Radically Reshaping Public Financial Management?

A Review of “Advice, Money, Results”

[Working Paper version]

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March 2024

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INTRODUCTION

Public financial management (PFM) seeks to build strong institutions for the management of public financial resources. It covers processes, systems, laws and organizational arrangements in areas such as budget preparation, budget execution, public investment management, debt management systems and accounting practices and procedures. PFM supports the implementation of good aggregate fiscal policy (policy on matters such as deficit and debt levels) and expenditure policies (decisions on what money will be spent on).

Good PFM systems are essential if governments are to deliver for their citizens. For this reason, a considerable amount of international development aid is devoted to helping developing countries improve their PFM systems. This work is often challenging given the governance, capacity, resource and other challenges facing many developing countries.

Does the technical assistance provided take the right form? This is a question about which there has always been considerable thought and debate. Resolving debates on the matter is made more difficult by the fact that it is often difficult to prove that specific interventions work, or do not work, and under what circumstances.

Few people in the field dispute that there is significant scope for improvement. Practitioners are all too aware of the mistakes that are sometimes made, such as:

- Attempts to implement reforms which are too advanced given prevailing capacity and resource constraints, or which do not deserve high priority on the reform agenda when more basic requirements should be addressed first,
- Pressure on countries to adopt overloaded agendas of reforms, and
- Bad system design due to poor quality technical advice or to the influence of a few "zombie ideas" about reform design which are not derived from either successful practice or coherent theory.

Continuing work is required to address these and similar problems, most of which are well-recognized in the PFM literature. Although resolving them should in principle be easy, in practice this is often not the case given problems such as inadequate donor coordination and reliance, in some cases, on consultants with limited skills and knowledge.

Addressing these types of problems has been a major focus of the mainstream agenda of PFM technical assistance improvement. There is, however, a school of thought which goes much further, arguing that PFM doctrine is fundamentally flawed and needs to be rethought from top to bottom, particularly as applied in developing countries. Representative of this position is a recent report *Advice, Money, Results* (IWG, 2020) — a report which is, at least nominally, the product of the deliberations of an international working group.

Much of the analysis and many of the recommendations contained in *Advice, Money, Results* (AMR) are, unfortunately, questionable. Because the stakes involved in choosing the right PFM reform strategies are considerable, these should not remain unchallenged.

With this in mind, what follows is a critical review of AMR. It concludes that AMR:

- Presents a flawed critique of the current state of PFM,

- Puts forward, as part of this, a critique of the standards-based approach to PFM – and particularly the flagship Public Expenditure and Financial Accountability (PEFA) assessment tool – which is too negative and fails to sufficiently credit the benefits of the approach,
- Proposes an alternative to the current PFM approach which is vague and lacking in operational specificity, and
- Calls for a certain type of evidence-based approach to choosing PFM interventions that is superficially attractive, but impossible to put into practice.

THE AMR CRITIQUE OF PFM

AMR attacks prevailing PFM doctrine with all guns blazing. Unfortunately, most of the shots miss their targets. The report makes multiple incorrect claims about gaps or biases in PFM doctrine — including that PFM ignores reallocation, that it is systematically pro-austerity, and that the standard "trinity" of PFM objectives (see below) are narrow and imbued with neoliberal values. AMR also repeatedly incorrectly suggests that PFM reforms are generally regarded by PFM practitioners as ends in themselves, rather than as means to ends (IWG: iv, 2, 41).

Box 1: The World Bank's Three PFM Objectives

The "trinity" of public finance objectives that PFM is intended to support was formulated by the World Bank in the late 1990s. It has since been widely used, although often in varying versions, as a framework for viewing PFM institutions. Arguably the best version of the trinity is that put forward in the World Bank's landmark 1998 *Public Expenditure Management Handbook*:

1. Aggregate fiscal discipline
2. Allocation of resources in accordance with strategic priorities
3. Efficient and effective use of resources in the implementation of strategic priorities.

This *Handbook* formulation of the trinity modified the original version, due to Campos and Pradhan (1996), in which the third objective was expressed more narrowly as "technical efficiency in the use of budgetary resources," unfortunately omitting reference to the crucial objective of effectiveness[1].

PFM's mission is to build institutions for the implementation of good fiscal, expenditure and tax policies and, in doing so, to help achieve these three objectives. It is, however, important to distinguish PFM from the substantive decisions about matters such as the budget balance, level of total expenditure, what money is spent on, and the level and composition of taxes — decisions which lie in the realm of fiscal, expenditure and tax policy.

