9th Annual CABRI Seminar

EXPLORING THE MISSING LINKS IN PUBLIC FINANCIAL MANAGEMENT REFORMS

28–30 August 2013, Kenya

CABRI

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This publication was compiled by the CABRI Secretariat. It contains research papers and inputs presented at the 9th Annual CABRI Seminar in August 2013, which have subsequently been edited. All errors are those of the authors and editors, and the text does not constitute a shared opinion of or representation by any of the organisations to which the authors are affiliated. A special thanks to Alta Fölscher for reviewing the publication.

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ACRONYMS AND ABBREVIATIONS

AAPs	Assessments and Action Plans
AfDB	African Development Bank
AFRITAC	African Regional Technical Assistance Centre
AFROSAI	African Organisation of Supreme Audit Institutions
BPEMS	Budget Planning and Expenditure Management System
CABRI	Collaborative Africa Budget Reform Initiative
CSO	civil society organisation
GIZ	Gesellschaft für Internationale Zusammenarbeit
HIPC	Heavily Indebted Poor Countries
IBP	International Budget Partnership
IFMIS	integrated financial management information system
IMF	International Monetary Fund
M&E	monitoring and evaluation
MTBF	medium-term budget framework
MTEF	medium-term expenditure framework
MTFF	medium-term fiscal framework
MTPF	medium-term performance framework
OBI	Open Budget Index
OBS	Open Budget Survey
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PDIA	problem-driven iterative adaptation
PEFA	Public Expenditure and Financial Accountability
PFM	public financial management
PPBB	performance- and programme-based budgeting
PRSP	poverty reduction strategy paper
PUFMARP	Public Financial Management Reform Programme
SBOs	senior budget officials
UK	United Kingdom
USD	United States Dollar
WAEMU	West African Economic and Monetary Union

FOREWORD

Neil Cole
Executive Secretary

Governments look better after reform but often are not better. — Matt Andrews

African countries face similar developmental and policy challenges. Common amongst these are the persistent high levels of poverty and unemployment, despite the prevalence of impressive economic growth rates. Public sector institutional reforms have emerged as central to development and an essential element of interventions by multilateral and bilateral agencies. However, many of these reforms have limited success because they do not fit many developing country contexts. A fitting analogy used by Matt Andrews to describe this situation is that the reforms look like 'square pegs in round holes'.

The experiences shared by African finance ministries through CABRI over the past ten years strongly reflect the view that reforms have not always led to better governments and more functional public financial management (PFM) systems. This publication adds to the volume of CABRI knowledge on PFM and ways to improve planning, budgeting and the delivery of public services.

This, the ninth Annual Seminar publication – *Exploring the Missing Links in Public Financial Management Reforms* – summarises the proceedings of the CABRI Annual Seminar held in Nairobi in August 2013. As our premier knowledge-sharing event, the seminar brought together over 100 delegates from 30 African countries, multilateral agencies and PFM experts. Using a mix of country case-study presentations, group work, panel discussions and a pre-filmed interview with a former African minister of finance, delegates exchanged views on their reform lessons, ongoing challenges and opportunities for improved implementation. For the first time, the seminar included three 'master classes' on: change management; creative problem-solving; and effective communication. The classes provided delegates with an opportunity to gain valuable insights into critical skills that are needed when designing and implementing reforms.

Together with our joint country case studies, value-for-money dialogues and peer reviews, the Annual Seminar reinforces CABRI as a unique platform for practitioners to collaborate, exchange and learn from each other. Over the next three years, CABRI will build on its current strengths to establish itself as a centre of expertise and leadership on PFM policies, procedures and practices.

Finally, let me thank the amazing team that prepared the programme, papers, logistics and financing for the Nairobi seminar. I also want to thank our partners – GIZ, ODI, Fiscus and the IBP – for their valuable contributions. Thank you.

INTRODUCTION

Aarti Shah

What does it take to design and implement a reform that is needed, relevant and accepted, and successfully implemented?

At the first CABRI meeting in 2004, senior budget officials (SBOs) came together to share perspectives on their countries' experiences with budget reform. Many of the 16 countries present had embarked on medium-term expenditure framework (MTEF) reforms. Uganda and Malawi were amongst the more experienced reformers, having introduced a medium-term approach in 1992/93 and 1995/96, respectively. Kenya and Tanzania were in the early years of their reforms, with around four years of experience at the time (CABRI 2005).

For many countries, the MTEF was one of a series of externally driven and supported reforms, sandwiched between poverty reduction strategy papers and programme and performance budgeting. Some countries had made multiple attempts and had been through several phases of reform. Participants grappled with similar issues, demonstrating that despite several gains, few had achieved a single credible budget process through the implementation of an MTEF. A number of principles emerged from both the stories of success and the failures in embedding a medium-term approach. The four most critical lessons were that:

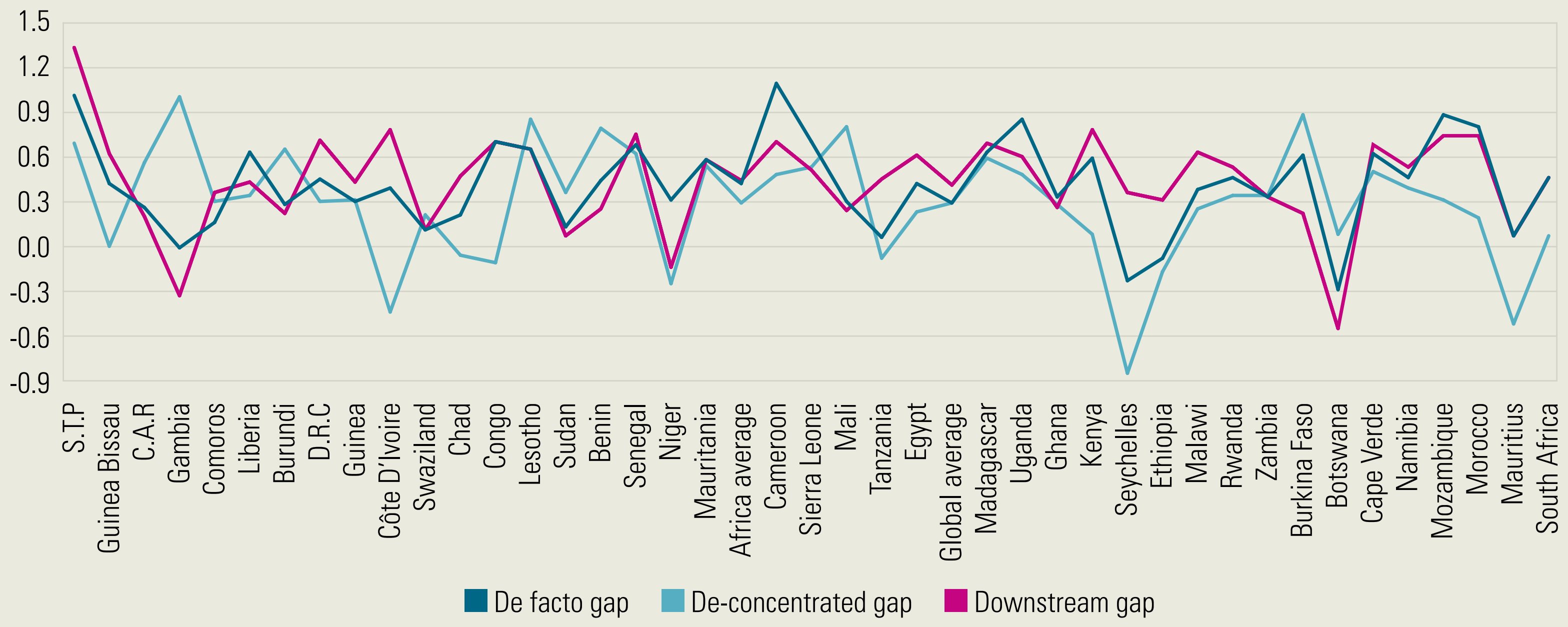
- One size does not fit all (local context matters);
- political support and commitment are vital;
- implementation strategies need to take account of available capacity to implement; and
- sequencing should be based on realistic timeframes.

Nine years later, CABRI's 2013 study on performance- and programme-based budgeting (PPBB) found that more than 80 per cent of African countries were introducing, or were committed to introducing, some form of PPBB. These reforms are part of a broader package of reforms introduced by the countries often with pressure from donors and/or the regional community. Implementing PPBB reform in countries is difficult, even when public financial management (PFM) systems are strong. It is a complex and resource-intensive reform that needs to be adapted to the local context. Political ownership and leadership, technical support to implementers and transparency and accountability systems are issues noted as critical in the report.

Over a ten-year period, a growing body of research on trends and patterns in the nature of PFM reforms has indicated why many of these reforms have not been successful. A seminal piece by Matt Andrews (2010) analyses Public Expenditure and Financial Accountability (PEFA) data (see Box 1) and argues that: reforms tend to look better on paper than they do in practice; budget formulation has received more attention than budget execution; and reform activity is concentrated on a narrow group of champions without sufficient engagement with the implementers. His research also finds that contextual realities are frequently overlooked and 'best practice' interventions are often not appropriate responses.

Inspired by this body of work, the CABRI network felt it was an opportune time to explore some of these missing links in PFM reform processes. The 9th Annual CABRI Seminar brought together technical experts and country practitioners to debate a central question: What does it take to design and implement a reform that is needed, relevant and accepted, and successfully implemented? The philosophy of the seminar was to look at what factors bring about institutional and behavioural change that endures.

Box 1: What does the data tell us?



De facto gap

90 per cent of African countries have de facto gaps, meaning that the PEFA dimensions related to implementing laws score lower than dimensions related to passing laws. Gambia, Seychelles, Ethiopia and Botswana do not have de facto gaps, meaning that their implementation of laws is stronger than the laws themselves.

De-concentrated gap

93 per cent of African countries have de-concentrated gaps, meaning that dimensions related to those who have to execute and implement score lower than dimensions related to concentrated entities that pass laws and introduce processes. Botswana, Gambia and Niger do not have these gaps; their concentrated agencies actually appear less effective than their implementing agencies.

Downstream gap

78 per cent of African countries have downstream gaps, meaning that dimensions related to budget execution score lower than dimensions related to budget formulation. Seychelles, Mauritius, Côte d'Ivoire, Niger, Ethiopia, Congo, Chad and Tanzania do not have downstream gaps. Their budget formulation processes are not as strong as their budget execution processes.

Source: From Matt Andrews' input for 9th Annual Seminar based on Andrews (2010) and Andrews (2013)

This publication reflects the three parts of the annual seminar. Section A (Day 1) contains an article on the progress African countries have made with transparency and participation in the budget process. When countries adhere to these two important principles in their budget processes, it places the budget under the spotlight for decision-makers and enables informed participation. It is from the collection and examination of data that the path of future budget outcomes can be negotiated. Section B (Day 2) contains articles that unpack the theories and experiences around local contexts, reforms as signals for external support, political leadership and policy space. Section C (Day 3) includes articles that highlight areas in which SBOs can promote and lead change processes.

This publication serves as a record of the proceedings of the seminar, while also acting as a resource on the subject for practitioners in Africa. As in previous years, this volume contains write-ups of individual sessions, as well as more in-depth papers on session themes. The publication does not attempt to cover all the seminar presentations and papers. Readers who are interested in these additional areas can find the full seminar programme and presentations on the CABRI website.

It is important to note that the inputs presented in this volume do not necessarily reflect the opinion of CABRI, but are to be regarded as important analyses and arguments in the ongoing learning process about the issues covered.

Section A (Day 1): Open budgets and public engagement

Transparency is as a fundamental principle underpinning robust PFM systems. It is intuitive to think that public officials make better decisions when those decisions are made in the open. Similarly, it makes sense that they are likely to use public funds

> **The failure of PFM reforms is partly due to the blind adoption of international best practices.**

prudently when they allow citizens to see how those funds are being spent. Transparency forms the basis for Parliament, civil society, the public and other stakeholders to engage in the budget process and to hold the government to account, an important aspect of a democracy.

The article in Section A by Paolo de Renzio and Elena Mondo from the International Budget Partnership (IBP) summarises the objectives, discussions and outcomes of the first day of the 9th Annual Seminar. The day was formulated as a workshop on 'Budget Transparency and Citizen Engagement on the African Continent: Challenges, Incentives and Emerging Practices', bringing together governments and civil society organisations from 30 countries.

De Renzio and Mondo begin by presenting the findings of the 2012 Open Budget Survey, with a particular focus on the African countries that participated. While progress has been made in a number of countries, there are significant gaps in producing key budget documents and in making the documents that are produced publicly available, comprehensive and user-friendly. Political will and leadership that recognises transparency and openness as important values provide a strong impetus for making progress.

Information on its own is not enough. The article notes that few countries provide meaningful opportunities and clear and accessible mechanisms for citizens, civil society organisations (CSOs) and other stakeholders to engage in the budget process and to challenge and/or influence government policy. Furthermore, while all participants at the workshop recognised the need for budget transparency, there was some resistance from government officials to the idea of participation and civil society engagement. Evidence suggests that CSOs can prove to be useful partners for reformers within the government when it comes to applying pressure and overcoming resistance.

The second half of the day focused on developing, discussing and agreeing to short- and medium-term measures to improve transparency and participation. These are presented in the De Renzio and Mondo article. CABRI and the IBP are working on a joint project to review and report on transparency reforms and to support the development of roadmaps for improved transparency and participation in selected countries. The actions that were identified at the seminar would provide a useful benchmark to review progress made in this process.

Section B (Day 2): The nature of public financial management reforms

Despite significant support for PFM programmes over the last 20 years, the results have been mixed if not disappointing. The articles in this section look at the reasons why this has been the case and identify some of the missing links.

Signal failure and adaptation

The failure of PFM reforms is partly due to the blind adoption of international best practices. In the 1990s, a handful of countries in the world used a medium-term approach to budgeting. By 2008, MTEFs of some sort were used in 132 countries. Philipp Krause, from the Overseas Development Institute, uses this example along with others to critically consider the global trend of 'copying and pasting' international best practices. Furthermore, in countless cases, including in many African countries, MTEFs do not function as intended in practice. Philipp's article offers an explanation for the spread of best practice PFM reforms and why their implementation has not been too successful.

He states that if each country were to proceed on the basis of a sound analysis of its own functional needs, it is unlikely that the reforms to address these needs would be so

Governments need to create the space to modify, iterate and adapt.

homogeneous. Lance Pritchett, Matt Andrews and others at the Harvard Kennedy School argue that PFM reforms are often adopted as signals to make governments look better, to attract further external support, and not as realistic goals to improve government functionality. In such cases it is more important for the government to look like a reformer than to actually reform. This gaming behaviour is a response to indicator-based conditionalities linked to debt relief, concessional lending and foreign aid. What Pritchett el al. describe as 'isomorphic mimicry' does not bring about improvements in budgeting systems. In fact, it diverts valuable public resources.

Krause takes the argument further and suggests that mimicry, in itself, is not a bad thing and can be a source of information for addressing new challenges. It may not be possible to know all the factors that make a reform successful in one country, and neither is it possible to emulate the same factors in another country. However, for mimicry to be successful, the reform needs to be adapted to the local context (at the very least) and should respond to a functional need that is locally identified. The author refers to this as adaptation by mimicry. The third type of mimicry is 'institutional ventriloquism', where the reform is driven and implemented largely by external agents. This is pervasive in country contexts with a high degree of fragmentation, informality and fragility, and the effects are harmful as it leads to further fragmentation, drains capacity and weakens accountability.

The author recognises that adaptation by mimicry can be useful for countries that are able to adapt and change on their own, like Chile, Mexico, South Africa and South Korea. However, he proposes three parallel efforts to prevent isomorphic mimicry and institutional ventriloquism. The first is for donors not to link development efforts to incentives to introduce tools that emphasise form over function. The second is that international actors need to give countries the space to experiment in order to adapt to the local context. Finally, governments need to create the space to modify, iterate and adapt.

> *South Africa achieved one credible budget process with a MTEF that represented an expenditure floor – critically, together with transparency on annual upward adjustments. This may not be internationally intended practice. Our practice is our reality, and we keep recalibrating from there annually, irrespective of any misguided ideas of intention – from other stakeholders or of our own. Always, we decide what reform we need and when we have achieved that reform. These days we still have one budget process using a MTEF, but now it represents an expenditure ceiling. –*
> Kay Brown, Chief Director: Budget Planning, Ministry of Finance, South Africa

This article leads fittingly into the rest of the publication, which examines why local context, adaptation and experimentation are important missing links, amongst others, and how they can be developed.

Getting the reform context right

A key article in this section – by Andrew Lawson of Fiscus Ltd – provides evidence as to why some PFM reform programmes have been more successful than others in Africa. It draws on the conclusions of a [2012 joint evaluation of PFM reform in Africa](#) (supported by the African Development Bank, Denmark and Sweden), with case studies on Burkina Faso, Ghana and Malawi focusing on the period 2001–2010.

Burkina Faso's reform programme appeared to have generated consistent improvements in most key aspects of PFM over this period. Ghana, on the other hand, showed only limited improvements, with its most successful reforms being in revenue management. Malawi achieved significant improvements in PFM systems during a concentrated period of country-led and supported reform from 2005 to 2008, when it was in the interests of the government to achieve PFM functionality but was not able to achieve consistent progress over the decade.

> *The effective co-ordination within the Ministry of Finance, the full buy-in by all players involved in the process and the political commitment of relevant authorities constituted the success factors of the public financial management reforms, which have been undertaken in our country in recent years.* – Amadou Sangaré, Director General of Budget, Ministry of Economy and Finance, Burkina Faso

In Burkina Faso, there was deep, consistent and technically informed political commitment to PFM reform.

The contextual differences between Ghana and Burkina Faso are worth noting. In Burkina Faso, there was deep, consistent and technically informed political commitment to PFM reform. There was also an authoritative co-ordination and monitoring structure, and a comprehensive and integrated PFM reform programme through which most donor support was channelled. In Ghana, the equivalent level of political commitment was absent. There was no overt opposition to PFM reform; instead, there was passive support for something that was seen largely as a 'technical issue'. Furthermore, PFM reform plans were not systematically updated, and co-ordination structures were low in the hierarchy and often run by consultants.

> *Countries embarking on PFM reforms should realise that PFM reforms are complex and take time to bear fruit. PFM reforms cannot be done overnight and they require a lot of resources. Reforms, therefore, should be implemented in stages through proper sequencing and not doing everything at once. Furthermore, PFM reforms will be successful if the country has technical ownership and political leadership which is visionary and committed to reforms, otherwise reforms will fail. Development partners should only support with financial and technical assistance where necessary. It is advisable that all stakeholders should be involved in the implementation of reforms.* – Twaib Ali, Director, Public Financial and Economic Management Reform Programme, Ministry of Finance, Malawi

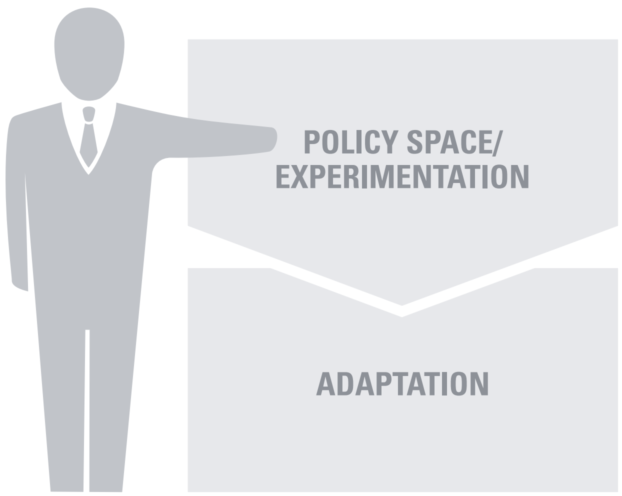
The principal conclusion from the analysis is that PFM reforms deliver results when three conditions coincide: (i) there is a strong political commitment to their implementation; (ii) reform designs and implementation models are well tailored to the institutional and capacity context, on the basis of policy space to develop, negotiate, experiment and adjust or adapt; and (iii) strong co-ordination arrangements – led by technically able government officials – are in place to monitor and guide reforms. The second point on context and policy space relates well to the views presented in Philipp's Krause's paper.

An important issue that was raised in the discussions at the Annual Seminar was what to do if political commitment to reforms is limited or does not exist, and how to expand policy space for reforms. This is a critical area that requires further work.

A style of political leadership that drives change

The importance of political will and backing was a common theme throughout the seminar and comes through in most of the articles in this publication. Trevor A Manuel's time as Minister of Finance in South Africa from 1996 to 2009 is a positive example of what can be achieved with long-standing political commitment to a series of reforms. The former minister shared his reflections and insights on South Africa's reform path in a candid interview with Neil Cole, Executive Secretary of CABRI. Article 2.3.1 begins with an introduction by Nana Boateng (CABRI) that includes responses from two SBOs to the interview, a record of which follows.

Often, too little time is spent on understanding exactly what is wrong, and too much effort is expended on presenting solutions to problems that may not exist.



Building a strong team

As with most reform experiences, South Africa's did not start off with a clean slate in 1994. There were various legacies, traditions and people that populated the government. Trevor Manuel speaks about the process of building a team and how the team functioned at the heart of the reform process. This team was given the space to articulate views and test new ideas, an attribute of what Andrew Lawson (2010) describes as policy space and Philipp Krause describes as experimentation, which leads to adaptation.

Providing decisive leadership

The former minister believes that he played a catalytic role in the reform process. Mr Manuel reflects that while he may not have had the same technical depth as his staff, he was able to push ideas forward, count on support ('air cover') from the President and Cabinet, and be part of a team where necessary.

Creating an inclusive process

Another common theme running through this volume is that having a strong National Treasury or finance ministry is not enough. The former minister spells out the need to have capacity and commitment throughout the government, especially amongst the 'implementers'. As this was not the case in South Africa, the Treasury put in place mechanisms for a more inclusive and participatory process.

Moving from concepts to application

In Article 2.4, Paolo de Renzio (IBP) and Florence Kuteesa (IMF) present the key themes and lessons learned from the presentations and discussions on Day 2.

The authors set out four reform drivers (political leadership, technical leadership, donor influence and citizen pressure) and five stages of reform (problem definition, reform design, reform adoption, reform implementation and reform sustainability). In putting the puzzle together, they identify the missing links.

One of the root causes of a failed reform programme lies in the specification of the problem. Often, too little time is spent on understanding exactly what is wrong, and too much effort is expended on presenting solutions to problems that may not exist. This is especially true in environments where policy space is limited and ideas are not explored or challenged, or when the main sources of analysis are external. Related to clearly defining a problem is the issue of understanding the context – the political and organisational realities that exist. Without this, the solutions that are presented are unlikely to hold – a common result of adopting international best practices, as explained in Philipp Krause's paper. These are important considerations in the design of a reform, and there should be opportunities to revisit the design during implementation if things are not going according to plan or when the perceived benefits do not materialise, reflecting the iterative nature of a successful reform process.

At the stage of reform adoption, political buy-in and consultation are critical to the success of the reform. At the reform implementation stage, an integrated reform strategy includes mechanisms for co-ordination, dialogue and information sharing, which enable stakeholders to track and modify reforms. When looking at the process as a whole, three further links were identified as being important throughout the process: (i) linking PFM reforms to other ongoing reforms; (ii) addressing capacity weaknesses at different stages of the process; and (iii) the inclusion of sectors and local government in the process. De Renzio and Kuteesa conclude that not all PFM reforms will be possible and make sense all the time. Resources should focus on improving capacity and promoting domestic debate. In its leadership role, the finance ministry needs to co-ordinate with other actors and other reforms.

Section C (Day 3): Implementing change processes

The CABRI network launched a series of 'master classes' at the 9th Annual Seminar to discuss tools for implementing reforms in practice. The classes highlighted areas that are seen as intangible and not receiving sufficient attention during the reform process, yet have a significant impact on the quality and success of PFM reforms. This section presents articles that capture the discussion during the classes.

