Chairman’s Summary

“Re-examining PFM reforms: new frameworks and country evidence”

20th June 2012, 2-5pm

Chair: Edward Hedger, Head of Programme, CAPE, ODI
Speakers: Stephen Peterson, Research Fellow, Institute of Development Studies
Paolo de Renzio, Senior Research Fellow, International Budget Partnership

This round-table discussion brought together researchers and policy advisers to examine the evidence on budget reforms in low-income African countries (notably Ethiopia, Mozambique and Burkina Faso), and to discuss the direction of future research. The seminar addressed frameworks for approaching and analysing PFM reforms, pre-conditions and political economy factors, prioritisation and phasing, and sustainability.

Presentations


He outlined three frameworks to explain PFM reforms with particular reference to Ethiopia’s experience: the platforms of PFM reform; the drivers of PFM reform; and the phases of PFM reform.

First, according to Stephen, PFM can be viewed in terms of three platforms which deliver three functions: managing transactions, allocating by policy, and operating under law. The emphasis of the Ethiopian reform was on the transaction platform though reforms in the policy platform were also done.

Second, Stephen introduced a number of drivers of public sector reform: context, ownership, purpose and strategy. Context is societal (political, cultural and economic) and administrative (structures, procedures, staffing and culture). Ownership is a crucial component of PFM reform because it goes to the core of sovereignty. For a successful reform local governments must steer the process. In Ethiopia real ownership of the reforms was crucial for their success. PFM reforms should first get the basics right before attempting more sophisticated systems. Establishing the basics means building a PFM plateau consisting of the three platforms and their basic systems which are executed and sustained. Many countries in Africa do not have a well-executed PFM plateau and this is needed before attempting the summit of advanced techniques often defined as international best practice. Reforms should be driven by domestic policy considerations (rather than foreign). Strategy is the final driver of PFM reform and can be divided into four tasks: recognise, improve, change and sustain. PFM reforms were successful in Ethiopia
because the initial strategy was one of recognizing and improving) the existing financial system followed by select changes (double entry bookkeeping and modified cash accounting).

Third, Stephen Peterson presented the five phases of PFM reform. The challenge of a reform project is to successfully integrate government officials and technical assistance in delivering the three roles: design, implementation, operation. In the initial phase you explore what is needed and then the policy is translated into a strategy and a programme of work (the design role is delivered). The second phase, development, integrates two roles: design and implementation. Implementation begins with the commitment of significant resources to systems realisation. Phase three is the pilot and the most important phase because this is where the usage of the system commences and adaptation based on utilisation feedback is undertaken. It is crucial to integrate government employees and technical staff for mutual learning in this phase as all three roles must be delivered. If the government is excluded, the long-term sustainability of reforms is reduced. Phase four is the rollout of the system and implementation reaches its final stage. In this phase dialogue only takes place between the implementer and the client. The final phase is the operational stage but the realisation of the policy may eventually conclude, possibly after implementation itself has ceased. International experts leave and the system is maintained and managed by the government.

In Ethiopia the reforms were successful partly because of the context: reform which was politically driven and was crucial for the survival of the new government. The government wholly owned the reforms, aid was closely co-ordinated and donors were assigned particular sectors or areas so as to reduce fragmentation. A central part of the reform was the 70,000 plus individuals trained in PFM and as a result of these plateau reforms Ethiopia has one of the best performing PFM systems in Africa.

In summary, the key to successful PFM reform is alignment and thus coherence of the reform. At the macro level the discretionary drivers of ownership, purpose and strategy should be aligned with the challenges of context and at the micro project level the alignment of officials and technical assistance is needed to deliver the roles of design, implementation and operation.

Stephen concluded by putting forward a few questions for further discussion:

- Are PFM systems and procedures in Africa robust but not executed properly?
- Why is PFM reform mostly about change and not recognising the context, improving the existing system, changing only where is necessary and sustaining?
- Why isn’t execution the focus of first order PFM reform?
- Why is there not a frank discussion on the failure of PFM reform?
- What are the metrics of success and what is the success rate of PFM reforms?

Paolo de Renzio presented the findings of his doctoral research on 'Buying Better Governance: The Political Economy of Budget Reforms in Aid dependent Countries'. According to Paolo his research aimed to address two original puzzles: first, how institutions develop and change over time in developing countries and second, how donors and their aid have influenced processes of institutional change. In order to assess this he examined
changes in the quality of budget institutions overtime and the interplay of domestic and external factors in such changes.

