

Webinar for Drivers of Public Sector Accounting Reforms  
March 10, 2021

# **IMPORTANCE OF DRIVERS OF REFORM AND IMPACT OF POLITICAL ECONOMY ON REFORM IMPLEMENTATION**

Dr Verena Fritz, Governance Focal Point for Serbia & Program Manager,  
Good Governance and Investment Climate Reforms

# RATIONALE FOR LOOKING AT NON-TECHNICAL DRIVERS OF PFM REFORM DESIGN AND IMPLEMENTATION?

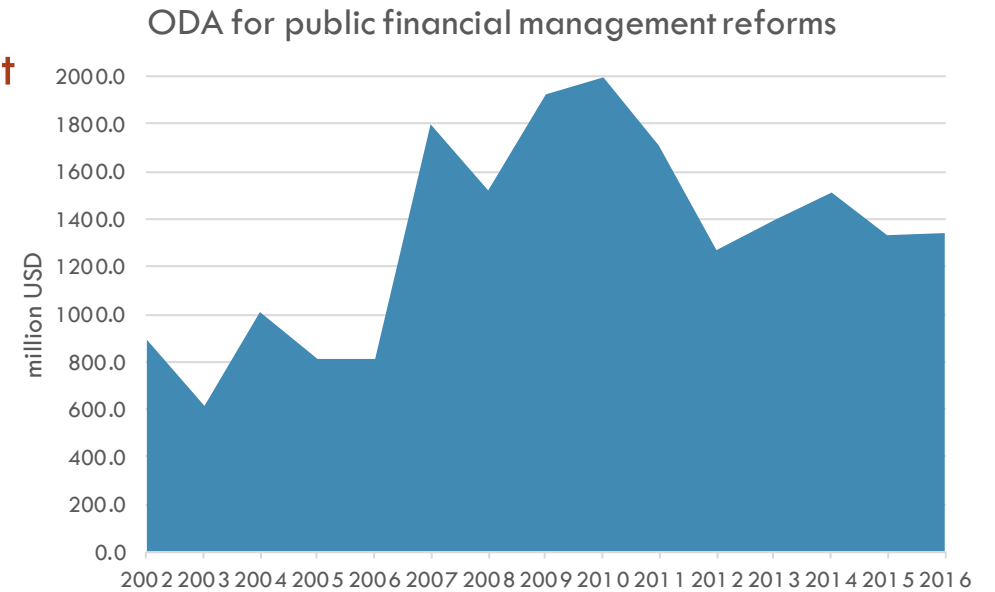
There has been a big global push for PFM reforms over the past two decades

The technical reform recommendations and intentions as set out in reform strategies form a fairly standard package ... yet, reform results & pace vary considerably

Client surveys suggest that there is a desire among Governments for the World Bank to appreciate country contexts more

General notion that politics and stakeholders matter, but mostly anecdotal

Can we systematize this more and make the knowledge useful for reformers and reform supporters?



Source: OECD data on ODA (QWIDS)

# APPROACH & METHODOLOGY

## Statistical analysis:

- Covers 117 countries for which PEFA data was available
- Looks at patterns across countries as well as 'first difference', testing of a range of demographic, political, and economic factors (next slide)
- Cross-checked with CPIA data (indicator 13)
- Revisited the statistical analysis in 2020

