2023-09-21

Refined data from multiple sources is the digital fuel for effective decision-making…
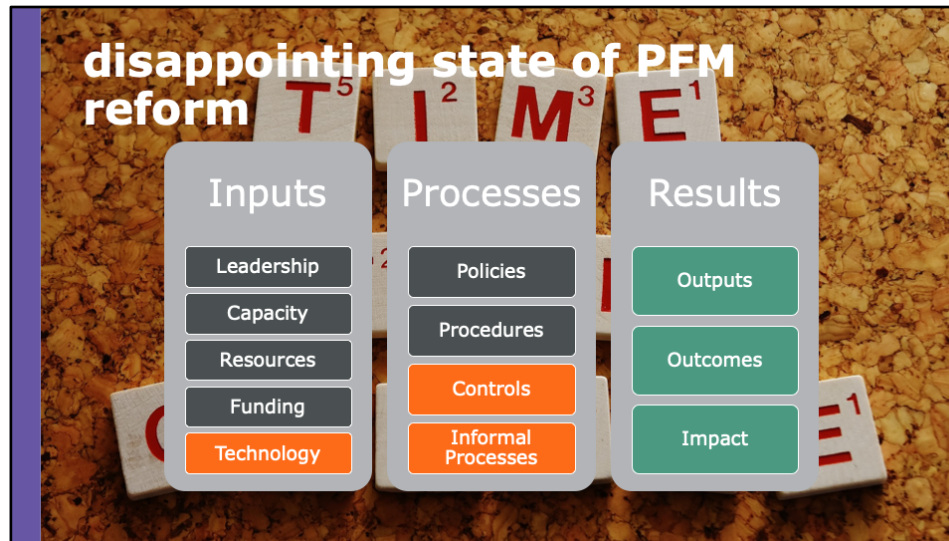

• https://www.thedrum.com/opinion/2022/12/12/data-isn-t-the-new-oil-it-s-way-more-valuable

"When British mathematician Clive Humby declared in 2006 that "data is the new oil," he meant that data, like oil, isn't useful in its raw state. It needs to be refined, processed and turned into something useful; its value lies in its potential."

• https://en.wikipedia.org/wiki/Clive_Humby

...yet, few political decisions can be considered evidence-driven. On one hand, government finance becomes simplified in the public sphere to reductive concepts primarily around the input of money spent.

From previous session: significant data gaps in the US, with data used mainly for research rather than for administration

- https://freebalance.com/en/blog/government-digital-transformation/digital-pfm-why-isnt-it-working-what-can-be-done/
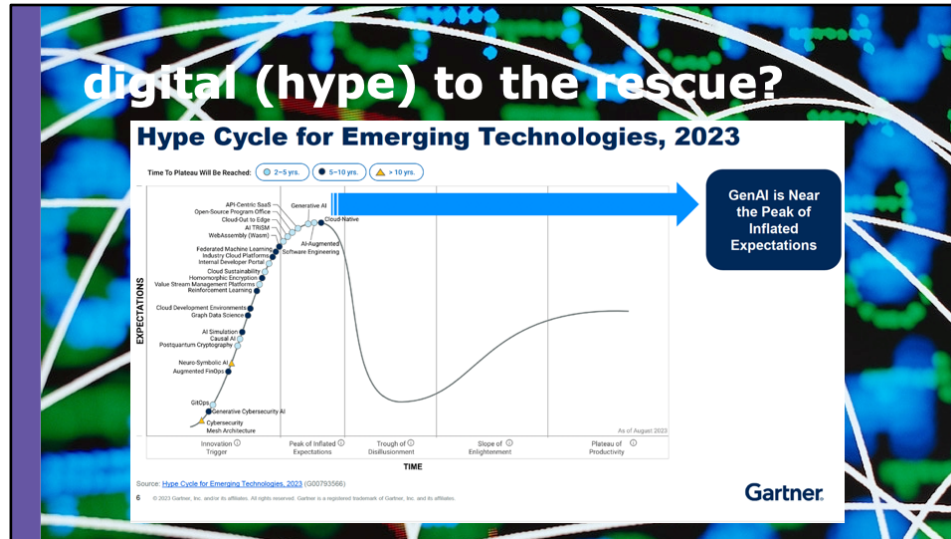
On the other hand, the discipline of public finance is progressing slowly. You'll see this by reading Public Expenditure and Financial Accountability (PEFA) assessments that often shows how PFM results are constrained by the incomplete use of financial management software that limits the automation of controls, and enables non-compliant informal processes.

