



Edited by

Richard Allen · Philipp Krause

Contemporary Issues and Challenges in Public Financial Management

Responding to Global Crises

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March 2025

Richard Allen
Philipp Krause

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Introduction

Richard Allen and Philipp Krause

In the more than 15 years since the Global Financial Crisis (GFC), public finance and public financial management have rarely been out of the headlines. This started with the long tail of fiscal repercussions of the crisis itself, including the European debt emergency, which occupied the attention of policymakers for much of the last decade (Tooze 2018). With the outbreak of Covid-19, public finance was again at the heart of public discussions, as governments rushed to pay for extended lockdowns and roll out public health responses. As this book is being edited in 2024, policymakers are debating how to pay for a significant increase in defense spending following Russia's 2022 invasion of Ukraine and conflict in the Middle East, as well as higher energy costs and food prices.

This book makes the case that public financial management (PFM) is a field of considerable strategic and policy importance, an importance

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that has grown significantly since the Global Financial Crisis. How has the complexion of PFM changed since the last reference books were compiled more than ten years ago? In this introductory chapter, we first present the supporting arguments for this case: why this volume is relevant and important, what is its target audience, what topics are covered and for what reasons, what topics have not been included, and how the book is organized and structured. We also consider PFM as a topic of research interest and its status in academia.

Second, we summarize the key issues and themes covered by the 13 chapters of the volume which fall under five broad headings: (i) the institutional and governance framework for PFM; (ii) the development of modern budgeting, treasury, and strategic planning practices; (iii) the expanding scope and coverage of PFM; (iv) fiscal transparency, public participation, and fiscal risks; and (v) the digitalization of public finance systems. We also highlight several themes that cut across technical areas of PFM and are institutional rather than technical in nature. The book both looks backward and forward in time: in some areas (and not only digitalization); we should add a caveat that technical progress is so fast that what we write today may no longer be relevant tomorrow.

1 THE IMPORTANCE OF PFM IN THE FACE OF GLOBAL CRISES

While many public debates are primarily about big questions of policy (how much to spend and how to pay for it), PFM—broadly, the institutions that govern public finance (Allen et al. 2013; Andrews et al. 2014; Kristensen et al. 2019)—is never far away from the headlines. For instance, PFM considerations were critical during the debt crises in Greece and elsewhere—how can debt sustainability be institutionalized to prevent another crisis from forming?—(Spanou 2020; Kaplanoglou and Rapanos 2013), and during the pandemic response—can governments deliver benefits to citizens quickly and accountably?—(Rahim et al. 2020; WHO 2022).

How has PFM evolved since the Global Financial Crisis, and to what extent was change driven by crises and shocks, as opposed to the slow evolution of practices and norms? Both arguments can be made. The global crisis underscored the need for PFM systems to be functional and resilient to prevent future crises as much as possible, as well as limiting the impact of exogenous shocks. However, what exactly that means in

practice is by no means settled. In retrospect, the majority view emerged that the major OECD economies shifted from stimulus to tightening too quickly in the 2010s (Wanna et al. 2015; Tooze 2018). There was no clear pattern regarding the institutional consequences of these fiscal policy changes. In the UK, austerity was both unprecedented and long-lasting, resulting in deep cuts to public services (Hood and Himaz 2017). At the same time, fiscal governance changed little between 2010 and 2015. In contrast, Germany implemented a much more restrictive fiscal rule over the 2010s. Irrespective of the scale of institutional reforms, which were largely modest, most countries in the OECD concluded that PFM systems need to be able to implement emergency fiscal responses to shocks without being held back by fiscal rules that do not have emergency provisions.

Many other changes over the period were, in contrast, driven by structural trends. For instance, huge advances in computer technology have transformed public sector management, including PFM, in ways that had little to do with major fiscal events. In many developing countries, governments have innovated and reformed their PFM systems, with and without support from development organizations. The standardization of PFM practices through assessment tools like PEFA and formal guidance issued by the OECD, the IMF, and others have expanded dramatically. These trends have been welcomed, criticized, and been the subject of extensive debate over the years. Yet there has not been a dramatic improvement in the quality of PFM institutions, and the extent and depth of debt distress in low-income countries since 2022 raises questions about the efficacy and impact of years of technical assistance and advice.

The volume makes the case that many changes during the last 15–20 years have affected the focus and coverage of public finance and PFM. A series of shocks—economic, financial, health related, and climate related—have challenged policy orthodoxies and fiscal policy responses. Political agendas have shifted and priorities for budgeting and finance have altered. Development organizations, including the IMF and the World Bank, have aligned themselves with this political flow, and the tools and practices of budgeting and PFM have changed accordingly.

