

Treasury-Power and Budget Execution in Fragile States: Liquidity, Authority, and the Political Economy of Reform Failure

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Publication Date: 2026/04/30

Abstract: Budget reforms repeatedly fail in fragile states despite the widespread adoption of fiscal rules, program budgeting, and public financial management (PFM) reforms. This article argues that such failure stems from a systematic mislocation of budgetary authority in existing analytical frameworks. The article develops a theory of *treasury power*, defined as the institutional capacity to control the timing and prioritisation of payments under liquidity constraints. It shows that uncertainty over public resources transforms the budget constraint into a sequential and intra-annual liquidity constraint, weakening the binding character of ex ante allocations and shifting effective decision-making to the execution stage. Building on this mechanism, the article explains reform failure as an endogenous institutional equilibrium. Reforms that seek to reduce discretion by strengthening rules or procedures undermine the treasury's adjustment function and are therefore systematically neutralised during execution. This interpretation is consistent with observed patterns of payment delays, arrears accumulation, and expenditure prioritisation in fragile contexts. The article contributes by relocating budgetary authority from allocation to execution, formalising the role of liquidity in budgetary decision-making, and providing a political economy explanation for persistent reform failure.

Keywords: *Treasury Power; Budget Execution; Liquidity Constraints; Budgetary Authority; Reform Failure; Fragile States; Public Financial Management.*

JEL Classification: *H61; H68; H83; D72; O17.*

How to Cite: Étienne Fakaba Sissoko; Pierre Bayo (2026) Treasury-Power and Budget Execution in Fragile States: Liquidity, Authority, and the Political Economy of Reform Failure. *International Journal of Innovative Science and Research Technology*, 11(4), 2594-2605. <https://doi.org/10.38124/ijisrt/26apr1686>

I. INTRODUCTION

Budget reforms repeatedly fail in many fragile states, despite the diffusion of tools, rules, and normative frameworks aimed at strengthening fiscal discipline, transparency, and the credibility of public action. This persistence constitutes a central paradox: instruments designed to stabilise fiscal trajectories coexist durably with instability in budget execution and only limited transformation of actual practices (Allen et al., 2019; Andrews, 2013; World Bank, 2017). This discrepancy suggests that dominant analytical frameworks imperfectly capture the institutional mechanisms governing budgetary action in fragile contexts.

Existing approaches fail to resolve this paradox because they rely on a shared implicit assumption: budgetary authority is exercised at the moment of ex ante allocation. Fiscal

discipline frameworks associate it with compliance with macro-fiscal aggregates and formal rules (Alesina & Perotti, 1996), while public financial management (PFM) reforms prioritise improvements in procedures and administrative capacities (Andrews et al., 2017). The political economy of the budget highlights the role of coalitions and institutional incentives (Besley & Persson, 2011; North et al., 2009), but devotes limited attention to the operational mechanisms of execution. More broadly, these approaches remain centred on the definition of rules and allocations, to the detriment of analysing the concrete instruments through which authority is exercised. This limitation is also evident in the literature on state capacity and fiscal sociology, which emphasises resource mobilisation and legitimacy without precisely locating the site of effective budgetary decision-making (Moore, 2007; Fukuyama, 2013).

This article argues that such localisation is analytically incorrect in fragile contexts. When uncertainty over public resources is high, the budget constraint becomes sequential and intra-annual, as execution depends on the effective availability of liquidity. Under these conditions, the transformation of budget authorisations into payments cannot be ensured by formal rules alone. The decisive arbitration shifts to execution, at the point where the state determines which commitments to honour, defer, or suspend. Budgetary authority therefore does not reside in the capacity to define allocations, but in the capacity to control their effective implementation.

On this basis, the article introduces the concept of *treasury power*, defined as the institutional capacity to control the timing and prioritisation of payments under liquidity constraints. In environments characterised by high uncertainty over resource flows, this power constitutes the effective locus of budgetary authority, insofar as it determines the real hierarchy of public priorities independently of voted allocations. In this sense, the treasury is not merely a technical execution device but a central institutional mechanism for the production of budgetary decisions.

The research question is therefore the following: why do budget reforms systematically fail when effective authority rests on liquidity management rather than on ex ante allocation? The argument advanced is that this shift generates a form of discretionary budgetary authority grounded in the sequential management of payments, which continuously reconfigures public priorities. This discretion does not constitute a deviation from rules but a structural property of budget systems operating under liquidity constraints.

The article makes three contributions. First, it relocates budgetary authority by demonstrating that existing approaches situate it in ex ante allocation, whereas it is exercised through liquidity control during execution. Second, it develops a theory of treasury power, explaining how the sequencing of payments generates discretionary authority under conditions of uncertainty. Third, it explains the failure of budget reforms as an endogenous institutional equilibrium in which reform instruments are systematically neutralised whenever they reduce the capacity for arbitration under liquidity constraints.

The remainder of the article is structured as follows. Section 1 examines the mislocation of budgetary authority in existing approaches. Section 2 introduces the concept of treasury power and specifies its analytical foundations. Section 3 develops the mechanism linking liquidity constraints to the emergence of discretionary authority. Section 4 shows how this mechanism produces a stable non-reform equilibrium. Section 5 discusses the implications of this framework for the analysis of public finances and budget reforms.

