



Australian Government

Department of Foreign Affairs and Trade

STRENGTHENING PUBLIC FINANCIAL MANAGEMENT REFORM IN PACIFIC ISLAND COUNTRIES

Tobias Haque (WB), Vinayak Nagaraj (MFAT), Richard Bontjer (DFAT),
Philipp Krause (ODI), Sierd Hadley (ODI), Johannes Wolff (ADB)

November 2016

BACKGROUND

- Haque, Jayasuriya, Knight (2012): Capacity shortfalls are a binding constraint:
 - Smaller countries = lower PEFA scores
 - May be unrealistic to achieve high PEFA scores in the Pacific
- Haque et al. (2013): Extent/duration of capacity constraints requires a different PFM reform approach in PICs:
 - Plan PFM reforms carefully, clearly identify goals, and consult widely
 - Prioritise PFM reforms that improve development outcomes
 - The Framework was intended to encourage this way of thinking, rather than provide prescriptive directions

BACKGROUND (CONT)

- Embed understanding of the need for:
 - Political buy-in and support
 - Fit-for-purpose, rather than blueprint PFM systems
 - Broader solutions to capacity problems
- Look beyond capacity building: supplementation and substitution
- Accept that performance in some PFM areas will lag
- Capture emerging good practice

BACKGROUND (CONT) – GOOD PRACTICE LESSONS

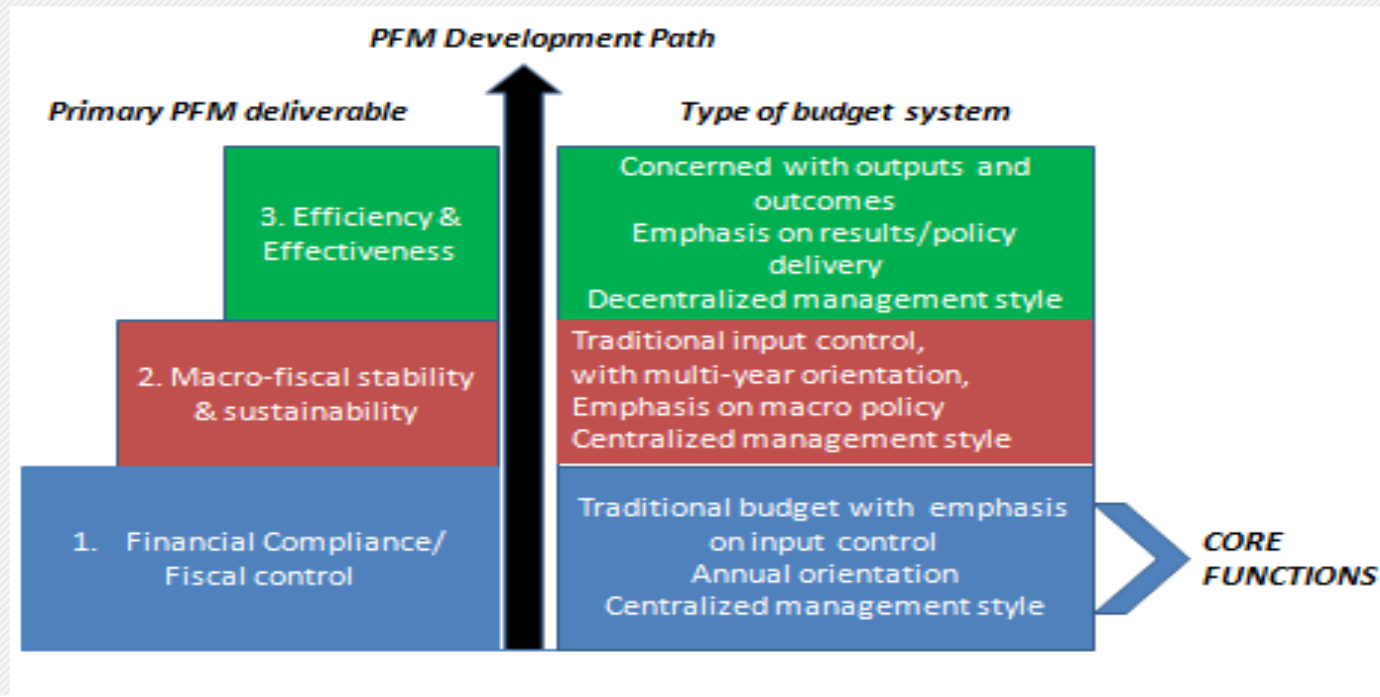
- **Taking account of political context.** Create space for political contests.
- **Allocating sufficient time and resources.** Hurried roadmap processes lead to limited ownership and technical shortcomings.
- **Government leadership.** Consultant-led processes will not provide required ownership.
- **Extensive consultation.** Consultation is required for technical and political reasons.
- **Medium-term focus.** Short enough time horizon to create accountability, long enough to reflect the achievable pace of reform.
- **Adequate flexibility.** Planning should not prevent action when opportunities arise or flexibility to respond when priorities change.

