Donor support to strengthen public financial management in partner countries: Outcomes, experiences, and ways forward

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Question

Based on a review of recent literature on donor support to strengthen public financial management in partner countries:

- What have been the outcomes of such support, in particular on i) economic stability and ii) public service delivery?
- What factors have contributed to successful donor support to public financial management, both with regard to where it is given and how it is given?

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1. Overview

This report presents and discusses recent evidence about donor efforts to strengthen public financial management (PFM) in developing countries. This review summarises recent empirical evidence, drawing from recent academic studies, evidence assessments, and donor reviews. It also reviews some recent theoretical contributions in relation to donor approaches to PFM support.

The evidence on the impacts of donor support to strengthen PFM systems is patchy in terms of what it has achieved. The lack of evidence is likely to be at least partly due to the methodological difficulties of studying impact from PFM reforms. Other large-scale reviews of PFM support (apart from by DFID) are currently being undertaken both at the World Bank and the IMF. The Independent Evaluations Group at the World Bank is currently working on an extensive Public Finance for Development Evaluation, which will assess how well the Bank has designed public finance programs, how effectively it has implemented them, and with what results. The evaluation is expected to be available in February 2019 (Independent Evaluation Group, 2018). There is also an assessment of donor support to PFM underway at the IMF.

Whereas much of the PFM evidence base is made up of country cases and evaluations with few attempts of comparative analysis across countries and interventions, evidence on PFM impact from the cross-country quantitative literature suggest that:

i) There is a correlation between the quality of PFM systems in place and social impact. More specifically, higher quality PFM systems correlate with lower under-five and infant mortality, and higher life expectancy at birth.

ii) The largest factors contributing to the variation in quality of PFM systems across countries are economic and institutional factors. The existing statistical analyses show a positive but weak correlation between amount of donor support to strengthen PFM system and the quality of these systems.

In terms of evidence on impact from reforms to PFM at the different stages of the budget cycle, there is a relatively large body of evidence pointing to positive impacts from budget transparency and budget participation compared to more downstream activities related to budget execution and oversight functions.

A number of lessons have been learned from donor efforts to support PFM reforms. In terms of conditions for successful PFM reform in developing countries, evidence shows that the following conditions are important:

i) Reforms need to be aligned with domestic political incentives;

ii) Actors need to have sufficient capacity and resources to effectively run the PFM functions; and

iii) The demand-side of PFM systems matters too.

With regard to donors’ approaches to support PFM reforms in partner countries, a ‘new consensus’ has developed, away from the need for developing countries to adopt forms of “best practice” OECD-style PFM systems and towards a focus on developing genuine functional capacity. A number of theoretical approaches support this focus on function, including problem-
driven iterative adaptation, change management, and systems approaches. Lastly, the evidence in this review can be considered ‘gender-blind’.

2. Outcomes from donor support to strengthen PFM

In 2015 a DFID-commissioned project (de Lay et al, 2015) mapped almost 200 empirical studies on public financial management (PFM)\(^1\) in developing countries published in the period 2000-2015. The mapping exercise coded the empirical literature against the following eight outcomes from PFM interventions/reform:

- Improved transparency (75 studies)
- Improved accountability through effective scrutiny of public expenditure (60 studies)
- Resource allocation better reflects policy (52 studies)
- Improved working infrastructure that can raise efficiency of the PFM system (38 studies)
- More efficient / cost-effective service delivery (29 studies)
- Sufficient and timely funding for policy implementation (24 studies)
- Planned and timely funding releases and budget processes (22 studies)
- Improved citizen-state contract (18 studies)

The most frequently cited outcome was improved transparency (75 studies) followed by improved accountability (60 studies) and “resource allocation better reflects policy” (52 studies). However, the terms of reference for this coding exercise did not include assessing whether outcomes were positive or negative, assessing the consistency of results, or weighting evidence by the quality of the study. Thus, the fact there are multiple studies on a particular subject does not confirm whether these studies are sufficiently robust to rely on – the studies could include mixed, inconclusive, or contradictory results (de Lay et al, 2015).

