

An Intergovernmental Perspective on Managing Public Finances for Service Delivery: Assessing Neglected Challenges in the Health Sector and Beyond

Overview¹
May 2021

I. Introduction

Improving service delivery is a major concern in global development agendas, but exactly how best to manage public resources to support better and more inclusive public service delivery in developing countries eludes clear guidance. Key elements of public sector operations—the sectoral policies that define service delivery parameters and resource needs; the mobilization, allocation, and management of public finances; and the roles and relationships of actors in intergovernmental systems—play vital roles in service delivery. These and other elements, however, are often developed and implemented separately.

Understanding these elements as inherently interdependent components of a complex, integrated system is essential to improve service delivery performance. Some barriers among specialists who focus on different aspects of the intergovernmental system—public financial management (PFM), service delivery, or decentralization—are beginning to break down, if somewhat tentatively and selectively. In recent years, for example, professionals in PFM and some service delivery sectors have begun to look for common ground. Yet limited attention has been directed to how sector finances are managed in diverse multilevel systems of government and how this may affect service delivery.

This paper helps to help fill that gap by demonstrating how intergovernmental systems matter for service delivery and examining varied intergovernmental arrangements for health service delivery in four African countries: Ethiopia, Kenya, South Africa, and Uganda. Although some of the discussion is specific to the health sector, the basic approach is relevant for most service delivery sectors. The review demonstrates the value of more purposefully incorporating intergovernmental structures and dynamics into the assessment of sector financing practices. The paper concludes with an exploratory analytical framework intended to enhance knowledge about intergovernmental arrangements for managing service delivery finance and to generate practical ideas for improving how they function.

II. Managing Finances for Service Delivery in the Intergovernmental Context

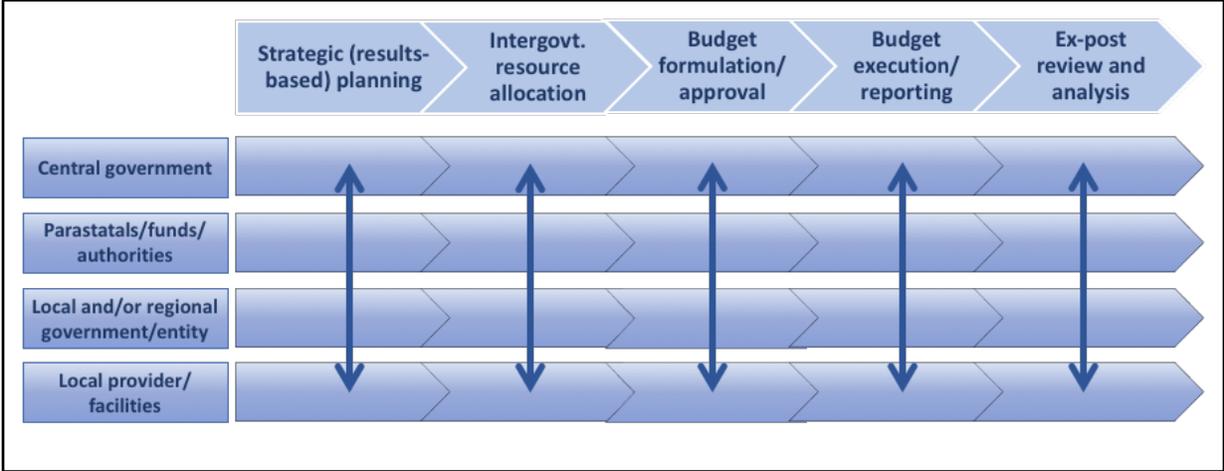
Although central governments are expected to lead in defining national development policies and the systems and procedures that support their pursuit, extensive literature and experience demonstrate valuable roles for subnational governments and other local actors in managing public resources for service delivery. Moreover, decentralization has been adopted or enhanced in many developing countries, so it is a reality that must be accommodated in appropriate ways.

¹ The full paper can be found at: <https://wagner.nyu.edu/files/faculty/NYU-ODI-Intergovernmental-Perspective-on-Managing-Public-Finances-for-Service-Delivery-May-2021-Final.pdf>

A complicating factor is that decentralization is highly diverse. Its arrangements range from centralized systems that manage local operations with deconcentrated field offices of national ministries to devolved systems with empowered subnational governments accountable to elected councils. Many countries have hybrid approaches that combine elements of both systems and other mechanisms (such as special agencies and parastatals), and there is great variation in the number of levels and roles of subnational government. These variations are reflected in sector policies and processes, as well as resource allocation and financial management mechanisms. A full analysis of service delivery financing therefore needs to include the intergovernmental system.

