



SUBNATIONAL
PUBLIC FINANCE
PROGRAMME BRIEF

Building from the Bottom Up

Approaches to Upgrading Public Financial Management
Capacity in Subnational Governments

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Subnational Finance Programme Briefs are short, evidence-driven notes that unpack common issues in government budgeting and financial management at the subnational level, highlight programming approaches and tools applicable to practitioners in the field, and share examples of approaches that have been employed in UNICEF programming around the world. They aim to promote awareness of promising approaches, connect UNICEF offices working on similar problems, and foster collaboration between child-rights organizations and the wider community of practice in public financial management, particularly at the subnational level. These programme briefs are written to be accessible to a broad audience with diverse technical and programme-implementation backgrounds.

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BUILDING FROM THE BOTTOM UP: APPROACHES TO UPGRADING PUBLIC FINANCIAL MANAGEMENT CAPACITY IN SUBNATIONAL GOVERNMENTS

This programme brief focuses on key elements, entry points and best practices in developing budgeting and financial management capacity-building programmes for subnational governments. The brief specifically covers:



Strengthening public financial management capabilities in subnational governments is becoming a key priority among national government and development partner training programmes aiming to make local service delivery and investments more efficient and effective.

As the level of government closest to children and young people, subnational authorities require systems and resources to effectively and efficiently perform financial, expenditure and asset-management functions consistent with local needs and their devolved responsibilities for service delivery. Many subnational governments, particularly districts located in poor or remote regions, have limited exposure to modern expenditure, financial and asset-management practices. Moreover, poor or remote regions often do not have enough skilled human resources required to operate subnational public financial management systems.

As multiple social-sector services are decentralized and countries strive to introduce internationally-recognized reforms, subnational public financial management systems increasingly entail a variety of resource-intensive planning, reporting and auditing requirements. In some cases, high compliance costs associated with funds transferred through sector ministries and national programmes to the local level can subvert more basic management reforms needed to increase child priorities in local budgets. Capacity building for public finance management can be a key intervention to ensure that funds are planned and executed effectively for the benefit of children and adolescents.

CAPACITY FOR WHAT? COMMON FINANCIAL MANAGEMENT FUNCTIONS AT THE SUBNATIONAL GOVERNMENT LEVEL




Local and regional governments depend on a variety of systems, procedures and practices to ensure day-to-day operations enable public funds to be spent efficiently and effectively, followed by proper monitoring and reporting to ensure funds were used for the purposes intended. Day-to-day operations cover a variety of expenditure, financial and asset-management functions, each of which are important to ensuring budget execution is transparent and consistent with national regulations and requirements.

Common financial management functions in subnational governments

<p>Expenditure Management</p> <ul style="list-style-type: none"> • Ensure timely disbursement of funds to contractors. • Monitor actual expenditures against budgeted activities. • Track implementation and forecast project completion costs. 	<p>Financial Management</p> <ul style="list-style-type: none"> • Record transactions in financial management information system. • Ensure monthly reconciliations are completed. • Prepare financial statements for audit. 	<p>Asset Management</p> <ul style="list-style-type: none"> • Ensure supplies and fixed assets are procured, registered and maintained. • Compile and update fixed-asset registries.
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Source: Chitwere (2019). See annex 1 for a longer list of functions.

When there are problems in any of these areas, the failure to perform basic public finance management functions can compromise service delivery benefitting vulnerable children and youth, particularly the poorest and most disadvantaged.

	<p>Inefficient cash management can lead to stock-outs of lifesaving commodities or arrears in salary payments for civil servants working in child- and youth-focused services.</p>
	<p>Misuse, fraud or irregularities in funding flows can lead to low-quality public-works projects that expose vulnerable children and youth to physical and emotional harm.</p>
	<p>Ineffective procurement can lead to waste of public funds, limiting financial resources to allocate to children’s needs and requirements.</p>

Building the capacity of local governments to manage common public financial management functions can utilize different approaches and models, depending on country context and local circumstances. Deciding on the type of capacity building required and the format for delivery may require a needs assessment to identify those subnational governments where the needs are greatest, as well as the technical aspects to be covered.

Different models for training delivery include:

- On-site approaches that allow training facilitators to focus on topics that are ‘fit-for-purpose’ and appropriate to the local context, rather than an overemphasis on generic skills.
- Hybrid approaches that blend off-site ‘convening’ trainings, for example to increase joint understanding of new planning or reporting requirements with residential capacity targeting support to application of knowledge during relevant periods of the budget cycle.
- In-depth coaching and mentoring models to build the capacity of managers and councils at the subnational level to arrive at their own ideas for addressing financial management bottlenecks and steer improvements in organizational culture and operations.