The reform process is likely to have a more profound impact if soft issues such as values, mind sets and capabilities are explicitly and strategically taken into account.

Managing people through change

The master class on 'Managing people through change' was an interactive opportunity for participants to share their experiences in driving or implementing PFM reforms in their respective countries from a people-management perspective. The focus of the class was to identify and work on the main cultural, behavioural and relational inhibitors and promoters of PFM reforms. The starting point was to weave a tapestry of stories, a collage of experiences regarding cultural, behavioural and relational inhibitors and promoters of PFM reforms. One participant began the story and the others took turns to build on, differ from or disagree with it, thereby enriching a joint story through personal experiences in PFM reform. The sessions were interspersed with presentations on concepts and theories. The participants broke off into small groups to discuss practical solutions for managing people through change, including using promoters and dealing with inhibitors of reform. The themes, issues and findings are captured here by John Nkum (the lead facilitator) and Nicole Botha (GIZ) in Article 3.1.

The authors' central argument is that the reform process is likely to have a more profound impact if soft issues such as values, mind sets and capabilities are explicitly and strategically taken into account. Nkum and Botha group their findings into three categories: traditions and cultures, attitudes and behaviour and relationship management.

They describe a reform culture that balances: (i) hierarchy and consultation; (ii) rewards for individuals as well as team results; and (iii) performance and delivery, and learning and innovation. An environment where staff members can open up, give feedback from below, innovate and share experiences creates the policy space that Andrew Lawson writes about in his paper. Different stakeholders exhibit different kinds of personal experiences, commitments, reactions and ownership. Appreciating the differences and employing different strategies and tools to deal with them enables the reform process to progress. The authors speak of a successful leadership style (similar to Trevor Manuel's): 'An approach that balances formal/official relationships with informal/social contacts [is] very effective in creating ownership and motivation amongst teams that are implementing reforms. When the leaders driving the change process are able to create a sense of collegiality and a relationship of trust anchored in honouring efficiency and responsibility, the change team tends to become more committed and result-oriented.'

Deconstructing problems and iterative implementation

The 'Deconstructing Problems and Iterative Implementation' master class explored approaches to understanding a problem in order to assist precisely in tailoring reforms that suit the context, enabling good mimicry and reflecting the finding in the article by Paolo de Renzio and Florence Kuteesa that inadequate definition of the problem is a key missing link towards reform success. The master class aimed to equip delegates with some of the concepts and tools that are required to approach and deconstruct a problem. The class started with the budget officials being presented with a simple problem. When asked to solve the problem, participants were eager to define solutions. Accordingly, the first lesson of the master class was to understand the causes of a problem, before attempting to define solutions. The importance of being able to dissociate the causes from the effects or the symptoms of the problem was highlighted.

The article by Jitendra Hargovan, the lead facilitator, draws on theories, concepts and tools pulled together by the Building State Capability team at the Harvard Kennedy School on Problem-Driven Iterative Adaption (PDIA). Deconstructing the problem is vital in understanding the context, directing attention to where the change is needed and creating a solution that is feasible. Challenging and questioning the root causes of a problem and approaching it from different angles and perspectives leads to reform approaches that are inclusive, pragmatic and address functionality rather than just form. The paper also highlights the importance of iteration, continual learning and adaptation. If it doesn't work, fix it.

Deconstructing the problem is vital in understanding the context, directing attention to where the change is needed and creating a solution that is feasible.

Communicating the message

The master class on 'Communicating the message' was concerned with how one sells the idea or reform to internal and external stakeholders, and focused on the language, presentation and delivery of the message.

The class began with real examples of the various communications challenges faced by SBOs. The lead communications theory that was presented and discussed was that 'every message has four messages'. That is, every message conveys four things: factual information; self-revelation; relationship and appeal. This was tested by way of a simple hypothetical example in which an official advised his minister of the need to reduce expenditure and stated the reasons why. The statement was not only factual – it revealed an appeal, it showed that the official was highly knowledgeable, and the manner in which he spoke also revealed something about his relationship with the minister. The point of the exercise was to bear in mind that we are always communicating four things and not one.

Katrin Nesemann (the lead facilitator) and Neil Cole (CABRI) co-authored Article 3.3, which captures the concepts presented and issues raised in the discussions. There are three basic principles to keep in mind when communicating: (i) know who you are and what you want; (ii) know what your audience wants; and (iii) tell the story. One should also bear in mind that audiences will remember only three messages; thus, always be concise. The class concluded with some pointers on how to communicate effectively through PowerPoint presentations. Firstly, PowerPoint is there to improve, clarify and emotionalise your message (e.g. through the use of visuals). Keep it simple. One idea per slide is better than several bullets crammed onto a single slide. Finally, make the point stick – tell them what you are going tell them; tell them; then tell them what you told them.

In environments where political leadership is not committed to the reform, or where stakeholders are resisting reforms, persuading the audience through clear communication is a valuable tool.

Conclusion

PFM reform processes are complex and resource-intensive. They require changes in mind-set and behaviour. Approaching a reform as a technical, paper exercise will result in little

The depth of understanding is now much greater after ten more years of experiences with reforms.

change in how a budget system functions. Combining technical exercises with managing change processes allows for a more holistic approach. In fact, by explicitly considering how people are managed through change, by unpacking the problem and taking different perspectives and using clear and persuasive communication, a number of hurdles in pushing reforms through can be addressed.

Looking back at the findings of the 2005 CABRI publication on budget reform, there is a clear link to the conclusions that: one size does not fit all and local context matters; political support and commitment are vital; and for the reform to be feasible, capacity, sequencing and timing must be taken into account. However, the depth of understanding is now much greater after ten more years of experiences with reforms. So what does it take to design and implement a reform that is needed, relevant and accepted, and successfully implemented? It takes:

1. **Leadership and management of people through change –**
   - strong political and technical commitment and leadership to the reform;
   - reform leaders who manage fears, expectations and differences of opinions; and
   - clear and persuasive means of communication to all stakeholders.
2. **Policy space for developing appropriate reforms –**
   - a thorough understanding of the context;
   - a correct diagnosis of the problem;
   - a focus on the functionality of a PFM system and not just the form;
   - technocrats who challenge, dissect and interrogate both the problem and the solution; and
   - teams and organisations that experiment and take risks.
3. **Adaptive, iterative and inclusive processes –**
   - an iterative process where monitoring, learning and adaptation are key;
   - an inclusive process where implementers are engaged early on and synergies with other reform processes are sought; and
   - reforms efforts that are integrated and co-ordinated with open flows of information.

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Section A

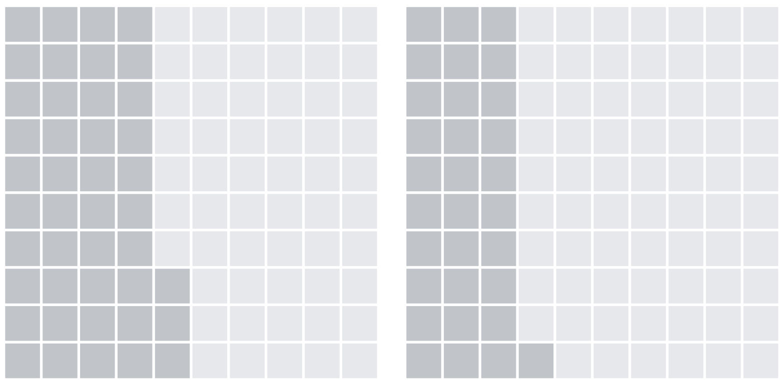
OPEN BUDGETS AND PUBLIC ENGAGEMENT

1.1 PROMOTING BUDGET TRANSPARENCY AND PUBLIC ENGAGEMENT ON THE AFRICAN CONTINENT

Paolo de Renzio and Elena Mondo

CABRI has recognised the improvement of budget transparency as one of the key priorities in the advancement of the good financial governance agenda in Africa.

2012 OBI GLOBAL AVERAGE TRANSPARENCY SCORE COMPARED TO SUB-SAHARAN AFRICA TRANSPARENCY SCORE



43/100
GLOBAL

31/100
SUB-SAHARAN AFRICA

Introduction

Transparency and citizen engagement in budget processes are considered important for a number of reasons. Open budgets can expose corruption and waste, help improve efficiency and effectiveness in public spending, and build trust and legitimacy in the relationship between governments and citizens. To bring about these benefits, governments need to provide easy access to timely and detailed budget information through the various stages of the budget cycle.

The first day of the 9th Annual CABRI Seminar was devoted to a workshop on 'Promoting Budget Transparency and Public Engagement on the African Continent', jointly organised with the International Budget Partnership (IBP), a network of civil society organisations (CSOs) from around the world, using budget monitoring and advocacy as a tool to influence public policies and improve governance and socio-economic outcomes. The workshop brought together governments and CSOs from about 30 countries across Africa to discuss budget transparency and citizen engagement in budget processes in Africa.

The workshop was based partly on findings from the Open Budget Survey (OBS), which is carried out every two years by the IBP. The OBS is an independent comparative assessment of government budget transparency, participation and accountability around the world (100 countries were assessed in the latest round in 2012). It measures: (i) the amount of budget information that governments make publicly available in eight key budget documents that should be published during the budget cycle (see Box 1); (ii) the strength of the formal oversight institutions; and (iii) the level at which governments engage citizens in budget decision-making and monitoring. Data from the survey's transparency questions are used to calculate the Open Budget Index (OBI), which gives each country a transparency score from 0 to 100. Survey results are used extensively by international and national CSOs that campaign for improvements in budget transparency, and increasingly by international initiatives, donors, the private sector and governments themselves to advance open budget processes.

CABRI has recognised the improvement of budget transparency as one of the key priorities in the advancement of the good financial governance agenda in Africa, and is collaborating with the IBP to promote budget transparency and participation in selected countries across the continent.

The status of budget transparency and participation in Africa

Results from the 2012 OBS show that important gaps in transparency still exist. The average OBI score for the 26 sub-Saharan African countries included in the survey is 31/100, well below the global average of 43/100. Only two countries (South Africa and Uganda) publish all eight key budget documents, providing their citizens with comprehensive budget information,

1.1 Promoting budget transparency and public engagement on the African continent

Box 1.1.1: Eight key budget documents in the Open Budget Survey

A *pre-budget statement* presents the assumptions used in developing the budget: expected revenue, expenditure, and debt levels; and the broad allocations among sectors.

The *executive's budget proposal* presents the government's detailed declaration of the policies and priorities it intends to pursue in the upcoming budget year, including specific allocations to each ministry and agency.

The *enacted budget* is the legal document that authorises the executive to implement the policy measures the budget contains.

There are three review documents that governments should publish during the course of budget execution. First, the executive should issue monthly or quarterly *in-year reports* on revenues collected, expenditures made and debt incurred. Second, the executive should publish a *mid-year review* to discuss any changes in economic assumptions that affect approved budget policies. Third, the executive should issue a *year-end report* summarising the financial situation at the end of the fiscal year; this report should include an update on progress made in achieving the policy goals of the enacted budget.

Best practice requires a body that is independent from the executive to issue an annual *audit report* covering all activities undertaken by the executive.

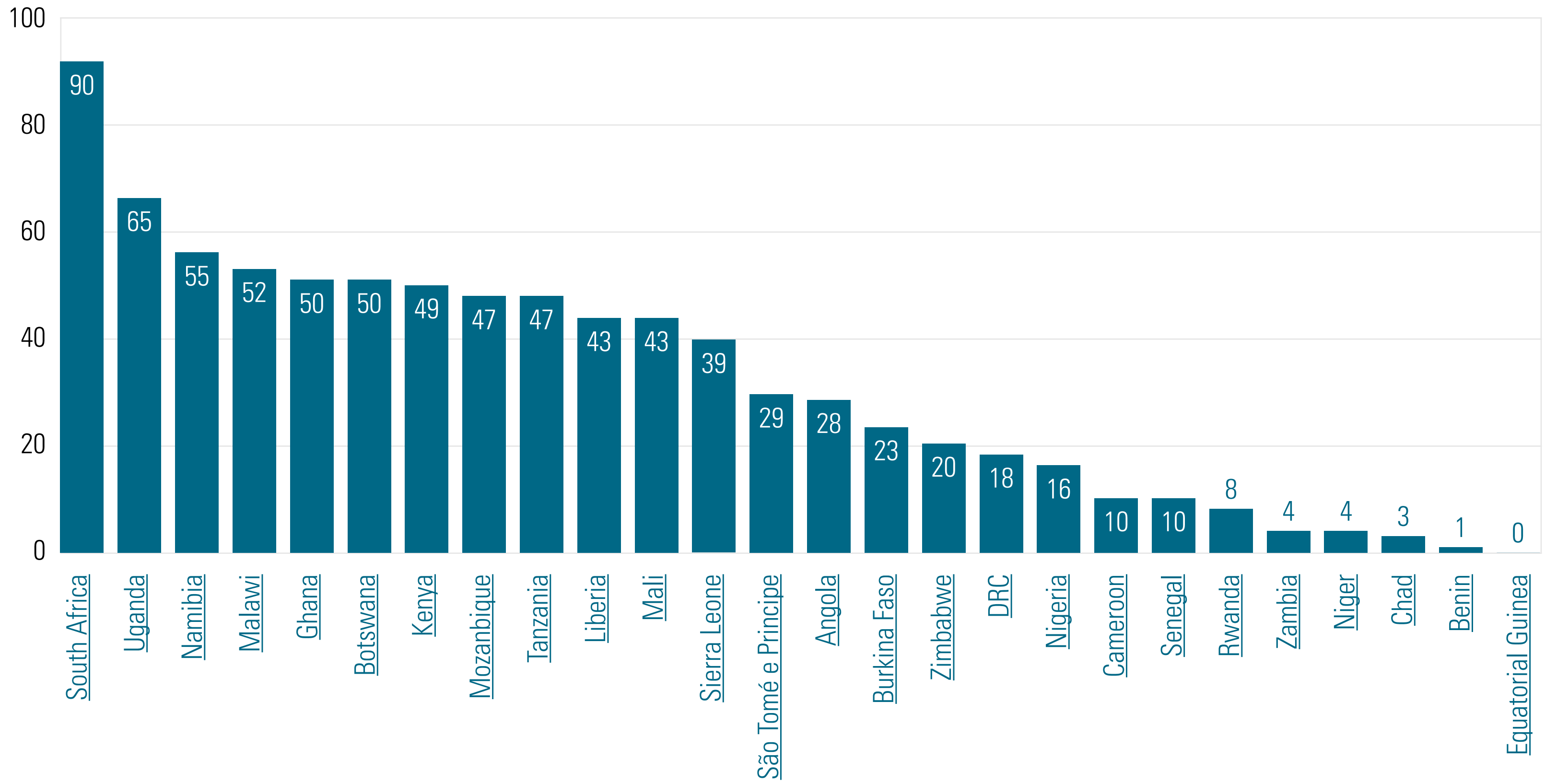
Budget documents are usually lengthy and contain technical information. Thus, governments should also publish a *citizens' budget* – a simplified summary of each of the seven budget documents discussed above, issued in languages and through media that are widely accessible to the public.

while 11 of them publish very little or no budget information, with an OBI score of less than 20/100 (see Figure 1.1.1). In these countries, it is very difficult for citizens to know how governments raise and spend public resources.

Some budget documents are not even produced, especially when it comes to fiscal reporting. Seven countries do not produce year-end reports, and audit reports do not exist in nine of the countries covered. This highlights some of the challenges that governments still face in putting together credible records of collected revenues and executed expenditures, or in setting up an effective external audit function. In other cases, governments do produce budget documents, but choose not to make them available to the public. For example, in eight countries executives produce budget proposals, but do not publish them. This is particularly worrying, as once budgets are approved by parliaments, there is little that citizens can do to influence their contents. Finally, the practice of preparing and disseminating summaries of budget documents in simple, non-technical language for a broad audience is still uncommon in Africa, with only six countries publishing so-called citizens' budgets.

Despite this somewhat grim picture, a number of cases demonstrate that considerable progress is possible in a limited

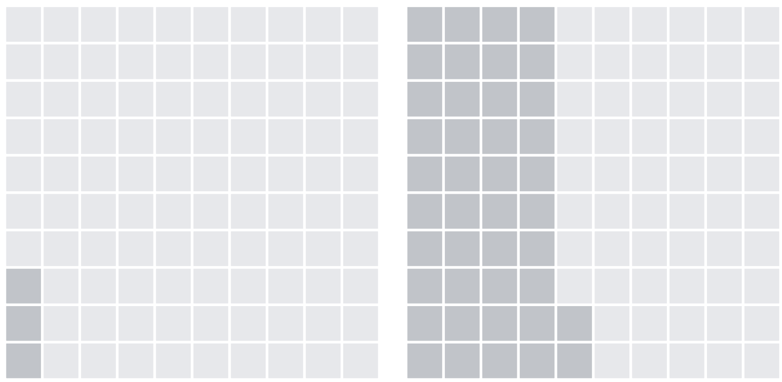
Figure 1.1.1 **2012 OBI scores for sub-Saharan Africa**



Source: IBP (2012)

Very few countries provide meaningful opportunities and clear and accessible mechanisms for citizens, civil society groups and other stakeholders to have their voices heard in the budget process.

LIBERIA'S OBI TRANSPARENCY SCORE IN 2008 AND 2012



3/100
2008

42/100
2012

amount of time. Liberia saw its score improve from 3 in 2008 to 42 in 2012, breaking out of its post-conflict opaqueness to become a regional leader in the promotion of budget transparency. Its finance ministry launched its own open budget initiative, which included setting up an electronic billboard outside its main building reporting real-time budget information. São Tomé and Príncipe climbed from 1 to 29 in just two years, by starting to publish its budget proposal and budget execution reports. Francophone Africa also stands out for its recent progress on providing more budget information. Albeit still very low, the average OBI score for the countries in Francophone Africa that were included in both the 2010 and 2012 Survey has doubled (from 8 to 16 points). Numerous concrete actions were taken. In Burkina Faso (the country whose OBI score improved the most, and which now has the second highest score in Francophone Africa, after Mali), the government published the pre-budget statement and the executive's budget proposal for the first time, putting them on the Internet. In Cameroon, the *Cour des Comptes* (Court of Accounts) has now released the complete series of audit reports from 2006 to 2010, and in Senegal a pre-budget statement and monthly and quarterly execution reports have been released for the first time. Among the factors that explain some of these impressive improvements are government leadership and commitment, pressure from international donors and domestic civil society actors, and the approval of regional directives by the West African Economic and Monetary Union (WAEMU) in Francophone West African countries.

If not all is well on the transparency front, the situation is even more challenging when looking at citizen engagement in budget processes across Africa and all over the world. Very few countries provide meaningful opportunities and clear and accessible mechanisms for citizens, civil society groups and other stakeholders to have their voices heard in the budget process.

According to the 2012 OBS, which included a new section with questions on public participation, only three countries – South Africa, Kenya and Ghana – provide some avenues for citizen input and feedback. Most others lag behind, with very limited institutionalised participation mechanisms. Again, however, some positive examples can be found. Kenya's new constitution formally recognises the role of public participation in financial matters, and its Parliament regularly holds public hearings where budget proposals are discussed with civil society representatives. The government of Botswana organises broad consultations during budget formulation ('budget *pitsos*'), based on traditional forms of participatory governance. Examples of citizen engagement in the execution and audit phases, however, are much more difficult to come by.

All in all, the OBS results paint a mixed picture of the status of budget transparency and participation in Africa. A few countries are leading the way, and have shown commitment, improved their scores and introduced innovative practices. Unfortunately, many others remain plagued by opaque systems and weak accountability.

Participants at the workshop broadly agreed with the OBS findings, and provided some interesting additional comments, including the following:

- the role of parliaments in the budget process needs to be duly recognised (citizen participation should not bypass democratically elected representative bodies, but rather should strengthen and build on them);
- survey tools like the OBS may not capture everything that is happening within a country in terms of government efforts to consult the public and involve citizens in budget decision-making, especially when these happen at sub-national level; and

- in aid-dependent countries, it is important to consider the role that donors play in the promotion of budget transparency (for governments to be more transparent, donors also need to be more transparent and provide governments with timely and detailed information on aid flows).

Focus on country experiences in improving budget transparency

Representatives of the government and civil society from Liberia and Mali were invited to reflect on their country's experiences in promoting budget transparency. Both countries feature as impressive improvers in the OBS.

It is important not to fall into the 'quick results syndrome'. It may take time for transparency to bring about results.

Liberia

Deputy Finance Minister for Administration Jordan Solunteh provided some thoughtful remarks on Liberia's efforts to promote budget transparency and participation. He highlighted a number of challenges the reforms face, including resistance to opening budgets from certain parts of the government, which requires a shift in mind-set to ensure that transparency and openness are recognised as important values in government action. Another challenge is the capacity-building for transparency and openness required to accompany the change in mind-set. 'People have the right to know,' he stated, 'and the government must have the responsibility to tell its citizens how it is spending their money; we must be accountable to citizens.' He also stressed how through increased transparency citizens can understand who is supposed to spend public money, how and when, and they can monitor and reduce opportunities for government officials to misappropriate funds and spending agencies to adopt corrupt practices. Yet, he argued, it is important not to fall into the 'quick results syndrome'. It may take time for transparency to bring about results, but it is important for people to understand how the budget works, how it is meant to address their needs, and how their taxes contribute to the services and programmes that the government plans to implement.

The Liberian civil society representative, from an organisation called Action for Genuine Democratic Alternatives, recognised and commended the government's efforts in promoting budget transparency, and highlighted how other institutions are also contributing to the broader reform agenda. Parliament, for example, is slowly building its own capacity to oversee the budget process, and to make informed choices when it comes to discussing, amending and approving the executive's budget proposal. CSOs played a significant role in building networks, sharing budget information more broadly, and in enhancing capacity (of parliamentarians, among others). He also highlighted how there is still resistance within the government both to budget reforms, including those that promote transparency, and to engagement with civil society, as government officials often think that CSOs lack capacity and are not interested in constructive dialogue. In fact, he argued, CSOs can prove to be useful partners for reformers within governments when it comes to applying pressure and overcoming opposition to reforms.

Mali

In his presentation, Abdoulaye Touré, the former Secretary General of the Ministry of Economy, Finance and Budget, stressed that transparency should pervade government operations and relationships (also within the government). For example, he stressed how the National Assembly of Mali has requested that the executive introduce programme budgeting so that budgets would become more transparent and focused on results, rather than mere inputs. Such an important change needs to involve all actors and stakeholders, including citizens, at different stages of the budget cycle, and at different levels, all the way to the local level where services are delivered. He spoke about the government's efforts to enhance transparency and participation, through the organisation of budget forums (*debats d'orientation budgetaire*), the publication every three months of budget execution reports, and the strengthening of independent internal controls (the reports of which are communicated to the citizens). 'You should not be afraid to share information with citizens," he said, "you should not be afraid that they won't be able to use it or misuse it'. He stressed how information should be made accessible for public use. As an example, he spoke about how, in partnership with the IBP, the government created and published a citizens' budget, which will also be disseminated in an audio version, as well as being translated into the various national languages.

A civil society representative from GREAT (*Groupe de Recherche en Économie Appliquée et Théorique*), a Malian CSO, noted the improvements that have taken place in Mali in the last few years, and recognised the government's commitment to transparency and participation, which was supported by pressure from civil society and by regional WAEMU directives. He also noted that some continuing challenges – such as lack of deeper political will to render the government accountable to citizens, difficulties in accessing information on foreign aid flows, and lack of a formal legal framework that ensures transparency and participation – depend on more than the willingness of the government of the day. Finally, he spoke about some of the obstacles faced by civil society in the struggle for budget openness, citing weak technical capacity, limited formalised participation opportunities, and some prejudice from various government actors with regard to the role that CSOs should play in the budget process.

