<table>
<thead>
<tr>
<th>What we want from budget systems</th>
<th>What we often get from budget systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sound macroeconomic management</td>
<td>• Unsustainable deficits or cash shortages</td>
</tr>
<tr>
<td>• Efficient revenue mobilization</td>
<td>• Incremental budgets that don’t reflect priorities</td>
</tr>
<tr>
<td>• Allocative efficiency</td>
<td>• Inefficiency in resource use</td>
</tr>
<tr>
<td>• Technical efficiency</td>
<td>• Limited accountability</td>
</tr>
<tr>
<td>• Accountability</td>
<td>• Fictional budgets</td>
</tr>
</tbody>
</table>
PROBLEMS WITH BUDGETING ARE WIDESPREAD

Country A: Variance from Budget by Ministry

Country B: Variance from Budget by Sub-Program

- Ministry of Finance and Treasury
- Ministry of Education and Human Resource Development
- Ministry of Health and Medical Services

- 2006
- 2007
- 2008
- 2009

- Underspent 50% or more
- Underspent 20%-50%
- Within 20% of Budget
- Overspent 20%-50%
- Overspent 50% or more
WHY WEAKER THAN PREDICTED BY INCOME?

PEFA Score and Income Per Capita

- SPICs
- Non-SPICs
- Log. (Non-SPICs)
SMALL POPULATION/PUBLIC SERVICE EXACERBATES CHALLENGES

Impact of Population on Predicted PEFA Score
Impact of Income on Predicted PEFA Score
Actual score
Predicted score
Thin capacity – population impacts on overall score

Capacity gaps – most severe impact on ‘high capacity’ functions

Faced with ‘poor’ performance our typical response is to add more systems/processes/functions

But this is part of the problem!

Note: Lots of “noise” in results – capacity is not the only factors impacting PEFA performance
Guidance Note:

Planning Public Financial Management Reforms in Pacific Island Countries
PFM reform often planned as if:

- PFM systems in PICs can and should look like those in developed countries
- Capacity constraints can be overcome with more workshops and TA
- PFM institutions can be strengthened within a donor’s program cycle
- We are in the business only of ‘advising’ not ‘doing’

When we know that:

- Even basic systems are often weak – the ecosystem for performance-based PFM systems can be completely absent
- Thin capacity and staff churn create major challenges to sustainable capacity building
- Institutional change takes decades and the process is poorly understood
- PIC Finance ministries often rely on international TA for completion of key tasks

There can be a mismatch between what we do and what we know.
Weaknesses in service delivery or macroeconomic management

- Budgets lead to unsustainable deficits
- Budget allocations do not reflect Government priorities
- Budgets are not executed as appropriated
- Inefficiency and ineffectiveness in spending undermine service delivery

- Different problems require different solutions – target reforms that address development problems
- Improved PEFA scores (or mimicry of developed country systems) is not necessarily a solution to anything
## Access a Broader Range of Capacity Options

<table>
<thead>
<tr>
<th>Approach</th>
<th>Description</th>
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</table>
| **Capacity Building**       | • Assumes easily-acquired skills are the constraint  
                              • Relies on sufficient numbers  
                              • Assumes staff will stay                                                                                                                |
| **Capacity Supplementation**| • Assumes someone can pay  
                              • Assumes that someone can pay for long enough to get the job done or build required capacity  
                              • Assumes that the right accountability arrangements can be applied                                                                         |
| **Capacity Substitution**    | • Assumes that someone can pay for the period the work is needed  
                              • Assumes that the contract can be appropriately managed with the right incentives in place                                              |
Role clarity and appropriate accountability arrangements are important. We often call everything capacity building. This allows us to avoid difficult questions, but also muddies accountability and incentives.

Sustainability can be achieved in different ways in different contexts. Capacity building is no more sustainable than other options if capacity cannot be built or if staff are likely to leave.

Strong ownership and political leadership is required. Capacity gaps must be perceived as a problem by decision-makers.

Extensive planning and long timeframes are necessary. Capacity development is a long-term game – churn leads to disruption and backsliding.
Thank you


http://elibrary.worldbank.org/content/workingpaper/10.1596/1813-9450-6297

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