Systems Approaches
in Public Finance and Budgeting

'Systems of Public Service Delivery in Developing Countries'

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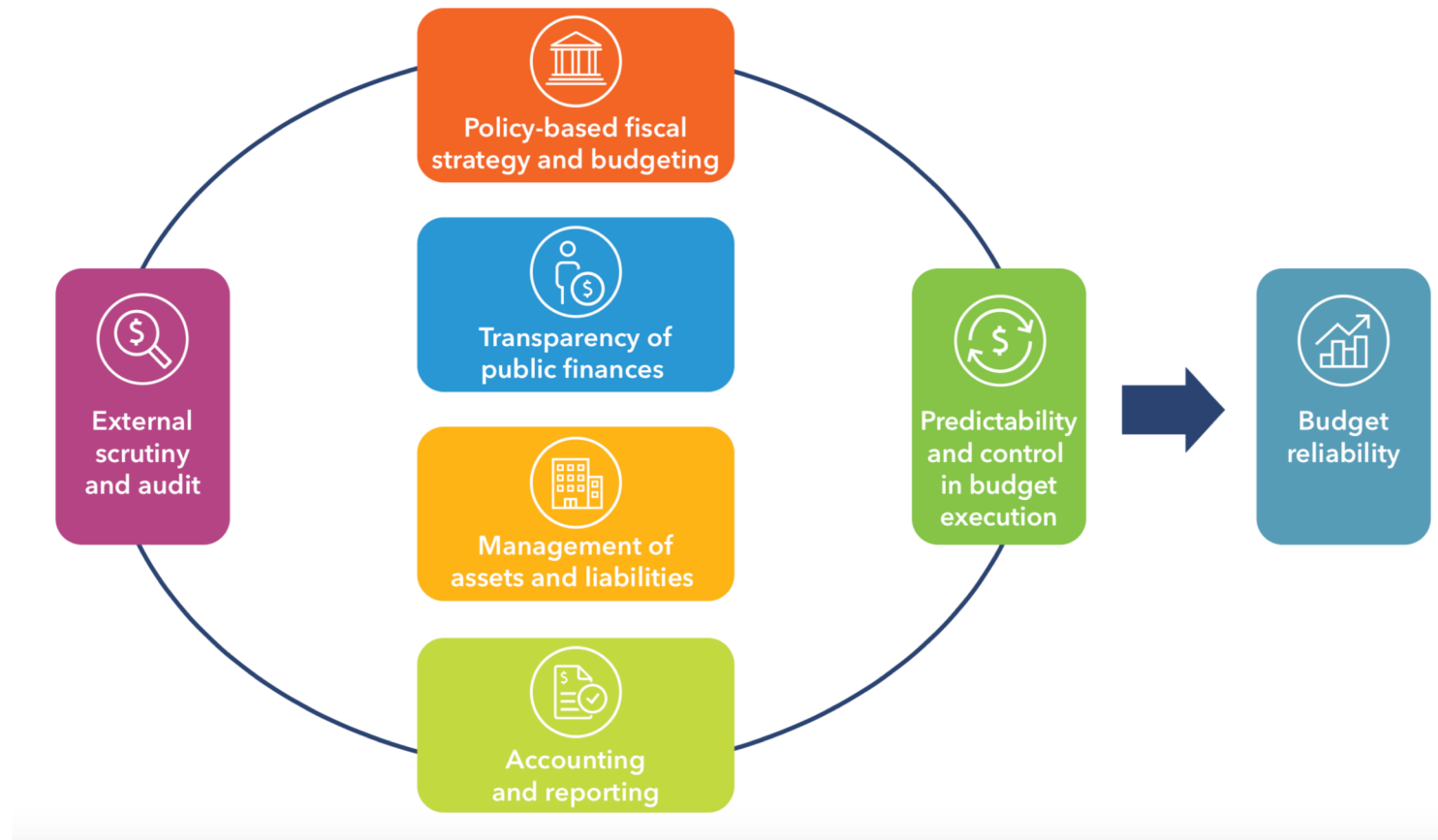London School of Economics and Political Science

Overview

1. PFM as a system

2. Theoretical frameworks and approaches

3. Empirical methods

4. Policy linkages

5. Reflections on the way forward

1. PFM as a system

- Multiple actors: MoF, line ministries, president or PM, cabinet, legislature, SAI; also donors, civil society, business, media

- Multiple stages and overlapping cycles: planning, approval, execution, audit and evaluation

- Multiple outcomes: aggregate fiscal discipline, allocative efficiency, operational efficiency - and more

- Reforms are typically institutional packages ("compound treatments") although the relevance of formal procedures varies greatly