From a previous session mentioning informal processes: "that's not how we do things here"
Other sessions discussed the lack of using country systems even with good PEFA assessments

- https://freebalance.com/en/blog/pfm/why-is-public-financial-management-the-brain-behind-country-resilience/
- https://freebalance.com/en/blog/government-digital-transformation/government-digital-transformation-and-inclusive-growth/
- https://freebalance.com/en/blog/smart-government/why-doesnt-

public-finance-improvements-always-improve-citizen-service-
delivery/

The pandemic accelerated government digital adoption. Some governments were able to improve public spending efficiency and effectiveness.
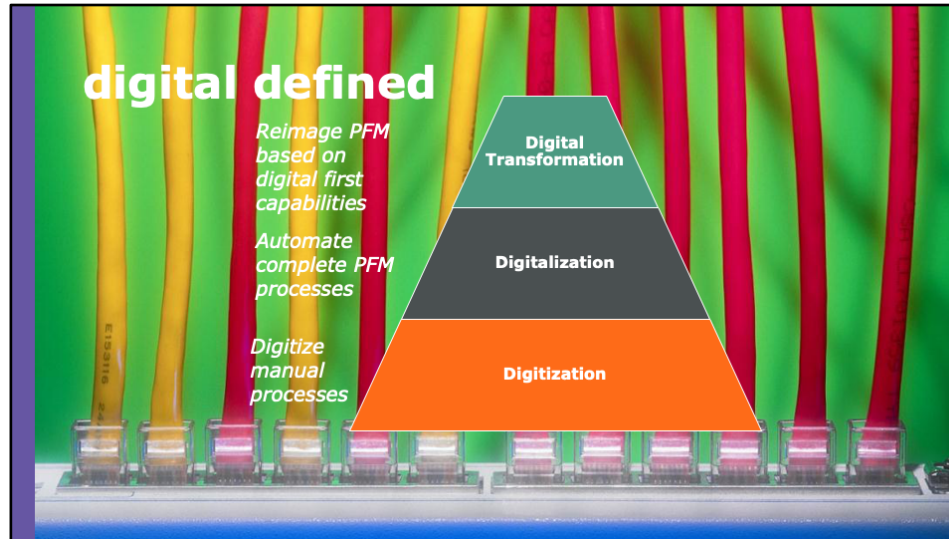BUT
This was often accomplished outside government financial systems.
SO
We need to be very careful when characterizing digital Public Financial Management, particularly in light of so many emerging technologies reaching the peak of inflated expectations

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- Gartner Group "hype cycle" explained:
  https://www.gartner.com/en/research/methodologies/gartner-hype-cycle
- Hype Cycle for Emerging Technologies webinar (requires registration)
  https://webinar.gartner.com/530988/agenda/session/1196495

digital defined

Reimage PFM based on digital first capabilities

Automate complete PFM processes

Digitize manual processes

- Digital Transformation
- Digitalization
- Digitization

We're in a digital disinformation era. In information technology: vendors following hype – positioning offerings as "digital transformation".

- **Digitization**: the use of digital technology to accelerate a function is not transformation
- **Digitalization**: the use of digital technology to accelerate a process like "procure to pay" or "recruit to retire" is not transformation
- **Transformation** is the use of digital technology to completely rethink our legacy PFM processes

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- https://freebalance.com/en/blog/government-digital-transformation/what-is-government-digital-transformation/
- https://freebalance.com/en/blog/government-digital-transformation/why-are-governments-digitally-transforming/

