Good Practice Note on Sequencing PFM Reforms

Jack Diamond

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ABBREVIATIONS AND ACRONYMS

FMIS  Financial Management Information System
GPN   Good Practice Note
IPSAS International Public Sector Accounting Standards
LIC   Low-Income Country
MDA   Ministry, Department, and Agency
MOF   Ministry of Finance
MTBF  Medium-Term Budget Framework
MTBO  Medium-Term Budget Outlook
MTEF  Medium-Term Expenditure Framework
MTFF  Medium-Term Fiscal Framework
MTFO  Medium-Term Fiscal Outlook
PEFA  Public Expenditure and Financial Accountability
PFM   Public Financial Management
This document summarizes work that began in September 2010 to review the rapidly expanding literature on sequencing public financial management (PFM) reforms. This was in response to a request from OECD DAC for a Good Practice Note (GPN) to assist donors when sequencing PFM reforms. It was felt that although the planning of the technical aspects of individual PFM reforms appeared well understood and agreed among donors, often the impact of reform programs was less than might be expected due to failures in the coordination and sequencing of reform actions. Consequently, this GPN is primarily targeted at those in the donor community and their principal country counterparts that are engaged in the design of PFM reforms. The GPN summarizes the content of two background papers (entitled "Sequencing PFM Reforms" and "Core PFM Functions and PEFA Performance Indicators"), which should be read in conjunction with this GPN.

At the outset, some points should be stressed. The GPN, as its name suggests, is an attempt to document the lessons learned in sequencing PFM reforms and, based on this, to offer some guidelines to assist future reform efforts. As such, it should not be regarded as providing a rigid prescription for reform sequencing and is certainly not a "how-to-do" manual for PFM reforms. The GPN does recommend a high-level ordering when undertaking reforms, beginning with establishing some key or "core" functions (stressing control over public finances) and then moving to more sophisticated reforms—establishing instruments for medium-term fiscal management and ultimately reforms aimed at improving efficiency and effectiveness in resource use. However, this in no way implies defining a universal reform path that all countries should follow. Rather, the GPN emphasizes that choice within broad reform categories should be country-specific, especially since all countries face different non-technical determinants external to PFM that are recognized in the GPN as critical to the success of reform. It is also recognized that typically reforms are not undertaken from a zero base, but must in some way accommodate on-going reforms. Accordingly, the GPN offers a possible analytical framework to address these diverse factors and to integrate them into country-specific reform sequencing decisions using a risk-based approach. In this way, the GPN should be regarded as only a first step in improving one aspect of the design of future PFM reforms, namely that involving the order and timing of reform actions. Indeed, it is emphasized that the practical applicability of its recommendations would benefit considerably from, and should be modified in light of, further empirical work. In this regard the GPN concludes by identifying some of the more obvious areas for further analysis where development partners are encouraged to make a contribution.
ACKNOWLEDGEMENTS

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I. INTRODUCTION AND SUMMARY OF KEY POINTS

A. The Objective of This Good Practice Note

1. The aim of this GPN is to assist in the successful design and implementation of PFM reforms by addressing the issue of appropriate sequencing. The study arose from concern that different sequencing priorities were causing practical problems and conflicts in implementing reform actions. The note is targeted at planners and decision makers in government and donor agencies. More detailed information useful for implementers is contained in appended background papers. The GPN summarizes the main points in these papers.

2. A key aspect of designing PFM reform stressed in this Note is that it should be tailored to unique country circumstances. For this reason alone, this document is not a “how-to-do” manual for deciding how to sequence PFM reforms, but rather a guide to the necessary analysis that should go into determining the appropriate reform strategy in each unique situation.

B. Sequencing Should be Guided by PFM Priorities

3. Sequencing decisions should focus on three main PFM priorities determined by the principal deliverables of a PFM system. Historical experience suggests that PFM reform actions should focus on three main management deliverables in the following order: first, putting in place controls to ensure some minimal level of financial compliance (fiscal control); secondly, establishing mechanisms to improve fiscal stability and sustainability; thirdly, introducing systems to promote the efficiency and effectiveness in service delivery.

4. These top-level priorities, determining the overall sequencing strategy, should be the same for all countries. Within this strategic view, it is argued, specific reform actions can be taken to achieve a top-level priority, determined and sequenced based on country circumstances. At this lower level there is no universal ideal sequence for PFM reforms.

5. A hierarchy in prioritization should be recognized at the top level. For example, a core level of compliance with budgetary legislation, financial regulations and procedures is required to attain the planned fiscal deficit, an important requirement for ensuring macroeconomic stability. Similarly, compliance and macroeconomic stability, in turn, are needed to support efficient and effective service delivery.

6. Attempting to leapfrog this hierarchy in the top PFM priorities will likely lead to unsuccessful reforms. For example, attempting to improve service delivery, say by introducing results-based budgeting reforms, when adequate financial control is lacking or there is undue instability in resource availability, is unlikely to be successful and could prove counterproductive.
7. **Focusing reforms on one top-level PFM objective does not exclude significantly contributing to the others.** While the top-level hierarchy should guide reform priorities, the relationship between these priorities is complex. Achieving any of these main priorities eventually improves the performance of the other main priorities, and thus when all priorities are attained, they are mutually supportive. As an example, delivering services more efficiently and effectively aids fiscal sustainability, and compliance is easier to achieve in the context of a sustainable budget.

C. **Key Recommendations for Sequencing PFM Reforms**

8. **The first priority in PFM reform is to establish a minimum operational level of core PFM functions.** These core PFM functions primarily focus on financial compliance and fiscal control. Recognizing that a realistic (or credible) budget is fundamental to financial control, achieving a realistic budget can, together with financial compliance, be considered as part of the "core" functions. This level of PFM attainment can be indicated by target scores on PEFA indicators, although in practice these scores need to be supplemented by other information, especially on dimensions not adequately covered by PEFA.

9. **It should be recognized that many countries, especially low-income countries (LICs), fail to meet the target scores in core PFM functions on a wide range of PEFA indicators.** This implies most sequencing decisions must focus on achieving this core level functionality, where it is essential to adopt a strategy that is viable in each specific country context.

10. **Before advancing to reforms aimed beyond core PFM functions, it is important to establish an adequate IT basis, accounting system, and regulatory framework, on which to anchor subsequent reforms.** The benchmarks for attaining this PFM operational level are the establishment of a financial management information system, an accounting system that can at least meet International Public Sector Accounting Standards (IPSAS) cash reporting standards for central government operations, and budget legislation that meets critical control standards and is adequately enforced.

11. **With this as a platform, subsequent PFM reforms should be sequenced along three tracks:** further improving compliance; a progressive move from annual to medium-term budget planning; and a staged move from traditional line-item budgeting to program, and eventually performance budgeting. With sequencing priorities set in this order, the exact choice of reform actions and pace of moving along these three tracks should be determined by specific country circumstances and preferences.

D. **Making Country Specific Sequencing Decisions**

12. **Sequencing cannot be viewed simply as a technical issue.** The technical specification of reform actions required to improve the PFM system, (i.e., what is needed), must be consistent both with what is possible (implementable) and what is wanted
(politically supported). Bringing all three dimensions into line is the role of change management, a crucial factor in reform success.

13. **The viability of any reform program should be determined by a systematic analysis of the risk and opportunities** existing in the specific country environment, and those arising from the nature of the reform actions being contemplated.

14. **External non-technical factors should be recognized as critical for sequencing and must be accommodated in any viable reform program.** These non-technical factors can be analyzed by dividing them into three tiers: top-level conditioning factors, that determine the overall reform environment; PFM system institutional factors that determine how well reforms will be received and implemented; and at the lowest level, organizational factors and HR factors that often impose constraints on the extent of reform. Each level should be analyzed to assess the risk and opportunities they pose for reform. Based on this analysis, wherever possible action should be taken to reduce risk of reform failure and to enhance support for reform.

15. **Choice of the type of reform action has an important impact on its likelihood of success.** A review of the literature identifies five dimensions as influencing the risk of failure: the number of institutions involved; the time required for implementation; scope of reform actions; the degree of behavior change implied; and the degree of visibility in the final results. All are highly correlated: reforms wide in scope usually involve more institutions and greater time for completion, they tend to involve a greater degree of behavior change and often their results are only visible, if at all, with a considerable time lag. Also a trade-off should be recognized: the higher is the risk level of different reforms typically the higher is their potential reform impact.

16. **A reform program should be designed to ensure that the level of risk implied by planned reform actions is compatible with the level of environmental risk posed by external non-technical factors.** This implies not only choosing the type of reform actions in light of their perceived level of risk, but also modifying reform actions and their sequencing, (both the order in which they are taken and the time allowed), to minimize the overall risk level of the reform program.

17. **In deciding on any specific sequencing strategy, reform managers should make efforts to enhance opportunities for reform and to mitigate any risks faced.** This proactive role for change managers should continue during implementation.
II. THE APPROACH TO PFM REFORM SEQUENCING

A. The Rationale for Sequencing

The case for sequencing rests on: the need for a notional route map of where reforms should lead; recognition that some reform actions technically should precede others; and the practical reality that it is usually impossible to undertake all reforms simultaneously, so we must prioritize.

18. Despite some recent attempts to agree a sequence in planning PFM reforms, a consensus remains lacking. Indeed, some would deny the concept has any practical use citing vast differences in country reform experience, which often appears haphazard, spasmodic and politically opportunistic. In contrast to this position, the starting point of this GPN is that there are strong conceptual and practical reasons for developing sequencing guidelines for PFM reform.