The report concluded that the evidence base for PFM donor support is patchy in terms of what this type of support has achieved. More specifically, it concluded that many reports are vague with regard to the actual interventions taking place – for example talking about “budget reform” rather than specific interventions – and consequently are unclear about attribution from intervention to result. This finding echoes an earlier conclusion made by Hedger and de Renzio (2010, p.1) that “it is puzzling that there is so little evidence and analysis of the comparative performance of PFM systems and the factors underpinning successful PFM reforms, as well as the role of donor agencies in PFM reform processes”. It also echoes the finding from a more recent review of the impact from PFM reforms on health service delivery, which found that the evidence on how different aspects of PFM systems might affect service delivery is often small, and the results conflicting. This makes it difficult (perhaps impossible) to develop policy recommendations that would be useful in all or most contexts (Welham et al, 2017).

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\(^1\) The OECD Development Assistance Committee classifies “Public Financial Management” as support for (code: 15111): “Fiscal policy and planning; support to ministries of finance; strengthening financial and managerial accountability; public expenditure management; improving financial management systems; budget drafting; inter-governmental fiscal relations, public audit, public debt.”
2.1 Outcomes from cross-country statistical analysis

Whereas much of the PFM evidence base is made up of country cases and evaluations with few attempts of comparative analysis across countries and interventions, this sub-section summarises the quantitative literature on PFM impact. This literature can broadly be divided into studies that look at:

iii) The correlation between the quality of PFM systems in place and social impact, and

iv) The causes of variation in PFM systems across countries, including donor interventions.

These studies use cross-country data based on country scores from the World Bank’s Public Expenditure and Financial Accountability (PEFA) and the Country Policy and Institutional Assessment indicator 13 (CPIA-13), which measures the “quality of budgetary and financial management”. It is important to note that despite efforts made to strengthen PFM systems in developing countries over many years, for all low- and middle-income countries collectively, both the PEFA indicators and the CPIA-13 indicator show only a small aggregate improvement over time (Fritz et al, 2017).

In the first category of quantitative studies, Welham et al (2017) uses PEFA country scores to determine the impact of PFM on health service provision in developing countries (proxied by different measures of health outcomes). The authors found indications of positive outcomes from higher quality PFM systems. Specifically, they found that a better PFM system yields lower under-five and infant mortality, and higher life expectancy at birth. A one-point increase in the PEFA score, for example, moving from ‘B’ to ‘A’, is associated with roughly a 23–24% fall in under-five mortality rate, a 20–21% fall in infant mortality and a 2–4% increase in life expectancy at birth, all else being constant.

In the second category of studies, looking at the causes of variation in PFM systems across countries, there is a multi-donor review from 2010 by de Renzio et al (2010). This review provides an analysis of cross-country progress on PFM using country PEFA scores as indicators for the quality of PFM systems. The statistical analysis shows that most country variation in PFM quality is down to economic and institutional factors. Countries with higher levels of per capita income, larger populations, and better economic growth are characterised by better quality PFM systems. In contrast, countries in conflict or post-conflict situations tend to have poorer quality of PFM systems. The analysis also found a significant and positive association, albeit with a very small coefficient, between donor PFM support and average PEFA scores. When the analysis focused on low-income countries only, the share of total aid provided as general budget support was also found to be positively associated with better PFM quality. However, the analysis could not determine the direction of these correlation. The authors also stressed other limitations to their methodology, especially the lack of sufficient time-series data, which did not allow them to track the quality of PFM systems in countries over time.²

A more recent attempt by the World Bank (Fritz et al, 2017) to analyse the causes of cross-country variations found that the quality of PFM systems is most significantly and robustly associated with two variables: i) a country’s income per capita (positively), and ii) a high share of

² This quantitative report was part of a larger review encompassing a series of qualitative case studies from PFM reforms in Burkina Faso, Ghana and Malawi between 2001 and 2010. These cases are synthesised in Lawson (2012).
revenues being obtained from natural resources (negatively). The authors also found statistically weaker associations with being a small island developing state (negative) and per capita growth, political stability, and having a more democratic regime (positive, but small coefficients). These quantitative analyses agreed with the findings of de Renzio et al (2010) regarding the weak correlation between PFM systems performance and degree of ODA support for PFM reform.

An earlier review of World Bank interventions on PFM (Wescott, 2008) attempted to draw inference between Bank support and progress at country level using time series of CPIA-13 indicator data in addition to scattered evidence at country level. This review found that out of 75 countries where the World Bank provided PFM assistance after 1999 and for which CPIA data was available in 1999 and 2006: 64% showed an improvement by 2006 in PFM performance; 15% showed no change, and 21% showed a deterioration in PFM performance.

