DIIS POLICY BRIEF MARCH 2015

More development per dollar

STRENGTHENING PUBLIC FINANCIAL MANAGEMENT

Funding the Sustainable Development Goals is not just a question of how much finance can be raised, but also of how best to use it. Public Financial Management offers important instruments, and one of the strongest is a government-owned performance based system.

Public Financial Management contains proven tools to alleviate risks in development and to secure both efficiency and inclusive access to development funds. The fiduciary risk in development lies in funds not being used for the intended purposes, not achieving value for money, or not being properly accounted for. A variety of factors including poor capacity,

RECOMMENDATIONS

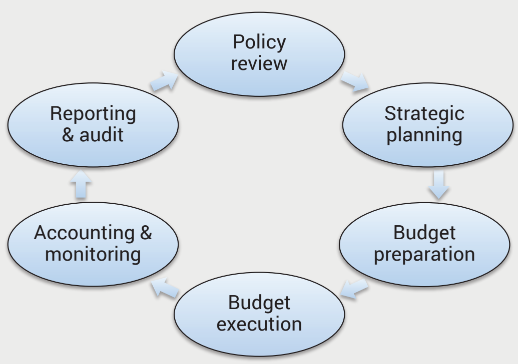
- Pursue subsidiarity in government service provision and investments, supported with adequate revenue and expenditure assignments
- Strengthen capacity to work to international standards in budgeting, procurement, accounting, and auditing
- Build management information systems with disaggregated data to strengthen national policy and enable citizen engagement and monitoring
- Strengthen accountability and equality by using a formula to allocate grants to local government and a performance-based grant system for maximizing their effectiveness

Securing inclusive access to development funds is a key pillar of good Public Financial Management for development.

Practicing subsidiarity in governance sees the most competent level of government leading in the delivery of key development outputs in pursuance of the SDGs. While often accepted in principle, it is rarely implemented in practice.

inadequate knowledge, incompetency, administrative inefficiency, and corruption can be the cause. The quality of Public Financial Management (PFM) impacts on all of these. Strengthening PFM therefore brings more development for each dollar raised and spent. Strong accountability is the key to this, and instruments that can build and strengthen downward and upward accountability of fund management will aid their effectiveness and support progress towards the Sustainable Development Goals (SDG).

THE PUBLIC FINANCIAL MANAGEMENT CYCLE



Each component in the PFM cycle can be strengthened by looking to current practices and future potentials with citizen participation, civil society engagement, governments' own systems for auditing, accounting and monitoring, and international programmes such as the Public Expenditure Financial Accountability Programme (PEFA) that seek to help partner countries lower fiduciary risk when implementing development programmes (See DFID practice paper: Managing Fiduciary Risk when Providing Financial Aid, June 2011.)

What is being sought? Quite simply: greater efficiency, effectiveness, equality, accountability and a degree of realism being practiced in the use of development funds.

Efficiency

It goes without saying that development funds need to be used in ways that minimize the administrative costs of fund management while maintaining national policy objectives that aim to achieve the SDGs.

Practicing subsidiarity in governance sees the most competent level of government leading in the delivery of key development outputs in pursuance of the SDGs. While often accepted in principle, it is rarely implemented in practice. Yet for each component in the PFM cycle, sub-national tiers of government can make important contributions to the work involved: citizens identifying the basic needs in their localities, monitoring the service or resource provided, engaging in audits of the investments undertaken; local civil society tracking budgets, monitoring expenditures, organizing public audits; and, most importantly, governments ensuring that their mandates are followed, the necessary resources are in place, and management information systems have the data they require.

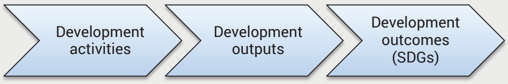
Efficiency generates trust and trust generates additional finance, domestic and international.

Effectiveness

Development outcomes such as the Sustainable Development Goals are complex and often multi-dimensional. Achieving a SDG in a country will require a range of interventions across different fields, often well beyond the capacity of any single development programme.