19. First, to be successful in PFM reform there is little choice but to attempt to conceptually define a desirable sequence of reforms. If we cannot define at least a notional reform path, no reform can define what it is ultimately attempting to achieve, and certainly cannot define the steps to be taken on the way to achieving this. In the absence of this broad “vision,” more detailed reform efforts, and the associated donor support, will tend to be band-aid, quick-fix, dealing with symptoms, and difficult to sustain.

20. Secondly, the practical problems in implementing PFM reforms also suggest it is not possible to avoid the sequencing problem. PFM is a system so wide that often even in advanced countries not all problems can be tackled at once. Moreover, due to system interdependencies, often some actions must precede others for the latter to be successfully implemented. This implies that, of necessity, reformers need to prioritize reform actions to pursue a viable reform path. How to prioritize lies at the heart of the sequencing issue.

B. What Does the Sequencing Literature Tell Us?

In reviewing the sequencing literature a number of common themes emerge: agreement on the incremental or step-wise approach to reform, that there is no universal off-the-shelf solution, that reforms need to be country specific and take into account non-technical factors, and that success should be judged by improved PFM deliverables.

21. The importance of sequencing in the design of PFM reforms is endorsed, but in different ways and to different degrees. Almost universally experts in the field argue against the “big bang” approach, that attempts a broad range of reforms simultaneously in a short period of time. Rather they view an incremental or step-wise approach—or the sequenced approach—as more tenable. Among the predominant interpretations of reform sequence are “basics first” approach (associated with Schick), the "platform approach" (associated with Brooke), and some combinations of the two approaches, (e.g., Tommasi,
recommends that the first platform should aim for the "basics"). There are also significant variants of the platform approach, some based on different uses of the PEFA framework (e.g., Quist and Andrews), and with significant variation in the content of the platforms.

22. **There is no agreement on a common approach.** While most experts in the field recognize the value of a sequenced approach, at the same time most would also agree to disagree on the desired order of sequenced reform actions. For example, when adopting a platform approach the question as to what should be included in the first platform has been answered in different ways in different countries. This lack of consensus is most evident in the various interpretations of what constitute PFM “basics,” referred in this GPN as "core" PFM functions.

23. **Sequence is recognized as a key feature in designing reforms but also there is no one universal approach that is applicable.** There also seems general agreement that there can be no universal "off-the-shelf” reform design, but rather reforms should be geared to specific country circumstances and demands. Indeed, almost all experts in the field stress non-technical (or external) factors as heavily influencing country differences in the design and the success of reform initiatives in the PFM field. Unfortunately, there is no agreement on what they are, except perhaps that they vary widely in their individual influence and between countries in importance.

24. **Reform success should be measured by PFM deliverables.** There also appears a general acceptance of the view that success and failure in PFM reform should be judged by the outcome of reform actions in achieving PFM objectives. For example, in the sequencing of reform programs, nearly all experts stress the importance of setting milestones of success by indicators of outcomes to be expected by PFM reforms. This focuses on the “deliverables” of the PFM system. For example, usually care is taken to specify what is to be the expected outcome of meeting “basic” PFM processes, or the expected outcome of achieving "platform" targets.

   **C. The Framework for Discussing Sequencing in this Good Practice Note**

   *Sequencing should be dictated by the objectives of the reform, defined by PFM deliverables, and should be recognized as having two interrelated dimensions: the order of reform actions and their timing. It is argued ordering should differentiate higher and lower-level priorities, with higher-level sequence informed by historical precedence, and that timing of reform actions is heavily dependent on nontechnical factors that are country specific.*

25. **This GPN employs a conceptual framework that rests on two main premises.** First, sequencing reform activities cannot be divorced from the ultimate objectives of reform, so without some agreement on the latter it is difficult to agree on the former. Accordingly, reform objectives are aligned with the "deliverables" of a well functioning PFM system: financial compliance; fiscal stability and sustainability; efficiency and effectiveness in service delivery. This analytical framework is elaborated below. Second, sequencing reform
involves more than just deciding the technical order in which reform activities should take place. When talking of sequencing PFM reform we are trying to define a chain of PFM reform actions with two associated dimensions: the order in which actions are taken and the timing of the actions. Both dimensions are heavily influenced by non-technical factors that tend to be country specific.

26. **It is evident that the scope of PFM adopted in the GPN, and in particular the identification of its deliverables, may be at variance with some other accepted interpretations.** Specifically, previous interpretations have emphasized policy objectives not management objectives, and consequently have been is too narrow in scope, concentrating on budgeting but not the whole PFM system. Usually these interpretations have focused on resource allocation decisions determining government policy at three levels: top-level decisions determine how resources are to be allocated between the government and private sector, revolving around the desired size of government especially with respect to macroeconomic developments; middle-level strategic decisions determine how this overall envelop is to be divided between the different sectors/ministries to meet different policy priorities; and lower-level decisions determine how resources will be divided within the sector/ministry envelop to best meet specific policy objectives. All these resource decisions are usually reflected in the budget document, which represents perhaps a government’s most important policy document. However, budgeting (preparation, presentation, approval) is only one component of PFM. The PFM system represents all the regulations and procedures that ensure that the threefold policy decisions previously described are fully complied with. That is, apart from ensuring the budget preparation process is effectively functioning as described previously, management systems must also be in place to execute the budget in line with resource allocation decisions, (i.e., resource use is accounted for, monitored, reported and audited); treasury operations exist so this execution takes place smoothly in terms of cash availability; and resource use is financed efficiently through debt management operations. Adopting this wider perspective it is possible to identify the three main management objectives or “deliverables” of a PFM system used in this GPN and relate them to policy objectives, as shown in Figure 1. This represents the analytical framework of the GPN.
Figure 1. Schematic Overview of the PFM Conceptual Framework Based on Three Main Management Deliverables

27. **The ordering of reform actions should be viewed as a two-stage process.** First, at a higher level of decision making, it consists of getting top-level reform priorities in the right order. These reform priorities are decided by what the PFM system is primarily designed to deliver (or what is the main outcome to be achieved by the PFM system as a whole). Secondly, once the top-level reform priority is decided, lower-level sequencing consists of jointly deciding the optimal order and timing of individual reform actions to achieve this priority or deliverable. However, if the top-level priority is wrongly sequenced, then the sequencing of reform actions at the lower level is unlikely to be successful.

28. **The timing (or pace) of reform actions is critical to successful reforms.** Getting the timing wrong, both of when to commence and how long to allow for a reform action, will undermine any successful sequencing of reform. Further, it is recognized that the timing of reform actions will depend critically on non-technical factors often external to the PFM system, and as such will inevitably be country specific. This has two general implications for sequencing. First, even if it was possible to generalize across countries about the desirable order in which PFM reforms should be undertaken, since timing will be country specific it is not possible to generalize across countries about reform sequencing overall. Second, sequencing cannot be considered solely a PFM technical matter outside each country’s political economy of reform. It is difficult to avoid the conclusion, therefore, that sequencing decisions require these external non-technical issues be addressed directly.
29. **A top-level sequence in PFM reform can be identified by historical precedence.** The most advanced PFM systems have evolved in stages to meet different policy requirements. First, traditional budgets focused primarily on financial compliance, or fiscal control. Then they moved from annual budget planning to medium-term planning to assure greater macroeconomic stability and fiscal sustainability. Subsequently, PFM systems moved to performance budgeting or "results-based" PFM systems to improve service delivery and effectiveness in attaining policy objectives. This was achieved by adopting more decentralized management systems with associated changes in corporate governance arrangements in the public sector. In this way PFM progress can be viewed as one of accretion, of adding PFM deliverables not substituting them (see Figure 2). If one accepts this broad view of PFM development, one must ask why reinvent the sequence of PFM reform? This GPN argues that the order of reform actions should follow a hierarchy determined by the three main deliverables of a PFM system, in order, management systems to ensure: compliance/fiscal control; stabilization and sustainability; efficiency and effectiveness in resource use.

Figure 2. Reform Priorities Reflected in the Typical PFM Development Path
30. **Not following this top-level sequence or attempting to "leapfrog" has its dangers.** Accepting the logic behind this hierarchical approach, it would not be advisable to move to detailed sequencing of reform actions that conflict with the country’s top-level priorities. For example, it does not make sense to begin developing a medium-term budget framework (MTBF) when there is insufficient basic financial compliance to enable a country to successfully execute an annual budget. Similarly, introducing program budgeting or moving to "results-based" reforms when one cannot ensure financial compliance, or overall stability in aggregate resource envelopes, does not make sense, and could prove counterproductive. *To sum up, it is not likely to be possible to get reform sequencing right if the overall reform priorities are wrong.*

31. **This top-level sequencing strategy may have to be flexible to accommodate ongoing PFM reform programs, as well as any parallel reforms underway in areas that may impact PFM reform activity.** While it might be tempting to ignore them in planning future PFM reforms, or run them on a parallel track, the GPN recommends that an explicit strategy be adopted regarding such ongoing reforms. In formulating this strategy it is important to ask such questions as: Are there any elements in ongoing reforms that could be terminated? Are there any elements that can be modified or delayed? Are there any elements that could be incorporated in the proposed reform agenda? What would be the costs and benefits of each, or a combination of, these approaches? If the ongoing reforms are to be continued what are the costs and benefits to the proposed reforms? Hence the resulting strategy could include successful advanced reforms being incorporated into the reform program, even if they were not strictly aligned with the top-level sequencing recommended in the GPN. This would recognize that some governments may be able to demonstrate low risk to reform success for particular second and third level reforms even when these are undertaken in parallel with reforms aimed at achieving core functionality.