- Counterfactuals are elusive: the quality of PFM is not randomly assigned
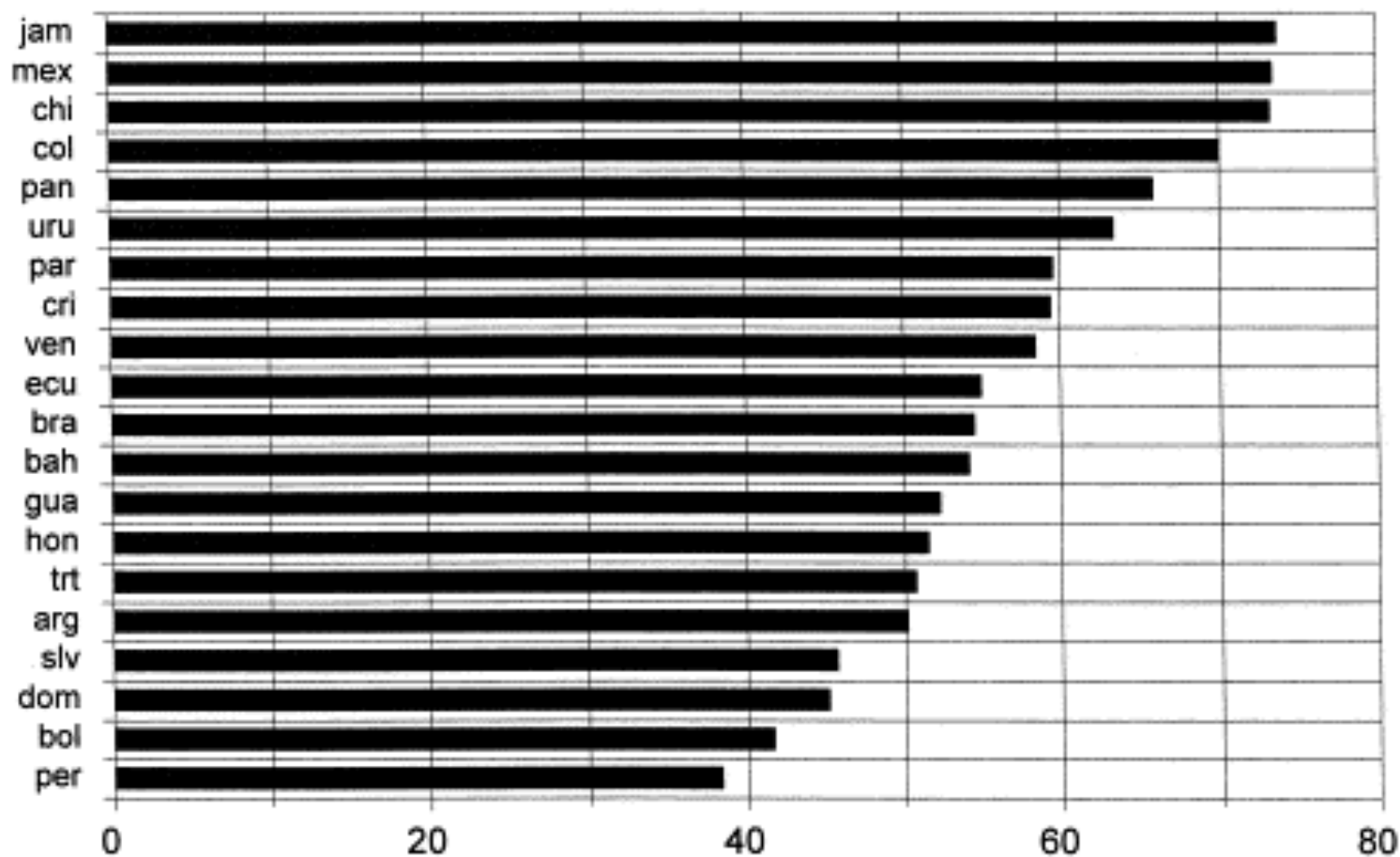
Example: PEFA framework

Source: PEFA (2016)

2. Theoretical frameworks and approaches

- Incrementalism: the power of the past

- Budget maximising: importance of agenda setting

- Veto players and delayed adjustment: responding to crises

- The common pool resource (CPR) problem: institutional fixes

Example: The index of budget institutions for Latin America

Source: Alesina et al (1999)

3. Empirical methods

- Sources of comparative data on (mostly formal) budget institutions include PEFA, OECD, IBP, IMF

- Some panel data on the EU (Hallerberg & von Hagen), transparency in US states (Alt et al.)

