



## Public Financial Management in Pacific Island Countries



The World Bank





## WHY WORRY ABOUT PFM?

### What we want from budget systems

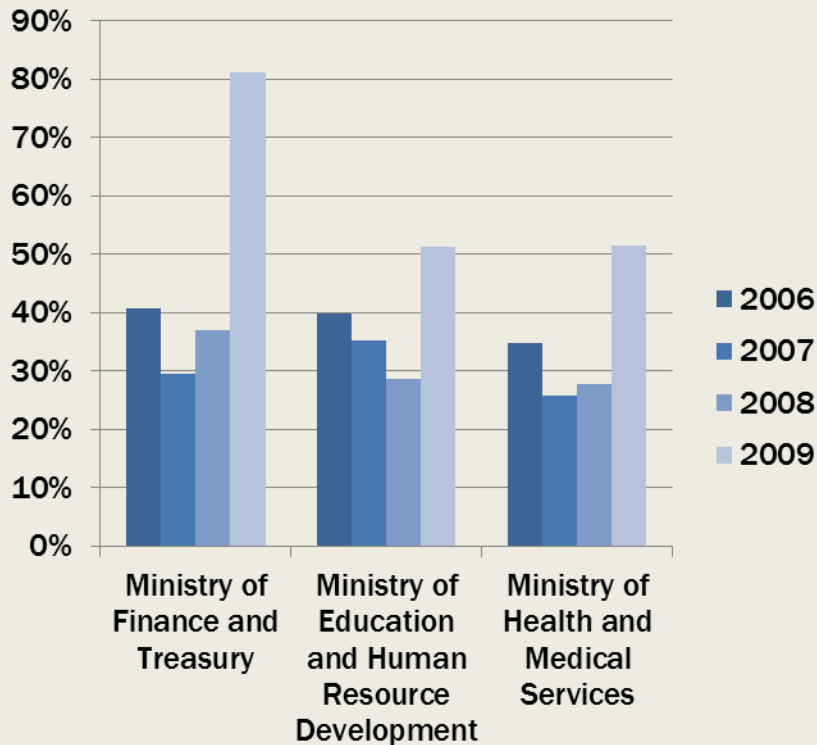
- Sound macroeconomic management
- Efficient revenue mobilization
- Allocative efficiency
- Technical efficiency
- Accountability

### What we often get from budget systems

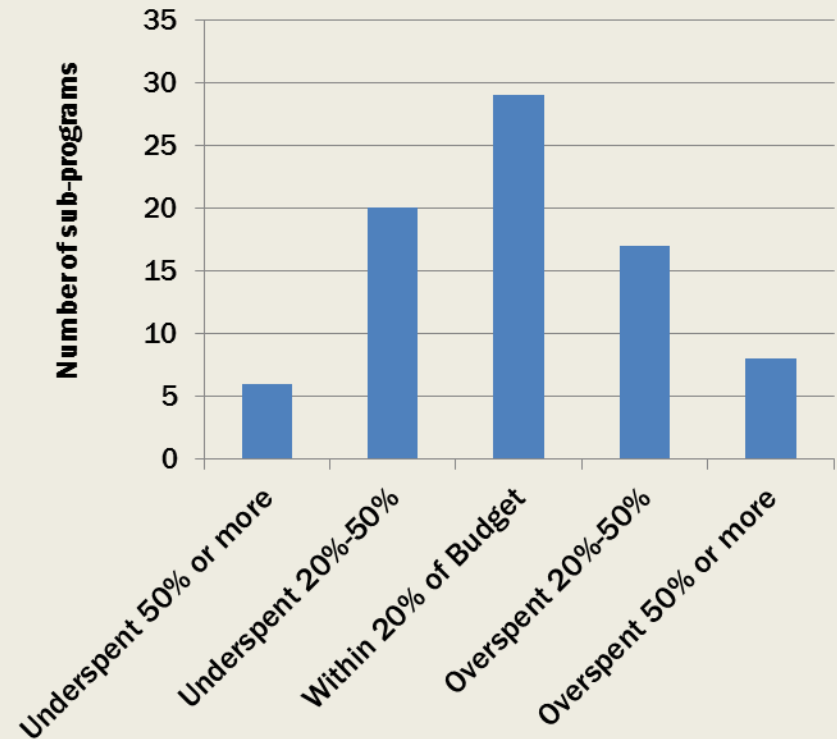
- Unsustainable deficits or cash shortages
- Incremental budgets that don't reflect priorities
- Inefficiency in resource use
- Limited accountability
- Fictional budgets

