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Helpdesk Research Report

Measuring the impact of PFM reforms on service delivery

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Question

Identify ways in which to measure the impact of PFM reforms on service delivery performance.

Contents

1. Overview

At present there are no reliable, accurate tools that isolate and assess the impact of Public Financial Management (PFM) reforms on service delivery performance. This is due to the complex and indirect relationship between PFM systems and service delivery. A number of factors intervene in the relationship including local incentives and funding channelled outside of PFM systems. Evidence suggests that in contexts where there have been improvements in service delivery this has not correlated with PFM improvements, suggesting they were instead driven by factors other than PFM improvements.

The literature suggests that good PFM systems are a necessary but not sufficient precondition for good service delivery performance, whereas poor PFM systems are sufficient to result in poor service delivery performance. Even where PFM systems are strong a number of factors can result in poor performance. For example, irregular salary payments can result in worker absenteeism whereas regular salary payments may not be sufficient to ensure presence at work where there are other factors that discourage attendance. PFM reforms are thus only likely to impact service delivery in a limited number of cases where PFM can address specific governance constraints or blockages that undermine performance. This would relate to a certain number of service sectors, such as labour-intensive sectors, where the service delivery mechanism is dependent on PFM systems, for example to ensure regular payment of salaries and wages.

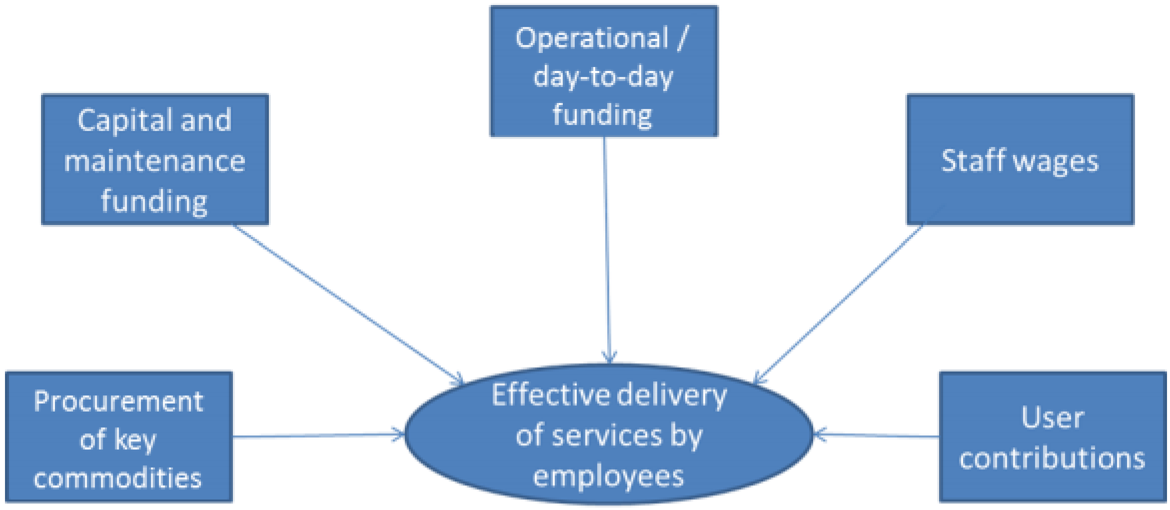
There have been no significant attempts to isolate and assess the direct impact of PFM reforms on service delivery. Consequently, the second part of this report highlights some of the most prominent public administration assessment tools, from which it may be possible to identify relevant indicators that assess and monitor changes in the quality of PFM systems and service delivery performance. In a context where a clear causal link has been established between a set of PFM reforms and performance improvements in a specific sector, it may be possible to construct a type of assessment that illustrates the impact of PFM reforms on service delivery performance.

2. Relation between PFM and service delivery

2.1 Theory and evidence

It is widely theorised that improving PFM systems will have a positive impact on service delivery (Welham et al. 2013). Figure 1 outlines a number of PFM-related functions which can ultimately impact service delivery performance. Sound PFM systems are generally an essential component of the delivery of public services with differing components required.

Figure 1: PFM-related contributions to service delivery



Source: Welham et al. (2013: 8)

A recent survey which looked at linking PFM to development priorities finds that the literature on blockages to effective public-service delivery does not particularly identify PFM-related issues as a singularly important challenge (Welham et al. 2013). One of the authors of this survey argues that there have been no significant attempts to isolate and assess the direct impact of PFM reforms on service delivery, which is mainly due to the core challenge of trying to "isolate cause and effect in an incredibly complex environment" (Krause, expert comments).

