



# Assessing public financial management capabilities in Africa

## 1. Introduction

There is an emerging consensus in the development community that progress in improving public financial management (PFM) outcomes in Africa has been limited despite a plethora of reform efforts, mainly because governments often lack the underlying capabilities to make proper use of reform opportunities (see, e.g., Andrews 2013; Whiteman 2013). Even with firm policy commitment and increasing external resources, the functioning of PFM systems can be hamstrung by weaknesses in organisational and personnel capabilities that usually serve as gears moving the complex machinery of a government's financial system. The role of capabilities as intangible assets is even more pronounced in PFM since final outcomes are often dependent on a series of actions taken by multiple agents operating along the budget cycle. Therefore, it is essential that policy makers and other stakeholders have a clear understanding of the strengths and weaknesses in the underlying capabilities within organisations as well as across organisations tasked with various aspects of the budget process.

This framing paper presents the background, framework and methodology for CABRI's PFM capabilities assessment programme. In its engagement with senior African finance and budget officials, CABRI works to improve capabilities to reform PFM systems in a demand-led and deliberative manner. However, there is an apparent gap in the availability of rigorous, actionable and replicable assessments of existing capabilities as well as problems and bottlenecks that constrain the improvement of capabilities across PFM systems in Africa. One of the most well-known and consequential assessments of PFM systems in the world, the Public Expenditure and Financial Accountability (PEFA) programme, explicitly states that their indicators do not cover capabilities which they also say should be considered in conjunction with PEFA assessments as part of a dialogue

on PFM reform (PEFA Secretariat 2016). Moreover, a recent stock-take of PFM diagnostic tools compiled by the PEFA Secretariat (2018) identifies no tool dedicated to assessing PFM capabilities in a comprehensive fashion. We view the current assessment as an important first step to provide some insights into this missing piece of PFM knowledge in the context of African countries.

Specifically, the PFM capabilities assessment seeks to achieve the following objectives: (i) provide CABRI member countries with a diagnosis of the institutional and personnel capabilities in selected priority areas in a way that informs country-driven reform efforts; (ii) allow CABRI and other stakeholders in the field of PFM to have a targeted approach to building PFM capabilities, including better matching for peer learning activities; and (iii) build qualitative and quantitative databases facilitating assessment of improvements in PFM capabilities over time.

The assessments are designed as in-depth country studies with some element of comparability across cases/countries. A problem-driven approach is adopted for determining the substantive scope of the assessments. In other words, country officials are requested to identify key problem areas in the functioning of the PFM system in their context and prioritise specific dimensions for the assessment. Typically, officials are asked to identify PFM functions along the budget cycle which they believe are contributing to the core budgetary challenges their country is experiencing. Generally, the assessment covers both organisational and personnel aspects of PFM capabilities by examining systemic capacity to carry out selected PFM functions together with human resource factors.

The remainder of this framing paper is organised as follows: section 2 lays out the conceptual framework for analysing capabilities in general and PFM capabilities in particular; section 3 presents the methodology that will be applied in the assessments; and section 4 concludes.

## 2. Conceptual framework

The bare-bones definition of state capability can be put as *the ability of government organisations to deliver on their mandate*. There is a distinction between the ability to deliver and the tangible and intangible resources available to carry out that function, as clearly laid out in Dressel and Brumby (2012: 32):

*Capacity is by its nature a term that relates to the inputs available, rather than the outputs produced. Whereas, we see capability as the ability to marshal combinations of inputs and influence the external environment to yield production.*

This means capability can have multiple dimensions and it can be found diffused between several actors. Baser and Morgan (2008) apply systems theory to conceptualise capability as an emergent property or the effect of multiple interactions. Based on a review of several case studies, they characterise capability as a systems phenomenon as follows:

*It [capacity/capability] came out of a complex interplay of attitudes, assets, resources, strategies and skills, both tangible and intangible. It had technical, organisational and social aspects. It emerged from the positioning of an organisation or system within a particular context. And it usually dealt with a soup of complex technical, organisational and social activities that could not be addressed through exclusively functional interventions. (Baser and Morgan 2008: 23)*