# PROBLEMS WITH BUDGETING ARE WIDESPREAD

## Country A: Variance from Budget by Ministry



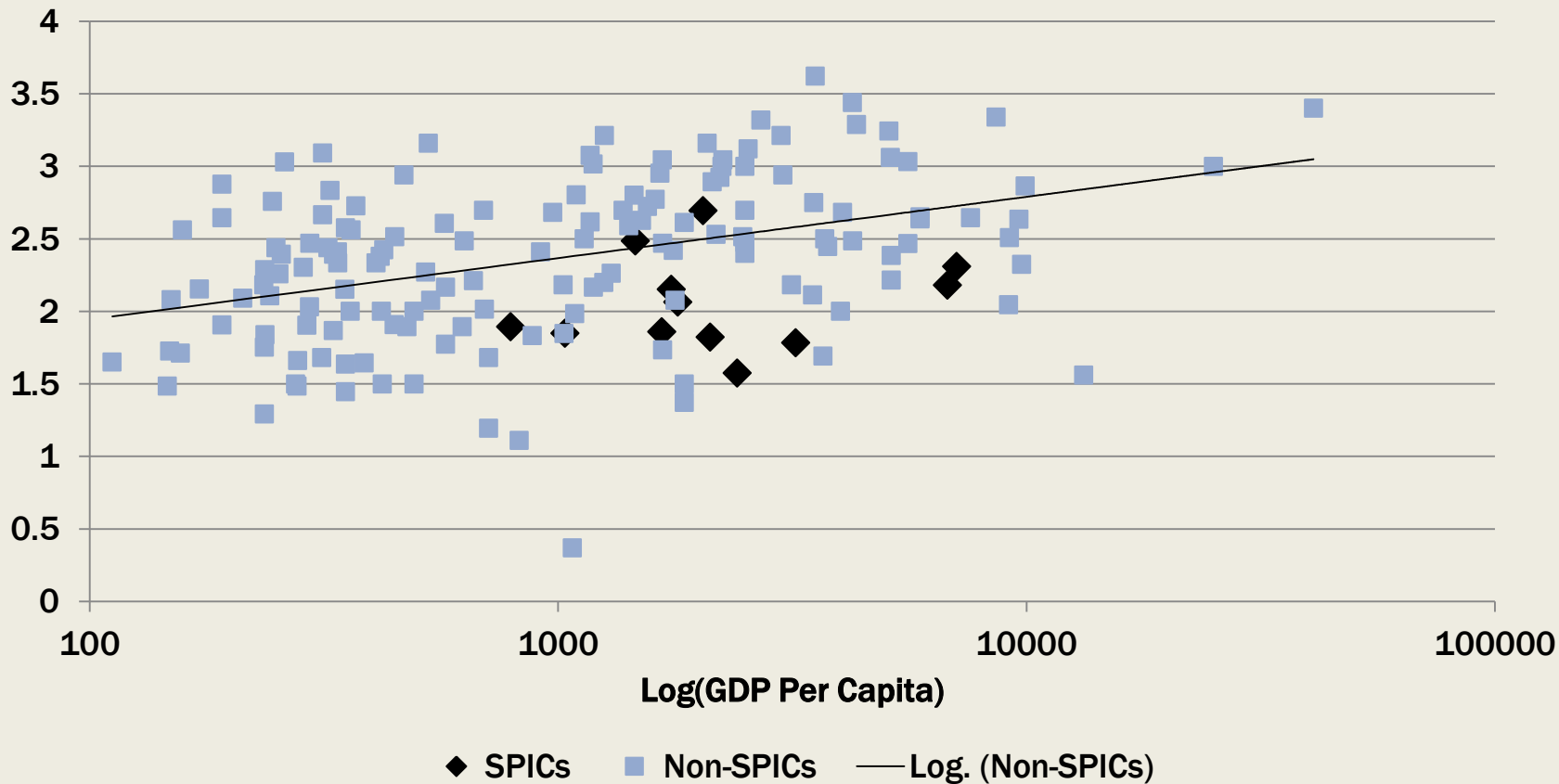
## Country B: Variance from Budget by Sub-Program