A recent World Bank (2012) study reviewing eight case studies of fragile states undergoing PFM reform reviewed whether there was any link between PFM reform and service delivery in selected sectors. The study found that across the case studies, there were improvements in service delivery over time, but with no apparent relationship to progress on PFM reforms. Improvements in some basic services occurred across all case studies regardless of their level of progress on PFM reforms.

The authors conclude that, in light of this evidence, it is not clear if and when progress with PFM reforms will make a contribution to the state's participation in service delivery (World Bank 2012). The improvements in basic service delivery in these case studies were primarily driven by factors other than improved PFM, such as improving security from the previous period of conflict. A contributing factor may have been that the PFM reforms in these case studies focused primarily on central systems and functions rather than initiatives to enhance links to service delivery. Welham et al. (2013) notes that in the early stages of recovery from conflict and fragility, many PFM reform packages are in fact directed at central systems measures to allow for central overall management of total expenditure by the ministry of finance.

Noting the common expectation of improved service delivery as a key motivation for support to PFM and other components of public sector reforms, World Bank (2012) comments that further investigation of this link is important. Such work could explore:

- how and when different factors matter with regards to improving service delivery
- a more in-depth analysis of detailed causal linkages, for example how money flows from central levels to front-line service delivery units
- the results not only in terms of quantitative but also qualitative improvements, including perceptions of fairness in social and geographic coverage of service delivery

Such work could generate more specific contributions to inform choices about how to structure PFM interventions in ways that are indeed effective in supporting service delivery performance improvements.

2.2 Attribution

The absence of PFM systems capable of providing basic financial inputs, such as operational costs, staff wages, or key commodities is likely to have a negative effect on service delivery (Welham et al. 2013). However, the presence of effective PFM systems, even where all PFM-related components of public-service delivery are provided on time and in full to service delivery units, does not guarantee effective service delivery. Even when all the components for good service delivery are in place, the lack of motivation of service delivery staff, for example, can undermine service delivery outcomes (Welham, expert comments). The 'human factor' can be as important as the flow of funds and structures which make up the PFM systems.

Welham et al. (2013) also note that PFM systems relate to government budgetary systems and where they consider financial systems to be weak, donors will actively use NGOs or other off-budget delivery mechanisms to deliver their objectives on service delivery. Improvements in service delivery will therefore take place as a result of donor investment outside government systems and lead to a situation of weak PFM systems alongside improvements in service delivery.

An absence of adequate PFM functions in those areas that contribute to service delivery may have a negative impact, but identifying a strong positive contribution that PFM functions can make is difficult (Welham et al. 2013). In terms of PFM reforms to prevent poor financial systems undermining service delivery, Welham et al. (2013) recommend implementing regular payment of salaries and wages to staff engaged in delivering basic services as the highest priority. After this they recommend that PFM functions should be based on which service sectors are considered priorities, and their delivery mechanisms. For example, labour-intensive services such as health and education would require different PFM-related inputs compared to procurement- and capital-intensive services such as road building or electricity provision. The delivery mechanism of the prioritised service sector provides a starting point from which to orient PFM reforms.

2.3 Case studies

The medium-term expenditure frameworks (MTEF) is a three-year rolling framework with indicative central and provincial expenditure ceilings; an approach to budgeting and PFM that apparently addresses shortcomings of annual budgeting, including short-sightedness, conservatism, and parochialism (World Bank 2013). In South Africa the MTEF facilitates more efficient use of resources but also allows tracking of service delivery targets. World Bank (2013) comments that South Africa’s 2011 MTEF is driven by activities and outputs specified in service delivery agreements, though from their 2013 MTEF Guidelines it is unclear how (South African National Treasury 2012). In this case there is no evidence that the MTEF has specifically contributed to improved service delivery performance outcomes but instead that this PFM reform has allowed improvements in service delivery to be better monitored.

In Rwanda, in the early 2000s, PFM reforms were undertaken alongside a shift to sector budget support by donors in order to promote country systems. Chiche (2009) finds that the use of sector budget support, which uses the Rwandan government’s financial systems, combined with improvements in PFM across government, led to a strengthening of overall PFM in the sector and increasingly reliable funding. This included increased funding for service delivery in the sector which receives budget support. For example, in education there was a scaling up of funding to primary education, an increased budget overall and greater funding for key budget lines such as textbooks and construction. In this case there were improvements in service delivery but though the PFM reforms may have been critical to this improvement it is unclear as to what degree the PFM reforms contributed to these improvements.