- Before-after designs to assess reforms: Reinikka & Svensson (Uganda)

- Experiments or natural experiments involving specific elements of PFM, especially audits: Olken (Indonesia), Ferraz & Finan (Brazil)

Example: Leakage of school grants in Uganda

TABLE 1. Summary information on capture: Grants received as share of entitled grants (in percent).

	Mean	Median	Standard deviation	Observation
All schools				
1995	23.9	0	35.1	229
2001	81.8	82.3	24.6	217

Source: Reinikka & Svensson (2005)
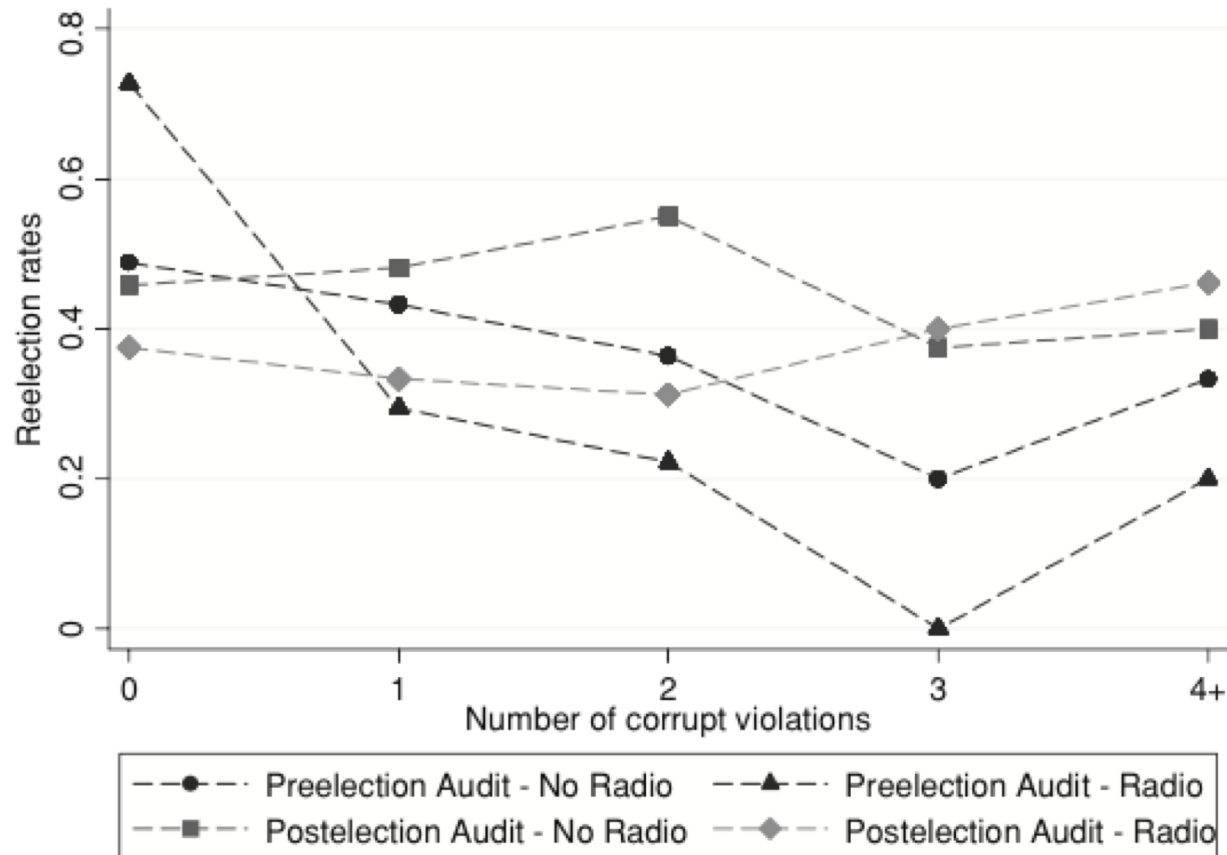
Example: Random audits in Brazil

FIGURE IV
Relationship between Reelection Rates and Corruption Levels

Source: Ferraz & Finan (2008)

4. Policy linkages

- The focus in existing empirical work is on the fiscal consequences of budget institutions: debt and deficits

- Less work on budget composition and other outcomes such as service delivery, accountability, corruption: there could be trade-offs, and this is still poorly understood

- Approaches to reform often technocratic, but more awareness of political dimension: institutions shape power relations

5. Reflections on the way forward

- Diversify the dependent variable

- Exploit variation in decentralised settings

- Disaggregate composite explanatory variables

- Break down processes into smaller segments to trace impacts

- Exploit randomness where it is useful to understand systems