Reimagining Public Finance

Managing Public Resources for Development Outcomes

MENA Regional Consultation
Cairo, 27 February 2024
Background

• 25 years from the publication of the PEM Handbook
• Many lessons learned, many new challenges
  – Successful development of international norms and standards
  – Some success in improving PFM systems, less in improving PFM outcomes
  – Clear shortcomings and increasing criticism of existing approach
  – New challenges and pressures on public finances (fiscal squeeze, climate change, growing inequalities, etc.)
  – Need to integrate PFM with other systems and broader institutions/political economy
• It’s time for a rethink...
The "old" approach
What is the role of Public Finance?

What are the bottlenecks?
<table>
<thead>
<tr>
<th>Development Outcome</th>
<th>Public Sector Results</th>
<th>Fiscal Policy Results</th>
<th>Fiscal Institutions (Fiscal Policy &amp; the PFM system)</th>
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</thead>
<tbody>
<tr>
<td>Low levels of basic literacy and numeracy.</td>
<td>Poorly motivated teachers, incapable of imparting basic literacy and numeracy to learners using established pedagogical tradition. Insufficient and unpredictable availability of learning materials. Inequitable distribution of schools with school infrastructure in poor condition.</td>
<td>Low tax/GDP ratios limits funding available for social sectors. Education sector spending skewed towards tertiary and secondary. Teachers are poorly paid and not distributed according to staffing norms. Absence of spending on teacher development and oversight. Low and unpredictable spending on learning materials and school maintenance. Education infrastructure investments reinforces existing inequities in access.</td>
<td>There is no political consensus on the need to provide adequate resources for basic education. Political focus is on new school infrastructure not quality. Lack of credible, affordable, and realistically costed norms for basic education inputs and functions. Insufficient information on educational inputs and performance to inform resource allocation. Centralized decision making and procurement of learning materials do not reflect school needs. Absence of objective criteria for targeting school infrastructure investments decisions. Unpredictable financial flows during the year for non-salary spending.</td>
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<td>High and growing levels of income inequality.</td>
<td>Regressive tax and transfer system. Inadequate programs providing support for disadvantaged groups.</td>
<td>Tax system relies too much on regressive indirect taxes. Widespread tax avoidance and evasion amongst high and middle-income groups. Insufficient funding for inequality-reducing programs. Poor targeting of inequality-reducing programs.</td>
<td>Weak political support for income redistribution through tax &amp; spending. No distributional analysis of budget policy proposals. Large discretionary tax expenditure. Weak tax administration with limited incentive to expand registration and ensure compliance. Lack of data and systems to target programs on citizens from targeted groups.</td>
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Group discussion 1

• Guiding questions:

  a) What were the main **successes** of PFM reform in your country over the past 25 years? What should we celebrate and build on?

  b) What are the main **challenges** going forward? What should we look out for and change/adjust?

• Each participant writes down 2/3 successes and challenges (one per post it) and puts them on the flip chart.

• Each table discusses groups the post-its and agrees on main points

• Quick report back in plenary
Group discussion 2

• Each table has been assigned a development outcome
• Use the proposed framework to answer the following questions:

  a) How can Fiscal Policy and the PFM system contribute to key public sector results (and development outcomes) in your area?
  b) Where and how does this contribution more often break down?
  c) What do we need to do differently to make public finance work for the outcome?
Next steps

Phase 1
1) A global conversation
2) Background research
3) Global report and conference

Phase 2
4) Resources
5) Country-level engagement