



Asian Regional Seminar on Public Financial Management

PFM Reforms: The lessons learnt – promises and tears

Session 1: PFM Reform Strategies Supply-driven versus “Basics First” Reforms

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Supply-driven versus “Basics First” Reforms

Is there a Choice between the Overloaded vs. the Uninspiring Agenda?

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Asia Regional Seminar on PFM Reforms: Lessons Learnt –
Promises and Tears

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Outline of Presentation

- PFM Reform on the Rise
- Evidence of Success and Failure
- Main Strategies
- Why Things go wrong?
 - The Usual Suspects
 - Other Change Management Issues
- Solutions
 - Elements of Success
 - History Repeats: The “Hidden” Hand and PDIA

Interest in PFM Reform has increased enormously in the past twenty years

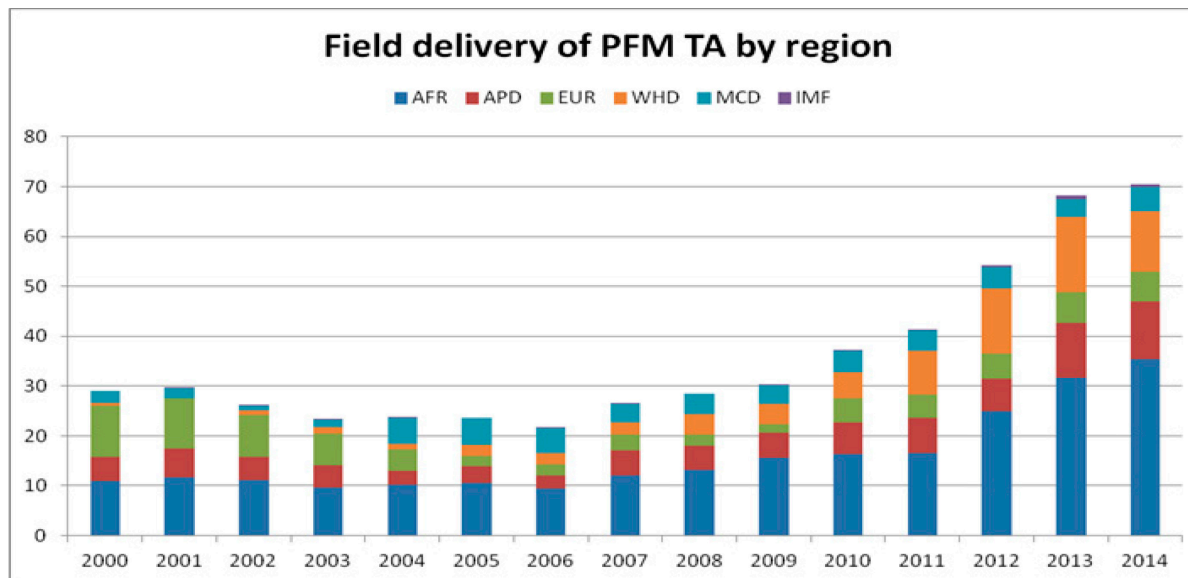


- PFM received its most recent impetus from the “New Public Management” reforms in New Zealand, Australia, and the UK in the 1980s.
- Reforms were largely successful in these countries, it seemed. Aim was to transform input-oriented, control and compliance focused bureaucracies into flexible, responsive, efficient service delivery units focused on outputs and outcomes.
- Reforms were copied in Europe, US and Advanced Asian countries. Some countries did better than others.
- From mid-nineties, emerging market and developing countries tried to copy advanced country PFM reforms
- Surge in technical assistance, often supported by international financial institutions

Some Evidence of the Growth of TA.....



- Between 1990 and 2005 the number of WB projects with a significant Public Sector Reform component quadrupled.
- OECD data show that donor funding for PFM reform rose from US\$ 85 million in 1995 to US\$ 931 million in 2007
- IMF PFM TA almost tripled from 2006 to 2014



What Type of Reforms are we talking about



- Medium-term budget/expenditure frameworks
- Program/performance budgeting
- Deconcentration/Decentralization
- Development of agencies/outsourcing of services
- Government-wide IFMIS
- Accrual accounting
- Fiscal risk management
- Fiscal rules and fiscal responsibility laws
- Independent fiscal agencies