A. Mislocation of Budgetary Authority

The analysis of budget reforms is structured by theoretical frameworks which, despite their differences, share a common implicit assumption: budgetary authority is

exercised primarily at the moment of ex ante allocation. This assumption assigns analytical primacy to the design phase, while execution is treated as a secondary stage of implementation.

This section argues that this assumption is conditionally valid but systematically fails under liquidity constraints. More precisely, each dominant approach identifies a dimension of budgetary authority but breaks down when the budget constraint becomes sequential and execution-dependent. As a result, existing frameworks do not simply overlook execution—they mis-specify the locus of authority under conditions of uncertainty.

➤ *Fiscal Discipline: Authority Under Intertemporal Stability*

Fiscal discipline frameworks define sustainability in terms of deficit control, debt stability, and compliance with formal rules (Alesina & Perotti, 1996). Within this perspective, the budget law ensures intertemporal consistency, and authority is associated with the capacity to produce and enforce credible rules.

This framework holds under a specific condition: the continuity between allocation and execution. When revenue flows are predictable and liquidity is not binding in the short term, ex ante allocations can effectively structure commitments and payments over time.

However, this condition breaks down under high revenue volatility and liquidity constraints. When the binding constraint is not intertemporal but intra-annual and sequential, the ability to honour commitments depends on cash availability rather than on formal allocations. Under these conditions, fiscal discipline conflates two distinct dimensions: the formal validity of rules and their operability under liquidity constraints.

As a result, the framework cannot explain why formally disciplined budgets systematically generate discretionary adjustments during execution. It identifies rule credibility but fails to account for payment credibility, where budgetary authority is effectively exercised.

➤ *Public Financial Management: Authority without Constraint Integration*

Public financial management (PFM) reforms focus on improving efficiency and transparency through better procedures, coordination, and administrative capacity (Andrews et al., 2017). They assume that execution gaps result from technical deficiencies that can be corrected through improved design.

This approach is valid under conditions where execution can be governed through procedural integration. In relatively stable environments, improved forecasting, commitment controls, and information systems can reduce discrepancies between planning and execution.

However, this assumption fails when execution is structurally governed by liquidity constraints. In such

contexts, uncertainty cannot be proceduralised. Payment decisions require continuous arbitration that cannot be fully anticipated or encoded in ex ante rules.

As a result, PFM reforms produce formal improvements without transforming decision-making mechanisms. They can explain procedural compliance but not discretion under constraint. Execution gaps are not anomalies but structural responses to liquidity conditions, which the framework does not explicitly theorise.

➤ *Political Economy of the Budget: Preferences Without Instruments*

The political economy of the budget explains outcomes through actors’ incentives, distributive coalitions, and institutional equilibria (Besley & Persson, 2011; North et al., 2009). It successfully accounts for why certain allocations persist and why reforms face resistance.

This approach holds under the assumption that political preferences can be translated into outcomes through institutional arrangements. It identifies who benefits from the budget, but not how decisions are operationalised under constraint.

This limitation becomes critical under liquidity constraints. When commitments exceed available resources, outcomes are determined not only by preferences but by the instruments of execution—in particular, the capacity to sequence and prioritise payments.

By neglecting these instruments, the political economy framework cannot explain how arbitrations are actually implemented, nor why certain expenditure categories are systematically protected during execution. It describes

equilibria but under-theorises the mechanisms that produce them.

➤ *A Conditional Failure: Authority Under Liquidity Constraints*

Taken together, these approaches are not universally incorrect. They are conditionally valid under environments where allocation can effectively structure execution. Their limitation is that they implicitly assume this condition holds.

When the binding constraint shifts from allocation to liquidity, this assumption collapses. Execution becomes the primary locus of decision-making, and authority is exercised through the capacity to transform—or not—budget authorisations into payments.

Under these conditions, existing frameworks do not simply omit an important variable; they mislocate authority. They attribute power to rules, procedures, or preferences, whereas in practice it is exercised through the control of payments and the sequencing of commitments.

This figure synthesises the common limitation of dominant approaches to budgetary authority by identifying a localisation error: rules, procedures, and actor preferences are treated as sites of decision-making, whereas they do not determine effective allocation under constraint.

The treasury power framework performs an analytical relocation by showing that authority is exercised during execution, through control over liquidity and the sequencing of payments. This re-specification makes it possible to identify the operational mechanism of budgetary decision-making and to ground an interpretation of non-reform as an institutional equilibrium.

