

CAPE Public Finance Conference 2008

Reforming for Results: Can Public Finance Management reform improve government performance?

12 – 13 November 2008
Overseas Development Institute, London, UK

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Session 4: The role of donors and international organisations

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Clay Wescott

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World Bank Support for Public Financial Management and Procurement: Conceptual Roots and Evidence of Impact

**Clay G. Wescott
Princeton University
13 November, 2008**



Overview

- Key debates on PFMP
 - PFMP in Developed Countries
 - Applying Developed Country PFMP experience in Developing Countries
- Bank PFMP support since 1990
 - Diagnosis
 - Design and implementation
 - Outcomes
 - Attribution



Some key debates on PFMP

2 main pressures driving PFMP reforms in developed countries starting in the 1970s and 1980s:

- to cut spending and reduce fiscal deficits, and
- to facilitate performance improvement through greater efficiency, effectiveness, and quality of public services.



8 types of reforms follow

- Budget savings through more robust central controls, or by providing greater flexibility to managers,
- Restructuring budgets to facilitate results monitoring and evaluation,
- Multi-year budget linked to fiscal policy and revenue target,
- Use of performance information in monitoring against targets,



8 types of reforms – cont.

- Shifting from cost accounting towards accrual accounting,
- Shifting from compliance auditing towards performance auditing,
- Computerized information systems,
- Greater use of devolved budget management, market mechanisms, and adoption of standards such as the 1994 GPA of WTO, with key principles of non-discrimination and transparency.



Outcomes of OECD reforms

- Reforms were a response to powerful drivers of change, including chronic fiscal deficits, a crisis in legitimacy, drop in info. costs, global standards.
- And yet, much of the actual reform that took place was incremental, based on targets of opportunity, rather than drawn from a coherent strategy.
- There's a gap between the promise of new announcements and initiatives, and the actual delivery of reforms.
- There's little evidence that the considerable cost of the reforms has been justified by the benefits achieved.



Applying OECD experience to developing countries

- Differences in context affect transferability of ideas:
 - Country ownership,
 - Highly diverse strengths/pathologies,
 - Capacity weaknesses,
 - Differences between formal PFMP systems and actual PFMP practice,
 - Political challenges of adopting ideas such as GPA non-discrimination and transparency,
 - EU accession requirements a powerful motivator.



Four key elements of Bank support to PFMP evaluated

- Diagnosis, strategy and expectations,
- Design and implementation of PFMP program and projects,
- Overall country outcomes, and
- Attribution.

Table 1.2: Case Study Countries

Region	IDA	IBRD
Sub-Saharan Africa	Burkina Faso, ^a Ethiopia, Ghana, Sierra Leone, Tanzania, ^a Uganda	
East Asia and Pacific	Cambodia ^a	Indonesia (blend)
Europe and Central Asia	Albania	Bulgaria, ^a Russian Fed.
Latin America and the Caribbean	Bolivia, Guyana, Honduras,	Argentina, Guatemala
Middle East and North Africa	Yemen, Rep. of	
South Asia	Bangladesh	India (blend) ^a

a. Countries where the team made field visits.

- Democracies like Argentina, Bulgaria, Ghana, Indonesia and India, and not so democratic countries like Cambodia and Russia
- Fragile states like Sierra Leone and Ethiopia
- Different administrative traditions: Anglophone, Francophone, ex-Soviet



Diagnosis, strategy and expectations

- PERs improved to cover more aspects of budget cycle,
- New tools: CFAA, CPAR, IFAPER, HIPC tracking, PEFA, QSDS, political economy and stakeholder assessments,
- PFMP operations generally followed analytic recommendations,
- Responsive to, helping to shape demand, e.g. participatory PERs in Tanzania, Uganda, Vietnam.

Example of stakeholder positions on proposed sectoral, PFMP risk mitigation

Stakeholders	Interests	Position	Influence	Salience	Opportunity	Action to exploit opportunity	Prospect
Sectoral Agency L	Wishes to see continuation of its high reputation for professionalism; cautious about implementation of some of proposed risk mitigation measures	Medium support	Medium	High	Desire to protect reputation against machinations from new political government	Gain commitment from new leadership to restrain constituency pressures to meet improper demands.	Low-medium
Parliament	Standing Committee wants to have oversight	High support	Low	Medium	Show public its civic role	Use the media	Medium
Donor 1	Wants to reduce reputational risk from ongoing Agency L project, and help move forward good governance agenda in country	High Support	Medium	High	Prospect of new project for Agency L	Threaten to cancel if risks not mitigated	Low
Donor 2	same	High Support	Medium	Medium	Prefers informal influence— 'Japanese style pressure'	Mute support	High
Donor 3	same	High support	Low	Medium	Desires to see Agency L 'exposed'	Will support stringent conditions on aid	High
Local governments	Obtaining a working partnership with Agency L	High support	Medium	Medium	Establish parity in the making of local infrastructure decisions	Support risk management plan openly	High

Stakeholder Positions (cont.)

Stakeholders	Source of Obstacle	Obstacle[specific]	Action to [be taken to] overcome obstacle	Level [of opposition to reform]
Ministry of Local Government	Low competence	Unable to supervise Agency L	Raise technical and bureaucratic abilities	low
Ministry of Land	Personal interest of land assessment officials	Unauthorized payments received during land assessments for compensation	Tighten Agency L process for verifying assessments	high
Association of contractors	Dependence on political parties	Leaders 'appointed' by political parties	Make competitive tenders effective	medium
Parliament	They consider Agency L budgets for their constituency to be slush funds for their personal use	MP's	Transfer more authority to <u>subnational</u> government	high
Donor 1	Internal organization	Protects relationship with government by restraining criticism	Support respected local think tanks to produce evidence-based, investigatory reports	medium
Local communities	Lack of awareness	Closed nature of funds disbursement	Open, transparent contracts	Low
Local contractors and consultants	Political	Connections with MP's	Competitive bids	medium



Design and implementation of PFM program and projects

- **Getting the Basics Right First** (but should “basics first” prevail in settings where more advanced PFMP systems can work well with international TA support, and with less drag from legacy system?),
- **Transfer of Practices from Developed Countries,**
- **Choosing the Correct Entry Point** (Is PFMP a good entry point to achieve, indirectly, CSA improvement?),
- **More Flexible Lending Instruments.**



Outcome: Changes in CPIA Scores by PSR Theme

	Percent with improved CPIA – 1999-2006	
	Total	Major Improvement (>0.5)
CPIA (13) Quality of Budget & Financial Management		
Any PSR PFM Lending	62%	28%
No PSR PFM Lending	25%	10%
CPIA (15) Quality of Public Administration		
Any PSR CSA Lending	42%	10%
No PSR CSA Lending	33%	16%

But, we did not systematically measure link between PFM improvements and improved service delivery outcomes (limited set of PETS, QSDS)



Outcome: Improved donor coordination

e.g. PEFA

- 7 donors have collaborated on assessments in over 70 countries,
- Others support use of PEFA methodology, e.g. recent CIDA assessments of PFMP for 3 provinces in Asian country.

