than in the fields of tax or economic reforms (Rodrik, 2008; IMF, 2017).

To build an evidence base that better reflects the diversity of contexts will require the study of country systems in LMICs to catch up with the extensive studies that are available in higher-income nations (Hood et al., 1999; Hallerberg et al., 2009; Heald et al., 2014; Crawford et al., 2018). The experiences that generate an evidence base must be both broader in terms of their country coverage, and also based on a longer period in order to match the time it takes to reform public institutions and improve basic services. The health sector has generally been better at investigating good performance across a range of low- and middle-income contexts (Balabanova et al., 2011). Following a similar path to understand the institutions for managing public spending would be a good first step.

4.3 A broader *public finance* lens to analyse specific sector concerns

The arguments made in this section could be summarised as a means to achieve a more harmonised and realistic approach to identifying the opportunities to strengthen PFM systems in support of basic services. There are good reasons for doing this. The government budget is one of the most important moments in the government's calendar for directing public policy (Peters, 2019). Any common-sense view of the chain of service delivery will acknowledge that systems for executing the budget and maintaining accountability for spending performance will influence the quality of service provision (Welham et al., 2017). It is important that the international community maintains interest in these systems.

That said, this paper has argued that a limited focus on the central government budget process can easily overlook the many other systems that influence the allocation, flow and control of public resources, as discussed in the previous chapter. For example, formulas for fiscal transfers that determine how resources are allocated to local governments may be set outside the budget process through periodic policy reviews or even in legislation. The budget itself simply sets out the annual allocation computed by the formula. Improving the equity of public spending in this context arguably has little to do with the annual budget process. Similarly, the budget may set the total salary bill for teachers or health workers, but not determine where these staff are deployed (or re-deployed), of if they are recruited at all (Tidemand et al., 2014).

The relative importance of the different systems that shape resource allocations will vary depending on the service in question and the way that service is provided in a given country. Project selection is critical to allocations in the energy sector, for example, while staff deployment will be more important for education services. The intergovernmental finance system may be the main channel for funding primary education, but is often less relevant for financing tertiary education. Changes to central financial rules and regulations will be relevant to hospitals whose entire funding is set in the national budget, much less so to hospitals run by non-governmental organisations that receive government subsidies.

A 'public finance and health' or 'public finance and education' lens might be a more useful framing for sector-specific analytical work than 'PFM and health' or 'PFM and education'. The central motivation of work would be the same: to understood how public resources can be used most effectively to support service provision. There would, however, be greater agnosticism as to whether a set of PFM reforms managed by the finance ministry is necessarily the priority for improving sectoral spending. Analysis should be rooted in an understanding of how public funds are actually being allocated through different systems and decision-making channels, rather than always using the PFM system or the finance ministry as the entry point for analysis.

This would also help to integrate the analysis of the 'how' of PFM and the 'what' of expenditure policy. Many of the most important questions for sectors are at the boundaries of this traditional distinction, concerned not just with 'what' is to be done, and 'how' but by 'whom'. The allocation of expenditure responsibilities is among several other issues where these questions need to be considered together:

- Who should be responsible for deciding on how resources should be allocated and how much discretion should they have?
- How should financial and non-financial resources flow across different levels of government?
- What options are available in the PFM system for promoting a more equitable allocation of resource across different regions and areas?
- What are the appropriate financial accountability mechanisms for different kinds of facility?

Take, for instance, reforms to intergovernmental finance systems. Effective changes to 'how' these systems are being managed requires some agreement upon what policy goals the reform is trying to achieve. Is it about bringing decisions on service provision closer to the people who use the services? About addressing geographical inequities in access to services? About providing more centralised oversight of performance? About limiting the contingent liabilities for central government that threaten spending on other services? Or about changing perceptions of state legitimacy? While there may be principles of good practice to guide these decisions, they must be filtered through the policy objective of decentralisation and the legacy of existing institutions (Smoke, 2015). Similarly, good analysis of expenditure policy in a given sector can benefit from an in-depth understanding of PFM systems. For instance, budget documentation is typically organised around how the budget is controlled. It is much more difficult to critically scrutinise budgetary information without a good understanding of the expenditure control structures.