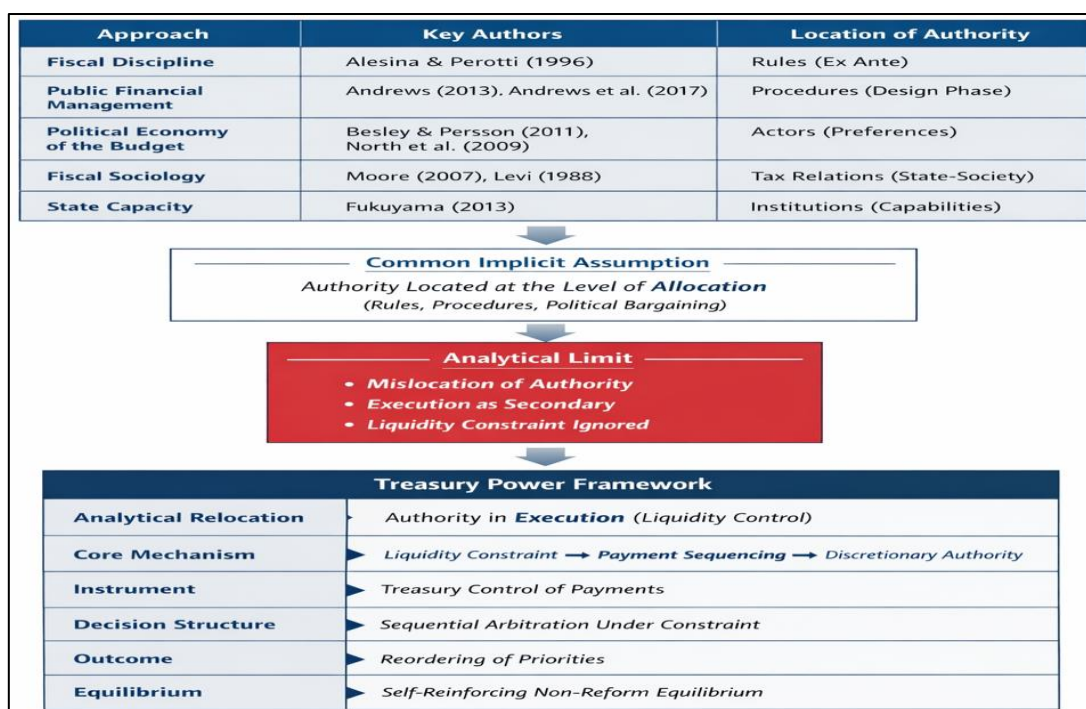


Fig 1 Competing Theories of Budgetary Authority and their Analytical Limits

Source: Author, 2026

➤ *Analytical Resolution: Treasury Power*

This limitation calls for an analytical relocation of budgetary authority. The budget must be understood not only as an allocation device but as a system of treasury governance under constraint.

The concept of *treasury power* addresses this gap by identifying the institutional capacity to control liquidity, payment timing, and expenditure prioritisation as the effective locus of authority. It integrates what existing approaches treat separately: rules (fiscal discipline), procedures (PFM), and incentives (political economy), by grounding them in the mechanisms of execution.

This re-specification allows the analysis of budget reforms to shift from allocation failure to authority mislocation, and provides the basis for explaining why reforms are systematically neutralised when they conflict with the governance of liquidity.

II. TREASURY POWER AS THE LOCUS OF BUDGETARY AUTHORITY

If budgetary authority does not reside in the ex ante allocation of resources, the question becomes where it is effectively exercised. This section provides a precise conceptual answer: under conditions of liquidity constraint, budgetary authority lies in the control of the treasury, that is, in the capacity to transform formal commitments into effective payments.

➤ *Definition of Treasury Power*

Treasury power refers to the institutional capacity to control the timing, prioritisation, and execution of public payments under liquidity constraints. It cannot be reduced to a technical cash management function; rather, it constitutes the mechanism through which budgetary commitments are—or are not—converted into effective decisions.

This definition implies a fundamental analytical shift. Budgetary authority should no longer be identified with the capacity to allocate resources in the budget law, but with the capacity to control their execution. In other words, budgetary power lies not in the production of rules, but in the capacity to determine their effective application.

From this perspective, treasury power can be defined as the institutional capacity to transform formal commitments into effective priorities, depending on the availability of liquidity. It thus constitutes a central property of budget systems in fragile contexts, insofar as it determines not only what is executed, but also what is deferred, adjusted, or abandoned.

➤ *Allocation and Execution: An Analytical Reversal*

Conventional approaches rely on an implicit distinction between budget allocation and execution. The former is treated as the decisive moment of public decision-making, while the latter is considered a phase of implementation. This analytical hierarchy is reversed under treasury constraints.

When resources are uncertain, ex ante allocations lose their binding character. They define a formal framework but do not determine the effective distribution of resources. Execution becomes the primary locus of arbitration, insofar as it conditions the transformation of authorisations into payments. The distinction between the approved budget and the executed budget no longer constitutes a deviation to be corrected, but a structural feature of budgetary functioning.

This reversal has direct implications for the analysis of authority. If effective decisions are made during execution, then budgetary power does not reside in the capacity to define rules, but in the capacity to control their application. Treasury power thus emerges as the central mechanism through which budgetary authority is exercised.

➤ *Liquidity and the Sequentiality of Public Action*

The centrality of treasury power rests on a specific property of liquidity: its scarcity and temporality. Unlike budget allocations, which can be defined in aggregate and on an annual basis, liquidity is constrained in the short term and distributed sequentially.

This sequentiality transforms the nature of the budget constraint. The state does not face an abstract scarcity of resources, but a succession of payment constraints requiring continuous arbitration. Each payment decision entails a selection among competing commitments, irrespective of their status in the budget law.

Liquidity management thus becomes a mechanism for the effective hierarchisation of public priorities. The decision to pay one expenditure rather than another redefines the real structure of public action, based not on formal allocations but on treasury constraints. Liquidity therefore acts as an institutional infrastructure organising the order of policy execution.

➤ *Micro-Foundations of Treasury Power*

Treasury power cannot be understood without specifying the actors, instruments, and temporalities through which it is exercised.

From an institutional perspective, this power is primarily concentrated within entities responsible for treasury management, typically located within the ministry of finance or the public treasury. However, it is not exercised in isolation. It is embedded in an execution chain involving multiple actors: budget departments that authorise commitments, spending units that generate obligations, accounting services that validate payments, and financial institutions that ensure the mobilisation and centralisation of resources.