**D. Key Issues Addressed in this Good Practice Note**

*To make this framework operational requires a number of issues to be resolved: defining the three main PFM deliverables so that it is possible to measure different levels of PFM functionality; allowing for the influences of the wider reform decision process on sequencing; deciding on how to analyze and accommodate non-technical factors in sequencing decisions; defining the role of change management in the reform process; prioritizing within core functions; determining the requirements to move beyond this core level of functionality; and sequencing beyond the core PFM level.*

32. **It is proposed to use the PEFA framework to determine different levels of PFM attainment, and so define technical requirements for sequencing any PFM reform.** Specifically there is a need to specify some basic level at which a PFM system should operate, or *core PFM functions*, that all countries should attain as a first priority. Then to make this concept operational by a careful specification of the expected PFM deliverables to reach this level of functionality. For this it is proposed to use the widely accepted PEFA
system of indicators, and to follow Tommasi's determination of target core level scores for PFM functions where the targets are set at the disaggregate dimensional level (see background paper 2). In a similar way, it is important to specify the PFM requirements for reforms moving beyond this core PFM level.

33. **A subsequent problem is the determination of desirable PFM preconditions for moving reforms beyond core levels.** Even if core PFM functions are in place, before moving to more advanced reforms a number of supporting functions will often require strengthening and modification. Unfortunately, in some of these dimensions the PEFA framework does not offer sufficient guidance and should be supplemented (as indicated in background paper 2).

34. **It is also important to agree on the approach to sequencing when moving to more advanced reforms.** Although not receiving much attention, proper sequencing of reform actions “beyond the core” is just as critical as “within the core.” The typical development path, based on historical experience, is described in the GPN.

35. **Decisions on sequencing need to be placed in the wider context of the decision-making process that shapes PFM reforms.** Sequencing is only one component of a wider reform process, so that even if sequencing is correct the reform may not succeed due to wider problems with the reform decision process. An understanding of these problems, and possible ways they may be addressed, is essential to successful reform sequencing.

36. **It is important to ensure decisions on sequencing are aligned with the reality of the political economy of each country.** The sequence of reform actions must work within, and come to terms with, the political economy environment of each specific country, as well as such nontechnical factors as the institutional arrangements of PFM, and even the individual characteristics of the organizations in which the reform is to be introduced. It is essential to reach agreement on how to analyze these influences, how to modify the sequence of reform actions to accommodate them, or when to take action to remove constraints, or to exploit opportunities, that they may pose for reform actions.

37. **The discussion of sequencing should recognize the need to "engineer" reforms.** However well sequencing is technically specified, and however enabling the environment, the success of reform delivery will depend on the amount of investment that is made in managing the reform process at all levels. This not only requires tailoring the PFM reforms to fit the specific country environment, but also stresses the importance of change management in mitigating risks and exploiting opportunities to ensure reform success.

38. **Practical guidance to resolve reform prioritization problems must take the above factors into account.** This necessitates a methodology guided by PFM technical issues, but allowing scope to accommodate country-specific non-technical factors while recognizing the importance of managing the reform process. In Section IV this methodology is described using a risk-based approach.
III. AN OVERVIEW OF SEQUENCE IN THE DEVELOPMENT OF A PFM SYSTEM

The GPN envisages developing a PFM system in three main stages: first, all countries should attempt to reach a core level of PFM functionality; secondly, there should be a consolidation phase to establish a firm platform to move beyond the core; third, countries should then develop more advanced PFM functions on three parallel tracks aimed at strengthening the three main deliverables of any PFM system.

A. Establishing Core PFM Functions

As a first priority countries should establish core PFM functions, focused on financial compliance and measured by target PEFA indicator scores. This does not imply that PEFA ratings should be the sole determinant of reform sequence, but rather this must be supplemented by other information allowing for the influence of nontechnical factors and the type of reform actions planned.

39. **The first priority for all countries is to establish core PFM functions.** Such core functions should be focused on the first PFM priority, financial compliance. The constituent elements of core PFM functions are summarized in Table 1, and quite clearly focus on the control aspects of PFM. Two points should be stressed. While emphasizing the importance of financial compliance it is also important to recognize that core levels of financial compliance should be considered a necessary minimum, and are lower than the functional levels attained in the most advanced PFM systems. Secondly, it should be recognized that despite the focus on compliance, meeting this core level of control also implies that the other two deliverables of a PFM system—fiscal stability and sustainability, and efficiency and effectiveness in service delivery—would be met up to a certain "core" level. For example, starting with a realistic or "credible" budget not only provides a basis for macroeconomic stability but also provides a solid basis on which to enforce financial compliance.

40. **The GPN recommends defining the first top-level priority, establishing a "core level" of PFM functions, by using the ratings of PEFA indicators.** Unfortunately, some PEFA indicators mix different PFM deliverables, in the sense that some dimensions of their scores may cover financial compliance/fiscal control aspects but other dimensions are directed to macro fiscal stability and/or efficiency and effectiveness considerations. However, the majority of PEFA indicators in all their dimensions deal essentially with different aspects of financial compliance and so can be viewed as concentrating on core PFM functions. Of course, to reach "core" levels of compliance will not typically require an "A" rating of the indicators. As a useful starting point, Tommasi has made a detailed determination of the target PEFA scores he would consider as sufficient to reach the core level for PFM functions, (detailed in background paper 2). He also noted that the PEFA framework may not be technically comprehensive in defining PFM core requirements. For example, PEFA largely ignores the regulatory framework and the level of IT requirements, and in background paper 2 he offers ways of filling these gaps.
### Table 1. Possible Core PFM Functions and Their Target PEFA Scores

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<th>Description of Core PFM Functions</th>
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<td><strong>Realistic budgeting</strong></td>
<td>PI-5 (C); PI-11 (B); PI-12 (C)</td>
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<td>- Revenue forecasts are realistic, based on detailed analysis of revenue bases and macroeconomic developments</td>
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<td>- Expenditures are fully costed, with adequate allowance for inflation, exchange rate movements, recurrent costs of completed investments</td>
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<td><strong>OUTCOME:</strong> Budget outturn is close to budget approved ex ante</td>
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<tr>
<td><strong>In-year control over spending</strong></td>
<td>PI-2-(ii) (B); PI-4-(ii) (B); PI-18 (C+); PI-6 (A); PI-7 (B); PI-13(C+); PI-14 (C+); PI-15 (C+); PI-16 (C+)</td>
</tr>
<tr>
<td>- Commitments are controlled as well as cash</td>
<td></td>
</tr>
<tr>
<td>- Budget is comprehensive, and makes adequate provision for contingencies</td>
<td></td>
</tr>
<tr>
<td><strong>OUTCOME:</strong> Budget outturn avoids overruns and arrears</td>
<td></td>
</tr>
<tr>
<td><strong>In-year control over revenues</strong></td>
<td>PI-22 (B); PI-24 (C+); PI-25 (C+); PI-23-(i) (D); PI-9(i)(B)</td>
</tr>
<tr>
<td>- Tax administration has capacity to enforce tax laws</td>
<td></td>
</tr>
<tr>
<td>- Continual analysis and follow-up of revenue collections versus estimates</td>
<td></td>
</tr>
<tr>
<td><strong>OUTCOME:</strong> Budget revenue outturn avoids shortfalls and arrears</td>
<td></td>
</tr>
<tr>
<td><strong>Timely accounting and reporting</strong></td>
<td>PI-17 (B)</td>
</tr>
<tr>
<td>- Accounting is comprehensive and timely</td>
<td></td>
</tr>
<tr>
<td>- Reliable and timely bank reconciliation in place</td>
<td></td>
</tr>
<tr>
<td>- Reports can be produced with minimal delay so budget execution can be tracked and public sector monitored</td>
<td></td>
</tr>
<tr>
<td><strong>OUTCOME:</strong> Budget execution performance is known throughout the year allowing adjustment if required</td>
<td></td>
</tr>
<tr>
<td><strong>Central control over cash</strong></td>
<td>PI-19 (C+); PI-20 (C+); PI-21 (C)</td>
</tr>
<tr>
<td>- Use of a Treasury Single Account (or consolidated fund concept)</td>
<td></td>
</tr>
<tr>
<td>- Minimize number of bank accounts and cash transactions</td>
<td></td>
</tr>
<tr>
<td><strong>OUTCOME:</strong> Budget minimizes use of cash and risk of financial irregularity</td>
<td></td>
</tr>
<tr>
<td><strong>Adequate internal control procedures</strong></td>
<td>PI-26 (C+); PI-27 (B); PI-28 (C+); PI-10 (B)</td>
</tr>
<tr>
<td>- Administrative internal controls in place in all government departments</td>
<td></td>
</tr>
<tr>
<td>- Procurement is transparent with well defined regulations</td>
<td></td>
</tr>
<tr>
<td>- Internal audit functions adequately</td>
<td></td>
</tr>
<tr>
<td><strong>OUTCOME:</strong> Budget execution avoids rent seeking behavior and financial irregularities</td>
<td></td>
</tr>
<tr>
<td><strong>Adequate external control procedures</strong></td>
<td>Not covered in PEFA</td>
</tr>
<tr>
<td>- External audit addresses financial irregularities with timely reports to the legislature</td>
<td></td>
</tr>
<tr>
<td>- Strong legislative scrutiny and follow-up on audit reports</td>
<td></td>
</tr>
<tr>
<td><strong>OUTCOME:</strong> Transparency and financial discipline enforced</td>
<td></td>
</tr>
<tr>
<td><strong>Supporting legal and regulatory framework, that is adequately enforced</strong></td>
<td></td>
</tr>
<tr>
<td><strong>OUTCOME:</strong> The formal PFM system is the system</td>
<td></td>
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</tbody>
</table>

41. While a strong case can be made for defining the core level for PFM functions using PEFA scores, the case is less strong for using the PEFA framework to decide sequencing priorities. A major problem faced is that for many LICs a PEFA report will most likely reveal a wide range of weaknesses. With many indicators scoring a D, how to prioritize between them? Notwithstanding notable attempts to resolve this issue, (by Quist
using PFM linkages to rank PEFA indicators in reform priority, or by Andrews to define empirical profiles of PFM development using PEFA scores for African countries), unfortunately there is another fundamental obstacle to a PEFA-determined reform sequencing. Namely, despite common agreement on their critical importance in sequencing reforms, PEFA cannot handle non-PFM technical factors (an issue addressed in Section IV below).