Table 1.1.1 Proposals for short- and long-term measures to improve transparency

Country	Example of short-term measure	Example of long-term measure
Burkina Faso	Implementation of code of transparency and participation of CSOs in budget process (immediate)	Production and publication of audit reports (by 2014)
Chad	Publication of In-Year And Year-End Reports (immediate)	Production and publication of audit reports (by 2014)
DRC	Publication of year-end report and audit report (by end 2013)	Adapt the content of budget documents to international standards (by end 2015)
Ghana	Provide details of functional classification in enacted budget (for 2014 budget)	Publish a citizens' budget to be made available through Internet and other media (medium term)
Kenya	Increase electronic availability and accessibility of budget documents (immediate)	Improve content and increase comprehensiveness of published documents (by 2015)
Liberia	Publish audit report 2012/13 (by June 2014)	Publish supplemental reports on tax expenditures and extra-budgetary funds (by 2015)
Malawi	Publish year-end report (December 2013)	Finalise revised budget legislation expanding provisions for public engagement (by 2016)
Mali	Publish pre-budget statement online (May 2014)	Improve dialogue and co-ordination between CSOs and Parliament during budget process (during 2014)
Namibia	Increase distribution and awareness of citizens' budget (during 2014)	Publish pre-budget statement (by 2015)
Niger	Publication of the executive budget proposal (October 2013)	Implement mechanisms for civil society participation in budget execution (by 2020)
Sierra Leone	Publish pre-budget statement online (April/May 2014)	Expand public engagement in the budget process (by 2016)
Zimbabwe	Publish and disseminate year-end report (immediate)	Publish audit reports for 2011 and 2012 (after parliamentary assessment)

Country dialogues on promoting budget transparency and participation

During the second part of the workshop, government officials and civil society groups from different African countries sat down to exchange views on the status of budget transparency and participation in their respective countries, and to identify some short- and long-term measures that could be undertaken to improve the situation. Table 1.1.1 summarises some of the initiatives that were agreed upon by participants.

As can be seen, the actions identified are based on specific shortcomings for each country, and address both more

The positive stories emerging from Liberia and Mali, among others, served as an example for other countries.

immediate concerns (the publication and dissemination of existing budget documents that are produced by governments for internal use only) and more difficult challenges (the production of new budget documents and legislative revisions, and the creation of mechanisms for citizen participation).

For countries where either the government or civil society was not represented at the workshop, two parallel meetings – one for Anglophone and one for Francophone countries – were organised to accommodate a more general discussion around budget transparency and participation. In the Anglophone group, the South African Treasury and the Uganda Debt Network provided some background remarks, and facilitated an open discussion on the value of budget transparency and participation. There was agreement on the rationale and need for budget transparency. Much of the discussion focused on difficulties encountered in promoting a useful and constructive dialogue between governments and CSOs around budget matters. Some governments spoke about the fact that they often do not know who to speak to, with some even questioning the legitimacy and technical knowledge of CSOs. The case of Uganda shows an alternative approach, where a much more constructive relationship emerged over the years as the government came to see that there were complementary and useful roles that CSOs could play. (The countries that participated in this group were Botswana, Gambia, Lesotho, Mauritius, Nigeria, Rwanda, Seychelles, South Africa, Sudan, Swaziland, Uganda and Zambia.)

In the Francophone group, government representatives asked many questions about the eight key budget documents on which the OBS is based. Some participants were not clear about the difference between a mid-year review and in-year reports, and wanted more clarity on what an audit report or a citizens' budget should look like. On the participation side, some discussants questioned the role that civil society could play in the budget process, and the political neutrality of many CSOs. Despite this, they expressed interest in following up on the discussions, and asked to for copies of relevant documents and guides produced by the IBP. (The countries that participated in this group were Burundi, Central African Republic, Ivory Coast, Guinea, Madagascar and Senegal.)

Conclusions and steps forward

The one-day workshop on 'Promoting Budget Transparency and Public Engagement on the African Continent' proved to be a useful occasion to present findings from the 2012 Open Budget Survey, to present interesting country experiences, and to bring together government officials and civil society representatives to discuss how to further the budget transparency and participation agenda in Africa. Discussions were broadly supportive of the agenda, and constructive in their content and tone. Participants recognised the challenges that still exist in increasing the openness of budget processes, and identified a series of measures that could be taken to improve the situation. The positive stories emerging from Liberia and Mali, among others, served as an example for other countries, and informed some of the country-specific discussions. While both CSOs and governments broadly recognise the need for budget transparency, the idea of participation and citizen engagement still encounters some resistance among government officials, and needs to be further explained and promoted. As part of these efforts, CABRI and the IBP are engaged in a joint project working with a number of African countries interested in enhancing budget openness, which will run until mid-2015.

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Section B

THE NATURE OF PUBLIC FINANCIAL MANAGEMENT REFORMS

2.1 PFM REFORMS: SIGNALS AND ADAPTATION

Philipp Krause

In many African countries, reforms seem cut from the same template of international best practices, such as medium-term expenditure frameworks (MTEFs), performance budgeting and accrual accounting.

Introduction

Public financial management (PFM) reforms are ubiquitous in Africa, as they are in most parts of the developing world. They are also very much alike. In many African countries, reforms seem cut from the same template of international best practices, such as medium-term expenditure frameworks (MTEFs), performance budgeting and accrual accounting (Andrews 2010). This is part of a global trend that needs both explanation and interpretation to inform future policy.

This article discusses these issues, offering an explanation for the spread of PFM reforms based on best practices, and interpreting what it means for policy-makers and reform implementers. It concludes with a look towards the future. Some of the concepts and evidence contained in this article were introduced at the 9th Annual CABRI Seminar in a session on 'PFM reforms: Signal failure'.[1]

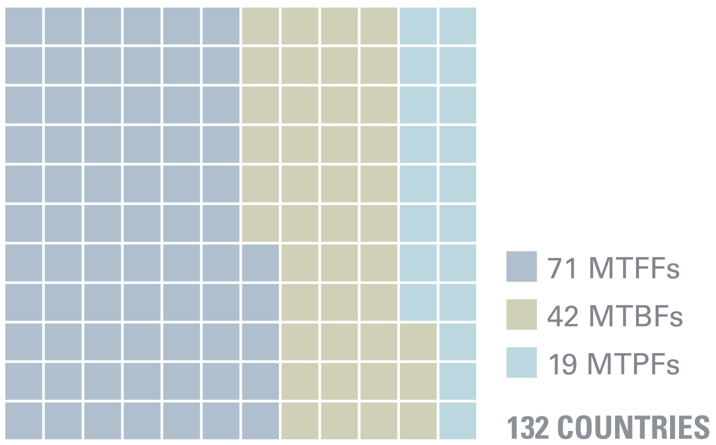
The rise and rise of PFM reforms

Best practice reforms in PFM are a comparatively recent phenomenon. Between the 1870s, when modern budget processes were institutionalised in many Western countries, and the 1970s, when the oil crises prompted a new age of austerity, public finance was a relatively staid and stable area of the public sector, where annual budget battles were fought according to a fairly constant set of rules. The austerity of the 1970s changed this, and eventually prompted a fresh set of public finance innovations in the 1980s and early to mid-1990s, led notably by a number of Westminster democracies, specifically the UK, Australia and New Zealand. The reforms pioneered new PFM tools, which spread rapidly in the developing world in the late 1990s and, particularly, in the early 2000s (Krause 2012).

The global spread of MTEFs is a good example of the ubiquity and sameness of PFM reforms in recent years. In 1990, there was only one country in the world (Australia) operating a medium-term performance framework (MTPF), where ceilings are combined with outcome measures, and (Denmark) with a medium-term budget framework (MTBF), where top-down ceilings and bottom-up plans are reconciled within a fixed resource envelope. Nine other countries, apart from Botswana all developed countries, had a medium-term fiscal framework (MTFF), which involves setting an aggregate envelope. In short, in 1990, the MTEF was a rarity of the Organisation for Economic Co-operation and Development (OECD) world. In 2008, the picture was dramatically different: globally, 71 MTFFs, 42 MTBFs and 19 MTPFs were in use in 132 countries. They are spread widely throughout low-, middle- and high-income countries, as well as geographically. In fact, the only world region where the majority of countries does not have any form of MTEF is Latin America and the Caribbean (World Bank 2013).

This dramatic rise of a previously almost unknown institutional form raises important questions. Clearly, in 1990, rich countries in did not need an MTEF in order to develop, in the first place, because the vast majority of them only adopted one over the next decade or later. It may be that there is conclusive evidence of the

GLOBAL USE OF MTEFS IN 2008



1 An earlier version of this chapter was published as 'Of institutions and butterflies: Is isomorphism in developing countries necessarily a bad thing?' ODI Background Note, London (2013). The author thanks Aarti Shah and Alta Fölscher for very useful comments. The usual disclaimer applies.

Some, if not most, developing countries are probably poorly served by adopting the same set of reforms, simply because they cannot all have exactly the same institutional needs.

superiority of medium-term budgeting over annual budgeting, with the result that countries all over the world rapidly adopted the superior technique. However, there is not much evidence of MTEFs working one way or another, and the majority of studies (most notably World Bank 2013) date from the end of the period of adoption. Claims about the MTEF's effect are also undermined by observations that, in developing countries, MTEFs often exist formally but not in practice, that they are rather a 'Potemkin village' of PFM reform (Schiavo Campo 2009). In one recent, but not at all atypical case, the MTEF consists of a rigid calculation adding an identical percentage of additional funds to all sectors and all outer years, only to be completely ignored subsequently, on the aggregate level and by sector and year (Krause et al. 2013).

It seems quite possible that these MTEFs are not just adopted without sound evidence, but are also then not actually implemented once the formal changes have been effected. Similar arguments have been made about other best practice elements of the PFM reform canon. There does not seem to be much improvement brought about by heavy investment in reform, especially when it involves assistance from donors; in some ways, such efforts might actually do harm (Andrews 2013; De Renzio, Andrews & Mills 2011). Given the variety of these institutions among OECD countries, it is also almost inconceivable that any sound analysis of functional need could produce this nearly complete homogeneity (Krause 2009). Some, if not most, developing countries are probably poorly served by adopting the same set of reforms, simply because they cannot all have exactly the same institutional needs. Does this mean that governments are acting against their own best interests?

PFM reforms as signals

A new strand in the literature interprets the widespread adoption of best practice models not as innovation, but as imitation. Reforms in developing countries happen because governments feel the need to send a signal to their supporters that they are in fact keen reformers, but these signals are not followed by actual implementation, because, it many instances, it is easier to look like a reformer than to actually reform (Pritchett, Woolcock & Andrews 2010). Reforms, thus, become a form of institutional mimicry.

'Isomorphism' and 'isomorphic mimicry' – terms in biology since the 19th century – refer to different organisms evolving to look similar without actually being related. In particular, isomorphic mimicry is the process by which one organism mimics another to gain an evolutionary advantage. For instance, a perfectly edible species of butterfly might look like another (not so edible) species to avoid being eaten. The idea made its way into organisational sociology in the 1970s and 80s. DiMaggio and Powell (1983), who applied the concept to organisations in order to explain why so many of them look so alike in modern times, argue that the original impulse of Weberian bureaucratisation – where public and private sector organisations became more rational and bureaucratic because of competition – has long run its course. Instead of functional need, organisational change is driven by mimicry.

Pritchett et al. (2010) in their work on 'capability traps', and Matt Andrews (2009), specifically with regard to PFM reform in Africa, have used isomorphism to describe the highly negative consequences of donor-assisted reform efforts to establish formal institutions in developing countries. The unit of analysis shifts from individual organisations to states, but the diagnosis is the same – instead of serving functional needs, states in developing countries change in order to imitate.

Along the way, the connotation of isomorphic mimicry changed. In biology, mimicry bestows an evolutionary advantage on the mimic. In organisational sociology, DiMaggio and Powell (1983)

Looking to good performers as models to imitate is just fine, as long as governments learn how to adapt on their own.

make the point that organisations can mimic other organisations without any evidence that mimicry actually increases functional performance. Organisations are imitated because they are perceived as successful, because others depend on them, or because they are seen as the norm in a certain profession. For Pritchett et al. (2010), however, imitation of perceived success is unreservedly negative: part of the reason fragile states are hopelessly stuck is precisely because they try to mimic the formal institutions of success, rather than figuring out the functions of statehood on their own. According to them, mimicry is the expression of a teleological worldview, a futile chase for that one best practice path towards development.

Good and bad isomorphism: adaptation, insincere reforms, ventriloquism

Against this view stands the fact that governments mimic one another all the time, often quite successfully. DiMaggio and Powell (1983) cite the example of Meiji-era Japan (1868–1912), when Japan copied the postal system from Britain, the police from France and the army from Prussia (Westney 2000 [1987]). In copying Prussia, the Japanese copied what they thought was the best model, and it worked very well for them. This is precisely the point. We hardly ever have good evidence for exactly why a certain institutional innovation works, or even if it really does work. Given the complexity of social systems, we may never really know. Looking to good performers as models to imitate is just fine, as long as governments learn how to adapt on their own.

Responding to uncertainty is one of the causes of isomorphic mimicry identified by DiMaggio and Powell (1983). Organisations do not quite know how to deal with a new challenge, so they look towards examples to copy. This is only the beginning of a successful reform, however, and governments need to embed what they copy into the existing context; otherwise, their reforms will probably fail, as Pritchett et al. (2010) point out. We simply do not know enough yet about what it is that sets successful copycats apart from states that mimic others but ultimately fail to adapt copied institutions to their own contexts.

What happens with successful reforms is far more complex than the simple copying and pasting of organisational charts, which is what Pritchett et al. (2010) find so offensive. However, rarely can you find examples of historically embedded, problem-oriented institutional change without an element of mimicry. Matt Andrews (2012) has written recently about the 1990s budget reforms in Sweden, which were anchored in Sweden's fiscal history going back decades. An important point, but Swedish officials also looked at their European neighbours, specifically drawing on Jürgen von Hagen's index of budgetary institutions (which was new at the time and nothing if not formal-institutional). Von Hagen's index provided scores for other European countries, and showed Sweden performing rather poorly by comparison, roughly similar to Greece and Italy (von Hagen 1992). Swedish officials did not want to remain in the 'spaghetti league' with Italy, and reformed their institutions accordingly (Krause 2012: 146). This is precisely what Andrews and others have labelled problem-driven iterative adaptation (PDIA) (Andrews et al. 2012, Andrews 2013).

Similar accounts exist for Chile and Mexico. When Chile reformed its budget process, which was already working well, at the end of the 1990s, many internationally recognised ideas, notably around performance management, found their way into the new institutional arrangements. Mexico's budget reforms of the mid-2000s, in turn, were influenced by Chile's experience. Each country's institutional arrangements are embedded in its own context of existing customs, organisations and relationships, but both governments were mimicking institutions (or facets of institutions) that seemed to have proven themselves in other OECD countries (Dussauge 2010; Krause, Mackay & Lopez-Acevedo 2012). In PFM, there are many other instances from virtually every region in the world, South Africa and South Korea prominent among them. There are many different kinds of models that governments in search of inspiration can look for.

It would be rare to find institutional innovations in one country that are genuinely 'local', in the sense that the wheel had actually been reinvented without the knowledge that it existed elsewhere. Most often, close scrutiny will unveil a combination of Meiji-style imitations followed by tinkering and local exertion to fit and adapt what makes sense domestically, as in Japan, Chile, Mexico and Sweden. Pritchett (2012) uses tennis players as a metaphor: physiologically, successful tennis strokes are very similar, and ultimately they are dictated by biology. That does not mean that there is a shortcut to better performance, as professional players still practice incredibly hard. So, even if there are really only a few models for how to set up a treasury single account, bringing in the consultants alone will not provide a government with a functioning system. Somebody needs, for example, to overcome the resistance in line ministries, and make sure that treasury offices outside the capital are adequately staffed and resourced – all issues that go beyond simple technical solutions that can be outsourced easily.

When governments adopt formal institutions insincerely to comply with donor demands, instead of in pursuit of functional improvement, it is not automatically clear that such strategies are inherently bad. For instance, a national poverty-reduction strategy based on consultations with domestic groups, monitored according to international standards and focused on donor demands clearly doesn't fit most governments' institutional settings. This is not to say that the poverty reduction strategy paper (PRSP) model did not fit the context of Uganda, on which much of the original approach was based (Mallaby 2004). It is just extremely unlikely that all central governments in countries that are eligible for the World Bank's concessional lending, but vary enormously otherwise, would be equally well served by the same arrangement. PRSPs often have been found to fit very poorly with existing government structures, to the detriment of both (Wilhelm & Krause 2007).

The gap between PRSPs and regular government structures is a perfect example of a 'ceremonial institution' (Meyer & Rowan 1977). In many instances, insincere mimicry is simply gaming behaviour. It occurs when some kind of performance target is measured by indicators and tied to strong incentives (financial or otherwise) to achieve them. In international development, such objectives abound; they are implicit in conditionality matrices, have been part of the process around PRSPs, and are now an integral component of the development community's aid-effectiveness agenda (Addison & Scott 2011). We know from the public administration literature that gaming is an inevitable limitation of a targets approach (Hood 2007). To insincerely mimic institutional forms is a viable response in this context.

If governments are rational actors making decisions about how to fund their expenditures, why would they not adopt these insincere institutions, if doing so is an externally imposed requirement to access debt relief, cheaper loans and more aid? The cost-benefit calculation shows that it beats raising taxes. The crucial point here is that governments are actors. To extend the analogy to biology, governments should be assumed to strive not for development but for their own survival. Survival for organisations is enhanced by greater resources, so country governments will continue to implement superficial best practice reforms as long as donors ask – and pay – for them.

Survival for organisations is enhanced by greater resources, so country governments will continue to implement superficial best practice reforms as long as donors ask – and pay – for them.

This institutional ventriloquism worsens capability traps – the persistent stagnation of administrative capacity – because it keeps states from developing the autonomous capability to adapt and change.

POST-CONFLICT COUNTRIES STRUGGLE TO SUCCESSFULLY ESTABLISH AN MTEF

In a recent comparative study of eight post-conflict countries it was found that seven of the eight countries tried to establish MTEFs, and that only one of these could be considered a success.

Along with adaptation by mimicry and insincere mimicry there is a third kind. This occurs when fragmentation and informality in the government are so high that purposeful action is very difficult: in effect, there is a formal state, but it does not have the capability to behave as a single actor. When the centre of government does not have enough autonomy and capability to learn and adapt, externally sponsored formal reforms become very dangerous. This is not isomorphic mimicry, but institutional ventriloquism, which happens when best practice reforms are articulated, planned and implemented following external prompting and via externally funded advisers and consultants. While the first two kinds of mimicry assume government agency, ventriloquism is the absence of whole-of-government intention.

In the context of fragmented institutions, informality and fragility (where state agency is lacking), 'ventriloquising' what donors consider to be best practice as a substitute for real reform is actively harmful. In a recent comparative study of eight post-conflict countries carried out by the Overseas Development Institute and the World Bank, it was found that seven of the eight countries tried to establish MTEFs, and that only one of these could be considered a success (Fritz et al. 2012; Hedger, Krause & Tavakoli 2012). In most cases, such multi-annual budget reforms, often taking place while budget officials were still working on the credibility of the annual budget, tied up crucial resources and still failed. It is hard to see the functional need for these efforts, and much easier to see this as the worst kind of mimicry. In such cases, domestic government units are further fragmented as they align themselves to available external funding and human resources, to tap into external capacity for new strategies and projects. This institutional ventriloquism worsens capability traps – the persistent stagnation of administrative capacity – because it keeps states from developing the autonomous capability to adapt and change. It is the phenomenon Pritchett et al. (2012) call 'looking like a state'.

What can be done?

The distinctions between different forms of copying PFM institutions from other countries are important. For states that are able to adapt and change on their own, mimicry is not a problem, although insincere mimicry is a problem for donors. The development policy community should not completely dismiss the importance of countries learning from one another and imitating success, even as it finally consigns institutional copy-paste jobs to the dustbin of history. Instead, there should be three parallel efforts, as follows.

First, **donors should get rid of international development efforts that incentivise ventriloquism instead of adaptation**. The main effort here should be on not linking aid disbursements to analytical tools that emphasise form over function, thus pushing governments to adopt formal rule-changes that trigger important revenue flows. This would require a renewed debate on what the functions of PFM actually are, how important different functions might be to different governments, and how they might be measured (Andrews et al. 2014).

Second, **international actors need to allow governments the space to experiment**, including turning something that worked well elsewhere into a genuinely local innovation by a process of trial and error. Multi-annual projects with fixed implementation plans and objectives are not terribly well suited to such a process. Governments are also poorly served by the evidence base available to them when deciding which reforms to pursue, where at the moment it is still a lot easier to promote a reform because it sometimes worked well somewhere, rather than critically assessing its suitability for here, today.

Finally, **governments themselves should use the space they have to tinker, iterate and adapt**. Governments do not have to reinvent the wheel and discover the best way of reforming from scratch every time they embark on a new reform. In problem-driven iterative adaptation, Andrews (2013) offers a set of techniques that can be applied. Princeton's collection of case studies of institutional innovation offers many relevant cases for PFM reformers (Princeton University 2014). Such tools and ideas will not turn every reformer into the next Chile or South Korea, because reform obstacles are real, and some difficulties are not easier to overcome just because they are better understood. However, given the resources at stake in the operation of public finances, even marginal improvements will be worth the effort.

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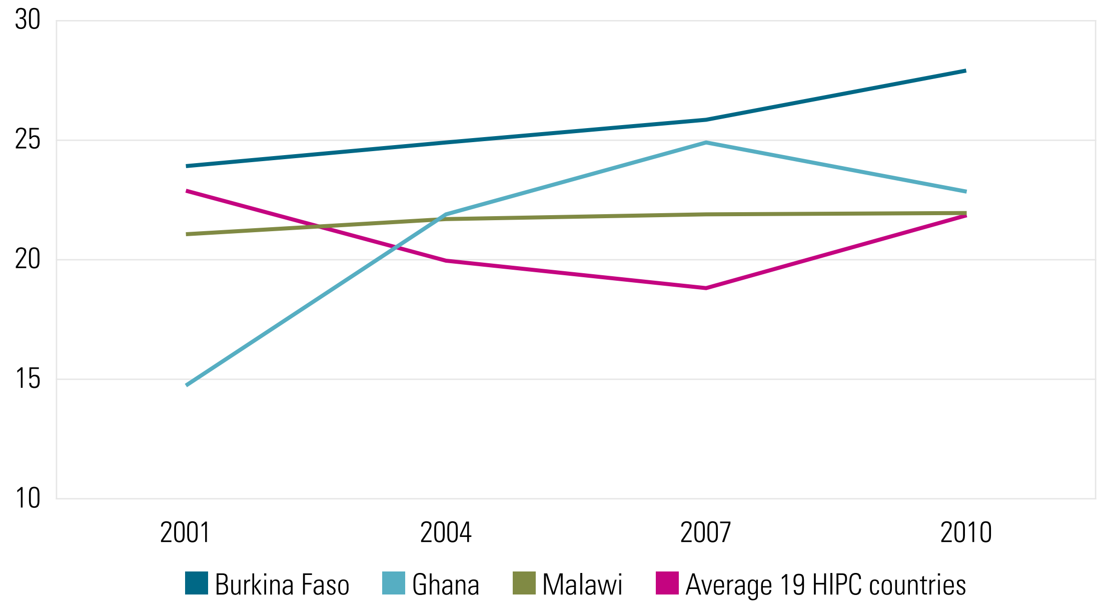
2.2.1 SUCCESSFUL PFM REFORMS: WHAT IS THE RIGHT CONTEXT AND WHAT ARE THE RIGHT MECHANISMS?