Transformation occurs when decision-making is data-driven…

From a previous ICGFM session: data for research & data for administration, including quality equitable data for artificial; intelligence
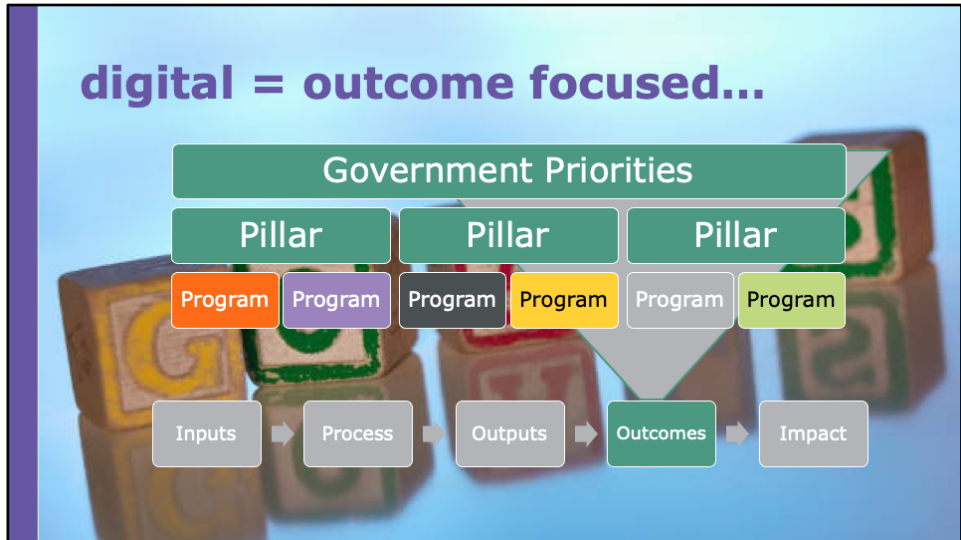
…focused on outcomes integrated with government priorities.

Another example is using program budgeting to track Sustainable Development Goals spending & results

This PFM digital transformation is about institutional modernization, first. That modernization is enabled by technology, second. Yes, someone working for a technology vendor just told you that it's not all about technology.

digital PFM journey
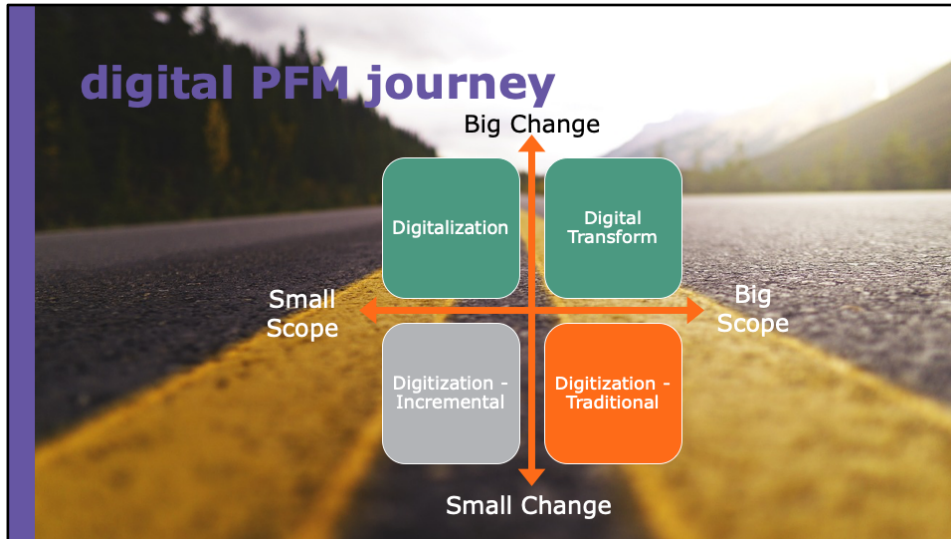
How can PFM achieve the digital promise of results-focused & data driven? Your government journey depends on your starting point.

• https://freebalance.com/en/blog/government-digital-transformation/how-to-get-government-digital-transformation-right/
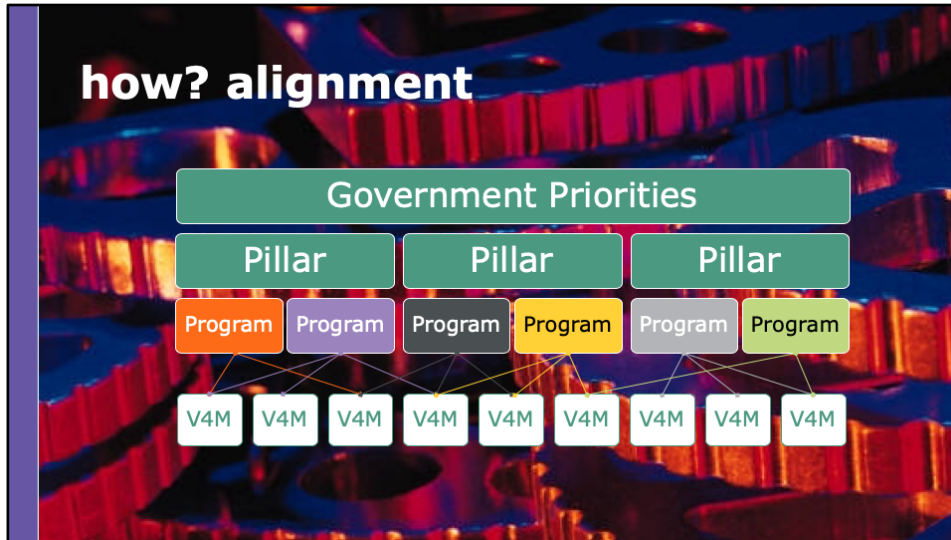
value for money?