This transformation of priorities raises some important questions. Are development partners and PFM practitioners concentrating their efforts on the right areas of PFM? Have the new focal points squeezed out technical support on basic budgeting and PFM systems where developing countries still have huge needs and where performance has barely

improved since the mid-2000s? Has the approach to PFM become dangerously fragmented, creating highly specialized zones of expertise but ignoring the fundamental unity of PFM as a subject? Why has overall PFM performance hardly improved over the past 15 years, and how could PFM make a better contribution to fiscal outcomes? These are some of the questions that are considered in this volume.

The chapters in this book focus on aspects of PFM that loom largest in the minds of finance ministers, practitioners, the international finance institutions,¹ the OECD, bilateral donor partners, as well as non-governmental organizations, think tanks, and consulting companies that support capacity development in countries around the world. They are all topics on which ministries of finance in many countries seek advice from the IMF, the World Bank, and other providers of technical support. They regularly feature as conditionalities in programs with the IMF and other development partners. Technical support on PFM started as a serious enterprise in the 1950s (Allen 2009, 2013) but focused principally on basic PFM issues such as budget preparation, budget execution, and cash and debt management. From the 1990s onward, the range of topics has broadened considerably and now includes many of the areas discussed in this volume such as fiscal transparency, green PFM, public investment, fiscal risks, gender-related budgeting, state-owned enterprises, and others. The use of empirical analysis, diagnostic instruments, and tools has also grown hugely.²

The Foundations of Good PFM Have Evolved but Have Not Fundamentally Changed

This book supplements but does not replace standard handbooks and guidance materials on PFM. These materials include volumes prepared by the World Bank (Schick 1998), the Asian Development Bank (Schiavo-Campo and Tommasi 1999), the OECD (Allen and Tommasi 2001),

¹ Including the IMF, the World Bank, and the regional development banks for Asia, Europe, Africa, and South America.

² See PEFA: *Stocktaking of Public Financial Management Diagnostic Tools*, 2023. This study identified no less than 64 different diagnostic tools covering broad areas of PFM (13), individual PFM functions, institutions, and sub-systems (27), tools used by development partners to assess fiduciary risk (10), and the assessments of PFM performance in specific sectors or topics (14).

the IMF (Cangiano, Curristine, and Lazare 2013), as well as Allen, Hemming, and Potter (2013), and Schiavo-Campo (2017). These volumes remain highly relevant as many of the basics of PFM have not changed since at least the middle of the twentieth century: examples include modern budgeting, and basic practices of accounting, reporting, and the management of public liquidity and debt. Nevertheless, in recent years, attempts to reinvent or reimagine PFM have been made by several authors. There are several strands to this debate which are discussed in more detail later in this volume (see, for example, the chapters on the institutional framework for public finance, fiscal transparency, gender-related budgeting, green PFM, infrastructure financing, and fiscal risks).

There is concern that the focus on defining how “good practices” or “best practices” in the PFM systems of advanced countries, as reflected in the so-called New Public Management (NPM) theories of public administration, should be replicated in developing countries. Does this emphasis on “best practice” lead these countries away from a focus on basic reforms? These ideas originate from the warning issued by Schick (1998), and others, and are discussed in Chapter 7 of this volume. An approach motivated by similar concerns titled “problem-driven iterative adaptation” (PDIA) was developed by Andrews (2010, 2013) and Andrews, Pritchett, and Woolcock (2010, 2017). This work is based on three main observations: first, that successful government reforms are usually problem-driven and iterative; second, that much external support to PFM reform instead takes a different approach and counterproductively focuses on exporting international best practices; and third, that it is possible to turn the experience of successful reformers into a better, alternative approach for supporting reforms, the PDIA approach.³

While this critique has resonated widely and was quickly adopted by organizations like the World Bank (World Bank 2012), it has had a limited impact on the practice of PFM reform. There is some evidence that PDIA may have positive results in some circumstances (Lawson and

³ The PDIA approach is based on four principles: (i) focusing on specific problems in local contexts, (ii) fostering active experiments (“iterations”) with new ideas and turning these ideas into solutions, (iii) encouraging decision-makers to engage in experimentation, and (iv) engaging broad sets of agents to ensure that reforms are viable, legitimate, relevant, politically supported, and implementable. See Andrews, Pritchett, and Woolcock (2017).