Andrew Lawson

Introduction

Since the late 1990s, an unprecedented level of attention has been devoted to the reform of public financial management (PFM) systems in Africa. Yet, the results of these efforts have been mixed: with some exceptions, reform progress can be characterised as slow and the resultant benefits as elusive. Nevertheless, some countries have been substantially more successful in implementing reforms than others. What explains this difference in reform performance? And what implications does it have for the design of PFM reforms and for the provision of support to reforms? Recent research and evaluation allows these essential questions to be addressed more comprehensively than has been possible in the past. Drawing on this research and on the practical experience of African senior budget officials (SBOs) present at CABRI's 9th Annual Seminar, one of the sessions of the seminar considered the lessons emerging for the design and implementation of future PFM reforms in Africa.

Figure 2.2.1.1 Overview of PFM performance in the study countries, 2001–2010



Source: HIPC AAP and PEFA studies, compiled following the methodology in De Renzio and Dorotinsky (2007)

The session focused closely on the conclusions of the [2012 Joint Evaluation of Public Financial Management Reform](), managed by the African Development Bank (AfDB), Denmark and Sweden (Lawson 2012). The evaluation looked at two main questions: (i) where and why do PFM reforms deliver results; and (ii) where and how does donor support to PFM reform efforts contribute most effectively to results? These questions were addressed through structured, qualitative evaluations of PFM reform over the ten-year period 2001–2010 in Burkina Faso, Ghana and Malawi. A particular focus of attention was the differences in the reform contexts and in the management mechanisms established for the co-ordination of reforms. The results of the evaluation are summarised before the observations made in the panel and plenary discussions are considered.

Summary of reform outcomes in Burkina Faso, Ghana and Malawi, 2001–2010

It is difficult to show the evolution of the status of PFM systems over the full ten years, because of the difficulties in identifying a valid baseline. The only existing PFM assessments that provide a potential baseline are the PFM Assessments and Action Plans (AAPs) prepared for the Heavily Indebted Poor Countries (HIPC) initiative in 2001 and 2004, which covered 11 aspects of public financial management systems. Figure 2.2.1.1 provides a comparison, for these 11 indicators, of scores from Public Expenditure and Financial Accountability (PEFA) assessments undertaken between 2006/07 and 2010/11, with those of the

Although the status of PFM systems in Malawi and Ghana was probably better in 2010 than in 2001, both countries exhibited fluctuations in PFM system quality, rather than steady improvement.

HIPC AAPs of 2001 and 2004. (Each of the 11 indicators may be scored from 1 to 3; thus, the minimum score is 11 and the maximum 33.)[2]

There are some doubts about the robustness of the HIPC AAP assessments undertaken in 2001 and 2004, and their comparability with the later PEFA scores. Nevertheless, two basic trends emerge. Firstly, Burkina Faso is the one country of the three that showed consistent improvements in its PFM systems over the decade, resulting in a PFM performance well above the average for sub-Saharan Africa in 2010. Secondly, although the status of PFM systems in Malawi and Ghana was probably better in 2010 than in 2001, both countries exhibited fluctuations in PFM system quality, rather than steady improvement.

2 The HIPC AAPs included a three-level scoring system, with C as the lowest and A as the highest. In order to tabulate the results, De Renzio and Dorotinsky (2007) convert these to numerical scores (C=1, B=2, A=3). As PEFA has a four-level scoring system (D to A), De Renzio and Dorotinsky equate the D and C scores within the PEFA assessments for these indicators, so as to generate the same numerical scale (D&C=1, B=2, A=3). The '+' scores, which the PEFA assigns, are simply ignored; thus, C+ would be equivalent to C and scored as a '1'.

Table 2.2.1.1 Average PEFA scores by cluster for the case study countries, 2006/07 and 2010/11

	Burkina Faso		Ghana		Malawi	
	2007	2010	2006	2010	2006	2011
Strategic budgeting	2.75	3.25	2.00	2.50	1.75	2.25
Budget preparation	3.26	3.40	2.50	2.64	2.34	2.57
Resource management (inflows, outflows, procurement and payroll)	2.33	2.78	2.32	2.38	1.96	2.74
Internal control, audit and monitoring	2.22	3.22	2.00	1.88	2.00	2.38
Accounting and reporting	3.00	3.13	2.33	2.33	2.13	2.33
External accountability	2.33	2.00	2.50	2.33	1.67	2.00

The PEFA methodology is generally acknowledged as providing a more consistent and reliable measure of the relative quality of PFM systems than that of the HIPC AAP methodology. PFM outcomes were assessed for six 'clusters' of PFM functions, following a methodology developed by Andrews (2010) and also used in De Renzio, Andrews and Mills (2010).[3] Table 2.2.1.1 summarises the data for each case study country, on the basis of the earliest and the latest available PEFA assessments.

Figures 2.2.1.2, 2.2.1.3 and 2.2.1.4 show, for each of the six clusters of PFM functions, the 2006 or 2007 and 2010 or 2011 PEFA scores for each case study country, plotted against a box plot of the minimum value, first quartile, median, third quartile and maximum value scores for the 100 countries for which data is presented in De Renzio et al. (2010). These 100 countries comprise low- and middle-income countries from Africa, Asia, Eastern Europe, Latin America and the Caribbean, and the South Pacific, which have undertaken at least one PEFA assessment between 2006 and 2010. Together, these graphs provide a good overview of the outcomes of PFM reforms at the end of the decade.

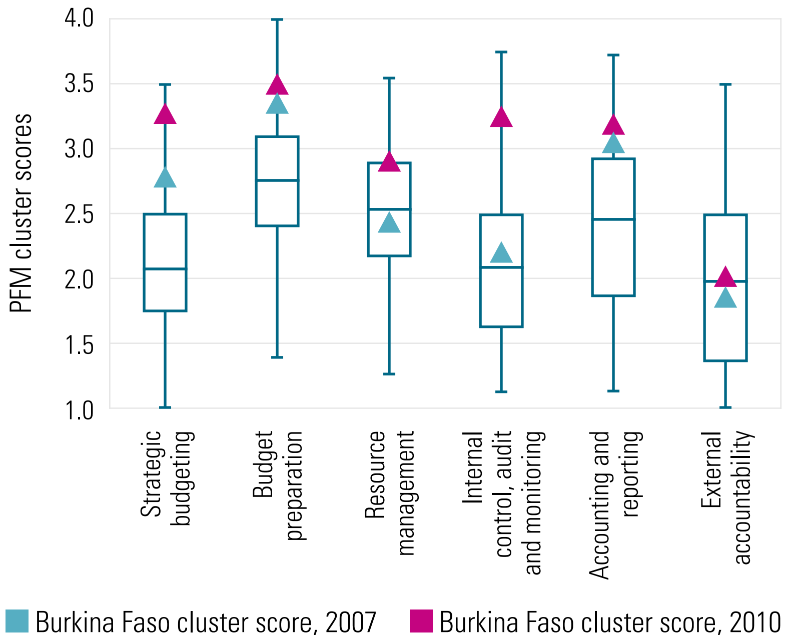
Burkina Faso's PFM reform programme has been successful in generating improvements in most key aspects of PFM. By 2010, PFM systems in five out of six clusters were scored at levels on or above the third quartile of the sample of 100 countries, and the remaining one, external accountability, was at the median level. Significant improvements were seen in the area of strategic budgeting, resource management and internal control, audit and monitoring.

3 The PEFA scores are converted to cardinal values by assigning a value of 4 to an A score, 3 to a B score, 2 to a C score and 1 to a D score. 'No scores' would not be included in the calculation. Average scores are derived from 64 sub-dimensions in the PEFA, not from the 31 PEFA indicators. The details of the specific sub-indicators, of which these clusters are comprised, are presented in Andrews (2010).

Ghana showed only limited improvements in PFM outcomes over the evaluation period. Even though PFM reform spending was concentrated in the period 2001–2006, in five out of six clusters its PEFA scores in 2006 were worse than the median of 100 countries, the exception being external accountability. Relative to the significant funds expended on PFM reform over the period, progress has been disappointing. Scores for internal control and audit, and external accountability deteriorated, and there was no improvement in the poor quality of accounting and reporting. The most substantial success has been in strengthening the legislative base, but the government has experienced significant challenges in implementing the new laws. Otherwise, the most effective reforms have been the revenue management activities, as they have led to a sustained output in the form of changed processes (including the successful introduction of VAT), and there has been a significant increase in revenues as a share of GDP.

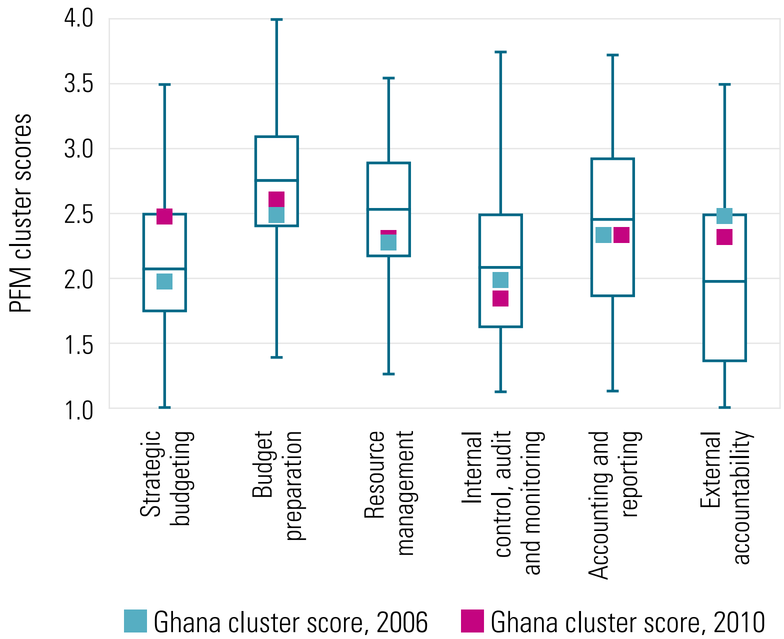
During a concentrated period from 2005 to 2008, Malawi was able to achieve significant improvements in its PFM system outcomes, but was not able to achieve consistent progress over the decade. By 2011, the quality of Malawi's PFM functions in four out of six clusters was above the median of 100 countries, and average scores within each of the six clusters improved from 2006 to 2011, with a peak in 2009. However, outside of certain legislative changes, the period 2001–2004 was characterised by

Figure 2.2.1.2 **Burkina Faso PEFA scores, 2007 and 2010, compared to median score for 100 countries**



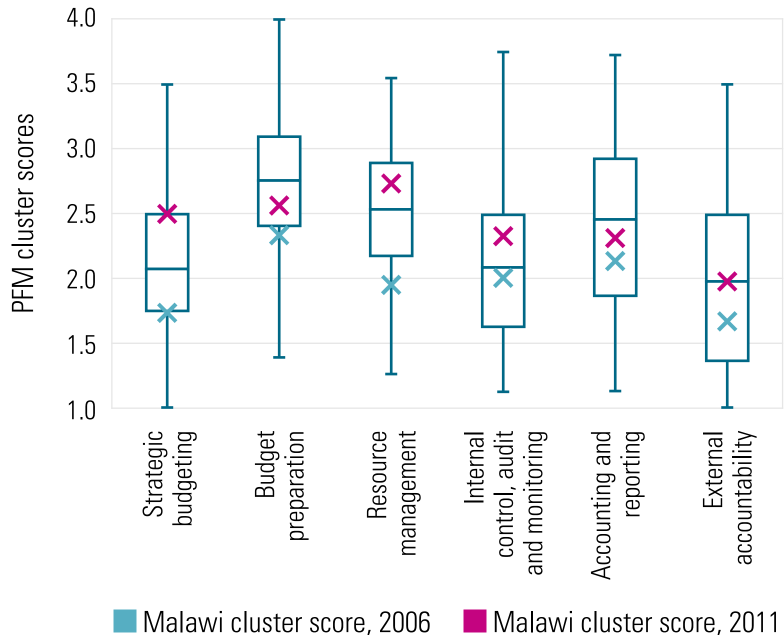
Source: GoBF (2007, 2010); De Renzio et al. (2010)

Figure 2.2.1.3 **Ghana PEFA scores, 2006 and 2010, compared to median score for 100 countries**



Source: World Bank (2006); Betley, Bird & Ghartey (2011); De Renzio et al. (2010)

Figure 2.2.1.4 **Malawi PEFA scores, 2006 and 2011, compared to median score for 100 countries**



Source: Ace & IPF (2006); De Renzio et al. (2010); Phol & Associates (2011)

2.2.1 Successful PFM reforms: What is the right context and what are the right mechanisms?

Each of these countries saw broadly similar levels of investment in PFM reforms, yet outcomes were considerably better in Burkina Faso than in the other two countries.

a decline in PFM performance. Over the period 2009–2011, signs of deterioration again emerged.

Interpreting results: the right context for reform success

In addition to the three country studies, the evaluation examined nine 'case histories' of specific reforms in these countries. This allowed some clear conclusions to emerge regarding the right context for reforms:

- *The overall level of financing for PFM reform inputs was only loosely correlated with achievements in terms of improved outcomes*. Each of these countries saw broadly similar levels of investment in PFM reforms, yet outcomes were considerably better in Burkina Faso than in the other two countries.
- *Government funding for PFM reforms was substantial and frequently substituted for donor funding*. In each country, government funding was estimated to comprise 30–50 per cent of total funding for PFM reform efforts over the ten-year period. Moreover, when donor funding for reforms was stopped or stalled, national budget funding was often procured. The outstanding example was the USD14 million spent by the Malawi government on its integrated financial management information system (IFMIS) between 2004 and 2009.
- *The space for domestic funding of PFM reforms was considerably expanded by the inflows of general budget support (GBS)*. In Burkina Faso and Malawi especially, but to a degree also in Ghana, GBS provided much higher levels of discretionary budget funding than there would otherwise have been.
- *As a consequence, limitations in 'financing space' were generally not a constraint on reform implementation*. The one partial exception to this finding is Malawi during the period 2004–2009, when higher levels of external financing might have been useful, given the favourable reform climate of this period.
- *Civil society organisations (CSOs) were not a significant influence on the content or the pace of PFM reform*. The country studies found the influence of CSOs as a whole to be minimal, even though they did participate directly in Burkina Faso's steering group for PFM reform, and in related budget support and poverty reduction strategy paper review processes in all three countries. An illustration of their limited influence is the fact that in the most recent PEFA assessments none of the study countries scored higher than a 'C' on public access to fiscal information.
- *The role of the legislature in promoting PFM reform was also generally limited*. In Burkina Faso, all stakeholders agreed that the legislature's influence on the pace and content of PFM reform had been wholly insignificant. In Ghana, the public hearings of the Public Accounts Committee were reported to have been influential in maintaining pressure for improvements to external audit, but no influence on other aspects of the PFM reform programme was reported. In Malawi, it was considered that the pressure of the legislature had helped to focus attention on PFM reform over the 2004–2009 period, but it was not a decisive influence and did not persist after the 2009 elections, when the President's Democratic Progressive Party won a parliamentary majority.
- *Regional bodies, most notably the West African Economic and Monetary Union (WAEMU), did significantly influence the content of PFM reforms*. In Burkina Faso, the decision to establish an independent *Cour des Comptes* (Court of

2.2.1 Successful PFM reforms: What is the right context and what are the right mechanisms?

The most significant contextual influence on the success of PFM reform was the nature and form of political support for such reform.

Accounts) in 2000 was reported to have been influenced by the WAEMU directive requiring an independent audit function. More recent moves to de-concentrate authority for the authorisation of expenditure and to introduce a programmatic classification were also attributed to the influence of the new WAEMU directives on these issues. In Ghana and Malawi, regional organisations/networks of institutions with peer-to-peer experience-sharing, such as the African Organisation of Supreme Audit Institutions (AFROSAI) and CABRI, were reported to have had a positive influence over the design of PFM reforms.

- *The most significant contextual influence on the success of PFM reform was the nature and form of political support for such reform*. Political support for (and opposition to) reform was seen to come from different places for different types of reform. In Burkina Faso, this support was consistent and wide-ranging; in Malawi, it was limited to the period 2004–2009; in Ghana, the lack of active support was identified as an impediment to reform in most areas, but it proved possible to achieve considerable success in the reform of revenue administration, the only area where there was cross-party support for improvement.

- *The other key constraint to successful PFM reform lay in the limited policy space available to countries in designing and implementing PFM reform interventions*. The term 'policy space' refers to the depth, breadth and suitability of the menu of ideas that shape the design and implementation of PFM reform: in all three countries, specific policy directions were pursued over long periods, even though, when viewed retrospectively, they were obviously wrong or inappropriate. This was particularly the case with regard to reform policies on programme budgeting and sectoral and global medium-term expenditure framework (MTEF) processes in Burkina Faso from 1998 to 2008, the MTEF and the budget planning and expenditure management system in Ghana, and reforms in procurement and internal audit in Malawi. Details of these case histories of reform are provided in 2.2.2 below.

Why and how was political commitment to public financial management reform important?

It is an accepted truth that technical ownership and leadership of reforms is necessary if they are to succeed. The case studies suggest that in relation to PFM reform, technical ownership and leadership is a necessary, but not sufficient, condition for success. It needs to be backed up by a political commitment to the reforms. Why is this? And what form does that political commitment need to take?

It is instructive to start with a comparison of the professional backgrounds and career paths of the Ministers of Finance in the three countries (see Lawson 2012; Annex 2.2.1). Clear patterns emerge in the selection of Ministers of Finance:

- Burkina Faso's Ministers of Finance have all been brought up through the ranks of the Ministry of Finance or the Central Bank. One was a former Governor of the Central Bank before becoming Minister of Finance, the three most recent Ministers of Finance were all previously Deputy Ministers of Finance, and two of them had held senior civil service positions in the Finance Ministry. The current Minister of Finance, Lucien Bembamba, has been in senior positions within the ministry since 1993.

- In Ghana and Malawi, by contrast, Ministers of Finance have generally been selected from party ranks, from the banking sector or from academia. Thus, they would all have taken up the post with less knowledge of the specifics of the

2.2.1 Successful PFM reforms: What is the right context and what are the right mechanisms?

In Burkina Faso, political commitment has served to create a commitment to reform amongst managers and technicians.

PFM system in their countries than was the case with their counterparts in Burkina Faso.

- Burkina Faso's Ministers of Finance have also remained in influential positions after leaving the Ministry of Finance. Two of them went on to be Prime Ministers and one became Deputy Governor and then Interim Governor of the *Banque Centrale de Etats d'Afrique de l'Ouest* (BCEAO). Thus, from the day of his appointment, Lucien Bembamba enjoyed the support of one ex-Minister of Finance as Prime Minister, and another at the Central Bank.
- Such continuity is not present in Ghana. In part, this is due to the alternation of power between the National Democratic Congress and New Patriotic Party, but even when the same party has remained in power, ex-Ministers of Finance have not remained in the government. For example, Hon Yaw Osafo Maafo was only briefly Minister of Education in the second Kuffour Government before returning to the private sector.
- Malawi showed more continuity than Ghana, particularly during 2004–2009, when most progress was made with PFM reforms. Dr Cassim Chilumpha, who had been Finance Minister for the period 1998–2000 was brought into the government as Vice-President, while Dr Goodwill Gondwe, an economist who had held senior positions in the IMF, was made Minister of Finance. In a sign of the change of direction after the 2009 elections, Dr Chilumpha left the government and Dr Gondwe was effectively demoted to the Ministry of Local Government.

These differences go a long way to explaining the different levels of political commitment to PFM reform observed across the three countries. Political commitment to reform has been at the heart of Burkina Faso's success in implementing its PFM reforms. This political commitment has been:

- *Consistent and long-lasting.* The current Minister of Finance has had a senior role in PFM reforms since 1993, as have many of his staff within the ministry.
- *Deep.* The Minister of Finance enjoys support for the PFM reform agenda from the President, the Prime Minister and the Interim BCEAO governor; he can also rely on a strong team of technicians within the Permanent Secretariat for the Supervision of Financial Policies and Programmes (*Secrétariat Permanent pour le Suivi des Politiques et Programmes Financiers* – SP-PPF), the secretariat co-ordinating the reforms, and amongst directors within the Ministry of Finance and other ministries actually implementing reforms, a number of whom would have been his former civil service colleagues.
- *Technically informed.* For most of the reform period, the people occupying the posts of Minister of Finance and Prime Minister have been PFM specialists. There has also been an active process of engagement of other ministers in the PFM reform, through approval by the Council of Ministers of the PFM reform plans.

At an operational level, how has political commitment made a difference to the implementation of PFM reforms? Clearly, it would have facilitated approval of national budgetary funding, whenever this has been necessary. It would also have helped to minimise the hindrances to PFM reform created by interdepartmental 'turf disputes'. Yet, the most important operational consequence has been that the senior management of the Ministry of Finance either have been deliberately selected because of their ability to lead reforms or have quickly understood that future career development would be influenced by their ability to deliver on the reform agenda. Thus, in Burkina Faso, political commitment has served to create a commitment to reform amongst managers and technicians.

> In Malawi, the political leadership set the tone for how civil servants could behave, making it difficult for a commitment to reform to be protected within the civil service.

By contrast, in Ghana, successive Accountants General were content to allow a major reform of financial management, the Budget Planning and Expenditure Management System (BPEMS), to be planned and managed by consultants, without intervening to ensure that the design was appropriate and to correct implementation problems. If their political masters had been genuinely committed to the BPEMS reform, it seems unlikely that this would have been allowed to happen.

In Malawi, Bakili Muluzi's second term as President, from 1999 to 2004, was the low point of the PFM reform programme. This term saw a progressive decline in the quality of fiscal management, increasing corruption and declining standards of public management (Barnett et al. 2006). It was characterised by institutional weakening, with political loyalists appointed to head ministries and run key institutions, such as the electoral commission (Booth et al. 2005). Corruption became widespread, with many civil servants copying the behaviour of senior officials and politicians, demanding fees for public services for private gain. Thus, the political leadership set the tone for how civil servants could behave, making it difficult for a commitment to reform to be protected within the civil service.

The combination of positive factors listed above has been difficult to bring together within the more competitive political environments of Malawi and Ghana. It would require a more independent civil service for greater continuity to be maintained, despite changes of government. It would also need a greater level of cross-party agreement for consistent support of the more important reforms to be obtained. However, such changes are difficult to achieve in contexts where party politics occupy much of the time and attention of the president and the senior ministers.

Over the past decade, the most successful cases of PFM reform in Ghana and Malawi emerged when it was possible to overcome these inherent obstacles:

- Ghana's revenue reforms were pursued consistently from 1995 onwards, enjoying senior political support from both parties, which, in turn, allowed for consistency in managerial and technical leadership; and
- Malawi's IFMIS was introduced in a period of 18 months and rolled out over 26 months, after a supportive Vice-President and Minister of Finance were appointed, a new Accountant General brought in and USD14 million of domestic budgetary resources were allocated to the task.

Thus, the case studies suggest that political leadership is a necessary condition for achieving sustained success with PFM reforms. This is a stronger conclusion than that reached by Pretorius and Pretorius (2008) and De Renzio (2009), which identify political leadership as a contributory factor rather than a necessary condition. However, Robinson (2007) does point to the 'nature of political agency' as a critical success factor in governance reforms in Brazil, India and Uganda. Graham Scott and Kate Jenkins – leading public servants who guided PFM and public sector reform in New Zealand and the UK – also attest to the necessity of political commitment to reform.[4]

4 Scott, G. (2001) and Wellington, and Jenkins, K. (2006). Graham Scott was Secretary to the New Zealand Treasury over 1986 to 1993 and is generally acknowledged as the technical architect of New Zealand's PFM reforms. His book emphasizes the importance of the political support provided by Prime Minister David Lange and his immediate successors, under the pressure of an acute fiscal crisis and notes the change of direction in reform introduced after 1999 by Prime Minister Helen Clark. Kate Jenkins was Deputy Head of the Prime Minister's Efficiency Unit under the UK Prime Ministers, Margaret Thatcher and John Major. She highlights the need for political leadership to overcome civil service opposition to public sector reform.