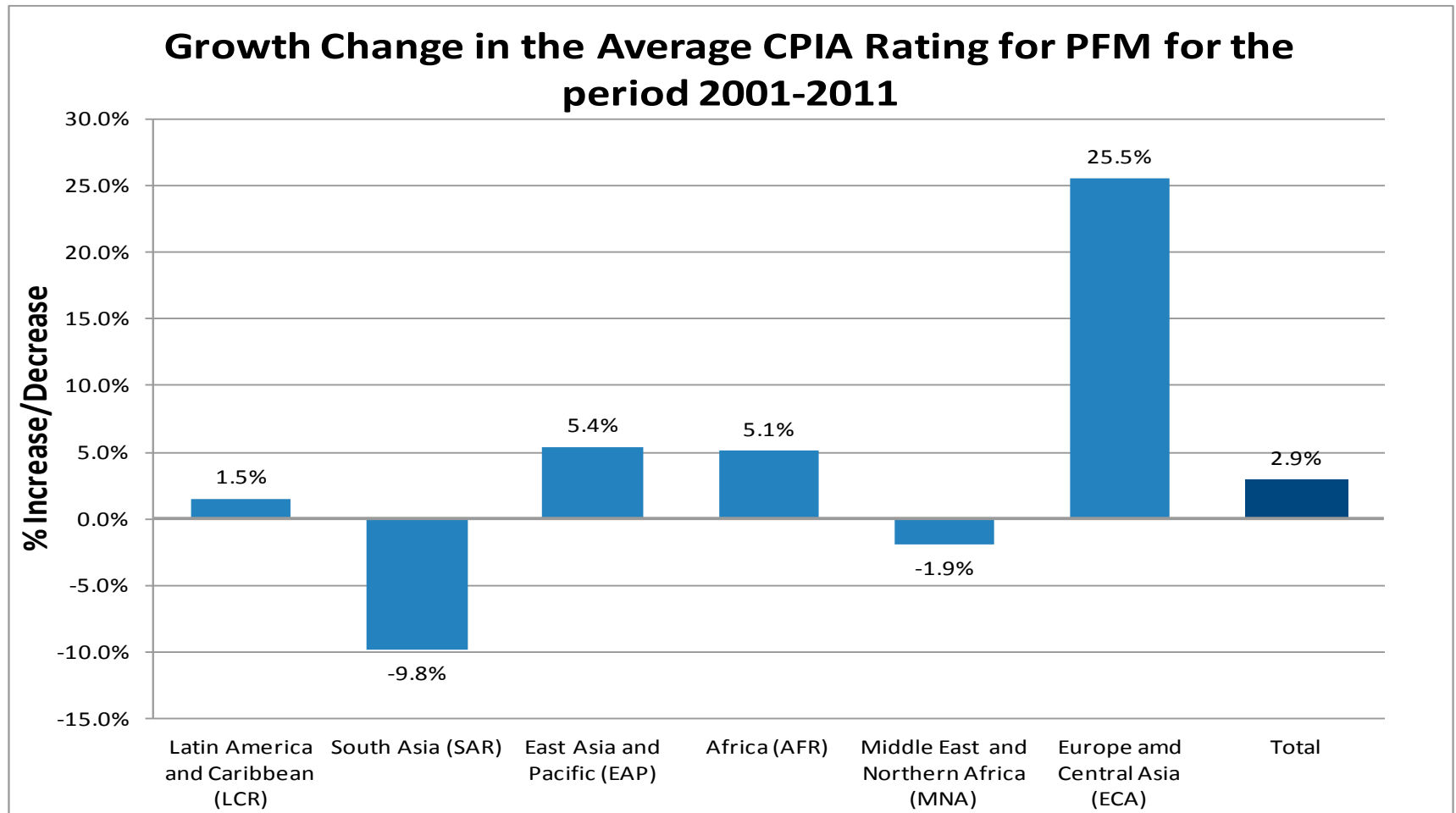
>>> Also called second-generation reforms



Evidence of Success.....(?)

- MTBF: Countries with (some form of) MTBF have increased from fewer than 20 in 1990 to more than 130 in 2008.
- Performance Information: since 2007, 80% percent of OECD countries produce performance information in their budget, and in 2011 about 2/3 indicate that they have a performance budgeting framework.
- Fiscal Reporting: countries reporting at least a financial balance sheet to the IMF has increased from 21 in 2004 to 41 in 2011.
- Accrual Accounting: 26 countries have moved to full accruals and this will reach –reportedly –63 within the next 5 years
- Fiscal Rules: Countries with fiscal rules have risen from 5 in 1990 to 82 in 2013.
- Fiscal Councils: the number of countries with Fiscal Councils grew from about 6 in 1990 to around 27 in 2013.

