Using Artificial intelligence in Public Financial Management

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PEMPAL

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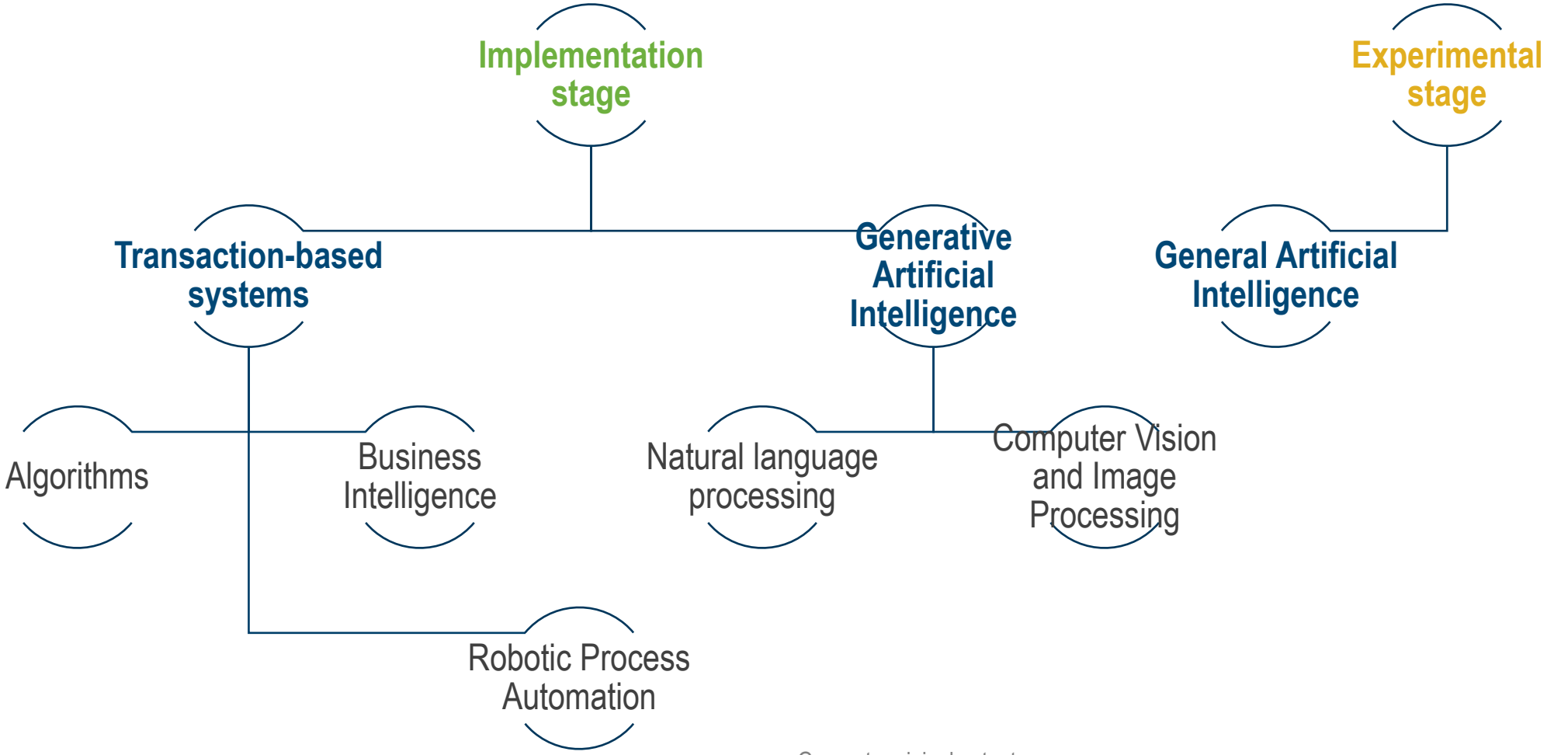
AI: A technological continuum?