Particular programmes in areas such as health, education, agriculture, water and sanitation have development outputs that their programme activities are designed to realize, supporting progress towards the SDGs. The effectiveness in the use of development funds is measured in the results achieved.

FROM DEVELOPMENT ACTIVITY TO OUTCOME

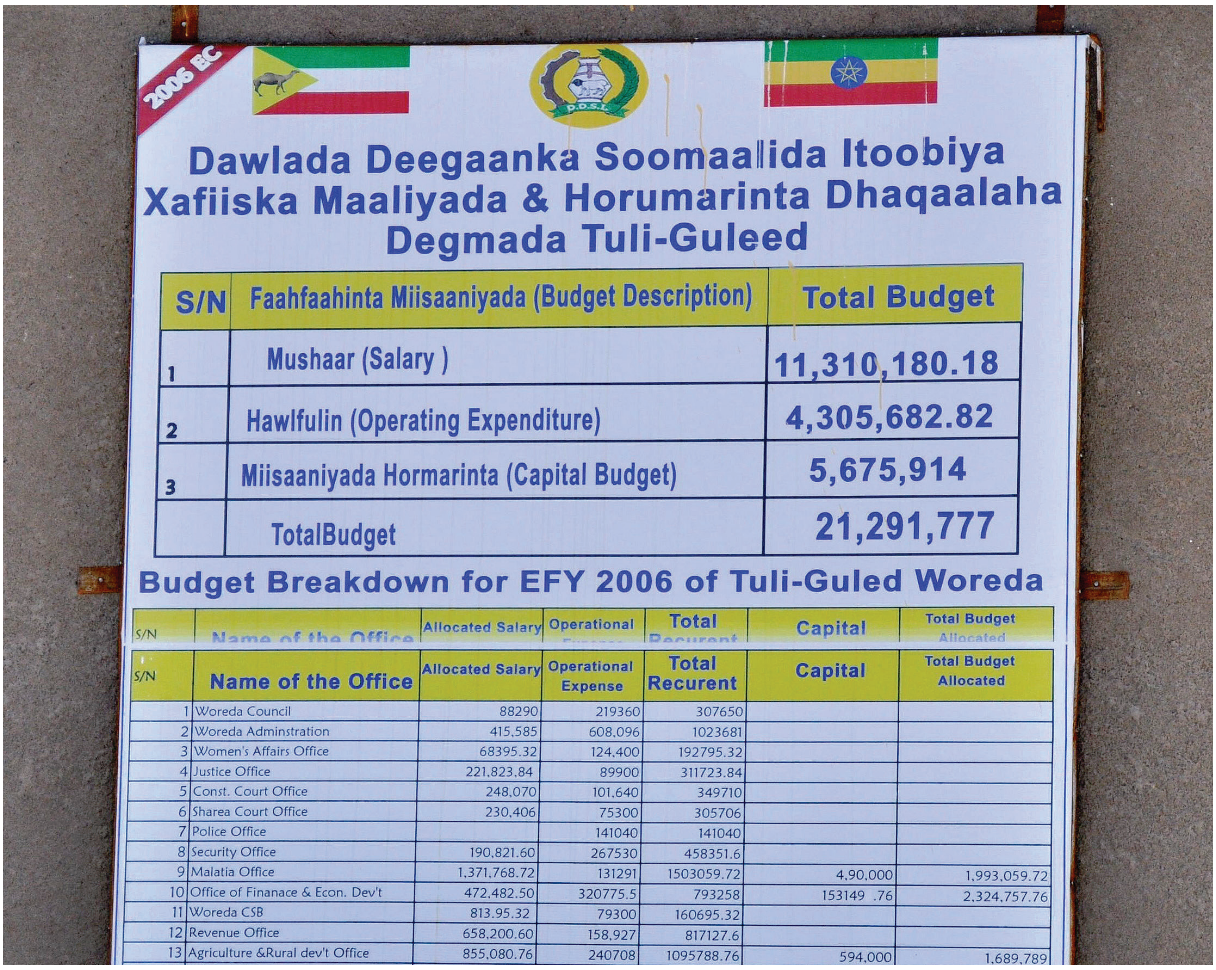


Strong local ownership of processes and results, close monitoring and evaluation, regular and transparent reporting are all necessary if national policies designed to achieve the SDGs are to translate into effective development programmes with the right activities and outputs. Again the inclusive engagement of citizens, their political representatives, and civil society organizations can ensure that national and sub-national government departments in all sectors fulfil their mandates and that their performance is regularly assessed, and rewarded or sanctioned. Good, disaggregated data, regular performance assessments, disclosure and transparency of information are critical.

Equality

The MDGs did not focus very much on equality within countries. The indicators of change focused primarily on country performance, leaving the situation of marginalized and vulnerable groups within a country to be inadequately addressed. Development funds need to reach all. Social and economic exclusion is characterized by intersecting inequalities including gender, age, ethnicity, and locality. Securing inclusive access to development funds and the investments, resources and services they provide, is a key pillar of good public financial management for development.

Equality begins in broadening participation in deci-



A budget board outside the Tuli-Guled Woreda administration office, Somali Regional State, Ethiopia. Photo: Neil Webster sion-making and the processes that guide the use of development funds. It continues in bringing the marginalized into the mainstream through facilitating and monitoring their access to services, resources and public goods; and it ends in stronger economic growth, greater political stability and a reduced potential for conflict. Government policy commitment, civil society monitoring and donor technical support are key elements.

Accountability

Each of the above objectives demand that greater accountability is present in PFM. There needs to be inclusiveness in decision-making around the use of funds; there should be transparency in allocations and procurement; regular monitoring and independent audits and a rolling programme of reporting and evaluation. The use of social media and the internet to communicate and inform is central to discussion and debate, facilitating