Through efforts to localise the Sustainable Development Goals (SDGs), improving budget and financial management capacity in subnational governments is becoming a major international development priority. More than half the SDG targets must be implemented with the involvement of subnational governments, making skills- and systems-strengthening at the local level key factors shaping global progress on the 2030 Agenda.



IMPROVING LOCAL GOVERNMENT BASIC FINANCIAL MANAGEMENT CAPACITY BUILDING THROUGH ON-SITE SUPPORT

Residential, on-site coaching and mentoring models to deliver capacity building and mentoring support on-the-job are increasingly seen as a viable approach to systems-strengthening in local governments. The approach is promising for the highest-needs local governments, such as those in regions or localities where service outcomes are poor or where humanitarian or emergency operations overwhelm institutional capacities. Residential capacity-building approaches for local governments draw on two key lessons learned about strengthening expenditure, financial and asset-management skills in subnational governments.

LESSON 1

Many local governments lack basic data systems to consistently record and report financial transactions commensurate with national norms and standards, requiring on-site support to develop financial management information systems as a precursor to more advanced budget programmes and analytic techniques.

For example, the core public financial management bottleneck to service delivery may relate to gaps in routine reporting systems, rather than a lack of technical skills among budget officers and local planners. By bolstering capacity-building resources focusing first on the basics of budgeting and financial management, subnational governments can sustain progress to more advanced capabilities over a longer period of time.

LESSON 2

Training tends to yield the greatest benefits when it is tailored to the functions, tasks and skills used immediately on the job, instead of generic functions that may not be relevant for a specific local context.

By providing skills building, mentoring and coaching support on-site, training facilitators are able to develop measures to strengthen systems based on functions, tasks and skills used immediately on the job. What works in one or a few regional or local governments can then be adapted and scaled-up to similar contexts based on proven experience.





In high-needs local governments, multiple training cycles might be required over consecutive years of on-site support. The benefit of sustained support is that making progress on basic expenditure, financial and asset-management functions enables district governments to fulfill more complex analytical functions that underpin improved budget planning and execution. Some of the more advanced analytical functions include the use of different methodologies to more accurately:



Calculate investment needs based on demand assessments, rather than historical allocations.



Conduct cost-benefit analysis of proposed service-improvement projects.



Forecast future revenues based on updated tax rolls and compliance records.



Analyse risks and resource implications of different public-private partnership models for local service delivery.

Best practices in local government on-the-job capacity-building initiatives

When supporting local government financial management capacity-building efforts through on-site approaches, best practices in programme design include:

01 **Collecting information to prepare effective programme designs using key informant interviews and shadowing district budget and financial staff during site visits.**

The key benefit of an on-the-job training initiative is it allows capacity-building programmes to be tailored to local conditions. Shadowing a budget officer or accountant can provide insights into skills gaps or organizational barriers to more effective workflows in budget and planning units. Key informant interviews can help ensure roles and action plans for on-site trainers are aligned to how actual functions are performed on the ground and help identify all relevant local stakeholders that should be notified of the support programme.

02 **Developing a monitoring and evaluation framework to track progress on basic skills development, ensure professional standards are followed and support evidence-based course corrections.**

Setting time-bound goals and targets for on-site skills development programmes, supported by a performance-monitoring framework, are important to successful outcomes. Budget and financial management officers and more senior decision makers require feedback on how well they are incorporating new tasks and skills into government operations. A monitoring and evaluation framework helps limit the risk that this feedback is based on subjective managerial bias rather than actual performance.

A strong monitoring and evaluation system is particularly important when the same on-site skills-building programme is implemented in multiple local governments. By comparing performance across jurisdictions, insights into the drivers of skills acquisition can be used to make course corrections.

A variety of performance indicators are available when carrying out programme activities supporting local governments on basic budgeting and internal-control functions. Options include:

- Number and quality of physical controls and accounting checks.
- Percentage of financial reports issued by end of month.
- Existence and use of guidance to management in spending departments and agencies.

03 **Maintaining routine reporting channels upwards to authorities in central ministries, departments and agencies to ensure government ownership for the results of on-site training and mentoring programmes.**

On-the-job approaches might be carried out far away from national capitals, meaning key stakeholders in the ministry of finance and other central agencies might not always be aware of issues or progress on the ground. This can create a practical challenge for national governments to maintain programme ownership.

A strong degree of national government ownership is important for two reasons: resourcing and scaling-up results. First, ministries of finance maintain budgets for capacity development in subnational governments, which can increase around periods where a new policy, regulation or system is being rolled out. Second, national government ownership is the primary mechanism to facilitate scaling-up lessons learned in one location to other local governments.