42. **It is not recommended that PEFA scores solely be used to determine reform sequence.** The above considerations should not detract from the fact that PEFA is a sound assessment tool, but rather they should provide some warning against using PEFA assessments mechanistically in determining the design and sequencing of PFM reform. It is suggested in this GPN that PEFA should be embraced as a diagnostic tool but not overloaded by simultaneously being used as a determiner of reform actions. This does not rule out further analysis of PEFA results as a guide to reform action, but only when qualified by other information. Section IV of this report describes such a methodology. This risk-based approach also includes the analysis of nontechnical factors and the characteristics of different types of reform action to decide a viable sequencing strategy.

**B. Putting in Place PFM Requirements to Move Beyond Core Functionality**

*The second priority, once the core PFM system is established, is to ensure a solid platform on which to develop PFM functions beyond their core levels. This, it is argued, should focus on strengthening the IT basis of PFM, developing the accounting system to an adequate level specified by national and international standards, and reinforcing the regulatory framework governing the PFM system.*

**Strengthening the IT basis for PFM operations**

43. **Improving financial compliance beyond "core" level PEFA scores is much easier with improved IT.** While even reaching core targets would benefit from IT applications, some PEFA "A" scores would be difficult to attain solely with manual systems. The introduction of a modern financial management information system (FMIS) should be regarded as essential before moving to higher-level reforms. A FMIS should be able to track all stages in the spending process, impose electronic checks on the regularity of transactions, and generate regular and timely management reports on the progress of budget execution. However, this is more than simply automation. For a FMIS to operate effectively requires manual procedures to be changed and other supporting PFM functions to be in place. Not surprisingly because of this, FMIS projects everywhere have been difficult to implement and consequently can be viewed as a benchmark of reform capacity. If countries find it difficult to successfully implement a FMIS project they perhaps should be discouraged from moving to further higher-level reforms.

**Developing the accounting system**
44. The government's accounting system lies at the foundation of an FMIS and should meet certain recognized standards. While it is important that the system should be able to record more than just cash transactions, this does not imply a move to a full accrual basis of accounting which involves considerable costs in its introduction and maintenance. Rather, the output of the accounting system should match the information requirements demanded by the PFM system's stage of development. Accordingly, a development path for the accounting system can be described as a progressive movement to full accruals: first getting cash accounting to work well; progressively integrating operating accounts and financial asset and liability accounts (to move to modified accruals); introducing more elements of accrual recording, and finally recognizing nonfinancial assets (final stage for accrual accounting). A further stage of development, to move to accrual accounting and budgeting, (currently attempted by only a very few countries), is perhaps best pursued after operating full accrual accounting for a period of time. The intermediate accrual stage (modified accruals) should be regarded as a reasonable target for LICs, and would allow them to satisfy international reporting requirements. In this regard, IPSAS cash and GFSM 2001 standards, met at least at the central government level, are the most relevant. The production of financial reports compliant with these international standards should be considered a benchmark output for a successfully functioning FMIS and a requirement for moving to further reforms beyond the "core".

Reinforcing the PFM regulatory framework

45. A high level of financial compliance can only be assured if existing financial legislation and regulations are adequately rigorous in their demands and fully enforced. Moreover, this regulatory framework should evolve along a path that supports the PFM system's stage of development. The first stage is to define what is required in terms of law and supporting regulations to reach core levels for PFM functions. Despite the preliminary checklists offered in the background paper, more work is still needed to specify the regulatory requirements to reach core PEFA scores. The second stage is to introduce further requirements, and perhaps strengthened enforcement mechanisms, to attain higher levels of financial compliance. The third stage, will be to specify how the regulatory requirements for higher levels of compliance will have to be further supplemented or modified when moving beyond simple compliance issues (i.e., to accommodate medium-term budget planning and a more decentralized performance management regime.)
C. Moving to Medium-Term Budget Planning

While core level PFM functions should be able to adequately forecast macroeconomic developments and fiscal aggregates in planning the next year's budget, the next stage of PFM development should be to extend this to multiyear planning.

46. Once an adequate level of financial compliance is assured it is envisaged countries will turn to the next high-level priority, that of ensuring macroeconomic stabilization and sustainability. While enforcing fiscal discipline in terms of an annual budget involves delivering the budget close to that planned, this outcome of a "realistic" or "credible" budget has been recognized as being too limited a fiscal policy objective. It is possible to attain the planned annual budget revenues and expenditures but still end up with a deficit which is unsuited to prevailing macroeconomic conditions, or takes fiscal aggregates onto an unsustainable path that is likely to add to future macroeconomic imbalances. This has been resolved by countries moving their budget planning from an annual to a multiyear basis. While moving to accrual accounts would give a better picture of the future resource implication of present economic decisions, this does not vitiate the need for medium-term budget planning (although it would allow it to be more sophisticated and comprehensive). Although recognizing wide variations in country experience, the GPN envisages the following sequence in developing this capability:

- **First is a preparatory phase of improving analytical capacity.** This GPN stresses two preconditions for moving to medium-term budget planning. First, forecasting capacity should be adequately strengthened to be able to accurately forecast fiscal aggregates beyond the immediate budget year. Secondly, the capacity to construct a macroeconomic framework, that underpins the macro assumptions guiding the annual budget, needs to be extended to a multiyear basis to be able to set realistic overall ceilings in the forward years.

- **Second, is to prepare a medium-term fiscal outlook (MTFO).** In this stage the forecasting period would be extended, (say, the budget year and two forward years), and projections of macroeconomic aggregates and current fiscal policy implications would be publicly presented to inform budget discussions. This would be an "outlook", in the sense that it is primarily designed for analysis, as a consistency check on fiscal aggregates, and for information purposes rather than decision making.

- **Third, evolve the fiscal outlook to a medium-term fiscal framework (MTFF).** At this stage, with a MTFO of proven quality, the "outlook" would evolve into a "framework", so it also becomes a budget decision-making and decision-enforcing tool. In this way, the MTFF would be the basis for cabinet decisions on fiscal aggregates and formal agreement on major policy initiatives. This should ideally be accompanied by a statement of fiscal risks.

- **Fourth, add a medium-term budget outlook (MTBO) to the MTFF.** This stage involves breaking down the fiscal aggregates contained in the MTFF, typically presented on an economic classification, into the various heads and main line items
found in the budget document. The MTBO would show projected current budget policy, and any possible changes in policy, but for information purposes only. The MTBO would be considered a background paper or would be presented along with the annual budget, as an annex, but any projections would not imply any decisions about budget resource ceilings in future years.

- **Fifth, the MTBO would evolve into an MTBF.** At this stage the budget projections change from an information to a decision-making tool, so next year's estimates have some policy status. The MTBF would reflect cabinet decision-making on aggregate and line ministry spending ceilings over the medium term. This usually requires concurrent changes made in budget formulation processes to agree medium-term budget priorities, including a change in budget timetable.

- **Finally, the MTBF is put on a programmatic basis, and its expenditure component becomes a medium-term expenditure framework (MTEF).** At this stage the MTBF becomes strictly linked to policy and anchored in sector MTEFs, implying a greater role and increased capacity at ministry and department levels. Accordingly it is presented on a more detailed level, with full integration of recurrent and investment costs of programs projected in the out years. The fiscal strategy may also include non-financial performance ("results-based") information linked to program budgets. This programmatic approach represents the highest level of budget planning, and should be viewed as a further stage in the evolution of PFM towards greater emphasis on efficiency and effectiveness in resource use. Consequently the MTEF is usually associated with a more decentralized budget management regime, relying heavily on agencies' capacity to fully harmonize strategic planning and budgeting activities, and where they are expected to operate in a performance management regime (discussed below).

## D. Introducing Program Budgeting

*Once financial compliance and stabilization objectives are adequately attained, countries should turn their attention to promoting greater effectiveness and efficiency in government operations. This is a two stage process grounded on solid basis of program budgeting that should be introduced in a phased way.*

47. **The GPN views reforms to attain greater efficiency and effectiveness in government operations as attempting to fulfill the third high-level PFM priority, representing the final stage of PFM system development.** To fully satisfy this final priority can be considered a two-stage process: firstly, as a precondition, a policy relevant program structure needs to be introduced and successfully operated; and, secondly, this program structure must then be used to measure the performance and enforce the accountability of budget managers. If the process is to be successfully completed both stages of the reform should be introduced in a phased way that can be expected to take a considerable period of time. The phased introduction of program budgeting can be viewed as following the sequence below:
• **First, develop a more policy-relevant budget program classification.** In this phase the MOF should cooperate with ministries to better define programs, integrating recurrent and capital budget components. This may require better articulated sector strategic plans, in which to nest programs, with more explicit policy objectives than can provide a better planning framework. Too many changes in the organizational structure of ministries to match programs should initially be avoided.