1 Governing with AI

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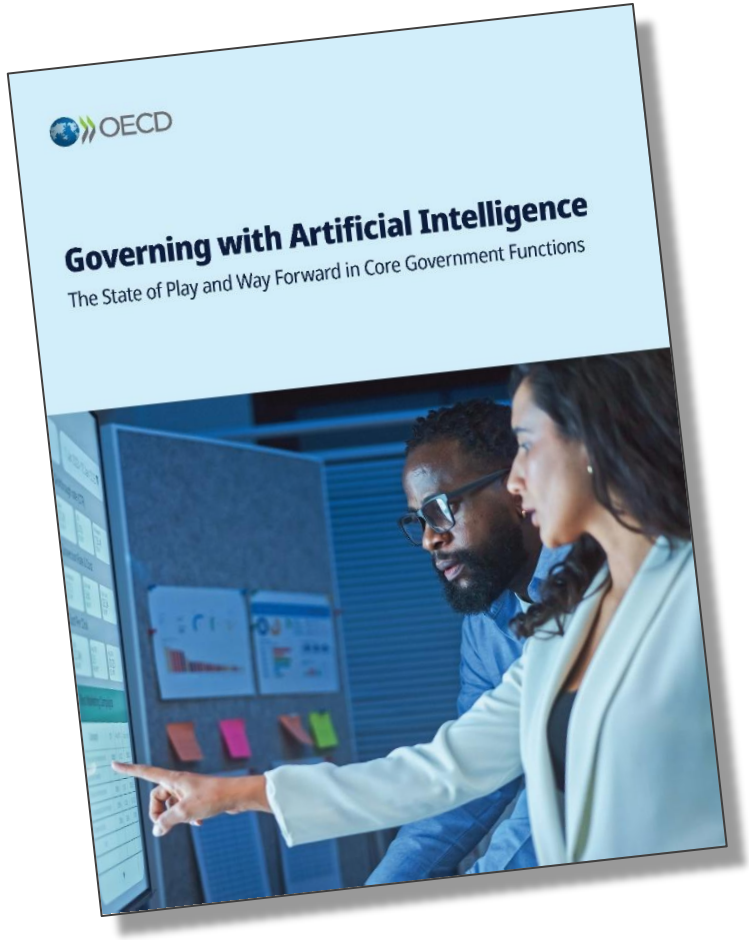


Report fueled by leading research and analysis of real-world AI use

200 use cases across 11 government functions

Category	Government policy functions	Key government processes	Government services and justice
Function	Tax administration	Civil service administration	Public service design and delivery
	Public financial management	Public procurement	Law enforcement and disaster risk management
	Regulatory design and delivery	Fighting corruption and promoting public integrity	Justice administration and access to justice
		Policy evaluation	
		Civic participation and open government	

AI helps enhance government productivity, responsiveness and accountability

Benefits of AI in government

- Automated, streamlined and tailored processes and services
- Better decision-making, sense-making and forecasting
- Enhanced accountability and anomaly detection
- Unlocking opportunities for external stakeholders

Navigating the risks of AI use in governments

Ethical risks *(Inadequate or skewed data, AI misuse, lack of transparency/explainability)*

Operational risks *(automation bias i.e. overreliance on AI, reduced job quality, cybersecurity, privacy and data gov. tensions)*

Exclusion risks *(digital divides, workforce displacement)*

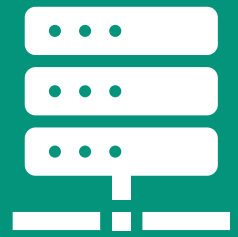
Public resistance risks *(selective acceptance, lack of understanding, scandals reduce trust)*

Risks of inaction *(missed opportunities, widening gap between public/private sector capacities)*

Progress is hindered by implementation challenges

Scaling up successful AI applications

Skills gaps



Data quality issues

Lack of actionable guidance

Weak monitoring and evaluation

Risk aversion and regulatory uncertainty

Framework for Trustworthy AI in Government

Enablers: Areas where policy actions can be prioritised to establish a solid enabling environment and unlock the full-scale adoption of AI in the public sector

Guardrails: Options for policy levers governments can consider to secure a trustworthy and responsible use

Engagement: Where key actors need to be involved to implement actions targeting specific challenges

2 Use of AI in PFM

Trends of use

Applications of AI are foreseen in virtually all areas of PFM, but use cases appear so far focused on a few domains.

Forecasting

- ML and DL-powered forecasting models can increase accuracy and speed in forecasts preparation.
- Models are however "black-boxes" whose assumptions and calculations cannot be fully understood.

Spending decisions

- Big data, data analytics and data visualisations were groundwork for evidence-based or targeted spending decisions.
- ML and DL can further enhance such approaches, with some initial use cases in OECD countries.

Budget planning and monitoring

- Structured data - e.g., accounting or budget data - and in some cases unstructured data already used in AI-powered (ML, word cloud) predictive models aimed at:

✓ forecasting baselines

✓ costing new policies

✓ identifying and monitoring patterns and trends indicative of potential fiscal risks

Financial management

- Already significant use of AI, in particular RPA, to assist civil servants with repetitive tasks – e.g., invoices' routing – to improve productivity and re-assign time to more analytical tasks.
- ML and DL used to improve quality and resilience of processes – e.g., to prevent improper payments (fraud or errors) in emergency situations.

Engagement with external stakeholders

- NLP-powered chatbots offer opportunities to revolutionise interaction with external stakeholders on fiscal issues.

Impacts and early insights

As governments continue to explore and implement AI in PFM, it is crucial to improve data collection and public reporting on AI project metrics, as well as better identify success factors for projects.