4.4 A more inclusive agenda

Making progress in the areas described above will require a more inclusive approach than is the case in most existing initiatives. The preceding sections have already argued that there should be greater learning across sectors and across and within countries. There should also be greater collaboration across professional communities and academic disciplines.

The existence of dedicated professional communities for PFM, public economics, social accountability, decentralisation, health and education are all important for improving the depth of knowledge in these areas, but they also tend to reinforce 'siloed' thinking (Peters, 2018).

As a result, each sector or profession may be able to produce a package of reforms that is internally consistent, but such reforms are unlikely to be coherent across all aspects of governance (Pritchett, 2015; Brinkerhoff and Wetterberg, 2018).

While there are good foundations on which to build, there is a need for further efforts to draw together a wider range of professions (e.g. sector and PFM experts) and disciplines (e.g. political science and public administration) in order to exchange ideas on common issues and even how they are studied (Mansoor and Williams, 2018). Ensuring that international debates remain connected to national realities will be an ongoing challenge.

Learning across professions

The emerging agenda and community of practice on PFM and health financing, as developed through WHO's Collaborative Agenda on Fiscal Space, Public Financial Management and Health Financing, has offered an important bridge between these two professions (WHO, 2015). Collaborations across these fields have led to joint proposals on the balance of spending control and autonomy at the ministry and health facility level (Barroy et al., 2019a); on the ways to think about fiscal space for supporting UHC (Barroy and Gupta, 2020); and on the application of programme budgets in the health sector (Lakin et al., 2018). More broadly, regional bodies like the OECD and the African Union (AU) have also developed forums for finance and health ministries to jointly discuss financing and governance in health systems.[4] While these are valuable initiatives, they remain focused on the health sector.

Learning across disciplines

Similarly, the move to broaden the agenda on PFM and service delivery will benefit from greater collaboration in research and analysis across disciplines. The aim of this research should be to support existing debates through the accumulation of evidence from different disciplines, sectors and countries.

There are also some obvious blind spots within specific disciplines. Academic work in the broad tradition of public administration and public management, including work on PFM, tends to be focused on the experiences of a small number of OECD countries, although there are signs of a growing interest in studying a wider range of contexts (Bertelli et al., 2020). The discipline of public administration also needs to regain its interest in the study of budgeting and budgetary processes (Pollitt, 2016; Peters, 2019).

4 The OECD Joint Network of Senior Budget and Health Officials and the AU Africa Leadership Meeting of Ministers of Finance and Ministers of Health, respectively.

The health sector, in contrast, has a wide range of policy-relevant work with a strong emphasis on LMICs,[5] but these rarely draw in contributions on PFM or public management and remain sector-specific. Furthermore, work on strengthening health systems has largely focused on small-scale pilot or project-based interventions, rather than larger reforms carried out as part of a continuing process of improvement (Witter et al., 2019) – which is exactly what characterises most public management reforms.

Bridging these different disciplinary groups will require an openness from PFM specialists to work with other disciplines, but also a willingness for those from these disciplines to work on public finance issues in LMICs. All research will need to incorporate a strong qualitative element as this gives a sense of how institutions and processes actually play out in practice and to explore practitioners' inside knowledge (Meyers, 2018). It is particularly important in LMICs, both because there is limited past research and uncertainty on how institutions operate (Bertelli et al., 2020), and also because of the considerable influence of diagnostic tools, particularly those that seek to measure or score the quality of governance systems, which need to be complemented with a more concerted effort to provide in-depth qualitative descriptions of how systems operate. Hallerberg et al. (2009) offer a useful example of this in their analysis of the politics of budgeting in Latin American countries.

Connecting international debates and national realities

Cutting across both of these themes is the need to give greater voice to officials, researchers and other relevant stakeholder in LMICs. International interests in public spending can easily become disconnected from the varied challenges, values and politics that shape the distribution and use of public resources in different countries or regions within a country. International organisations have a tendency to look for reform ideas that can be applied to common problems across a wide range of countries. This paper has demonstrated, however, that even for common problems, governments will often have to find different solutions that reflect factors such as domestic institutional arrangements, politics and values. This only further underlines already powerful arguments for increasing the voice of governments, non-governmental organisations, academics, activists and others in LMICs in the international agenda; but more importantly, it raises the importance of ensuring that the international community is supporting national-level research and dialogue on public spending and service delivery.