In this regard, it is important to recognize that different modes of decentralized service delivery and financing are used simultaneously, even within a given country or sector (Figure 1). The functional and financial roles of each level of government and how they interact with others involved in service delivery, including frontline service delivery facilities, must be understood to fully appreciate the system and understand how problems can be identified and remedied.

Figure 1. Managing finances for service delivery in a multilevel governance context

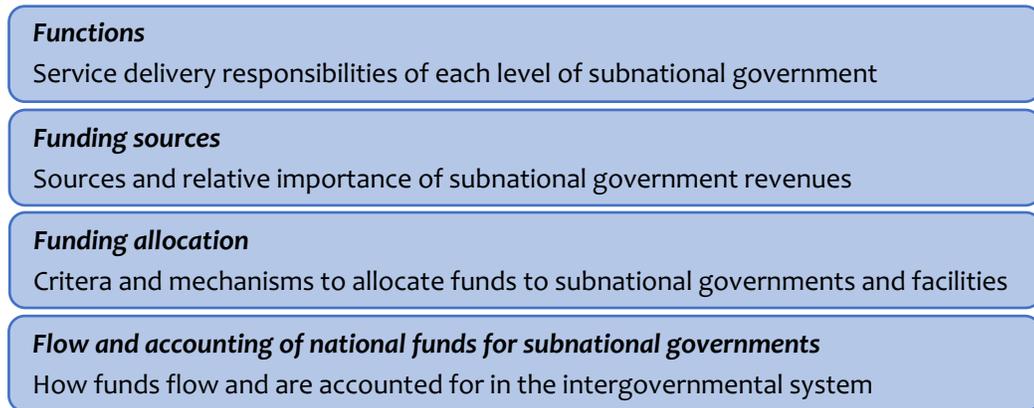


Beyond functions and finances, how PFM operates is crucial if it is to contribute to better service delivery in an intergovernmental, multi-actor context. Public finances involve all levels of government, special entities, and frontline service delivery units. Each entity manages, with varied degrees of autonomy, some aspect(s) of service delivery with mixed sources of funding, and each faces a set of institutional incentives and constraints. Not only must each actor properly manage finances according to its respective budget process, but appropriate alignment is needed among all of them to ensure the effective management of service delivery. Currently, few, if any, tools—within either the PFM, decentralization, or service delivery finance communities—are available to assess how they interact and their degree of alignment and coordination.

III. Specific Intergovernmental Considerations in Service Delivery Financing

The elements and processes involved in financing service delivery may play out differently in different intergovernmental systems where responsibilities across levels of government vary. There are also considerable differences in the sources and mix of funding for particular services and service components, how funds are allocated, and the precise channels and processes through which these funds flow in the national government-regional government-local government-service delivery facility landscape (Figure 2).

Figure 2. Subnational service delivery functions and financing



Functions. The number of government levels, and the extent to which they are empowered, varies across countries. Some public services are exclusive to a particular level, while others involve shared responsibilities in that different types of health facilities, schools, or roads are managed by different levels. There may also be varied relationships among levels—in some countries each level may have autonomy over its designated functions, and in others the relationship may be hierarchical, such that a lower-level government or facility needs approval from a higher level to make fiscal decisions. Particularly in federal systems, state/regional/provincial governments often have more control over local governments than the federal/central government. Except for the most local services, such as trash collection, streetlights, and parks, central governments tend to issue national standards or regulations to ensure minimum levels of priority services for all.

Funding sources. Intergovernmental fiscal transfers from the central government dominate the financing of public services, including health, in most countries with some form of decentralization. Transfers can be unconditional or conditional, with conditions targeted broadly to a sector or tied narrowly to specific types of expenditure, such as investment in facilities, payment of salaries, purchase of particular supplies, and so on. A finance ministry often oversees transfers and usually manages unconditional transfers, but other ministries may be involved in sector-specific transfers. External development partners often provide sector funding through national ministries or parallel mechanisms. Subnational governments may have own-source revenues (tax and non-tax) as well as the power to impose user charges. These charges can be important for some services (and may be managed at the facility level), but general local revenues are rarely used for services that can be financed by other means. In some countries additional sources, such as national health insurance payments, are important for service delivery, but they may go directly to providers rather than to subnational governments.