Whereas these cross-country analyses shed some light on PFM progress, they still leave many questions unanswered. To paraphrase Mills (2017, p.39), “Without knowing what exactly was being done, why it was possible, and what steps were taken together (or not), it is difficult to say much about whether it is relevant for a country to consider reform [in this area], much less what they should do to attain the potential benefits attributed to the reform.”

2.2 Outcomes from donor support per type of PFM support

This section looks closer at the literature on PFM and what it says about outcomes from donor interventions. It especially draws on three DFID-commissioned rapid evidence assessments that followed the aforementioned PFM coding exercise: on decentralisation of budgeting, transparency in procurement, and legislative financial oversight. Where possible, this section focuses on two areas of particular interest to DFID: economic stability and public service delivery in partner countries.

For the purpose of organising this literature, the literature has been distinguished by type of PFM support, and loosely in accordance with the different parts of a country’s budget cycle – i) Budget planning and preparation, ii) budget execution, and iii) budget oversight and assessment. As Mills and de Lay (2016, p.23) notes, there is a common criticism that PFM interventions have excessively focused on processes at the front end of financial management, especially budgeting and financial planning, at the expense of more downstream processes linked with implementation and oversight. The available evidence on impact seem to support this criticism.

2.2.1 Budget planning and preparation

Starting at the beginning of the budget cycle, at the stages of budget planning and preparation, the available literature on donor support in this area mainly concerns two topics: participatory budgeting and open budgeting (budget/fiscal transparency).

With regard to outcome from participatory budgeting, a DFID-commissioned rapid evidence assessment was published in 2016 drawing on 16 medium and high quality empirical studies from experiences in developing countries (Mills, 2017). It concluded that participatory budgeting has a good chance of being associated with positive outcomes if properly and sustainably implemented. Participatory budgeting was particularly found to be associated with greater pro-poor budget allocation, both in terms of direct benefits to the poor in the form of welfare and pro-
poor spending, and more indirectly in the form of increases in health and educational budgets (Ananthpur et al, 2014; Besley et al, 2005; Fukada-Parr et al, 2011; Heller et al, 2007).

There was also some evidence that participatory budgeting systems, compared to non-participatory forms of policy making, can have positive impact on service delivery (Heller et al, 2007; Fukada-Parr et al, 2011). The review found mixed evidence on whether participatory budgeting can also improve the efficiency of PFM systems, enhance accountability and support anti-corruption.

A number of reviews exists on the subject of open budgeting (de Renzio and Wehner, 2017; Carlitz, 2013; Ling and Roberts, 2014). De Renzio and Wehner (2017) provide a critical review of 38 empirical studies published between 1991 and early 2015 on the role of budget transparency and participation. According to the authors, the most convincing work among this empirical literature consists of a small number of experiments and natural or quasi-experimental studies. These studies document beneficial impact from fiscal openness, including:

- Lower government borrowing costs due to macro-fiscal disclosure (Glennerster and Shin, 2008);
- Lower corruption due to audits (Olken, 2007) and the publication of budget execution information (Reinikka and Svensson, 2011);
- Electoral consequences for politicians when audits suggest malfeasance (Ferraz and Finan, 2008); and
- Improved budget allocations due to citizen participation (Beath and Enikokpov, 2012; Olken, 2010).

2.2.2 Budget execution

In terms of the PFM support relevant to the financial implementation stage of the budget cycle, this review covers procurement and financial management information systems.

A DFID-commissioned rapid evidence assessment of transparency in procurement was published in 2016 (Telgen et al, 2016). Based on the relatively large number of largely qualitative empirical studies (48 in total) the authors nonetheless conclude that the available studies do not provide enough insight to assess the effect size (effectiveness) of public procurement interventions. There are three underlying reasons for this: 1) no comparable data are available from before and after interventions; 2) an intervention is usually part of a bigger set of interventions or a large reform package, and as a consequence it seems impossible to measure which specific intervention has had which effect; and 3) various constructs, such as transparency and compliance, related to the performance of the public procurement sector are very hard to measure and/or make quantitative.