Example from PEFA for Asian Province

PI-18	Effectiveness of payroll controls	<p>Department of Home Affairs monitors the payroll. Personnel database and payroll are linked directly and can be reconciled monthly. All required revisions of personnel and payrolls are updated monthly. Any adjustment to the Personnel database and payroll are made by Department of Home Affairs.</p> <p>However, there is no evidence that the payroll and personnel database was reconciled with actual payments of salaries on request of spending units to Treasury i.e. that the personnel actually receiving salaries were those registered in personnel database and no survey on a sample basis of spending units to verify that the personnel is actually working in the spending unit.</p>
PI-19.1	Use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases	<p>Based on aggregate reports on procurement in the province in the three years 2004 – 2006 and information collected from interview with District PMU, the awarding of contracts that exceed the nationally established monetary threshold that has to be for open competition was not followed in all cases. Many contracts were less competitive or single-source selected contracts. The award of contracts that exceed the nationally established monetary threshold opening for competition matches with PEFA indicator (over 75% of contracts exceed 1 billion; consultancy contracts exceeding 500 million and purchase contracts exceeding 2 billion are opened to competitive bidding). However the share of contracts awarded through competitive bidding is quite low as the majority of contracts are below the threshold. Nevertheless, with the implementation of the new procurement law the number of contracts awarded through open competitive bidding increased significantly in 2006 and 2007.</p>
PI-19.2	Justification for use of less competitive procurement methods	<p>In general, the percentage of less competitive contracts remains high. Some contracts among them should have been awarded through open competitive bidding. But since 2006, the use of less competitive procurement methods has been reduced considerably compared to 2004 and 2005.</p>
PI-19.3	Existence and operation of a procurement complaints mechanism	<p>Procurement complaints mechanism is regulated by Law. Contractors can access information on the procedure applied for awarding contracts and may file complaints to higher levels. In province there are few cases of dispute over award of contracts and most of them were resolved. Information to the public in terms of award of contracts and disputes are very limited.</p>
PI-20	Effectiveness of internal controls for non-salary expenditure and assets management	<p>Non-salary expenditure is monitored by Treasury. Regulation on procurement is provided by the procurement law and by-laws. Treasury has issued written documents explaining reason if they refuse payment for spending unit request. Data in monthly/quarter/annual reports of spending units are reconciled and certified by the Treasury. It is controlled and certified by the provincial level not allowing arrears and build up of unsettled advances or claims.</p> <p>However, province has not got any expenditure commitment control mechanism; although province/districts/communes always assure cash availability for expenditure committed within budget ceilings</p>
PI-21	Effectiveness of internal audit	<p>There is no internal audit function performed in spending units at provincial/district/commune levels. However, commune spending units have inspectorate boards performing inspection. Spending units report quarterly, reconciled and certified by the Treasury, to the Financial Departments. Thus Treasury may be claimed to perform an ex-post audit function.</p>



Attribution

- Many factors:
 - Country determination,
 - Support from other donors,
 - Debt relief,
 - Aid harmonization and alignment,
- But, Bank support played a role.



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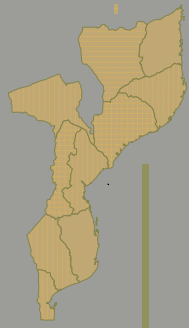
CAPE Public Finance Conference 2008

Reforming for Results: Can Public Finance Management reform improve government performance?

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12 - 13 November 2008
Overseas Development Institute, London, UK



CAPE Public Finance Conference “Reforming for Results: Can
PFM Reform Improve Government Performance?”
November 12-13, 2008

*The Role of Donors and
International Organizations
and PFM
The Case of Mozambique*

Presentation by Jose Sulemane, London 13 November 2008



Historical Background (1)

- Since mid-1980s: Stabilization and Structural Adjustment Programs
- Reforms on revenues: 1987-96 (indirect taxation); from 1997 (collection and institutional arrangements; simplification of tariff system; VAT); 2002-03: direct taxation; from 2004: more institutional reforms towards Central Revenue Authority (AT)
- 1996: Consultative Group: PFM reform presented
- 1997: Budget Framework Law
- 1998/99: Introduction of Medium-Term Fiscal Framework



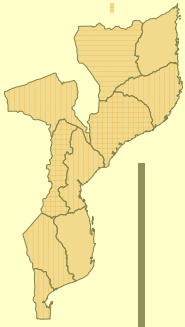
Historical Background (2)

- 2001-2002: Law on the State Financial Administration System (SISTAFE)
- 2000: First Joint Program (G6) (Like minded donors)
- 2001: IFIs and Bilateral Partners endorse the PRSP (PARPA 2001-05) (Now PARPA II 2006-2009)
- 2003: 'PAF Principles' Report (G14)
- 2004: Memorandum of Understanding GoM and PAFs (G-15) (MoU) (Now G-19)



Role of International Partners and Ownership?? (1)

- Timing and policy pressures
- Fund-Supported Programs (PRGF, now PSI) and the role of *Performance Criteria* and *Structural Benchmarks* and advances in PFM reforms
- The role of conditionalities (donors and IFIs) in the context of GBS and fiduciary risks
- Partnership with open dialogue (MoU)
- **Conclusion:** it seems that there is a high correlation, in the case of Mozambique, of GBS mechanisms, Fund-Supported Programs, PRSP, and timing of PFM reforms. Therefore, *ownership with qualifications*



Role of International Partners and Ownership?? (2)

- An interesting feature in the case of Mozambique: the role of the IMF as an executing agency of donors' funds for PFM reforms
- Between 2002-2006, IMF's FAD was responsible for the design of the work program and recruitment of 2 long-term resident experts on PFM
- FAD provided TA and feedback to the 2 experts (diagnostic and inspection missions) in coordination with the African Department (normal review program missions)
- Donor coordination: Belgium, Denmark, Sweden, Dfid, and EC agreed to pool their resources in a common fund to support PFM reforms



Role of International Partners and Ownership?? (3)

- Government created UTRAFE (a management technical unit)
 - Several monitoring mechanisms set up: Steering Committee (high-level senior officers of MoF); a Quality Assurance Group (made up of international experts on PFM)
 - My take on this issue:
 - In the beginning I was quite intrigued having the IMF coordinating a common fund
 - Then I understood the Minister's position that an institution like the IMF was well placed to "control" bilateral donors and other multilateral institutions. The IMF was a "trusted and confidential advisor"
 - PFM Conditionalities under Fund-supported programs would avoid a "proliferation" of requests from each donor, which would be rather cumbersome to the authorities to satisfy
-