Malawi

Secondment of professional project accountants to district councils to improve expenditure, financial and asset-management systems and practices

CONTEXT

The Government of Malawi is currently pursuing fiscal decentralization reforms. More than 15 sectors have been devolved, including health, agriculture and education. All ministries responsible for devolved sectors are required to submit plans for increasing the proportion of budgets that will be transferred to local authorities. District government financial management systems, however, remain relatively weak due to several factors, including limited human, financial and technical resources.

PROGRAMME ACTIVITIES

Working with PricewaterhouseCoopers, UNICEF Malawi supported the deployment of management accountants to Chikwawa, Nsangje, Blantyre, Zomba, Dedza, Salima, Nkata Bay, M'bbwelwa and Karonga districts. The management accountants performed 16 expenditure, financial and asset-management functions for district councils (see annex 1 for a full list), including support to systems-strengthening for management and reporting of funds. Management accountants in some districts provided additional coaching and mentorship support to key decision makers in local government during their first year in the field.

RESULTS AND NEXT STEPS

Average performance of district councils on the 16 tasks increased from 42 per cent (baseline) to over 63 per cent over the first year of the initiative. The largest increases in district capacity were registered on the following: involvement of finance staff in budgeting for projects and budget management – 22 per cent; provision of technical financial management and reporting support to district officials – 25 per cent; timely and correct management and reporting of funds – 29 per cent; tracking activity implementation of projects and matching financials to activities – 33 per cent; filing system in place – 39 per cent. The secondment programme continues, with increased support from key stakeholders in central government.

SUPPORTING SUBNATIONAL GOVERNMENTS TO DRAW DOWN SECTOR FUNDS FOR SERVICE DELIVERY

More specific capacity-building needs may be identified in relation to the specific regulations and requirements of particular earmarked transfers or grants. Finance and sector ministries regularly impose a wide array of public financial management regulations, procedures and systems on subnational governments, particularly when subnational governments have key implementation functions for strategic sector programmes.

These standards and systems often vary by sector. For instance, as part of national health sector programmes ministries may mandate the use of complex methodologies for calculating the number of children and adolescents within a region who are likely to require preventive health services or for estimating reimbursable costs for different health facilities (e.g. regional hospital vs. community clinic). Subnational governments that cannot implement these methodologies effectively risk losing funding for activities covered in the sector programme.

Coordination failures between central spending agencies and subnational governments compound gaps in capacity to follow national methodologies and frameworks for drawing down sector funding to the local level. For instance, if central spending agencies do not inform subnational governments of changes to budget-planning standards and procedures early enough in the planning cycle, local and regional authorities may not have enough time to prepare high-quality spending proposals.

In remote or resource-poor regions, the risks of overly complex public financial management rules and procedures that are imposed without capacity-building support can create obstacles to efficient expenditures. Over time, weak performance in one or more subnational government can contribute to deep and pervasive territorial inequity between child populations in different regions.

This type of subnational public finance challenge may be best addressed through a hybrid model of capacity building. In a hybrid model focusing on regional governments, off-site convening experiences could focus on informing key subnational officials of new requirements around budget-planning inputs from subnational governments. Lessons learned from off-site convening experiences could be plugged into a training of trainers, which are dispatched to build capabilities to adopt the new practices through on-the-job support in the most resource-poor subnational government jurisdictions. Such a hybrid on-site capacity-building model can accelerate progress on the implementation of sector financing reforms at the subnational level.





Peru

Increasing regional budget-planning performance linked to health and education services provided to children and adolescents

CONTEXT

Decentralization in Peru was initiated in 2001 and subnational governments have slowly taken on new responsibilities for policy implementation, particularly in the areas of health and education service delivery. Rules and regulations for the preparation and execution of health budgets in regional government are formulated by the Ministries of Health, Education, and Economy and Finance. In remote Amazon and Andean regions of Peru, where the presence of the national state is weak, regional governments have limited capacity to prepare budgets consistent with the needs of children and adolescents.

PROGRAMME ACTIVITIES

UNICEF Peru assisted officials in the regional health directorates, health executing units and the planning and budgeting offices in Loreto, Ucayali and Huancavelica in the preparation of multi-annual health and education budget proposals for 2020 to 2022. Prior to providing face-to-face training and technical assistance, implementing partners had identified main trends and challenges during the previous three fiscal years' budget programming exercises in each sector of each region, such as inertial programming, financial gaps and lack of updated information on targeted populations. UNICEF Peru provided tailored assistance, deploying public financial management experts to train officials on the operational planning and costing techniques required for key budget products of the major health and education programmes. Teams worked together to formulate service coverage and budget performance goals around adolescent services for the multi-year budget programme period 2020–2022.