• **Second, prepare the move from program classification to program budgeting.** Programs should be made as comprehensive as possible, with an agreed costing methodology. At the same time overly-detailed line items should be "broad-banded," and agreement be reached on some initial easy to measure process indicators and output indicators that are to be reported. The MOF's FMIS should be suitably coded to enable tracking of, and reporting on, budget execution on a program basis. To counter the loosening of central control over inputs, efforts should also be made to enhance ministry internal controls and audit.

• **Third, operate a program-based budget system.** In this environment all budget participants would be required to re-orient themselves away from a centralized budget management model based on detailed controls of line items, to one based on program-relevant programs, managed more directly by line ministries and with fewer line-item controls. Ministry budget proposals would be based on programs, with resource use linked to performance indicators. Resource decisions, budget approvals, budget releases, and subsequent monitoring, accounting and reporting, would be based on programs. The executive would be given scope for reallocating expenditure within programs and between lower levels of the program classification.

E. Moving to a Performance-Based Budget System

* A final, most advanced stage, of PFM development is to use the program-based budget to improve service delivery. This involves giving line managers greater flexibility to manage and should be preceded by strengthening internal management and progressively providing them incentives to improve efficiency.

48. **Once program budgeting is well established the most advanced PFM systems have introduced reforms aimed at improving overall performance in resource allocations and service delivery.** In moving to a performance or results-based management system, line ministry managers at the program level should be held accountable for both input use and the outputs delivered. In return they should be given reasonable freedoms to achieve their objectives, resulting in a more decentralized approach to budget management. Even when successfully operating a program-based budget system, this final move requires some important preconditions to be put in place, indicated below.

49. **Ministries will have to have their internal financial management further strengthened.** Allowing a greater delegation of authority to spending ministries requires assurances of their internal controls, their ability to forecast accurately, to budget
realistically, to cost programs comprehensively, and to manage their programs efficiently. It is recommended that ministries should be pre-qualified for this greater flexibility, only being allowed enhanced flexibility if they meet certain benchmarks of financial and budgeting skills.

50. **The ministry of finance (MOF) should be prepared to allow ministries greater management flexibility.** For example, some typical mechanisms are: loosening limits on end-year carry-overs of under-spent budgets (especially in investment spending), giving scope for the retention of budget savings, reducing restrictions on in-year resource reallocations, giving authority to prepare and sign off on their own accounts, and in some cases to make their own payments. These decisions on the degree of flexibility to be allowed should be phased in, the speed being determined by evidence of ministries' financial management capability.

51. **Incentives must be provided for management to adopt this new management culture.** A scissors strategy is recommended. Top-down: apply pressure from above to encourage managers to change. For example, adopt a rotating system of detailed program evaluations, introduce market-testing and benchmarking, and force managers to find efficiency savings. Bottom-up: at the same time increase capacity from below to allow them to change successfully. For example, centrally promoting best practices, introducing management training schemes, and investing in personnel recruitment and retraining. Another approach will be to provide incentives to managers, such as schemes to recognize achievement or linking pay to performance. For the latter to be truly effective usually requires wider more difficult public service reforms.

52. **A critical issue in sequencing this most advanced form of PFM is the timing: implementation cannot be rushed.** This reform is an archetypical high-risk undertaking involving all participants in the budget system and requiring significant behavioral change, especially on the part of managers. Before advancing to this reform it is important to determine who is going to manage the reform process and who is going to manage the new system once established. In countries which lack the required depth of managerial expertise in government, perhaps the best policy is to wait until this capacity is developed.

The sequencing of PFM reforms is summarized schematically below:
Figure 3. Overall Sequencing Strategy for PFM Development

**STAGE ONE: ESTABLISH CORE PFM FUNCTIONS FOCUSED ON COMPLIANCE:**

- PFM Deliverable 1: Financial Compliance
  - 1. In-year control of spending
  - 2. In-year control of taxes
  - 3. Timely accounting & reporting
  - 4. Central control over cash/borrowing
  - 5. Adequate internal controls
  - 6. Adequate external control

**SUPPORTS a credible budget, and vice versa**

- PFM Deliverable 2: Macroeconomic Stability
  - 1. Realistic revenue forecasts
  - 2. Realistic costing of expenditure
  - 3. Budget outturn avoids revenue shortfalls & arrears
  - 4. Deficit delivered as planned

**SUPPORTS a minimum level of service delivery focused on economy**

- PFM Deliverable 3: Efficiency and Effectiveness
  - 1. Actual spending matches budget allocations
  - 2. Resources available for service delivery as planned
  - 3. Service delivery costs as planned
  - 4. Costs are minimized

**STAGE TWO: MOVE BEYOND THE CORE ON THREE TRACKS:**

- CORE FINANCIAL COMPLIANCE
  - Improve IT
  - Account -ing
  - Fin. Regs.
  - FMIS
  - Modified Accruals
  - Fully Enforced

- HIGHER COMPLIANCE LEVEL
  - Integrated FMIS
  - Full Accruals
  - Modified for performance

- MEDIUM-TERM PLANNING
  - MTFO
  - MTFF
  - MTBO
  - MTBF
  - MTEF

- Program & Performance Budgeting
- Program classification
- Program budgeting
- Performance budgeting

- Compliance in decentralized PFM
IV. DECIDING THE SEQUENCING OF PFM REFORM ACTIONS

A. Sequencing Decisions Involve More Than Technical Considerations

Recognizing that each country will choose its own PFM development path, largely due to non-technical considerations, involves an appreciation that reform design includes many dimensions that should be addressed when offering sequencing guidelines.

53. This GPN stresses that there is no universal technical sequencing solution in developing a PFM system. While the previous section has attempted to lay out a development path for a PFM system based on historical experience, this should not be regarded as a detailed route map that should be followed by all countries. Indeed, it would be impossible to find a country that has followed this development path in all its details. While the majority of countries are faced with a wide range of PFM operations that do not reach core levels, their choice of reform priorities has varied greatly. Similarly, when pursuing more advanced reforms, not all countries have progressed in the same order or pace along the three tracks as envisaged in the above description. Indeed many advanced economies have deliberately chosen not to fully complete these three tracks. Recognizing that each country will choose its own development path and hence sequencing priorities, does not imply abandoning the attempt to offer practical guidance on reform sequencing. Rather it is necessary to expand the analytical scope of this GPN to come to terms with non-technical factors recognized as having such an important impact on specific country solutions to, as well as the success of, PFM reforms.

54. Sequencing decisions should be recognized as country specific and often determined by nontechnical factors. To analyze how these decisions are determined it is important to recognize that sequencing is only one dimension of the reform process. A review of this process is instructive in identifying issues that impact sequencing decisions and that require to be addressed. Two aspects are highlighted in this review: the need to analyze and include nontechnical factors in sequencing decisions; and secondly, the important role of change management in matching chosen reform actions to the environmental constraints and opportunities faced. A risk-based approach to accommodating these issues when making sequencing decisions is presented, and some of its implications for sequencing strategies are discussed below.

B. Sequencing is Only One Component of Reform Design

The importance of the overall framework in which reform decisions are made, including those on sequencing, should not be underestimated. An examination of the different stages in the reform decision process reveals how each stage can pose problems for sequencing with its own message for their resolution.
55. **The first step—that of analysis and diagnosis—should not be viewed as merely a technical exercise.** The sequencing literature indicates that it is not so difficult to technically analyze and diagnose technical PFM requirements. However, to reach practical sequencing solutions for reform actions this technical analysis needs to take into account non-technical external factors which could prove decisive. How this could be accomplished is suggested in this GPN, but the underlying message should be clear: *sequencing is not just a PFM technical exercise.*

56. **The second step of reviewing the reform options available should not be a passive exercise but a proactive one.** This step usually highlights the inevitable conflicts that may arise between: what needs to be done (usually technically defined), and what can be done (determined by external constraints) and what is locally demanded (determined by the specific political economy context). While the "reform space" is defined by where these dimensions overlap, it must be admitted there may be extreme cases where no workable overlap exists. At the same time, this is not a recipe for inaction. There is a case for being proactive to make efforts to expand the areas of what can be done, or what is demanded: *this implies change managers can and should influence the sequence of reforms.*

57. **The third step, that of agreeing on the subset of reform options, should not be rushed and encompass all stakeholders.** This step, one of inevitable compromise, address how to decide on specific actions within the common ground of what is needed, what is possible and what is demanded. To be workable, this compromise should be agreed by all stakeholders: donors, the government, the civil society, or at least for reform proponents to overcome the opposition. It is possible to detect some dissatisfaction with how this has worked in the past, among the complaints are: reforms have been too broad and overly ambitious; donors have pushed their own standard solutions; sometimes politicians have been too acquiescent to donor proposals; but other times donors concede too much to local politicians. The message is that *before moving to decisions on sequencing reforms it is essential to ensure wide support for the reform actions contemplated.*

58. **Once reform actions are agreed, then the fourth step of designing the reform offers many alternative strategies that should be geared to specific country circumstances, and type of reform actions contemplated.** As indicated, reform design should focus on the two key aspects of sequence: the order in which reform actions are to be taken and the timing of these actions. In practice, these are often jointly determined and have resulted in different solutions to sequencing being adopted:

- **Tactical:** Choose the PFM area that will yield the easiest demonstrable success (i.e., picking low-lying fruit first.)
- **Weakest link first:** choose the area that is the weakest, (say has lowest PEFA scores), based on the argument that a system is as strong as its weakest link.
- **Local demand:** first choose the areas where the authorities have most interest, ensuring maximum commitment to the reform.
• **The platform or staged approach**: focuses on supportive reform activities packaged together, that would then form a logical sequence for reform. In this way once one package of activities is completed it will form the supportive basis, or "platform", to move on to a further package of complementary reforms.