[1] Efficiency — more precisely, "technical" or "operational" efficiency — means producing outputs at lowest possible cost (subject to the maintenance of quality). Effectiveness refers to the success of outputs in achieving their intended outcomes. It should be noted that in some of the versions of the trinity in which objective 3 refers only to efficiency, the word is used in a broad sense to mean efficiency and effectiveness. This is the case, for example, in the Public Expenditure and Financial Accountability (PEFA) framework, where objective 3 is formulated as "efficient service delivery," defined as "using budgeted resources to achieve the best levels of public services within available resources" (PEFA, 2016: 2).

Reallocation

Reallocation is today more important than ever. Governments everywhere face large long-term spending pressures in areas including climate change, health and defense (Robinson, 2020). At the same time, many governments are confronted with severe fiscal constraints due to excessive debt levels. A crucial part of coping with these pressures and constraints is the ability to reallocate resources from low-priority and relatively ineffective areas of existing spending — "baseline" spending in PFM terminology — to meet higher-priority new spending requirements.

Is PFM doctrine up to the challenge of creating institutions that facilitate reallocation? Not according to AMR, which claims that "a focus on strategic reprioritization is missing" from PFM (IWG: 5, 23). PFM, in AMR's view, is oriented towards "incrementalism" and is "designed to orient fiscal outcomes towards caution and inertia" (IWG: 21)[2].

If this were true, it would constitute a major deficiency in prevailing PFM doctrine. It is, however, not true. In reality, facilitating the reallocation of government expenditures to where they can deliver the best results for society, and fighting incrementalism, have long been major PFM preoccupations. Trinity objective 2 — "allocation of resources in accordance with strategic priorities" — has always been understood by the public finance community to include the ability "to shift resources from old priorities to new ones" (Allen and Tommasi, 2001: 20).

In recent times, the emphasis on institutions to promote reallocation has manifested itself in the major emphasis that has been placed on *spending review*. Spending review is the systematic review of baseline expenditure to identify savings that can be made and used either for reallocation or to control aggregate government expenditure. The design and implementation of spending review systems has been a major PFM reform theme over the past decade. The initial intellectual impetus for this was provided by the OECD (Robinson, 2013). Other international organizations including the European Union and the IMF subsequently followed (EC, 2016: IMF, 2022). The OECD's recent *Best Practices in Spending Review* (Tryggvadottir, 2022) testifies to the Paris-based organization's continuing investment in developing theory and practice in this important area. This intellectual effort by the international organizations has been matched by a substantial on-the-ground technical assistance effort to build spending review processes in relevant developing countries — an effort in which the World Bank has also been a significant player.

The emphasis on PFM institutions that promote strategic reprioritization of expenditure is no recent phenomenon. It was, for example, a key theme of program budgeting when it first emerged almost sixty years ago. During the first wave of program budgeting, "the primary objective of program budgeting was improved allocative efficiency through better expenditure prioritization" (Robinson, 2007; Fisher, 1967). A key part of this was the idea that by structuring spending around programs and using evaluation to scrutinize programs, low-priority and ineffective spending could be

[2] Incrementalism is a term which has been given multiple meanings over the years, and AMR is unfortunately not clear about how it defines the term. However, in a context like this, where the focus is on reducing incrementalism, the only version of the concept that would makes sense is the "inattentiveness to the base" concept which uses the term to describe budgeting processes which are exclusively focused on decisions about new spending and ignore the mass of baseline expenditure (Robinson, 2022; Berry, 1990).

identified more readily. As such, program budgeting was viewed explicitly as an instrument for attacking incrementalism.

More generally, the theme of connecting planning and budgeting to improve the strategic prioritization of expenditure — including reallocation — has for decades been a major PFM theme, and is an area where there has been considerable evolution in thinking about how best to approach the challenge. A key aim of medium-term budgeting — another major PFM reform theme — has been precisely to increase the flexibility of budgetary resource allocation so as to help align expenditure more closely with government priorities. The insight that underpins this is that a major reason for allocative rigidity is that most baseline expenditure cannot be changed quickly. The strategic reprioritization of expenditures therefore takes time, and typically cannot be implemented within a 12-month timeframe. Only by moving beyond an annual perspective on budget decision-making does it become possible to achieve substantial reprioritization in the face of the tremendous inertial forces of baseline expenditure. As the OECD puts it, medium-term budgeting "fosters effective expenditure prioritization aligned with both the government fiscal strategy and policy priorities" (Moretti, Keller and Majercak, 2024: 21). It is, in this context, perplexing that AMR could suggest (IWG: 21, 48) that medium-term budgeting has increased incrementalism[3].