2.2.1 Successful PFM reforms: What is the right context and what are the right mechanisms?

The most important of these features has been the combination of clear implementation responsibilities for the relevant directors and unit heads, with authoritative oversight and co-ordination by a central team reporting to the Minister of Finance.

Interpreting results: the right management mechanisms for reform success

The country studies and case histories illustrate very powerfully the importance of strong management arrangements for PFM reform. Indeed, this factor – combined with strong political commitment to PFM reform – serves to explain much of the difference in performance seen between Burkina Faso and the other two countries. Which features of Burkina Faso's arrangements for the management and co-ordination of PFM reform made the reforms effective?

Overall, the management arrangements for PFM reforms in Burkina Faso have been impressive, embodying a number of positive features:

- an integrated PFM reform programme, developed through a consultative process drawing on diagnostic assessments (PEFA, CFAA, CPAR and ROSC),[5] and endorsed at Cabinet level;
- a management and monitoring team of high-calibre local staff, of high authority and with direct links to the Minister of Finance (SP-PPF);
- an implementation framework led by the institutions and agencies with statutory responsibility for the functions being reformed (such as the respective Director Generals of the Ministry of Economy and Finance), working under the close co-ordination of the SP-PPF;
- a clear and respected mechanism for monitoring and evaluation, incorporating periodic PEFA evaluations; and
- a harmonised framework for the provision of donor support to the common PFM reform programme and for regular dialogue on PFM reform issues.

Undoubtedly, the most important of these features has been the combination of clear implementation responsibilities for the relevant directors and unit heads, with authoritative oversight and co-ordination by a central team reporting to the Minister of Finance. In Ghana and Malawi, significant efforts were dedicated to the construction of management and co-ordination mechanisms. These efforts brought some success – in terms of the development of integrated programmes, common monitoring mechanisms and harmonised dialogue structures – but the most striking feature is that neither country succeeded in creating a framework that combined clear (and accepted) operational responsibilities for PFM reform with authoritative monitoring, co-ordination and guidance from the centre.

For example, the BPEMS and MTEF reforms in Ghana suffered from shortcomings in the definition of implementation responsibilities and in the establishment of an effective oversight and monitoring function. In large part, this was due to their heavy reliance on consultants. The BPEMS and MTEF were both implemented directly by teams of long-term consultants contracted for this purpose. The Accountant General and the Budget Director received reports from the implementing consultants, but their sense of operational responsibility for the reforms was distant. In turn, the activities of the implementing consultants were co-ordinated by the Public Financial Management Reform Programme (PUFMARP) Project Implementation Unit, which was also made up of consultants. Although the PUFMARP Project Implementation Unit reported to a steering committee, made up of senior government officials co-ordinated by the Deputy Minister of Finance, responsibility for the reforms at this senior level was also diffuse. Notably, the

5 Public Expenditure and Financial Accountability (PEFA), Country Financial Accountability Assessment (CFAA), Country Procurement Assessment Review (CPAR) and Report on the Observance of Standards and Codes (ROSC)

In all three countries, PFM reform ideas and models were pursued over long periods, even though, when viewed retrospectively, they were obviously inappropriate.

steering committee did not have the sense of urgency to raise alarm bells and change direction when it was obvious that the BPEMS was failing to progress.

A common weakness in reform mechanisms: the lack of learning and adaptation processes

A common feature of the reform experiences of Burkina Faso, Ghana and Malawi was the 'policy space' constraints that they faced in the implementation of their PFM reforms. Each country suffered from limitations in the range of ideas that underpinned their reform efforts. As a result, significant energy was dedicated to the pursuit of reform models that were simply not appropriate to the respective institutional, organisational and human resources contexts.

Although the initial adoption of an inappropriate reform model may be attributed to an external policy space constraint, the failure to change direction subsequently suggests an important weakness in the management mechanisms for PFM reform – the absence of an active learning and adaptation process. In all three countries, PFM reform ideas and models were pursued over long periods, even though, when viewed retrospectively, they were obviously inappropriate. How could management mechanisms have been designed to avoid this?

Learning and adaptation processes need to be introduced both into government mechanisms for co-ordination of PFM reforms and into the supervision and peer review processes of the development agencies:

- *Governments' mechanisms for co-ordination of PFM reform need to include arrangements both for monitoring of progress and for evaluating the adequacy of that progress.* While monitoring frameworks (of varying quality) were established in each of the study countries, none had effective mechanisms for ongoing evaluation by third parties who were not engaged in the design and management of reforms.
- *Development agencies' supervision and peer review processes for PFM reform projects need to be continuous rather than periodic, as is commonly the case with more classic projects.* PFM reforms are significantly different to the standard projects that provide the frame of reference for the design of supervision and peer review processes within development agencies. Whereas most projects can be developed to a high level of detail at the design stage, PFM reform projects require adaptive designs, which evolve as implementation proceeds. Thus, peer review for PFM reforms generally needs to be more continuous than for other projects. The experience of the case study countries suggests that development agencies have not been effectively geared up for this type of support.

Summary of discussions at the CABRI seminar

A panel of discussants from Burkina Faso, Ghana and Malawi was brought together at the Annual Seminar to comment on the results of the evaluation, and to stimulate discussion in plenary on the contexts and mechanisms for successful reform. The panellists and other discussants agreed with the principal conclusions of the evaluation, namely that PFM reforms deliver results when three conditions coincide:

- when there is a strong political commitment to their implementation, which is consistent over time, deep and technically informed;
- when authoritative co-ordination arrangements – led by appropriately qualified government officials, reporting directly to the political leaders of reforms – are in place to monitor and guide reforms; and

- when reform designs and implementation models are well tailored to the institutional and capacity context or when learning mechanisms exist to ensure the adaptation of inappropriate reform models.

Discussion at the conference focused in particular on the problems of creating political commitment to reform when it is not initially present. All participants agreed that this is an inherently difficult task, especially in competitive political environments characterised by frequent ministerial 'reshuffles' and changes of government. For example, it was pointed out that Kenya has seen eight Ministers of Finance in the last 16 years. In such instances, it was argued, one may simply be forced to place more emphasis on technical leadership. Yet, delegates recognised the dangers of such an approach, emphasising that good political leadership is what matters at the end of the day. In its absence, budgetary reforms would necessarily need to be more limited in scope and ambition. It was also agreed that learning how to nurture political commitment should be a key area to explore in the future. This could be taken up within the CABRI network, both as a research theme and as a training issue.

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2.2.2 CASE HISTORIES OF REFORM: BURKINA FASO, GHANA AND MALAWI

Andrew Lawson

The introduction of an integrated public expenditure system and the computerisation of the financial management system is an example of a reform, whose simple design and gradualist approach to implementation were excellently adapted to the institutional and capacity context.

Burkina Faso

The Circuit intégré de la dépense *and the computerisation of the public financial management system*

(an example of critical success factors all coinciding to produce a case history of outstanding success)

The introduction of the *Circuit Intégré de la Dépense* (CID) and the progressive computerisation of the financial management system in Burkina Faso is an example of a reform whose simple design and gradualist approach to implementation were excellently adapted to the institutional and capacity context.

The process started with the internal development and introduction in 1996 of the CID module (by four government computer programmers working alongside two long-term consultant programmers, financed by the World Bank). The module integrates all steps of the expenditure process, from budget preparation to execution. Accounting and revenue modules followed, both of which were operational from 2000, and other modules have been added subsequently.

Apart from the home-grown, gradualist approach to development, another feature has been a pragmatic approach to the degree of integration of the system. The ministry chose not to have all systems fully integrated in real time, which would demand a highly reliable degree of interconnectivity. Instead, connections between most modules of the system are managed on a periodic basis (some nightly, some weekly) using a software tool called i-bus.

While the development of the system has suffered occasional setbacks and problems, the end result has been a relatively low cost, integrated financial management system, managed directly by the *Direction des Services Informatiques* of the Ministry of Finance, using systems appropriate to needs and to the telecommunications infrastructure.

Programme budgeting and related sectoral and global medium-term expenditure framework processes

(an example of success constrained by limitations on policy space)

The experience with programme budgeting and the related processes of sectoral and global MTEFs (CDMTs – *cadre des dépenses à moyen terme*) forms a sharp contrast to that of the CID and the computerisation process. With the support of the World Bank, programme budgeting was launched in six pilot ministries in 1999 and extended to all ministries in 2000. However, the objectives were misunderstood by sector ministries, which used programme budgeting as a method to demand additional resources rather than as a method for more efficient and transparent programming of existing resources.

2.2.2 Case histories of reform: Burkina Faso, Ghana and Malawi

The project design was criticised, in retrospect, for being technology-driven and, more specifically, for paying insufficient attention to change management issues.

With the introduction in 2001 of the CDMT-Global as a tool to determine aggregate fiscal targets and define ceilings for budget preparation, the problem of using programme budgeting for 'wish lists' was resolved, but the fundamental purpose of the exercise remained unclear to most sector ministries. Given the evident lack of influence of programme budgeting, from 2004 onwards a number of donors pushed for the introduction of sectoral MTEFs. Unfortunately, their introduction simply duplicated the programme budgeting process and caused further confusion at the sector ministry level.

In 2008, a committee was established to review the experience and develop a revised approach to programme budgeting. It was led by the Ministry of Finance but included members of sector ministries and also drew on the advice of the IMF African Regional Technical Assistance Centre (AFRITAC). The committee recognised the need to develop comprehensive guidance material. A small team of government staff was created to lead this process, working during 2010 with seven pilot ministries. In 2011, a new strategy document was prepared, as well as two detailed methodological guides, and the process was extended to 16 pilot ministries. Thus, a structured and sequenced approach to the introduction of programme budgeting, which appears to be appropriate to the institutional needs and capabilities, has now been adopted and is under implementation. Nevertheless, the initial reforms led to nine years of largely wasted efforts, because of failure to appreciate the complexity of programme budgets and the particular sequencing problems involved.

Ghana

The Budget Planning and Expenditure Management System

(an example that highlights the problems of inadequate policy thinking on PFM reform, and also the difficulty of learning from mistakes and adapting reform designs in an unfavourable context)

The Budget Planning and Expenditure Management System (BPEMS) was introduced under the Public Financial Management Reform Programme (PUFMARP) programme in 1997. It was intended as an integrated system to manage the full cycle of expenditure from budget preparation, through execution to the preparation of accounts. It was also intended to be comprehensive, eventually covering all central government expenditure.

The project design was criticised, in retrospect, for being technology-driven and, more specifically, for paying insufficient attention to change management issues, and to the assessment of capacity constraints and training needs. It was also criticised for adopting an ambitious 'big-bang reform' approach rather than a more gradual, 'incrementalist' approach. In these respects, BPEMS suffered from a significant 'policy space constraint'; later, internationally funded Integrated Financial Management Information System (IFMIS) initiatives in other parts of Africa addressed change management, capacity and training needs much more explicitly and exhaustively, but Ghana perhaps suffered from being a pioneer of such projects.

However, what is more striking is why changes were not introduced. Why did the project management team not learn from mistakes? The simple answer is that there were fundamental weaknesses in the structure of the project

The approach to the design and implementation of reforms has been incremental and responsive to circumstances, creating a ‘learning approach’ to implementation.

management team, which prevented this from happening. BPEMS was initially managed through the PUFMARP project implementation unit, which had neither functional responsibility for budget execution and accounting processes, nor operational responsibility for reform implementation, which was subcontracted to different sets of consultants. This resulted in the project being distanced from its principal client departments (the Accountant General’s Department and the Budget Department), and in a project management framework where accountability was blurred and the role of the government distinctly limited.

These problems were compounded by lack of clear political leadership over the process. Although in the late 1990s the National Democratic Congress (NDC) government had expressed support for PUFMARP, as a whole, and for IFMIS, in particular, it was content to retain an arm’s length relationship with its management, rather than ensuring that a clear champion (such as the Accountant General) was nominated to lead the process. When the government changed after the 2000 elections, the incoming New Patriotic Party (NPP) government introduced new staff throughout the hierarchy of the Ministry of Finance, but also failed to nominate a clear government champion to lead the process. By 2010, despite an investment outlay in excess of USD20 million, the system was not operational in any of the eight pilot ministries.

Ghana’s revenue administration reforms

(an example of how good progress can be made in unfavourable contexts, if there is political commitment, good technical leadership and an adaptive approach to implementation)

Ghana’s Revenue Administration reforms were introduced under PUFMARP between 1997 and 2003, with Department for International Development and World Bank funding, and continued with support provided by GTZ/GIZ from 2003. Without a doubt, these reforms comprised the most successful component of the overall PFM reform programme.

They permitted the reintroduction of VAT in 1998 (following the initial failed attempt in 1995), with the progressive increase in rates from 10 per cent to 12.5 per cent and subsequently to 17.5 per cent (with the inclusion of the National Health Insurance Levy and the Ghana Education Trust Fund Levy), as well as the introduction of the Tax Identification Number, the creation of the Large Taxpayers Unit and the Tax Policy Unit (within the Ministry of Financial and Economic Planning), the computerisation of internal management systems, and the merging of the three revenue departments into the Ghana Revenue Authority. Together, these reforms have permitted a significant and sustained increase in tax collections as a percentage of GDP, while reducing administrative costs and improving the rate of collection of tax arrears.

Several factors seem to have been critical to these successes. Firstly, there was a strong political interest in raising tax revenues, illustrated by the active engagement of two presidents (Rawlings and Kuffour) as well as government ministers and parliamentarians of both the NDC and NPP in the process of reintroducing VAT and in the subsequent rise in rates. There was also political support for the creation of the Ghana Revenue Authority, which ensured that the in-fighting between the three former revenue departments became a temporary rather than a permanent obstacle. Secondly, reform management structures were directly integrated within the appropriate government structures. Thus, there was no specific ‘revenue reform unit’ independent of the Ghana Revenue Authority. Thirdly, the approach to the design and implementation of reforms has been incremental and responsive to circumstances, creating a ‘learning approach’ to implementation.

Malawi

Malawi's procurement reforms

(a case history that demonstrates the difficulty of applying 'international best practice' in contexts of weak organisations and scarce technical skills)

Malawi's procurement reforms provide an excellent example of 'international best practice' gone wrong. In 2003, the government of Malawi enacted the Public Procurement Act, which, in essence, created a decentralised procurement system. It provided for decentralisation of public procurement decisions and responsibility to procuring entities, the establishment of a procurement cadre as a new professional stream within the civil service, a new set of procurement methods, and the creation of the Office of the Director of Public Procurement (ODPP) as the body responsible for regulation and monitoring.

By mid-2011, most of the architecture of the new procurement system was in place, as a result of the reform outputs generated with domestic and external funding. However, the procurement system, for the most part, remained non-functional. The 2011 PEFA assessment scored it as a D+. The 2009 compliance assessment undertaken by the government of Malawi found that: while ministries had procurement entities, these were often recreated stores units without the necessary procurement skills; not all members of procuring units had been orientated as to the regulations governing procurement and, where they had been, did not put into practice what they had learnt; there were several problems with the functioning of the internal procurement committees, including, in some cases, the controlling officer still having final decision-making power; and the Office of the Director of Public Procurement itself faced significant staff constraints.

In brief, the significant shortages of trained staff within the civil service, combined with the persistence of hierarchical modes of working, limited accountability and a culture of frequent disregard for rules made it impossible to implement the 'best practice' model of decentralised procurement, despite the extensive financial outlays.

The development and installation of the Malawi Integrated Financial Management Information System between 2005 and 2009

(a case history that illustrates that institutional, financial and initial design constraints can be overcome where there is strong political and technical leadership)

The development and installation of the Malawi IFMIS over the period 2005–2009 is a striking success story, which powerfully illustrates the importance of political will and good project management. The government of Malawi's first effort to develop an IFMIS started in 1996. By 2004, at least USD8 million had been spent, but a 2004 review found that while outputs were in place, these outputs in combination did not add up to a functioning system.

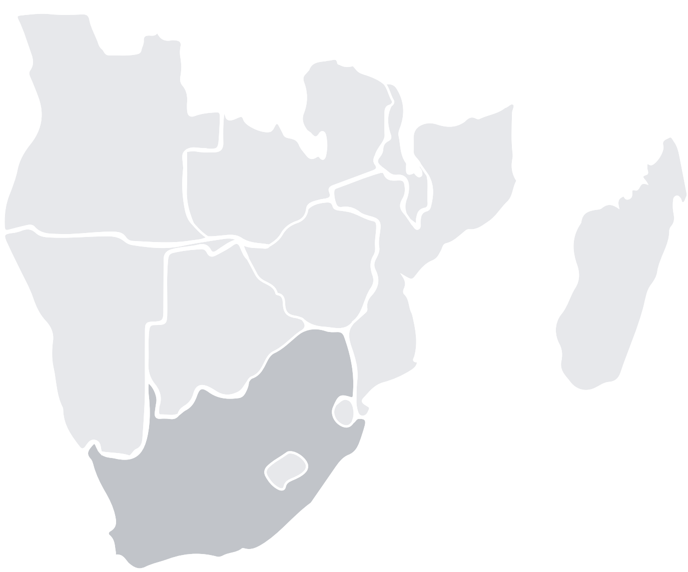
After the change of government, the incoming President Mutharika put control over government spending at the centre of an economic governance reform programme. This meant instituting a functional financial management system, which would end controlling officers' discretion to spend beyond budgeted appropriations, and would give the centre continuous access to reliable information on spending. A new Accountant General was appointed, with a mandate to do whatever was necessary to get the system in place.

By May 2005, it was decided that the 21 issues identified in the 2004 review as essential for the rescue of the existing Coda-based system could not be resolved, and that the government of Malawi would replicate an Epicor-based system from Tanzania, where the system was already in place. It was also decided to recentralise payments using the IFMIS. Five linked bank accounts were opened at the central bank and 150 commercial bank accounts were closed. Thereafter, the core IFMIS outputs were delivered within 18 months of the 2004 election, and were rolled out to all national ministries within 26 months, on a completely new platform. This was after eight years of previous investment that had not resulted in a functional combination of outputs.

Respondents argued that the reason for the focus was the urgency assigned by the central political leadership to the gaining of control over expenditure. Fundamental to the whole success was the quick replacement of the former Accountant General with an action-orientated and experienced PFM person, whose actions were backed by the Secretary to the Treasury, the Minister of Finance and the President himself. In addition, USD14 million of government funding was provided for the process.

2.3.1 HOW POLITICAL LEADERS CAN PROMOTE CHANGE: THE CASE OF SOUTH AFRICA

Nana Boateng



In a filmed interview with Neil Cole, the former Minister of Finance of South Africa, Trevor Manuel, spoke about the context of initiating a series of PFM reforms and how he managed the relationship between himself and senior treasury officials during his term as minister (1996–2009). Mr Manuel reflected on the South African National Treasury's successes and failures in implementing these reforms over a relatively short period of time. The interview was screened at the 9th Annual Seminar and is reproduced below.

The interview provides a perspective on the mix of political leadership and technical reform capacity required to successfully alter budget and public financial management institutions. After consolidating democracy in 1994, South Africa was faced with a highly fragmented society and civil service, a deficit of 8.7 per cent of GDP, public debt at 47 per cent of GDP and a deficient budgeting system. What was required (one of the critical things, at least) was an overhaul of the system of budget management that would:

- fulfil the demands of a new constitutional framework;
- bring about substantial outcomes and ensure fiscal sustainability;
- align spending with new national priorities; and
- optimise existing resources and improve service delivery.

The key principles that would drive the reforms were political oversight and a focus on policy priorities and behavioural change.

By the early 2000s, there were notable results, including the stabilisation of fiscal balances, shifting of expenditure composition and a more credible budget. An important technical reform component was the introduction of a medium-term expenditure framework approach to budgeting in the 1998/1999 fiscal year, bringing the focus to bear on priorities, strengthening the link between planning and budgeting, providing more certainty in policy implementation and efficiency in resource allocation, and generally instilling more disciplined fiscal decision-making.

Discussions at the seminar following the screening of the video confirmed the importance of political will and consistency of leadership highlighted in the Burkina Faso case study undertaken as part of the evaluation of PFM reforms (see Article 2.2.1 above). The South African representative reflected thus on the tenure of Minister Manuel:

> *Trevor Manuel exemplified tremendous leadership. He brought energy; people were happy to work overtime and work hard. Mr Manuel understood his political role but also paid attention to managing change. He paid attention to the technical work but also understood the need for mutual success at technocrat and process levels. He saw to the successful merging of two institutions. He recognised the need to bring in the right set of skills. He also acknowledged, in hindsight, some the reforms that did not go too well. The team Trevor*

2.3.1 How political leaders can promote change: The case of South Africa

Manuel put in place is largely still in place long after his departure. Those who have left the Treasury still fly the reform flag.

A brief discussion of the reform success in Uganda in the 1990s highlighted similar factors at play. As related by the Ugandan representative:

Similar qualities are exhibited in Uganda's former Permanent Secretary in the Ministry of Finance [Emmanuel Tumusiime-Mutebile]. *He showed interest in working with Parliament, did not fear anyone, including the President, was very reform-minded and recognised macroeconomic stability as the driving force. He was behind the training of Members of Parliament on the medium-term expenditure framework and related reforms. The Minister of Finance had a technical dream team, had support from the President and Parliament and knew how to lobby for political support.*

While recognising the importance of this level of leadership in the reform process, some country delegates raised a critical point: Are South Africa and Uganda exceptional cases, as this does not appear to be the norm in the context of many countries? Finance ministers, unlike attorney generals, are not protected by legislation. The lack of protection of tenure, coupled with party politics, has led many ministers to fail in the execution of their duties and some have even resigned. It was noted, however, that while the minister in South Africa and the permanent secretary in Uganda did enjoy relatively long tenure, it is the manner in which they conducted their work that guaranteed their lengthy tenure.

2.3.2 DRIVING CHANGE. EXPERIENCES FROM SOUTH AFRICA

An interview with Trevor A Manuel

Former Minister of Finance (1996–2009)
Former Minister of Planning (2009–2014)

WATCH THE INTERVIEW ON YOUTUBE

Trevor Manuel was interviewed by Neil Cole, Executive Secretary of CABRI on 26 July 2013 in Cape Town. Minor edits have been effected for presentation in print.

Trevor Manuel: Congratulations to CABRI. It is a fundamentally important part of the arsenal of African Institutions. Keep working at it.

Neil Cole: Trevor Manuel, who served as Minister of Finance from 1996 to 2009, led a turnaround in the way that public finances were managed in South Africa. Building a strong team, providing decisive leadership, creating an inclusive process and learning along the way were key aspects of South Africa's reform steps. In an interview with CABRI, Minister Manuel shares his insights.

Building a strong team

Mr Manuel: We didn't have the ability to draw public officials in at will from the outside. Many of the people we drew in didn't have experience in public administration, but may have had some kind of policy experience. We couldn't just boot out people who were part of the old administration, so creating a stable Treasury environment and stable administrative services in that early period was particularly challenging. We drew in people with whom we'd worked in the ANC, who were outside of government, some in administration, some in places like the development banks, some in the private sector. We also drew in people from outside the country…to assist us in the process, and we were able to establish a cadre of young people who looked at life very differently.

I hoped that people who felt that they could work hard would be recognised for their hard work, allowed to articulate their views, allowed to test new ideas and ultimately be part of this great transformation of a fundamental pillar of democracy in the Treasury.

I was always humbled by the kind of people we could draw into the Treasury. At the time, the financial sector was looking for people with quantitative skills globally and paying people huge sums of money. I was always mindful of the fact that most of the smart people drawn into the Treasury could go out into the financial sector and write their own cheques at many multiples of what they were earning in the public sector, but that was a humbling experience and I think that was also the fuel that drove the kind of energy that created this wonderful *esprit de corps*.

