



Public Financial Management (PFM) reform virtual training

Day 4 - Change management and institutional arrangement

Wrap up Day 3

Icebreaker

Open plenary discussion:

- What are the three top level priorities in the Cluster approach?
- Get the basic rights (first) – What does it mean in the PFM reform context?
- In the ‘basics and beyond’, which ‘beyonds’ did we discuss?
 - In budget preparation?
 - In budget execution?
 - In external oversight?

Day 4: Change management and institutional arrangement

- **Module 4.1** **Change Management and Capacity Building**
- Module 4.2 PFM strategy Uganda - case study
- Module 4.3 Reform strategy, Programme and management

Module 4.1: objectives

- Examine some essential issues related to the preparation and monitoring of a PFM reform
- Discuss more specifically about change management and capacity reinforcement

Strengthened Approach (*Paris Declaration*)

- Reform programme carried out **by national governments**
- Coordinated donor support
- Monitored progress of the reform through a common pool of information

What is change management?



- The process of building the required capacity to implement and manage the change
- Helping individuals impacted by the “change” to understand the need for change and to motivate them to take actions, which may result in sustained changes in behaviour
- Change management refers to:
 - a set of basic tools or structures intended to keep any change effort under control
 - it is about adaptive leadership (or change leadership) for addressing non-technical challenges

PFM Reform as change process

- Main drivers of PFM Reform:
 - **Political**: authorities decide to adopt new PFM policies and practices to implement strategic priorities
 - **Institutional**: implementation of new regulations and norms, including capacity strengthening efforts and process improvements
 - **Technological**: new ICT solutions become available or there is a need to modernize existing systems
- Change may be either **incremental** or **radical**
- In case of the incremental approach
 - less resistance to change
 - but organizations might get “change fatigue”
 - adapting too much for culture / office politics can dilute the desired outcomes of the change

Core tasks (1)

Ensure that there is:

- A comprehensive understanding of:
 - current status of PFM model
 - legal & regulatory framework & institutions
 - both in order to evaluate where a reform is needed and
 - to what extent PFM system may be reformed
- A realistic assessment of:
 - political commitment to the change
 - macro-economic context
 - constraints in terms of capacity & how reform may be carried out

Core tasks (2)

Make sure that:

- Change management and capacity building have been accounted for in the preparation of the reform
- The institutional arrangements to manage the reform are well outlined and established
- The reform activities have been properly sequenced
- The modalities for the alignment and coordination of the donors are properly outlined
- The reform programme is fully budgeted and funded
- There is a framework for monitoring and assessment

There is no functional change without resistance

- Self-interest
- Fear of the unknown
- Conscientious objection or differing perceptions
- Suspicion
- Conservatism



Evaluating current capacities of PFM system

- Is there leadership in the Ministry of Finance?
- Are legal & regulatory requirements enacted in practice?
 - Is tax collection effective?
 - Is there reliable banking system with national coverage?
- Is there an active, functioning private market?
- Are there any identified critical gaps in capacity?

Opportunities for reform

- Is there a democratic environment with active engagement of civil society?
- Are public and private administrations concerned with corruption?
- Is there political will?
- Have strong measures for macroeconomic stability & economic growth been taken?
- Have other major reforms been carried out?
- Is there a group of financial specialists & experienced managers, and do they have adequate incentives

Threats to PFM reform

- Difficulty in keeping experienced and qualified personnel
- Corruption
- Fragmented funding sources
- Poor reform sequencing
- Fatigue from previous reforms

The conditions for change management

- Change will be perceived as legitimate if there is a conjunction of certain factors: dissatisfaction; a shared vision; & a will for change
 - Reminder: Gleicher's equation
- There must be one or more champions. Without political support & strong leadership to prevent resistance, reform will not succeed!
 - Champion: Finance Minister, Prime Minister, etc.