Funding allocation. Allocation criteria for transfers very considerably and have diverse effects. They can be based on measures of general service demand (such as population) or in service-specific terms (like the number of school-aged children); they can depend on input requirements (such as the cost of specific staff needed in a health facility) or on some aspect of output or performance (for example, number of patients seen, school enrollment, test scores, reduction of morbidity and mortality rates, and so on). There may also be specific targets, such as those related to poverty reduction, women's empowerment, or support for disadvantaged groups. Different approaches serve different purposes, so the choice and mix of transfers can vary greatly. These approaches have varying implications for the level and distribution of resources allocated to subnational governments and facilities, the

freedom with which they can spend those funds as they choose, and, in some cases, how compliance or performance would be measured to determine future allocations. Subnational governments may be required to apply for national funds for specific service delivery purposes, most typically to finance development expenditures such as building a hospital, a school, or water infrastructure.

Flow and accounting. Funds for service delivery—whatever the source and however allocations are determined—are managed using different systems and following varied institutional paths. Subnational PFM is often (but not always) integrated into national PFM systems. If there are separate systems, they may use different budget categories, standards, and processes, complicating coordinated management and accounting for sector finances. Equally important, the institutional path through which resources move can vary, flowing from one or more national agencies through one or more level(s) of government before reaching service facilities. At each stage, different actors may have some authority over how to pass funds to the next level. In addition, transfers from special-purpose funds managed separately by parallel systems (within government or by donors) may go through the government budget or be off-budget, and they may flow directly to subnational governments or to service delivery units. Certain resource flows are not included in subnational budgets; for example, salaries for local health departments and facilities may be paid directly to employees. Some transfers may finance in-kind inputs to subnational governments or facilities, going directly to agencies that perform certain functions, as is often the case with drug procurement for health facilities.

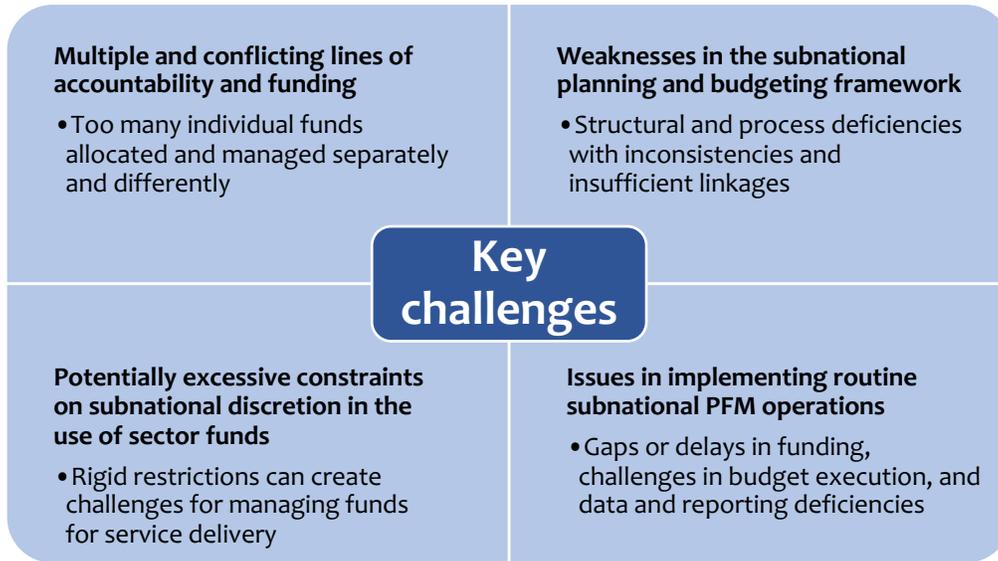
Details of these features of the intergovernmental finance system differ across countries, and they may occur in varied mixes with different effects. The structures and practices used in a sector can significantly affect the volume and management of resources for service delivery—and, by extension, the quality, distribution, and outcomes of service delivery. Moreover, some features can compromise the ability of subnational governments and facility managers to properly report on and be held accountable for how the full set of available public resources is used to deliver services.