From an operational perspective, treasury power relies on a set of specific instruments. It is exercised notably through:

- Cash flow forecasting, which anticipates resource availability;

- The setting of commitment or payment ceilings, which condition the execution capacity of spending units;
- The sequencing of payments, which determines the order in which obligations are processed;
- The management of arrears and payment delays, which allows commitments to be adjusted to liquidity constraints.

From a temporal perspective, this power is exercised primarily during the budget execution phase, and more specifically over short, often intra-annual horizons. It is not a one-off decision, but a continuous process of arbitration in which priorities are reassessed as available liquidity evolves.

These micro-foundations clarify the nature of treasury power: it is not merely a scarcity constraint, but a set of decision rights over the pace, order, and selection of payments. In this sense, it constitutes a form of institutionalised authority grounded in the capacity to govern scarcity.

➤ *Conceptual Implications*

The conceptualisation of treasury power resolves a central ambiguity in the analysis of public finances by clearly distinguishing between two forms of budgetary authority:

- Formal authority, grounded in ex ante allocation and rules;
- Effective authority, grounded in execution and the control of payments.

In fragile contexts, these two forms of authority do not necessarily coincide. When liquidity is constrained, effective authority tends to prevail over formal authority, explaining the divergence between approved and executed budgets.

Budgetary power therefore cannot be understood solely in terms of rules and allocations. It must be analysed as a capacity for action situated in execution and structured by liquidity management. Treasury power thus constitutes the effective locus of budgetary authority, insofar as it determines the transformation of commitments into outcomes.

This conceptual shift prepares the analysis of the mechanism through which liquidity constraints generate discretionary authority and reconfigure actors' incentives. The following section develops this mechanism by showing how control over the treasury produces a specific form of budgetary authority and structures reform trajectories.

III. MECHANISM: FROM LIQUIDITY CONSTRAINT TO DISCRETIONARY BUDGETARY AUTHORITY

The identification of treasury power as the effective locus of budgetary authority requires an explicit formalisation of the mechanism through which this authority emerges and stabilises under constraint. Contrary to approaches that treat execution as a derived phase, the mechanism developed here shows that budgetary authority is progressively constituted

through sequential payment decisions governed by liquidity conditions.

The mechanism follows a cumulative causal chain: (i) uncertainty over resources, (ii) liquidity constraint, (iii) weakening of ex ante allocation, (iv) shift toward execution, and (v) emergence of discretionary authority.

➤ *Uncertainty and Liquidity Constraint*

In fragile states, public resource flows are characterised by high uncertainty due to volatile tax revenues, dependence on external financing, and macroeconomic instability. As documented in the literature on cash management, this uncertainty manifests primarily as a short-term liquidity constraint rather than as a purely aggregate imbalance (Lienert, 2009; IMF, 2014, 2020).

The budget constraint thus becomes intra-annual and sequential. It no longer concerns only annual balances but the immediate capacity to honour commitments at each point in time. The state faces persistent mismatches between inflows and outflows, rendering linear budget execution infeasible.

Under these conditions, the central constraint is not intertemporal solvency but payment capacity, which introduces a structural tension between authorised expenditures and executable payments.

➤ *Collapse of the Ex Ante Allocation Constraint*

Under liquidity constraints, ex ante allocations lose their operational binding character. While they continue to structure the budget formally, they no longer determine the effective distribution of resources. The approved budget ceases to function as an operational rule and becomes an indicative framework contingent on liquidity conditions.

This transformation is structural rather than accidental. The coherence between allocation and execution is no longer ensured by rules but conditioned by the effective availability of liquidity. Ex ante allocation therefore loses its status as the primary locus of budgetary decision-making.

➤ *Shift Toward Execution*

The weakening of the allocation constraint induces a shift in the centre of gravity of decision-making toward the execution phase. Arbitration among competing commitments can no longer be fully determined ex ante; it is deferred to the moment when payments must be made.

This shift confers a structural advantage to actors controlling liquidity flows—typically treasury departments and central finance authorities. As institutionalist approaches suggest, effective authority resides with actors capable of transforming formal rules into outcomes (North et al., 2009). In this context, such capacity is defined by control over payment execution and liquidity management.

➤ *Arbitration Under Constraint: Micro-Foundations of the Mechanism*

The shift toward execution generates a need for continuous arbitration, exercised through treasury-based

payment decisions. These arbitrations concern competing commitments, including:

- Personnel expenditures and administrative operations;
- Debt service obligations;
- Security and sovereignty expenditures;
- Social and investment expenditures.

These decisions are implemented through concrete instruments widely documented in the PFM literature: payment ceilings, commitment controls, cash rationing, expenditure sequencing, and arrears management (Pattanayak, 2016; Rajaram et al., 2014; IMF, 2014).

Importantly, these arbitrations follow an implicit decision rule based on the differential cost of non-payment.

Formally, let C_i denote the cost of non-execution of expenditure i . Treasury authorities prioritise payments such that:

$$\text{Priority}_i \propto C_i$$

Where C_i reflects:

- Immediate political cost (e.g., salaries, security expenditures);
- Institutional continuity (core administrative functions);
- Financial credibility (debt service obligations);
- Delayed or diffuse costs (investment and social expenditures).