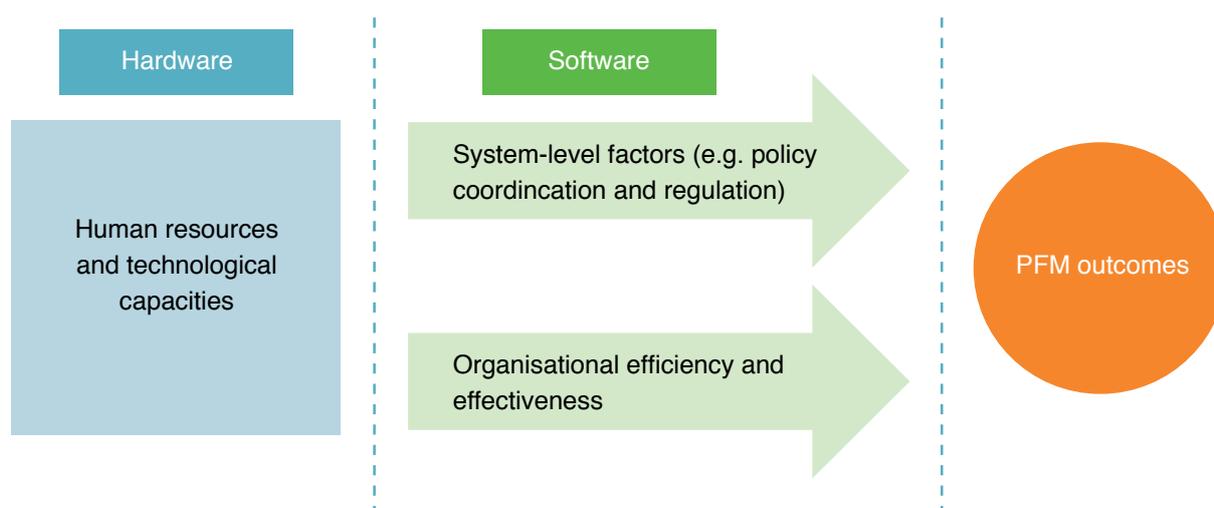
This characterisation sets the stage for the analysis of state capability as a combination of individual, organisational and system-level capabilities layered on top of each other as well as interlaced together. Moreover, Baser and Morgan (2008) framed capability as a *potential* state which has more to do with latent energy than kinetic energy, in contrast to *performance* which is linked to execution. This is an important distinction from the point of view of the conceptual and methodological need to distinguish between capabilities and the outcomes they are expected to shape. However, it is not always straightforward to operationalise that distinction since it would require factoring in the constraints that are preventing the 'potential state' from resulting in actual performance. As Williams (2020: 339) argues, 'whereas capacity refers to bureaucracies' hypothetical potential, this usually differs from their actual actions due to internal information and incentive problems created by bureaucracies' collective

nature, and the constraints and uncertainty imposed by their multiple political principals'.

The scope and definition of capability as employed in this project is broad enough to encompass both the narrow notion of capacity (i.e. volume of inputs such as human resources and information communication technology systems) and the more intangible conceptualisation of capability (i.e. the efficiency and effectiveness of organisations in using these inputs to achieve their objectives). Figure 1 depicts the tangible and intangible aspects of PFM capabilities as the hardware and software of a computer system functioning in tandem to produce PFM outcomes. The hardware usually consists of tangible capabilities such as personnel expertise and information technology capabilities, whereas the software represents the organisational or extra-organisational capabilities that determine the efficiency with which the hardware is used to produce the final outputs.

The central objectives of the modern state can be encapsulated in the following four functions: delivering public services and implementing policy; regulating the private sector and downstream public sector agencies; coordinating activities occurring across disparate units and jurisdictions; and formulating, monitoring and evaluating public policy based on analytical evidence. Accordingly, Lodge and Wegrich (2014) classify the administrative capabilities of the state into four broad categories: delivery, regulatory, coordination and analytical capabilities. We adopt this typology of administrative capabilities to break down different aspects of the PFM functions carried out by ministries of finance and other agencies. The definition and scope of the four categories of administrative capability in the specific context of PFM as it is used in this project are given below:

- **Delivery capability:** the capability of government units to fulfil their primary mandate, which often involves offering a product/service to or enforcing obligations of citizens, private sector organisations or other government units. In the realm of public finance, the delivery functions of government units may include, among other things, formulating a budget, collecting revenues, procuring goods and services and producing financial reports. In most cases, delivery capability consists of primarily the people in charge of execution and the resources they require to fulfil their objectives.
- **Regulatory capability:** the oversight capability of government agencies with respect to the functioning of other government and non-government organisations to ensure compliance with predefined rules and regulations. External audit and parliamentary oversight can be considered the most obvious regulatory functions in a typical PFM system.