IV. Challenges Facing Subnational Governments and Frontline Service Providers in Managing Finances for Service Delivery

The management of resources for public service delivery may face a wide variety of challenges. Many of them are well known, and much has been written about them, but there is less information on how these challenges play out in different intergovernmental contexts. This paper makes an attempt to identify and classify selected challenges (Figure 3) based on the experiences of the four case countries—Ethiopia, Kenya, South Africa, and Uganda—reported in secondary materials reviewed.

A mix of actors—national ministries and agencies, subnational departments, external donors—is often involved in health financing and financial management. The blend and behavior of these actors can create challenges for downstream players who manage service facilities. Fragmented funding may be conditionally targeted for the same or different purposes. Without overall coordinated management of the various sources, there may be fund shortages and/or redundancies for specific categories of expenditure, even more difficult to manage if some funding sources are off budget. Moreover, even if funding sources are complementary for budgetary purposes, separate reporting channels to different fund providers may impose significant administrative burdens on subnational administrators and service delivery staff and complicate keeping proper track of resource flows.

Figure 3. Reported challenges in managing subnational health sector finances



Service delivery depends on effective development planning (for public infrastructure investment) and budgeting (both capital—for projects prioritized in development plans, and recurrent—for routine administration and operation). The case countries report issues with how plans and budgets are created and executed, and which actors are or are not involved. Weaknesses are also reported in the linkages between subnational development planning and budgeting, even if the systems are individually sound. Priority projects identified in plans might not be provided for in the capital budget, and those that are financed may not be allocated annual budget funds for operations and maintenance. Clearly such challenges can affect service delivery.

Effective service delivery depends on a suitable balance between central oversight and local discretion. The institutional and funding factors outlined in section III can enable or constrain the ability of actors at different levels—intermediate governments, local governments, frontline service delivery units—to make sufficiently independent decisions that potentially capture the potential benefits of decentralization for service delivery. National standards are legitimate, and there is no fixed rule on how much discretion subnational governments and facility managers should have—the right balance is context specific. But in all countries covered here, there were claims—at one or more levels of government or at the facility level—that a lack of autonomy hindered the effective use of resources for health service delivery.

Adequately smooth PFM operations are essential for effective and sustainable service delivery. At the most basic level, promised funding amounts should be received by subnational actors in full and on time, and this does not always occur. Once funds arrive, the budget is expected to be executed as planned within PFM guidelines. In some cases, however, total available resources or those budgeted for a specific purpose are not spent as intended at the subnational government and/or health facility level. There are common instances of insufficient adherence to expenditure management protocols and incomplete and/or delayed compliance with reporting. In addition, because off-budget funds may not be captured in official reporting, government records may not fully reflect all health funding flows—in some cases, large shares. Other elements of PFM—such as procurement, asset management, and auditing—may also suffer from delays or weaknesses in execution. These types of challenges were reported to various degrees in the countries considered.

V. Assessing Health Sector Intergovernmental Finance Challenges to Inform Solutions

In determining how to address these observed challenges in intergovernmental sector finance, it is necessary to understand what enables and generates them. This process involves two steps. The first step is to identify the factors most immediately related to specific problems—referred to here as *proximate determinants* (Box 1). Most of them reflect flaws in the intergovernmental fiscal frameworks discussed above and /or issues in how they are implemented.

Box 1

Common proximate determinants of subnational service delivery finance challenges

- Deficiencies in the legal and institutional framework
- Weak implementation or violation of the formal framework
- Lack of coordination among relevant domestic and/or international actors

These proximate determinants of operational challenges provide a useful initial basis for considering solutions. Logical remedies for design flaws in intergovernmental and health service delivery systems might include, for example, reassigning functions to other actors, changing the institutional path through which health funding flows, modifying criteria for transfer funds and the degree of conditionality placed on their use, increasing the role of subnational actors in health budgeting, and so on. Similarly, challenges in coordinating the roles of different actors in health service delivery and the flow of funds from different sources could in principle be alleviated by adopting or improving coordination mechanisms and creating incentives for them to be used effectively.