This rule implies that expenditures with high immediate costs of non-payment are systematically prioritised, while expenditures with lower short-term costs are more likely to be delayed, compressed, or partially executed.

This mechanism is consistent with documented execution patterns in Mali, where payment sequencing and expenditure compression are observed in official budget reports (Direction Générale du Budget, 2019–2023).

As shown in the literature on arrears and budget execution, such patterns are not anomalies but structural responses to liquidity constraints. They produce a systematic reordering of priorities during execution, distinct from the hierarchy embedded in the budget law.

➤ *Emergence of Discretionary Budgetary Authority*

Arbitration under liquidity constraint produces a qualitative transformation of budgetary authority. Authority is no longer defined by rule-setting but by the capacity to make sequential payment decisions under constraint.

This form of authority is characterised by three properties:

- Continuity: budgetary decision-making becomes an ongoing process structured by repeated payment decisions;
- Flexibility: priorities can be reconfigured in real time in response to liquidity constraints;
- Operational opacity: effective arbitrations remain partially invisible in formal budget documents.

This discretion is not a system failure but a functional response to uncertainty. As the literature on low-capacity environments indicates, budget systems in such contexts rely on continuous adjustment mechanisms—including payment delays and arrears—rather than stable rule enforcement (Schick, 1998; Andrews, 2013).

➤ *Formalisation of the Mechanism*

The mechanism can be summarised as follows: uncertainty over resources → liquidity constraint → weakening of ex ante allocation → shift toward execution → sequential payment arbitration → discretionary authority

• *Figure 2 Formalises this Causal Chain.*

This implies that the effective budget is not determined by the budget law but by the sequence of payments carried out during execution. The treasury does not merely execute the budget; it constitutes its effective production mechanism.

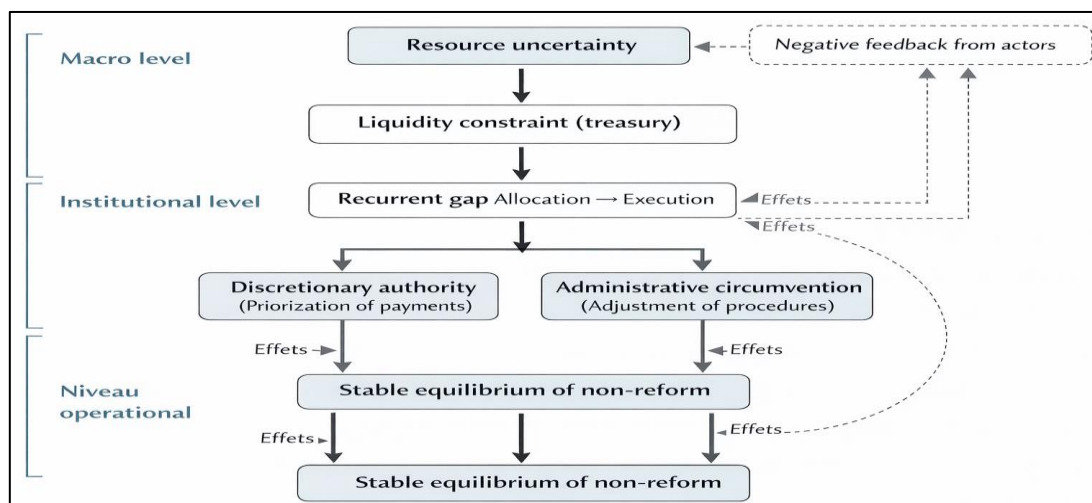


Fig 2 Central Causal Mechanism
Source: Author, 2026

➤ *Implications for Reform Dynamics*

This mechanism allows a reformulation of the problem of budget reforms. When budgetary authority rests on the capacity to arbitrate under liquidity constraints, reforms targeting ex ante allocation or procedural compliance do not operate at the effective locus of decision-making.

More critically, reforms that aim to rigidify execution—by strengthening commitment controls or limiting discretion—directly constrain the system’s primary adjustment mechanism. In environments characterised by uncertainty, this reduces the capacity to manage liquidity shocks.

As a result, reforms generate a structural tension: they seek to increase predictability by limiting discretion, while discretion is precisely what allows the system to function under constraint. Consequently, reforms are systematically reinterpreted, bypassed, or neutralised during execution.

The emergence of treasury-based discretionary authority thus creates the conditions for a system in which flexibility becomes a central resource. Any attempt to reduce it encounters structural constraints, thereby preparing the formation of a stable non-reform equilibrium.

The following section shows how this mechanism stabilises into an endogenous institutional equilibrium.

➤ *Empirical Illustration: Treasury-Based Prioritisation Under Liquidity Constraints*

Evidence from budget execution in Mali over the period 2019–2023 provides a stylised illustration of the mechanism

described above. Despite formally balanced finance laws, execution patterns reveal a persistent divergence between authorised allocations and effective payments. These patterns are documented in official budget execution reports and finance laws over the period 2019–2023 (République du Mali, 2021–2025; Direction Générale du Budget, 2019–2023).

Across fiscal years, expenditures related to debt service, security, and core administrative functions exhibit systematically higher execution rates, while social and investment expenditures—particularly in health, education, and infrastructure—tend to be partially executed or delayed. This divergence is associated with recurrent payment delays, arrears accumulation, and selective expenditure compression during the fiscal year.