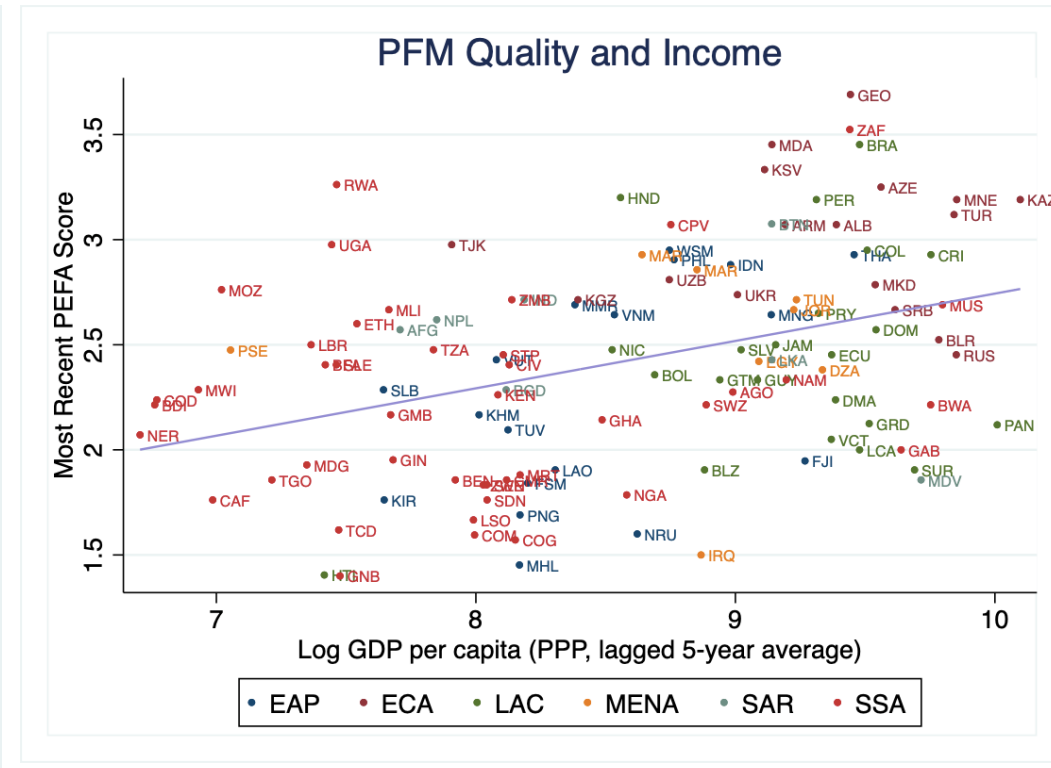
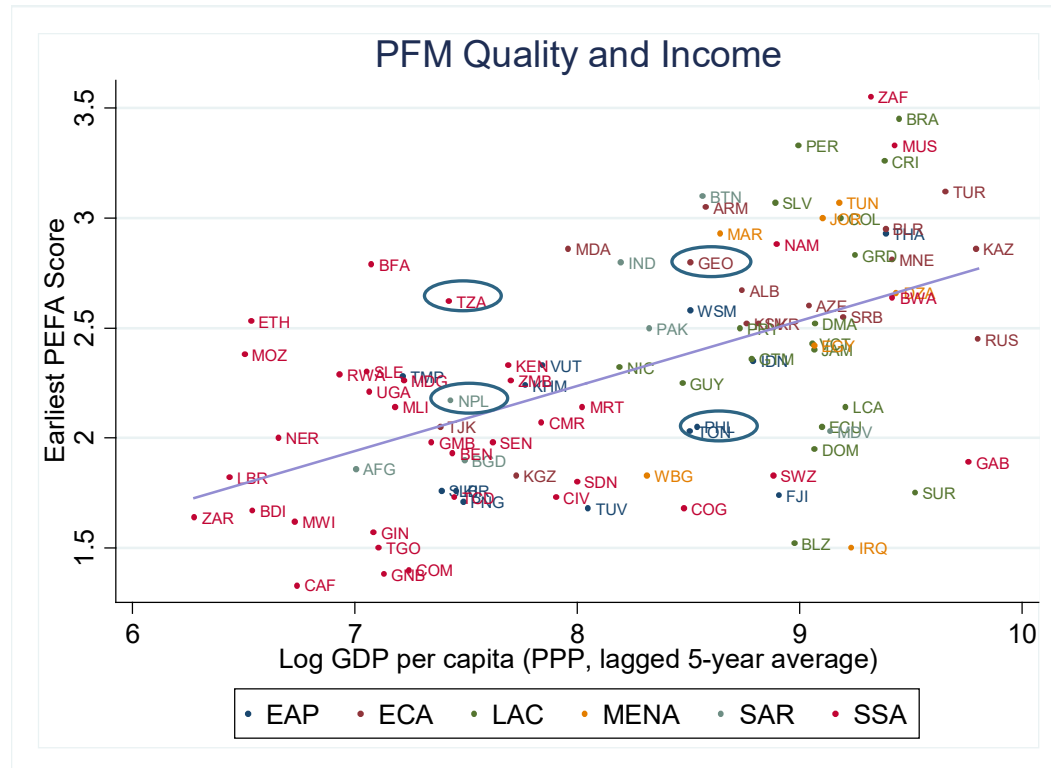
## Case studies:

- Tracking evolution of PFM reforms and political drivers over past ca 10 years
- Looking at fiscal drivers, institutional factors, stakeholder interests, wider political constellations and goals, external support (overall and for PFM), progress made
- Five cases considered in depth: Georgia, Nepal, Nigeria, Philippines, Tanzania
  - Including better and worse performers
  - All with significant external engagement on PFM reforms

# RELATIONSHIP BETWEEN GDP LEVELS AND PFM PERFORMANCE .. AND CHANGES OVER TIME

earliest PEFA available

most recent PEFA data available (2020 update)



Improvements in PEFA performance have been relatively stronger among a number of LIC and LMC countries, in particular in Africa + **noticeably strong performance among ECA countries**

→ flattening of the trend-line over time

Significantly less positive change indicated by CPIA-13 regional and income group averages

## Evolution of CPIA ratings for PFM – regional averages – 2001-2018

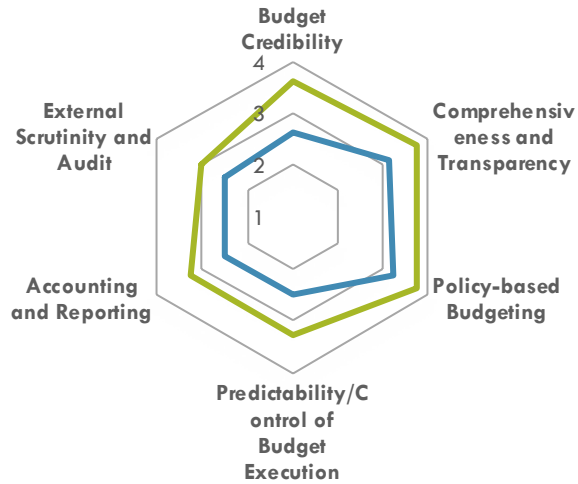
Group	No. of Countries in the region (countries covered varies by year)	2001 (average)	2007 (average)	2014 (average)	2018	Increase/decrease in regional averages
LAC	28	3.59	3.68	3.59	3.64	0
SAR	8	4.07	3.44	3.38	3.44	-
EAP	22	3.50	3.43	3.34	3.33	-
SSA	47	2.97	3.12	3.17	3.13	++
MENA	9	3.38	3.38	3.11	3.07	-
ECA	23	3.45	3.71	3.79	3.91	++

# STATISTICAL ANALYSIS – TESTS AND RESULTS

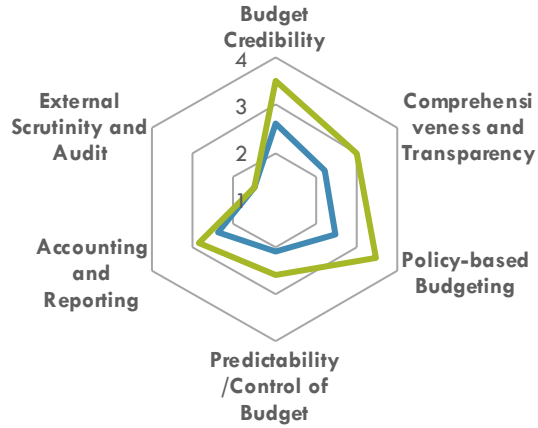
- Factors tested:
    - [economic] GDP per capita and GDP growth, fiscal crisis, natural resource dependency,
    - [demographic] population, SIDS, [sources of revenue] aid dependency, own revenue to GDP ratio,
    - [political and institutional] political stability, political regime, presence of programmatic parties
  - All factors tested combine explain about 40% of variation in PFM performance
  - As is intuitive, countries that have higher income levels tend to have better PFM
    - But the fit is not very close – i.e. some countries perform far from the trend-line of PFM performance relative to income
  - Apart from GDP per capita levels, the main & most robust factors that are found to matter are (i) high dependency on natural resources (negative), (ii) being a Small Island Developing State (SIDS) (negative), (iii) recent GDP per capita growth (positive); weaker and/or less robust relationships: population size, political stability, and regime type. Levels of revenue and ODA relative to GDP are not significant
- ⇒ Correlations, not causal
- ⇒ Non-correlation can mean a total non-relationship, or can also be associated that in some countries factor x was associated with reforms, while in others, it was not

