

## Reforming public financial management when the politics aren't right: A proposal

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**F**ollowing more than a decade of intensive activity, the debate on public financial management (PFM) reform in developing and transition countries seems settled. The main elements of technical good practice are clear and the critical importance of political factors is broadly accepted. In general terms, we think we know what works, what doesn't and why.

But the apparent consensus that politics matters begs the question of what reformers should do when the necessary political impetus is weak or missing. A wealth of advice is available on aspects of PFM reform strategy and sequencing – targeting “basics” first; setting progress “hurdles”; or using a “platform” approach. However, there seems no agreed approach to how we actually address the politics of reform in a way that is operationally useful. This Opinion describes the problem and proposes a solution.

Studies point to the importance of three main success factors for improving PFM. First, there must be active political leadership and support for reforms to be implemented and to have effect. Evidence suggests that high-level commitment from politicians is needed if technical changes are to gain institutional traction and be sustained. Ministers of Finance must lead from the front and transmit their commitment to technical staff below them. Second, a cadre of senior technical officials must be willing to champion the reform process within the public service. This may be one influential reform champion or a wider group of technocrats, but it is critical that below the political noise there are reform-minded officials who actually manage the change and work to sustain the momentum. Third, adequate technical and organisational capacity must exist to adopt and progressively apply new techniques and improved ways of working. This means that there are sufficient numbers of staff with the right skills to meet the demands of new approaches to public financial management. Where PFM reform programmes have achieved significant and lasting results, it

is usually because all three of these “supply-side” factors have been present.

The difficulty with this analysis is that it describes a coincidence of positive forces that is often not present in developing and transition countries. Identifying the conditions that favour successful PFM reform is a good start, but we need to understand the possibilities when not all of these conditions are present. Experience shows that both adequate technical staff capacity and effective bureaucratic management are probably essential for improvements to move beyond statutory changes and pilot initiatives towards sustained implementation. This is especially true for technical PFM reforms as they are often complex and specialist. By contrast, evidence on the requirement of political leadership is more ambiguous. This deserves further attention.

Analysis of political behaviour suggests that politicians may be prepared to accept reforms, even if they are not strongly persuaded by them, as long as they do not perceive them to be a threat to their own vested interests. This observation does not contradict the desirability or beneficial impact of strong leadership, but it implies that political acquiescence may be sufficient for some reforms to succeed. The distinction is significant. If active leadership of reform by politicians is not essential, the initiative shifts to those who can motivate acceptance and sustain the absence of opposition. This suggests a more instrumental and strategic role for reform-minded technocrats who can employ political acumen to pursue technical improvements in PFM systems and performance. Political perceptions of the expected and actual impact of the reforms will determine acceptance or opposition. If bureaucratic reformers are capable of understanding those perceptions and negotiating the political business cycles, and if they are supported by sufficient organisational capacity around them, it may be enough that politicians accept reform instead of actively leading it.

Such a finding places the onus and considerable expectation upon a scarce and disparate cadre of senior public servants and presupposes that they have the motivation and the incentives to pursue reform. In some circumstances this is a reasonable assumption, in other cases it may need additional stimulus. It is here that domestic “demand-side” factors may help to compensate for flagging political will and management initiative. We know that domestic actors – organised civil society groups, informed and robust media, a functioning legislative committee system, and external accountability agents – cannot directly implement most PFM reforms, but they can exert considerable motivating pressure upon the executive to initiate and persist with reform. Minimum sufficient conditions for success, therefore, are technocratic agency, acquiescence by an accommodating political elite and implementation capacity for PFM reforms within the core government ministries. In the absence of concerted political leadership, strong auxiliary pressure from domestic stakeholder groups will bolster these forces and increase the scope and scale of possible success.

What are the implications for reform strategy of this instrumental role for senior public officials and technocrats? A good deal of research has addressed the politics of PFM reform and the importance of political economy approaches to its design and management. The findings of these studies point to the need for gradual reform that is carefully sequenced and properly managed. The dominant discussions about sequencing have been technical ones about the logic of cumulative reforms and on how to move from basic to more sophisticated budgeting and financial management practices. Such approaches take explicit account of political considerations, but equate this to the importance of garnering ownership and commitment from an unspecified combination of politicians and officials. Country-specific technical sequencing considerations appear to dominate political strategy. Political support is negotiated and co-opted as a supplementary concern. Political considerations are not disregarded – far from it – but the PFM reform strategy is not heavily informed by the sophisticated political analysis approaches that have now been developed.

In our opinion, a politically-informed middle road is required. We need to avoid the twin discouragements for domestic reformers of impracticable technical solutions that ignore the political implications and pessimistic political economy analyses that find such deeply entrenched institutional constraints to good PFM practice that genuine reforms seem unfeasible. The challenge for domestic reformers is

to combine political and technical concerns as part of a long-term vision and strategy. They must plot a careful course through reforms that can be shown to offer positive political capital to elected officials and those that pose no perceived political cost or threat. As reform proceeds, this strategy must seek to build coalitions of support among demand-side actors to help sustain momentum so that progressive improvements in PFM performance are less easily undone by changing political calculations.

So what are we proposing? And how does it advance what we already know about making PFM reforms succeed in challenging environments? First, a deeper understanding of political calculations and motivation must be made operational by domestic reformers so that it drives and informs technical reform strategy. Strong political leadership will facilitate change in almost any setting, yet it is often absent, indifferent or short-lived. Where this does not exist, we cannot simply accept the inevitability of reform processes failing. In these circumstances, we propose instead that politically-astute technocrats take centre stage as instrumental agents in the reform process. Second, stronger forces of domestic accountability can help to strengthen the incentives these technocrats face and to sustain political momentum for incipient reforms, but only the technical elites can negotiate change around the politics. International actors can facilitate the role these technocrats play. But first they must strive for a more operational understanding of political economy implications for reforming public financial management. We propose a strategy that not only recognises the politics, but empowers domestic reformers to manage them.



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