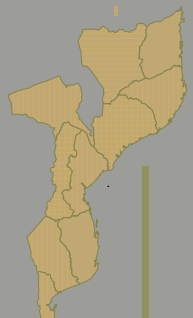
Other Issues (1)

- When advancing with PFM reforms avoid inventing the wheel, start from existing mechanisms and procedures
- PFM reforms take time, so patience!
- Understand the quality of human resources and institutions within the public administration. No wonder PFM reforms should be linked to public sector reforms and civil service reforms. The objective is improving service delivery and the quality of use of public resources
- Develop systems first instead of putting too much emphasis on developing IT frameworks
- Classifiers: start simple and with standard classifications (both used to improve planning and budgeting processes). They should help compare data over time and across countries



Other Issues (2)

- Avoid concentrating too much on global institutions (e.g.: MoFs, Ministries of Planning). We need to improve and have more “rational” discussions between these global level institutions and line ministries and local institutions on planning and budgeting issues, on policy discussions, on priority definitions and associated reforms —→ a more balanced approach of participation at all levels
- Upgrade the Technical Commissions in Parliament. Donors should invest on this. But be careful not to impose “conditionalities” to parliaments. Have to find some ingenious ways to measure the improvement of the analytical capabilities in those technical committees for enhanced oversight of the executive, to pressure and monitor the reforms



CAPE Public Finance Conference *"Reforming for Results:
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Thank You Very Much!

Presentation by Jose Sulemane, London 13 November 2008

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Reforming for Results:
Can Public Finance Management reform
improve government performance?

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Public Financial Management Advisor, SIDA

12 - 13 November 2008
Overseas Development Institute, London, UK

Sida's approach to PFM reform

CAPE Public Finance
Conference *“Reforming for
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James Donovan
Public Financial Management
Advisor



Sida SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Sida's approach to PFM reform comes from its approach to capacity development

- Capacity is the ability
 - of individuals, organizations, systems of organizations and policies/laws/norms within which individuals and organizations function
 - to efficiently perform a public function, deliver a public service or implement public policy.
- Increasing capacity is *any* improvement in this ability
 - Different measures to develop capacity at different levels
- More than training and technical assistance
- Not gap-filling

Sida's approach to capacity development (2)

- ❑ Sustainability is a paramount goal
- ❑ Developing sustainable capacity requires consistent effort
- ❑ Sustainable improvements can take a long time, 10-25 years
- ❑ National ownership and leadership are essential

Sida's approach to capacity development (3)

- Comprehensive understand, even if the solution is more narrowly focused
- Build on existing capacity
- Good solutions are context-specific
- Good solutions are *developed* in the interaction between national and international experts

Sida's approach to capacity development (4)

- Grew out of Sida's project support to public administration
- Twinning
 - long-term support
 - process-oriented, **flexible**
 - starts technical and becomes management-oriented

1. Planning PFM reform: Points of departure

- The government's present PFM, PFM capacity and on-going PFM reform
- Major constraints to poverty reduction caused by weaknesses in PFM
 - How are the poor affected by weak PFM?
 - How is their enjoyment of fundamental human rights affected by weak PFM?
 - Importance of public service delivery

Build ownership and commitment during planning process

- Government ownership and leadership already from the PFM assessment
- Urge government to involve a wide group of stakeholders
 - ministries of finance, planning and local government, public service commission
 - **line ministries, sub-national government**
 - public agencies: e.g., tax and customs authorities
 - parliament
 - civil society

Other preparations for PFM reform planning

- Increase capacity for PFM reform planning**
 - Give the government time for capacity and consensus-building
 - Build government and donor capacity
- Fruitful linkage with related public reform initiatives
- Incentive structures
- A single donor coordination forum
- Government-donor agreement on PFM problems and the desired outcome of PFM reform

PEFA is insufficient for PFM reform planning

- No surprise to anyone who has read PEFA performance measurement framework carefully
- PEFA identifies overarching problems; then:
 - study problems in more detail
 - identify causes
 - assess capacity

2. The reform strategy: Make it feasible

- Government leadership and ownership
- Build upon what already exists
- Key bottleneck is reform management capacity
 - Build government and donor capacity

A comprehensive approach

- ❑ Fragmented approach misses interlinkages
- ❑ Need for comprehensiveness is greatest during diagnosis and reform planning
- ❑ One management and monitoring framework
 - Coordinate components with great interdependency
 - Less coordination of components with less interdependency
 - ❑ e.g., customs, taxation, supreme audit institution, parliamentary budget and public accounts committees

Well-coordinated donor support – a program-based approach?

- ❑ Leadership by host country or organisation;
- ❑ A single comprehensive program and budget framework;
- ❑ A formalized process for donor coordination and harmonization of for reporting, budgeting, financial management and procurement;
- ❑ Increased use of local systems for program design and implementation, financial management, monitoring and evaluation.
- ❑ **PBA is a flexible approach**

Prioritize and sequence

- Ration the use of scarce reform management capacity
- Prioritize what is important for poverty reduction, the poor and their fundamental human rights
- Sequencing
 - Platform approach, *A Platform Approach to Improving Public Financial Management*, Briefing Note (DFID, 2005)
 - Getting the basics in place first, *Public Expenditure Management Handbook* (World Bank, 1998)

Organizational set-up for PFM reform

- ❑ **Responsibility should rest with the normal PFM component managers responsible for day-to-day PFM functions**
- ❑ Major stakeholders involved: MOF, line ministries, sub-national government, etc
- ❑ PFM reform management committee
- ❑ Reform secretariat or coordination unit
- ❑ Donor PFM reform committee

3. PFM reform monitoring and evaluation

- ❑ PEFA is insufficient
- ❑ Same M&E priorities as the PFM strategy: major constraints on poverty reduction
- ❑ Mutual accountability: monitor donors, too
- ❑ Establish a base line
- ❑ Use M&E to review the PFM reform strategy and revise as necessary

New roles for MOF, line ministries and sub-national government

- MOF: budgeting, supervision, but also serving the rest of government
 - predictable budget releases, reliable management information, in-service training, guidelines, etc
- Line ministries and sub-national government: **PFM reform must also serve their needs**
 - must participate in planning overall PFM reform
 - must adapt PFM reform to sectoral and sub-national needs
 - sector and sub-national PFM reform, closely coordinated with overall PFM reform

Decentralization

- ❑ Unified, coherent budget management cycle at each level of government.
- ❑ Policy-based allocation of resources from the central level to the local level.
- ❑ Integrate administrative and fiscal decentralization.
- ❑ Transparent budget allocations and disbursements to the local level.

Tomorrow's issues: PAR and CSR

- Like PFM reform, public administration reform and civil service reform are necessary to
 - implement public policy,
 - reduce poverty,
 - make democracy and respect for human rights meaningful,
 - use budget support efficiently.