# CASE STUDIES: INITIAL AND MOST RECENT PFM PERFORMANCE (PEFA DATA)

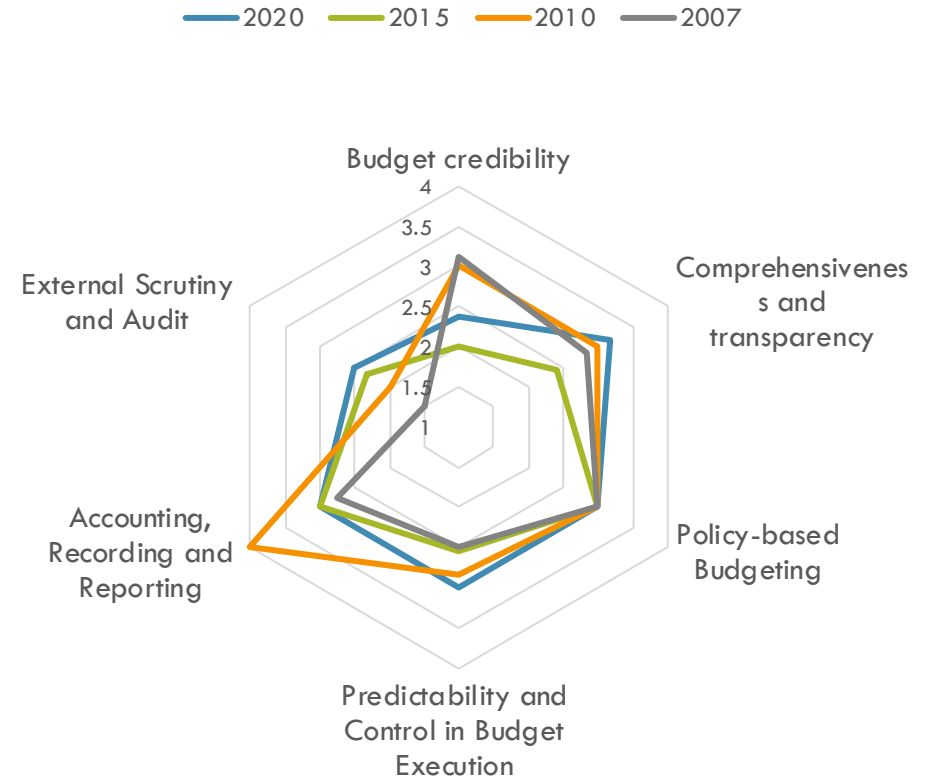
Georgia – 2008 and 2013



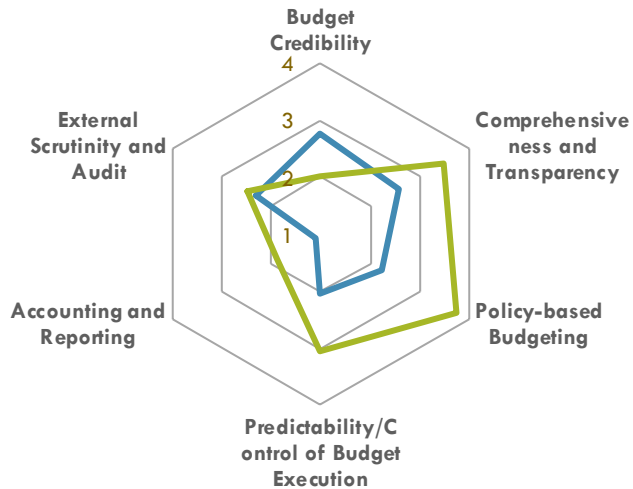
Nepal – 2008 and 2014



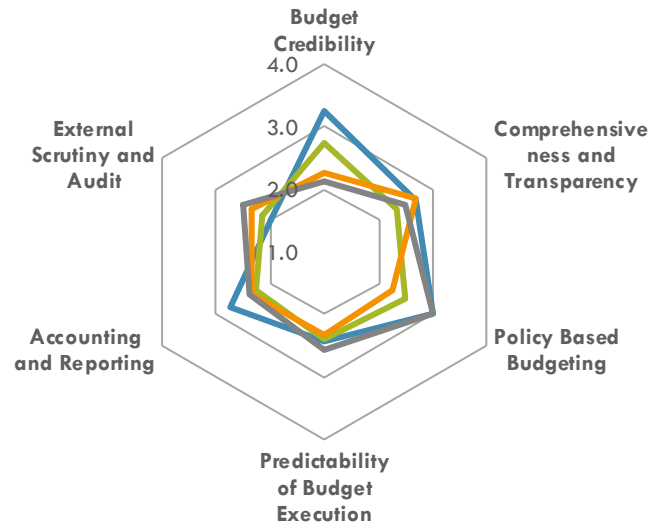
ECA country example



Philippines – 2010 and 2016



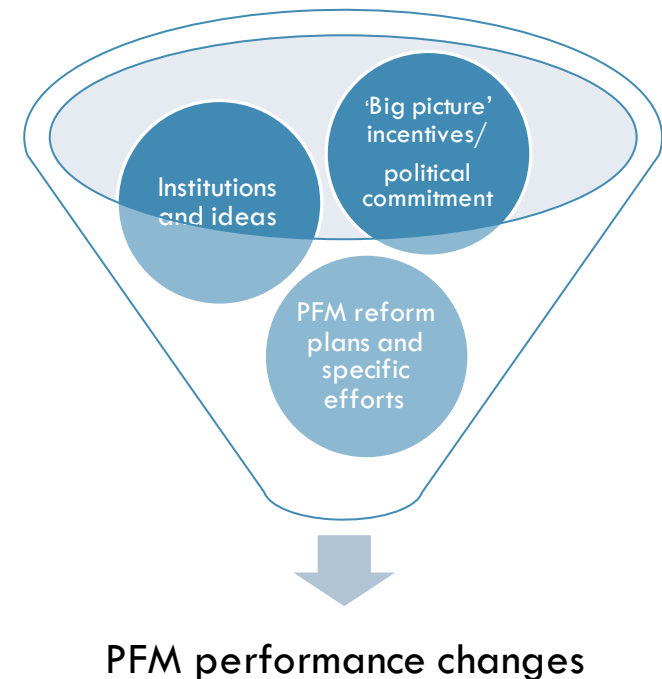
Tanzania – 2006, 2009, 2010, 2013



Accounting and reporting has seen back and forth, rather than continuous reform progress

## So, what's the story behind those trends in PFM performance and capabilities?

- 'The big picture' – policy goals and political incentives to strengthen governance and PFM
- Institutions, legal provisions, and citizen demand for reforms
- Specific reform efforts across the budget cycle/PFM areas and how they are shaped by specific dynamics and constellations