public audits and general citizen engagement. The comparative strengths of local civil society in the monitoring of government performance need to be enabled and supported. There should also be accountability required of the private sector and of civil society itself, recognizing that their loyalties tend to lie with their clients and beneficiaries, and with the interests of their organization (profit, income), its philosophy and vision.

One of the strongest instruments to secure accountability as well as effective, efficient and more equitable use of funds is a government-owned performance based grant system. Fund allocation is linked to certain minimum conditions in public financial management being met such as financial reports delivered on time, accounts audited, participatory planning practiced, public meetings for presenting budgets and audit findings held. Performance indicators provide for extra funding and a capacity grant serves for the weaker performers being able to strengthen their performance prior to the next annual independent assessment.
If such a system is linked to a formula for allocating funds based on factors such as population size, area administered and the poverty condition, accountability is further strengthened by undermining any political pressure to misdirect national funds to particular localities.

Realism for the longer term

Strong results require strong processes that are institutionally anchored, financially secure and locally owned. But there must also be realism: First, revenue and expenditure assignments need to be in balance in order that the desirable is also feasible across the different sectors and at the different levels of implementation. Secondly, funds must be provided in a timely fashion and with a degree of predictability that goes beyond just one or two years. Thirdly, coordination across and within sectors must be present so that capital and recurrent costs are secured with adequate provision for maintenance included in the latter. Finally, such changes take time to establish and to become the norm; again it requires a long term commitment.

If policy and practice is rooted in strong national ownership, it provides the leverage for making the government accountable to its citizens, to its mandates and to those, who as representatives of citizens and their communities, stand for and act for the their interests and rights. In this way strengthening PFM can be a powerful instrument in financing and achieving the SDGs.

Neil Webster, senior researcher, DIIS (nwe@diis.dk)

Cover photo: Workers at the construction site of a ring road project in Maputo, capital of Mozambique. Photo: Li Xiaopeng © Photoshot