WP/09/96

IMF Working Paper

The Challenge of Reforming Budgetary Institutions in Developing Countries

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INTERNATIONAL MONETARY FUND

 WP/09/96

IMF Working Paper

Fiscal Affairs Department

The Challenge of Reforming Budgetary Institutions in Developing Countries

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Authorized for distribution by Marco Cangiano

May 2009

Abstract

The paper notes that the development of sound budgetary institutions in countries such as France, the U.K. and the U.S. has taken a very long time—200 years or more—and is still evolving. It discusses Douglass North's prediction—which is supported by available data—that institutional reform is also likely to be very slow in developing countries since the budget is especially prone to rent-seeking influences. Finally, the paper discusses the currently fashionable emphasis on complex, multiannual PFM reform strategies, which have been strongly promoted by the donor community; and advocates a simpler approach grounded on Schick's important principle of "getting the basics right." The paper identifies several areas where further research would be fruitful.

JEL Classification Numbers:

Keywords: PEFA, public financial management, budget, institutions, platform approach, reform, developing countries, World Bank, donors, Paris Declaration, Accra Agenda for Action

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I. INTRODUCTION[1]

Interest in strengthening budgetary institutions[2] and public financial management (PFM) can be traced back for at least two thousand years. For example, Roman planners of the Claudian aqueducts considered eventual O&M costs in selecting alternative routes and designs. In more modern times, there is evidence of a stream of reforms from the "tally sticks" used to record the budget in seventeenth century England, to the latest techniques of fiscal rules, fiscal risk analysis, expenditure ceilings, medium-term fiscal frameworks, performance-related budgeting, accrual accounting and budgeting, and expenditure review. In Europe and the United States, a detailed history of the development of budget systems goes back for two hundred years or more. Yet the processes and determinants of this evolution, as societies move through varying stages of development, while critically important issues, are imperfectly understood.

The issues addressed in this paper are as follows: first, what are the main factors that determine the development of budgetary institutions systems over time; second, what lessons can developing countries learn from the long experience of more advanced countries in improving their budgetary institutions; and third, how can the international financial institutions (IFIs), especially the IMF and the World Bank, and other providers of financial and technical support, facilitate the process of reform in developing countries—what adjustments are required to the approaches and models they currently apply? These issues are complex, and the conclusions reached by the paper tentative, and to some degree subjective, and will be controversial to some readers. The paper identifies several areas where further research would be helpful.

The paper is structured as follows. Section II provides a conceptual framework for strengthening budgetary institutions and an historical perspective; against this background, Section III outlines the challenges for developing countries in reforming their budgetary institutions; Section IV sets out a possible framework for such reform; and Section V provides some concluding remarks.

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[1] The author is grateful to Salvatore Schiavo-Campo and several colleagues at the IMF and the World Bank for helpful comments on an earlier draft of this paper, which was also presented at the December 2008 Winter Conference of the International Consortium on Governmental Financial Management (ICGFM), and a World Bank seminar. The views expressed are the author's own and not necessarily those of the IMF.

[2] Following North (1991), "institutions" can be defined as the laws, procedures and rules that determine and regulate the behavior of public officials and organizations.

II. Historical Development of Budget Reforms

It can be argued that the reform of budgetary institutions is closely related to the development of political and economic institutions as described by North, Wallis, and Weingast (2006), drawing on the seminal work of North (1991). In this framework, societies pass through three essential stages—primitive societies; natural states (or "limited access orders") that are dominated by elites which have primary access to power and resources, and are vulnerable to violence and political conflict; and "open-access orders" that are characterized by competition in political and economic markets. North, Wallis, and Weingast (NWW) conclude on the basis of extensive historical analysis that natural states tend to perpetuate for very long periods of time, and that the transition from natural states to open-access societies is problematic and depends on the adaptation of their institutions, organizations, and behavior ("doorstep conditions"). Natural states exist on a continuum ranging from fragile states, characterized by political instability and violence at one extreme, to mature natural states—such as emerging markets—that are close to satisfying the doorstep conditions. Even today, few countries outside Western Europe and North America have evolved beyond this stage, and natural states comprise approximately 95 percent of countries (NWW, 2006).

The NWW thesis can be criticized for being oversimplistic and potentially misleading, especially in its assumption that progress is linear. Other writers on public choice and rent-seeking, while not embracing the full analysis of NWW have nevertheless accepted the crucial role played by institutions—and the "rules of the game"—in determining the opportunities for and progress of reform in the public sector, including the budget area.[3] This literature predicts, in general, that the development of political institutions is likely to precede that of economic institutions, which in turn precedes the development of budgetary institutions. However, there are exceptions to this pattern[4] and discontinuities in the development process.[5]

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[3] See Schiavo-Campo (1994), Campos and Pradhan (1998), and Tanzi (2000). Tanzi, for example, argues that in the real world—as opposed to the ideal world described in classic public finance literature in which the state plays a "normative" role—policymakers assign more weight to their own welfare and that of individuals close to them than to the general population; and that policies are often greatly influenced by small groups of people who in their privileged positions as relatives, close friends, or political associates, have easy access to top policymakers so that they are able to influence them. The power of these "keepers of the gate" can be extraordinary, and can distort policies in directions that are far removed from the ideal. Often such keepers of the gate influence not so much general policies as how these policies are carried out and who benefits from them, e.g., who is exempt from a tax or import duty.

[4] The People's Republic of China, for example, where liberalization of economic and, to a lesser extent, budgetary institutions has preceded political liberalization.

[5] Salvatore Schiavo-Campo gives the example of Germany in which the postal service continued to deliver mail for several months after the death of Hitler and the collapse of the regime's political institutions.

Good fiscal outcomes (for example, aggregate fiscal discipline and an economically efficient allocation of budgetary resources to priority sectors) depend upon having in place processes and procedures for preparing, executing, and overseeing the budget. The budget, however, is both a central institution of the state and a key mechanism for determining the distribution of resources and economic rents to the elites that dominate natural states, and to the wider groups that influence the development of open-access societies. Because of this, the budget is, almost by definition, very hard to reform except in the unlikely circumstance that such improvements enhance or facilitate rent-seeking behavior.

Evidence for the extremely gradual evolution of budgetary institutions can be found in the history of the three countries—France, the United Kingdom, and the United States—that is illustrated in Table 1. In all three countries, a similar pattern can be observed: first, a period during which basic systems of accounting, budgeting, and financial reporting were established, according to a uniform set of standards and procedures. In France and the U.K., these basic requirements were laid down broadly in the first half of the nineteenth century, a period during which modern institutions of economic and political competition were also being established. There followed a period of approximately one hundred years in which these institutions were refined and consolidated. For example, although most funds were appropriated by the parliaments in the British system of the mid-nineteenth century, there was no single document reporting all government expenditures, no comparison between budgeted expenditures and actual expenditures, and different accounting mechanisms used by various departments and ministries. By the end of the nineteenth century, the framework for modern budgeting (unity, comprehensiveness, and control) had emerged in Europe. In the U.S., a broadly similar development can be discerned, but extended over a somewhat longer period: the establishment of basic budgetary institutions in the course of the nineteenth century, with further developments and modifications in the first half of the twentieth century (partly reflecting the periodic disputes between the president, the Treasury Department and Congress over the control of the budget).