Another PFM sub-area that donors, notably the World Bank, have spent much effort at reforming concerns financial management information systems (FMIS). These are systems to support management of public sector budgetary, financial, and accounting operations and promote better public financial management. If successfully implemented a FMIS can produce timely, relevant, and reliable financial data to promote fiscal discipline, assist with resource allocation, and improve operational efficiency and fiscal transparency (Gerado and Pimenta, 2015, p. 281).
Evidence of impact from FMIS reforms is, however, very limited. The aforementioned quantitative multi-donor review of progress on PFM by de Renzio et al (2010) found in their regression analysis that substantive investments in financial information systems seem to have had a positive (albeit limited) impact on the quality of PEFA dimensions related to budget execution.

A review by Dener et al (2011) of 25 years of World Bank experience supporting FMIS (based on a total of 94 projects from 51 counties between 1984 and 2010) suggests a methodology for the design and implementation of future FMIS projects but falls short of being able to say much about the impact of FMIS. However, it does make a call for future research to analyse the impact of FMIS introduction on public financial outcomes (e.g. timely reporting, better decision-making) in different countries.

A more recent review of World Bank support to FMIS by Hashim and Piatti-Fünfkirchen (2018) identifies five key factors for successful donor support to FMIS reform: i) realism with regards to time and costs; ii) having experienced specialists available; iii) continuity of staff; iv) the use of appropriate lending instruments; and v) adequate monitoring and evaluation to undertake mid-course corrections when necessary, and allow for attribution of FMIS investments to larger public financial management objectives. In terms of impact from FMIS reforms, the authors state that FMISs can contribute to the high-level PFM objectives of macro-fiscal stability, strategic allocation of resources, and operational efficiency. However, they do not attempt to empirically analyse any of these claims.

2.2.3 Budget oversight and assessment

Some evidence on impact is available in relation to donor support to PFM systems at the audit stage of the budget cycle. A DFID-commissioned rapid evidence assessment from 2016 examined the quality of the available evidence on the effectiveness of reforms aimed at improving legislative financial oversight (Mills and de Lay, 2016). Drawing on 24 studies, it looked at evidence from support to three types of oversight: Supreme Audit Institutions and Public Accounts Committees as important top-down oversight institutions, and social audit as a form of conducting oversight from the bottom up.

The authors conclude that the body of evidence on legislative oversight does not provide substantial evidence on the effectiveness of legislative financial oversight. There is some evidence on impact from legislative financial oversight down the results chain, like resource allocation and service delivery (Fukuda-Parr et al., 2011). There is also some evidence of positive results with regard to impact on transparency and accountability, especially from cross-country statistical analyses that examine the relationships between various oversight features and possible outcomes (Pelizzo, 2011; Ríos et al, 2014). These, however, do not consider specific donor interventions to strengthen oversight and are generally silent with regard to the underlying mechanism bringing about these outcomes.

The patchy evidence on impact from budget oversight institutions echoes the Independent Evaluation Group, which in a review of Work Bank projects in support of legislative financial oversight, similarly concluded that these accountability institutions have been under-studied, with insufficient investment in monitoring, evaluation and learning (Migliorisi and Wescott, 2011). Similarly, it supports what the World Bank (2012, p.43) reports from PFM reform across eight fragile states that reform of oversight mechanisms has lagged behind the progress made in other
PFM dimensions. This, they argue, is in part because budget accountability has received relatively less attention in reform programs, but also because it is a challenging area politically.

The aforementioned coding exercise of PFM empirical literature by de Lay et al (2015, p.12) suggested a number of reasons why the evidence map linking PFM interventions to results is patchy (and many of these reasons have been recurrent features in the PFM literature):

- The holistic nature of PFM systems does not suit a “medical model” investigating links between specific “treatments” and specific results.
- Whilst links between PFM interventions and PFM processes may be reasonably clear, downstream results on outputs and outcomes are especially hard to attribute to particular interventions.
- The time lags for many PFM interventions to take effect do not make formal study easy. Instead, there are many project evaluations or case studies conducted relatively quickly after the interventions (or even before interventions are complete).
- PFM (at least at national level and for core processes) does not lend itself to experimental designs, controlled experiments etc.
- Different solutions in different countries make comparative studies difficult.
- Quantitative measures of interventions are not readily available. Some quantitative measures of immediate results at process level do exist in terms of PEFA scores but these are not mapped to interventions. Quantitative studies of PFM using PEFA scores therefore so far relate mostly to evaluating the overall effort on PFM rather than to tracking the impact of particular reforms.