The basic problem underlying AMR's discussion of reallocation is that it appears to consider that the observation that the budgeting systems in many countries are not well designed to facilitate reallocation constitutes a criticism of PFM doctrine. For example, AMR cites as evidence of the failings of PFM the OECD finding that, in the past, most member countries paid little attention to reallocation (IWG: 49). However, it is important not to confuse the defects of budgeting systems with the supposed effects of PFM when it is precisely the mission of PFM to address these and other defects in budgeting systems.

Austerity

AMR claims that PFM is systematically biased towards fiscal austerity. More specifically, the report asserts that:

1. The PFM objective of aggregate fiscal discipline "has become closely associated, or even synonymous, with fiscal tightening rather than allowing for a broader interpretation of maintaining of a sustainable fiscal position to support macroeconomic stability and growth" (IWG: 23), and that this gives it "a bias towards short-term measures to ensure fiscal discipline" (IWG: 2).
2. Aggregate fiscal discipline is "usually" taken to be more important than the other two objectives in the "trinity" (IWG: 23). Expressed differently, PFM has a hierarchy of objectives with "fiscal discipline at the apex" and prioritization, effectiveness and efficiency playing second fiddle (IWG: 20).

[3] It is possible that AMR has in mind the use of fixed medium-term ceilings in some countries. However, when this is accomplished by spending review during the formulation of each multi-year budget (e.g. the Netherlands and the United Kingdom) this aids reprioritization. In any event, fixed outer-year ceiling are minority practice in advanced countries and virtually non-existent in medium-term budgeting mechanisms in developing countries.

3. PFM "sees the budget primarily as an instrument to control deficits and the debt level" (IWG: 21)

These are bold assertions, and it would be a big concern if they were true. The reality, however, is that they are, once again, mischaracterizations of prevailing PFM thinking.

Assertion 1 — for which AMR offers no evidence — amounts to a claim that fiscal discipline is usually understood to rule out the use of discretionary fiscal stimulus when required to maintain macroeconomic stability. This is incorrect. Fiscal discipline requires only that, if fiscal stimulus is deployed in the face of an economic downturn, there is appropriate fiscal consolidation afterwards so as not to undermine longer-term sustainability. It is fully consistent with fiscal discipline for government debt levels to increase during recessions as long as they are reduced commensurately during good times — something which has, regrettably, not happened in many countries over recent decades.

Fiscal discipline in fact *supports* the fiscal stabilization role of the budget, because excessive debt arising from past fiscal indiscipline limits the scope for the provision of fiscal support in a recession. If debt is at moderate level going into a recession, it is much easier for governments to provide fiscal support for the economy.

This standard view of the relationship between fiscal discipline and fiscal stabilization policies was captured well by two senior IMF officials in the 2007 publication *Promoting Fiscal Discipline*:

> *Fiscal discipline requires that governments maintain fiscal positions that are consistent with macroeconomic stability and sustained economic growth. To this end, it warrants avoiding excessive borrowing and debt accumulation.... while output stabilization would warrant countercyclical fiscal policy, governments tend to favor procyclical discretionary spending increases and tax cuts in "good times," when the economy is doing well. In "bad times," although countercyclical fiscal policy could be useful, pressing deficit and debt sustainability problems make such policy difficult if not impossible."* (Kumar and Ter-Minassian, 2007: 2).

No matter how committed to Keynesian fiscal stabilization policies one might be, it remains entirely appropriate that PFM focus particular attention on mechanisms and processes to support the maintenance of fiscal discipline. Such an emphasis has nothing to do with any alleged austerity bias in PFM. It is required because there is, as Kumar and Ter-Minassian point out, a clear and well-recognized intrinsic political bias towards fiscal indiscipline – in the form of unfunded additional spending and tax cuts in good times which produce structural deficits and ever-increasing debt levels. In this context, the biggest role that PFM needs to play in support of sound fiscal policy is creating processes that help to restrain such indiscipline (such as the budget comprehensiveness, medium-term budgeting and reliable fiscal accounting). By contrast — as discussed further below — the PFM requirements for the successful implementation of discretionary fiscal policies are quite limited.

