

Institution: De Montfort University		
Unit of Assessment: 17		
Title of case study: Building Capacity in Public Financial Management Around the World		
Period when the underpinning research was undertaken: 2016–2020		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s): Fred Mear	Role(s) (e.g. job title): Associate Professor	Period(s) employed by submitting HEI: 1 January 1990–present
Period when the claimed impact occurred: 2016–2020		
Is this case study continued from a case study submitted in 2014? N		
<p>1. Summary of the impact</p> <p>Ensuring financial aid is distributed and managed effectively has remained a challenge into the 21st century, even with the development of a common framework by the Public Expenditure and Financial Accountability (PEFA) Secretariat in 2010. A DMU research team, led by Fred Mear, carried out research in 2016 to analyse and evaluate the set of diagnostic tools used by governments and development partners around the world, identifying duplications and gaps, as well as the complementarity of different tools. The research has been used to create new resources for PEFA and their stakeholders, including a new typology of diagnostic tools to aid in selection and use. The findings have also informed the development of training materials, which have been delivered to European Commission (EC) staff and development partners from 50 different countries around the world.</p>		
<p>2. Underpinning research</p> <p>Providing financial aid to developing and transitional countries has long been problematic, not least because different donor countries approached the management and monitoring of aid in different ways, creating high levels of duplication. PEFA – the Public Expenditure and Financial Accountability programme – was established in 2001 as a means of harmonising the assessment of public financial management (PFM) across its seven international development partner organisations (EC, International Monetary Fund and World Bank, and the governments of France, Norway, Switzerland and the United Kingdom). However, for the first decade of PEFA's work, different countries were still using a wide range of diagnostic tools to assess and report on the strengths and weaknesses of PFM performance, and it was not until 2011 that international partners agreed to work towards a common framework, signalled by the Busan Partnership on aid effectiveness. As an initial step, PEFA first undertook a stocktake of existing diagnostic tools and then created a tool that could be used to look at overall performance of PFM systems. However, research was still needed to understand how far the duplication of the tools identified in the stocktake had been reduced, what new tools had been developed and how diagnostic tools related to the PEFA system tool. Work carried out by the team at DMU's Leicester Castle Business School from 2016 has shed new light on these questions.</p> <p>Led by Mear, and drawing on his extensive expertise in PFM in developing and transitional countries, the DMU team carried out PEFA-commissioned research to analyse the international PFM diagnostic tools used by development partners (those who monitor the management of public finances) around the world. The research compared diagnostic tools available in 2016 to those in use in 2010, identifying and analysing new tools and highlighting duplication and gaps in provision. The team identified 45 PFM diagnostic tools in three categories, which they used to develop a new typology of tools: broad PFM diagnostics, covering the entire PFM system; those focusing on individual elements of subsystems, such as tax administration and fiscal blueprints; and tools used to make decisions on fiduciary risk. The project found that there had been an increase in the number of tools available (33 in 2010, 45 in 2016) and that both the new tools and updates to existing ones had helped to fill the gaps in provision, most notably in non-financial asset management and budget-related performance. The team developed a</p>		

methodology to capture the characteristics of each tool and how each should be used. The research also mapped the range of diagnostic tools to the seven pillars of the PEFA system tool, enabling development partners to identify appropriate options for assessing the effectiveness of the PFM system and strengthen the PFM process. The growth in tools represented both a more consistent and comprehensive methodology and a richer complexity in choosing and coordinating internationally accepted tools [R1, R2].

This project led the team to explore the application of both PFM assessment and reporting tools in more detail in two areas. The first involved a study to codify good practices in financial reporting by sub-Saharan African governments. The researchers audited the financial statements of a dozen governments of sub-Saharan Africa and interviewed a range of stakeholders in each country, including senior financial government officials, civil society groups and the financial media. They then analysed the findings in relation to four broad indicative criteria – timeliness, understandability, openness and consistency – and then used the results to identify examples of good practice [R3]. The second study focused on China's local government debt, examining impacts of the urban construction investment bonds introduced by the central government to increase transparency and close some of the obscure financial instruments that had been in use. The researchers found that the majority of new local government financing being used was hidden and breached comprehensiveness and transparency criteria for the management of public finances, shedding light on the risks to the solvency and financial sustainability of China's local governments [R4].