The important point to emphasize in the context of this paper is that these developments were taking place at a time when France, the U.K., and the U.S. were establishing the democratic and competitive economic and political institutions that mark the transition from a natural state to an open-access society.

Table 1. Selected Dates in the Development of Budget Systems: France, the United Kingdom, and the United States 1/

France	The United Kingdom	The United States (Federal)
1791: Accounting Office reporting to parliament 1807: Independent "Cour des comptes" 1814–1819: First Restoration—Baron Louis' reforms 1862: Imperial decree on rules for budgeting and treasury single account -- 1959: Medium-term budget framework for investments 1968: "Rationalisation des choix budgetaires" (RCB) 2001–06: Program budgeting From 2006: Accrual accounting 2008: Full medium-term expenditure framework (MTEF)	1787: Consolidated Fund established 1866: Exchequer and Audit Departments Act (established modern budgeting and accounting system) 1866: Comptroller and Auditor General established -- 1960s: Public Expenditure Survey (PES) and Program Assessment Review (PAR) 1980s: Next Steps Program 1990s: Comprehensive multi-annual budgeting 1991: Citizen's Charter 1998: Public Service Agreements 2000–04: Resource (accrual) budgeting	1776: Treasury Office of Accounts established 1809: Appropriations Act (modified in 1870 and 1874) 1887–89: Consolidated accounting, bookkeeping, reporting procedures (Cockrill Commission) 1894: "Dockery Act" established Comptroller of the Treasury; consolidated annual statement of revenues and expenditures 1921: Budgeting and Accounting Act established Bureau of the Budget and General Accounting Office 1940: Consolidation of uniform standards and procedures for accounting and reporting 1950: Accounting and Auditing Act -------------------------------------- 1982: Federal Managers Financial Integrity Act 1990: Chief Financial Officers Act 1993: Government Performance and Results Act 1994: Government Management Reform Act

1/ Measures that established the basic framework of accounting and budgeting are shown above the line; items shown below the line are subsequent ("new wave") reforms.

A "new wave" of reforms since the 1970s

More recently, in the past twenty-five years or so, a "new wave" of public sector and budgetary modernization has swept developed countries. While not the first of such bursts of activity[6], it has had unusual durability, and wide influence around the world. This new wave was initiated in New Zealand, followed by other developed countries that are primarily in the Anglo-Saxon or Northern European tradition of public management. These countries include Australia, Canada, Denmark, France, the Netherlands, Sweden, the United Kingdom, and the United States. Many such reforms have been associated with demands from citizens for greater accountability of their political leaders, and increased access to budget information and processes.

The modernization process has usually been supported and led at a high political level. In New Zealand, for example, the political leaders were successive finance ministers who, with the consent of the cabinet of ministers, strongly supported by the treasury—also a main driver of the reforms. In France, by contrast, the reforms were led by parliamentarians who demanded the restoration of budgetary powers over the adoption of the budget but were subsequently taken up by the ministry of economy and national finance.[7]

A useful summary of the literature is provided by Westcott (2008), who notes that, in the fiscal area, "new wave" reforms have covered diverse fields such as budget consolidation and restructuring; a move to multiannual fiscal and budget frameworks; regular use of performance information within the budget process; a shift from cost accounting to accrual accounting; the development of computerized information systems; consolidation of revenue collection; and greater use of devolved budget management. In many cases, improvements in the budget area have comprised only a relatively small part of the overall reform program which includes institutions such as the civil service, the legislature, and the judiciary.

III. The Challenges Facing Reformers in Developing Countries

As noted above, strengthening budgetary processes and systems in low- and middle-income countries is likely to be constrained by the poor quality of public institutions; weak centers of government and cabinet systems that create problems of policy coordination and efficient

[6] Multiple reform waves have occurred before, e.g., the planning, programming and budgeting system (PBBS) reforms originating in the U.S. in the 1960s, and the Plowden/Fulton reforms in the U.K. in the 1960s and 1970s.

[7] Chevauchez (2007) notes that, prior to the enactment of the new budget law in 2001, 35 proposals for budget law reform had been put forward by the members of parliament, whose limited role in the budget process had come to be characterized as "Liturgy, Litany, and Lethargy," following the famous expression coined by Edgar Faure, President of the National Assembly.

planning; strong patronage systems in which heads of public agencies are filled by friends and followers of the president; and weak capacity in human resources and information systems. In addition, such countries have insufficient financial resources to spend on necessary technical systems and capacity building.

Several of the "doorstep conditions" proposed by NWW, and noted above, would seem relevant in the budget area. For example, the rule of (budget) law (condition #1) is an important precondition for improving PFM. Elegantly drafted laws, advocated by donors and adopted by parliaments but never implemented, do not meet this condition. Similarly, perpetual forms of organization, including the state itself, are important for the achievement of better budgetary outcomes, but first ministries of finance have to be restructured and empowered, to replace the overriding fiscal power of the president found in many low-income countries (condition #2). Political control of the military (condition #3) may be less relevant to the budget process than to other institutions of government, but when there is anarchy or civil disruption, neither economic development nor the development of budgetary institutions can take place.

Finance ministers have an important potential role in coordinating and driving improvements in the budget process; indeed, without their intervention and active leadership, such improvements are unlikely to take place. Unfortunately, in most developing countries, they do not enjoy the powerful status they have in the developed world. Indeed, the national plan (or poverty reduction strategy) is often regarded as the preeminent policy document for planning the allocation of national resources and for attracting donor financing. The division of responsibility for the budget between capital investment projects (managed by the minister of economy) and recurrent expenditures (minister of finance)—another common practice in developing countries—not only fragments the budget process, but significantly weakens the role of the finance minister as a potential leader of the reform process.

Systematic long-term data are lacking to demonstrate the long time periods required for budgetary improvements to take root in developing countries, but relevant and suggestive experience is summarized in Gupta and others (2007) and in evidence drawn from the rich experience of the IMF's technical assistance work in the field, especially in Africa. In some cases, isolated progress has been made—for example, in implementing a concrete provision (for example, a revised budget calendar, a commitment control system, or a simple cash accounting system). In general, however, the reform process has been frustratingly slow, even in narrow technical areas of the budget system.