Harris 2023). But the approach has also been criticized for its limited applicability and a focus on relatively small issues often associated with IT.⁴

Another set of reform proposals was put forward in a report by an International Working Group on “Rethinking International Support for Managing Public Finance” hosted by New York University (2020).⁵ This study sought to move PFM from “an inward-looking and closed” system to an “open” system that related more directly to improvements in service delivery and development outcomes. The report included some innovative proposals to strengthen the organizational linkages between policymaking and PFM, extend the boundaries of PFM, and redefine the well-established “trinity” of PFM objectives.⁶ However, it did not call for a fundamental redefinition or repositioning of PFM itself.

Fundamentally, these concerns are part of a much wider general debate about technical assistance instruments and reform support in development, rather than an approach specifically to PFM. There is a difference between trying to understand the dynamics of institutional reforms and the role of international organizations within them on the one hand, and the practice of PFM in its most important subfields on the other. Both are important questions, and they clearly speak to one another, but they also draw on different literature and involve different specialist communities. To the extent possible, this volume focuses on the latter set of questions.

⁴ For example, the IMF has carried out a series of “hackathons” in which the finance ministry calls on local talent and innovators to tackle specific bottlenecks in PFM performance. Most of these hackathons have had a technological focus—for example, challenges in data storage and exchange, the use of new technologies to raise tax revenue or to simplify taxpayers’ obligations and compliance (Senegal), digitalizing selected PFM processes (Lesotho).

⁵ A similar study to “reimagine PFM” was recently launched by the World Bank. This study will update the Bank’s Public Expenditure Management Handbook published 25 years ago. Its purpose is to test a new approach to the management of public resources that focuses on the roles that PFM can play in promoting good developmental outcomes rather than assessing a country’s compliance with international good practice standards.

⁶ Aggregate fiscal discipline, allocative efficiency, operational, as defined in a classic paper by Campos and Pradhan (1996).

Is PFM a Research Topic and an Academic Discipline?

PFM as a free-standing topic of research can refer to a growing body of hands-on policy work published by think tanks and international organizations. At the same time, the fit with individual academic disciplines is quite poor and PFM does not feature prominently in courses on political science, economics, or public administration. While there is a growing body of research on PFM-related issues, they often feature under different headings. The two best-established areas of research are the literature on fiscal institutions and fiscal transparency. Broader overviews are more likely to be published as academic papers under headings such as “public budgeting”. Journals that focus on PFM topics as understood here, such as the “OECD Journal on Budgeting” and “Public Budgeting and Finance”, do not use the term PFM in their titles.

The status of PFM as a subject of academic instruction varies a great deal internationally, especially since the scope of the discipline can change in different languages and administrative traditions. Most countries with well-developed civil service systems and professional bureaucracies have found ways of training incoming civil servants, including in the basics of PFM. This can take very different forms.

In Germany, for example, most recruits into the higher civil service are trained as jurists and their perspective on PFM is through the lens of administrative law. In France, the civil service elite is trained in schools like the “Institut National du Service Public”, which includes a comprehensive instruction in the French PFM system. In the United States, public financial management is taught widely as part of MPA (Master of Public Administration) courses, but narrowly. It is generally included as an introduction to financial management, accounting and budgeting, focused on the practical application in the US government context (Thom 2019). This reflects a long-established conception of PFM as a practical, accounting-focused subject common in the United States since at least the 1970s and 1980s (Grizzle and Yu 1990). International policy schools⁷ usually do not teach free-standing PFM courses. Some courses on budgeting and financial management of the respective home country

⁷ Based on a survey of the eight members of the Global Public Policy Network: Science Po School of Public Affairs, Columbia SIPA, LSE School of Public Policy, Lee Kuan Yew School of Public Policy, University of Tokyo GrasPP, Fundação Getulio Vargas Escola de Administração de Empresas de São Paulo, University of Toronto Munk School.

are available (as offered for instance at Science Po or Columbia), while comparative fiscal governance and budgeting (LSE) is the exception. The broader, more institutional, cross-disciplinary concept of PFM that is now commonplace in international organizations has yet to fully filter back into academic teaching, which reflects the more practical focus of much PFM teaching.