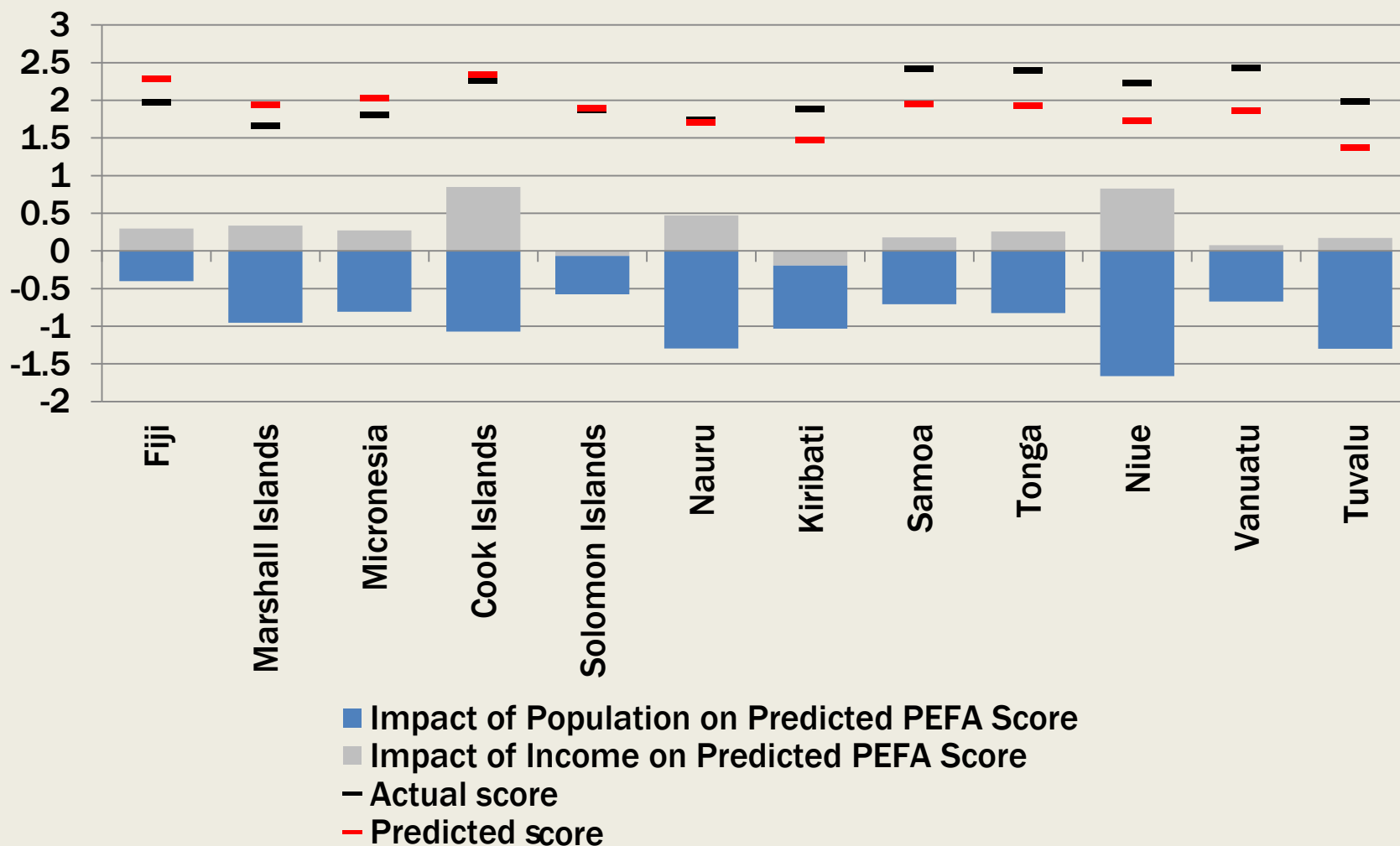
# WHY WEAKER THAN PREDICTED BY INCOME?