# KEY DRIVERS OF 'BIG-PICTURE' POLITICAL COMMITMENT TO PFM REFORMS

- Political commitment – often discussed, but rarely looked at in a systematic way
  - Considering three types of factors:
    - electoral pledges made, strength of mandate and having a plan of how to pursue reforms
    - overarching policy goals
    - need to react to fiscal trends
- Legal and institutional factors
  - Are part of the 'starting point' as well as target for reforms - influence how easy/difficult it is to move reforms forward and to achieve functional improvements
  - Legal aspects: Organic PFM legislation, External Audit, and Procurement
  - Institutional: (i) organization of CFAs\* and (ii) executive-legislative relationship concerning (a) passage of annual budget laws, (b) review of audit reports, and (c) passage of pertinent reform legislation
- Demand side plays a limited role
  - For most citizens, these reforms are not well known, terminology and concepts used are not readily understood, limited effort to actually translate what is being done and why into everyday terms

# SIMILARITY/UNIFORMITY OF STATED REFORM INTENTIONS

	Georgia	Nepal	Nigeria	Philippines	Tanzania
MTEF	√	√ (halted)	√	√	Started since the late 1990s, still in progress
Program-based budgeting	√	x	x	√	√
Introducing TSA	√	√	√	√	√
FMIS	√	√	√	√	Initial introduction in the late 1990s
Introducing IPSAS	√	√ (cash basis)	√	√	√
Introducing e-procurement	√	√	x	E-procurement introduced during earlier reform period; still work in progress	Partially in place at start of period
Introducing/strengthening internal audit	√	√	√	√	√
Strengthening external audit	√	√	x	√	√

Barely any reform that is not being tried in each of the countries

# BUT THE 'BINDING CONSTRAINTS' ACTUALLY VARY

## Variation in timeliness of budget approvals

### Cash management poses a major problem in some countries/time periods

- Affects how well line ministries and sub-national governments can rely on funds being released to them as planned
- Major problem: Nigeria, more recently again in Tanzania
- Intermediate: Nepal
- Not a problem or resolved: Philippines, Georgia

### Institutional coherence between planning, budget preparation, and budget execution

- Particularly challenging in the Philippines, Nigeria, and Nepal
- Back and forth in Tanzania
- Stronger in Georgia
- Difficult to address – but high importance

### Degree and quality of public finance transparency

### Importantly, uniformity in reform intentions appears more as a choice than an imposed 'isomorphic mimicry'

- International norms, standards, and networks play an important role – set out for specific reforms below

# PARTIAL, INCOMPLETE REFORMS ARE COMMON

... but are not always clearly acknowledged as such

Common partial PFM reforms:

- MTEFs used to define some broad goals, but not to firmly establish multi-year allocations
- Many half-way TSAs -- some accounts have been unified, others not
- IT systems of which only some modules are used, or that are not as widely rolled out as originally intended to line ministries and sub-national levels, or which are only integrated for some aspects if at all
- Program budgets as supplementary to line-item budgets

Partial reforms are not per se problematic if they are an intermediate stage, but ...

- ... need to be clearly recognized as such
- ... can be a sign of stalled progress
- ... problematic if they lead to a clash between what is prescribed in regulations and what happens in practice (e.g. manual work-arounds) – this can be a problem for accounting reforms

# EXPERIENCES WITH TRANSITIONING ACCOUNTING STANDARDS

- All 5 case study countries are pursuing a transition to IPSAS
  - Nepal has most explicitly focused on cash-based IPSAS and Philippines decided on pursuing ‘Philippines Public Sector Accounting Standards’ – intention to adopt 28 out of the 32 IPSAS standards
  - Actual implementation has progressed furthest in Tanzania – from sub-national to national level
  - Scale most ambitious in Nigeria – to implement IPSAS across levels of Gov’t – ambitious given the relative autonomy of levels of Gov’t and widely varying capabilities
- Timelines for transitioning to IPSAS were moved in some cases
- Thus far, the observable trend is towards improving ratings of ‘standards used’, with some lag of ratings of ‘quality of information’ of in-year budget reports
  - The PEFA ratings are based on what is reported in internal and external audit reports and do not attempt a direct assessment of the quality of how accounting standards are applied
- Some key challenges in the discussion and experiences thus far:
  - Cost of transitioning to IPSAS – e.g. raised as being high, but difficult to assess
  - Reliability of use of standards – to be checked by internal and external audit functions, but these might themselves struggle with identifying problems/issues/constraints, especially during the transition period
  - Implications for fiscal transparency and ‘readability’ by various stakeholders