3. Measuring PFM reform and measuring service delivery

Though there are no tools or methods specifically designed to isolate and assess the impact of PFM reforms on service delivery (Welham, expert comments) there are a number of assessment tools which provide indicators that can be used to track progress in PFM alongside progress in service delivery.

Welham (expert comments) notes that to design a tool to measure the impact of specific PFM reforms on service delivery performance where a clear causal link has been identified, it would be important to 'drill down' PFM into those elements most likely to impact service delivery, develop a score of some sort for performance against this, and then try and see if there is association between this score and some other measure of service delivery. He suggests that PFM indicators with the greatest impact would relate to PFM issues such as robustness of payroll and delivery of key commodities, as opposed to taxation, reporting or auditing. When measuring service delivery performance it would be important to ensure the services monitored are government-provided services dependent on the PFM process, as opposed to, say, a mass vaccination programme paid for and delivered by donor countries.

3.1 Measuring PFM

Ali (2012) notes that though the World Bank's Public Expenditure and Financial Accountability Assessments (PEFA) and Country Policy and Institutional Assessments (CPIA) are the main data sources for monitoring PFM performance, the data is not always comparable across countries and time periods. PEFAs are not carried out annually and few repeat assessments have been done; while PFM is only part of the focus of a CPIA which also looks at everything from economic management to policies for social inclusion and equity.

The UNDP (2009) Users' Guide for Measuring Public Administration Performance outlines 37 assessments which can be used to assess public administration. The guide identifies the following assessment tools and information sources which focus on PFM:

- **Public Expenditure Tracking Surveys (PETS) (World Bank):** Surveys of service providers with data collected through interviews with managers and staff, from the service provider's records and in some cases, from interviews with beneficiaries. Each PETS is country-specific but includes six core elements: characteristics of the provider (size, ownership, etc.); inputs (monetary values or quantities); outputs (numbers of patients treated, enrolment rates, etc.); quality (staff behaviour, provision of certain services, etc.); financing (sources, amounts, and type); institutional mechanisms and accountability (information on supervision, management, reporting parent/patient involvement, etc.).
- **Country Assessment in Accountability and Transparency (CONTACT) (UNDP):** Sets of generic guidelines with accompanying assessment checklists relating to: accounting infrastructure; information management; expenditures and budgeting; internal control and internal auditing; financial reporting; external auditing; revenue administration; debt management; project and foreign aid management; procurement and assets management; integrity improvements to prevent and control corruption; and public sector cash management.
- **Public Expenditure and Financial Accountability (PEFA) (Multiple Institutions: World Bank, IMF, EC, DFID, SPA):** A PFM performance report and a set of high level indicators that draw on international standards produced by the government alone (self-assessment), by the donors alone, by government and donors collaboratively, or by an independent group. Civil society is rarely, if ever included. The Framework comprises a set of indicators in: credibility of the budget; comprehensiveness and transparency; budget cycle; and donor practices.
- **Engendering Budgets: A Practitioners' Guide to Understanding and Implementing Gender-Responsive Budgets (Commonwealth Secretariat):** A descriptive guide with no explicit methodology but suggestions for data sources including national statistics, household surveys, local and international NGOs, international sources of online gender specific information, national policy plans, and the national budget book. There are no explicit indicators but a five-step process is outlined which consists of: 1) analysing the situation of women, men, girls and boys; 2) assessing the gender-responsiveness of policies; 3) assessing budget allocations; 4) monitoring spending and service delivery; and 5) assessing outcomes.
- **Open Budget Initiative (International Budget Project):** A questionnaire consisting of 122 multiple-choice questions, plus four tables covering the manner in which budget documents are disseminated. Most questions ask about what occurs in practice, rather than about the requirements that may be in law. Questions and tables are grouped into three sections: 1) the availability of budget documents (information on the budget year of documents used in completing the questionnaire; internet links for key budget documents; distribution of

documents related to the executive's proposal; and distribution of enacted budget and other reports); 2) the executive's budget proposal (estimates for the budget year and beyond; estimates for years prior to the budget year; comprehensiveness; the budget narrative and performance monitoring; and additional key information for budget analysis & monitoring); and 3) the budget process (executive's formulation of the budget; legislative approval of the budget; executive's implementation of the budget; executive's year-end report and the supreme audit institution).