## PEFA Score and Income Per Capita





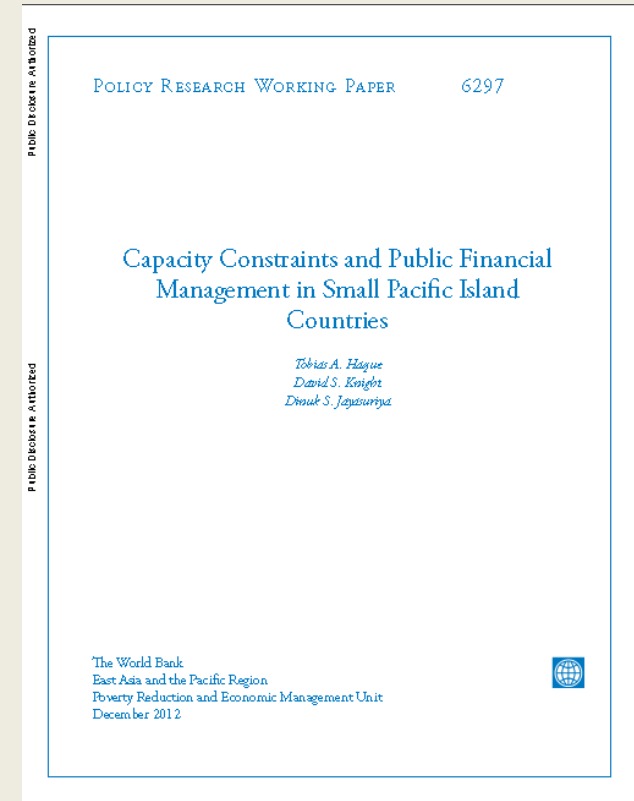
# SMALL POPULATION/PUBLIC SERVICE EXACERBATES CHALLENGES





# SMALL POPULATION/PUBLIC SERVICE EXACERBATES CHALLENGES

- 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



## THERE CAN BE A MISMATCH BETWEEN WHAT WE DO AND WHAT WE KNOW

### 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'

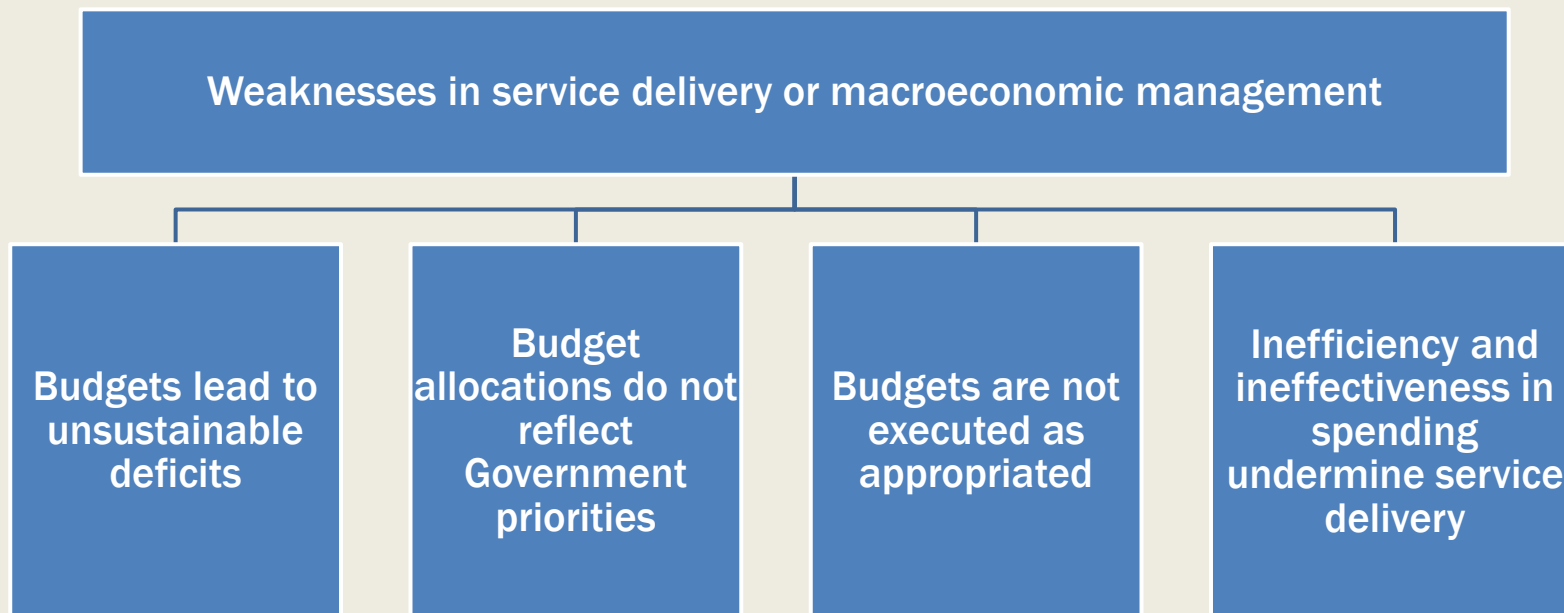
### When we know that:

- 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





## FOCUS ON DEVELOPMENT CONSTRAINTS AND OUTCOMES



- 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

Approach	Description
<b>Capacity Building .</b> Building up skills of existing staff.	<ul style="list-style-type: none"><li>• Assumes easily-acquired skills are the constraint</li><li>• Relies on sufficient numbers</li><li>• Assumes staff will stay</li></ul>
<b>Capacity Supplementation.</b> On-the-job support for as long as needed.	<ul style="list-style-type: none"><li>• Assumes someone can pay</li><li>• Assumes that someone can pay for long enough to get the job done or build required capacity</li><li>• Assumes that the right accountability arrangements can be applied</li></ul>
<b>Capacity Substitution.</b> Selective outsourcing, long-term or permanent.	<ul style="list-style-type: none"><li>• Assumes that someone can pay for the period the work is needed</li><li>• Assumes that the contract can be appropriately managed with the right incentives in place</li></ul>



## LESSONS FOR ALTERNATIVE CAPACITY OPTIONS

- **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://documents.worldbank.org/curated/en/2013/01/17886478/>

<http://www.odi.org.uk/sites/odi.org.uk/files/odi-assets/publications-opinion-files/8392.pdf>

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



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