PFM & Value-for-Money

This includes understanding on how digital PFM can enhance spending value-for-money. You'll notice 3 new Es in this definition: evidence for inputs, engagement across budget cycles, and economic value add. We've learned at ICGFM sessions this conference about:

- **Evidence**. Data quality for decision-makers that was covered in the supply chain session earlier
- **Engagement**: Stakeholder engagement to improve results that has been a subtheme of this conference, especially around improving trust in government
- **Economic Value-Add**: Positive economic impact such as the Ukraine example of small business recovery through social support payments to individuals from a previous session

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Value for Money is strategic concept that applies to complex procurement and the entire performance lifecycle, but ought to be considered for all spending. 5Es used include:

- **Economy**– similar to spend management

- **Efficiency**- productivity of turning costs into outputs, for example: the cost to deliver an inoculation
- **Effectiven**ess- from outputs to outcomes, for example: the cost to reduce a disease by 1%
- **cost Effectiveness** to delivery impact, for example, the cost to increase 1 year of life expectancy
- **Equity**: the impact **to** groups, for example, whether this increase in life expectancy was shared by disadvantaged groups

- https://freebalance.com/en/blog/pfm/value-for-money-in-government-procurement/
- https://freebalance.com/en/blog/pfm/governance-pfm-and-value-for-money/
- https://freebalance.com/en/blog/pfm/complexity-of-government-performance-management/
- https://freebalance.com/en/blog/pfm/government-results-and-performance-management-the-unified-approach/
- https://freebalance.com/en/blog/pfm/why-use-the-balanced-scorecard-in-government/
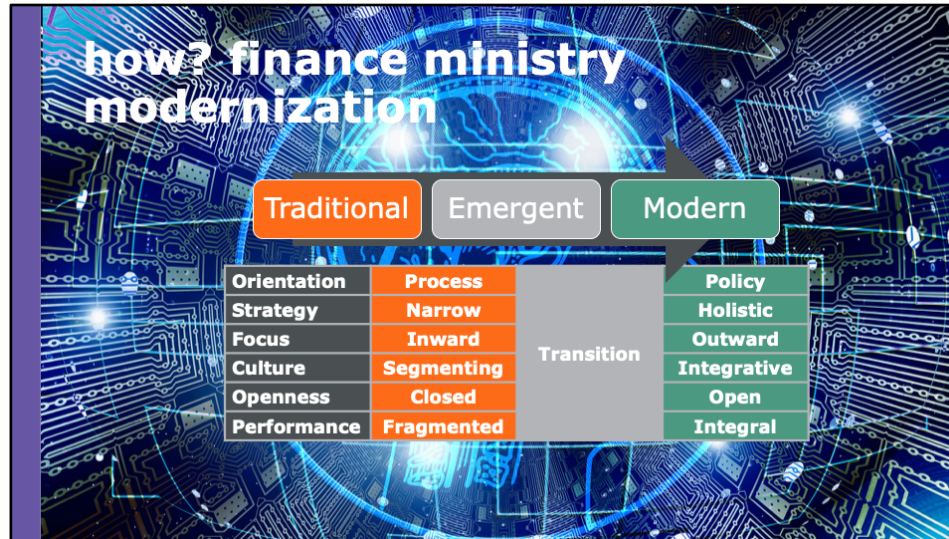
Value-for-money is optimized when linked to government priorities like national development plans, For example, we see many Requests for Proposals for Financial Management Information Systems. These have value formulas with criteria. What we haven't seen is criteria about vendor qualifications to improve public investment quality, budget credibility, or MTEFs.