59. **All of these approaches have their advantages and disadvantages, with their advocates and detractors.** This GPN suggests a way to decide between them determined by specific country circumstances and the type of reforms contemplated. The message is that no one sequencing strategy is likely to work in all environments, indeed the GPN argues a mixed strategy is probably required for most environments.

60. **The fifth step is to construct an effective delivery mechanism, where too often a critical component, the motivation and capacity of local reform managers, is weak.** Apart from the usual concerns of ensuring adequate resources, two other often neglected inputs required for successful delivery are stressed in the literature. Namely, measures should be taken to enlist local pressure for the reform and most important, the reformers should invest heavily in change management. Two dimensions critical for change management are: change champions (or political sponsors) who demand and support change; and change managers (senior civil servants) to lead the implementation of the reform program. While both aspects are important, the latter is generally agreed to be critical. The underlying message is that no matter how much effort is made to determine optimal sequencing of reforms, the practical value of such effort rests on the willingness and ability of reform managers to implement them.

61. **Finally, to complete the reform planning cycle there should be a formal review involving all stakeholders before moving to the next stage of reform, a stage typically insufficiently emphasized.** This weakness at the country level is reflected internationally. Although recently there have been some such reviews of specific reforms undertaken across a number of countries (e.g., FMISs, MTEFs by the World Bank), as yet there has been no strategic review of the overall sequencing of PFM reforms.

**C. Sequencing Should Accommodate External Factors That Impact PFM Reform**

Given the general agreement on importance of non-technical factors for reform success a three tier classification of these factors is suggested: at the top level are "conditioning factors" determining the climate for reform; at the middle level are PFM institutional factors determining how well the PFM system can cope with reform; and at the lowest level the organizational factors that determine reform absorptive capacity on the ground. It is proposed this three tier system be employed as a filtering device, to gauge and manage the risks involved in proposed PFM reform actions, and so guide their sequencing.

62. **It is necessary to analyze non-technical PFM factors, recognized as critical to reform success.** PFM reforms essentially involve introducing changes in an open system that is highly influenced by many outside factors that impact the system at all levels, as well as its
structural architecture and its internal organization. These factors are characterized as “external,” signifying they lie outside purely technical PFM considerations, but should be recognized important because they pose risks to and often present opportunities for successful PFM reform. Reform initiatives must be able to successfully navigate and overcome these risks and exploit these opportunities. This GPN recommends that external factors be identified and an assessment made of the net risks they pose to the specific reform actions being contemplated. To analyze external factors it is proposed they be divided into three tiers.

63. **At the highest level**, an environmental scanning framework is suggested to identify and order the broad external influences in the PFM system’s environment which can affect the success of reform initiatives. These *conditioning factors* are divided into four broad categories: political environment; economic environment; socio-cultural and corporate governance environment; technological and capacity environment. Key indicators in the four dimensions would then be employed to map out the external environment in which the PFM system of a country must function, and come to some assessment of the overall risk level faced.

64. **At the middle level** are grouped some relevant factors that arise from the institutional design of the PFM system itself. This covers the PFM system at its broadest definition, including critical relationships as they impact on PFM: between the legislative and executive branches of government; within the executive branch (especially focused on the role of the MOF); and the relationship between the MOF, line ministries and other relevant government entities.

65. **At the lowest level** are grouped some determining factors that arise from internal organization of PFM processes. These arise from the structure of organizations, the managerial culture, the limitations of leadership and skills available, and other capacity constraints often found in public institutions, especially in the LICs.

**D. Identifying the Risk Impact from External Factors**

*A broad-based approach to assessing the risks and opportunities of each specific country, by using indicators for political, economic, social and technological "conditioning" factors, is a critical first step in reform design.*

**Impact from top-level external factors**

66. **There has been a growing recognition of the importance of the political economy context of reform.** Many donors have recognized the value of an initial high-level political economy analysis for any proposed reform intervention as a way to avoid wasting scarce development resources. Notwithstanding the political sensibilities that are often raised in opening a dialogue with recipient countries on such issues, there seems little doubt that such
dialogue is a crucial precondition for judging the feasibility and ensuring the viability of many developmental reforms, including those in the PFM area.

67. **There is a need to undertake a systematic analysis of this political economy context to determine the overall risk to reforms posed.** The approach advanced in this GPN is to decide on a relevant broad-based set of indicators (identified from the sequencing literature), then assess the magnitude of risk from each conditioning factor that could be expected in a particular country context. This assessment could be no more than a simple ranking consisting of minor, significant, and major. Another column would contain an assessment of the likelihood of this factor coming into play for the particular reform contemplated (under the assumption that some reforms will be more vulnerable than others). Again no more is suggested than a simple assessment by a ranking of low, medium, and high.

68. **The aim should be to rank countries by their overall level of risk, after taking into account any positive opportunities for reform.** A risk register for each country could then be constructed made up of three elements: the degree of environment risk posted; the size of the likely impact on reform contemplated; minus the likely impact of positive opportunities existing for reform. Between them, these assessments allow an appreciation of the net risk from the environment faced by PFM reforms in that particular country. The aim should be to classify countries into those where risks are tolerable and reform is judged feasible; countries where currently risk is intolerable, but with remedial actions could be mitigated; countries where risk is intolerable and reform should be postponed. In the latter case a judgment should be made whether the net risk will remain at intolerable levels in the short run, in which case the strategy is simply to wait. Alternatively, if it is judged that the impediment to reform will remain in the longer run, the strategy should be to turn to ameliorative measures other than reform.

**Impact from lower-level external factors**

69. **If the environmental risk to successful reform is judged to be of a "tolerable" level, then analysis should move to assessing risks at the institutional (or middle) and then at the organizational (or lowest) levels faced by specific planned reforms.** The GPN suggests a useful way of organizing risk factors at these levels is to structure them around the three “A”s suggested by Andrews —ability, authority, and acceptance—factors he identifies as determining the room for reform in organizations. His concept of ability is centered round the key concept of capacity. Generally, there is agreement that successful reform requires resources, especially human resources. However, it is recognized that even with adequate resources, there are constraints in converting capacity (the potential to reform) into capability (actual reform action). The two most important constraints center on authority and acceptance. Authority describes the formal and informal institutional rules that determine scope for action (or discretion allowed for reform), while acceptance describes the incentive structure to induce key players to undertake that reform action.
At the middle institutional level the GPN recommends focusing on the MOF's room for manoeuvre when implementing PFM reform. Employing the three “A”s approach, it is possible to identify the most important factors determining the MOF’s authority to initiate and lead reforms (centered on the strength of its leadership role); the factors that influence acceptance of reform (including the level of support from stakeholders outside the PFM system, within the PFM system and within the MOF); and the ability of the MOF to plan and implement reforms, (focusing on its managerial and technical capacity, its current workload and commitments, and available financial resources). A simple structured questionnaire is likely sufficient to score these factors with respect to how important they are to the reform being contemplated and the level of risk implied (see prototype Annex I).

At the lowest organization level the GPN recommends focusing on internal leadership and commitment to reform, allowing for the constraints faced on the ground. For many reforms, however, risks to reform lie not in the MOF but at the ministry, department, and agency (MDA) level. Too often it is found that PFM reforms once launched, and even successfully pilot-tested, stumble when it comes to implementing them in the line ministries and their delegated entities. The sequencing literature has stressed this “roll out effort” (Quist) and the problems involved when reforms span many institutions, or become “de-concentrated,” rather than concentrated in a single central PFM agency (Andrews). One explanation of this slow-down in implementation is the increased pressure of work on central agencies guiding the reform through an increasing number of entities. However, another, and perhaps more important, explanation lies in the problems encountered in the receiving institutions and in their capacity to internalize reforms. Hence, for a wide class of PFM (i.e., de-concentrated) reforms it is necessary to analyze the risks rising from the implementation problems faced by MDAs.

The GPN focuses on internal leadership as the key authority factor, management commitment to reform as the key acceptance factor, and adequate HR resourcing as the key ability factor. It then offers a structured questionnaire that will allow scoring these factors with respect to how important they are to the reform being contemplated and the level of risk implied (see prototype in Annex II). Such an assessment calls for identifying the significant risks from different aspects of the reform environment (i.e., create a risk register); to then gauge their level of impact and the likelihood that the impact will materialize (i.e., score these risks in some way).

E. Change Management as Managing Reform Risks

The three tiered classification of nontechnical factors, once refined through empirical testing, should then be employed to provide a risk and opportunity assessment of any PFM reform project. This should be combined with active change management to suggest any changes to project design that will mitigate those risks that cannot be tolerated (i.e., review the response required) or strengthen those aspects of project design supportive of reform.
This GPN stresses the role of active change management. Change managers should be proactive, and not accept the status quo. Their aim should be to widen the scope for reform, by changing policy makers’ perceptions of what is required, and removing constraints to increase what is possible. At the same time care should be taken to ensure decisions on the timing and design of reforms minimize risks, and in implementation efforts should be made to mitigate risk while maintaining the correct balance between risk and reform impact. The guiding principle should be that reform actions should be advanced to attain certain PFM outcomes, if the risk of not attaining a significant part of these outcomes is too great (or “intolerable”), the reform should not proceed.