A recent study by the Independent Evaluation Group (IEG) of the World Bank (2008) tentatively indicates some improvement in PFM systems in countries supported by the Bank's lending programs during the period 1999–2006, but the data used may be problematic.[8] However, similar studies by the IMF, summarized in Gupta and others (2007), did not discern any such general trend toward improvement taking low-income countries as a group. While the IEG report rightly argues that public sector reforms are slow-moving and results can only be expected in the longer term, it fails to question the apparent inconsistency between this conclusion and the results of its own data analysis; nor does it question the logic and relevance of PFM reform strategies which implicitly assume that the budgetary systems of developing countries can be upgraded to the standard of their OECD-country counterparts within a few years, without addressing underlying political economy and institutional constraints. This topic is discussed later in the present paper.

The thesis that such improvements are likely to be exceedingly sluggish is supported by a recent study by Kohnert (2008), which reviews the history of the United Nations as a pioneering provider of technical assistance to developing countries in the fiscal area (among others). In the 1950s and 1960s, the UN provided assistance on topics such as program and performance budgeting, tax reform, budget classification, accounting methods, and treasury systems to many developing countries. It also acted as a standard setter in these fields, publishing manuals and running international conferences on topics such as budget classification, government finance statistics, and accounting issues.[9] During the same period, the World Bank was also providing advice to developing countries on economic and fiscal issues in a series of more than twenty *Economic Development Reports*. The analysis and recommendations provided in some of these reports bear a strong resemblance to the advice being offered by the World Bank, IMF, and bilateral donors to the same countries 50 years later.[10]

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[8] The primary source is the Country Policy and Institutional Assessment (CPIA) data which are used by Bank management to allocate budget and lending resources, especially to IDA countries, and which are not independently prepared or validated.

[9] Kohnert (2008) refers to the following interesting examples: the UN developed and published an economic classification of the budget (1958), a functional classification (1962), a manual on performance and program budgeting (1962), and a manual on government accounting (1964). In 1963, it encouraged member countries to adopt a multiannual approach to budgeting, and provided training on taxation issues in cooperation with the Harvard Business School. Eminent scholars who participated in these early missions include Richard Goode, Walter Heller, Richard Musgrave, Stanley Surrey, Robert Triffin, and William Vickrey.

[10] See, for example, International Bank for Reconstruction and Development, 1960, *The Economic Development of Libya*, Report of a Mission Organized by the IBRD at the Request of the Government of Libya, Johns Hopkins Press, Baltimore. This study recommends the adoption of a single comprehensive budget, including data on both recurrent and capital expenditures; an administrative, economic, and functional classification of budgetary expenditures and revenues; strengthened financial control; control by the finance ministry of budget and civil service establishments; transparent budget documents and parliamentary debate; and independent external audit.

Of course, as noted above, development is not a linear process, and countries can be expected to advance at varying speed. The PFM systems of some countries—as well as their economic and political institutions—have clearly developed quite rapidly in the last twenty years, especially among emerging markets such as those found in Chile, central and eastern Europe, Korea, South Africa, and a few others. However, these are exceptions to this general rule, and even in the most successful cases, the reforms are still in the process of maturing and developing. Moreover, their sustainability may be an issue: the global financial crisis has revealed some serious flaws in the allegedly strong fiscal environment of some of these countries—in central and eastern Europe, for example—suggesting that the IFIs and the European Commission may have been overoptimistic about the quality of their underlying budgetary systems. Progress in many low-income countries has been limited, and is likely to remain sluggish in the future, a result supported by the Kohnert study referred to above.

In some countries with a colonial history, many of the basics of an efficient budget system (for example, commitment controls, a single treasury account, a comprehensive budget, a regular budget calendar, end-of-year accounts, internal and external audit, and in-year reporting) existed at the point of independence, but have subsequently declined through the neglect of formal rules and rise of elites, loss of authority by the finance ministry, donor dependence, loss of technical skills, and lack of capacity due to the decline in civil service salaries. Post-conflict countries such as Afghanistan, East Timor, and Liberia are in a special category; conditions for institution building may be more favorable, at least in the initial stages, because of the vacuum created by the decline of previous institutions, strong political leadership and a powerful donor presence.[11]

It is interesting to speculate on the areas of the budget system that are especially prone to rent-seeking behavior, which may frustrate improvement programs. These areas cover a substantial part of the budget process, such as control of the allocation of budgetary appropriations by ministry or sector; planning and management of government investment projects, including procurement operations; control of decisions relating to the planning and management of external aid; management and control of government bank accounts (and resistance to consolidating these into a treasury single account) and the management of cash disbursed through the budget; and management of the external audit process. Many of these areas have indeed proved difficult to reform in developing countries. However, all areas of the budget process are likely to be affected to a varying degree.

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[11] See Schiavo-Campo (2007). Strengthening the budget process in post-conflict countries is less likely to be impeded by the existence of ruling elites, some of which may have been destroyed or severely weakened by the conflict itself (though, of course, new elites and rent-seeking behavior may arise after the conflict). The strong political and financial leverage exerted by the donors may also help institution building—e.g., setting up and running a new finance ministry—but at a potential cost since a dependency culture can develop, and the new institutions may not prove sustainable.

Interestingly, the experience of technical assistance work carried out by the IMF's Fiscal Affairs Department and the World Bank suggests that reform of tax policy and tax collection has generally proved easier in developing countries than reform of processes associated with the expenditure side of the budget.[12] For example, several low-income countries have made reasonably good progress in recent years in introducing VAT systems, unified tax and customs authorities, and large taxpayer offices. There is a plausible explanation for this observation since tax modernization may increase the opportunities for rent-seeking behavior by creating new sources of revenue, and new and more efficient methods of collection.[13] By contrast, improvements to the expenditure side of the budget generally do the reverse, by closing loopholes, introducing new controls, enhancing transparency, and eliminating rent-seeking opportunities.

The dominating influence of donors

In many countries, donors and their associated international consultants have exerted a strong (and not necessarily benign or beneficial) influence on the reform process (Allen, 2008).[14] Donors frequently provide a substantial proportion of the funds required to finance such measures, in addition to supplying technical assistance. This may lead to a dependency on donors and their consultants that inhibits the development of local capacity and channels finance into elaborate projects such as computerized information systems that may not be appropriate or timely for the country concerned. By extracting large fees-for-services without direct accountability for results, consultants can be viewed as complicit in the rent-seeking process.[15] This is in contrast to idealized models of PFM reform, such as the "strengthened

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[12] The IEG study (2008) notes that: "Tax administration… illustrates the potential for reform when there is a good diagnostic and reform framework (typically led by the IMF) combined with typically enthusiastic government support and effective project management from the Bank."

[13] Other explanations are possible. For example, in general, reform of revenue administration is technically less complex than the expenditure side of the budget which covers a much wider set of functions, tasks, and governmental organizations.

[14] Recently, the Paris *Declaration on Aid Effectiveness* (2005), updated by the Accra *Agenda for Action (AAA)* in 2008, put in place a set of benchmarks, including that the proportion of donor aid placed "on budget" should increase from the current level of about 45 percent to 80 percent by 2010. This target looks unachievable both because of the extremely slow progress in strengthening PFM systems in aid-dependent countries, as described in the present paper, and because donors have fiduciary obligations to their shareholders which may conflict with the policy goals set out in *AAA*. The World Bank, for example, places considerable importance on the quality of its internal control systems, and this is likely to influence the behavior of financial managers responsible for the Bank's lending operations.