Impacts

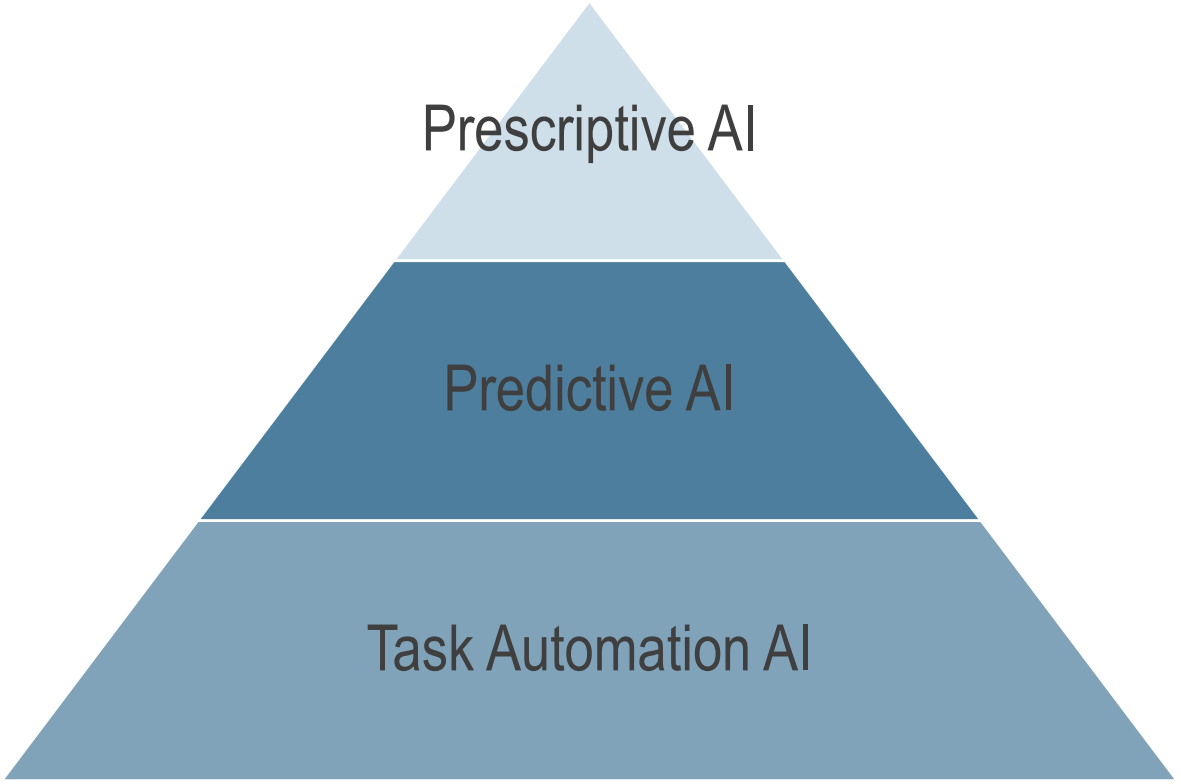
- Impacts are difficult to assess so far as costs, performance and outputs of initial AI projects, often considered provisional or in pilot phase, are rarely disclosed.
- Oversight bodies – e.g., SAI – are calling for greater transparency on key metrics of AI projects.
- Initial projects have highlighted significant risks of errors that also need to be considered in assessing use cases.

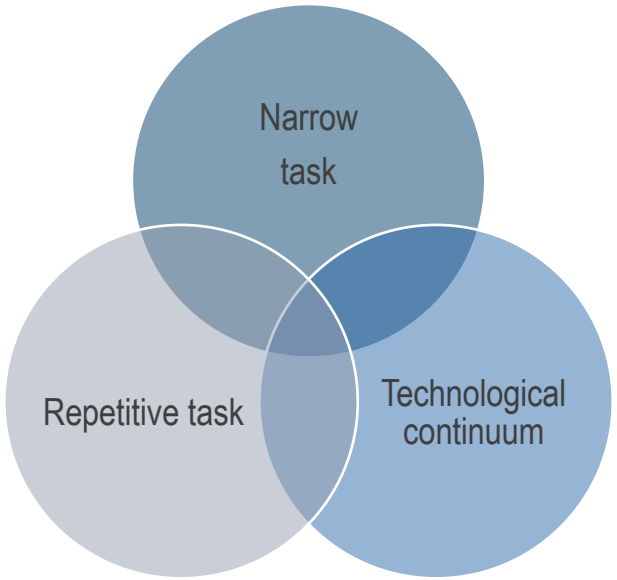
Insights

- Introducing AI requires identification of needs and matching them with technology, incl. sequencing the introduction of layers of functionalities.
- Legacy IT systems and weak data governance may prevent developping projects.
- Training of models is key and require involvement of highly skilled PFM experts that also have a good understanding of how AI models work and of their limits.
- Government-wide AI governance frameworks and community of practice are needed to guide PFM-specific projects.

From automation to prescription…?

Current AI use cases in PFM are predominantly focused on task automation and predictive AI, with emphasis on narrow, repetitive tasks that have been previously automatized.





... With which implications for PFM frameworks?

Use cases show undeniable potentialities for AI in PFM coupled with significant risks, as well as point to possible profound implications on public finance systems.

How will accountability be defined if, or when, decisions are made by algorithms?

What mechanisms will be needed to ensure transparency in automated decisions?

How will the roles of traditional oversight bodies evolve in response to AI adoption?

What new safeguards will be necessary to protect against misuse of AI in fiscal governance?

Budgeting and public expenditures - OECD

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