PFM and corruption

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Public Financial Management (PFM) processes – revenue mobilisation (e.g. taxation and customs), budget preparation and resource allocation, budget execution (e.g. procurement and payroll), and the accounting and auditing of government expenditure – are a key focus of donor supported anti-corruption reforms. A focus on the budget and budgetary processes is not surprising given that: (1) public expenditure is a substantial, and often the largest, part of most countries’ economy; and (2) corruption in PFM can directly affect a range of different development outcomes, such as pro-poor growth, or the quality and availability of public services.

Most anti-corruption efforts targeted at PFM rely on a traditional “Klitgardian” theory of change: opportunity + discretion – sanctions = inclination for corruption. As a result interventions largely focus on reducing discretion, with the aim of limiting opportunities and incentives for corruption, for example, through greater transparency, the standardisation and automation of processes, and by opening budgetary processes to wider participation. They also focus on stronger sanctions to reduce incentives for corruption, such as greater monitoring and transparency to make the detection of corruption and the application of sanctions more likely, or through tougher sanctions. The latter is ideally coupled with more consistent and regular application to deter corrupt behaviour more effectively.

The reforms that this approach produces are largely, but not exclusively, technical reforms. They focus on: the standardisation and simplification of budgetary processes (e.g. simpler tax codes, or standardised and automated payment processes); greater information transparency (both in terms of detail and availability); or on technological innovation driven reforms, such as e-procurement. However, the focus on reducing discretion and increasing transparency has also driven more political reforms, such as a push for more participatory budgeting involving...
beneficiaries, and the decentralisation of PFM functions with the expectation of greater transparency and accountability.

Compared to other anti-corruption reforms, there is a reasonable body of research on corruption and PFM, driven particularly by the availability of stronger data (especially PETS data). The evidence shows the overall effectiveness of anti-corruption PFM reforms, and highlights the link between transparency reforms and sanctions. However, joint patterns of PFM and PFM reforms are generally associated with stronger governance (and lower corruption). While we can be relatively confident that PFM reforms have an impact on corruption, we are less confident about which particular aspect of PFM contributes to reducing corruption.

All these reforms approach corruption in PFM as a principal-agent problem. While it is plausible that this is a useful framework to understand important aspects of what drives or facilitates PFM-related corruption, it is worth noting that there are two alternative perspectives:

1. Corruption in PFM can be a rational response to the wider political-economic environment. Corruption by procurement officials, for example, might not only be driven by greed but also by a response to threats of job losses or even violence against officials by powerful politicians.

2. Corruption, especially petty corruption, can be a collective action problem, where the wider political and economic settlement makes it too costly for individuals to not engage in corruption as long as it remains a pervasive activity. For example, businesses might suffer and become no longer viable if, unlike most others, they eschew practices like bribing tax officials or customs officials.

Considering the wider political economy of PFM-related corruption, and understanding how this can affect opportunities for, and efficacy of, different anti-corruption reforms is important. Government spending is often a key source of political patronage and key to sustaining a particular political settlement. This inherently mitigates against transparency and procedural openness.

Key readings

http://ips.sagepub.com/content/31/3/301.full.pdf

Using cross-national data, the study confirms that making information public can be an effective method for combating corruption, but that this alone is not sufficient. The paper shows that if levels of publicity and accountability are weak, it is less likely that transparency alone will reduce corruption. The study distinguishes between agent-controlled transparency (e.g. measures that are controlled by the institution itself) and non-agent controlled transparency (e.g. press freedom). The paper finds that agent-controlled measures (such as transparency laws) are less effective in reducing corruption than, for example, press freedom.

This section of the paper reviews the evidence for anti-corruption measures in PFM (decentralisation, public expenditure tracking, revenue and customs tracking, procurement and central budget planning and management). It finds that levels of corruption are lower when fiscal and revenue-spending measures are decentralised together. It suggests that monitoring of expenditure tracking can have a preventive effect in and of itself, but is likely to be more effective in combination with other policy reforms. There is only a small body of research evidence for the role of revenue and tax authorities and procurement reforms in reducing corruption and on budget management systems. However, for the latter it suggests that stronger systems can have a positive effect on reducing corruption. The section suggests that there are significant evidence gaps for these three measures.


The paper reviews existing evidence on the effectiveness of PFM measures on corruption, and also asks which type of corruption they address. It finds that PFM measures are more likely to reduce petty corruption than grand corruption, and that there is strong evidence that reducing incentives and opportunities for corruption has a stronger effect than increasing sanctions. The paper suggests that tax and budget reforms have the strongest effect on reducing corruption. It also emphasises the need to measure the direct impact of PFM reforms, not just the assumed impact.


This chapter provides an overview of different types of public sector corruption, and identifies five vulnerabilities in PFM corruption that could be used as a PFM reform framework: weak capacity of staff and systems to capture all government activities, limited internal transparency of fiscal information, limited internal transparency of fiscal information, poor management control and oversight, weak external audit and oversight. The authors suggest that technical reforms in these five core areas can have a long-lasting effect on corruption.


The article uses a policy experiment to test the hypothesis that governance reforms in service delivery can increase the effectiveness of provisions. It draws on a newspaper campaign in Uganda that provides headmasters and parents with information about the handling of a large education grant by the local government. Using survey and administrative data, the study finds that levels of student enrolment and learning outcomes (though this effect is weaker than for student enrolment)
increase as a result of access to information about the grant. This is as public access can act as a deterrent to capture funds, and lower grant capture is positively associated with higher levels of enrolment.


This paper examines three perspectives on corruption – as a principal agent problem, a collective action problem, and as a problem-solving tool. It argues that while each perspective contributes to our understanding of corruption, effective anti-corruption efforts depend on understanding the context and the particular political dynamics. With regard to PFM, it uses the example of integrity pacts in procurement to show how their success not only depends on addressing the underlying logic of collective action, but also the wider aspects of the procurement system, such as transparency of information or the political commitment of the government to the integrity pact.

**Questions to guide reading**

1. If PFM-related corruption is fuelled by the wider political settlement, what additional interventions can support more technical PFM reforms?
2. While “collective action” approaches suggest different drivers of corruption to principal agent approaches, do they suggest substantially different approaches to tackling corruption?
3. Should PFM-related anti-corruption efforts prioritise petty or grand corruption?
4. Could technological innovations and related reforms in the private sector, for example e-procurement and supply chain management process, be emulated in PFM?