# IMPLICATIONS & RECOMMENDATIONS

**A nontechnical perspective for PFM reforms suggests a need to reconsider and nuance arguments about the sequencing of PFM reforms.** Rather than simply accepting to leave the basics half-finished, or insisting on unachievable ‘basics first’, keep pursuing the basics throughout: keeping an eye on where they stand, opportunities for moving forward, and monitoring and acting on potential backsliding

**Transformative progress can happen, but it is rare.** In many contexts & times, it is about preparing the ground, or moving incrementally forward; in others, about halting or limiting back-sliding; in a few there are more transformative opportunities

**Keep in mind that major windows of opportunity are typically short.**

**Some reform efforts are motivated by fiscal crises** – when this is the case, attention both to revenue and expenditure reforms is critical to reduce leakage/fiscal losses and accountability gaps on both sides

**Being clear about institutional arrangements and roles – both to assess likely difficulties, as well as for identifying priorities for institutional changes.**

# IMPLICATIONS & RECOMMENDATIONS

**Addressing and engaging with stakeholder interests more explicitly**— paying attention to what stakeholders believe can be done and will stick, without assuming a simple dichotomy of ‘reform supporters’ and ‘reform opponents’;

**Being clear on what the priority functional gaps are and having a realistic approach to how these can be addressed.** PFM reforms sometimes seem focused on copying a number of ‘forms’ across many countries; the real focus should be on identifying functional gaps — e.g. getting funds to spending agencies on time and getting reliable accounts back; and then identifying how best to do this — based on the wide range of existing global experiences, and possibly new opportunities and ideas

**‘Isomorphic mimicry’ (i.e. superficial copying) and increasing promotion of international norms** -- some more explicit debate of the pros and cons may be needed

**Should reform stakeholders deliberately target partial reforms?** Use of cash based IPSAS offers some basis for this

# IMPLICATIONS & RECOMMENDATIONS

**Given that citizen demand for PFM reforms was found to play a limited role in driving PFM reforms even in countries with relatively active civil society organizations – should we still engage?**

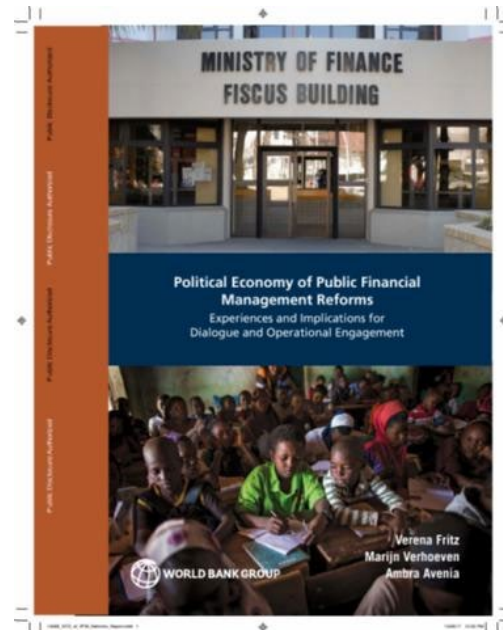
Significant opportunity to better explain PFM and accounting reforms in simple terms – while avoiding excessive claims about likely impacts

New opportunity and new demand for accounting to better capture climate and environmental aspects

**Focusing on and addressing obstacles to sustainability and impact** – PFM reforms have sometimes been pursued ‘hopping’ from one tool to the next rather than focusing on embedding reforms and ensuring systems are used as intended

- Looking at results of repeat PEFA assessment, but also going further – e.g. to check veracity of accounting after the introduction of new standards (e.g. fiscal ROSCs/fiscal transparency reports)





Thank you!

Links:

<https://openknowledge.worldbank.org/handle/10986/28887>

<https://blogs.worldbank.org/governance/what-recent-trends-suggest-pfm-performance-covid-19-impacted-world>