- **Diagnostic Framework for Revenue Administration (World Bank):** An assessment questionnaire to be used in a group setting involving different stakeholders, with no rules on assessment design or implementation, or how results should appear. The assessment is divided into eight frameworks for analysis of the revenue administration, each containing a detailed set of diagnostic questions on: environment, resources; history; strategy; transformation processes; outputs; and feedback mechanisms.

The UNDP (2009) guide argues that there is not much variation in the indicators employed in the PFM assessment tools listed. These tools cover budgeting, accounting, audit and legislative oversight. The PEFA tool is the most well-known and well researched tool, and is supported by a consortium of international agencies. The guide recommends PEFA, arguing that the framework of six dimensions and 31 high level indicators is comprehensive, reflecting the problems commonly found in developing country systems, and also many developed countries. The guide also recommends the following tool:

- **Common Assessment Framework (CAF) (European Institute of Public Administration):** Based on evaluation from a group within the organisation that is representative of it. Broad consultation involving management, internal stakeholders, and external stakeholders when applicable is recommended in the development of the assessment tool. There are nine criteria. The first five criteria deal with the enabler features of an organisation (what the organisation does and how it approaches its tasks to achieve the desired results); the last four criteria deal with results (results achieved in the fields of citizens/customers, people, society and key performance).

Though the CAF is not focused on PFM, the guide cites it as a recommended tool, arguing that it is also comprehensive in scope, but tends to view good practice from an organisational rather than a systems perspective. UNDP's CONTACT is a more detailed question-based instrument which the guide notes that finance specialists will find useful.

3.2 Measuring service delivery

The UNDP guide identifies the following assessment tools and information sources which focus on service delivery (UNDP 2009):

- **Quantitative Service Delivery Surveys (World Bank):** A complementary tool to PETS (see above) with the same methodology and indicators based on the same six core elements.
- **Citizen Report Cards (Public Affairs Centre):** Surveys of feedback from users of public services on these services with data collected through user interviews. Questions relate to critical themes in the delivery of public services such as: access to services; quality and reliability of services; problems encountered by users of services and responsiveness of service providers in addressing these problems; transparency in service provisions like disclosure of service quality standards and norms; and costs incurred in using a service including hidden costs such as bribes.

- **Self-Assessment Tool for Customer Service Excellence (UK Civil Service):** An assessment questionnaire carried out by individuals or teams within the assessed organisation and based on available data in the organisation. The questionnaire covers five criteria: customer insight (identifying and consulting customers); the culture of the organisation (whether it is customer-focused); information and access (information delivered appropriately to customers); delivery (carrying out business, customer outcomes, problem-solving); and timeliness and quality of service (responsiveness and quality).

UNDP (2009) notes that the service delivery tools in effect measure three different aspects of service delivery:

- **Quantitative dimensions:** The World Bank surveys focus on concrete dimensions of service delivery – such as quality, timeliness, access and efficiency – which can be tailored to the sector or organisation. Usually, quantitative information is obtained from the service providers' records.
- **User perspective:** A fourth assessment tool is the EIPA's CAF (see section 3.1) which does not focus on measuring service delivery but is also recommended by the guide. Both this tool and the Citizen Report Card measure service delivery, but from the perspective of the user rather than the provider. The Report Card actually asks citizens for their views whereas the CAF simply requires management to provide an opinion on customer satisfaction.
- **Process:** The UK Civil Service Self-Assessment Tool for Customer Service Excellence emphasises how services are provided, rather than what is actually delivered to the customer. The focus is on improving processes and capacity that are likely to deliver value to the customer, and therefore looks at the determinants of customer satisfaction.

The guide comments that none of these tools are necessarily superior to any other and that each can be used as a stand-alone tool or in combination to provide a more comprehensive picture of service delivery (UNDP 2009).

Amin et al. (2008) also provide an overview of a range of tools for measuring service delivery and provide lessons on the opportunities and constraints practitioners face in measuring performance. The document provides information on public expenditure tracking surveys, facility surveys, and combined household and facility surveys. It also provides examples of service sector-specific assessment tools, in this case in relation to health and education.

Dehn et al. (2003) examine the two micro-economic level surveys, the Public Expenditure Tracking Survey (PETS) and Quantitative Service Delivery Survey (QSDS), in terms of effectiveness in assessing service delivery. They argue that these tools can be used to assess public spending efficiency, as well as the quality and quantity of services at not only the household or business level, but also at the service provider level. Moreover, these tools can be used to evaluate the impact of policy changes. The PETS and QSDS tools can provide a better understanding of frontline provider behaviour and illustrate the relationship between providers, policymakers and users of services when linked to other surveys.

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