As for the supposed PFM "bias towards short-term measures," this is a critique not of PFM, but of fiscal policy. It is important to bear in mind that fiscal policy is not a component of PFM. The connection between PFM and fiscal policy is that PFM provides the instruments and processes for

the implementation of appropriate fiscal policy. But even taken as a critique of fiscal policy, AMR largely misses its mark on this point. The need to avoid unsustainable short-term fiscal adjustment measures has in fact been a major theme of fiscal policy thought leaders such as the IMF over recent decades. Strong emphasis has been placed on the need to ensure that any fiscal consolidation required is carried out in a sustainable manner and with a focus on long-term expenditure reform, avoiding myopic measures such as dramatic cuts to capital expenditure which sacrifice the future (e.g. IMF, 2014).

AMR repeatedly has difficulty in recognizing the distinction between fiscal policy and PFM. It even considers that the sins of excessively severe fiscal consolidation in a number of countries after the Great Recession of the late 2000s can be attributed to PFM (IWG: 50).

Rejecting the suggestion that PFM is biased towards austerity should not, however, prevent us from recognizing that there is some validity in AMR's suggestion that the trinity of PFM objectives should be modified to acknowledge the stabilization role of fiscal policy. This issue is discussed below.

What about assertion 2 — the claim that PFM regards fiscal discipline as more important than the other PFM objectives? This is certainly not true with respect to the content of PFM technical assistance delivered to developing countries, because the preponderance of this assistance focuses on improving mechanisms and processes to support the PFM system as a whole (e.g. IFMIS) or specifically to enhance prioritization, effectiveness and efficiency (e.g. public investment management, green budgeting and performance budgeting). AMR's only evidence for its claim is a reference to two papers, one of which is by the former IMF official and prominent PFM thought-leader Jack Diamond (IWG: 20). However, AMR misrepresents the position of these authors in suggesting that they were assigning greater importance to fiscal discipline than to the other objectives. Diamond's point was quite different. It was that, in countries where public finances are chaotic and the budget is wholly unrealistic and unreliable, the restoration of "core PFM function" including a meaningful budget is a prerequisite for any other PFM reform (Diamond, 2013). The reasoning here is that if fiscal discipline is so poor that the budget is entirely unreliable and provides no guide to ministries on the level of funding they will actually receive during the year — with that being determined by ad how cash release decisions made on a monthly basis during the fiscal year — strategic prioritization goes out the window and ministries cannot operate efficiently and effectively. Hence the need under these circumstances to restore budget discipline first.

In the words of the World Bank *Public Expenditure Handbook* (1998: 8), "fiscal stability creates an environment that encourages sound level 2 and 3 performance [i.e. objectives 2 and 3]." Recognizing this type of interconnection between the three PFM objectives is not the same as asserting that fiscal discipline is more important than the other objectives.

Assertion 3 – for which AMR offers no substantiation – is clearly untrue.

The "Trinity" of PFM Objectives

The three public finance objectives sometimes referred to as the "trinity" (see above) have long served as a conceptual framework for PFM theory and practice. These objectives provide the criteria for assessing any PFM reform. The efficacy of medium-term budgeting, for example, is

assessed by its contribution to objectives 1 and 2. That of performance budgeting by its contribution to objective 3 and, depending on the version of performance budgeting, also to objective 2. Each of the three objectives has a precise meaning. The fact that they provide a parsimonious formulation of public finance objectives in three brief points helps us think clearly about what we are trying to achieve. Given all this, there need to be strong reasons for changing this formulation of the guiding objectives of PFM.

The changes AMR proposes to this framework are radical. They envisage the addition of three new objectives and major modifications to the existing three. The rationale for these changes is that the three trinity objectives are, according to AMR, "narrow" and infused with the neoliberal values of the Washington consensus.

The position taken here is, however, quite different. It is that:

- The three objectives in their established form are essentially sound. With one limited exception, everything that AMR claims to be missing from them is either already there or should not be included,
- There is no justification for the claim that the trinity objectives are value-laden and neoliberal,
- Several of AMR's proposed new objectives are inappropriate because they are value-laden and/or lack precision, and
- Moving from the existing precise three-point formulation to the more diffuse six-point formulation proposed by AMR would make these objectives less, rather than more, useful as a framework for thinking about PFM interventions. To paraphrase Occam's razor, more is in this context not better.

The appendix elaborates on these points.