Further research has taken the findings from this work on PFM and applied them to theories of innovation. Werner and Mear's research on the role of 'hidden champions' in German Small and Medium-sized Enterprises (SMEs) explores the concept of subsidiarity and how it encourages innovation, tracking its development within Germany over the past 200 years and comparing this to the approaches taken in the UK over the same time period. The research draws on the PFM studies to test the robustness of their hypothesis that subsidiarity creates an incentive for innovation. By moving away from project-based disbursal and monitoring mechanisms (which involved greater micromanagement and more resources, and had the potential to cause resentment in the receiver countries) towards the disbursal of funds to the general budget of the recipient country's fiscal administration, the receiving countries are given the responsibility and political authority to disburse the funds on the basis of the agreement that has been made. The research suggests that this decentralised aid disbursal via budget support, combined with investment in education, training and capacity-building, is bearing fruit. These findings also suggest that subsidiarity as a design feature of an incentive structure is likely to be a robust approach in different settings [R5]. This application of the work on the PFM system demonstrates the importance of the research, not only in relation to effective aid distribution and management, but also in a much broader business and innovation context.

3. References to the research

R1 went through standard processes when developing international standards and was overseen by the PEFA steering committee, was consulted on by the international community and are accessible to all online. R2 underwent review for acceptance into the conference, and R3 – R5 are published in rigorously peer reviewed journals.

- [R1] Mear, F., Wynne, A. and Hadziyiannakis, Y. (2017) 'Choosing the right tools to support PFM reform – PFM Diagnostic Instruments PEFA', technical report for PEFA Secretariat.
- [R2] Mear, F., Wynne, A. and Hadziyiannakis, Y. (2018) 'Living up to the Busan Partnership for effective development co-operation? Assessing Government Financial Systems World Conference on Business and Management', *The Challenges and Drivers to Human based Business Activities and Education under the 4th Industrial Revolution: Conference Proceeding Book* (ISSN 2384-3586);
https://www.academia.edu/37284681/World_Conference_on_Business_and_Management_2018_WCBM_2018_CONFERENCE_PROCEEDING_BOOK_The_Challenges_and_Drivers_to_Human_based_Business_Activities_and_Education_under_the_4_th_Industrial_Revolution_

- [R3] Wynne, A. and Mear, F. (2016) 'Government financial reporting: good practices from sub-Saharan Africa', *International Journal on Governmental Financial Management*, 16(1): 42–66; <https://www.icgfm.org/wp-content/uploads/2017/06/3-2.pdf>
- [R4] Lan, B., Mear, F. and Huang, J. (2017) 'New developments: China's debt transparency and the case of urban construction investment bonds', *Public Money and Management*, 37(3): 225–230; <https://doi.org/10.1080/09540962.2017.1282254>
- [R5] Mear, F. and Werner, R. (2020) 'Subsidiarity as secret of success: "Hidden Champion" SMEs and subsidiarity as winning HRM configuration in interdisciplinary case studies', *Employee Relations*, 43(2): 524–554; <https://doi.org/10.1108/ER-03-2020-0141>

4. Details of the impact

Work by researchers at DMU has built a new body of knowledge of the international financial management diagnostic tools in use, helping Development Partners working with developing and transitioning countries to increase both their understanding and their ability to navigate the selection of the tools on offer. The research has formed the basis of capacity-building in PFM around the world and created new resources to be used by Development Partners.

BUILDING CAPACITY IN PUBLIC FINANCIAL MANAGEMENT SKILLS THROUGH THE DEVELOPMENT AND DELIVERY OF EU TRAINING PROGRAMMES

Drawing on previous experience of delivering PFM training, the team used their research findings to rewrite two specific courses to reflect both their work on the PFM diagnostic tools and the more detailed case studies. Both courses have been developed to increase capacity by providing the knowledge and skills to manage, plan and monitor PFM reform effectively and in negotiating and implementing budget support programmes, the default approach for delivering effective aid. Acting Head of the EU Unit for International Partnership has said that the research carried out for the PEFA Secretariat has supported the unit 'in improving both capacity and decision-making skills for those negotiating and implementing the PFM reform strategies as part of the Budget Support programmes... [this] accounted for €1.6BN of the aid given by the EU in 2019'. [C1] DMU research has been used to underpin the following courses:

- The 5-day PFM Fundamentals training course (4-day online version) developed for those involved in designing, implementing or assessing the PFM reforms, and those using diagnostic tools to assess progress. The training provides a technical introduction to the diagnostic tools identified in the 2016 DMU research and explores ways in which the tools can be used together, also drawing on case studies developed from the research. A prerequisite for anyone involved in EU PFM, 3 online sessions and 8 face-to-face courses have been delivered since 2017, involving a total of 254 people (83 delegates online; 171 face-to-face), as well EU regulatory institutions such as OLAF (Anti-corruption Office) and EU Court of Auditors. [C1,2]
- The EU Directorate General for Development and Co-operation 3-day PFM Reform training course, delivered to staff from the EC headquarters and its delegations, with a focus on negotiating budget support contracts with Development Partners and national governments. The training course refers directly to the findings of the 2016 research, looking in depth at identifying weaknesses of the PFM systems and selecting and using different combinations of tools to develop a coherent reform strategy. Since reframing the material using the team's research in 2017, the programme has been delivered to 72 delegates across 8 courses. The delegates are primarily concerned with negotiating conditionalities for Budget Support and come from a range of positions including institutions from the Directorate Generals of: Development and Co-operation, Economics and Finance, Partner Governments and partner aid agencies. [C1,3]

Feedback from both courses has been very positive, with the majority of participants finding it either useful for their current role or helping them to prepare for future roles. Specific examples include the macro-economist and programme officer for the EC who states that the training has helped him in two of his job roles, first in the General Directorate for Economic and Financial Affairs in Brussels and, since August 2020, as part of the EU Delegation to the Kyrgyz Republic:

'The training and the use of PFM diagnostic tools allowed me to more easily identify the weaknesses and needs of Public Financial Management systems. This knowledge and access to diagnostic tools in a clear and concise way with guidance on how to use the tools has helped in both the analysis of weaknesses and identifying reforms to prioritise in accordance with International Good Practice. The guidelines are particularly helpful in identifying the links of the multitude of diagnostic tools to the system weaknesses identified by the PEFA assessments.' [C4]

This participant has been able to apply what he learned about the diagnostic tools to the development of conditionalities for the second and third programmes under the instrument of Macro-Financial Assistance in Jordan, totalling EUR900,000,000 (2017 and 2020). In his current role as economist responsible for macroeconomic and PFM issues in the EU Delegation to the Kyrgyz Republic, he has applied the learning to monitor the authorities' PFM reform Action Plan as adopted on 30 June 2020 in the context of ongoing budget support programmes [C4].

The benefits of the training are mirrored by First Secretary of the Swedish Embassy in Cambodia, who attended the PFM Reform training in November 2018. She has stated that what she learned on the course has 'helped ... tremendously in [her] work in Cambodia' [C5]. The knowledge she gained has enabled her both to carry out her role more effectively and to provide essential information to colleagues, something which she says she would have been unable to do if she had not attended the training. She states, 'I am without doubt that the knowledge I gained during the PFM course before my deployment made my work easier and more importantly added value not only to Sweden and EU but essentially to the Cambodian efforts to reform the PFM sector in their country' [C5].

The application of the training and research in fragile states was endorsed by the EU attaché for Public Finance and Budget Support in Afghanistan, who stated:

'The training and the use of PFM diagnostic tools have assisted me in my role as Programme Officer for public finance management and as task manager of the EU State and Resilience Building Contract at the EU delegation to Afghanistan. The training deepened my understanding of Afghanistan's PFM systems and particularly the diagnostics to use in assisting the fight against corruption and in designing and monitoring the implementation of budget support operations.' [C6]