These dynamics do not reflect isolated implementation failures but a structured mode of adjustment under liquidity constraints. Payment decisions are sequenced according to the immediate institutional and political costs of non-payment, resulting in a systematic reordering of priorities during execution.

This empirical configuration is consistent with evidence on “inverted fiscal discipline” in fragile contexts, where the approved budget operates primarily as an indicative framework, while effective allocation is determined through treasury-mediated payment arbitration. Budgetary authority is thus exercised through control over liquidity and the sequencing of payments rather than through ex ante allocation rules.

Table 1 Stylised Execution Patterns Under Liquidity Constraints (Mali, 2019–2023)

Expenditure Category	Execution Pattern (Stylised)	Underlying Mechanism
Debt service	High and stable execution	Financial credibility constraint
Security expenditures	Prioritised and protected	Immediate political cost
Administrative expenditures	High execution rates	Institutional continuity
Social expenditures	Partial execution	Deferred political cost
Public investment	Delayed / compressed	Low short-term visibility

Source: Author’s Synthesis Based on National Budget Execution Reports (Direction Générale du Budget, 2019–2023).

IV. FROM DISCRETIONARY AUTHORITY TO A NON-REFORM EQUILIBRIUM

The mechanism presented in the previous section explains how liquidity constraints shift budgetary authority from ex ante allocation to execution. What remains to be explained is why this configuration produces not a transient disorder but a stable institutional outcome. More precisely, why do budget reforms repeatedly fail despite their widely acknowledged objectives—predictability, coherence, and transparency?

The argument advanced here is that discretionary budgetary authority is not a deviation from a standardised budgetary order but the basis of an endogenous institutional equilibrium. Under liquidity constraints, non-reform emerges as the only configuration compatible with both the

operational requirements of execution and the incentives of central actors (Andrews, 2013; North et al., 2009).

➤ *Discretion as a Functional Necessity*

In contexts of liquidity instability, budgetary discretion is not initially a governance failure but a functional necessity. When inflows are uncertain and commitments exceed available cash, execution cannot be governed through fixed rules alone. It requires continuous short-term arbitration to prevent payment disruptions with high political or institutional costs.

Discretion therefore performs a core function: it allows the system to remain operable under constraint. It enables the sequencing of payments, the prioritisation of obligations, and the preservation of minimal state continuity (Lienert, 2009; IMF, 2020).

This implies a stronger claim: under persistent liquidity uncertainty, rule-based execution is not feasible. Highly rigid systems are not simply inefficient; they are less governable because they reduce the capacity to adjust to shocks (Schick, 1998; Andrews, 2013). Discretion is thus not optional but constitutive of the system.

➤ *Discretion as a Political Resource*

Discretion is not only functionally necessary; it is politically valuable. Control over treasury operations transforms a technical constraint into a capacity for selective arbitration. Actors controlling execution—particularly central financial administrations and the executive—possess the ability to determine which commitments are honoured, when, and at what pace.

This capacity generates three political advantages:

- Priority protection: expenditures with high immediate costs (debt service, security, core administration) can be safeguarded;
- Constraint deferral: expenditures with delayed or diffuse costs (investment, social spending) can be adjusted;
- Selective distribution of scarcity: budget constraints can be allocated unevenly across sectors and actors.

In this sense, treasury power governs not only execution but the distribution of constraint, which is central to political stability (Besley & Persson, 2011; North et al., 2009).

➤ *Reform as a Structural Reduction in Adjustment Capacity*

Budget reforms typically aim to reduce the gap between allocation and execution by strengthening predictability, tightening commitment controls, and limiting discretionary adjustments. In doing so, they attempt to relocate authority from execution to formal rules.

However, in a system where discretion is both functionally necessary and politically valuable, such reforms have a structural effect: they reduce the system's capacity to adjust under constraint.

This generates a fundamental asymmetry. The benefits of reform (greater predictability, transparency) are uncertain and long-term, while the costs (loss of flexibility, reduced capacity to manage liquidity shocks) are immediate and borne by central actors.

If reforms rigidify execution without reducing liquidity uncertainty—through improved forecasting, treasury consolidation, or stable financing—they do not eliminate the constraint; they make it less governable. Under such

conditions, reforms increase short-term vulnerability rather than reduce it (PEFA, 2016; Cangiano et al., 2013).

➤ *Incentives and the Non-Deviation Condition*

The persistence of non-reform can therefore be understood as the outcome of a non-deviation condition.

- Central financial administrations benefit from discretionary control because it allows them to manage scarcity and maintain operational continuity.
- The executive values discretion because it enables rapid adjustment of priorities without formal revision.
- Spending units adapt to expected payment probabilities rather than formal allocations, aligning their behaviour with execution realities.
- External actors may prefer a stabilised, even imperfect, system to a reform that increases short-term uncertainty.

No actor has a dominant incentive to deviate unilaterally toward a more rule-based system, as such a deviation would reduce their capacity to manage constraint without guaranteeing improved liquidity conditions.

Importantly, this equilibrium does not require explicit coordination. It results from a compatibility of incentives under constraint.

➤ *Non-Reform as an Endogenous Institutional Equilibrium*

The interaction between functional necessity, political value, and incentive compatibility produces a fully specified equilibrium with three properties.