Change managers should also admit some situations where reform is not possible. It should be stressed that an important part of sequencing is the choice of timing, including when to act and when to wait. For example, such an analysis of the first tier conditioning factors could indicate the extreme case where the risk to any PFM reform is judged too high. In some environments, as those encountered in post crisis or conflict countries, or “fragile states,” the political and PFM systems are often so dislocated that there is a complete misalignment of what is needed, with what can feasibly be attained and what the authorities want. Nor is it possible to wait to respond to a more enabling environment. In such extreme cases donors should recognize their actions assume a different purpose: rather than PFM reform (i.e., improving existing functions), actions are dictated by the need put in place essential PFM functions where none exist or have completely broken down. In practice this may need to take place outside the regular government apparatus, employing other civil society organizations such as NGOs. In the language of the risk-based analysis presented here, these are extreme cases where risk is so intolerably high that reform is not possible in the short-run although, of course, emergency assistance is required. Various strategies in this environment are summed up in the three Rs: replace, repair, and reconstruct (see Box 1).
F. A Risk-Based Approach to Sequencing Decisions

The GPN recommends a risk-based approach to deciding sequencing of reform actions, based on matching external risks to the risks inherent in different types of reform. This entails identifying key technical dimensions of reform actions that influence risk of failure, namely: the scope, time required for completion, number of institutions involved, degree of behavior change implied, and the visibility of reform actions.

75. The challenge of successful change management is to match external risk to the risks inherent in different types of reform. This should be regarded as a universal
approach, but particularly relevant for deciding sequencing within the core PFM functionality. As indicated, an important practical problem faced in sequencing reforms in many LICs is that their PFM systems fail to meet core PEFA target scores on a wide range of indicators. How to decide sequence in this situation? As described previously, undertaking a risk assessment of external factors impacting any PFM reform initiative allows some categorization of the risk level faced in that specific country at different levels. At the same time, for any given environment, different types of reform action are likely to exhibit different levels of risk. Reform design can be improved by deciding the sequencing of reform actions by matching the risk profile of reform actions to the risks faced.

76. **The sequencing literature identifies some of the technical dimensions of any reform action that are most likely to influence the risk of failure in implementation.** Namely:

- **Scope of the reform**, describing the number of required reform actions, their degree of complexity, their interconnections in the PFM system. The wider the scope the greater the risk.
- **Time required to complete the reform actions.** This recognizes that sustaining reforms in a bureaucratic environment is difficult. The longer the implementation period the higher the risk.
- **Number of institutions involved** (i.e., concentrated or de-concentrated). The greater the number of institutions, the greater the risk.
- **The degree to which procedures and behavior must be changed.** PFM reforms that involve changes in rules and procedures (de jure) tend to be less complex and less resisted than reforms that involve behavior change (de facto). The higher the level of behavior change required, the higher the risk.
- **Visibility of reform actions.** From the political economy and change management viewpoints, the outcome of reform could depend on how easy (or hard) it will be to demonstrate success when implementing a reform action. This has two dimensions: how easy it is to demonstrate action is being taken, important for politicians to “sell” reforms to the greater public; and the time lag before benefits are seen, a critical requirement for political support where politicians have a very short time horizon. The less visible are reforms (i.e., the more difficult it is to demonstrate action, the longer the delay for results to become visible, and the less direct reform benefits are perceived to arise from the reform), the greater the risk.

77. **Unfortunately, there is a likely trade-off between risk and reform impact.** The greater the scope of reform, the more lengthy the reform project, the greater the number of institutions affected, the higher the degree of behavior change implied, and the less its immediate visibility, then the greater may be the reform impact, but also the greater the risk faced. The implication of this trade-off is that higher risks could be justified by higher potential benefits. Some examples of typical risk profiles of different types of reform are shown in Table 3.
Table 2. Different Types of PFM Reforms Have Different Risk Profiles

<table>
<thead>
<tr>
<th>Examples of common PFM reforms</th>
<th>Scope &amp; complexity of reform</th>
<th>Degree of Behavior change</th>
<th>No. of budget institutions</th>
<th>Time required</th>
<th>Visibility of reform impact</th>
<th>Degree of risk involved</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Large taxpayer unit in Inland Revenue Dept.</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>2. Macro-economic Policy Unit in MOF</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>3. Change in budget timetable</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td>Low</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>4. Introduce centralized Internal Audit Unit</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
<td>Low</td>
<td>Medium</td>
</tr>
<tr>
<td>5. Introduce decentralized IA units</td>
<td>Medium</td>
<td>Medium</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
</tr>
<tr>
<td>6. Implement an IFMIS</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>7. Introduce a policy-related program structure for budgeting</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td>High</td>
</tr>
</tbody>
</table>

G. Guidelines for Sequencing Reforms

The methodology proposed in this GPN for choosing the sequence of different reform actions rests on three guidelines that try to accommodate this trade-off between risk and reform impact: first, wherever possible mitigate risks; second, choose reforms to match the risk environment; third, be prepared to be flexible and mix strategies.

78. The First Guideline is wherever possible to mitigate risks implied by the reforms. This has the following implications for reform design:

- **Scope of the reform.** Risk can be mitigated by re-designing the reform program, by reducing the number of individual actions, simplifying their complexity by a longer period of phasing in, and strengthening other related PFM processes. Of course, it is important to be aware of the trade-off: the cost in reform impact is the delay implied by such tactics.

- **Time required to complete the reform actions.** Risk can be mitigated by a slower phasing in of reform actions, and building in consolidating pauses in their introduction to allow time for learning on the job. Again the cost in reform impact is delay but also additional risks from the lack of visibility in results.

- **Number of institutions involved** (i.e., concentrated or de-concentrated). Risk can be mitigated by the often employed pilot approach that allows phasing in the coverage of institutions and by the strategic choice of pilots to demonstrate success. The cost in reform impact due to the delay is partially countered by the positive impact of early visibility in results.

- **The degree to which procedures and behavior must be changed.** Choosing between reform actions that require changing rules or changing behavior (de jure or de facto) is not easy, but risk will be mitigated by first concentrating on the former category, even though this may lead to biases in reform impact, for example, if de jure changes
do not impact the situation de facto. These biases may seriously compromise reform impact, resulting in up-stream reforms to the neglect of downstream reforms that may have greater impact on the PFM system overall.

- **Visibility of reform actions.** Risk will be mitigated by choosing high visibility reform actions with a short time lag (i.e., "easy wins"). Again a price is likely to be paid in reform impact: biasing reform actions to up-stream, de jure, concentrated, short-run reforms.

79. **The Second Guideline is to match reform priorities to the risks implied by the reforms.** Matching the reform strategy to the risks implied by the associated reform actions also implies addressing the trade-off between reform impact and the level of risk. The guiding principle is that a high risk reform should only be attempted in a low-risk environment. A high-risk environment is one where the probability and impact of risk is high, and the opportunities for avoiding or mitigating this risk is low. A low-risk environment in contrast is where the external risk factors not only have a low probability of occurring, (or if they do their impact on reform will not be so great), but other external factors offer opportunities for mitigating risk.

80. **Applying this guiding principle it is possible to re-examine the different reform strategies that have previous been advocated.** Namely:

- **Tactical or “low-lying fruit” approach.** This approach will cover reforms narrow in scope, de jure, concentrated in one institution, implementable fast, but most likely narrow in overall PFM impact. This is a low-risk approach to reform, and a good strategy in a high-risk country with little scope for change managers to mitigate risk, with the qualification that reform impact is likely to be low.

- **Local demand:** While country commitment is important for success, often associated with the visibility of the reform actions, this should not be a blanket endorsement of any reform action. Demanded reforms could be narrow in scope, if the country adopts an approach to least disturb the status quo (i.e., little willingness/scope to mitigate risk), or could be wide in scope if the country is ambitious to move to more advanced PFM procedures as fast as possible (with a higher willingness/scope to mitigate risk). Depending on the country’s risk profile both approaches could be encouraged: narrower reforms for high-risk countries (with low reform impact likely) and wider reforms for low-risk countries (with likely higher reform impact).

- **Weakest link first:** In this approach chosen reforms actions are directed at identified PFM bottlenecks. The nature of the bottleneck will determine the type of reform. Some bottlenecks can be removed by introduction of simple systems in one central agency, for example with a centralized payroll linking HR data to the payroll is less problematic than the same problem with decentralized payrolls, that involves a number of ministries. Some bottlenecks can be solved by recruiting one or two skilled personnel in a central agency (e.g., introducing a macroeconomic policy unit in the MOF). Other bottlenecks require time-consuming recruitment of suitable personnel
and training/retraining programs across a wide spectrum of institutions (e.g., upgrading accountancy standards in government). Some bottlenecks can be removed by introducing procedures that use manual systems or simple Excel solutions, while others require more sophisticated IT solutions and a higher degree of behavior change. The suitability of this approach will depend on the country’s risk profile: in a high-risk country the approach is viable if the weakest link can be resolved with narrow, concentrated, time efficient reform actions (i.e., low-risk reforms); in a low-risk country it is viable even if the solution is wide in scope, de-concentrated and time-consuming (i.e., high-risk reforms). Again, the likelihood is that reform impact will be greater in the latter approach than the former.