PFM Good Practice Criteria

AMR suggests that many of the criteria used in the Public Expenditure and Financial Accountability (PEFA) framework and other more detailed assessment tools embody an inappropriate one-size-fits-all view of what constitutes good practice PFM, or are outdated because they have not evolved appropriately based on "new evidence" (IWG: 4). The report suggests in this context that a major "cull" of these assessment criteria is required.

These are claims that one would expect to see supported by a substantial number of examples of criteria in PEFA and other instruments that should be culled. However, AMR only makes mention of two areas — both with reference to PEFA: medium-term expenditure frameworks (MTEFs) and performance-based budgeting (PBB) (IWG: 45-46). Only for MTEFs does the report cite specific PEFA indicators (16.2 and 16.4) which it says require culling.

The failure of AMR to refer to specific PBB indicators within PEFA which require culling is not surprising, because PEFA does not have any such indicators[4]. Neither PEFA nor any other PFM

[4] PEFA indicator 8 pertains to performance indicators, but having performance indicators is not the same as having performance budgeting. There are also several PEFA indicators that refer to the presentation of

assessment tool treats PBB as good practice appropriate for all countries. And they are right not to do so.

Are there some indicators in PEFA and other assessment tools that should be removed? No doubt. AMR is right about PEFA indicator 16.2. There are also arguably a few other PEFA performance indicators which are also inappropriate[5]. However, what is striking is not the presence of a handful of inappropriate indicators. It is the fact that the overwhelming majority of PEFA indicators do indeed cover institutions which are good practice for all, or almost all, countries. Expressed differently, there are very few PEFA indicators where it would not be desirable and practical for developing countries to obtain at least a "C" or "B" rating. It is, for example, objectively better for all countries to have greater budget reliability (PEFA indicators 1, 2 and 3), informative budget documentation (indicator 5), performance information on service delivery (indicator 8), proper debt management (indicator 13), and a clear aggregate fiscal strategy (indicator 15). PEFA can also be said generally to capture characteristics of good PFM practice which are immutable over time – as opposed to practices that, as suggested by AMR, are susceptible to becoming outdated at some point. It is therefore no wonder that AMR was unable to substantiate with concrete examples the suggestion that a large-scale cull of existing indicators is required.

It is, of course, well known that countries can artificially boost their PEFA ratings by formal rather than real compliance with good practices (e.g. Andrews, 2009). But that is not an argument for a major cull of existing indicators.

AMR is possibly on more solid ground when it switches focus to *omissions* from the PEFA standards. Here, the report mentions various suggestions from other authors for additions to the PEFA indicators (not all of them convincing) (IWG: 46). There is, however, something paradoxical about this in a report which expresses deep skepticism about one-size-fits-all standards.

Indeed, AMR takes a quite ambivalent position on best practice standards. At certain points, it appears to concede that many of these standards do have wide applicability. But at other points it endorses an extreme version of the "problem-based/adaptive" school's denial of the existence of widely applicable conventions — suggesting that context varies so enormously between countries that "few principles can be applied beyond a high level of generality" and "general principles are hard to find" (IWG: 11, 12).

EVIDENCE

A major theme running throughout AMR is the call for PFM institutions to be assessed via evidence of their impact on "service delivery and development results," where development results are outcomes such as reduced poverty and better health and education. Doubt is repeatedly cast in the report on existing PFM approaches based on the lack of such evidence for their effectiveness.

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information by programs, but in each case it is possible to present the information concerned by functions rather than programs while still obtaining an "A" rating.

[5] Indicators 8.4 and 16.3.

AMR also calls for this type of evidence to be extensively used to judge the merits of potential alternative PFM conventions (IWG: 4-5, 7, 17-18 etc.).

This call for such an evidence-based approach is superficially attractive. It is, however, unrealistic. It is in reality impossible to evaluate the impact of PFM institutions on development results. Nobody has carried out such evaluation to date, and any future attempts will certainly fail. The AMR call for a big effort in this type of evaluation is a dead end and risks giving rise to major wasted efforts.

The most important – but not only[6] – reason why this is the case is that the causal chain between PFM institutions and development results is influenced by so many "contextual factors" — to use the evaluation theory term — that it is methodologically impossible to isolate the impact of PFM institutions. This is, incidentally, a problem which applies to virtually all public management reforms. Paradoxically, the report itself more or less acknowledges the problem (IWG: 29). This does not, however, prevent the authors from naively enthusing about the prospect of "greater experimentation with impact evaluation" in assessing PFM approaches (IWG: 30)[7].