First, it is endogenous: it arises from the interaction between liquidity uncertainty, execution mechanisms, and actor incentives. Second, it is stable: any reform that reduces discretion without stabilising liquidity increases the immediate costs for central actors. Third, it is self-reinforcing: repeated execution under constraint reproduces and legitimises treasury-centred authority.

In this equilibrium, discretionary control over liquidity is both the mechanism that makes the system operable and the resource that actors seek to preserve. Budget reform is therefore not blocked by ignorance or lack of capacity, but by the fact that it threatens the very instrument through which constraint is governed.

- Proposition 3. Budget reforms fail when they reduce discretionary control over treasury operations without reducing liquidity uncertainty, because they undermine both the operational viability of execution and the incentives of actors who depend on this discretion to manage scarcity.

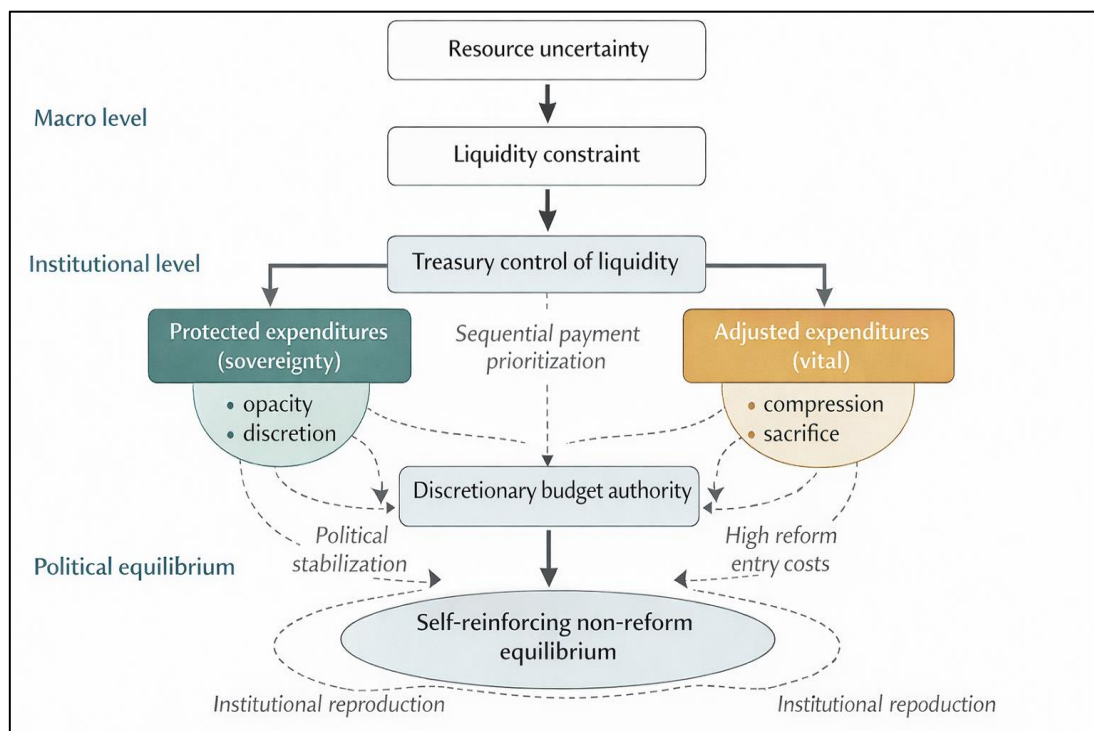


Fig 3 Structure of the Non-Reform Equilibrium
 Source: Author, 2026

➤ *Analytical Reading of the Figure*

Liquidity constraint operates as the pivotal variable. It renders execution discretion functionally necessary, transforms that discretion into a political resource, and aligns the incentives of central actors around its preservation. Any reform that rigidifies execution without stabilising liquidity increases the perceived short-term costs for these actors.

The result is a self-reinforcing equilibrium in which non-reform constitutes the institutionally coherent response to persistent constraint. This interpretation is consistent with institutionalist analyses of stable equilibria under constraint and with PFM research emphasising that intra-annual predictability, commitment control, and arrears management are foundational to execution rather than secondary complements (PEFA, 2016; Cangiano et al., 2013; Lienert, 2009).

V. IMPLICATIONS FOR BUDGETARY THEORY, PUBLIC FINANCIAL MANAGEMENT, AND THE ANALYSIS OF PUBLIC ACTION

The framework developed in this article does not merely provide an additional explanation for the failure of budget reforms in fragile contexts. It leads to a broader analytical repositioning that simultaneously affects the theory of fiscal discipline, dominant approaches to public financial management, and the way authority is conceptualised in public action.

➤ *Fiscal Discipline as an Insufficient Category*

The first implication concerns the very notion of fiscal discipline. In conventional approaches, it is defined in terms of compliance with rules, deficit control, and debt

sustainability (Alesina & Perotti, 1996). This definition remains insufficient when the binding constraint is not only aggregate but sequential and intra-annual.

The argument developed here shows that a budget may be formally disciplined while remaining governed, in its effective execution, by extensive discretionary arbitrations. Macro-budgetary compliance therefore guarantees neither payment predictability nor consistency between allocation and execution. In this sense, fiscal discipline can no longer be understood solely as an attribute of ex ante rules; it must be related to the capacity to govern liquidity and to transform commitments into effective payments. This requalification brings budget analysis closer to a conception of state capacity grounded in effectiveness rather than in the mere formalisation of rules (Besley & Persson, 2011; Fukuyama, 2013).