Sources

- *Public Finance Management in Development Co-operation – A Handbook for Sida Staff* (2007), particularly chapter 6, “PFM Reform”
- www.sida.se

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Reforming for Results: Can Public Finance Management reform improve government performance?

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PFM reform strategy – what role for donor agencies?

Sub-title: Isomorphism and the limits of PFM reform

Matt Andrews

Harvard Kennedy School

ODI November 2008

Giving some context

- Recent studies, evaluations (World Bank IEG)
 - Public sector reform, PFM reform ubiquitous
 - But also questionable performance
- Reforms have generated some results
 - Improved systems, etc.
- But what about improved services, actual impact?
 - Increasingly in question

Today's quest

- Can we use analytical products to better understand what is going on?
 - PEFA
 - Documents (PFM-PR, PER, CFAA, etc.)
- Firmly based in theory about organizational change, with key hypotheses
- That could help us re-think donor, govt. engagements

Theory: Isomorphism and PFM reform as gardening

Gardening

- Plants introduced from outside of the environment
- Into pre-existing context (soil, other plants, etc.)
- Generally because they look good elsewhere, so should look good here too.

Isomorphism is appropriate

- Reform ideas are drawn from the outside
- Into pre-existing contexts, with other formal and informal ways of doing things
- To gain legitimacy.

Note I am arguing

How do isomorphic reforms work?

- 3 forms of transfer

- Coercion
- Mimicry
- Normative

- Related to donor engagements and PFM reform?

- Links to loans
- ‘Better practice’ models
- Appeal to values about ‘what should be’

Isomorphic influences manifest in ‘best practice’ type models: Seen in African PFM reforms, where reform similarities belie country differences

Content analysis of documents, projects over past ten years, 31 countries

- 28 countries have had MTEFs in place or are putting them in place;
- 25 are introducing some form of program, performance or activity-based budget;
- 31 refer to efforts to introduce GFS and COFOG classification schemes;
- 26 are using ceilings in some way in budget preparation;
- 31 refer to creating TSAs (or some consolidated public accounts structure);
- 20 refer explicitly to FMIS/IFMS or some form of computerization in budget execution especially (and another 10 refer to the need for this);
- 31 mention commitment controls;
- 31 mention IPSAS or some other version of accounting standards (especially different for Francophone countries).
- At least 25 countries are adopting internal audit, external audit, procurement, payroll controls, internal controls and legislative reforms
- **A MODEL, CONSISTENT REGARDLESS OF CONTEXT**

What can we expect from these reforms?

Better success where

The external influence exceeds internal resistance, such that the pressure for legitimacy dominates

Propositions about where better success:

- If external parties emphasize the reform more
- Where gains are visible, measurable
- Peripheral areas, not core areas
- Where external parties engage with narrow, concentrated parties (concentrated influence, limited reach effect)



Hypotheses for the PFM area

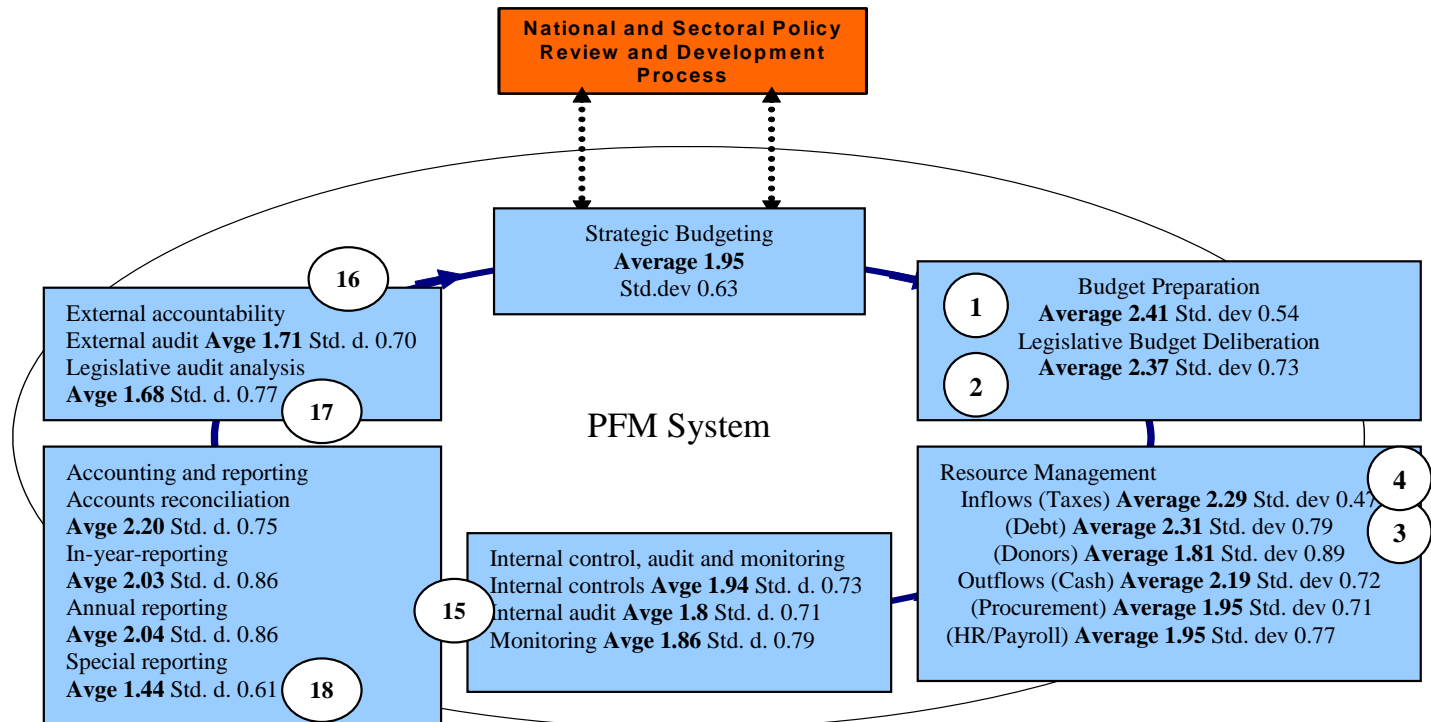
1. Upstream processes likely to be more influenced by external reforms than downstream
 - More donor interest, visible, arguably less core
2. De jure dimensions likely to be more influenced by external reforms than de facto
 - More visible, periphery, not core
3. Dimensions involving concentrated agents likely to be more influenced by external reforms than de-concentrated
 - concentrated influence, limited reach effect