[15] Fyson (2009) sets out an interesting conceptual framework for capturing the essential dynamics of the relationship between donors, governments and donor-funded consultants in implementing PFM reforms. This framework incorporates three elements: first, a rationalist principal-agent approach, focusing on the contractual process and related incentives; second, a constructivist approach, exploring the normative agendas behind

(continued)

approach" advocated by the Public Expenditure and Financial Accountability (PEFA) program,[16] in which countries are assumed to take the lead in setting priorities, with donors and IFIs playing a supporting role; emphasis is also given to an integrated and coordinated approach to diagnostic work and putting in place a robust framework for monitoring and evaluating progress in implementing reforms. Continued care is needed to ensure that the prescriptions of donors are actually relevant and appropriate to the needs of each particular country.

The two dominant organizations in advising countries on strategies and priorities for PFM reform, and providing technical assistance, are the World Bank and the IMF. Their role is thus of considerable influence and importance. However, the mandate and perspective of the two institutions, while overlapping to a significant extent, are distinctive. The Bank's focus is on broad public sector reform, of which budgetary institutions are a part, linked to long-term developmental objectives, promoting governance and anti-corruption initiatives, as well as reducing the fiduciary risk of Bank lending operations.[17] It thus tends to view reform from an essentially microeconomic perspective. The Fund, however, regards the budget mainly as an instrument to promote macrofiscal stability and sustainability by reinforcing the powers and organizational strength of the finance ministry; improving fiscal transparency and reducing countries' exposure to fiscal risk; and broadening the tax base and improving revenue collection.[18]

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private sector participation; and, third, the political economy environment within which reforms are implemented.

[16] Documents describing the "strengthened approach" can be found on the PEFA website: www.pefa.org. PEFA is a partnership comprising the World Bank, the IMF, the European Union, and several bilateral donor organizations established in 2002 and financed by a multi-donor trust fund. The Secretariat is housed in the World Bank.

[17] The Poverty-Reduction and Economic Management (PREM) network of the Bank gives priority to microeconomic and governance-related issues; the Financial Management and Procurement networks to fiduciary issues. The various diagnostic instruments developed by the Bank—notably, the public expenditure review (PER), the country financial accountability assessment (CFAA) and the country procurement assessment report (CPAR)—reflect these different perspectives.

[18] This pattern was confirmed by Bill Dorotinsky in a recent presentation on "Public Financial Management Reform: Trends and Lessons" during the ICGFM's 2008 Winter Conference (see www.icgfm.org). Data presented by Dorotinsky show that, during the past five years, the main areas of technical assistance provided by the IMF, in a sample of 81 low-income and middle-income countries, have been (in descending order): reforms of treasury and cash management (41 percent of the countries surveyed); IFMIS systems (38 percent); accounting and budget classification (38 percent); medium-term fiscal and expenditure frameworks (37 percent); budget legislation (29 percent); fiscal transparency (23 percent); performance and program budgeting (22 percent); and commitment controls (21 percent).

In many cases, donors have focused their efforts on "big ticket" initiatives—such as the introduction of a medium-term expenditure framework (MTEF) and integrated financial management information systems (IFMIS)—that are dependent upon large injections of external funding and technical assistance. The presumed idea behind such an approach is that the programs concerned may act as a centrifugal force around which other reforms would gravitate. However, a recent survey of MTEF and IFMIS projects in Ghana, Tanzania, and Uganda suggests that the approach has been a mixed success (Wynne, 2005). Another recent study by Schiavo-Campo (2009) notes that there have been some positive lessons from a decade of MTEF experiments in Africa―greater awareness of the need to look beyond the annual budget horizon, and to focus on the results of government spending―but also "costly failures" arising from premature implementation of MTEFs, little or no local ownership, damaging distraction from basic PFM improvements, heavy stress on limited budget capacity, and little improvement in macroeconomic balances, financial control and predictability, or spending efficiency. Brumby (2008) reaches a similar conclusion. Earlier flagship projects promoted by the Bank in related areas—such as Public Investment Programs (PIPs) in the 1980s and cash budgeting—also largely failed to deliver their expected benefits (Lienert and Sarraf, 2001).

The current vogue for performance-related (or program) budgeting has also been strongly supported by the IFIs and donors. This is related to the Paris and Accra agendas referred to above. As noted, the mechanism by which donors traditionally provided aid to finance individual projects is being replaced by an emphasis on channeling aid through the national budget system ("budget support"), supported by the development of performance criteria and indicators to measure the impact of such spending. Similarly, donors have urged countries to develop poverty-reducing strategy plans (PRSPs) as a means of allocating scarce resources and delivering the Millennium Development Goals (MDGs), and these need to be supported by elaborate monitoring and performance evaluation systems. In many cases, unfortunately, such initiatives have degenerated to a ritualistic exercise, and the accumulation by the authorities of vast databases of redundant and unused information, which are not linked to the budget itself.[19]

As a result, government officials in many countries may have accepted too uncritically advice received from the IFIs and donors, as a condition of receiving much needed international assistance and debt relief. Moreover, such improvement initiatives are frequently based on practices exported from developed countries before they have been fully

[19] "Data cemeteries" (*zahlenfriedhof* in German) to use Peter Kohnert's perceptive and evocative term. This is not to argue that developing countries have *nothing* to learn from advanced countries in this field. A more simplified, "reduced form" model of performance budgeting may be appropriate in some cases. For example, low-income countries may be able to establish a classification of expenditures by program, and some concept of measuring performance according to results, outputs, and outcomes, that represent progress in relation to current practices. But such benefits are *peripheral* to the core objective of a performance budgeting system.

developed and assessed, and without ensuring that they can be assimilated into the standard budget practices of the recipient country, or indeed whether they are relevant to the country's development needs (Schick, 1998, and McFerson, 2007).

A related trend is for the IFIs and donors to support—and, in many cases, to take a lead role in drafting—action plans for strengthening budgetary institutions that take a much too optimistic view of the time needed for such measures to be planned and implemented. Little account is taken of the institutional barriers and constraints noted above. This bias toward underestimating the period required for reform initiatives to be planned and implemented can partly be explained by the electoral cycle and the consequent short time horizon of most finance ministers, who are likely to lose interest if told that reforms will take many years to complete; the switch to budget support has also raised donors' fiduciary concerns and compressed the time frame.

In addition to overoptimistic time horizons, many plans are overloaded with hundreds of activities and actions.[20] The IFIs and donors—and their advisors—are in many cases to blame, for this enables them to package together measures into a "public sector reform" grant or loan that gains approval from the management board, and gives the donor increased leverage in the country concerned. However, these packages often prove unmanageable and ineffective, raise unrealistic expectations about what can be achieved, and fall into disarray within only a small fraction of the measures having been implemented. More nuanced approaches have been tried (for example, the "hurdle" approach in Thailand[21]) that attempt to create an incentive for spending agencies to improve financial management in return for greater flexibility in managing their resources, but have been met with mixed success.