But Improvements have been less in Developing Countries



Advanced Reforms not immediately suited for Developing Countries



- Need for supporting “basic reforms”
 - Credible and comprehensive budgets
 - Smooth and controlled budget execution
 - Accurate and timely fiscal reporting
 - Effective external audit and oversight
 - Concentration of PFM functionality (Treasury, Debt, Budget, IA)
- To be done first? The purists say yes!
- Not everything can be done at once: sequencing
Strategy is necessary in any case

Different Reform Strategies were developed during the 2000s:



- “Basics first” (or even one thing at a time) – provides capacity
- “Weakest link”/PEFA driven reform – seems logical, but may not be
- “Buy the Ferrari” – provides motivation
- Law driven reforms – provides authority
- IT driven reforms – provides a framework
- Everything at once – because issues are related
- Supply/donor-driven – because donors have a blueprint and its free money

One of the more sophisticated strategies:

- The platform approach – focuses on synergies and real outcomes, and is realistic about capacity
- Tailor-made, sequenced reforms which combine basic and advanced reforms, are path dependent, and realistic about capacity

>>No strategy has been fully successful; success often superficial



Basics First usually not enough

- Not always focused on issues at hand
- Provides little motivation/buy in from political level, donors or counterparts
- Does not always address related reforms
- Does not provide a roadmap of where to go
- Underestimates the pace at which reform can take place



Supply/donor-driven agenda

- Overestimates capacity; burden for ongoing budget process
- Focused on formal rather than de facto reforms
- Not focused enough on issues at hand (blueprint driven)
- Long list of to do's = overloaded agenda
- Sequencing = everyone a slice of the pie
- Political will/ownership lacking
- Pace usually overambitious



Issues lie deeper than sequencing

- Reforms implemented without clear reflection on what problems they would solve
- Blueprints do not work: do not take into account context, culture and political economy
- Incentives overlooked: power and money interest block real change
- Leadership and acknowledgement of importance more important than thought
- Finance ministries cannot push reforms by themselves, nor can line ministries
- Diagnostic tools are useful in noting system weaknesses but do not provide reform strategy
- Recognition of importance of wider private sector capacity
- Skepticism on achievements of “New Public Management” in OECD



Who are the Bad Guys?

- **Consultants:** Want quick “results” without accepting context; do not provide honest feedback to either countries or IFIs
- **IFI’s:** Stuck to their blueprints? Do not want to get hands dirty. Need to spend money.
- **Countries themselves:** Are either too ambitious, **or** just want to go through the motions; do not want to invest enough of their own people.
- **Civil servants:** Do not really want change. See reform as a danger for their interests

>>> All of the above?

>>> Or misunderstanding of change processes in institutional development

What do we know about successful change!



- Country case material

Positive:

- Sweden: fiscal/budget management reforms in the early nineties
- China: treasury single account/cash management reforms
- Brazil: fiscal management/decentralization
- Korea: public investment management
- Malaysia: performance management

Negative: many examples

- Performance Budgeting in OECD
- MTEF in many African countries
- IFMIS in many Latin American countries

>>>Successful reforms often preceded by powerful economic, or institutional crisis!

What do we know about successful change!



Elements of successful reforms

- Real problems are addressed
- Strategy is aligned with context, culture and political economy
- Leadership, authority and ownership are essential
- Incentives and motivation of participants are managed well
- Capacity and capability are aligned with Agenda (and part of the reform)
- Pace and magnitude of reform is realistic
- Process change has to go hand in hand with institutional change (this applies especially to Ministries of Finance)
- Reform agenda allows learning and change
- Bureaucrats need to feel stress not to Fail (not to Succeed)
- Planning, sequencing and prioritization are important (but different paths can be taken)
- **Last but not least:** use the power of transparency and accountability

What have we learned about change since the 1960s: the “Hiding” Hand Principle and PDIA



In the 1960s economist Albert Hirschman found:

- People only undertake reforms if they underestimate the difficulty initially
- Successful change is usually: 30% imitation, 70% invention
- Only if forced to struggle to succeed the force of “creativity” is unleashed
- Conclusion: Reform is always a hard slog

Fifty years later Harvard Economist Matt Andrews calls this:

>>>Problem Driven Iterative Adaptation: Reforms require identifying problems, and taking first experimental steps to get quick wins. Then learning, building support and capacity are a long journey. Take steps in a problem driven iterative process that promotes adaptation.

>>>Not a tidy process; can be perceived negatively.

Fiscal Affairs Department

Ambrogio Lorenzetti; The Effects of Good Government on the City Life; Fresco; Palazzo Pubblico, Siena (Italy)

Thank You!

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