**Figure 1: Capabilities as a hardware and software system**

- Coordination capability: applies, according to Lodge and Wegrich (2014: 13), 'to those areas where collaborative governance is supposed to take place and where, therefore, coordination is about bringing together and aligning organisations from different backgrounds under often tricky conditions'. Mayne et al. (2020) refer to this as 'collaborative capability' and describe it as the breadth and depth of cross-silo, cross-sector and state–society relationships. This is a common scenario in PFM since the budget cycle usually spans almost the entire state apparatus populated with several semi-autonomous organisations. The coordination problem is even more complex when intergovernmental fiscal relations are added to the picture. The Ministry of Finance, together with other central financial agencies, often carries out most of the coordination function in PFM.
- Analytical capability: the broad set of data and analytical capabilities the modern state requires to formulate, monitor and evaluate policies as well as learn from the process. In the context of problem-oriented governance, Mayne et al. (2020) identify the following types of specific capabilities which can be considered to fall in the broad category of analytical capabilities: reflective-improvement capability and data-analytic capability. The first type of capability focuses on understanding problem complexity, formulating theory of change, and learning from iterative actions taken to solve a certain problem. The second type of capability is more broadly defined as 'the capacity to collect, process, analyze, and ultimately learn from varied forms of information' (Mayne et al. 2020: 34). The analytical capabilities relevant for PFM often include macro-fiscal analysis, revenue forecasting, programme evaluation and long-term planning.

The above typology of administrative capabilities will be used to examine the capacity of the state to maintain the following dimensions of a functional PFM system, as defined in Andrews et al. (2014), covering the whole budget cycle:

- Prudent fiscal decisions;
- Credible budgets;
- Reliable and efficient resource flows and transactions; and
- Institutionalised accountability.

The fact that the assessment covers the whole budget cycle implies that the capabilities of a broad range of institutions may need to be assessed. These include central finance agencies (such as the Ministry of Finance or Budget), parliamentary committees, supreme audit institutions, a selected set of ministries, departments and agencies (MDAs) as well as other government bodies with de facto power in PFM (depending on the case under assessment). The type and significance of the role each of the above governmental bodies plays in a PFM system varies across countries. Some countries have highly concentrated systems centred around central finance agencies (CFAs) such as ministries of finance whereas other countries feature a deconcentrated system with a number of autonomous or quasi-autonomous institutions. Therefore, the assessment framework will be flexible enough to be able to evaluate PFM capabilities in both hierarchical and network governance contexts.

The conceptual framework for the assessment is set under the assumption that there are two broad categories of capabilities: capabilities to carry out day-to-day activities (static capabilities) and capabilities to reform and create new capabilities (dynamic capabilities). In the case of static capabilities, it is crucial to distinguish form from function. The assessment is expected to go beneath the surface to find out if formal laws and 'best practice' solutions are actually enforced and practised. It is also important to examine whether a given PFM system has sufficient

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resilience to maintain existing capabilities by reducing the effects of institutional pathogens such as patronage and external shocks.

The capability to reform and build new capabilities is a critical component of the success or failure of PFM reform efforts. The level of capability to reform is manifested in how reform is initiated including how problems are diagnosed. The capability to sequence and monitor reform efforts is also an important aspect of PFM reform. However, the most basic gears of the bureaucratic machinery that drives reforms are incentives. In this regard, the interaction between incentives and existing capabilities in the reform process needs to be considered carefully. Specifically, the incentives of implementors (i.e. middle-level officials responsible for translating the visions of political leaders into actions) in deviating from established practices and, in the process, taking risks may be crucial for the success of reforms.<sup>1</sup> In the public sector, incentives are a key determinant of accountability bridging the monitoring gap between the principal and the agent. Therefore, it is important to ask which areas of capability respond to external performance pressure (what Andrews et al. [2017] refer to as 'thin accountability') vis-à-vis which areas are heavily influenced by internal folk culture (i.e. 'thick accountability').

The prospects for acquiring further capabilities depend on an organisation's ability to experiment, adapt and learn from its own and others' experiences. As such, the capability to reform is a function of the room available to make marginal adjustments and systematically learn from the process. Accordingly, the assessment examines whether the preferred mode of reform in a PFM system is incremental experimentation or bouts of reforms that follow 'best practice' blueprints. In relation to that, it is useful to explore how capability is sustained after donor engagements have been phased out. The sustainability of reforms is often undermined not only by the ending of donor engagements but also by the departure of local reform champions who have held key positions in PFM systems.