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[20] In Cambodia, for example, the government's reform plan "Strengthening Governance through Enhanced Public Financial Management" (December 2004) included four platforms, covering an 11 year period. Under stage 1 (2004–06), 27 activities under 11 broad areas (budget comprehensiveness and integration, macrofiscal forecasting, streamlining spending processes, budget classification, IFMIS design, strengthening leadership within the finance ministry, redesigning the budget cycle, piloting program-based budgets, options for fiscal decentralization, IT management strategy, and designing an asset register), and 254 separate actions were included in the program. A revised plan was issued in May 2008; few of the initial activities have been completed as planned, two years after the intended completion date.

[21] See A. Shah and C. Shen, 2007, "A Primer on Performance Budgeting" in *Budgeting and Budgetary Institutions*, ed. by A. Shah (Washington, D.C.: World Bank). The authors note (pages 168–69) that Thailand embarked on a process of "conditional devolution" of performance budgeting reforms. The Bureau of the Budget offered to reduce line itemization for spending agencies, provided they met core financial management standards in seven areas including budget planning, output costing, financial and performance reporting, internal control, procurement management, and internal audit. The hurdles, however, were set at such a high level that hardly any agency cleared them. As a result, "progress all but stalled, and when the Thaksin government came into office in 2001, the centralized, control-oriented budgeting system still dominated the process."

A further complicating factor is the limitations of existing diagnostic instruments for assessing the quality of budgetary institutions and systems. The best known of these instruments is the PEFA diagonostic tool that focuses on measuring the quality of financial management systems.[22] This instrument has been widely used in developing countries and emerging markets—about 80 countries have undertaken some form of PEFA assessment in the past four years, some on several occasions. However, in practice, the tool was not designed to take account of the weak institutions and governance that are critical to the improvement of budgetary systems.[23] As a result, the diagnostic information deriving from a PEFA assessment does not provide a robust basis for preparing an action plan to be used by national authorities in strengthening their budgetary institutions.[24] The usefulness of PEFA assessments is also diminished by the partially subjective nature of the rating system, the lack of a rigorous quality-control mechanism, and the variability of ratings from assessment to assessment, which can be subject to political influence. For example, some donors may use a PEFA assessment as a condition for granting budget support to an aid-receiving country. In such cases, the government may be tempted to collude with the donors concerned to boost the country's PEFA ratings in order to demonstrate that PFM systems have improved, and that good use has been made of technical assistance.

It may be argued that budget reform should be much easier in the early part of the twenty-first century than it was one hundred years ago because there is a significantly greater awareness of what constitutes good practice in this field, international standards have been established in areas such as accounting and audit, and hugely more efficient methods of transmitting information, ideas, and cross-country experiences have been developed. Such advances may indeed facilitate a process of change once a clear political imperative and will to do so have been established. However, this objection misses the point that the fundamental

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[22] The assessment methodology is described in PEFA (2005). The PEFA instrument includes 28 performance indicators covering various aspects of PFM and three indicators describing donor practices in providing aid.

[23] In principle, these institutional gaps could be covered in the narrative section of the PEFA assessment, or by a World Bank "institutional and governance review." However, such reviews tend to be resisted by national authorities—who have little incentive to open up their governance systems for public scrutiny—and relatively few have been carried out in practice.

[24] An example of this is PEFA indicator PI-19 which measures the performance of a country in using open competition in awarding procurement contracts. In many countries, donors have used a poor score on this indicator, alongside other diagnostic information, as evidence that more competitive procurement procedures need to be introduced, and have embarked on elaborate projects to support the countries concerned in such improvements. However, procurement is a primary source of rent-seeking, and remuneration for dominant elites, and the introduction of open procurement procedures is unlikely by itself to change actual practices. Thus, procurement laws in developing countries often include a provision that ministers can override the results of procurement competitions "in the national interest." An effective action plan for improving procurement should focus on eliminating rent-seeking behavior before it deals with inadequate competition in the procurement market. However, this is rarely done in practice.

constraint on improvement is not the absence of tehnical understanding or knowledge, or the lack of sufficient skills or capacity in the public service or efficient IT systems—though these issues certainly need to be addressed during the reform process—but the absence of an enabling institutional environment that makes it *possible* to move forward in the first instance. Budgets are also much larger in relation to GDP, and more complex structurally, than they were one hundred years ago. This is likely to complicate and delay the process of reform, improvements in technology and communications notwithstanding.

A strengthened approach—the "Platform Approach"?

Is there a better way to plan and sequence the reform of budgetary institutions for efficient results? Schick has argued that, when improving a budget system in countries of low capacity, the priority actions should be aimed at "getting the basics right" first.[25] For example, the government should seek to ensure that there is an effective control of inputs before seeking to control outputs; to provide good cash-based accounts before developing accrual-based accounts; and to have effective financial audit before moving to performance audit.[26] However, Schick does not present a rigorous analytical framework for selecting his 10 principles, some of which could be challenged, though this goes beyond the scope of the present paper. Andrews (2006) has criticized the "basics first" approach but his arguments are unconvincing for low-income countries.[27]

As noted, some reforms are technically dependent on others for success—it is difficult for a government to take measures to initiate improvements in area A before it has strengthened area B. This is linked to Schick's idea of getting the basics right. Pollitt and Bouckaert (2000) give some examples of what they term "natural reform trajectories" in areas such as

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[25] Schick elaborated on these ideas in a well-known 1998 presentation on "Look Before you Leapfrog," which was not subsequently published.