3. Conditions for successful donor support to PFM

This section focuses on lessons learned from efforts to strengthen PFM systems in developing countries. Sub-section 3.1 considers some of the developing country-related conditions and obstacles for successful PFM support identified in the literature. Sub-section 3.2 examines ideas from the literature on how donors can best support PFM and institutional reform in partner countries.

The analysis draws heavily on the three aforementioned rapid evidence assessments (REAs) of decentralisation of budgeting (Mills, 2017), procurement (Telgen et al, 2016), and legislative financial oversight (Mills and de Lay, 2016), as well as a recent World Bank report by Fritz et al (2017), which provides a synthesis analysis of a number of country studies from around the world.

3.1 Factors contributing to effective PFM systems in partner countries

The empirical literature on PFM has highlighted a number of factors that can contribute to, or act as a barrier for, the effective functioning of PFM systems in developing countries. The most commonly discussed ones can be broadly divided into the following lessons:
i) Reforms need to be aligned with domestic political incentives;
ii) Actors need to have sufficient capacity and resources to effectively run the PFM functions; and
iii) The demand-side of PFM systems matters too.

### 3.1.1 Reforms need to be aligned with domestic political incentives

“Political will”, and lack thereof, are catchphrases frequently used to signal eagerness or resistance to change. All three REAs include political will as a condition (and barrier) for reform to PFM systems.

Having political buy-in at central and local level of government for civic engagement in the budgeting process, including participatory budgeting, is key to successful initiation and sustaining of participatory budgeting initiatives. However, when external demands, including from donors, for civic participation are in the driver seat, and are not aligned with powerful political interests, participatory budgeting initiatives will be like empty vessels and potential benefits will not be reaped (Mills, 2017).

Resistance to change has also been highlighted as a main barrier to successful reforms in the area of procurement. When individuals and institutions benefit from an existing system they see little reason to comply with new rules (Telgen et al, 2016). For example, where public procurement interventions have touched on areas of corruption, a diverse set of stakeholders, including within the political elite, have sometimes had strong incentives to delay or divert the reform process (Telgen et al, 2016). Fritz et al (2017) also found that establishing effective control is very challenging in contexts where leakages benefit important interests.

Finally, accountability institutions are often not stronger than political leaders can handle, and “empty vessels”, or institutions “without teeth”, has been found to be a main barrier to efficient PFM in terms of legislative financial oversight (Mills and de Lay, 2016). The lack of institutional independence is one obstacle to the effectiveness of supreme audit institutes (SAIs) that has been highlighted in the literature. Relatedly, a lack of teeth whereby the recommendations made by public accounts committees (PACs) are mostly ignored and culprits identified by PACs are rarely prosecuted have been found to impair the effectiveness of PFM oversight functions (Mills and de Lay, 2016).

### 3.1.2 Actors need to have sufficient capacity and resources to effectively perform the PFM functions

The lack of capacity (quantity) and capability (quality) of human resources in the public sector was singled out as the barrier to successful reform of procurement systems most mentioned in the literature (Fölscher et al, 2012). Most countries experience a dearth of qualified procurement staff, and many countries face the challenge of meeting their needs for specialised procurement knowledge, with procurement entities unable to find the expertise they need in-country (Telgen et al, 2016).

Lack of capacity was also found to be a major barrier for effective workings of financial oversight functions, both for PACs and for SAIs. Lack of capacity within SAIs, due to shortage of accountants, problems retaining staff resulting in high turnover of staff, and underdeveloped PFM and auditing environment, impede the effectiveness of this accountability institution. Lack of audit
capacity within government spending units, in turn, leads to inadequate follow up of audit findings, thus rendering the recommendations of SAI reports superfluous. Moreover, a lack of capacity amongst civil society organisations and the media to react to audit findings impede the effectiveness of these actors as accountability providers (Mills and de Lay, 2016).

Relatedly, a lack of capacity in PACs due to inadequate human and financial resources and high turnover, means that the legislature cannot effectively act upon SAIs’ audit reports. This risks creating a self-fulfilling prophecy whereby the government loses respect for the role of legislative oversight and have no confidence that useful results can come out of it (Mills and de Lay, 2016).