BUILDING CAPACITY THROUGH BESPOKE TRAINING PROGRAMMES: MOLDOVA, AZERBAIJAN AND THE GAMBIA

As well as training courses, Mear and colleagues have also developed and delivered bespoke support to build capacity related to using specific PFM tools in specific situations. Examples include working in Moldova on accounting legislation (May and November 2016, drawing on the research as the initial fieldwork was being carried out), in Azerbaijan on improving its PFM system in line with international standards (October 2017), and in The Gambia on rebuilding PFM on its return to democracy (December 2018). Training in The Gambia was attended by 28 delegates, including senior staff in the Ministry of Finance, the Ministry of the Interior, the Gambia Office of Statistics, the Gambia National Audit Office, the Accountant General Department, the Central Bank of The Gambia, and the Office of the President. In the televised opening remarks, the Deputy Permanent Secretary of the Ministry of Finance and Economic Affairs highlighted the importance of the training for those involved in the implementation of the reform programmes for The Gambia and the value of applying the learning to the government reforms. Feedback from the training demonstrated its importance, with participants saying it was 'very essential and relevant to my work' and that the experience 'will enable my capabilities in executing my duties at work.' [C1,C7]

BUILDING CAPACITY IN PUBLIC FINANCIAL MANAGEMENT SKILLS FOR CHINESE GOVERNMENT OFFICIALS

Since 2017, Mear has also delivered training to visiting Chinese government officials. Across a total of 10 courses, 160 delegates have attended the training, aimed both at Chinese Ministry of Finance officials and at Chinese provincial government officials to support their transition to international PFM standards. Attendees have included the Deputy Director and senior staff

members of the National Development and Reform Commission (the body in charge of China's macroeconomic planning, responsible for formulating and implementing strategies for national economic and social development and coordinating major economic operations); senior officials within the Supervision and Evaluation Bureau of China's Ministry of Finance; senior officials from the Department of International Economic Relations, Ministry of Finance; and regional delegations (including XinXing, Guangzhou, Sichuan, Hainan and Guangxi Zhuang) [C8].

CREATING NEW RESOURCES FOR DEVELOPMENT PARTNERS

The research commissioned by PEFA led the team to create two new resources for development partners, made available through the PEFA platform. The first, the Stocktake of PFM Diagnostic Tools 2016, provides a detailed overview of available tools, highlighting which are new and where updates have been made. The guide also creates a new typology for the tools, identifying three categories that enable a more informed choice. The annexes to the report are specifically designed to help stakeholders select and coordinate diagnostic tools, by providing an overall view, identifying complementarity of technical coverage, and providing details on the basic elements of each tool, as well as web links where available. The second resource, the much shorter Guide to PFM Diagnostic Tools, draws on the Stocktake to provide users with an outline mapping of the tools and their complementarity. These resources help development partners to apply the appropriate combination of diagnostic tools for their particular situation, which helps to identify weaknesses in the system and improve aid effectiveness [C9].

INFORMING THE NEXT PHASE OF PFM REFORM

In 2018, Mear was appointed as the Academic Lead on the Forward-Looking Advisory Group (FLAG) for the PEFA Secretariat reviewing the next phase in supporting PFM reforms. FLAG includes senior representatives from partners countries – the former Minister of Finance and Planning Ghana; the former First Deputy Minister of Finance Georgia; Ministry of Finance and Credit Columbia; and the former Minister of Economy & Finance Guinea – as well as representatives from the International Budget Partnership and the African Development Bank. Mear is the sole academic representative [C10]. The Advisory Group undertook technical analysis of the drafts and working papers prepared by the study team and provided expert advice to the Steering Committee on the quality, implications and use of the review findings. The PEFA Steering Committee is a high-level committee that provides strategic direction to, and oversight of, the PEFA programme, and commissioned an analytical study to provide the Committee 'with a common basis and to propose options to define the future PEFA program in terms of focus and scope, development of the framework, organization of the Secretariat function, and funding modalities'.

5. Sources to corroborate the impact

- [C1] Testimony: Acting Head of Unit, International Partnerships for the European Commission
- [C2] Attendance for EU fundamentals.
- [C3] Attendance for EU PFM Reform.
- [C4] Testimony: Macro-Economist and Programme Officer for the European Commission.
- [C5] Testimony: First Secretary of the Swedish Embassy in Cambodia, SIDA.
- [C6] Testimony: EU attaché (PFM and Budget Support) Afghanistan, European External Action Service.
- [C7] The Gambia: opening remarks and delegate list.
- [C8] Delegate lists and total numbers for EU Fundamentals and PFM Reform courses.
- [C9] Links to reports on PEFA website.
- [C10] FLAG membership list.