PFM digital transformation success depends on finance ministry transformation…

Seen in a previous session how integrity & anticorruption (accountability) led to significant increases in tax collection in case studies
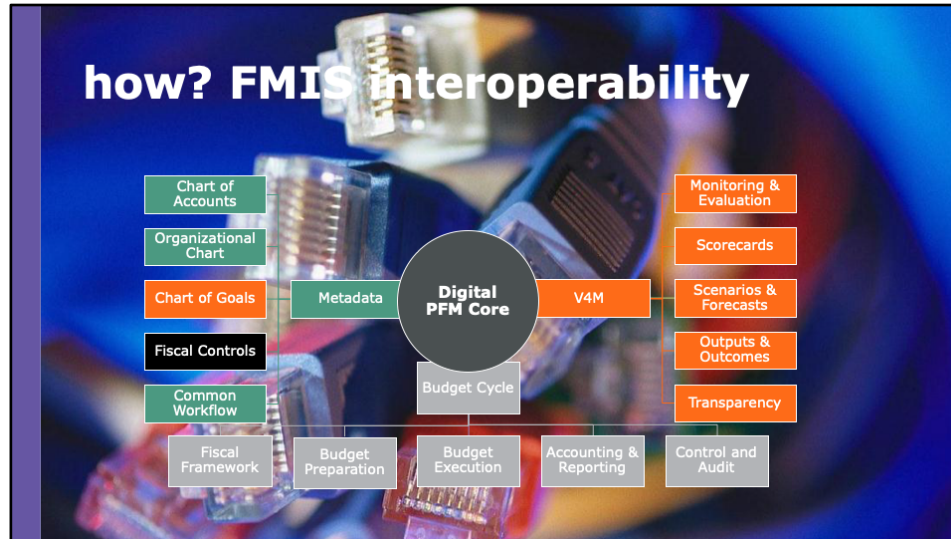
- https://freebalance.com/en/blog/government-digital-transformation/leadership-and-government-digital-transformation/

how? finance ministry modernization

| Traditional | Emergent | Modern |

Orientation	Process		Policy
Strategy	Narrow		Holistic
Focus	Inward	Transition	Outward
Culture	Segmenting		Integrative
Openness	Closed		Open
Performance	Fragmented		Integral

…following the observations from the IMF-published paper, The Evolving Functions and Organization of Finance Ministries in 2015. Your PFM digital journey depends on the extent of finance ministry modernization. Limited modernization means starting small. More modern ministries can think big.

From previous sessions: the need for data literacy, value of capacity building & need for leadership authorization

- https://www.imf.org/external/pubs/ft/wp/2015/wp15232.pdf
- https://freebalance.com/en/services/advisory/modern-ministry/
- https://freebalance.com/en/blog/pfm/finance-ministry-modernization/
- https://freebalance.com/en/blog/pfm/innovation-and-the-modern-finance-ministry/
- https://freebalance.com/en/blog/government-digital-transformation/organizational-change-management-and-government-digital-transformation/
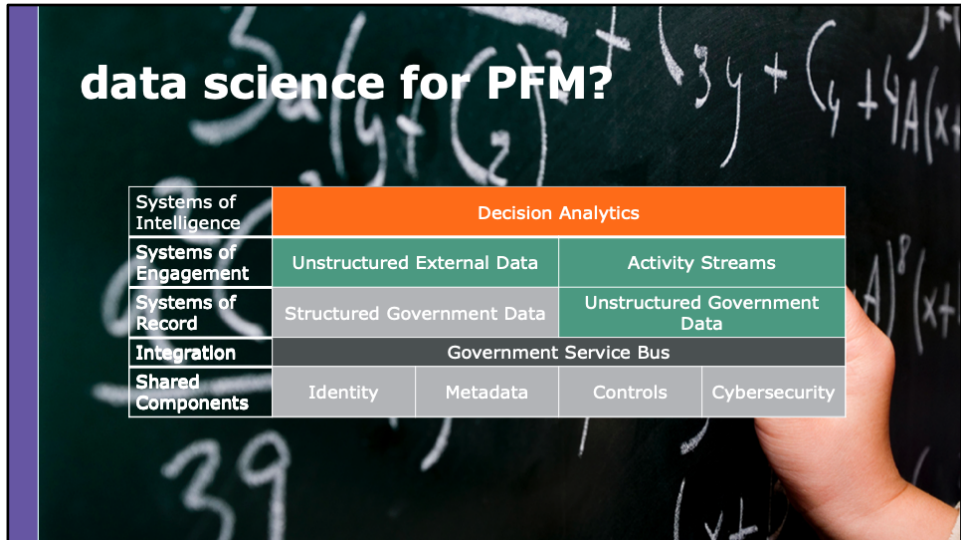
Most FMIS portfolios lack full interoperability. A digital PFM enables interoperability with integrated metadata and performance structures across the budget cycle. You'll notice the need to integrate Charts of Accounts with performance structures, what we call Charts of Goals. You'll also see the need for consistent fiscal controls across all applications. Why? It's almost pointless to have commitment controls in your FMIS but not in major spending functions like procurement and payroll.