Supporting these interactions across professions, disciplines and geographies will require a range of different forums. Peer-learning organisations like the Centre of Excellence in Finance (CEF) and the Collaborative Africa Budget Reform Initiative (CABRI) have focused on improving the discussions between line ministries and finance ministries on a broader range of policies such as health, education and pensions. There will also be a need for new forums and outlets to support exchanges between sectors on common challenges and reforms.

5 For example, *Health Policy and Planning*, *BMJ Global Health* and the *International Journal of Health Policy and Management*.

In connecting research communities, the Blavatnik School of Government at the University of Oxford is fostering an academic network on public management and service delivery, which has had meetings in Europe, Africa and Asia. While it would be unfair to expect this forum to produce the necessary changes on its own, or to successfully connect researchers from all the relevant disciplines and country groups, the model could be replicated in other ways. There could be, for example, working groups specifically researching different forms of results-based financing for service delivery, or an annual meeting of national think tanks conducting research on challenges in public spending.

As a contribution to developing a community of researchers and practitioners on public finance and service delivery, ODI is launching a new working paper series on this issue. This aims to provide the means to publish work that can help build understanding of the ways in which different configurations of public finance systems shape the distribution, efficiency and quality of basic public services in LMICs. It will offer an outlet for research that might otherwise be left undocumented, unpublished or unconnected to the broader international debates on this important topic. It aims to appeal to policy-makers, to include a strong emphasis on public management, to draw together lessons from different sectors and to be accessible to people working in a wide range of fields.

4.5 Concluding thoughts

This paper has sought to offer a constructive critique of the emerging agenda on PFM and service delivery and to make positive suggestions for how it could be enhanced. The need for more efficient public spending is greater than ever as governments grapple with the response to the Covid-19 pandemic and its long-term impacts on lives, livelihoods and government finances. This paper has identified three critical challenges and proposed steps to address them.

An overly narrow focus on PFM will not offer credible solutions to improving the quality of public spending. For many years, the national budget process has been the focus of PFM reforms. These reforms remain important, but spending on public services depends on a complex web of funding flows, accountability structures and political interests. Any agenda that seeks to enhance the quality and equity of public spending on services such as health or education must reflect this. Reframing the international agenda as a discussion of ‘public finance and service delivery’ offers an opportunity to reflect on the complex challenges of improving public spending.

Second, there is considerable diversity in the way PFM systems function to finance and support the delivery of public services. There is a tendency to underplay this and look for general solutions that can be applied across countries. A more country-focused lens is needed to understand the challenges involved in improving public spending, instead of relying on good practices drawn from just a handful of international experiences. Offering a broader range of international experiences from which to draw lessons could provide options for reforms that go beyond singular ‘best practice models’ that are drawn primarily from a limited set of OECD countries.

This also results in the proliferation of diagnostic tools, which simplify the problems to help policy-makers, but offer only a superficial view and are difficult to use well without deep knowledge of the issue or country. The next phase of the agenda should focus less on generating new diagnostic tools and more on understanding how systems operate in a given country and why problems are arising. Understanding how similar systems operate across sectors may be more useful for a finance ministry than undertaking multiple comprehensive reviews of the PFM challenges in different sectors.

Third, the emphasis on technical issues in the PFM system overlooks the way systems are shaped by the broader context, including the politics of spending and of public services more generally. This also demands more country-focused work, although this work will also need to see greater learning and collaboration across sectors, countries, professional communities and academic disciplines.

This changed focus of analysis should better recognise a range of possible solutions to the spending challenges being faced. It is inevitable that a new agenda will be accompanied by lofty expectations of what it will deliver. Yet, it is critical to be more modest in the expectations of what can be achieved through budgets and associated PFM reforms. Even a broader agenda on public finance will not offer comprehensive answers to the challenges of turning existing resources into better service delivery results. It will be essential to ensure that the goals of this new agenda remain realistic so that it continues to be credible and to provide appropriate advice on how PFM and other public finance reforms can contribute to better service delivery.

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