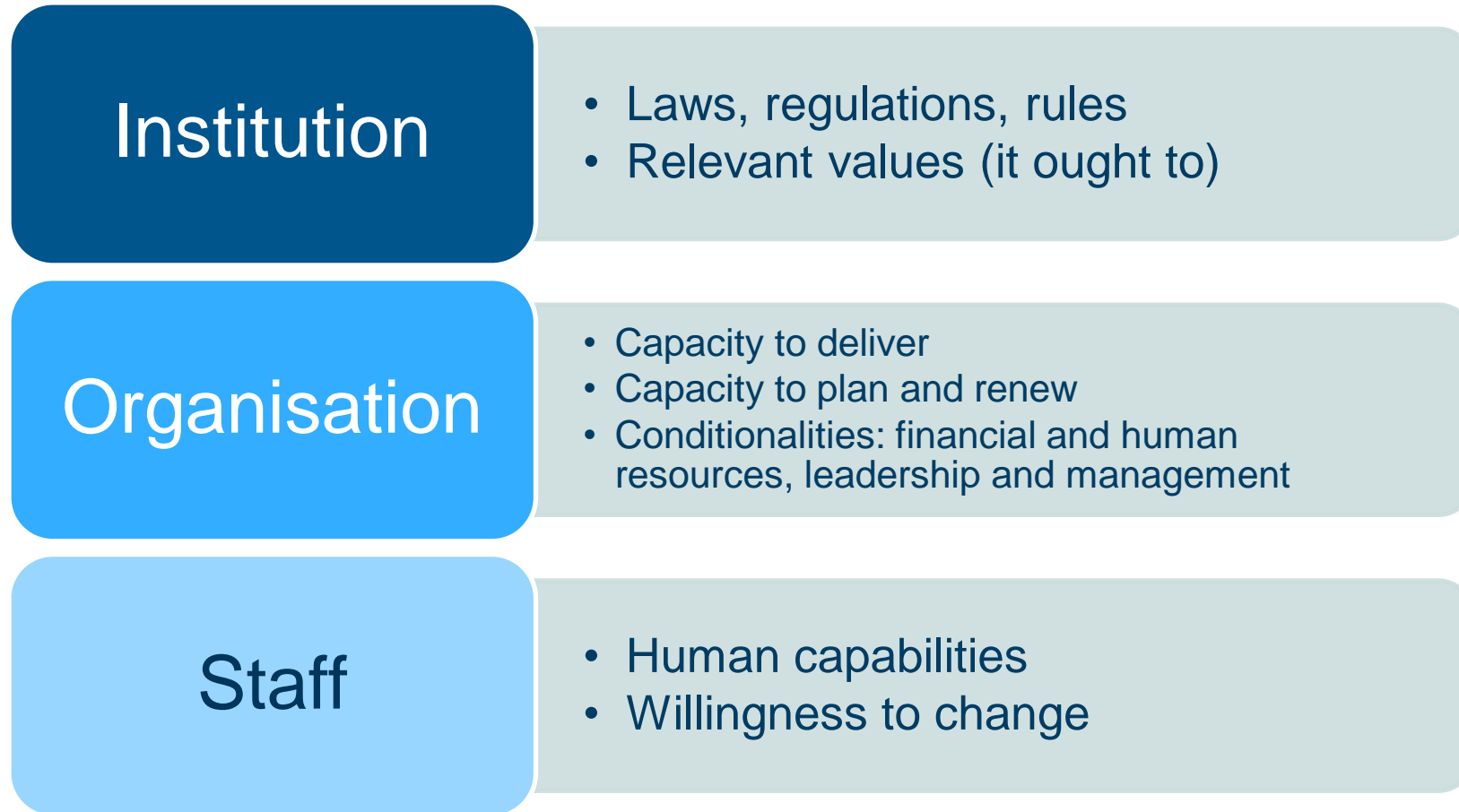
Change management (1)

- Set out the expected results: prepare & publish **reform strategy**
- Assess resources available for reform
- Assess capacities: human, material, institutional capacities
- Prevent resistance: predict 'losers'

Change management (2)

- Management capacity
 - Effective leadership
 - Institutional arrangements
- Building consensus
 - Include sector ministries in the management of the reform
- Find "FS" of Gleicher (quick wins, immediate results)
 - To who's advantage? MoF? Donors? Sector ministries? Parliament?
- Organise reform management on a long-term basis