A lack of capacity among stakeholders in the budgeting process has also been highlighted as a serious barrier to the successful implementation and sustainability of participatory budgeting. Some of this capacity shortage is, furthermore due to resource constraints (Mills, 2017). For example, several studies have found that citizen representatives’ capacity to participate can be constrained by a lack of economic resources, including resources to cover the cost of organising meetings and transporting citizens to these meetings, and the cost of effectively disseminating information to citizens (Mills, 2017).

3.1.3 The demand-side of PFM systems matters too

Evidence from PFM reforms across countries show that demand-side institutions – civil society and the media - can play a role in supporting PFM reforms, including through making effective PFM a salient political issue (Pelizzo and Stapenhurst, 2013).

Demand-side pressure for improved financial accountability from civil society organisations and the media can lead to improved legislative oversight functions. For example, opening up PAC hearings, including through televised broadcasts, is noted to have created pressure on the PAC to increase its functional capabilities and improve the quality and timeliness of its scrutiny of audit reports (Betley et al, 2012). Some authors, notably Pelizzo and Stapenhurst (2013), argue that creating the demand for legislative oversight is more important than reforming the oversight techniques that are supplied.

Whereas Fritz et al (2017) found that demand from citizens and civil society has not played a significant role for PFM reforms across the five countries they reviewed, given their technical and internal features, they do note that citizens can play a crucial role with regard to the overall reform mandate. In particular, they found that citizens, in several countries, had voted for significant change and reforms, and that electoral change in some countries had led to a significant acceleration of PFM reforms.

Finally, demand-side institutions play an important role for the successful initiation and sustainability of participatory budgeting initiatives. In the review of empirical literature on decentralisation of budgeting, Mills (2017) notes that structural conditions at the local level – such as the number of civil society organisations, the strength of the ties between them, and the existence of trust – can affect the motivation of civil society to participate in budgeting processes and thereby affect the chances of successfully implementing participatory budgeting.
3.2 Towards more effective donor support for PFM reforms

Welham et al (2017) provide a summary of where the current thinking is at in relation to how donors’ efforts to strengthen PFM systems in partner countries can be made more effective. They note that the debate in the PFM policy sphere has evolved away from the previous “consensus” on the need for developing countries to adopt forms of “best practice” OECD-style financial management systems and towards a focus on developing genuine functional capacity. They note that a “new consensus”, at least at the theoretical level, has emerged about the need for “bottom-up” approaches that “work with the grain” to change the effectiveness of specific functions, behaviours and practices in response to issues identified by government.

3.2.1 Problem-driven iterative adaptation

Matt Andrews and Lant Pritchett from Harvard University, and Michael Woolcock from the World Bank instituted the concept of problem-driven iterative adaptation (PDIA) as a solution to the problems of capability traps and “isomorphic mimicry” they saw in donors’ approach to reforming institutions in developing countries. As they argue, isomorphic mimicry - the tendency to introduce reforms that enhance an entity’s external legitimacy and support, even when they do not demonstrably improve performance – in individual projects, policies and programs add up to “capability traps”. Capability traps, in turn, is a dynamic in which governments constantly adopt “reforms” to ensure ongoing flows of external financing and legitimacy yet never actually improve (Andrews et al, 2012).

The following three broad recommendations are given for how to use PDIA to more effectively approach and induce institutional reforms. They emphasise that the process is as important as the product. First, those interested in institutional reform need to focus on solving problems instead of selling solutions. Reformers should begin with a specific, functional problem and ensure that implementation progress is assessed against the core problem being fixed (and not against form-focused indicators). Second, fixing the root problem will require greater willingness to experiment, iterate, adapt and explore in the process of turning ideas into solutions. Actors need to treat reform designs as compasses rather than maps, there to provide insights and direction, but not to give inflexible, prescriptive solutions. Third, if reforms are to be viable, legitimate and relevant, the process of reform design and implementation will need to engage as broad a set of agents as possible. It is particularly important to ensure that the initial problem is locally nominated and prioritised. External agents may play an important role in facilitating problem identification processes, but they cannot drive them (Bridges and Woolcock, 2017).