Box 2

Underlying causal factors of challenges and proximate determinants

- Contested/unstable political basis of the intergovernmental system
- Independent or competitive national bureaucratic dynamics
- Fragmented external development partner activity
- Adverse subnational political context and dynamics
- Capacity constraints of governments and service delivery entities

The proposed remedies, however, are often technical fixes that—even if sound in principle—may not succeed in practice without taking the broader context into account and negotiating compromises. The second step, therefore, involves determining the *underlying causal factors* that drive and sustain proximate determinants (Box 2). These more fundamental—often powerful and highly durable—forces can hinder the ability of reformers to use logical remedies to address the proximate determinants in an effective and sustainable way.

Obstacles may arise, for example, in changing functional responsibilities and procedures, reducing conditionalities on intergovernmental transfers, or simplifying the path through which resources flow to service delivery facilities. There may not be sufficient political commitment to correct the issue (at the national and/or subnational level) or there may be explicit (or even less visible) conflicts between specific actors that hinder coordination and remediation. Other possibilities include pressure from external funders on government agencies to proceed in a specific way or insufficient capacity, among others. Multiple of these elements may be present simultaneously and with varying importance, and they cannot be ignored if realistic corrective measures are to be taken.

VI. Intergovernmental Considerations in Improving Resource Use for Health Service Delivery: A Preliminary Analytical Framework

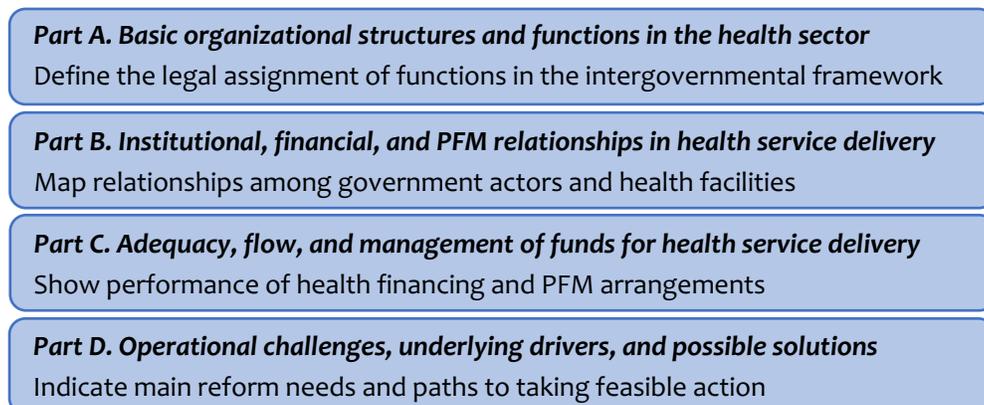
There are two ways to approach the analysis of challenges that may emerge in managing resources for service delivery in intergovernmental systems. The first is to conduct a more broad-based assessment of health financing in the larger intergovernmental context, which involves tracking a standard set of system features and what they might imply for health service delivery. The second approach is to build out from a specific problem in health financing and financial management that has been identified as having a negative impact on service delivery. These could include, for example, a disconnect between facility development financing and recurrent financing for operations and maintenance, rigid line-item budget allocations that preclude budget flexibility for facility managers, or delays in intergovernmental health transfers reaching service facilities.

Ultimately, these two approaches are interrelated. It is likely that the more comprehensive approach would uncover multiple specific problems requiring deeper attention. Similarly, the more targeted approach will typically require going back to broader intergovernmental structural and financing considerations—many are proximate determinants of common challenges—because attention to them is needed to deal with the specific problem of interest. Analysis in a particular case, therefore, may often include some blend of broader and narrower assessments depending on the intended purpose of the analysis and what emerges from initial steps taken in the investigation.

1. The Intergovernmental Health Finance Landscape: A Broad-Based Assessment Framework

The more comprehensive assessment framework covers four categories of issues and concerns (Figure 4). The framework starts with basic information about functional assignments across government levels (A) and then moves on to the institutional and operational relationships among them (B). The third category documents service delivery funding flows and financial management arrangements (C). The last category identifies the challenges that emerged in assessing the system, the factors that shaped them, and what they imply for desired and feasible reforms (D). A summary of key issues in each category is presented in Boxes 3-6. Further details can be found in the main paper (link in footnote 1) The discussion here is framed around the health sector, but the general approach can be adapted to most service delivery sectors.