Research into PFM-related issues nevertheless has grown very strongly since 2008. The study of fiscal governance and fiscal institutions in economics and political science continues to be applied in its original European context, especially during the years following the GFC (Hallerberg, Strauch, and von Hagen 2009; Kaplanoglou and Rapanos 2013; De Haan et al. 2013). This work is now also being extended to other regions, like Africa (Nabieu et al. 2021) and Latin America (Hallerberg and Scartascini 2015). The literature on different aspects of fiscal transparency also continues to grow (Arbatli and Escolano 2015; Wehner and De Renzio 2013; De Renzio and Wehner 2017).

One very promising recent strand of research is the growing body of work that uses the increasing availability of administrative data to ask new and innovative questions about the actual workings of public administration, including PFM. For instance, Rogger and Rasul study the causes of incomplete investment projects in Nigeria, using a dataset of 4700 cases (Rasul and Rogger 2017). Martin Williams shows the importance of fiscal institutions to understand incomplete projects using 14,000 local government infrastructure projects in Ghana (Williams 2017). Such research can be both practical and rigorous. For instance, de Albuquerque Tavares et al. use detailed payroll data from Brazil to show how pay conditions would lead to a budget crisis if left unaddressed (de Albuquerque Tavares, Nieto, and Woodhouse 2023). With administrative data becoming more easily digitally accessible in more and more countries, it can be expected that this type of “government analytics” will play a very important role in the future of PFM research.

Some recent books have looked in depth at PFM issues related to specific countries or topics. These studies include an excellent evaluation of the development of public spending (the “fiscal constitution”) in the UK over a 25-year period (and four governments of various political complexions) from the early 1990s to the mid-2010s (Hood et al. 2023). One of the conclusions of this study is that the concept of a good budgeting practice (e.g., the definition of a top-down budget or an expenditure classification) in an advanced country such as the UK

is a slippery concept that evolves continuously over time: its use as a benchmark for developing countries can therefore be questioned. Another useful published study reviews in depth the challenges of implementing improved standards of management control using the COSO framework⁸ both for EU member states and more widely (Hepworth 2024). These studies are naturally only a few examples. The following chapters will delve into the literature in much more detail and also point to gaps and future directions.

The current state of PFM holds great potential, but also carries a threat. PFM as a global subject is clearly cross-disciplinary. Political scientists, jurists, economists, accountants, sociologists, and other social scientists have all contributed to our understanding of the field, which is much the better for these efforts. Any attempt to fence off PFM as the sole domain of, say, accountancy would deprive it of important insights. But the threat is a field that is weaker than it should be because of disciplinary fragmentation. Unlike in established academic disciplines, there is no annual conference of PFM, few journals that are jointly understood to be the clearing house for an evolving research canon and very strong incentives for young researchers to frame their work in terms of one academic field. Organizations like the World Bank, the IMF, and the OECD, which rely on highly skilled staff and a diverse body of knowledge to give the best possible advice to governments are making notable efforts to invest in PFM's potential.

What is the Purpose of this Volume?

Why have we assembled this book and who is its intended audience? The volume is aimed at readers who are interested in contemporary issues in public finance, especially policymakers and practitioners working in finance ministries or development agencies, academics running courses in public finance or public administration, researchers working in think tanks, officials of IFIs or bilateral donor agencies, and writers and commentators on public finance. One of the primary objectives of the book is to support officials and practitioners who seek to improve PFM

⁸ The Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal control—Integrated Framework, was originally issued in 1992 and updated in 2013. It was developed as guidance to improve management control systems and confidence in all types of data and information.

practices in low- and middle-income developing countries. But the book will also be of interest to advanced countries since PFM is in a continuous state of flux, never reaching perfection as Christopher Hood's recent study of public spending in the UK so clearly illustrates.

The volume does not provide comprehensive coverage of topics related to public finance as would a handbook or encyclopedia. For example, it does not discuss tax policy issues or the collection of taxes and other fiscal revenues for which many other sources can be found. There is no chapter on fiscal federalism or subnational government finance because such issues cover a vast range of topics requiring a separate volume. For similar reasons, there is no specific chapter on the management of natural resources though this topic has important fiscal implications that are discussed in several chapters. The focus therefore is on PFM and other fiscal issues at the central (or federal) government level.

The book attempts to display the wide array of views and opinions that exist and the organic and fast developing nature of the subject matter. The authors of the chapters come from a wide range of backgrounds and represent a top selection of policymakers, practitioners, and academics in the field. Many of the authors have functioned as senior advisers or officials on public finance or budgeting issues and are thus familiar with both the literature on the topics concerned and with the conceptual and practical problems of implementing complex PFM reform systems. The authors have been deliberately selected to avoid a procession of views and opinions representing those of the World Bank, the IMF, or any other single institution whose mandate covers providing technical advice to developing countries on public finance or PFM.