There is a role for evaluation of PFM results. It is not, however, with respect to impacts on high-level development results. It is, rather, with respect to intermediate results. Evaluating the success of procurement reforms on the prices and quality of goods and services purchased is, at least in some contexts, perfectly feasible. Assessing the success of technical assistance using PEFA scores as results measures is also possible. However, anyone expecting much in the way of definitive judgements about the effectiveness of PFM institutions from this type of analysis has failed to fully grasp the lessons from the disappointing results of evaluation efforts to date (IWG: 42-43).

In the real world of complexity and limited information, we rely to a large degree on the credibility of the reasoning underpinning proposed management reforms, rather than on proof of their effectiveness in improving high-level outcomes such as education level and population health status. When we can supplement this with some evidence of intermediate results, this is a good thing. However, most of the time plausibility is the main test of what we do.

Public sector management reform, including PFM, is and always will be more art than science. No amount of wishing for a robust evidence base will change this reality.

THE ALTERNATIVE

What is the alternative that AMR proposes? The report advocates the development of a new "open" PFM in place of what it describes as the current "closed" discipline. This "open" system will "interact fluently with the policy domain" (IWG: 3) as well as having a range of other attractive qualities. It will "respond to learning and knowledge from outside the PFM discipline, be sensitive to the impact of PFM conventions on public policy … and recognize the inevitability of trade-offs

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[6] There are also major problems in measuring both dependent and independent variables.

[7] AMR looked forward enthusiastically to an evaluation by the World Bank Independent Evaluation Group which was then underway when AMR was published and which it thought would evaluate the "final outcomes" of PFM reforms (IWG: 29). However, the IEG report, published in 2021, did not do this. Its main methodology was to use PEFA scores to assess the impact of PFM reforms (IEG, 2021). IEG evaluation experts would certainly have known better than to attempt to evaluate impacts on development results.

among policy objectives" (IWG: 6). These are undoubtedly all fine attributes, but what concretely defines the new PFM that the report favors? There is, unfortunately, no clear answer to this question. The tendentiously-named "open" system is not described in other than abstract and general terms.

For PFM practice, there are two questions which ultimately matter, namely:

- What PFM institutions are appropriate, under what circumstances?
- What are the best implementation strategies for building these institutions, under the conditions of specific countries?

AMR unfortunately offers no answers to either of these questions. While declaring itself in favor of "new and alternative PFM" institutions, it offers no concrete suggestions or examples of what these might be. Implementation strategies are also not discussed. Instead, most of the volume's seven main proposals are for more reviews, investigations and evidence gathering[8] (AMR: 7, 57). This gives the report a distinctly academic rather than practical feel.

CONCLUSION

Advice, Money, Results is a missed opportunity. It misses the opportunity to provide a credible and informed critique of what's wrong with current PFM practice and to present a constructive way forward. Much of its critique of current practice is misplaced. The alternative PFM system which is favors is not described with any clarity, and most of its recommendations are for more review and data-gathering rather than for specific improvements to PFM practice. *Advice, Money, Results* is, unfortunately, of limited value as a guide to better PFM practice.

[8] For example, "review the current conventions embedded in standard PFM assessment frameworks," "..collect data and evidence 'at the frontier' to build insights…", and "establish practitioner groups to share sensitive information."

APPENDIX: THE OBJECTIVES OF PFM

As mentioned in the main text, AMR regards the established trinity of PFM objectives as narrow and value-laden. It proposes the addition of three new objectives and major modifications to the existing three. These proposals are analyzed in this appendix, starting with the AMR's modifications to the existing three objectives.

Modified Objective 1

AMR proposes that the trinity's "fiscal discipline" objective be amended to "fiscal discipline and managed risk," on the grounds that the current formulation supposedly ignores medium and long-term fiscal risks (IWG: 22-23). However, this is unnecessary as the management of fiscal risk is an integral component of fiscal discipline. The whole point of fiscal risk management is to enable government to cope with the unexpected while maintaining fiscal discipline. As the UK Office of Budget Responsibility puts it, "finding better ways to capture and communicate economic and fiscal risks" is a "central feature" of maintaining the "sustainability of the public finances" (OBR, 2021: 1)[9]. Or in the IMF's (2106: 1) words, "comprehensive analysis and management of fiscal risks can help ensure sound fiscal public and macroeconomic stability."