Providing decisive leadership

Mr Manuel: At one level, you know, I saw myself as understanding some of the traditions of the ruling party, understanding the policy direction, having access and, therefore, being a conduit into decision-making, and that was a distinct role. On the other hand, I also understood that I didn't have the same skills set as the people we were drawing upon, who made up this cadre of management and, so, I think the way in which this came together was to see myself as playing a kind of catalytic role. I'd like to believe that the office enjoyed sufficient respect, but it was a respect that did not need to be manifested in top level protocols. It was interesting because I knew most of the senior management from before, and outside of the formal environment; within the formal environment, people

Regardless of how good one part of government is, if you aren't populating the rest of government with the same style and the same kind of commitment, you have uneven development.

would all be very different, they would address me as 'Minister' and also know that it was okay to be relaxed, and that was a kind of schizophrenia that worked because it created, I think, a workplace environment where we respected the professionalism and responsibilities of each other. I think it also allowed me, at one level, to be part of a team and, at another level, to be a catalyst for the team, and the more successful I could be at winning the political space for policy (and ensuring that the 'air-cover' was there from heads of state), the more successful that team would be.

Creating an inclusive process

Mr Manuel: Ultimately, you know, one of the take-outs for me from that experience would be that, regardless of how good one part of government is, if you aren't populating the rest of government with the same style and the same kind of commitment, you have uneven development, and I think this is one of the issues that we lived through. It's difficult because, you know, in a Cabinet system all ministers are equal, all director generals are equal and, I think, it's just in the nature of the beast that it would be like that, but the way in which we could then play that out was to allow for a greater sense of inclusion. Some of the policy positions and conventions we developed were focused on creating a better sense of inclusion. A few examples in this regard would be important. Firstly, we introduced a system of medium-term budget statements. So, around October, for a February budget, we would go to Parliament and announce what the trend-lines were both in aggregate and in sub-aggregate expenditures, so by a kind of functional approach to the expenditure (but also an indication of macroeconomic assumptions), taking a lot of the mystique out of budget announcements, and that worked exceedingly well both within government and with the general public. Secondly, I think that we ordered the hearings – medium-term expenditure committee hearings – at an official's level, so departments would come in and make presentations – frequently, day-long presentations – to try and distil approaches so that we could then synthesise a budget on the strength of the presentations. Thirdly, we introduced a system called the ministers' committee on the budget, about eight to ten ministers who were asked not to talk their own book, but to be part of a collective to evaluate issues. We would meet quite frequently and, also in the early period, we introduced peer reviews.

Learning by doing

Mr Manuel: One of the things I've learned about the public service is that innovation is always very difficult. Innovation anywhere introduces risk and, frequently, there isn't the concomitant remunerative benefit for taking on risk. I think this has created an environment where public services tend to be exceedingly risk averse. So what we were doing was trying to introduce too many things at the same time. We had old public servants who were fearing democracy, fearing the hue of this new government, fearing the language the people were speaking because, I suppose, we were quite reckless (we were kind of super-left at that time), all of these things happening and then only understanding a particular way of doing things, they were quite isolated from global trends, so you had that. You had, overlaid onto that, some people who could speak our language and bore their scars of detention, exile or the underground and were hip and happening, and so there were contradictions in departments. You had ministers, some of them were quite, quite ready to roll with new policies and so on, but most of us were finding our feet and so I don't think it's possible to go faster than the institutional change allows you to go. There's a balance between trying to push the boundaries and knowing that these are boundaries that can be pushed.

I think that the capacity and the capability to produce this kind of information is important, but the utilisation is something we have to continue to battle for.

With all the benefit of hindsight, we knew certain things, we had never done many of the things we thought we knew; just like we didn't understand what the contingent liabilities of the apartheid regime were, we didn't know what the capabilities of public servants were. There needed to be a lot of testing, parts of what we needed to do happened in an environment that was complex. You were saying to the Minister of Education, who was very new to his job, his teaching was new to the job, they were trying to fashion an education system with a very activist portfolio committee. One looks at the legislation, I mean in 1995 the Schools Act introduced school governing bodies for all schools. All of this was very, very early, and then you're asked to take account of systems that would allow for the implementation of ordered spending in provinces, building schools, paying teachers, getting ghosts out of the system and, perhaps, the idea of something that was as forward looking as the medium-term expenditure framework was ahead of its time. You know, being able to convene horizontally while asking colleagues to take very deep vertical action was perhaps asking for a bit too much then.

Balancing form and function

Mr Manuel: As we matured, we were also able to do some things that are exceedingly good for a system, but unfortunately aren't adequately utilised. There's a section of the Public Finance Management Act that requires executive authorities to be furnished with the actual expenditures for a month, and to sign off on those income and expenditure statements, affording ministers the opportunity to engage with the accounting officer in their department about expenditure trends, and I think that is fundamentally important because it doesn't in any way diminish the role of the accounting officer, but it certainly puts a lot of skin in the game for the executive authority. The other thing that we did was to publish, with the lag of about a month, the actual expenditures in the *Government Gazette*, empowering Parliament then to enquire into expenditure trends. It's not exceedingly difficult to do that kind of thing, but Parliament has never taken that up. So the instrument is there, the capacity to deal with it isn't there, and trying to understand how these things work would be quite important. Another measure that we introduced, and I think it's also useful, is to do annual (well, they're now bi-annual) budget 'expenditure reviews', and this is now done in alternate years for provincial governments and local governments, and produces a publication that examines trends with some retrospect and some perspective, so that you have at least a five- or six-year trend of expenditures in provinces and in local government. Again, my sense is that a lot of hard work goes into the production, but I'm never quite sure that the legislatures, be they provincial or municipal, actually have the capacity to look at this and make time to deal with it. So, these are ongoing struggles. I think that the capacity and the capability to produce this kind of information is important, but the utilisation is something we have to continue to battle for.

A square peg in a round hole

Mr Manuel: We introduced some difficulties. I'm not suggesting for a moment that the State Tender Board was perfect, and we thought that one of the things that we needed to do on a pilot basis was to allow some departments to undertake their own procurement. So, from the side of the Treasury, we would give these departments exemption from the requirements of the State Tender Board, and we weren't actually sufficiently diligent about it. Instead of piloting, everybody grabbed the opportunity, because public servants wanted to be involved in the supply-chain management issues and I think that it's actually unleashed the basic kind of human instincts. A lot of the wrong things that have happened manifested certainly in supply-chain management, but they also manifest themselves in the political process because there's the ability to extend patronage to award contracts to enrich those within your circle of influence. All of those things have happened because we didn't diligently try and deal with the orderly modernisation of supply-chain management.

A missing link

You can look at monthly or quarterly reports, you can look at the auditor-general's reports on expenditure, you can see what the financial trends are, but you can't actually see what the money buys.

Mr Manuel: I think there were parts of it that were planned – the general architecture of budget documentation, information availability and so on were part of a plan – but, at the same time, for it to operate as per design it needs a series of things which I think we still don't have, and that is the non-financial information. You can look at monthly or quarterly reports, you can look at the auditor-general's reports on expenditure, you can see what the financial trends are, but you can't actually see what the money buys. So we haven't invested in adequate systems within line-function departments, especially when one looks at concurrent departments. It would be good to see the Department of Basic Education capable of producing not only the trend line of its own expenditure, what the money bought, but to be able to do this for the nine provinces and to do this not just *ex post*, but to do it in year so that we actually can inform policy and political debates and issues. It would be amazing if we could do that.

2.4 MOVING FROM CONCEPTS TO APPLICATION

Paolo de Renzio and Florence Kuteesa

Technocrats and public officials from within the executive need to lead a process of identifying the content of reform proposals based on a clear understanding of the local context, of existing needs and gaps, and of how different reform options may help solve the specific problems identified.

Introduction

Discussions during the second day of the 9th Annual CABRI Seminar, dedicated to exploring missing links in public financial management (PFM) reforms, provided rich material and food for thought about some of the constraints that PFM reforms face on the African continent. Comparative data, historical examples, case study evidence and participant contributions highlighted a series of key drivers that seem to underlie successful PFM reforms, but also a number of challenges, which, at different stages of the reform process, affect the degree to which reforms result in PFM systems that do not just look better, but function better in managing public resources and achieving development results. This short article provides a summary of the discussions held at the seminar, pointing out some of the themes that emerged.

Key public financial management reform drivers

Four main factors were identified as driving successful reform efforts across a range of different country experiences, and in various combinations.

- *Political leadership.* Reforming PFM systems is a process that touches on vital interests and affects existing power structures. Therefore, sustained high-level political commitment to the reforms is needed throughout the reform process, from design all the way to implementation and institutionalisation. The finance minister is often a key figure in guaranteeing political leadership in PFM reforms, but he/she often needs support from more senior levels (prime minister or president), and from other ministers in important sectors where reforms will have to be implemented. In some cases, political leadership can also come in the form of demands from Parliament, ensuring that the executive is held accountable for introducing and carrying out PFM reforms.
- *Technical leadership.* Political commitment by itself is insufficient to guarantee successful PFM reforms. Technocrats and public officials from within the executive – the ministry of finance, in particular – need to lead a process of identifying the content of reform proposals based on a clear understanding of the local context, of existing needs and gaps, and of how different reform options may help solve the specific problems identified. In successful cases, they have also designed a coherent overall strategy for linking the different reform components, and have put in place adequate co-ordination mechanisms for reform implementation. These can ensure more clarity in the definition of objectives and of the roles of different actors, and facilitate ongoing monitoring and flexibility for mid-term corrections.
- *Donor influence.* In aid-dependent countries, donor agencies play an important role in supporting PFM reforms, through technical and financial assistance, and through policy dialogue. The experiences reviewed at the seminar showed that donor interventions should allow for sufficient flexibility in reform design, and should provide co-ordinated support and positive incentives to government priorities and strategies during implementation. When donors insist on external 'best practice' models that do not necessarily fit the local context, and provide fragmented assistance to various

It is necessary to recognise that PFM reforms can and should be linked to broader and parallel public sector reform initiatives and that, in fact, they are not likely to work fully without them.

reform components, their efforts can undermine rather than favour the outcomes of PFM reforms.

- *Citizen pressure.* Finally, in some cases, pressure from civil society and the media can be a useful stimulus for governments to introduce reforms that respond to societal needs and priorities. For example, public outcry over badly allocated or badly spent public resources can trigger politicians' interest in improving PFM systems to address such issues.

What are the missing links?

The above drivers were identified by participants as being important for the success of PFM reforms. At the same time, a number of challenges remain, and they are linked to a series of missing links that manifest themselves at different stages of the reform process. They include the following.

- Even before reform design takes place, PFM reforms may be hampered by the lack of a clear definition of the problem that they are meant to address, and of the reform objective. Too often, there is insufficient debate within the government – and with domestic stakeholders – about the real shortcomings and binding constraints generated by the current state of the PFM system. Externally driven assessments, such as PEFA, often take precedence over a locally driven analysis in the understanding of fundamental problems that need to be tackled and of priority areas of intervention.

- Even once key reform areas have been defined, reform design (i.e. the choice of reform options and of available solutions) is often not adapted to the local context. Reform content is often driven by international 'best practice' models (MTEF, IFMIS, etc.) and is not designed on the basis of domestic models, capacities and constraints.

- During the subsequent phase of reform adoption, the missing link comes from a lack of sufficient consultation and political buy-in. Many PFM reforms need broad ownership across government for their successful implementation. Yet, often reform needs and objectives are defined by a restricted number of actors, without adequate communication with other stakeholders and political leaders. As a result, buy-in is limited, and reform implementation and sustainability suffer.

- An important aspect of reform implementation that is often missing is putting in place adequate systems for co-ordination, monitoring and evaluation (M&E) and adaptive learning. This requires the existence of a clear and comprehensive PFM reform strategy, of mechanisms for dialogue, information-sharing and co-ordination of various reform activities, adequate feedback mechanisms to track their implementation and modify the design if need be, and specific provisions for periodic evaluations of how reforms are proceeding and the impact that they are achieving. One dimension of establishing feedback mechanisms is the recognition that planning and implementing reforms is an iterative process premised on taking risks, experimenting, learning from mistakes and adapting to changes.

- There are three more significant missing links, which are just as important during reform design as they are during reform implementation. First, PFM reforms often do not have sufficient links with other ongoing reforms. Decentralisation, public service restructuring, legal revisions and other similar reforms are heavily interconnected with aspects of PFM. It is necessary, therefore, to recognise that PFM reforms can and should be linked to broader and parallel public sector reform initiatives and that, in fact, they are not likely to work fully without them. Second, in most African countries capacity weaknesses, particularly with regard to human resources, need to be addressed at different stages of the reform process, in order to increase the likelihood of success. The necessary capacities are not just about implementing new and different systems, but are also about designing reforms that are relevant to the local context, assessing different options and adapting them to fit local realities. Third, during both reform design and implementation the inclusion of sectors and local governments is key to ensuring that implementing institutions are brought and kept on board.

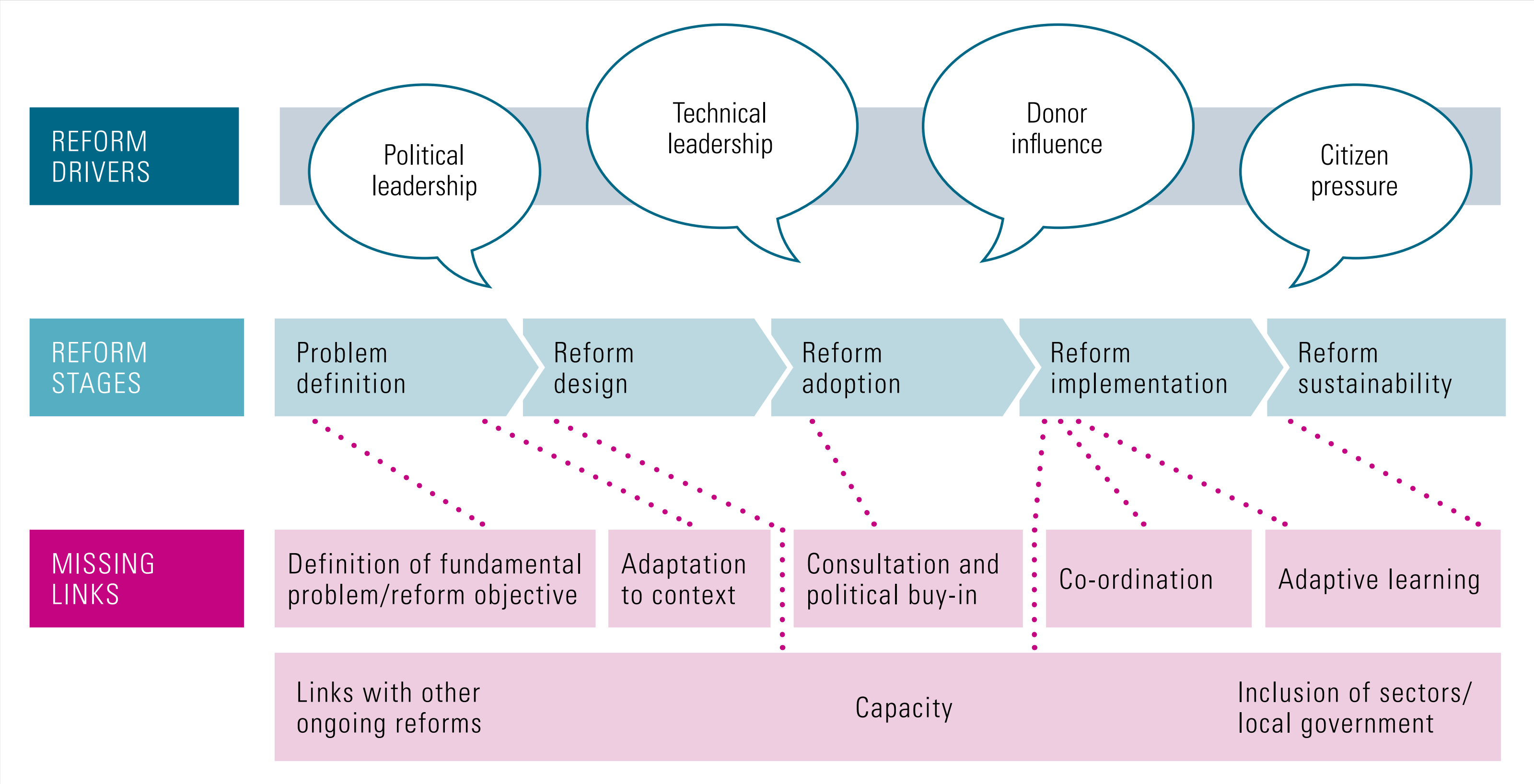
Figure 2.4.1 provides a visual summary of the points made above.

Looking forward

Discussions at the seminar provided a rich and insightful overview of some of the issues and challenges related to PFM reform efforts across Africa. The identification of both reform drivers and missing links points to some important lessons that should be kept in mind looking forward and thinking about a different approach to PFM reforms.

- Not all PFM reforms will be possible and will make sense all of the time. In countries where the perceived political need for PFM reforms is limited, and where existing technical capacity is weak, little may be feasible in terms of promoting and supporting reforms, at least in the short term.
- Investment in capacity-building, both within and outside government, should always be seen as a good strategy, even if not immediately coupled with broader institutional reforms. Improving capacities may in fact create the conditions for future increased support of PFM reforms.
- The way in which PFM reforms have been conceived and designed in the past is probably one of the areas where most improvements can be made. Governments should insist on taking the time to promote domestic debate on reform needs and priorities, in weighing different reform options and in fitting solutions to the local context. Donors should be more careful in their promotion of international 'best practice' models, and should provide space for domestic stakeholders to define a locally owned reform agenda.
- Finance ministries are the obvious leaders when it comes to PFM reforms. However, their leadership role should be based on strong co-ordination mechanisms that take into account the role of other important actors in PFM reforms, such as sector ministries and local governments, and the necessary linkages with other ongoing reforms. Without such co-ordination, PFM reform efforts are not very likely to succeed.

Figure 2.4.1 Summary of discussions on 'missing links in PFM reforms'



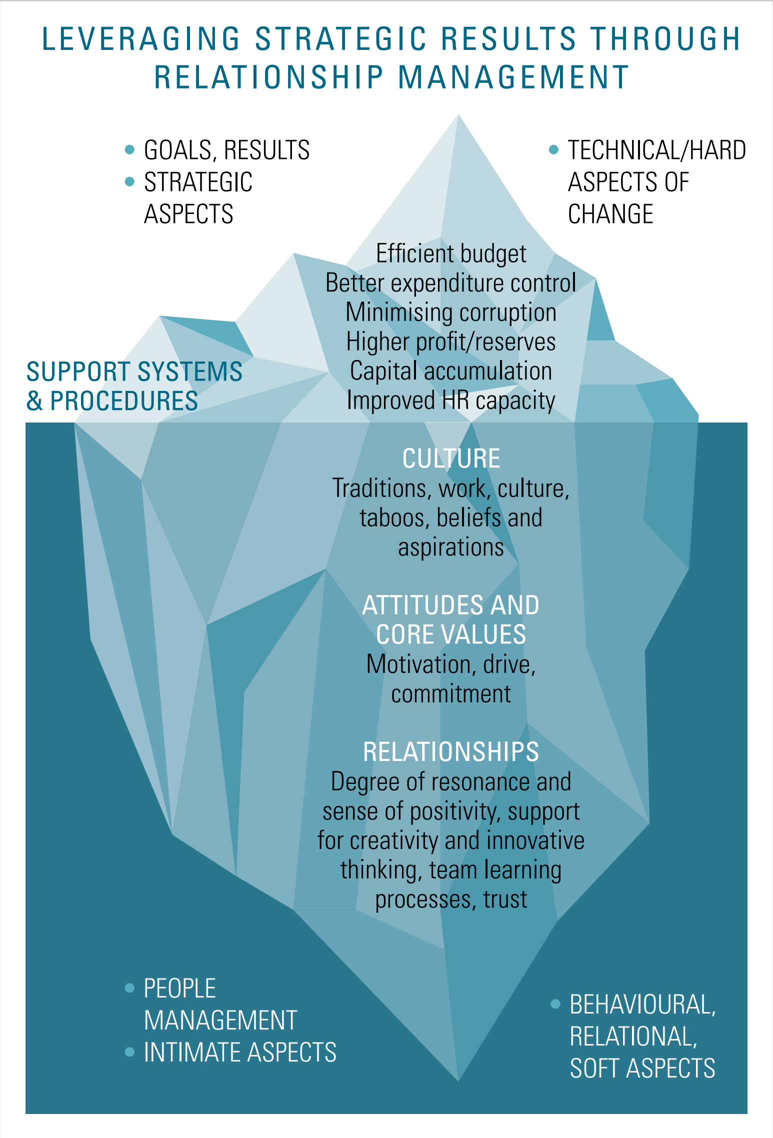
Section C

IMPLEMENTING CHANGE PROCESSES

3.1 MANAGING PEOPLE THROUGH CHANGE

John Nkum and Nicole Botha

Figure 3.1.1 **The iceberg model**



Introduction

Budget officials in many African countries have been through numerous waves of PFM reforms. Each wave has brought a change in the way officials have to carry out their work and engage with their colleagues across government, albeit, for example, by taking a medium-term perspective on the resource framework and spending decisions, moving from a line-item to a programmatic focus, using sophisticated computer programmes to manage information, making more detailed budget information publically available or integrating budgeting for recurrent and capital expenditure.

Such changes have required officials to develop or buy in to a new approach and learn new techniques, with the intention of improving the way the budget system functions. One aspect of change, however, has not received the same attention as these technical aspects, and that is the way people are managed. People management greatly influences the success or failure of reform. It is for this reason that CABRI focussed its attention on 'managing people through change'.

The three main objectives of this master class were to enable the participants to:

- appreciate the significance of 'people management' as a missing link in PFM reforms;
- deepen their insight and learn new tools for managing people through change processes; and
- share their success stories and challenging experiences in managing people during the PFM reform processes in their respective countries or ministries.

The class comprised presentations on theories of change and managing people, narrative sessions in which participants shared their personal experiences of people management and categorised the key issues, and group work on finding tools and workable solutions. This article covers the material presented in the class and some of the issues and examples that emerged.

People management as a missing link

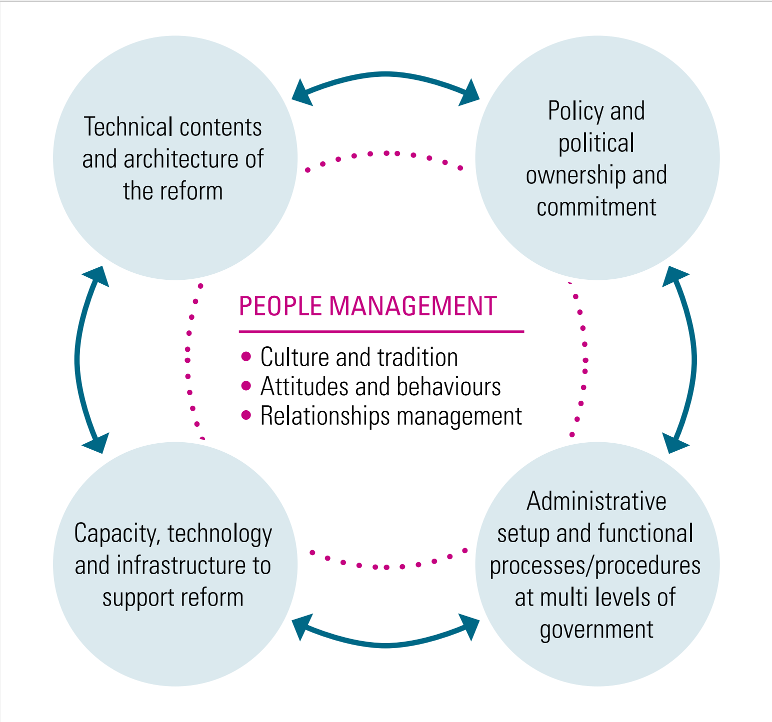
Many PFM reform programmes focus resources and effort on the systems and procedures that are needed to meet the goals of more efficient budgets, better expenditure outcomes and minimal or no mismanagement of public funds. With the structure of an iceberg in mind, the formal parts of a PFM reform process, such as the strategy, goals, systems and procedures, sit above the waterline (see Figure 3.1.1). This part of the process is tangible, measureable and easier to control and manage.