Since the budget is as much a political process as a technical one, the assessment will be set in the appropriate political economy context with due consideration for political institutions and interest groups. The political process is recognised as both a potentially enabling and constraining factor in acquiring PFM capabilities. This is combined with the emphasis on incentives to determine the extent to which acquiring PFM capabilities is politically incentive-compatible in a certain system at a given point in time.

The present assessment draws inspiration from an existing body of work attempting to apply the concept of capabilities to examine the performance of finance ministries as well as devise a framework to measure the level of those capabilities. Among studies making up the most recent vein of literature on the subject, Allen et al. (2015) lay the foundation for understanding the functions and organisational structures of ministries of finance as the centrepiece of the PFM system in many countries. This is complemented with a work by Krause et al. (2016) which applies the typology of administrative capabilities presented above to the case of ministries of finance. CABRI has also conducted a series of case studies in several African countries focusing on the coordinative capabilities of ministries of finance to better manage capital and recurrent expenditure (see CABRI [2017] for a synthesis report). This assessment deviates from those previous studies in that it attempts to look into system-wide capabilities beyond the confines of ministries of finance.

In summary, the PFM capabilities assessments will be informed by a broad conceptualisation of capability applying to all relevant dimensions of a functional PFM system. Typologically, we adopt the classification of state capabilities into delivery, regulatory, coordination and analytical capabilities. The institutional scope of the assessment will potentially encompass a number of organisations. Both static and dynamic aspects of capability will be considered with due emphasis on incentives and political economy factors.

<sup>1</sup> Migdal (1988) makes a strong case for why the 'implementor's dilemma' is a key part of the weakness of states in the developing world.

### 3. Methodology

Each assessment begins with defining the thematic scope in consultation with country officials. This means officials are requested to identify which PFM functions need to be prioritised for the assessment. This includes identifying MDAs to be interviewed. The assessment involves extensive data collection, collation and analysis.

#### Measurement

The first step in operationalising the concept of PFM capabilities adopted for this assessment is distinguishing between organisational capabilities and personnel capabilities. Even though personnel performance is expected to be a key determinant of organisational capabilities, an attempt will be made to disentangle the purely human resource dimensions of underlying capabilities from the ones that are institutionalised enough to be insulated from personnel discretion.

Organisational capabilities are assessed for specific functions falling under the four broad dimensions of a functional PFM system identified in section 2. Most PFM functions require the involvement of multiple actors to be effectively carried out. Therefore, several open-ended questions are posed to as many of those relevant actors as possible to determine the state of capabilities through triangulation. Each PFM function may fall in one of the four categories of administrative capabilities (delivery, regulation, coordination and analytical), or may have elements of two or more of those categories. As such, assessing the capabilities in a particular function involves determining whether it has a delivery, coordination, regulatory or analytical dimension and how various elements of the function are distributed across these four dimensions.

Although, conceptually, underlying capabilities need to be distinguished from outcomes, practically, capabilities are often deduced from observable performance. The key in teasing out the capabilities that may have been involved in generating an observed outcome, or lack thereof, is to determine how much of the performance is attributable to internal inputs and efficiency as opposed to exogenous factors. A certain outcome can be predominantly attributed to exogenous factors (e.g. donor effort), providing no evidence of underlying capabilities in the system. On the contrary, a lack of desired outcome can be caused by exogenous shocks or failures beyond the control of relevant organisations despite sufficient latent capabilities.

Gauging the extent of existing capabilities requires some form of benchmarking. The most obvious benchmark is the official mandate of the set of organisations responsible for the function at hand and the type of capabilities required to fulfil those mandates. At an organisational level, the needs and expectations of other stakeholders interacting with a given organisation in the process of carrying out a function can constitute a benchmark to assess existing capabilities.

Personnel capabilities are measured separately from institutional capabilities using a series of parameters such as motivation, skills alignment, recruitment and promotion practices, capacity building and mentoring, reform experience and performance monitoring. Since it is not easy to directly assess the subject-matter knowledge and relevant skills of personnel in a diverse set of units using a short survey, our strategy is to evaluate the proximate factors that are expected to influence the overall capabilities of civil servants to carry out their duties.

Finally, once the organisational and personnel aspects of capabilities in selected PFM functions are assessed separately, the analytical section of the assessment attempts to shine a light on the link between the two dimensions to provide a more holistic view of PFM capabilities.