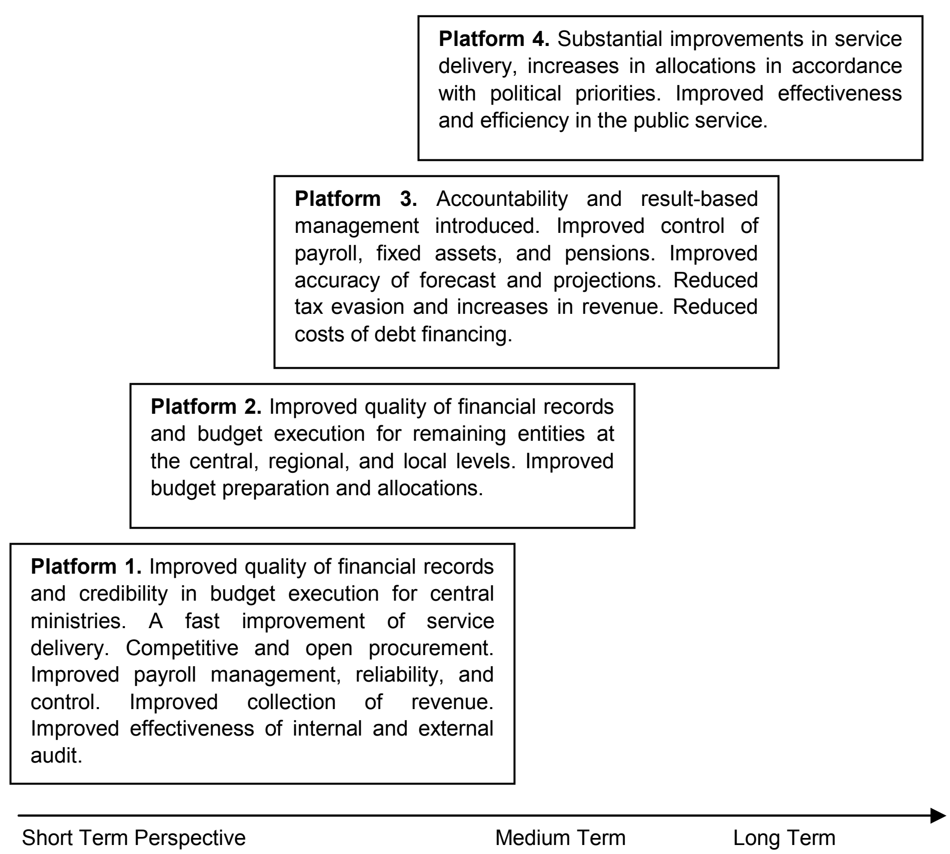
[26] Other priority actions highlighted by Schick are to foster an environment that supports and demands performance before introducing performance or outcome budgeting; to establish external control before introducing internal control; to establish internal control before managerial accountability; to operate a reliable accounting system before developing an automated financial management information system; to budget for work done before results; to enforce formal contracts in the market before performance contracts in the public sector; and to adopt and implement predictable budgets before insisting that managers efficiently use resources entrusted to them.

[27] Andrews argues on the basis of seven case studies that governments with strong "basics" do not necessarily progress more successfully to "performance-based reforms" than those with weak basics, and that such reforms may be more prone to failure in countries with weak basics since the finance ministry is overdominant and the "control" culture strongly embedded. However, (i) Andrews' sample is very small and includes two U.S. states as well as some middle-income and low-income countries; (ii) for low-income countries, the case is not made that a focus on performance-based reforms is a desirable policy objective in the short to medium term; and (iii) for such countries, the absence of a robust accounting system and other basics is likely to lead to loss of expenditure control, widening fiscal deficits, and other adverse macroeconomic consequences that Andrews does not take into account.

accounting, performance budgeting, and external audit. In accounting, for example, improvements have tended to move in stages from the development of single-entry to double-entry bookkeeping, to the establishment of a uniform accounting system across government, to the development of accounting for assets and liabilities (a rudimentary balance sheet), and eventually the establishment of a full accrual accounting framework. Natural reform trajectories may also exist *among* the various components of the budget system. For example, the development of effective internal and external audit procedures is dependent upon the existence of reliable and timely financial reports. And the existence of a sound and credible budget classification and chart of accounts is fundamental to the development of most other areas of an efficient budget and revenue administration system. However, a comprehensive framework that defines and explains these reform hierarchies has not yet been developed.

A broader strategy for sequencing PFM reform in developing countries is the so-called "platform approach" proposed by Brooke (2003). Rather than the traditional focus on individual components of the budget process, Brooke proposed that PFM reforms be packaged together into groups of activities or measures ("platforms") that form a logical sequence (Figure 1). An overall reform strategy might stretch over a period of, say, ten years,

Figure 1. Illustration of the "Platform Approach"



Source: Government of Kenya, *Strategy to Revitalize Public Financial Management*, April 2006 and comprise four or five of these platforms. Each platform would last for a period of two or three years, and establish a clear basis for moving to the next stage. Brooke has argued that the platform approach—which has some intuitive appeal—differs from existing public sector improvement strategies in several ways. First, it would provide a more structured approach to sequencing, and greater clarity to governments, IFIs, and donors about their respective roles and responsibilities in the reform process. Second, it would focus on the interconnection between specific measures and their ability to be mutually supportive. Third, it would encourage thinking about the sustainable migration path toward technical improvements that might ultimately be desirable, but which are not realistic in the short term, and identify small steps that would create momentum for sustaining progress.

As noted, one of the few countries to experiment with the platform approach is Cambodia. However, despite its theoretical attractions, and quite strong leadership from the government, the Cambodian initiative has revealed some serious flaws in its practical application (Box 1). Although it is too early to reach a definitive judgment on the value of the platform approach, other countries that have already embarked down this path (Kenya, Uganda), or are considering doing so (for example, Indonesia and the Kyrgyz Republic), should bear the lessons of Cambodia in mind.

A more fundamental objection to the platform approach is the difficulty of reaching agreement on an unambiguous definition of each stage or platform. For example, in the Cambodian case, stage 1 was defined as the achievement of a "credible" budget. However, no two economists or public finance specialists are likely to agree on what constitutes "credibility" in this context.[28] Some may argue for a statistical definition (e.g., that the discrepancy between the projected budget and the budget outturn must never exceed a specified percentage), others for an economic definition (e.g., that a credible budget is one that can track progress toward achieving the MDGs), still others for a political economy definition (e.g., that a credible budget is one that successfully reconciles various political views, and is endorsed by the cabinet of ministers or parliament). If it is not possible to agree on a rigorous definition of the goals of the reform strategy that are being pursued—and a unique measuring rod for evaluating whether or not these goals have been achieved—then the whole concept of platforms becomes operationally meaningless, and collapses, much as a building or bridge would collapse if the architects and contractors could neither agree on how the foundations of that structure should be built, nor on a way of measuring when such work had been completed to the required specifications.

[28] Indeed, the Cambodian authorities have already exploited this weakness by unilaterally declaring that stage 1 has been "completed" even though many advisors and experts would not endorse this decision.

Box 1. Cambodia: Weaknesses of the "Platform Approach"

- *Insufficient emphasis on institutional constraints.* The reform program underestimated the institutional and political resistance to improvement in areas such as the transfer of responsibility for managing government payroll to the finance ministry, the consolidation of government bank accounts, and measures to prevent the accumulation of new spending arrears.

- *Overloading of activities.* Platform 1 included 27 activities (of which 14 activities were considered necessary to prepare the ground for Platforms 2–4) and more than 250 specific actions. Such a wide range of activities would constitute a challenging task even in a country with a much higher capacity than Cambodia. Moreover, some of the activities selected for the first platform (e.g., piloting performance-based budgeting) seem questionable in relation to the country's weak capacity and low level of development.

- *An unrealistic time horizon.* As argued in this paper, developing countries do not have the institutional or human capacity to undertake more than a few reform measures within a three- to four-year time period. The proposed platforms vastly overestimated this capacity.