➤ *Public Financial Management as an Incomplete Theory of Execution*

The second implication concerns dominant approaches to public financial management. PFM frameworks have significantly improved the understanding of budget procedures, information systems, and control mechanisms. However, they tend to treat execution either as a technical phase or as a problem of administrative capacity. The framework proposed here suggests that this reading is incomplete: what is at stake in execution is not merely the correct application of rules, but the exercise of authority structured by liquidity.

This reinterpretation does not invalidate the contributions of PFM; it shifts their centre of gravity. Instruments such as cash flow forecasting, commitment

control, balance consolidation, and arrears management should no longer be considered as technical complements to the budget architecture. They constitute the institutional foundations of execution itself, and therefore the locus where the real credibility of the budget is determined (PEFA, 2016; Cangiano et al., 2013; Lienert, 2009). Consequently, procedural reforms that do not address this treasury core tend to improve the form of the budget without altering its effective determinants.

➤ *Redefining Budgetary Authority in the Analysis of Public Action*

The third implication is more general and concerns how authority is conceptualised in public action. A significant portion of the literature equates budgetary authority with the capacity to produce allocations, establish rules, or organise distributive compromises. The analysis developed here leads to a more demanding redefinition: budgetary authority must be understood as the institutional capacity to convert formal commitments into effective priorities.

This analytical shift extends beyond the budgetary domain. It suggests that, in fragile contexts, authority should not be primarily sought in formal texts, but in the concrete mechanisms that render public action executable. In this sense, the treasury constitutes less an administrative subsystem than a central operator of government. It determines the effective hierarchy of priorities, distributes constraint, and structures the very possibilities of reform. The recurrent failure of budget reforms therefore does not reflect a marginal implementation deficit; it reveals an implicit theory of the state in which political and administrative continuity prevails over the formal coherence of the budget (North et al., 2009; Andrews, 2013).

By placing liquidity governance at the centre of analysis, this article shows that the decisive question is not only how to design better budgets, but where the authority that determines their execution actually resides. It is this theoretical relocation that makes it possible to understand both the persistence of discretion and the stability of non-reform.

VI. CONCLUSION

This article begins from a recurring empirical paradox: the persistent failure of budget reforms in fragile states, despite the accumulation of technical and normative frameworks aimed at strengthening fiscal discipline and public financial management. It shows that this paradox cannot be resolved as long as budgetary authority is analytically located in ex ante allocation, while decisive arbitrations occur during execution under liquidity constraints.

The central contribution of the article is to relocate budgetary authority. When uncertainty over public resources is high, the budget constraint becomes sequential and intra-annual. Under these conditions, effective authority no longer resides in rule-setting but in the capacity to control the timing and prioritisation of payments. The treasury thus emerges not

as an implementing agent, but as the institutional locus where commitments are selectively transformed into outcomes.

Building on this shift, the article advances three theoretical contributions. First, it identifies a conditional failure in dominant frameworks: fiscal discipline, PFM reforms, and political economy approaches remain valid under stable execution conditions but systematically mis-specify authority when liquidity constraints are binding. Second, it develops a theory of treasury power, showing that liquidity control generates a form of discretionary authority grounded in payment sequencing and execution instruments. Third, it formalises non-reform as an endogenous institutional equilibrium, in which the preservation of discretion is both functionally necessary and incentive-compatible.

These findings imply a re-specification of the analytical foundations of public budgeting. Fiscal discipline cannot be reduced to rule compliance; PFM cannot be analysed independently of execution mechanisms; and budgetary authority must be defined as an operational capacity grounded in liquidity governance. In this sense, treasury management, payment sequencing, and intra-annual adjustment mechanisms are not peripheral components of budget systems but central determinants of how public decisions are effectively made.

The empirical illustration provided, based on budget execution patterns in Mali, supports this interpretation by showing that payment prioritisation, arrears accumulation, and expenditure compression systematically reconfigure ex ante allocations under liquidity constraints (République du Mali, 2021–2025; Direction Générale du Budget, 2019–2023). These findings are further supported by detailed ex ante/ex post analyses of Mali's budget system (Sissoko, 2026), which show that execution patterns consistently reorganise priorities under constraint.

The article nonetheless has a clear limitation. It develops a theoretical mechanism supported by stylised empirical evidence but does not provide a systematic empirical test across cases. This limitation is deliberate: the objective is to isolate and formalise a mechanism that can be empirically tested rather than to exhaust its empirical validation at this stage.

This perspective opens a targeted research agenda. Future work should focus on (i) measuring execution gaps between authorised allocations and effective payments; (ii) identifying and quantifying the instruments of payment sequencing, including commitment controls, arrears, and cash rationing; and (iii) analysing the conditions under which treasury governance can be institutionalised—through forecasting, treasury consolidation, or liquidity management reforms—without eliminating the system's capacity to adjust under constraint.

More broadly, the article suggests that the failure of budget reforms in fragile states is not primarily a problem of design or implementation, but a problem of analytical mislocation. As long as reforms target allocation while

authority is exercised in execution, they will remain structurally misaligned with the mechanisms that govern public action.

➤ *Funding*

- No funding was received for this research.

➤ *Declaration of Competing Interests*

The author declares that there are no known financial or non-financial competing interests that could have appeared to influence the work reported in this paper.

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