In a recent analysis of PFM reforms in Malawi, Bridges and Woolcock (2017) set their problem-driven approach in the context of reforms to PFM in that country. They based their analysis on 10 donor supported PFM projects over a number of years. They argue that these projects have yielded limited results in terms of functionality because donors have come with the solutions without having first understood the problem. The full complexity of the problem has been unexplored, and the causal link detailing donors’ assumption of how certain inputs will lead to functional outcomes have not been fully understood.³

However, Fritz et al (2017) found evidence that “isomorphism” is more the result of inducements than being the result of external leverage. Specifically, they found that technical and managerial staff in low- and middle-income countries often look around for new models to follow; and for various reasons find “international norms” attractive. In turn, the adoption of such standards is promoted by a host of professionals, international agencies, and consultancy firms. When managerial and technical staff initiate reforms, those are rather cases of “isomorphic reform” – a “copying” of a standard or practice – as opposed to mimicry. Moreover, such copying efforts may at times be reasonably good fits and deliver improvements, while in other situations, copying ultimately fails to achieve the intended impact.

3.2.2 Change management

Another approach to achieving function and not just form in PFM and public sector institutional reform is by focusing on organisational behaviour change using change management techniques coupled with political economy analysis. This is the approach advocated in a recent World Bank working paper by Hughes et al (2017) to solve the key reform challenge that changes in the design of the institution or its procedures do not necessarily translate into immediate changes in the behaviour of relevant actors.

Change management – defined as the process of helping people understand the need for change, and to motivate them to take actions that result in sustained changes in behaviour – focuses less on the technical side of reform and more on the behaviour of people (Hughes et al, 2017). Whereas much of the change management literature have concerned the private sector and businesses’ responses to management initiatives, the authors suggest that it can be successfully applied to reforms in the public sector, including PFM reforms. However, when applied to the public sector, the change management models need to take on board the specific challenges of the relationship between the administrative and the political spheres, and the particularities of institutional culture in various public sector agencies, reflecting entrenched distribution of power between different arms of the state (Hughes et al, 2017).

Fritz et al (2017) found from their country cases that, whereas reforms are possible even in difficult environments, finding “windows of opportunity” are crucial to enable breakthroughs. Moreover, the authors conclude that deep and transformational PFM reforms require an alignment of technical capabilities, strong political mandates for reforms, and institutional opportunities.

This is where a political economy analysis comes into the picture. More specifically, change management strategies applied to the public sector need to “be informed by a flexible and real-time approach to political economy in order to effectively diagnose and deal with real challenges to change processes as they arise in a dynamic context” (Hughes et al, 2017, p.6). Such political economy analysis can, according to the authors, offer change managers important information about where there is a significant window of opportunity for reform. It can also offer a detailed assessment of the various social forces that will tend to support or resist change; change managers can then adopt bespoke packages of techniques that will make forces for change more effective.
3.2.3 Systems approaches

The PFM field has had difficulty gathering tangible evidence about “what works”. That is partly due to the fact that PFM is a system and, as such, reforms invariably have multiple components and oftentimes come in the form of institutional packages (Wehner, 2018). A current debate is evolving that is system-focused in approach and that may hold some important insights on how to best approach PFM reform and also how to account for impact from PFM reform, especially seeing that much of the literature on PFM focuses on a particular policy instrument or function but devotes little effort to thinking about the interactions between them.4

As Mansoor and Williams (2018) explain, a systems approach employs a set of analytical tools with the aim to understand how complex systems function. The approach focuses on understanding the dynamic relationships between system components, with an emphasis on studying the system as a “whole” instead of individual components. In so doing, the systems approach emphasises issues of context, complementarity, and contingency as determinants of actions and outcomes, and is sceptical about the usefulness of trying to “hold all else constant” and treating units of analysis as independent and acontextual in order to understand the effectiveness of particular government policies or processes.

The interdependency of different PFM components, notably between SAIs and PACs, was stressed in Mills and de Lay’s (2016) review on legislative financial oversight. As one of the papers reviewed stated, donor support has been limited, poorly coordinated, and has failed to address the interrelationships among oversight institutions. “A very effective supreme audit institution combined with a weak parliamentary account committee cannot have any significant impact” (Migliorisi and Wescott, 2011, p.32).

4 A recent academic workshop titled ‘Systems of Public Service Delivery in Developing Countries’ took place at the Blavatnik School of Governance in Oxford on 14 May, 2018.
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