Research method

- Analyze PEFA data for 31 African countries
 - Looking at dimensions, not indicators
 - Arranged in some parts by process area indexes (all with acceptable internal validity)
- Matched with qualitative analysis of PFM-PRs
 - Content analysis to look for themes
- Not looking at influence of reforms directly, but assume that stronger dimensions reflect isomorphic influence
 - A valid assumption given the nature of the PEFA analysis (itself reflecting the reform drive of the donors)

Findings 1. Budgets are made better than they are executed

- PEFA dimensions organized by process area
- Upstream = Stronger, Downstream = Weaker
- Confirmed in qualitative data (13 of 31 countries explicitly mention)



Findings 2. Practice lags behind the creation of processes and laws

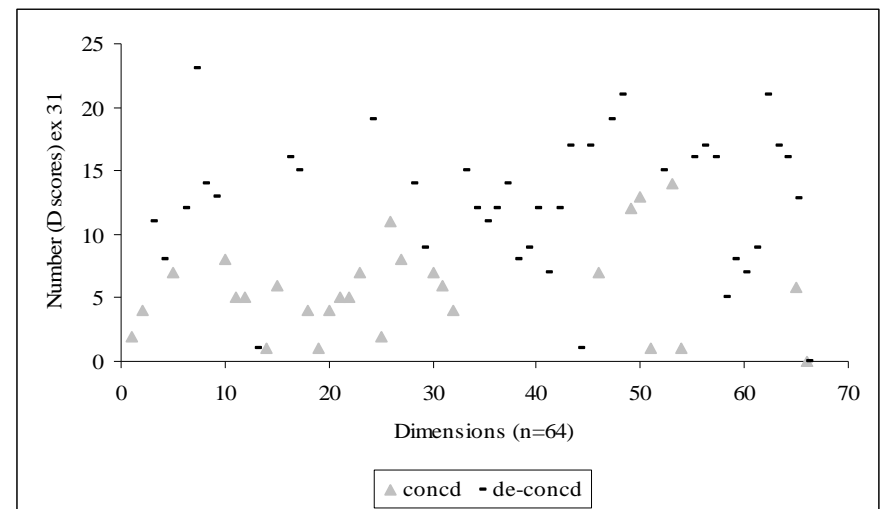
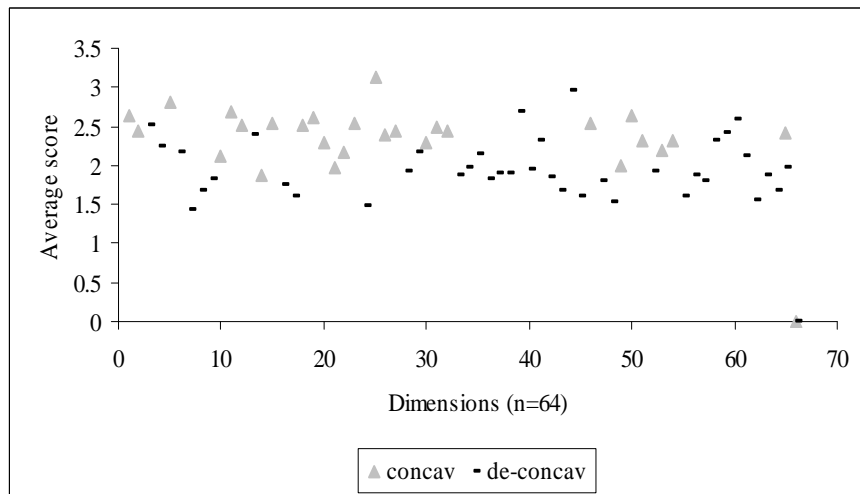
- Scoring a C/B on PEFA dimensions requires:
 - Legislation, process development sometimes (de jure)
 - Actual implementation, engagement other times (de facto)
- Implementation gap: **de facto lags de jure**

Mean All	Avg. Ds All	Mean de jure	Avg. Ds de jure	Mean de facto	Avg. Ds de facto
2.08	10.69	2.33	6.57	1.91	13.50

- All differences in mean statistically significant
- Quantitative evidence backed by qualitative data
 - 14 dimensions per country reference the issue; 22%

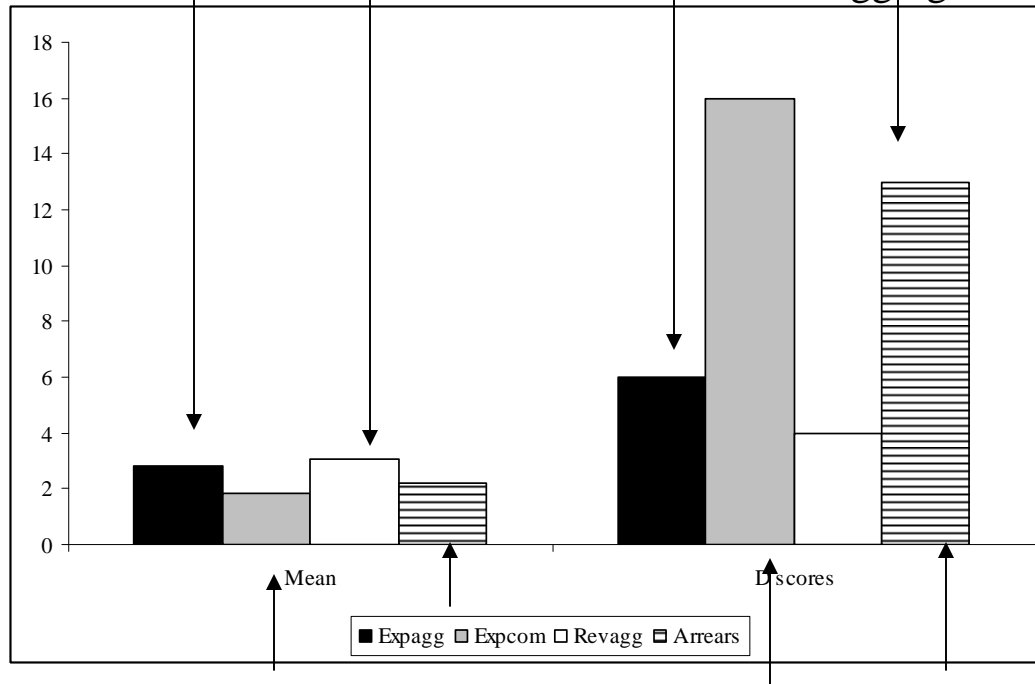
Findings 3. Actor concentration pays

- Scoring a PEFA C/B requires:
 - Action by small, concentrated actors sometimes (budget bureau, Treasury, debt agency)
 - Action by many de-concentrated players sometimes
- 26 ‘concentrated’ dimensions average 2.42 with 5.8 D’s on average.
- De-concentrated dimensions average 1.97, with 12.9 D’s on average.
 - Differences in means significant at 0.01



Actor concentration pays, contd.