Modified Objective 2

AMR proposes to replace the current version ("allocation of resources in accord with strategic priorities") with "allocative efficiency and strategic reprioritization" (IWG: 24). This reflects its misplaced belief, discussed above, that the current framework leaves out reallocation.

Modified Objective 3

AMR proposes to reformulate objective 3 as "operational efficiency and service quality." This is because it is of the view that the current formulation does "not consider the accessibility and quality of public service delivery" and supposedly ignores issues of delivery choices/mode of provision (IWG: 25). This is a suggestion which is to some extent understandable when one notes that AMR takes as its reference point the Campos/Pradhan formulation of objective 3 ("technical efficiency in the use of budgetary resources"[10] rather than the superior version of the World Bank *Expenditure Management Handbook* ("efficient and effective use of resources in the implementation of strategic priorities"). However, as noted in Box 1, the *Expenditure Management Handbook* version is superior to the Campos/Pradhan formulation because it includes the all-important reference to *effectiveness* as a public finance objective. All of the supposed gaps that AMR identifies are covered by the *Handbook* efficiency-and-effectiveness formulation.

The real question is therefore whether it would be appropriate to replace the *Handbook* version with the AMR version. The answer to this question is "no," for a number of reasons (see Box 2) which may be summarized by saying it is better to emphasize effectiveness than quality.

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[9] Or in the IMF's (2106: 1) words, "comprehensive analysis and management of fiscal risks can help ensure sound fiscal public and macroeconomic stability."

[10] AMR uses "operational efficiency" rather than "technical efficiency," but there is no difference in meaning.

Box 2: Quality vs. Effectiveness

When specifying the public finance objectives that PFM should serve, it is better to refer to effectiveness than to service quality. "Quality" is a term which is very frequently misunderstood. In particular, it is often confused with effectiveness, although the two are – properly understood – not the same. Effectiveness refers to the extent to which outputs achieve their intended outcomes. Quality refers to the extent to which an output possesses attributes that maximize the probability that it will achieve those outcomes. For example, for health treatments, the outcomes are lives saved and disability reduced. Quality, on the other hand, means that the medical treatment delivered is appropriate for the condition treated and is delivered promptly. Quality is a means of achieving effectiveness, and effectiveness is the true end. Quality is not, moreover, the only characteristic of a service that determines its effectiveness. For example, the appropriate *targeting* of outputs may be a crucial determinant of their effectiveness – as in, for example, the targeting of preventative health messages at those who most need to hear those messages.

Effectiveness is thus both a higher-level and broader concept than quality.

The fact that there is widespread confusion about the meaning of the term quality is in itself an additional argument for preferring the use of the term effectiveness, which is less often misunderstood.

Turning to the proposed new objectives:

Proposed additional "democratic accountability" objective

Not every country in the world is a democracy. But PFM objectives need to be formulated in a manner which is relevant irrespective of the political system. "Democratic accountability " would seem therefore be a clear-cut case of a value-laden objective. It is, moreover, somewhat surprising to see this suggestion in a report which so vigorously criticizes "one-size-fits-all" PFM standards.

Proposed additional "fairness and legitimacy" objective

AMR proposes to add fairness as an explicit objective because it considers that the trinity "excludes" the objective of distributional equity (IWG: 23). However, distributional equity is an element of prioritization and is therefore fully covered by the existing objective 2. In other words, a key part of expenditure prioritization is consideration of the equity implications of the distribution of services and transfer payments[11].

AMR supports its case on this point with the claim that "while [distributional equity] could, in principle, be treated as an implicit consideration through allocative efficiency, it typically is not the case" (IWG: 23). However, it is a matter of common understanding that distributional equity *is* part of expenditure prioritization, not just something that some might possibly consider to be implicit in it. The list of PFM objectives is not, moreover, intended to be a manifesto for expenditure policy, and therefore does not need to list this or any other of the specific goals that influence expenditure prioritization[12]. If it were to do so, wouldn't it be necessary also to mention other major expenditure

[11] In the paper which first proposed the "trinity," Campos and Pradhan (1996: 1,7) were explicit is identifying equity as a key aspect of strategic prioritization.

[12] The authors also support their case on this point with an unfavorable comparison between the three PFM objectives and the Musgrave public finance objectives, which explicitly include distributional equity (IWG:

prioritization concerns — such as containing global warming and ensuring national security? Why only fairness?