From previous session: most systems used in government were not originally designed for data sharing.

Many governments operate combinations of custom-developed & legacy Commercial-Off-The-Shelf (COTS) software. Most COTS ERP available today is considered legacy: built on proprietary technologies that originated in client/server times, that requires significant code customization to meet government needs.

- https://freebalance.com/en/blog/pfm/interoperability-in-pfm-systems/
- https://freebalance.com/en/blog/government-digital-transformation/technology-foundation-for-digital-transformation/
- https://freebalance.com/en/blog/government-technology/post-modern-vs-legacy-erp/

data science for PFM?

Systems of Intelligence	Decision Analytics			
Systems of Engagement	Unstructured External Data		Activity Streams	
Systems of Record	Structured Government Data		Unstructured Government Data	
Integration	Government Service Bus			
Shared Components	Identity	Metadata	Controls	Cybersecurity

Back to data as oil: integration of the finance functions with internal structured and unstructured data, enhanced with data from systems of engagement, enables data science for decision analysis, to support evidence-based decision-making.

- https://freebalance.com/en/blog/government-digital-transformation/government-digital-transformation-from-systems-of-record-to-systems-of-innovation/

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Where can we start? Let's start with a PFM digital transformation readiness workshop. First: top 10 institutional factors, followed by the top 10 technology factors.

Follow-up

- dhadden@freebalance.com
- https://twitter.com/dalytics/
- https://www.linkedin.com/in/haddencatalyst/

Landing page for all content: https://www.freebalance.com/en/icgfm-2023
- Fully detailed slide deck with notes & links to supporting content
- Copy of workshop survey
- https://freebalance.com/en/blog/ for posts about this session & takeaways from the conference

- Check out my course at https://freebalance.com/en/academy/courses/information-communications-technology-ict-pfm-short-courses/government-digital-transformation/

FreeBalance Top 10 Public Financial Management Digital Transformation Readiness Institutional Factors

- Accountability
- Talent Management
- Finance Ministry Modernization

My government has articulated a **comprehensive** internal digital transformation policy

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

Budget formulation and spending decisions are **directly linked** to articulated government goals such as national development plans

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

The finance ministry in my government **focuses** on policy advice and fiscal analysis rather than transactional oversight

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

Finance functional groups (budget planning, treasury, debt, procurement, payroll etc.) work **closely together**, rather than operate as silos

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

Fiscal transparency and accountability are **well-established** in my government, and accepted by public servants

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

Finance ministries in my government have **effective** capacity building and talent management processes

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

Finance ministries in my government collects **evidence** and provides analysis to support decision-making across the budget cycle

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

My government uses Medium-Term Budget Frameworks **effectively**

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

My government has **decentralized** routine public finance functions (transaction approvals, simple budget transfers, purchasing, payroll etc.)

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

My government delivers open fiscal data **accessible** to civil society

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

Management Digital Transformation Readiness Technology Factors

- Big Data Digital Core
- Financial Management Information System (FMIS) Interoperability
- Digital Technology Modernization

Core Financial Management Information System (FMIS) portfolio (accounting, recporting, treasury, debt etc.) are **tightly integrated** including data, metadata & controls

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

The core FMIS & non-core (assets, procurement, payroll, budget planning etc.) functions are **tightly integrated** including data, metadata & controls

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

There are no, or very few **manual processes**, other than approvals and edge cases in the FMIS portfolio used by my government

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

There is an **effective** digital services group in my government who leverage agile methods to optimize technology innovation

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

There is a **fully-articulated** enterprise architecture that extends beyond the FMIS

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

The underlying technology used by the FMIS is reliable with good **user performance**

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

There is good Information and Communications Technology (ICT) governance structures that meet **international ICT standards**

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

My government has a cloud-first policy with **clear guidelines** for how private cloud (government data centre shared services) and public cloud services should be used

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

My government leverages **systems of engagement** (internal collaboration, records management, document management, e-filing, e-procurement, transparency portals etc.)

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree

My government leverages **systems of intelligence** (visualization, dashboards, scorecards, data warehousing, big data analytics etc..)

Mostly Disagree	Moderately Disagree	Neither Agree nor Disagree	Moderately Agree	Mostly Agree