- Bottom line: PFM systems stronger where a small set of concentrated, focused actors involved
 - When we need to 'reach' beyond these, PFM system is less strong
- Also manifests in domino effects (see additional slides)
- Also manifests in outcomes: Where more concentrated/aggregated = better!



- Where lots of actors involved, and outcome picks up on disaggregated processes = worse!

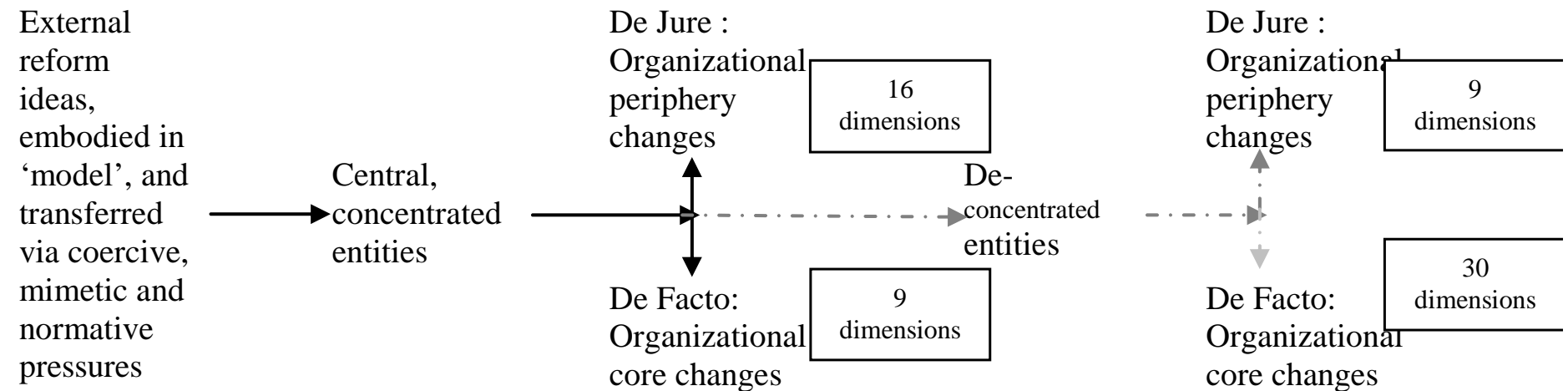
Let me sum the findings

- Evidence strongly suggests that Africa, generally after 10 to 15 years of reform, has:
 - Good budget prep. processes, but bad execution
 - Good laws and processes, but limited new practice
 - Strong(ish) central entities, but very weak other
- A story of limited isomorphic reform potential?
 - Can we expect more, now or in the future?
 - Why would we think so
 - The plants we plant simply have limited growth potential!

Does it matter?

- Yes. Reforms that don't impact de-concentrated, de-facto are seriously limited.

Strongest reform impact
Isomorphism works here



Weakest reform impact
Isomorphism doesn't work here

Reform adjustments are needed to meet looming challenges, and donors must re-assess their role

- There is nothing suggesting reforms will succeed more with time
- Evidence also shows stories of these reforms being implemented in OECD are exaggerated
- And where they are in place, they emerged largely from within, along long paths
 - Consider the USA path towards the 1921 Budget and Accounting Act
 - Influenced by growth in accounting profession (starting in 1896), which went from 250 members (1900) to 5,000 (1920).
 - Large firms and city governments formalized PFM systems in this period, leading to 1912 calls for this in federal level Taft Commission Report;
 - From 1911 to 1919 forty four states enacted budget laws, and state legislators at federal level started motivating for Federal reform
 - Multiple social, economic paths converged to facilitate path..
- **Bottom line: The plant grew as the soil changed to accommodate it.**

The importance of soil, rather than ‘just’ plants

- Schiavo-Campo: “A public management innovation cannot be transplanted *as is* to a different institutional soil ... nor implemented successfully except gradually and over a long period of time.”
- Are donors trying to plant 21st century plants into 19th century soil?
- Consider the situation with accounting, where
 - Sierra Leone’s accounting profession has only 91 members (in 2006).
 - Ethiopia has only 200 professional accountants in the country.
 - Rwanda’s Institute of Certified Public Accountants of Rwanda (ICPAR) was created by the Ministry of Economics and Finance only in late August, 2008.
- Or consider the wisdom of emphasizing legal PFM reforms:
 - Where governance systems are generally informal, resulting in dualism (Schick)
 - And where even private sector players still prefer informal systems in the presence of laws (Fafchamps and Ghana)



Ideas for donors to consider

- They need less focus on technicalities, more on ‘space’
 - Soil **and** plants, not **just** plants
- less concentration and more coverage in engagement, and
- less similarity, more context-appropriateness.



New donor directions: Reforms need less focus on technicalities, more on ‘space’

- Focus less on the plant and more on the soil
- Fitting reforms to ‘space’ at the intersection of acceptance, authority and ability.
- The question for donors is not which intervention works, or which should be sequenced before which.
- The question for reform should be:
 - What is the space for reform in the specific country?
 - What can we do to help build that space, and help the government fit a strategy to its space?
 - What can we do to help countries get on paths that progressively expand reform space, accommodating more demanding interventions?

Questions to ask about a country's reform space?

Is there **acceptance**:

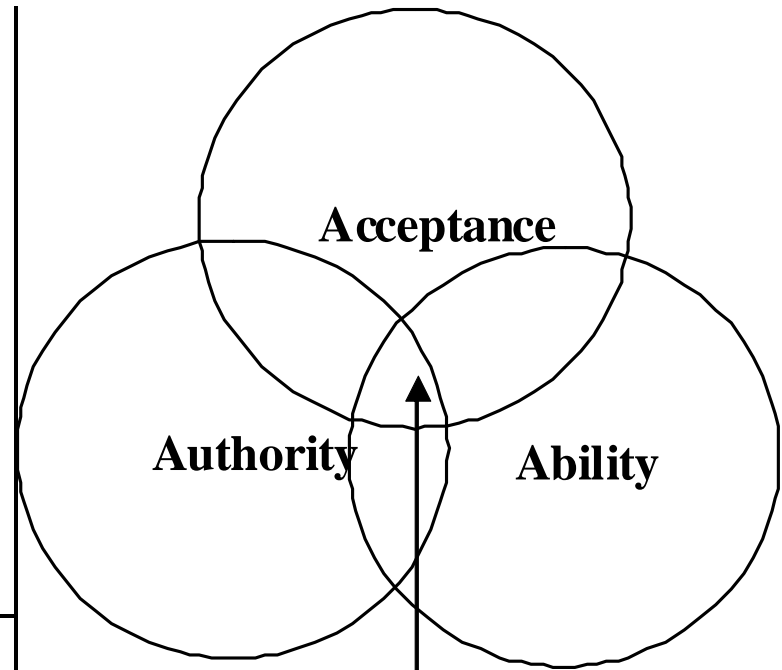
- Of the need for change and reform?
- Of the specific reform idea?
- Of the monetary costs for reform?
- Of the social costs for reformers?
- Within the incentive structure of the organization?