- *Poor prioritization.* Certain decisions, especially to move ahead with the implementation of an IFMIS project, seem premature before basic improvements such as upgrading the accounting system and treasury functions have been implemented.

- *Micromanagement.* The complexity and technicalities of the exercise have come to dominate the implementation process. Completion of the many hundreds of deliverables and milestones, and important constraints and bottlenecks were disregarded. The crucially important issue of managing the change process was given insufficient attention. The reforms were managed at the strategic level but not sufficiently at ground level.

- *Skewed incentives.* Managers responsible for implementing the platform approach within the donor community and the government focus more on achieving specific performance indicators or deliverables than with improving the underlying PFM system. This issue of biased incentives—a focus on individual trees not the overall health of the forest—is familiar from literature on performance budgeting.

As a development of the platform approach, it may be suggested that the platforms might make a distinction between various *functional components* of the improvement process, such as budget laws and regulations, changes in business processes, the introduction of new technology and IT systems, upgrading organizational structures, and undertaking training and capacity building measures to strengthen human resources. This recognizes that reforming institutions is a necessary but insufficient condition for improvement; other important considerations are people, skills, organization, and information (Schiavo-Campo and McFerson, 2008). In principle, subplatforms could be established for each of these components and a work plan developed to ensure that improvements in each component—for example, modernizing business processes and IT systems—take place broadly in step with one another, so as to ensure that the overall objectives of the reform process are achieved.

Such an analysis might indicate, for example, the existence of blockages or bottlenecks in specific areas—for example, a critical lack of skilled accountants or economists, or an unsatisfactory information system—that needs to be resolved before an upgrade of business processes is introduced. However, such refinements are hardly to be recommended in practice, given the formidable existing challenges to the platform approach noted above.

A streamlined version of the platform approach, which has proved quite useful in the emerging market economies of South East Europe, is based on a simple division of 10 important areas into *basic reforms*, which are necessary to achieve a minimum level of financial management capacity, and *advanced reforms*, which will enable countries to move toward international good practice.[29] The objectives and benchmarks are consistent with broader benchmarking frameworks for PFM systems, such as the IMF's fiscal transparency code,[30] and the PEFA framework. The proposed approach allows progress in various areas to be monitored and correlated with various measures of fiscal performance such as aggregate fiscal control, financial discipline, efficient resource allocation, and the cost-effectiveness of public spending.

However, there are also potential difficulties with this approach, which provides an incomplete guide to efficient design of the improvement process. For example, the logical basis for the distinction between "basic" and "advanced" reforms is largely subjective, and to some degree arbitrary (many practitioners would regard establishing a unified accounting framework, for example, as a precondition for developing a robust system of budget execution and reporting). It is similarly unclear what criteria should be applied in determining whether a country has achieved sufficient progress in improving its basic systems to move forward to more advanced measures. Should a government be encouraged to start work on such reforms before *all* the basics are in place? Are some of the basics more important than others in establishing essential preconditions for moving on to the menu of more advanced measures? And there is an absence of any analysis of the underlying institutional conditions that may affect the reform process. We address these issues in the following section of the paper.

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[29] See Tandberg and Pavesic-Skerlap, 2008. According to the authors, "basic" reforms include the development of a complete budget classification, comprehensive budget coverage, integration of budgeting for capital and recurrent expenditures, a treasury single account, and "adequate" budget controls. "Advanced" reforms include a medium-term budget framework, performance-oriented budgeting, integrated cash and debt management, a unified accounting framework, and fiscal transparency.

[30] See IMF, 2007, *Code of Good Practices on Fiscal Transparency* (Washington, D.C.: International Monetary Fund).

IV. A Suggested Approach for Developing Countries

We have argued that the platform approach has not proved successful in implementation. Moreover, as noted, Stage 1 in practice has been overloaded with measures that by themselves would take many years to implement, thus calling into question the whole concept of a sequence of platforms. Of course, some element of forward planning is necessary and inevitable to the budget reform process, since countries need to turn their attention to the next steps to take once a particular initiative has been successfully implemented, tested and assimilated. But this is not a "platform" in the customary sense, and avoids the futility of pre-programming measures several years ahead without any clear idea of what the circumstances and conditions—economic, financial, and political—will require at that time.

What approach then should developing countries be encouraged to follow? In this section, we set out some key principles and factors that would-be reformers in developing countries might want to consider in preparing a strategy and action plan to upgrade their budget systems. Further work would be required to transform these general principles into a fully developed model for designing a PFM reform strategy.

First, it should be recognized that the ultimate goal of budget reform is much broader than simply improving the efficiency of budget systems and processes. Reformers need to take a view on the fiscal objectives which their proposed measures are designed to achieve and incorporate these in the development of their strategies and action plans. Building on the classic three-level approach (macrofiscal stabilization, efficient resource allocation, operational efficiency) of Campos and Pradhan (1998), core objectives for a developing country might include the following:

- Ensuring macroeconomic stability and fiscal sustainability;
- Protecting money from theft and misappropriation;
- Ensuring that public funds are spent consistently with the approved budget;
- Strengthening the link between public priorities (for example, as reflected in the MDGs or the poverty-reduction strategy) and the budget, and improved multiannual programming; and
- Monitoring the results of spending in terms of the access to, and quality of public services, and injecting some external accountability through citizens and public sector users for effectiveness ("social accountability").

Second, Schick's important principle of getting the basics right (1998) has been largely overlooked, partly because it is unattractive to finance ministers and their advisors who are under pressure to show results, and sometimes more interested in the latest fiscal innovations from developed countries—on activity-based costing, accrual accounting, or performance-related budgeting, for example—than in the more mundane deficiencies of their own systems. However, Schick was correct to note that low-capacity countries should focus on their basic needs first. In a technical sense, as already noted, the PFM system can be considered as a hierarchical structure in which, *ceteris paribus*, reforms should be built up from secure foundations, as with a building or other physical structure, though the precise components and taxonomy of such a model remain open to debate. This sounds both logical and self-evident, though it is surprising how often such a basic principle is disregarded by would-be reformers and their advisors.

In conformity with this principle, reformers might want to focus on strategies that target a few key areas of the budget system that are the foundation of more advanced reforms, and promote the core objectives noted above. Such areas are likely to include establishing a comprehensive and credible budget that eliminates (or reduces) extrabudgetary activities and accounts; and building a sound system of accounting and control that avoids payment arrears and enables fiscal reports to be produced on a timely and regular basis. Links between budgeting and a country's poverty-reduction strategy should also be strengthened.

An important implication of this simpler, scaled-down approach is that the topic of sequencing, over which there is much debate in recent literature, becomes a largely redundant issue in relation to the *overall design of the reform program* since, as noted, strategies that include hundreds of measures, and are distributed over several "platforms," are unlikely to be successful. The concept of sequencing continues to be relevant, however, in relation to *specific components* of a reform strategy—such as reorganizing the central finance institution (ministry of finance), or establishing an integrated revenue authority, or a new debt management office—and how these changes should be planned and implemented. Relevant issues of "sequencing" also arise in response to questions such as the following: should a computerized financial management system be introduced before or after the government's accounting rules and procedures have been modernized; or what are the preconditions for establishing an MTEF or a treasury single account? The answers to these questions may not be straightforward in all cases.

