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Public Financial Management "for service Delivering": the last mile still to go

What purposes does it serve?

It might be difficult to clearly understand the boundaries between Fiscal Policy and PFM. Some simplification can therefore be helpful. Fiscal Policies are concerned with the decision of financing expenditures that are deemed strategic. Those expenditures might take the form of new infrastructure – a road – or of recurrent expenditure of schools and health facilities. In either case, and by generalising, a government is concerned with the production of (present and future) services to the population.

Public Financial Management is concerned with the legal framework, regulations and institutions aimed at managing public resources. It is the set of instruments and practices used by public managers to spend public money. The Fiscal Policy decides what to finance, orienting public resources accordingly. PFM is the instrument used by the government to implement (public) fiscal policies to produce services for the population.

What does it cover and where is the main emphasis placed?

The Budget is the main policy document that translates the Government's Fiscal Policy into budget allocations. The budget law is drafted by the government and approved by the legislature (normally) annually. It explains what the Government spending priorities are and what resources are allocated to finance them. It equally explains what the sources of financing are, being them a combination of taxes, levies and borrowings.

PFM is concerned about the way government raises resources, the way it spends them and how it reports and monitors spending. PFM is interested in how the budget is prepared, its financing side and its spending side. It focusses on questions like: How strong is the expenditure control, cash planning and management? What fiscal data should be compiled and reported for monitoring purposes and for holding the government accountable to the population?

The Budget and its cycle is the core of a PFM system. The Budget preparation starts with a communication issued by the Ministry of Economy and Finance (MEF) concerning the budget ceiling granted to budget units. Considering the fiscal policy, budget units plan the activities and estimate their cost, possibly matching the limits granted. If the estimated costs are higher than the budget ceiling, a negotiation between the MEF and the budget units starts to reformulate and reprioritise proposals. This top-down bottom-up process can require iterations and a political intervention, but terminates with the final budget that respects overall budget ceilings.

What is Public Financial Management?

Public Financial Management, or PFM in short, is concerned with the way the Government of a country manages public resources.

According to the Musgrave theory (Musgrave R.A. 1939 - Voluntary Exchange Theory of Public Economy), the Government exercises three main functions: it has to:

- guarantee (macroeconomic) stability
- decide on the (re)allocation of resources
- in a way that guarantees the (re) distribution of wealth.

It is worth introducing some basic concepts. Who wins the elections decides which type of Fiscal Policy will be implemented. The Fiscal Policy is what the government wants to do with public resources.

Examples of Fiscal Policy are the construction of a regional hospital or a bridge or a salary reform for the public sector. PFM is the set of instruments that help the government to exercise the three above-mentioned functions, whilst implementing the Fiscal Policy decided upon. PFM is, therefore, how resources flow to implement fiscal policies.
Following the same example, PFM steps in to ensure that there are financial resources budgeted for the construction of the regional hospital or bridge or for the salary reform, to procure the public works, to collect taxes (or issue debt) to generate a stable flow of resources to ensure that the contractor is paid in due time, etc.

Planning and budgeting for Service Delivering is where equity, efficiency and effectiveness can be achieved.

The IMF and its Fiscal Affairs Department is one of the leading institutions on PFM reforms and "the IMF approach to PFM" is the reference . *The IMF's main goal is to ensure the stability of the international monetary and financial system. It helps resolve crises, and works with its member countries to promote growth and alleviate poverty* (IMF, 2016, Articles of Agreement of the International Monetary Fund). It also provides Technical Assistance to developing countries to build institutions and develop local capacities to promote good macroeconomic governance. It is therefore inevitable that the IMF approach to PFM is pervaded with the perspective dictated by its core mandate. It could be argued that its focus is (more) on the mechanism to guarantee macroeconomic stability, somehow relying on (and assuming that) budgeting processes for the organisation of services are sufficient to achieve efficiency and effectiveness of public expenditure (which may be beyond the IMF's mandate).