- **The platform approach**: This is a strategic approach to reform, that attempts to maximize reform impact by programming a group of related reform actions in a sequenced way to support a further group of reforms, and is cast in a multiyear framework. In terms of the risk profile, the platform approach is wide in scope, it usually includes both de jure and de facto reforms, in a de-concentrated way, and necessarily allows a longer time period for their completion but also more time and opportunity to exploit ways of mitigating risk. This approach is probably only viable in low-risk countries, but may justify a higher risk tolerance since it would tend to support reforms whose reform impact is high.

81. **The Third Guideline is to be flexible and not be afraid to mix strategies.** In practice, if these two design principles are applied—choosing or modifying reform actions to reduce risk, and only attempting a high-risk reform in a low-risk environment—the end result will most likely be a mixed sequencing strategy, combing different elements of previously advocated strategies. For example, in high-risk countries by first concentrating reform actions on “low-lying fruit” that are also locally demanded. Since it is likely bottlenecks will exist in more than one area, it is possible to choose to address those weakest links which match the country’s risk profile: narrow reforms in higher-risk countries and wider reforms in lower-risk countries. Similarly, the high-risk platform approach can be made less risky by allowing re-programming of reform actions on a rolling basis depending on reform experience. Its high-risk nature can also be reduced if it is front loaded by low-risk reforms, providing a basis for subsequent higher-risk reform actions. This could imply, for example, adopting a “low-lying fruit” approach in the first platform. Whatever the sequencing option chosen, it is important to be aware of the trade-off, and to get the correct balance, between the risk to successful implementation and reform impact.

The risk-based approach to sequencing reforms described previously is summarized schematically below in Figure 4:
Figure 4. A Risk-based Approach to PFM Reform Design

**STAGE ONE: DIAGNOSIS OF WHAT IS NEEDED**

- Country PEFA scores
- Target PEFA Scores
- Compare?
- Lower
- Other PFM information
- Possible areas to improve = WHAT NEEDS TO BE DONE
- Risk Analysis

**STAGE TWO: ANALYSIS OF WHAT IS POSSIBLE**

- Conditioning factors
- Institutional factors
- Organizational factors
- Possible Reform Agenda

- Move to Emergency actions
- Intolerable
- Tolerable
- Actions to mitigate risk
- Intolerable
- Tolerable
- Actions to mitigate risk
- Tolerable
V. Further Work

In the Introduction it was indicated that this GPN should be considered a first step in improving the sequencing of PFM reforms, and that the practical applicability of its recommendations would require further, mainly empirical, work.

82. A strategic review of sequencing PFM reforms should be undertaken, based on case studies, to determine what has worked and what has failed and the reasons why. While there have been some extensive reviews of individual PFM reforms, there has not been a comprehensive review focused specifically on sequencing and laying out the empirical evidence on what has influenced success or failure. There are many questions that demand empirical investigation. For example, what is the evidence that reform success has been compromised by significant biases in the choice of reform activities (too detailed, scope too broad, emphasis on quick wins, concentration on up-stream and de jure reforms). There have been many sequencing strategies advanced (low-lying fruit, local demand, weakest link first, platform approaches); it is important to systematically review how these have been applied and with what success.

83. The strategic review should clarify how reform actions were chosen and what determined the pace of reforms. The role of PEFA in setting the reform agenda and the influence of change management capacity in implementation should be examined. The GPN
has highlighted key characteristics of reform activities (scope, institutional concentration, time required, degree of behavior change, visibility of results) that have been advanced as important in sequencing decisions. By examining different reform programs classified in this way it should be possible to empirically verify their importance in reform design, and their influence on reform success. The aim of the analysis should be to derive implications for improving reform design and sequencing decisions. For example, too often reforms have been criticized as being too ambitious in scope, but how is that to be empirically determined, and what does it imply in different country situations? Also, there has been a time worn complaint that all reforms take longer than planned, so based empirically it would seem useful to agree realistic implementation time periods for standard PFM reforms using a common framework.

84. **This strategic review should also focus on an empirical examination of non-technical factors that have influenced reform.** Background paper 1 offers a checklist of such factors and possible indicators, many of which are likely to be highly correlated. An empirical analysis should be able to reduce the number of significant indicators and use this sub-set of indicators to classify different countries by their risk profile and also within the sub-set examine individual indicators' association with reform success. Similarly, background paper 1 has offered prototype questionnaires for analyzing non-technical influences at the institutional and organizational levels (shown as annexes below). Their usefulness should be assessed, and their format further refined, through testing in the field.
## ANNEX I. FACTORS ARISING FROM STRUCTURE OF THE PFM SYSTEM

<table>
<thead>
<tr>
<th>Describe factor</th>
<th>Possible indicators: how this factor impacts reform?</th>
<th>How important for this type of reform, impact?</th>
<th>How likely in this country?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AUTHORITY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Leadership role of MOF in PFM system | Does MOF require approval from legislative branch for proposed reform?  
If so how likely will it be forthcoming?  
Formal status of the Minister of Finance in government: presidential vs parliamentary? If latter: majority or coalition?  
Is the Minister fully behind the reform and/or is it driven from above (President?) or From below (technocrats)?  
Stability of minister assured or likely to be changed within reform period? | High/med./low | High/med./low |
| Leadership role of the MOF in this reform project | How important is the MOF in resource allocation?  
For example, what percentage of total government expenditure does it control?  
Are there other important central government entities that can challenge MOF leadership?  
Can other important lower-level entities challenge MOF leadership?  
In reform implementation will MOF have operational autonomy, or will this be shared? |                                                   |                             |
| **ACCEPTANCE** |                                                      |                                   |                             |
| Level of support for reform outside PFM system | Who gain from the proposed reform and who lose?  
How broad is the support base? (Cabinet, legislative committees, business community, unions, NGOs)?  
How far will the proposed reform threaten entrenched informal systems (rent seeking, patronage, power bases, etc)?  
Level of public discussion of the reform?  
Are donors as a group supportive or are they divided?  
Is there a high-level steering committee in place? |                                                   |                             |
| Level of support within the PFM system | Do the MDAs support the reform?  
Is the relationship between MOF and MDAs cooperative or adversarial? (friction from use of cash rationing; powers of virement etc)  
How much effort has MOF spent explaining the reform to other PFM managers? |                                                   |                             |
| Level of support within the MOF | Is there a designated manager of the reform?  
How much of his time is dedicated to the reform?  
Are MOF managers in full or divided support?  
Degree of rivalry between MOF departments?  
Degree to which the reform implementation is concentrated in one MOF department?  
Level of morale within MOF staff? |                                                   |                             |
| **ABILITY**    |                                                      |                                   |                             |
| MOF Managerial capacity | Has the MOF assigned suitable management resources to implement this reform?  
How stable will MOF top and middle management be during reform period?  
What is the MOF’s reform record with previous reforms? |                                                   |                             |
<table>
<thead>
<tr>
<th>Describe factor</th>
<th>Possible indicators: how this factor impacts reform?</th>
<th>How important for this type of reform, impact?</th>
<th>How likely in this country?</th>
</tr>
</thead>
<tbody>
<tr>
<td>MOF technical capacity</td>
<td>Does the MOF have staff of adequate technical capacity to implement this reform? Will specialist skills be required?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Is there adequate outside assistance committed, in TA and training?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Workload</td>
<td>Is the workload of MOF top and middle management presently excessive? Is the MOF undertaking other parallel reforms?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Are there likely to be major work distractions in the period, e.g. due to fiscal stress?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial resources</td>
<td>Is the financing available/adequate for full implementation of the reform? How much required financing is contributed</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>internally and how much from donors? What has been the past experience in mobilizing donor assistance?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## ANNEX II. KEY FACTORS AFFECTING REFORM ARISING FROM INTERNAL ORGANIZATION OF PFM ENTITIES

<table>
<thead>
<tr>
<th>Describe factor</th>
<th>Possible indicators: how this factor impacts reform?</th>
<th>How important for this type of reform, impact?</th>
<th>How likely in this country?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AUTHORITY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internal leadership</td>
<td>How committed is the Minister/PS? Did he instigate or volunteer for the reform? Has he assigned a dedicated manager for the reform? How committed are top managers? How much capacity do they have to implement the reforms? Do they have adequate technical skills? Or will they need assistance? Is any planned/available? Presently how high is their workload? Can that be adjusted so they can devote adequate time to the reform? How likely is top management to change during the reform period?</td>
<td>High/med/low</td>
<td>High/med/low</td>
</tr>
<tr>
<td><strong>ACCEPTANCE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management incentives</td>
<td>How difficult is it to execute their budgets as planned (indicated by arrears, re-budgeting, etc)? Will the reform, once implemented, reduce or increase management’s present workload? How much is the drive for reform viewed as from MOF rather than the minister? Is the regular interaction with the MOF cooperative or hostile? How far will the reform decrease their power/authority in the PFM system? How far will the reform curtail the opportunity for rent seeking and favour-trading? How much support/pressure can managers expect from their staff? Are they generally hostile, indifferent, or supportive of the reform effort? How much support/pressure can managers expect from their sector stakeholders (business community, client base, NGOs)?</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>ABILITY</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adequate HR resourcing</td>
<td>Does the MDA have adequate trained staff to operate new reform procedures? Does the reform require any specialist skills presently unavailable? If so, are there opportunities to recruit or re-deploy suitable staff? Can suitable training be identified/financed? Can staff be adequately trained to institutionalize the reforms in a reasonable time frame? What incentives can be provided to staff to retain them once trained?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>