Figure 4. Mapping the intergovernmental health finance system, challenges, and options



A. Basic organizational structures and functions in the health sector

The first set of basic informational questions included in the comprehensive assessment framework provide largely descriptive characterizations of the health sector system structure. For example, what does the legal framework have to say about the general provisions of the intergovernmental system (including PFM) and the role of subnational governments in the sector? These basics are important in understanding how finances are managed (Box 3).

Box 3

Part A. Basic organizational structures and functions in the health sector

1. **Level(s) of government assigned responsibilities for health services** (oversight, specific services, different types of facilities, and so on)—some functions may be shared by multiple levels
2. **Types of entities involved in service delivery** (government departments, special agencies, or nongovernmental organizations; may vary across levels)
3. **Health service delivery financing system** (intergovernmental transfers, user fees, insurance payments)
4. **Organization of health sector PFM system** (uniform PFM system across government levels and providers or more fragmented arrangements)

B. Institutional, financial, and PFM relationships in health service delivery

Beyond basic system parameters, the second set of questions intends to document in more detail how various actors work together to operate the system. This includes the service delivery responsibility chain and how key elements of sector operations that affect service delivery—planning and budgeting, revenue generation, staffing—are managed (Box 4).

Box 4

Part B. Institutional, financial, and PFM relationships in health service delivery

1. **Chain of responsibility for health service delivery** (health departments and entities at various levels and their relationship with each other and service facilities)
2. **Planning and budgeting** (roles, degree of autonomy, and relationships among national and subnational levels and facility managers)
3. **Revenue generation and use** (degree of control over transferred funds and user fees by subnational governments and facility managers)
4. **Staffing and human resource management** (role of subnational entities in staffing and human resource management)
5. **Implication of roles/relationships for accountability** (balance of upward and downward accountability given the roles and autonomy of different actors)

C. *Health service delivery fund adequacy, flows and management*

The third set of questions intends to document in more detail the resource process. This includes the adequacy, flow, and absorption of funds for health service delivery in the PFM process (Box 5).

Box 5

Part C. Adequacy, flows, and management of funds for health service delivery

1. **Adequacy, transparency, and stability** (extent to which funding sources are broadly sufficient, transparently reported, and reliably regular)
2. **Linkage of resource flows to subnational budgetary needs** (extent to which the mix and terms of conditional and unconditional transfers and other sources is consistent with the expenditure requirements of subnational governments and facilities)
3. **Receipt and timing of transfers** (extent to which committed resource flows are received and in a timely manner by subnational governments and facilities)
4. **Budget execution** (extent to which subnational government and facility budgets are executed as planned and if there are particular areas of weak performance)
5. **Flexibility in routine budget management** (extent to which subnational government and facility managers have and use budget flexibility powers)

D. *Managing intergovernmental health finance: challenges, drivers, and solutions*

The final set of questions in the broad-based diagnostic focuses on determining, based on the assessments conducted in parts A, B, and C, the relative importance of health finance management challenges that might be expected to affect service delivery. These cover the specific nature of challenges, system features that seem to generate or contribute to them (the proximate determinants covered in section V), types of responses that might help to resolve or alleviate them, and how more fundamental underlying drivers (the causal factors discussed in section V) influence the feasibility of desired institutional or procedural solutions (Box 6).

Box 6

Part D. Intergovernmental health finance challenges, drivers, and solutions

1. **Identify priority challenges** (determine the most important challenges from among those identified, ideally in terms of their effects on service delivery)
2. **Identify proximate determinants** (challenges may result from flaws in service delivery, PFM, or intergovernmental frameworks; poor compliance with system requirements; lack of cooperation among key actors; and the like)
3. **Determine possible solutions to determinants** (for example, correcting system flaws, improving adherence to requirements, or promoting greater collaboration)
4. **Check for underlying causal factors** (political economy considerations, capacity constraints, and other factors may limit or preclude adoption of desired solutions)
5. **Consider implications for reform feasibility** (if causal factors create obstacles for desired solutions, examine options that may be more limited than desired measures but can proceed in spite of obstacles to move the system in a productive direction)

2. The Intergovernmental Health Finance Landscape: A Problem-Driven Approach

When a broad-based assessment of health sector finances, as outlined above, is not desired or feasible, assessment of a specific problem or challenge and how it relates to intergovernmental structures and relations may be productive. It is more difficult to define a standardized framework for such analyses because the varying nature of problems will require different starting points and different questions and information. The main paper provides examples of the style of tailored investigative approach that might be used in considering three specific problems—fragmented health funding sources, a disconnect between health facility planning and budgeting, and funding flow delays. Funding fragmentation is considered here to illustrate the nature of the analysis.