He started by introducing a new definition for ‘the quality of budget institutions’ focusing on the following three dimensions:

- **Transparency and comprehensiveness** - The level of detail and comprehensiveness of budgets, the ease of access for the public and actors outside the executive
- **Linking budgeting, planning and Policy** - The extent to which budget institutions allow linkages between annual budgets, planning processes and policy objectives
- **Control, oversight and accountability** - Whether adequate mechanisms are in place to guarantee the respect of existing rules and procedures

Paolo used data that linked HIPC assessments from 2001 and 2004 with PEFA assessments from 2005 onwards. Over the time period, of the selected 16 aid dependent countries, half saw an improvement in the quality of their budget institutions, four experienced a decrease in quality and the evidence was inconclusive for the remaining four countries. From this he deduced a framework that identified factors that affect budget reform outcomes.

- **Domestic factors**: political opportunities that arise from changes in governments, the party systems, the fusion between politics and bureaucrats, technical capacity and economic and political stability
- **External factors**: the promotion of best practice vis-a-vis locally adapted reforms, the degree of conditionality and policy dialogue, the type of aid modalities used and the degree of fragmentation
- **Reform-specific factors**: timing, sequencing, flexibility of reforms, the degree of complexity of the reforms and the possibility they will generate opposition

He further divided the countries into two categories (successful and unsuccessful PFM reformers) and found three key findings:

- **Stable economic and political conditions** are a precondition for successful PFM reform
- **Other variables** such as higher degree of technical capacity and concentration of power in the executive branch had no impact on reform success
- **No clear correlation** between donor efforts to improve PFM and reform success

Based on these findings, he chose two countries to examine in greater depth; Burkina Faso and Mozambique. Both were relatively politically and economically stable, so using these two countries enabled him to hold a key variable constant whilst retaining variations in other variables such as whether budget reforms were successful or not and the level of donor efforts in supporting these reforms.

He found that PFM reforms were successful in Burkina Faso where there was limited donor assistance whilst success was limited in Mozambique despite high levels of donor assistance. There were many reasons why reforms were successful in Burkina Faso and unsuccessful in Mozambique and he categorised them into domestic and external factors.
Government ownership is crucial in determining the success of reforms. The importance of ownership has been discussed extensively, but Paolo pointed out historical legacies that have shaped the position of the government vis-a-vis the donor community over previous decades influence ownership. In Burkina Faso they had a long history of home grown reforms which were domestically driven because of resource constraints, whilst in Mozambique reforms were generally donor driven. There was also limited politicisation of the formulation of budgets in Burkina Faso in contrast to Mozambique with a very politicised process.

Paolo found that aid fragmentation was more important than aid composition for determining reform success. Both countries had high levels of budget support but the large number of loose projects in Mozambique tended to undermine government budget institutions. In Burkina Faso a secretariat co-ordinated donor funds whilst in Mozambique a similar system did not exist resulting in a high level of aid fragmentation.

He concluded by answering the question ‘Can donors buy better governance?’ In general no but donors can have a greater impact in situations where there is commitment to reform from the government. In situations where there is some interest donors can tip the balance and get firm commitments to reform by providing intelligent and non-fragmented technical assistance.

Discussion

Participants discussed the importance of government ownership (a central theme in both presentations) in achieving successful PFM reforms. In countries where there is political commitment to reforms, donors should provide technical assistance but must allow adequate time and space for governments to take leadership of reforms. In countries where there is limited commitment, donors should still engage but recognise government ownership is still crucial to the success of reforms. The focus should be in areas where there is interest for reforms but accept that there might be only limited success of reforming parts of the system. However over the course of reforms it is likely the context such as political commitment will change, as a result donors should regularly review which types of reforms are feasible.

Participants noted the importance of allocating sufficient time to train local staff who can maintain the quality of PFM systems. The case of Ethiopia where 70,000 plus PFM staff were trained over a 12 year period and Burkina Faso which has developed overtime a local technical class of PFM reformers were highlighted to illustrate the importance of time and continuity. It was emphasised that existing time frames for success were too short to carry out successful reforms. Donors should make sure the continuity of reforms is not compromised by a high turnover of technical experts with a short-term horizon for PFM reforms. The case of Pakistan was noted where the level of turnover of experts meant the evolution of reforms was not understood by incoming international experts and consequently the recognition of the long-term nature of the reforms was lost.

There was some discussion on whether developing countries with sound cash based accounting system should make the move to an accrual accounting systems and meet
international accounting standards. Some participants expressed doubt about the suitability of an accrual accounting system for developing countries for the foreseeable future.

In a discussion of the role of foreign aid, participants agreed it had a role in strengthening reforms. Ethiopia was pointed out as a successful example of where aid, which was co-ordinated by the government played a role in bringing about successful PFM reforms. It was pointed out governments (as in Ethiopia) must have ownership of the reform process because PFM is an integral component of sovereignty.

Concluding remarks by chair and way forward

The chair summarised some of the important themes from the presentations and discussions. He highlighted the increasing nature of PFM reforms that are driven domestically by constituents who want their governments to account for the use of public funds. He stressed that we shouldn’t always assume PFM reforms are externally driven.