As for the inclusion of “legitimacy” in this proposed new objective, three problems arise. The first is that “legitimacy” is a vague concept which can be given widely different interpretations. The second is that, somewhat like democratic accountability, it is a political system design preference. The third problem is that, whatever meaning is ascribed to legitimacy, it is a quite different concept from fairness and therefore should not be attached to it as part of the “same” objective.

Proposed additional “macroeconomic stabilization” objective

The context of this proposed new objective is the swing back within macroeconomic thinking to widespread support for the use, when required, of discretionary fiscal stabilization policies. This follows from a long period when majority opinion amongst macroeconomists held that fiscal policy should play a passive role limited to the operation of the fiscal automatic stabilizers and that only monetary policy should play an active counter-cyclical role.

We need to bear in mind, however, that the list of PFM objectives is not intended to constitute a manifesto for fiscal policy, any more than as a manifesto for expenditure policy. It is not the function of this list of objectives to serve as a statement of faith in activist Keynesian policies. All that is relevant for this list of objectives is the role of PFM. The relevant question is therefore: *to what extent does the need to be able to implement discretionary fiscal policy have implications for the design of PFM institutions?* The answer to this question is that although there are PFM implications, they are quite limited. The efficient operation of discretionary fiscal policy certainly requires that budget processes, expenditure mechanisms and the tax system are designed in such a manner that it is possible to deliver fiscal stimulus in a targeted and prompt manner. Even here, however, the main issues are not PFM issues but expenditure policy and tax policy issues. For example, the poor coverage of income support systems in the United States – which is an aspect of expenditure policy rather than PFM institutional design – was one of the main reasons why it proved difficult to deliver targeted assistance quickly to the unemployed during the COVIC-19 pandemic in that country.

The PFM implications of implementing discretionary fiscal policy are *much* more limited than the PFM implications of maintaining fiscal discipline. This is particularly true in developing countries where the scope for discretionary fiscal policies is in most cases considerably more limited than in advanced countries.

Nevertheless, the fact that the implementation of discretionary fiscal policies has *some* PFM implications is arguably sufficient to justify the inclusion of explicit reference to it within the set of PFM objectives. Whether it is worth adding as an additional point is, however, debatable. It would perhaps be better to modify objective 1 by replacing “aggregate fiscal discipline” with “aggregate fiscal discipline and fiscal stabilization” or something similar.

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22). However, this is an inappropriate comparison because public finance is much broader than PFM, and in particular includes expenditure policy and tax policy, both of which are direct instruments for distributional equity.

Against the background of the above discussion, we can now turn to AMR's claim that the trinity objectives are "strongly value-laden," and reflect the neoliberal mindset of the Washington consensus of the 1980s and 1990s (IWG: 20). It is difficult to understand this claim. The three objectives of fiscal discipline, strategic prioritization, and efficiency and effectiveness are all objectives which serve the welfare of citizens in any society. Objectives which are logically linked to citizen welfare in a very clear manner have every claim to be treated as neutral rather than value-laden.

As for the reference to the Washington consensus, only one of John Williamson's famous ten-point summary of the Washington consensus has any connection, direct or indirect, with the three trinity objectives. This is Williamson's point 1: "fiscal policy discipline, with avoidance of large deficits relative to GDP." There is no connection whatsoever between the trinity and any of the other nine Washington consensus points, including those that might be regarded as most "neoliberal" (e.g. privatization of state enterprises, deregulation, trade liberalization, and market-determined interest rates.)

The trinity objectives are quite neutral in that they take no position on ideological issues such as the size of the state and the mode of provision of public services, although they do provide criteria for making pragmatic judgments about some of these issues based on their results (e.g. the merits of in-house versus outsource provision of public services would be assessed based on its consequences for efficiency and effectiveness).

Assuming that we dismiss the naïve left-populist view that any emphasis on fiscal discipline is inherently neoliberal, the only possible justification for applying the neoliberal label to the trinity is the absence of acknowledgment of the stabilization function of fiscal policy. However, while this is – as discussed above – an omission, it hardly seems to justify labeling the trinity as "strongly value-laden" and neoliberal.

In summary, AMR's claim that the trinity objectives are narrow and value-laden cannot be accepted. Doubling the number of objectives, and in the process adding new objectives that are duplicative, imprecise or value-laden, would be unhelpful and would be most unlikely to "help to sharpen focus on how PFM influences government policy choices, government actions, and – ultimately – development results" (IWG: 40).

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