Much more of what is required to sustain change is intangible and lies below the waterline. This has to do with people and how they function. Much less time and energy is spent on supporting the individuals who need to promote and/or implement the systems and procedures, and on the relationships they develop in getting the work done. Three main people-centred issues are considered here: culture and traditions, attitudes and behaviour, and relationship management.

By considering only the formal aspects of PFM reform, change is unlikely to be effected. Greater attention needs to be paid to the individuals and teams that are required to drive and implement the reforms. The reform process is likely to have a more profound impact if softer issues such as values, mind-sets and capabilities are explicitly and strategically taken into account.

A proactive and systemic approach to dealing with change within a reform process, therefore, includes at least three different aspects: adapting to change, controlling change and effecting change, while taking the organisational and individual key issues of culture and traditions, attitudes and behaviour, and relationship management into account. A holistic approach to the design of a PFM reform process puts the management of the people who are affected by the reform at the centre, as can be seen in Figure 3.1.2. This creates increased ownership and buy-in (in the finance ministry, itself, in sector ministries or in Parliament). To that extent, managing people is a means of leveraging strategic results.

Figure 3.1.2 People management as a missing link in reform

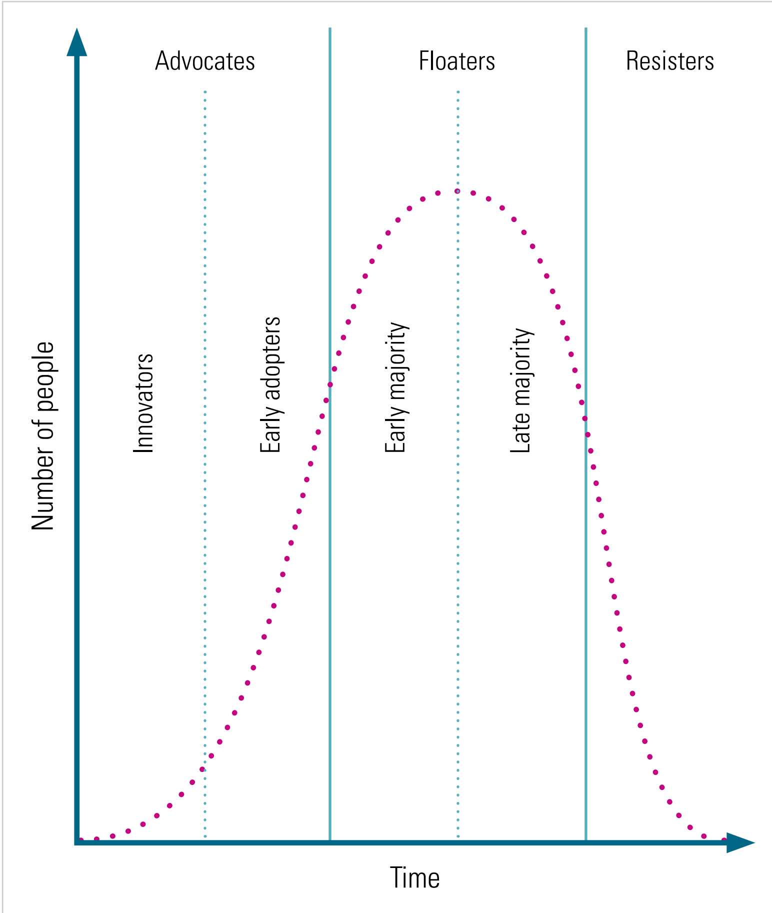


Outcomes of the narrative sessions

The main outcomes of the narrative sessions were the insights the participants gained when they shared their personal experiences of people management in reform processes. They appreciated the different kinds and depths of interest, commitment, reaction and ownership that different stakeholders exhibit in the reform process at the national and sub-national levels. They understood that the challenges arising from managing people in the reform process stem from a failure to address the different motivations and interests that drive different stakeholders, such as ministers, donors and consultants, who, at times, initiate and push for reforms, as compared to senior budget officials (SBOs) and other civil servants in the finance ministry, where the PFM reforms are usually located. These interests, motivations and reactions also differ from those of stakeholders in sector ministries, departments and agencies, and sub-national structures.

A useful approach of change-leaders to these diverse stakeholders is to appreciate their different roles within the reform process and to categorise them as innovators, early adopters, early majority, late majority and resisters, and to deploy different strategies and tools for managing them. An appreciation of this approach comes into play when looking at the role of resisters, whose contribution can indeed be necessary for the quality of the reform processes. Resistance can function as a 'quality check' on the design and the content of a reform process.

Figure 3.1.3 People and change



A culture that openly defines roles and performance targets but leaves space for consultation and experimentation, measures and rewards success, and shares success and failure as learning processes is more likely to promote reform.

Some of the fundamental issues that energised the class during the narrative sessions may be summarised as follows:

- Who chooses the change leaders? In many PFM reform processes, the staff chosen to implement the reform in the finance ministry and other ministries, departments and agencies are not selected by those who lead the reform; yet, such staff are very often chosen as the change leaders. That makes managing them even more challenging.
- How is dishonesty and a preoccupation with personal benefit from the reform process dealt with? The way around this is to use clear and transparent rewards and sanctions based on an open performance appraisal as the control system in driving the reform agenda.
- What is a good leadership style for driving the reform: pushing through to succeed versus taking everybody on board but missing deadlines? The participants learnt that what appears to be a loss of time and momentum at the beginning to get more people on board actually becomes a gain in speed and sustainability when people really own and drive the reforms themselves.
- How are resisters – people who have their feet on the brakes – dealt with? The way forward is to acknowledge that resistance is really a positive energy that can be harnessed to ensure excellence and sustainability. Resisters enable the innovators to ensure that the reforms are appropriate to the context.

Insights from narrative sessions on culture and traditions

The participants shared their experiences of the dimensions of culture and tradition as promoters or inhibiters in the reform process. The main insights were that the civil service culture tends to be directive and not consultative, focusing on getting the job done within a limited time frame and driven by hierarchy and a strict command-and-obey structure. The culture does not always match efforts with rewards, and allows very limited room for experimentation and mistakes, with a focus on honouring long-serving individuals rather than youthful and creative thinkers, who may, for example, be more technology-savvy. Within this culture, reforms as a process of experimentation, learning and consolidation of innovation face serious institutional challenges.

The way forward is to accompany the reform process with culture change processes that focus on shifting the mind-sets of leaders and senior executives in the public sector towards being more consultative, taking on board suggestions from the bottom up, and receiving feedback from other units within the finance ministry and other ministries, departments and agencies. A culture that openly defines roles and performance targets but leaves space for consultation and experimentation, measures and rewards success, and shares success and failure as learning processes is more likely to promote reform. In the public sector, this may be possible if the early stages of reform are handled as pilots, accompanied by administrative and technical mechanisms (including commensurate rewards and capacity training) that are deliberately developed to support the rolling out and scaling up of reform success in all relevant institutions at the national and sub-national levels.

Insights from narrative sessions on attitudes and behaviours

The discussions on attitudes and behaviours that promote reform in the public sector concluded that more people invest deeply in the reform agenda when the leaders of change engender trust and respect through generative listening and the provision of space for mutual learning.

The main causes of negative attitudes in public sector reforms are the fear of losing honour, status and recognition, and concern about having to do extra work without clearly identifiable rewards.

On the contrary, when the leaders of a reform process seek to recognise the results more than the people, use monetary incentives as conditionality, and create an attitude of honour towards those who succeed and shame towards those who are not so fast, the reform agenda can be jeopardised or, at best, slowed down. An attitude of positivity and support tends to generate more followers for the reform process than one of judgement and condemnation. In real terms, successful public sector reforms require attitudes that offer room to slow learners, and an appreciation of the extra efforts that accompany all reforms.

The discussions also concluded that the main causes of negative attitudes in public sector reforms are the fear of losing honour, status and recognition, and concern about having to do extra work without clearly identifiable rewards. This is especially so when civil servants perceive external consultants as being paid better and receiving higher honour than they and their colleagues who have to implement the difficult changes being proposed. A way to alter this attitude is for the leaders of the change process to make transparent and visible the reasons for, and the benefits that arise from, the change for the different categories of stakeholder, and to also create an atmosphere of support and honour.

Insights from narrative sessions on relationship management

The key insights from the sharing of narratives on relationship management included recognition that the leaders who drive PFM reforms need to cultivate positive, functional relationships with their most critical collaborators. This calls for two things. The first is a stakeholder analysis that provides insights into which structures and persons or officers are the most critical collaborators/allies in the different aspects of the reform process. The analysis should address what is needed to ensure full ownership and participation from these critical allies. The second is to align strategically with these actors/stakeholders in ways that make them co-own and commit to the reform process.

Another dimension of relationship management that the participants raised was the way donors and consultants distance themselves from the national civil service personnel during PFM reform processes through their arrogance and judgmental behaviour. The differences in orientation and knowledge must be harnessed into a relationship that fosters learning and sharing among adults. Simply put, if adult learning and experiential learning approaches are deployed, a mutually beneficial learning and sharing relationship can be established in support of the reform process.

Finally, the participants underscored the need for leaders of the reform process to apply people-centred management approaches that enable them to know their team members in ways that promote self-motivation and resonance (a store of positivity that brings out the best in people).

Tools for managing people in public financial management reforms

Tools for managing traditions and culture

The participants were supported in identifying a number of tools and approaches for addressing the challenges of PFM reform. Broadly speaking, the consensus was that PFM reforms are more successful in organisations with cultures that balance – hierarchy and consultation; nurturing and demand for results; rewards for individual as well as team results; performance/delivery; and learning/innovation – and which enable staff members to open up, talk about their issues, give feedback from below, innovate and share experiences. To create such a culture, regular team-building, training/capacity-building, joint progress reviews anchored in joint learning, and the regular celebration of gains/achievements are required. In addition, those who lead reforms in organisations must demonstrate these features of the supportive culture through real-time examples. The guiding principle here is that 'people are what they know'. Thus, the organisation must demonstrate the value it places on consultative decision-making, innovative thinking and organisational learning through joint reviews and celebrations of success.

Managing the technical and administrative aspects of the PFM reform process is easier than the people management aspect, partly because the range of soft skills required for communicating and engendering joint ownership and participation in the reform process is not always available to the leaders who drive the reforms.

Tools for managing attitudes and behaviours

Primarily, the tools for generating positive and supportive attitudes and behaviours during PFM reform processes centre on recognising and honouring the different contributions made by various stakeholders to the change process. This calls for regular information-sharing and motivation or encouragement, supported by the use of visible rewards and sanctions that create a sense of ownership, responsibility and honour among the personnel involved in the change process.

Tools for managing relationships that enhance public financial management reforms

The participants identified the relationship management approach that balances formal/official relationship with informal/social contacts as being very effective in creating ownership and motivation among teams that are implementing reforms. When the leaders driving the change process are able to create a sense of collegiality and a relationship of trust anchored in honouring efficiency and responsibility, the change team tends to become more committed and result-oriented.

These are some of the main tools and approaches agreed on in the master class. Moreover, the participants learnt that managing the technical and administrative aspects of the PFM reform process is easier than the people management aspect, partly because the range of soft skills required for communicating and engendering joint ownership and participation in the reform process is not always available to the leaders (civil servants and politicians) who drive the reforms. Another reason why the people management aspect of reforms remains a more difficult challenge is that the additional workload which usually accompanies a reform process is not matched by commensurate remuneration, incentives and motivation from those who are responsible for introducing and driving the change. In cases where financial incentives are used to motivate people to own/drive the reforms, the financial package tends to be unsustainable in the long term, thereby putting the ownership and sustainability of the reforms in doubt.

Conclusion

The master class on 'Managing People Through Change' generated awareness around the significance of the 'people management' aspect of PFM reforms, and how this aspect is often missing in reform processes. The class also enabled the participants to share their experiences and learn from each other about people management. The structured discussions on the three key aspects of people management served to highlight the need for a repertoire of skills and tools when managing people through reforms.

The main learning that took place in the master class is represented in the following paraphrased statement of one of the participants:

> *We have initiated PFM reforms and seem to be facing a lot of challenges in implementing them. From this class, I now know that the main problem is the people management aspect of the reform, which we have failed to address. I am going back to make my leaders aware of this omission in our reform process.*

3.2 DECONSTRUCTING PROBLEMS AND ITERATIVE IMPLEMENTATION

Jitendra Hargovan

Box 3.2.1: Four core principles of problem-driven iterative adaptation

Principle 1: PDIA focuses on solving locally nominated and defined problems in performance (as opposed to transplanting preconceived and packaged 'best practice' solutions).

Principle 2: It seeks to create an authorising environment for decision-making that encourages positive deviance and experimentation (as opposed to designing projects and programmes and then requiring agents to implement them exactly as designed).

Principle 3: It embeds this experimentation in tight feedback loops that facilitate rapid experiential learning (as opposed to enduring long lag times in learning from *ex post* evaluation).

Principle 4: It actively engages broad sets of agents to ensure that reforms are viable, legitimate, relevant and supportable (as opposed to a narrow set of external experts promoting the top-down diffusion of innovation).

Source: From Andrews et al. (2012)

Introduction

The master class on 'Deconstructing Problems and Iterative Implementation' introduced participants to some of the work done by the Building State Capability team at the Harvard Kennedy School on problem-driven iterative adaptation (PDIA). PDIA builds on recent arguments articulated by some academics, practitioners and CABRI on pragmatic thinking about how to improve state capability.

In the context of public financial management (PFM) reforms, CABRI has advocated for context-specific home-grown solutions. PDIA takes this a step further, positing that an important step in developing such solutions is to have a good understanding of the problem. The first principle of the PDIA approach emphasises locally identified, deconstructed and specified problems, in order to arrive at solutions that are appropriate and workable (see Box 1). The third principle embeds opportunities for experimentation and learning from the implementation of solutions. This learning feeds back into better understanding of the problems and refining the solutions.

The master class examined why deconstructing problems is important, as well as concepts and tools that can be used to analyse and break down problems and approaches, in order to develop possible solutions. The class included discussion on the need for an iterative approach to implementation that allows for learning and feedback. This article covers the material presented in the class and some of the issues and examples that emerged.

The importance of deconstructing problems

Andrews (2014) presents the importance of deconstructing problems as follows. Interrogating a problem and understanding exactly what it is generates a problem statement. The formulation of a constructive problem statement provides the basis for working out an appropriate solution. By identifying and specifying the problem, you direct attention at where change is needed. Problem statements help to mobilise agents behind that change. Problem statements also foster research for solutions to the problem, not just any old solution.

The master class started with the budget officials being presented with a 'simple problem'. When asked to solve the problem, participants were eager to define solutions. Often, a problem was presented as a lack of its solution and, therefore, there was only one solution; for example, 'the problem is that we don't have programme budgeting', which implies that 'the solution is to have programme budgeting'. Accordingly, the first lesson of the master class was to ask questions that matter, to understand the causes of a problem, before attempting to define solutions. Andrews, Pritchett & Woolcock (2012) argue that efforts to build state capability should begin by asking 'What is the problem?' instead of 'Which solution should we adopt?'.

Directing the approach away from developing solutions to analysing problems enables role-players to begin focusing on the need to solve the real problems, through which they come up with solutions that work. Problem solving, as an approach, requires engagement to reach consensus on the detailed definition of the problem. A critical aspect of problem-solving is to steer away from the symptoms of the problem and to focus on the causes, the root causes, in particular. By doing so, you are more likely to examine the functional challenge than to focus on the lack of a particular form.

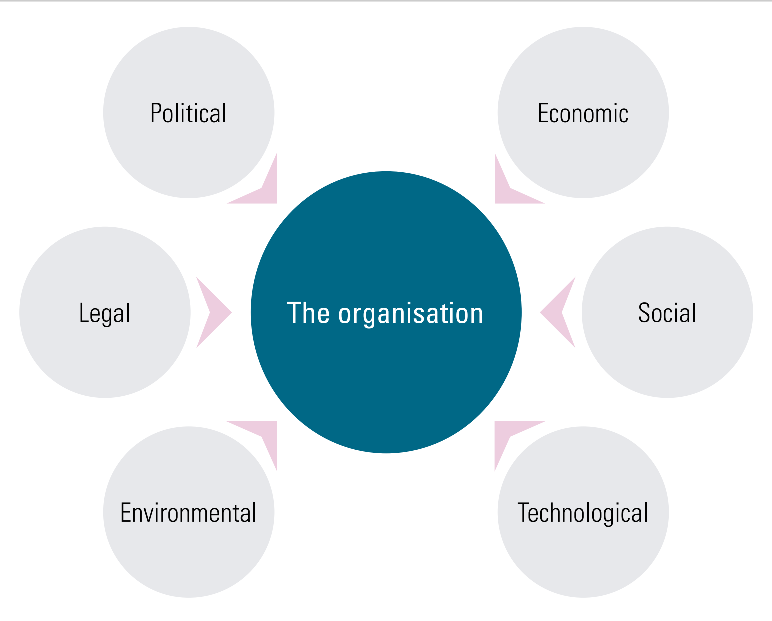
A number of tools can be used to deconstruct problems. This article takes the reader through three: PESTEL analysis, the '5-whys' technique, and fishbone analysis (or Ishikawa diagrams).

Problem analysis tools

PESTEL analysis

In order to understand the root cause of a problem, it is important to get a better view of the situation. One approach is to understand the influence of the environment on the organisation or the problem. A tool that can be used to understand the environment is PESTEL analysis, which examines the political, economic, social, technological, environmental and legal macro-environmental factors that need to be taken into account in problem analysis. This type of analysis is represented graphically in Figure 3.2.1.

Figure 3.2.1 PESTEL diagram

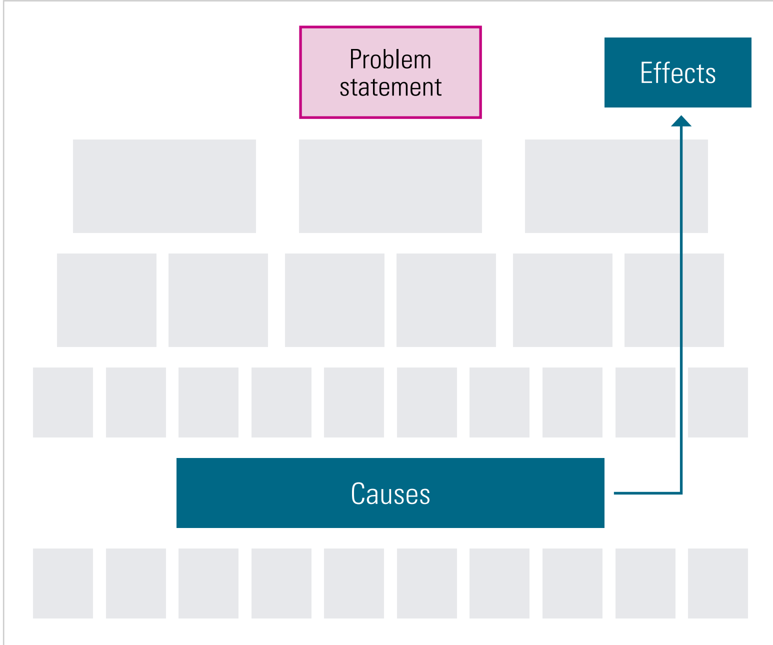


The analysis is limited to the views and perspectives of the role-players conducting the PESTEL analysis. It is important to note that this may need to be supplemented by empirical/evidence-based research, as well as the knowledge and points of views of other selected stakeholders.

The '5-whys' technique

To further understand the problem, role-players can set up a 'problem tree' that validates the analysis. This analysis is based on deconstructing the problem by using the '5-why' technique, which is an iterative question-answer technique used to separate the symptoms from the cause of the problem. A problem tree structure is illustrated in Figure 3.2.2.

Figure 3.2.2 Problem tree analysis



The first step in the process is to discuss and agree on the problem to be addressed – the problem statement. Role-players need not be concerned if the problem statement is broad, as the analysis will break it down further. The next step is to identify the cause of the problem by asking why the problem exists. This will give the role-players the initial causes of the problem. Repeat the steps by asking 'why' at least five times to arrive at the root cause

This approach also has the advantage of building a shared understanding of the problem and a sense of purpose to address the causes rather than the symptoms of the problem.

of the problem. This approach also has the advantage of building a shared understanding of the problem and a sense of purpose to address the causes rather than the symptoms of the problem. The lower one goes down the problem tree, the closer one gets to the root cause. The problem tree will reveal multiple branches (cause-and-effect relationships) leading to the core problem. This allows role-players to focus on addressing the root cause and to also identify elements that may be beyond their control (e.g. the regulatory or economic environment). This assists in the development of further options for possible solutions.

Below are two examples of how the 5-whys technique is used to identify the root cause of a problem.

Example 1

- The ambulance did not arrive for an hour after the medical emergency was reported. *Why?*
- There were only two ambulances working in that region on that day. But the region has six ambulances. *Why* were only two in operation?
- There was only fuel to fill two ambulances per week. *Why?*
- The fuel budget was close to running out, with two months of the fiscal year left. *Why?*
- The price of fuel had increased, and this price increase was not budgeted for. *Why?*

In this case, routine price hikes were not taken into account during the budget planning and allocation process, resulting in a serious under-delivery of a vital public service. The 5-why technique can also be applied to get to the real problem that matters, as demonstrated in Example 2 (see Andrews et al. 2012).

Example 2

- We get a 'D' on the PEFA procurement indicator because we do not have a law requiring competitive bidding across government. *Why* does this matter?
- Without this law there is an incentive not to use competitive bidding in procurement deals. *Why* does this matter?
- Without this incentive, most procurement deals are currently done through sole-source methods. *Why* does this matter?
- Sole source methods can increase corruption and lead to higher procurement costs and lower quality? *Why* does this matter?
- We have evidence that many procurement deals have been overly costly and goods are poorly provided. *Why* does this matter?

High cost, low quality procurement is undermining the provision of key services across government.

In this case the challenge is not to adopt a new law but to improve the cost and quality of procurement, which is unlikely to be addressed by introducing competitive bidding.