Is there **authority**:


- Does legislation allow people to challenge the status quo and initiate reform?
- Do formal organizational structures, rules, allow reformers to do what is needed?
- Do informal organizational norms allow reformers to do what needs to be done?

Is there **ability**:

- Are there enough people, with appropriate skills, to conceptualize and implement the reform?
- Are there appropriate information sources (to help conceptualize, plan, implement and institutionalize the reform)?



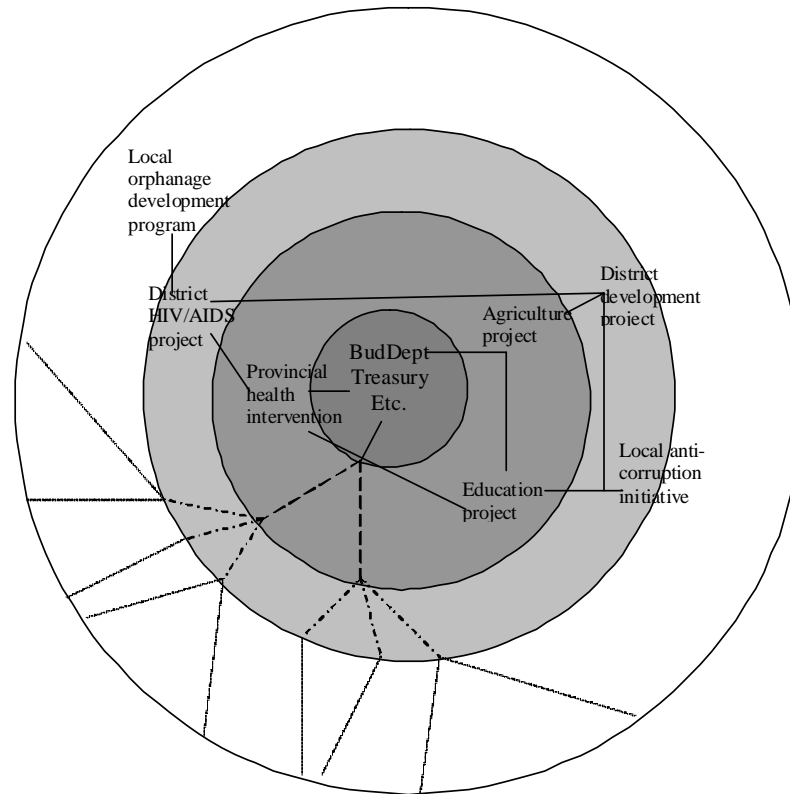
Reform space, at the intersection of A,A,A,
determines
how much can be achieved



New donor directions: Reforms need less concentration, more coverage

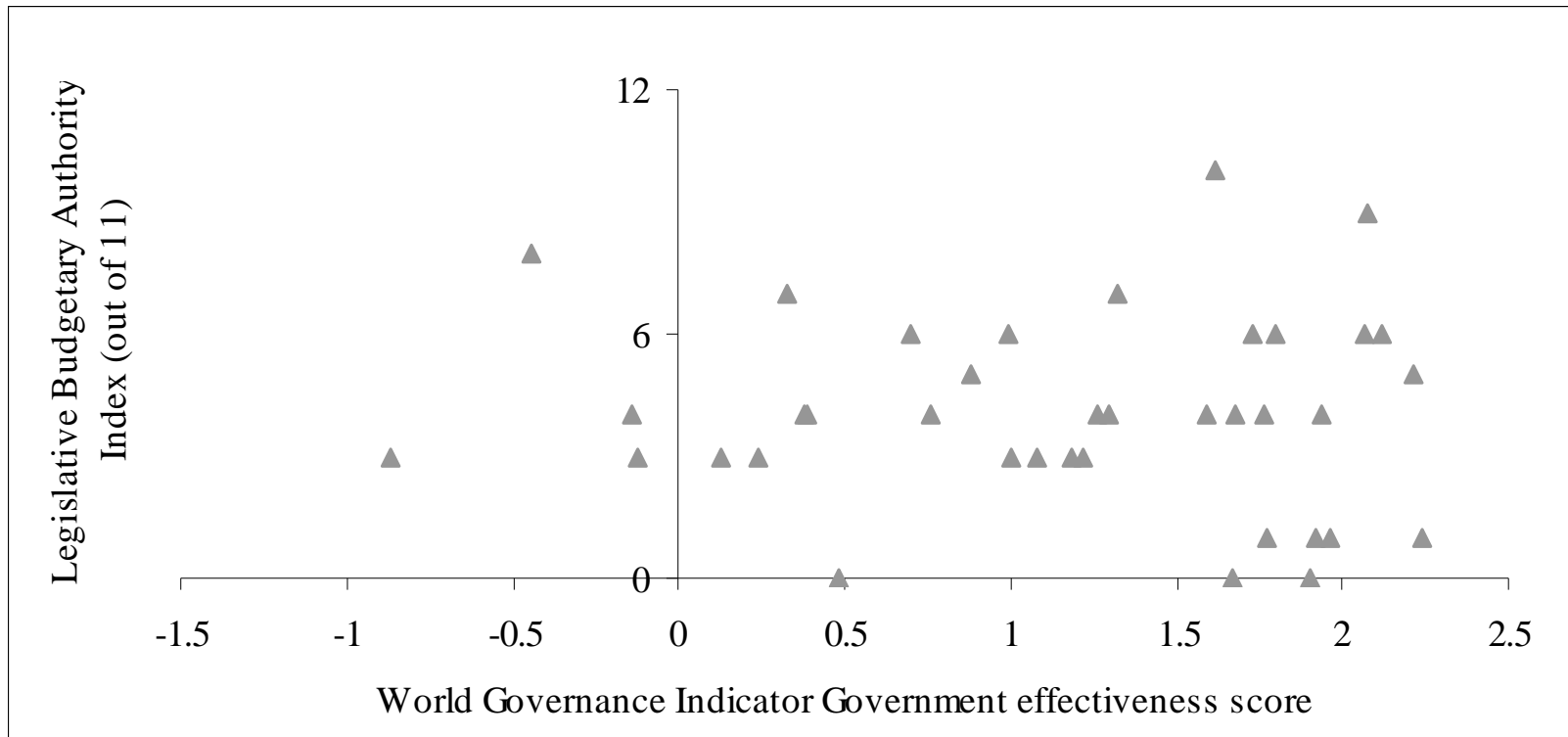
- PFM reforms must have more reach
 - Beyond the MoF, Treasury, etc.
- This requires broader donor engagements, creation of broader in-country reform networks
- A less technical, monologic reform approach
- More relational, dialogic approach
 - Welcoming in more Civil Society partners as well