Of course, focusing on the basics as a core organizing principle of the budget reform process should not be interpreted too literally. In the practical circumstances of a developing country, given its political and institutional drivers, there may be situations in which action x is initiated before action y, despite x's "inferior" position in the reform hierarchy. Reformers need to leverage existing institutions and human capacity. Thus, a country may decide to establish an external audit authority even though its basic systems of accounting and financial reporting are very weak.[31] Such an initiative may be required politically to satisfy

[31] In several middle-eastern countries, for example, external audit agencies have been established under the direct control of the state president or the prime minister, rather than the legislature, in order to reduce their power of independent action. Nevertheless, the existence of such bodies has been useful in raising professional (continued)

the requirements of a burgeoning parliamentary system, or a special interest group, or to pay off a political supporter, for example; and may indeed be helpful in building external pressure (through the legislature, NGOs, the media, or the general public) for improvement in more basic areas of budgeting. Similarly, it may be useful for a developing country to introduce some elements of a simple program classification, or a performance management framework—at a basic level—to meet external demands for greater social accountability, even though it is not yet ready to introduce a fully developed performance budgeting system.

Third, it is frequently observed that reformers give priority to modernizing areas of the budget system that score most poorly in a diagnostic assessment (for example, all areas with a "D" rating in a PEFA assessment). Such a simplistic method is not recommended. In practice, a more sophisticated, nuanced approach is required in which all relevant variables—including the regulatory framework, business processes, human resource issues such as developing appropriate skills and training facilities, and IT systems—are taken into account. Is sufficient external finance and technical assistance available to support the program? Are the proposed measures dependent on government decisions to institute other improvements in the public sector—for example, a new civil service law, or recruitment and training arrangements; or a reorganization of ministries that may affect the role and responsibilities of the finance ministry and its staff? How will these various elements be coordinated and prioritized? Another key issue is to make a thorough assessment of the institutional and political drivers in the country that will shape and influence the reform process, and may be obstacles to improvement unless adequately dealt with.

Fourth, the need for strong coordination between countries and providers of technical assistance is much discussed in the literature, but in practice sadly ineffective in many developing countries. It needs to be given much more prominence in the development of a PFM reform strategy. Countries in general are not providing the leadership that is required, while donors are competing for business and carving out niches for themselves without sufficient regard to the need for effective collaboration. Budget advisors and consultants are the servants of the donors and governments in this process. There is an urgent need for an honest broker to break this cycle and provide the national authorities with guidance and impartial advice that is realistic in terms of the expectations, scope, and sequencing of the proposed strategy.

Finally, in applying the approach outlined above, the overly complex, rigid, and technocratic budget improvement programs that have bedeviled would-be reformers in many developing countries need to be avoided. Budget reform is an art, not a science. Moreover, modernization of the budget needs to be linked to reforms in public administration more generally, and to the establishment of a professional, merit-based civil service. There is much

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standards of audit and accounting, improving transparency, and promoting some debate, however limited at first, about the quality of the government's fiscal reporting and financial management.

value in the guidance given by Hirschman (1958), namely to focus on changes that either impel or facilitate further changes. For example, civil servants should be provided with the appropriate inducements and incentives (financial and nonfinancial) to support reform (rather than blocking it); professional standards of public service need to be raised and institutionalized in areas such as economics, accounting, and financial management; and a code of conduct for public servants and whistle-blowing legislation, can strengthen ethical standards. Moreover, a critical failure in the design of most budget improvement strategies is to build in appropriate definitions of the required outputs and outcomes and tests of the success or failure of the measures themselves. In doing this, the right questions need to be asked of the right people, including middle- and low-ranked government officials in the budget "trenches;" and these officials—and the organizations and experts who advise them—need to be held accountable for failures to implement the required measures.

V. Conclusion

The core idea of this paper is that the reform of budgetary institutions is generally an extremely slow and challenging process that has taken more than two hundred years in advanced countries such as France, the United Kingdom, and the United States—in a series of slow moving waves somewhat like Kondratieff cycles—and is still not completed. The reasons for this are linked to the familiar doctrine, developed by North and others, of emerging states and the gradual transition of countries from rent-seeking states dominated by elites to open, democratic societies. Fiscal institutions are a major source of rent-seeking and rent-providing behavior in developing countries and, thus, exercise a strong influence on the budget process and its modernization. Budget reforms are also difficult because they require political willingness to make hard choices. Poor countries find this difficult and prefer to leave policy priorities to the donors, which is why PRSPs are often a mirror for donor preferences. In such countries, progress should generally be measured in terms of decades rather than years.

The paper argues that attempts to take approaches to reforming budgetary institutions that have been successful and effective in advanced countries—including "new wave" reforms—and transplant them into the alien environment of a developing country are usually unsuccessful and sometimes both disruptive and chaotic. While there may be some exceptions to this prediction (such as emerging markets, post-conflict countries, and some developing countries with special institutional characteristics and a powerful finance minister), they are rarely found in practice.

The paper further argues that technocratic solutions to the design of reform strategies in developing countries—such as the platform approach—have a certain logic, but their sheer weight, restricted timelines, and complexity vitiate against them as a practical tool for use in developing countries. They are also prone to capture by the agencies who fund and provide the technical assistance. The highly structured reform agenda, with platforms, sequenced steps, coordination, and participation of the authorities, donors, and other stakeholders may to some extent give a false impression of order in a fundamentally chaotic process. By contrast, the more successful improvement strategies have a relatively short-term horizon, focus deliberately on a quite narrow and specific set of objectives (for example, how to correct a fiscal imbalance or a problem of arrears, or to improve budgetary reporting), and involve a large element of trial and error, learning from mistakes, and "fumbling around in the dark." This requires deliberate selectivity in the choice of topics on which to focus the reform effort: selection rather than sequencing is the keyword.

To conclude, the model used by IFIs and donors in providing support for budgetary improvement programs through loans, grants, and technical assistance in many cases may be inappropriate and have limited effectiveness. Nevertheless, donors show little inclination to modify their existing practices—despite accumulating evidence of weak ownership of reform programs by national authorities, and generally poor results—since, as noted, fashions in reform are created and hard to throw aside, and project managers have a strong incentive to disburse loans, and a much weaker incentive to ensure that the long-term impact of such lending (and related technical assistance) is positive. This paper has argued that some rethinking and retooling of existing approaches and priorities is required; and offers some guidelines on an alternative approach. However, it has to be recognized that this is not an easy or comfortable process; and that, in practice, donors may have conflicting goals and incentives and limited scope and appetite for providing "good" advice in this area.

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