Recalling Musgrave's theory, and considering that services-delivery is the way a government redistributes wealth, I would argue that it might be opportune to (re)balance the IMF approach to PFM with complementary actions, by dedicating specific attention to the preparation of the budget proposals from budget units. Budget units are those bodies that translate the financial resources into human resources and goods and services that become the means for the production of a service. An efficient production process can achieve better results and produce savings.

Looking from the perspective of the MEF (and somehow simplifying) the main concern is that there is no expenditure without financial coverage.

From a sector perspective, it is important to identify the gaps in the provision of services against criteria specified in terms of equity, efficiency and effectiveness, and allocating the available resources in a way that the identified gaps are filled in (at some point in the future).

By generalising, a service is produced with few building blocks: human resources, infrastructures, equipment and other goods & services. The building blocks need to be mixed in the right proportions. The way the building blocks are distributed, that is, the coherence of the decision making process for allocating resources, with the gap analysis, becomes the relevant budgeting process from the service provision perspective.

Concluding theoretical remarks

If the production of services is arguably the way a government redistributes wealth, PFM practitioners have to assist governments to strike the right balance between stability, allocation and distribution. The (re)organisation of the production of a service can result in either better outcomes, or savings, or both, which in turn, results in an equitable, efficient and effective management of public finances. This is the *last mile still to go*.

PFM practitioners need to devote as much attention to the efficiency and effectiveness of the processes for the production of services as possible. At least as much as that devoted to macroeconomic stability. PFM practitioners have to factor-in the attention to help governments improving service-delivering functions. This will result in: improving the quality of public spending, the transparency of the system and government's accountability and, last but not least, improving government capacity to deliver the intended Fiscal Policy.

The budgeting process in the Health Sector in Mozambique in a nutshell

The Health Sector, in Mozambique, experiences difficulties in translating priorities into plans that are also budgeted. The link between plan and budget is weak and dispersed. Budget appropriations are allotted to every budget vote holder (loosely speaking spending units) on historical terms (assuming that previous year expenses are a good predictor for next year's budget). Budget holders prepare the budget and the plan once appropriations are decided. The plan is prepared following the government directives. Budget holders (institutions) mainly prepare and manage the budget using the Economic Classification of Expenditure (HR, Good and Services, etc.) without specifying whether resources are devoted to specific functions or programmes (therefore without links to planning). The result is a weak link between Plan and Budget.

A further level of complexity is introduced by the government structure. Three levels of administration exist: the central level, the provincial level (with elected governors and appointed secretary of state) and the district level (appointed by the central government). Each level has the responsibility to fulfil the Government Plan. The practical implication of this setting is that each sublevel has to respond to the head of the local government as well as to the higher echelon sector policy maker (it is said that there is double subordination). In addition, the responsibility of producing the sector's services is given to all levels (making subsidiarity vaguely defined). Last but not least, the (developing) decentralisation policy is adding complexity, instead of streamlining processes [1].

1 | What is described above is not a Health Sector specific problem. It is a systemic problem of the budgeting process that limits the decision-making process, as well as the possibility to use the budget as policy and management instrument.

PFM in the Health Sector in Mozambique – how the GTAF project is paving a path to cover the *Last Mile*

In 2017, during phase II of GTAF, the interest of assessing how and to what extent levels of care were financed emerged. In 2018, the Ministry of Health (MISAU) decided to change the structure of the Annual Performance Report (locally called *Balanço do PES – BdPES*), focussing on levels of care to link inputs (HR and Infrastructures) with Health Outcomes. Starting from 2017, the *Investment Case* elaborated in the framework of the *Global Financing Facility* brought the idea of developing a *dashboard* with *strategic indicators* and put increasing emphasis on efficiency of expenditure.

In 2018 and 2019, GTAF started to produce Analysis of Budget Execution to match the needs of the Annual Performance Report (BdPES). For this purpose the *Department for Administration and Finance* (DAF) made available the information extracted from the *Integrated Financial Management Information System* (*IFMIS* locally called *e-SISTAFE*). The data were organised in a spreadsheet to produce all charts required.