One of the health financing challenges that emerges in the literature and in the countries covered in this paper is that funding sources are often fragmented and inflexible. Subnational governments and health facility managers may complain that the large number of diverse funding sources, often earmarked for specific purposes, hinders their ability to effectively manage the total pool of resources they have available to deliver health services. To better understand the problem, it is necessary to examine the details.

- i. **What is the specific nature of the fragmentation and how is it affecting health finances and service delivery?** In some cases, fragmentation is due to an unduly large number of separate intergovernmental transfers. In other cases, transfers may be adequately coordinated, but there may be uncoordinated donor-funded programs managed through independent mechanisms. In still other cases, a range of funds from both government and donor sources may be administered separately. Such fragmentation can create severe imbalances in the allocation of funds, such that, for example, certain types of health facilities or jurisdictions are adequately covered but others are not. Separate conditional funds may overallocate resources for certain purposes, such as medicines, and provide insufficient funds for staff expenses or other basic operating costs, such as electricity or supplies. Different funding sources can be productive if they can be programmed and managed in a sufficiently integrated way through the PFM system and a means to link off-budget funds to the overall budgeting process; otherwise, serious challenges can be created for budget composition and service delivery. In addition, major management burdens may result if many funding streams have separate reporting requirements.
- ii. **What is the institutional or procedural source of the fragmentation?** It may result from restrictions placed on funds from the original sources, whether earmarked funding from national government revenues or donor aid with conditions attached. Fragmentation may also result if various transfers are managed independently by different central ministries—such as finance, planning, health, local government, and public works—and the PFM system does not capture them appropriately. In still other cases, funds may flow directly from donor programs managed through parallel mechanisms and even channeled off-budget
- iii. **What causal factors/dynamics are driving the fragmentation?** If the issue is purely a matter of mistakes in system or procedural design, it may be easier to adopt corrective measures. If, however, fragmentation is based on more challenging factors—including reluctance on the part of the central government to empower subnational actors with more spending discretion due to mistrust or concerns about capacity, or competitive relationships among ministries with different perspectives about how subnational health finances should be

managed—pursuit of seemingly obvious reforms may be more difficult. Similarly, where donors need to claim credit and/or are constrained by institutional accountability requirements or concerns about partner government systems, correcting fragmentation may be less feasible, although there may be ways to reduce it with willing partners.

3. Common Foundations and Goals of the Broad-Based and Problem-Driven Approaches

The two types of assessments outlined here share two common foundational assumptions. First, there is value in considering intergovernmental institutional issues more carefully rather than designing reforms to improve health sector financing based exclusively on PFM or sectoral considerations. Since intergovernmental systems and how health and PFM are organized within them vary, there is no neatly standardized approach to this type of work. Whether the preferred initial approach is broader or driven by a more specific problem, the analysis required to identify health financing challenges is essentially a form of detective work, although it should be framed and executed as systematically as possible using the kind of guidance provided above or similar approaches.

Second, it is vital to identify the causal factors underlying observed challenges and their proximate institutional and procedural determinants. Understanding these forces provides a more complete basis from which to judge the practicality of desired reforms and how best to design them for effectiveness. This analysis may expose opportunities for substantial rapid reforms, or it may point to more modest initial steps that have the potential to create a foundation from which to launch a gradual strategic reform trajectory that is more viable and sustainable.

Additional work is needed to achieve a better understanding of how intergovernmental considerations can best be incorporated into reform efforts to improve the management of finances for service delivery in health and other sectors. Structured and evidence-informed discussions of intergovernmental challenges in service delivery among specialists and practitioners in PFM, sector financing, and intergovernmental fiscal relations could constructively bridge different perspectives. This will not generate universal or generalizable prescriptions for action, but it can help to develop a more informed basis and more refined diagnostics for considering reform options in service delivery financing and for negotiating strategic and productive paths to improvement within a specific intergovernmental context.