THIS RESEARCH

- Builds on Haque et al. (2013) through a case-study approach:
 - Assessed PFM reform planning and implementation in Kiribati and Tonga
 - Has implementation been consistent with the PFM roadmaps?
 - What are the main PFM constraints to service delivery and economic management in PICs?
 - To what extent have PFM reform efforts been targeted towards addressing those constraints? What factors drive mismatches between the two?
 - How could we reduce or eliminate the mismatch?

WHAT DID WE FIND?

- First up - Despite the differences, PFM systems in both Tonga and Kiribati are broadly ‘functional’



WHAT DID WE FIND?

- A snapshot of the PFM contexts

PEFA Scores – Kiribati

Cluster	NR	NA	D	D+	C	C+	B	B+	A	Total
Credibility of Budget	1		1				1		1	4
Comprehensiveness & Transparency			2	1	2		1			6
Policy-Based Budgeting				1		1				2
Predictability & Control in Budget Execution				6	1	1	1			9
Accounting Reporting & Recording			2	2						4
External Scrutiny & Audit				1		1	1			3
Donor Practices		1	2							3
All clusters	1	1	7	11	3	3	4	0	1	31

PEFA Scores - Tonga

Cluster	NR	NA	D	D+	C	C+	B	B+	A	Total
Credibility of Budget								2	2	4
Comprehensiveness & Transparency		1			1				4	6
Policy-Based Budgeting					1				1	2
Predictability & Control in budget execution			1	1		3	1	1	2	9
Accounting Reporting & Recording			1					3		4
External Scrutiny & Audit				2		1				3
Donor Practices				1	2					3
All clusters		1	2	4	4	4	1	6	9	31

WHAT DID WE FIND? (CONT)

- PFM reforms did not follow a formal PFM plan in either Kiribati or Tonga
 - Kiribati PFM Plan had too many reforms and not seen as useful and was replaced by a PFTAC review which identified FMIS and associated business process as the priorities – but not formalised
 - In Tonga a detailed plan was developed but there were delays in Cabinet endorsement
 - Much has been achieved through recent PFM reform efforts in both case study countries

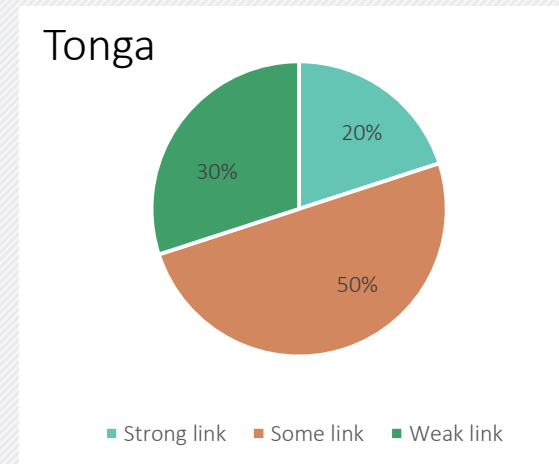
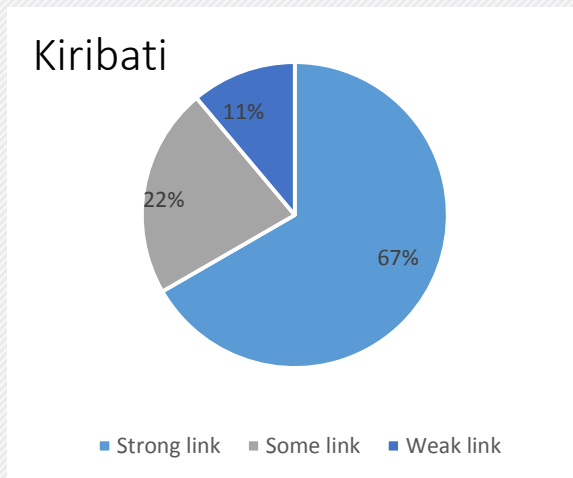
WHAT DID WE FIND? (CONT)

- Reforms that were well-targeted, consistent with capacity, and enjoyed political support generally achieved their objectives.
- Around a third of reforms were consistent with these principles
- This supports the ongoing relevance of recommendations in the 2009 PFTAC roadmap
 - Progress did not necessarily require high-level policy changes
 - Technical assistance reports had impact only when followed by implementation support
 - Crises can spur action

WHAT DID WE FIND? (CONT)

- Most have strong or some link to priorities

Reform link to priority PFM problem by proportion of reforms



WHAT DID WE FIND? (CONT)

- Sometimes a weak link between reforms and problems, despite PFM areas relevant to priority development problems
 - system-wide and “packaged” reform models that extend beyond (or even omitted) simple PFM dysfunction causing the problem
 - reforms often targeted important problems, several important problems were also left unaddressed
 - eg tax compliance in Kiribati, distracted by VAT implementation and medium term budgeting when there were fundamental issues with budget execution and compliance

WHAT DID WE FIND? (CONT)

Key development constraints:

– Kiribati

- Weak service delivery
- Unsustainable discal deficits

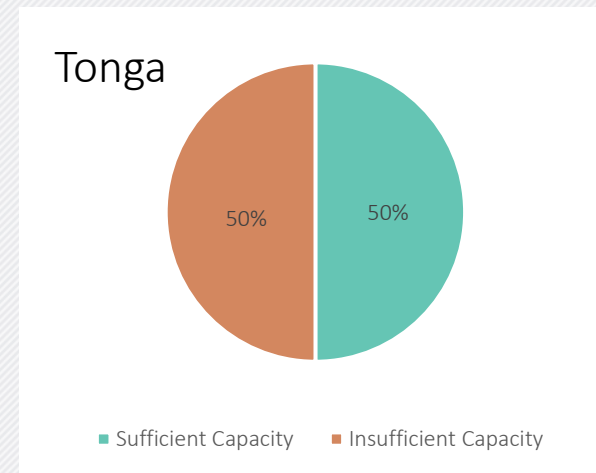
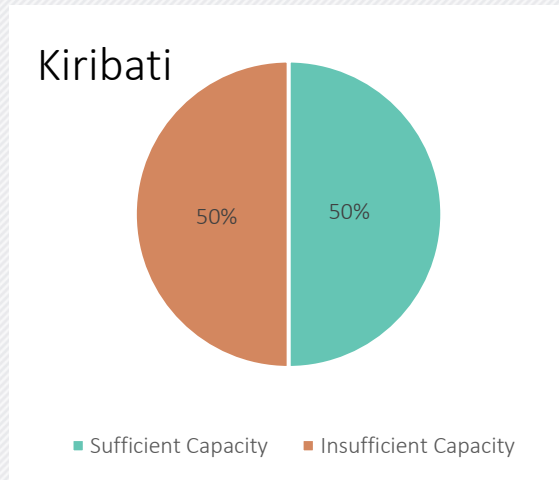
– Tonga

- Inefficiency and ineffectiveness in services
- Lack of public accountability
- Rapid debt accumulation

WHAT DID WE FIND? (CONT)

- Capacity constraints often undermined implementation across both countries
- Not only too many, but too complex

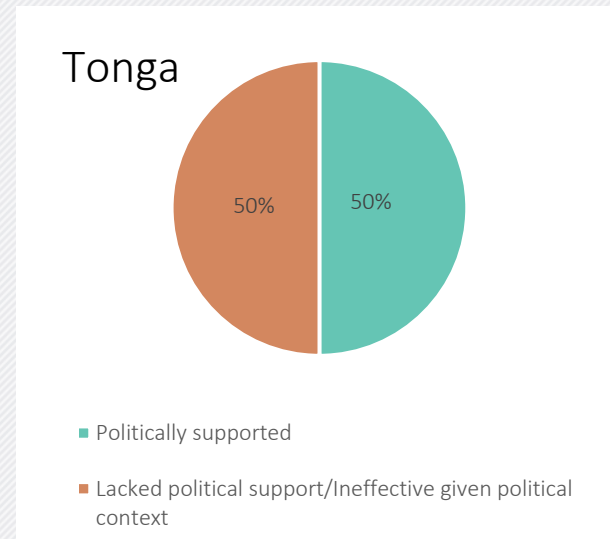
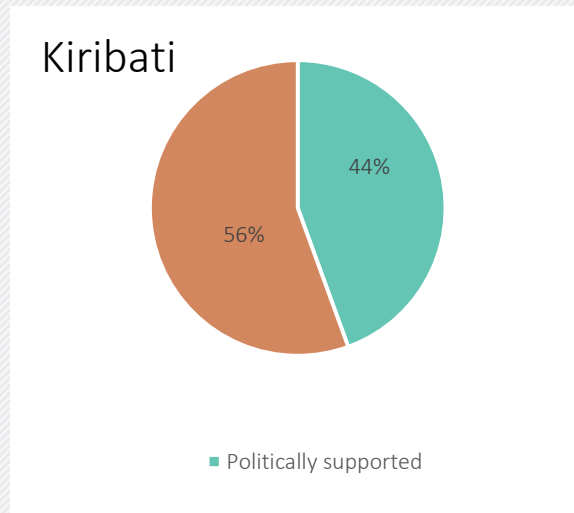
Adequacy of capacity by proportion of reforms



WHAT DID WE FIND?

- Some reforms were successful because of strong political support, but others did not adequately reflect the political-economy context
- Some also did not reflect incentive structures

Consistency with political context by proportion of reforms



RECOMMENDATIONS?

Five recommendations:

1. Consolidate progress towards better-prioritized reform plans
2. Further strengthen donor coordination and alignment
3. Ensure implementation approaches reflect Pacific realities
4. Deepen country-specific knowledge
5. Adopt coordination mechanisms to support good practices

FINAL THOUGHTS

- Strong support from government officials and ministers in conducting the case studies
 - Reflects an openness and willingness to improve
- Greater defensiveness from consultants and those directly involved in the reform processes
 - The political economy of technical experts supporting reforms
- Need for further research and push for innovative approaches



Blazek

©2012 Dave Blazek for Post University

originally published on blog.post.edu



Australian Government

**Department of
Foreign Affairs and Trade**