Finally, the editors have tried throughout the volume to impose common standards of formatting and style while not being overly prescriptive. Each chapter follows a broadly similar structure: an introduction and background section, sections analyzing key issues and findings, and a section that draws together the main implications for countries to follow in designing their strategies for PFM reform. Liberal use of cross-references throughout the book illustrates the many important interconnections among the topics discussed.

2 KEY ISSUES AND EMERGING THEMES

In this section, we summarize the main messages of the volume under five broad themes or groups of chapters. First, however, there are eight themes that cut across the subject matter of the chapters and offer insights into recent key trends in PFM institutions and practices.

First, there is an increasing overlap of policy and institutional issues concerning PFM. The fiscal policy vs PFM distinction is making less and less sense. One handbook described fiscal policy and PFM as “two sides of the same coin” (Allen, Hemming and Potter, 2013). This may be true of bread-and-butter PFM issues such as accounting and reporting of public spending and cash management. But it is less true of some newly emerging issues of PFM such as environmental sustainability, green PFM, fiscal transparency, fiscal rules, and public sector balance sheets. For example, there is a narrow distinction between advising ministers on an appropriate rule to constrain the growth in public expenditure and the technical specifications of such a rule (how public spending is to be defined, etc.).

Second, many low-capacity countries have been distracted by “advanced” reforms being carried out in higher capacity countries, before they have basic elements of good PFM in place. Yet, defining a “basic” function of PFM is not straightforward. Moreover, what is an “advanced” function is a relative concept that shifts over time and depends on cultural, administrative, and institutional circumstances. Some of these issues are discussed in Chapter 2.

Third, finance ministries are subject to contradictory trends: fiscal cutbacks and long-running reforms have strengthened their hands in many countries. Practices such as top-down budgeting have become more widespread, and fiscal councils that have powers on fiscal policy and macro forecasting delegated to them by the finance ministry have been adopted by many countries—even if the applicability of such reforms to low-capacity developing countries is controversial and arguably not sustainable. It is a testament to the central role of finance ministries today that many sector ministries and advocates assume that they cannot succeed without coopting finance ministries into their agenda, as can be clearly seen in climate change policy (Chapters 8 and 9) and policy toward gender equality (Chapter 10).

Fourth, finance ministries are no longer the sole guardians of PFM (if they ever were). The perceived importance of finance ministries is

both reinforcing and challenging them in their core domain. We are seeing a broader PFM debate moving beyond the ministry of finance. Other ministries and agencies have assumed increasing importance. For example, issues of green PFM are increasingly taken outside the finance ministry, and an increased focus on sectoral and cross-cutting policy issues has increased the role of line ministries. Finance ministries were also weakened by the recently established extra-budgetary funds, outside the direct control of the finance ministry, especially those set up during the Covid-19 period, and to facilitate access to green finance (revenue and financing).

Fifth, many finance ministries are in a state of organizational flux. Many of their functions have been transferred—to central banks, autonomous revenue authorities or state treasuries, line ministries, fiscal councils, etc. In many OECD countries, this has been the result of a long-running trend to focus the attention and capacity of the finance ministry on core issues of policy, while delegating transactional functions to subordinate bodies, and transferring marginal functions to other ministries. Doing so has arguably strengthened finance ministries' ability to pursue fiscal and budgetary policy, but it relies on a pool of capable civil servants to perform those functions, as well as a degree of control over public sector bodies to perform according to their mandates. In other countries, finance ministries have lost power as a result, or at least exert a less direct influence over the fiscus (Chapter 4).

Sixth, the staff capacities, capabilities, and financial resources of many finance ministries, especially in non-OECD countries, are stretched by new demands. These demands are especially great for issues of green PFM, but also include other areas such as public investment and state-owned enterprises (SOEs) where fiscal risks are high, and growing challenges of corruption impact harshly on PFM and other fiscal indicators. As discussed in Chapter 11, these demands are supplemented by international and national pressure for greater fiscal transparency and public participation in fiscal policy matters.

Seventh, planning is both smaller and bigger than it was. Smaller because the “national development plan” as a policy instrument has lost (or is losing) influence, disappearing or being replaced by the medium-term budget as a policy tool, though this process is slow in most developing countries. Bigger because planning (especially long-term planning) is core to many of the issues addressed in the volume—especially public infrastructure, climate change, sector planning, and cross-cutting