Expanding PFM reform reach, beyond the concentrated center



New donor directions: Reforms need less similarity, more context-appropriateness

- Donors need to accept that variation in PFM dimensions is the norm, not the exception
- Consider quality of legislative engagement across OECD (more effective governments to right)

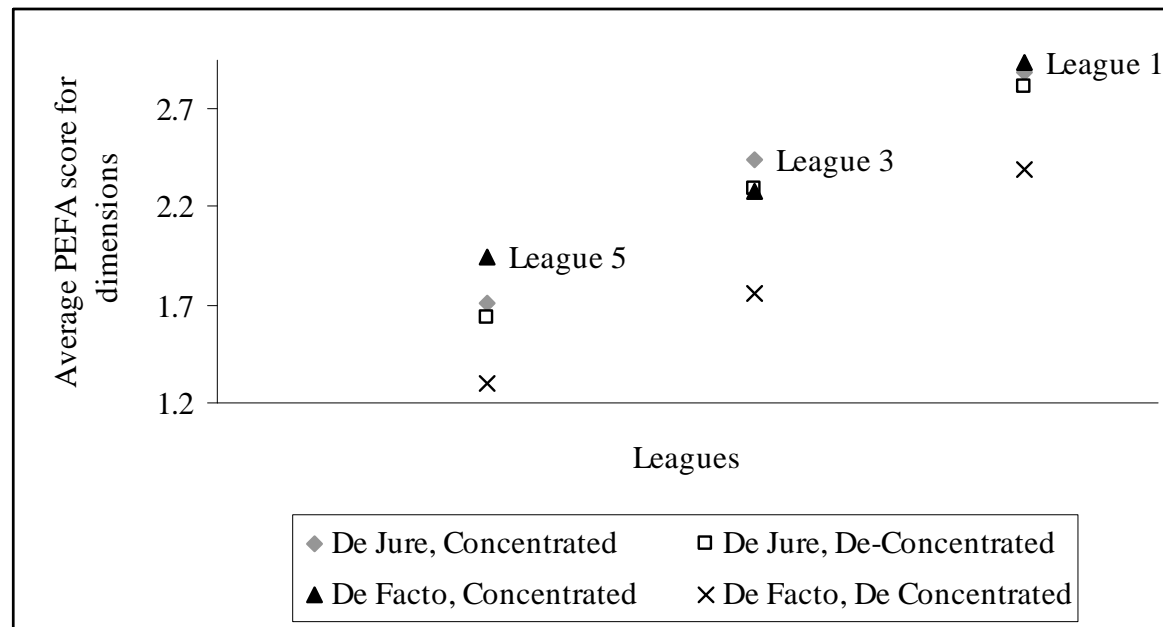


How can donors go from staid models to country-specific approaches?

- They must learn which factors influence design:
“Institutional and political factors ... influence the ability of these reforms to achieve their objectives. These factors include: **the nature of the political system**, especially the respective roles of the legislature and the executive in the budget process; **the state structure**, federalist or unitary; **the degree of centralisation of the public administration system**; and **the relative power of the MOF...**” Curristine (2007)

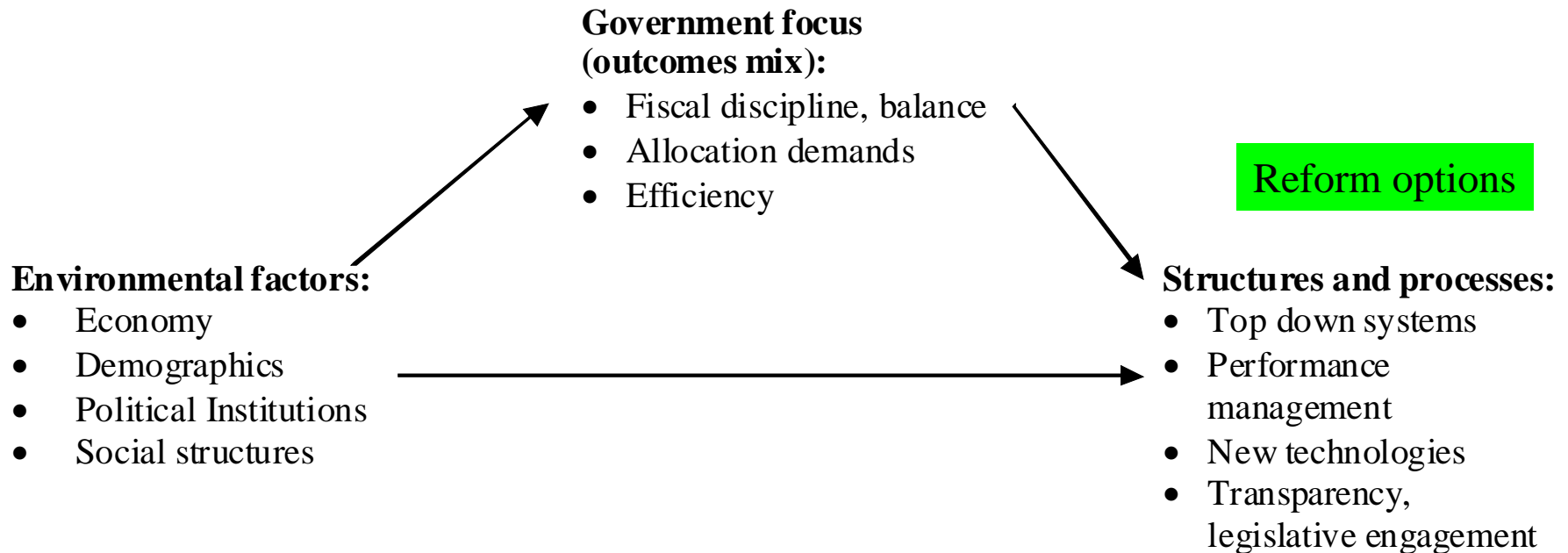
How can donors go from staid models to contingent, country-specific approaches?

- They must acknowledge that different contexts imply different challenges, opportunities
- Different paths, positions on path



Donors must consider contingent influences of government focus, environmental factors on reform options

First Draft Contingency Framework of Government Structure, specific to PFM





Conclusion

- Opening questions:
 - What does PFM performance really look like?
 - How can we improve reform impacts?
 - What is the future role for donors?
- We have found:
 - Performance is mixed: But reforms are limited to gains in de-jure, concentrated areas
 - This is not good enough

Conclusions, contd.

- Reform impact can be improved:
 - By focusing less on mechanisms, more on ‘space’
 - The soil versus plant debate
 - By expanding reach of reforms, to de-concentrated entities
 - By making reforms more contextually appropriate
- What is the role for donors?
 - Given donors have largely defined, influenced reforms so far, they have a major role in allowing and facilitating change

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