RESULTS AND NEXT STEPS

As a result of UNICEF support, regional governments allocated more funds to some health interventions and prioritized the allocation of financial resources to inputs that are critical to guaranteeing the provision of health services for children and adolescents. Capacity-building efforts also contributed to strengthen coordination flows between the regional authorities and the execution units by providing greater clarity on responsibilities and roles. Capacity to comply with the national health ministry requirements for multi-year programme budget proposals was increased, with regional government staff selecting measures to improve estimations, make adjustments to spending proposals, and implement costing systems outlined by the national government.

LEARNING TOGETHER: WORKING WITH DECISION MAKERS AND COMMUNITY STAKEHOLDERS TO IMPROVE GOVERNANCE OF MUNICIPAL BUDGETS FOR COMMUNITY PRIORITIES

The overall quality of budget planning and execution in local governments is influenced by many actors beyond just those performing basic financial management functions on a day-to-day basis. Local government capacity-building initiatives often focus too narrowly on technical issues, neglecting the need for local governments to improve relations with communities around determining budget priorities for children and youth.

Initiatives to build basic financial management capabilities in local governments should not overlook the benefits of bringing together elected decision makers, subnational government officials, and community-based and other local child advocacy organizations in training and skills development forums. Experience from diverse country contexts like Nepal, the Philippines and Kenya suggest that local governance capacity — the ability of all stakeholders within a local jurisdiction to proactively work together on budgeting and financial management processes — makes a difference.

Training workshops that bring together the broad array of local stakeholders to learn and upgrade financial management skills and budget knowledge together can be a promising approach to delivering capacity-building support in a manner that is more familiar to local government officials. Rather than taking budget and financial staff away from their jobs, training workshops that bring together local government officers, elected members of local councils and representatives from civil society organizations, businesses and media can simulate real-world decision-making conditions. With such strategic local stakeholders together in the same room, child priorities and needs in local resource allocation can be considered in line with specific tools and procedures in use in a particular context.

When local government staff work more effectively with elected local councils and child-rights advocates, community organizations and the media, changes to budget preparation and execution practices are more likely to account for the unique needs of children and youth in social-service delivery. For instance, in the water sector water-user committees can advocate for more funding for maintaining community standpipes, while neighbourhood committees can advocate for investing in early warning systems within the limits of the budget envelope.

By holding joint training workshops open to all local stakeholders in conjunction with the introduction of new budget management tools and procedures, local capacity-building initiatives can foster increased community awareness and sustain locally-driven support to follow-up on concrete, specific planning processes that benefit children and youth.





Benin

New budget management tools in municipal government to enhance local governance capacity

CONTEXT

Benin is a unitary state with a single level of decentralized service delivery carried out by 77 municipalities. The national government is still heavily involved in local service delivery through deconcentrated offices of central ministries, but ongoing decentralization reforms are gradually increasing the responsibilities of elected municipal governments in local development planning, utilities and transportation, primary education and primary health care. As functions performed by municipal governments increase, new planning tools and financial management procedures are required to ensure effective, efficient and equitable budgets for child and youth services.

PROGRAMME ACTIVITIES

UNICEF Benin supported capacity building in municipal governments in Karimama, Malanville and Za-Kpota to prioritize the needs of children, youth and families through preparation of Local Development Plans. UNICEF Benin helped introduce new managerial tools (Annual Work Plan), monitoring and evaluation tools (mid-year and annual Local Development Plan Review) to support integration of activities by local government officers, elected officials, technical partners and civil-society organizations. Joint training workshops on the use of managerial tools were held with mayors, their deputies, chairpersons of the permanent commissions of the municipal council, heads of planning and local development, heads of financial affairs and social affairs, civil society, media and chiefs of social-promotion centers in Karimama, Malanville and Za-Kpota.

RESULTS AND NEXT STEPS

Training workshops resulted in commitments to improve allocation of resources to child and youth priorities and enhance management of child-focused departments in Karimama, Malanville and Za-Kpota. These activities will be followed up and extended to the 23 municipalities targeted by the UNICEF country programme (2019–2023). A social accountability mechanism will be added to the activities, and workshops for municipalities to share experiences will be held to increase knowledge of best practices.

CONCLUSION

Key takeaways

This programme brief has covered key elements, entry points and best practices to delivering capacity-building support to subnational governments in basic budgeting and public financial management.

Key takeaways include the following:

- Exposure to modern public financial management practices is limited in many subnational governments, particularly those located in poor and remote regions.
- Initiatives to strengthen subnational public financial management skills through off-site, classroom-based programmes face a variety of challenges, primarily a lack of resources for systematic follow-up in contexts with large variations in skills endowments, physical conditions and needs across different regions and localities.
- Upgrading basic financial management skills through on-site training and mentoring is an innovative way to increase budget planning and execution performance. Initiatives can tailor skills development and management coaching to systems and tools that are used in the immediate, day-to-day environments of subnational expenditure, financial and asset-management functions.

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