#### Data collection

The data required to conduct a systematic assessment of PFM capabilities come from both primary and secondary sources. Data collection proceeds in two steps.

1. Desk research: this consists of document review and media content analysis. The document review aims to extract relevant qualitative and quantitative data from a variety of relevant publications such as legislative documents, constitutional documents, strategic plans, and reports including other assessments (such as PEFA). This will largely provide information on the de jure PFM system as well as set a point of departure for the analysis of de facto practices that is expected to be conducted through primary data collection. The media content analysis will complement the document review with highlights of actual developments in the PFM system including media reports on reform initiatives and standard processes.
2. Fieldwork: the fieldwork is aimed at primary data collection using both structured and unstructured interviews. Typically, the primary data collection consists of two components reflecting the main pillars of institutional capabilities discussed in the conceptual framework in the preceding section: organisational assessment and personnel assessment components.
  - Organisational assessment: this component focuses on organisational and systemic capabilities in specific PFM functions identified through the scoping exercise. Data are collected using a semi-structured organisation-level questionnaire aimed at collecting PFM-specific information from representatives of various units involved in the PFM system.
  - Personnel assessment: this component focuses on measuring the human resource capabilities of the PFM system to carry out specific functions identified as a priority. Data are collected using a structured questionnaire administered to a

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sample of civil servants in the Ministry of Finance and selected MDAs or subnational administrative units. This module collects data on the motivation, incentives and reform experiences of public officials.

### Expert validation and triangulation

The raw data collected through structured and semi-structured interviews will be presented to a panel of experts for validation. The panel will be composed of independent experts from academia, donor agencies and other institutions not directly involved in PFM. The feedback from experts will be used to triangulate the information obtained through questionnaires.

### Data compilation, analysis and report writing

The primary and secondary data collected as part of the document review, media content analysis, key informant and structured interviews will be compiled. Parts of the qualitative data will be coded to potentially create an index along with the quantitative data collected. The data will be analysed with the aim of providing a complete picture of the state of capabilities in important PFM issue areas. A standalone report will be produced for each country assessed along with a by-product of quantitative/quantifiable data amenable to a cross-country index.

### Dissemination and policy outreach

The primary objective of the assessment is furnishing rigorous and actionable evidence for the benefit of policy makers in the countries covered. As such, we attempt to distill the most salient and policy-relevant insights of the final report into a short policy brief. This is complemented by outreach activities involving CABRI focal points in the respective ministry and teams participating (or that have participated) in the Building Public Finance Capabilities Programme. Most of the key insights in the reports are arrived at using information collected from a number of officials and other stakeholders directly participating in the system. If we consider those pieces of information as a series of dots well known to some or all policy makers, the most important value-add of the assessment report comes in the form of connecting those dots and adding a layer of analytical perspectives based on the raw data. This is expected to help policy makers make more informed

reform decisions by reducing analytical blind spots and offering a more nuanced picture of existing capabilities across the system.

The secondary objective of the assessment is contributing to the knowledge base of the academic and international development communities on PFM reform in developing countries. The qualitative evidence on organisational capabilities from the case study countries will add to the repository of context-rich perspectives on PFM reform in African countries, enabling development partners to fine-tune their approaches. On the other hand, the quantitative survey data on personnel capabilities will help create a multi-country database featuring a series of comparable variables that can be used by policy and academic researchers.

## 4. Conclusion

In this framing paper, we have presented the rationale behind CABRI's PFM capabilities assessment programme together with the conceptual framework informing the choice of approach as well as the methodology employed. The need for a rigorous assessment of key PFM capabilities in African countries is rooted in the manifest gap in the understanding of structural factors affecting the effectiveness of PFM reform efforts across the continent. As such, the assessment attempts to pay close attention to the distinction between PFM reform outcomes and the underlying capabilities that often interact with policies to lead to those outcomes. We also endeavour to examine both the organisational and personnel dimensions of PFM capabilities in the specific areas prioritised by country officials as requiring further evidence.

We anticipate each assessment to have broad policy implications for the country in question as well as for regional and international development partners working in the area of PFM. Much of the value-add comes from going beyond summarising raw information obtained through interviews and shedding light on the interaction of various factors that may have led to existing capabilities or the lack thereof. Although organisational and personnel capabilities are analysed separately, the key findings are woven together, illuminating the link between the human resources and institutional elements of PFM reform.

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