Fishbone analysis (Ishikawa diagrams)

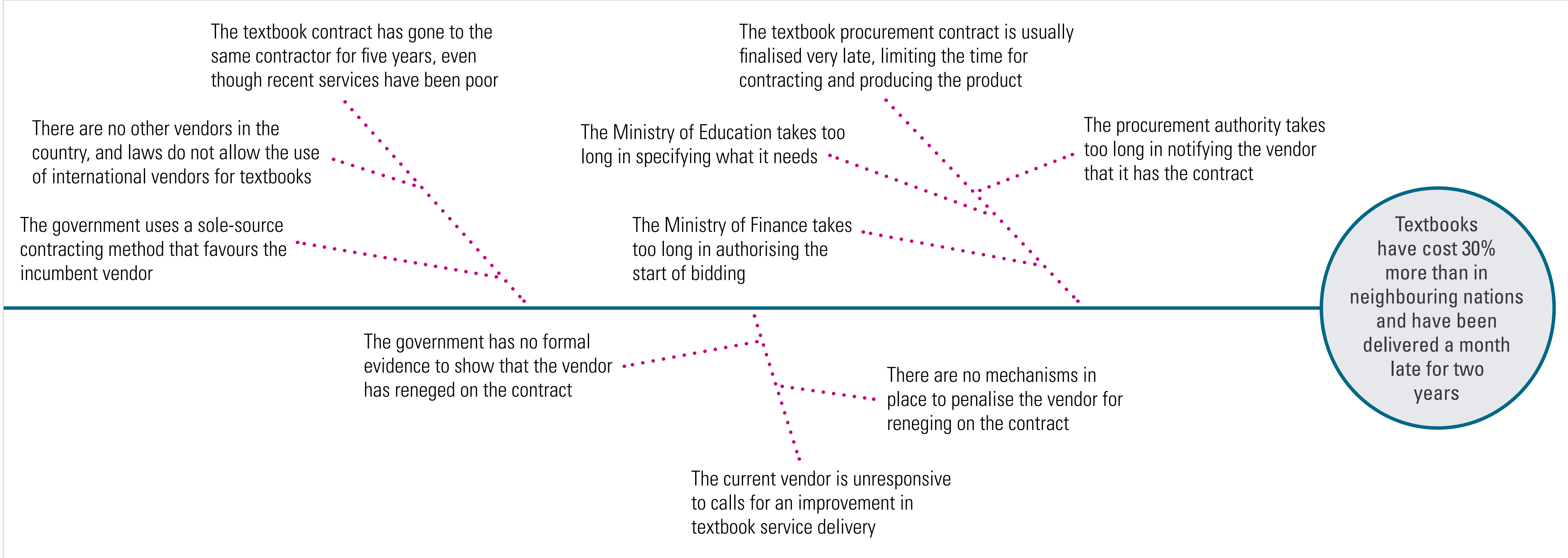
Fishbone analyses (or Ishikawa diagrams) seek to identify variables in a model – this may be a problem, a need or an opportunity. The method also recognises that problems can have multiple causes. Andrews et al. (2012) take the procurement problem described in Example 2 and frame it in the context of a textbook crisis, as presented in Figure 3.2.3. The three major branches illustrated reflect problems with the contracting process, the contracting law and the vendor. The issue of sole-source contracting is one of the many issues raised. This exercise demonstrates that there are many potential causes and sub-causes and, therefore, more than one potential entry point to start addressing the problem. Each agent involved in deconstructing the problem will bring a different perspective. It is important to ask questions in a way that they have not been asked before, and to bring together people who have not shared perspectives before. Such a process enriches our understanding of the problem.

In both the '5-why' technique and fishbone analysis, the aim is to get role-players to work through the complexity of problems in order to find entry points and solutions.

Options analysis

Having completed a detailed analysis of the problem, it is important to consider practical, relevant and viable solutions to address the problem. The tools presented above provide

Figure 3.2.3 **Textbook crisis – breaking problems down so that they drive solutions**



Source: From Andrews et al. (2012)

The broader the range of agents/stakeholders involved, the more likely you are to arrive at entry-points and solutions that are viable, legitimate and relevant.

a 'cluster' around which solutions can be developed. The methodology also identifies possible areas that are beyond the control of the role-players. In order to address the problem, the role-players need to generate an array of possible solutions/options.

Considerations in developing options include:

- examination of various scenarios based on resource constraints;
- examination of directives, regulations or precedents related to the problem;
- evaluation of research on what has and has not worked in the past or elsewhere; and
- assessment of solutions through engagement with identified stakeholders or focus groups.

While taking no action is also an option, this is not advocated as a viable solution. Many criteria for options analysis can be developed, depending on the problem. The criteria proposed and discussed in the master class are presented below. Most of these criteria point towards the feasibility of the solution (i.e. the likelihood of the solution being adopted and implemented).

- *Timing*. Is this something that you are able to implement quite quickly?
- *Political buy-in.* Is there political support for this option?
- *Preparation.* If this is a medium-term to longer-term option, what do you need to put in place?
- *Resources and capacity.* Do you have the resources and implementation capacity for this option –money, people, technology?
- *Technology.* Are you making the best use of available technology?
- *Risks.* What are the risks involved?
- *Effectiveness.* Are there cost savings and other associated benefits involved?
- *Result.* What is the scale of impact on your end goal?
- *Accountability/governance.* Will the proposed solution facilitate improved accountability or governance?

The criteria are used to select the best possible solution for implementation. The solution chosen should address the problem and ideally be focussed on improving functionality, in order to achieve the end goal. The broader the range of agents/stakeholders involved, the more likely you are to arrive at entry-points and solutions that are viable, legitimate and relevant.

Implementation approaches

As stated above, taking no action is an option, but not one that will generate a solution. This is contrary to the spirit of iterative implementation. The first key implementation approach recommended is to 'take action'. Even if the action is a small step, it is important that role-players do something. The intervention may be minor, but it must focus on the root cause. In order to do this, the role-players need to address the assumptions built into the analysis (i.e. the assumptions need to hold true for programme/project success).

It is also important that in the process of implementation an enabling environment is created that engenders iterative implementation. This is done through empowering the front-line staff, delegating to the appropriate levels and incentivising the organisation towards high performance. Iteration implies that learning takes place through experimenting with different ideas and approaches. This learning may require you to adapt your approach so that you have a more positive outcome (refer to Box 3.2.1, principle 3, above). Together, this creates the enabling environment that encourages staff to take risks and participate in the change process. It is important to build an alliance of positive change agents/movers.

Conclusion

It is must be noted that the above approaches are the first steps in problem solving in a complex environment.

The following are six take-away lessons from this master class.

1. focus on the need to solve problems (not define solutions);
2. ask why (at least five times);
3. look for the root cause of the problem;
4. there could be a cluster of solutions;
5. carefully consider all options; and
6. find new solutions through intervention, experimentation, learning and adaptation.

In line with the PDIA approach, the options and solutions selected should be based on locally identified, deconstructed and specified problems, so that they are appropriate and workable in the local context.

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3.3 COMMUNICATING THE MESSAGE

Katrin Nesemann and Neil Cole

Box 3.3.1: The six components of a communication system

The six components, and their public-speaking analogs, of a communication system are:

Sender	Speaker
Channels	Senses (speech, hearing, seeing, etc.)
Message	Speaker's topic
Receiver	Listener/audience
Noise	Internal and external factors that affect message reception by audience (e.g. daydreaming, traffic noise)
Feedback	Audience reaction

Of the six components, the speaker has immediate control over only three: self, the methods of communication chosen (visual, auditory, etc.) and the message itself. The speaker can influence, but not control, the last three components: the audience, distractions and audience response. It is the speaker's role to focus attention on the audience to enhance the probability of the receipt of the message. This is done by selecting the type of communication pertinent to the message, establishing a point of view and communicating its meaning to the audience.

Source: From Hamm (2006)

Introduction

Effective communication is a fundamental aspect of a successful reform process. The purpose of the reform, the way in which it will be carried out, how different stakeholders will engage with and support the process, providing certainty, alleviating fears and easing resistance all require open and effective channels of communication between those involved in and affected by the reforms.

Senior budget officials (SBOs) often use PowerPoint presentations as a tool to communicate messages to their seniors, peers and colleagues across government. At the 9th Annual CABRI Seminar, this master class shared useful techniques for communicating messages in a powerful and engaging manner in order to influence the audience. The class examined why effective communication is important, some common communication challenges, the nature and principles of communication and how to communicate well using PowerPoint presentations. This article covers the material presented during the class and some of the issues and examples that emerged.

Why is effective communication important?

Creating change, influencing ideas and changing perceptions are important parts of a reform process. Interpersonal communication allows us to persuade and influence others. We use communication tools to shift an audience's perceptions from disinterest to interest, from confusion to clarity and from resistance to engagement. A presentation involves motivating listeners to accept a new idea, to alter an existing opinion or to act on a given premise (Rafe 1990).

Common communication challenges

The master class began with real examples of the various communications challenges faced by SBOs.

- *Zimbabwe.* Should the country declare itself a highly indebted poor country (HIPC)? From a finance perspective, this would tackle the debt problem. From a foreign affairs perspective, this would taint the image of the country. How do we clearly communicate our messages and move forward as a country?
- *Kenya, Chad and Niger.* How do we communicate technical messages on public financial management (PFM) to a non-technical audience (e.g. the citizenry)?
- *Democratic Republic of Congo.* How do we convince line ministries to systematically provide information on aid to finance ministries and not see it as an attempt by Finance to 'check' the line ministries?
- *South Africa.* Could the failure of the line ministries to implement policies effectively perhaps point to a miscommunication between Finance and the departments?
- *Côte d'Ivoire.* How can we minimise the disconnect between technical and political heads?
- *Burkina Faso.* How do you communicate change without annoying those resistant to change?

These examples illustrate some common communication challenges in the workplace. They reflect issues like conflicts of interest, fear of change and differences of language and understanding (i.e. technical versus political). In addition, they may include all the interpersonal communication challenges that we face in any human interaction, such as distrust, different world-views, emotional conflict, cultural differences, feelings of fear and insecurity.

The nature of communication

Communicating with others involves the following three primary steps:

- *Thought*. First, information exists in the mind of the sender. This can be a concept, idea, information or feeling.
- *Encoding*. Next, a message is sent to a receiver in words or other symbols.
- *Decoding*. Lastly, the receiver translates the words or symbols into a concept or information that a person can understand.

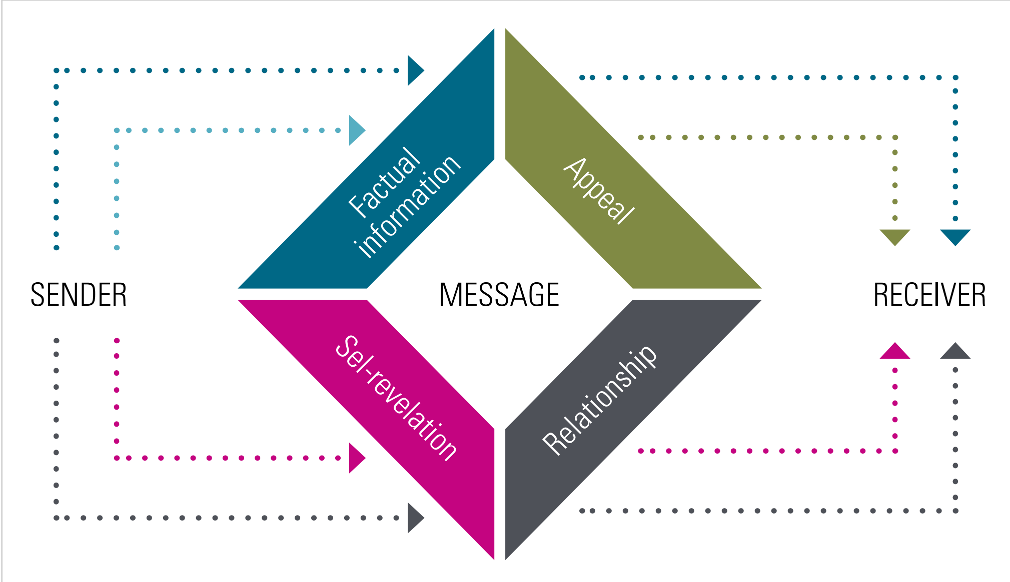
It sounds simple but it is not, because no two humans are alike.

To examine this further, the class looked at a communications theory – the German psychologist Friedemann Schulz von Thun's four-sides model. According to this theory, 'every message has four messages'; in other words, every message reveals information about the sender (speaker) and about the receiver (listener/audience) on four levels:

- *The factual level.* The sender presents data, facts and statements. The receiver assesses whether the facts fulfil the criteria of truth, relevance and completeness.
- *The self-revelation level.* The sender consciously and subconsciously reveals information about himself in terms of feelings, perceptions and world-views. The receiver perceives this information, including that which is hidden in the message.
- *The relationship level.* The sender expresses how well he gets on with the receiver and what he thinks about him through his communication style. The receiver responds to this expression.
- *The appeal level.* The sender presents what he wants to achieve, which can be open and/or hidden. The receiver responds to this appeal ('What should I do, think or feel now?').

Think about your relationship, their roles, needs, wants, interests, fears and hopes, and identify common ground. Then build your message or presentation on this common ground.

Figure 3.3.1 The four-sides model



Box 3.3.2: Class exercise on the four-sides model

An SBO motivates the need to increase spending in the education sector at the expense of spending in other sectors. Below are the different levels at which the message is sent and received.

From the sender's point of view

Factual layer: 'We need to reduce expenditure in certain sectors to be able to invest more in education.'
Self-revealing layer: 'I am seriously concerned about our expenditure planning, and a very strong believer in education. It bothers me that we are making the wrong investments.'
Relationship layer: 'I don't really know you, and I am not sure you agree with me. So I have to pledge my case very carefully and formally.'
Appeal layer: 'I want you to take this seriously in order for us to deal with this big concern that I have.'

From the receiver's point of view

Factual layer: 'We need to reduce expenditure in certain sectors to be able to invest more in education.'
Self-revealing layer: 'You think we are making the wrong investments.'/'You are really committed to your job and have invested a lot of time to think this through.'
Relationship layer: 'You are criticising my administration. You are not loyal.'/'You obviously think I can help you.'
Appeal layer: 'I will not let you make me feel stupid to make yourself feel better.'/'I could assist you in dealing with this big concern that you have.'

The exercise demonstrated that we are always communicating four things and not just one. When preparing to communicate, it is useful to consider and reflect on our relationship with the receiver, our own world-view and mission (self-revelation) and the appeal that we would consciously like to send.

Furthermore, in order to be effective, the message needs to resonate with the receiver not the sender (the fish has to like the bait, not the fisherman).

Principles of effective communication

There are three basic principles that lead to effective communication.

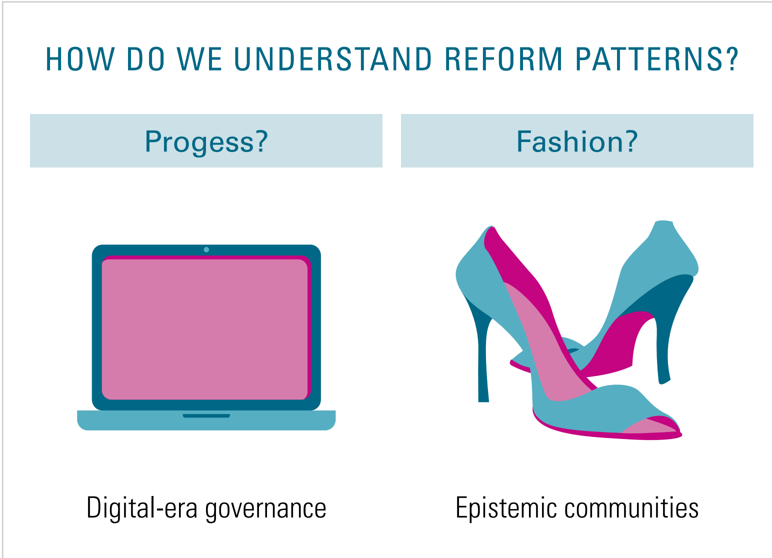
1. *Know who you are and what you want to achieve. What is your mission?* This helps you focus your message/presentation on the factual level and on the self-revelation level.

2. *Know what your audience wants. The audience is the hero, not you!* After all, it is they who you want to act upon your presentation or statement. Think about your relationship, their roles, needs, wants, interests, fears and hopes, and identify common ground. Then build your message or presentation on this common ground.

3. *Tell the story. Paint the big picture.* What is the issue I am addressing? Why is this important? Then take your audience on a journey from the common ground and familiar things to the new and unfamiliar. Make sure you do not lose them on the way by focusing on your mission and organising your arguments in a structured way. Also think about the style. What kind of 'wrapping' of the message will be most likely to resonate with your audience? It can be very effective to use metaphors, examples from your personal experience that you know the audience will understand, to 'paint pictures' with words or to even use real visual illustrations. For example, the slide in Figure 3.3.2 includes a picture of high heels to represent reforms that are fashionable but not necessarily appropriate or practical.

Bear in mind that the upper limit of the human memory is to hold four things in mind. You should not overload your

Figure 3.3.2 Use of visuals in a PowerPoint presentation



Source: From Krause (2013)

audience with more than three messages – that is why focus is so important.

Organise your thoughts and build your argument

Great presentations are very hard work. But if your goal is worth it, it is time well invested. Organise your arguments well and focus on those that will resonate with your audience.

The main idea

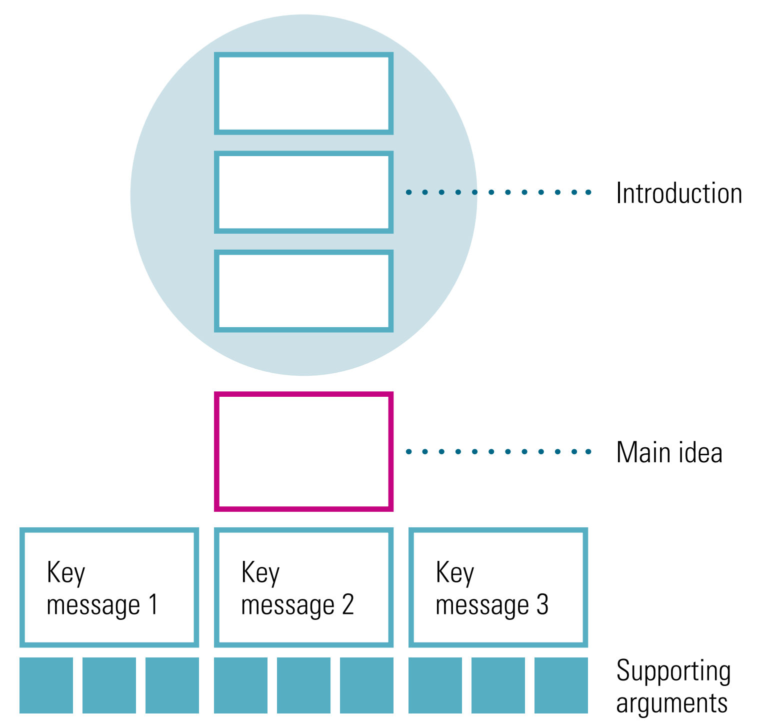
The communication pyramid principle advocates that ideas should form a pyramid under a single thought or a main message. By presenting the main message upfront, you are likely to capture the audience immediately, especially where time is limited. Underpin this idea with three supporting messages or ideas. By limiting yourself to three points, you are forced to choose the most important ones and you sound more structured and decisive. This helps to keep the attention of the audience. You can continue to break down the message with a further level of supporting ideas, as presented in Figure 3.3.3. The principle proposes that 'ideas at any level in the pyramid must always be summaries of the ideas grouped below them' (Minto 1996).

Logically order your supporting ideas

The ideas under each group should belong together, have the same level of importance and follow some logical structure. Here are some different ways of logically ordering ideas:

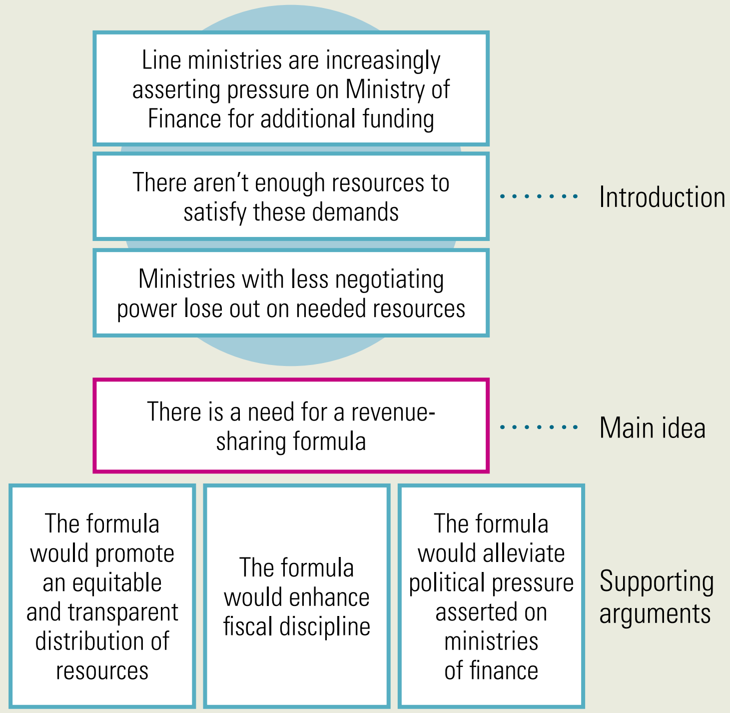
- *Chronological.* Sequential ordering of material.
- *Degree order.* Present supporting ideas in rank order of importance, most to least important.

Figure 3.3.3 The communication pyramid



Box 3.3.3: Class exercise on the communication pyramid

An SBO presents three reasons for a new revenue allocation formula to the Minister of Finance



The successful responses were those that were concise and offered not just technical but political justifications. A poignant lesson here was that politicians are always looking for solutions: do not bring them problems. (Remember: the audience is the hero!)

Question: What do you do when politicians don't accept your proposed solutions?
SBO 1: Get inside their heads. Figure out what they want, what they worry about, etc.
SBO 2: Sometimes settle for 50 per cent. 'Never let the perfect be the enemy of the good.'

'First you tell them what you're going to tell them. Then you tell them. Then you tell them what you told them.' — Stephen C Rafe

- *Cause and effect.* A sequence of events forming a cause-effect relationship.
- *Procedural.* Providing a logical ordering of the steps required to accomplish a task.
- *Structural.* Break a singular thought into its parts, ensuring that you have covered all of the major supporting ideas.

Introduction and conclusion

An introduction allows you to read the audience and establish a relationship, to spark curiosity in the topic you are about to present, and to highlight the main aspects of your presentation. Your conclusion summarises the main points covered and provides a sense of closure. One way to provide a sense of closure is to refer back to the introduction and bring the audience full circle.

The class concluded with some pointers on how to communicate effectively through PowerPoint presentations. Here are the three basic rules:

1. PowerPoint is only there to:
   - prove your message;
   - clarify your message; and
   - make your message emotional (e.g. through the use of visuals).

   If a slide does not fall into one of these categories, it should probably be deleted, unless you are using PowerPoint to write a paper that is to be sent out by email.
2. Keep it simple. One idea per slide is much better than several bullets crammed into one slide.
3. Make it stick. 'First you tell them what you're going to tell them. Then you tell them. Then you tell them what you told them.' (Rafe 1990) Do not be afraid of repetition. Many people in an audience will let their minds wander at some point during your presentation and then they may miss the most important point.

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CABRI

Collaborative Africa Budget Reform Initiative

This report summarises the proceedings of the 9th Annual CABRI Seminar on *Exploring the Missing Links in PFM Reforms.* Over the last few decades, countries across Africa have moved from one budget reform to another and have observed limited improvements in the way budget systems function. In the pursuit of PFM systems that contribute towards effective and efficient service delivery, SBOs are tackling similar questions and challenges. Why have international best practice 'solutions' not adequately addressed our critical challenges? What are the missing links and gaps in our approaches to reform? How do we do things differently to deliver PFM reforms that are needed, relevant and accepted, and successfully implemented? The 9th Annual CABRI Seminar looked closely at the missing links and how to close the gaps in how we currently approach PFM reforms.

The seminar was comprised of two parts. The first day was devoted to a workshop on 'Promoting Budget Transparency and Public Engagement on the African Continent' jointly organised with the International Budget Partnership. The workshop brought together governments and civil society organisations from 30 countries across the African continent to discuss budget transparency and citizen engagement in budget processes in Africa based on the results of the 2012 Open Budget Index.

The second part of the seminar focused on 'The Nature of PFM Reforms: Exploring the Missing Links' and was aimed at inspiring SBOs to approach their reform challenges differently. Over two days, this covered discussions on leadership, technical capacity and other necessary conditions for effective reform, and a series of master classes aimed at presenting to SBOs some key skills, techniques and tools for change management in the reform process, deconstructing problems and improved communication.

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