The further step was to fully exploit the granular information extracted from the IFMIS and available to (but not yet capitalised by) MISAU. Indeed, there is information to the level of district services. Personnel in the MISAU *Planning and Cooperation Department (DPC)* and *DAF* was targeted with a training on Analysing Data with Excel and basics of *Business Intelligence* (BI) techniques. This was a required step to create the conditions for the personnel being able to extract and handle the information available and prepare the next steps to be taken in the last months of intervention and possibly during a following phase of the project.

Applying BI to PFM is the way the project intends to pave the *last mile*. The rationale is the following: the State has to provide services to the population. The government, by deciding its Fiscal Policy, decides how to organise (produce) the (recurrent) services and how to expand them (invest to produce more and better). The business is therefore producing services. The objective is to organise a *control panel* that shows how financial resources transform into Salaries, Infrastructures, Drugs, Equipment and goods and services and how they are geographically distributed.

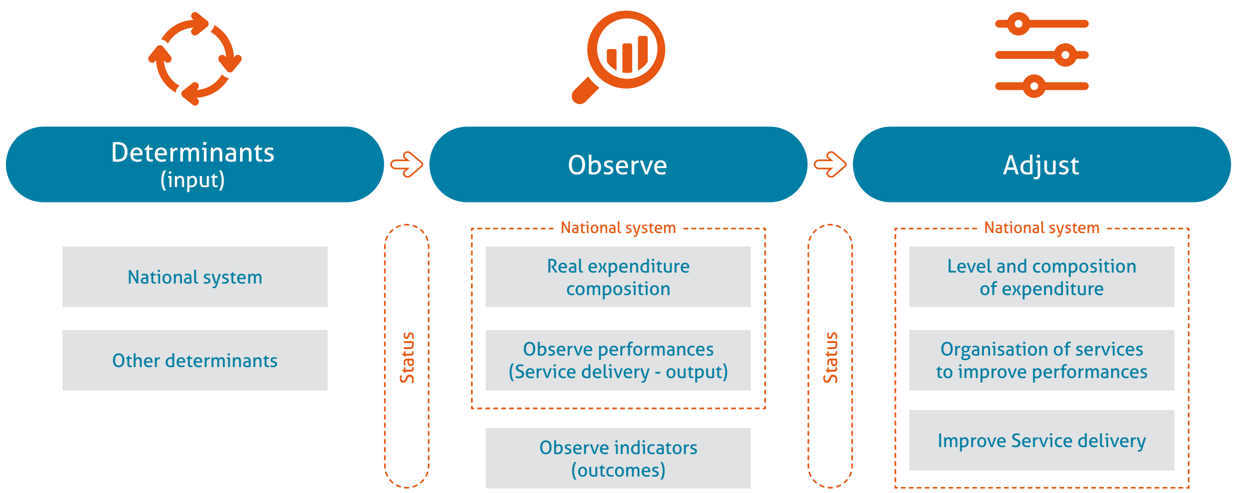
Such a dashboard would be a tool for communicating with Development Partners, with the Parliament, with citizens, but also (and possibly primarily) assist preparing the Budget, looking at efficiency criteria for the production of services. It would therefore:

- show what budget share is *pre-committed* and what is free to be used to tackle specific problems of (allocation) efficiency.
- show how the *year-over-year resources* are allocated in terms of the building blocks and geographically.
- suggest shifting shares while drafting the budget and executing it (take budgetary policy decisions).
- allow equity to be factored in a mid-term fiscal and expenditure path to be laid ahead (a loose measure of *allocation efficiency* in Medium Term Fiscal Framework and Medium Term Budget Framework).
- allow looking at the combination of the building blocks (composition of expenditure) so that *technical efficiency* of the *production of services* can be part of the equation.

Concluding remarks

Such instrument intends to make full use of the information available and present it in a way helpful to develop the *Business model* of the sector, and follow up on the measures and strategies implemented to improve quality and quantity of the *product* that the sector has to deliver.

Service delivery cycle



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