Assessment of capacity for Reform implementation



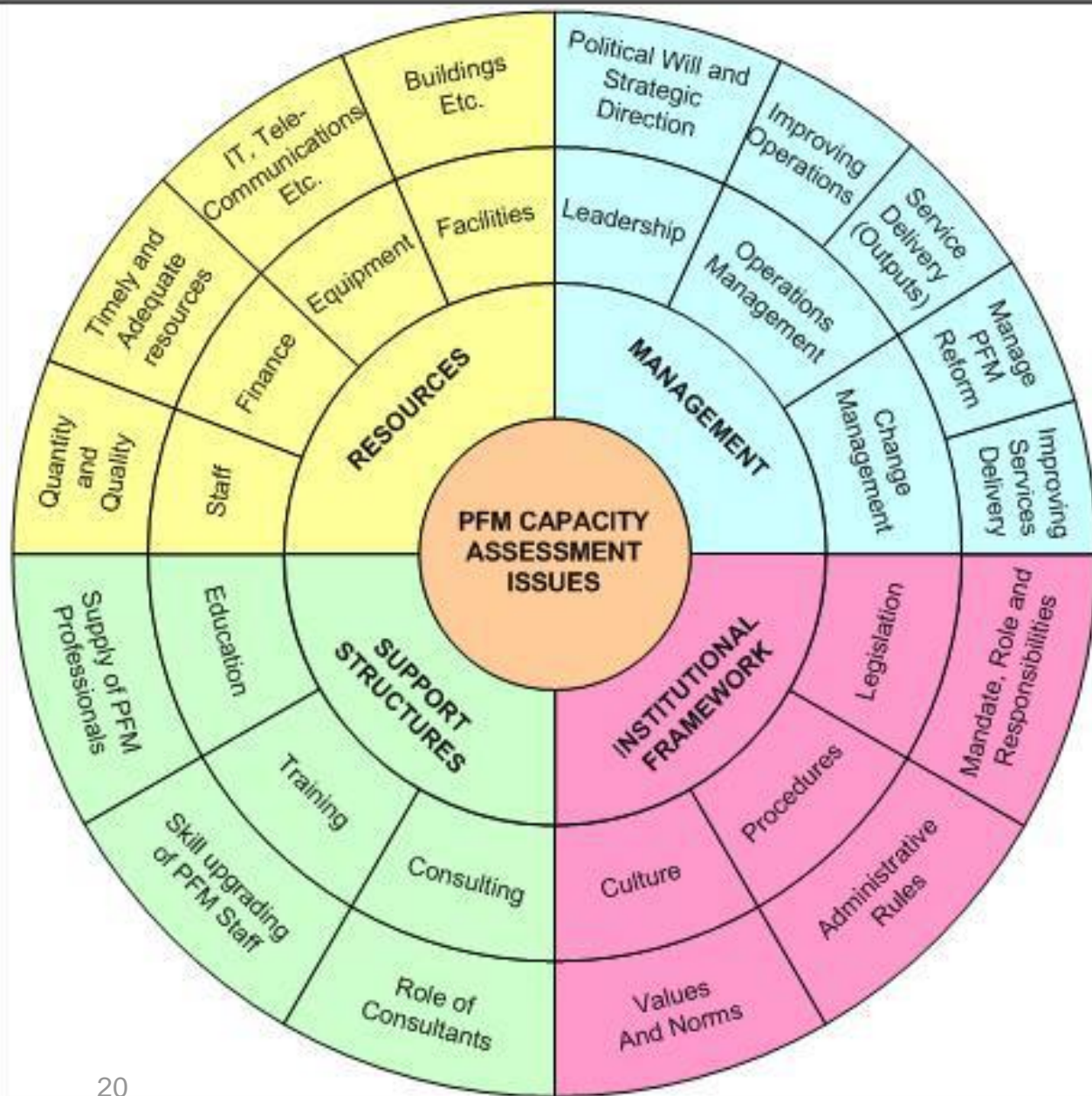
Capacity building

- Institutions (formal & informal rules): aims of the reform
- Organisations
 - MoF (+Prime Minister, Planning ...): Must be in charge of monitoring, & organised in such a way that it can carry out dialogue with other sectors
 - Sectorial Ministries: often side-lined in reforms; or, on the contrary, are sole focus of donors, who disregard system as a whole
 - Key aspect: finance-sector dialogue (or finance-sector-plan)

Capacity building

Individuals' skills and motivations

- Upgrading skills
 - Technical training
 - General training and raising awareness
- Incentives
 - Attracting, retaining & motivating skilled individuals
 - Low compensation is a problem in many DC, but financial constraints reduce possibilities of substantial raises
 - Other forms of incentives? E.g. promotions; beware in patronage-dominated systems



Capacity assessment

Addressing Capacity gaps

- **Capacity building:** human capabilities, equipment, networking, management
- **Capacity supplementation:** provision of continuing support to staff undertaking certain functions, delivered through advisors, internship schemes, and regional organisations and professional bodies
- **Capacity substitution:** “outsourcing” of specific PFM functions on a long-term basis, with external specialist individuals or agencies performing line functions on a long-term or permanent basis

Regional Training Centres such as:

IMF

<https://www.imfmetac.org/content/metac/en1.html>

INTOSAI

<https://afrosai-e.org.za/about/>

Key messages

- A national will is essential to any PFM reform
- Great care must go into change management
- Capacity building is a key issue, that must go beyond simple training actions

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- **Module 4.2 PFM strategy - case study**
- Module 4.3 Reform strategy, Programme and management

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Assessing the Relevance and Credibility of Reforms

PFM Reform Strategy Uganda – case study

- **Assessing the Relevance and Credibility of PFM Reforms**

You are requested to assess this PFM reform strategy document by using the **check list**. This checklist covers seven features which a strategy of PFM reforms should have.

You will work in sub-groups. Given time limitations, we ask you to respond only to the questions related to the following **two** features of the PFM Reform Strategy.

3. Integrated and effectively sequenced

7. Monitoring and performance indicators

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Module 4.3: objective

- Examine core issues related to the preparation and management of a PFM reform

“Reform Strategy” Document

Relatively brief document by Council of Ministers

- Used as programme for implementation
- Detailed examination of PFM reform programme
- Puts forward institutional framework
- Identifies considerable risk factors (legal framework, procurement, viability, etc.)
- Outlines a multi-annual expenditure programme
- Puts forward a proposal for deployment of activities, a sequence & agenda for implementation
- Defines monitoring & assessment modalities
- Puts forward proposal for funding modalities
- Defines responsibilities of different components
- Serves as basis for agreement on approach amongst different concerned parties

The reform programme (1)

- Defines global objective of PFM reform programme
- Establishes list of all reform components
- Defines reform sequencing
- Defines, for each component: main objective, purpose, main institution in charge & link with other components
- Prepares agenda for carrying out each component, with a summary of results, inputs, activities, stages requiring monitoring, & calendar for implementation
- Estimates expenditure provisions, identifies administrative budget lines of national budget from which funding is drawn (including external financing)

The reform programme (2)

- Outlines modalities for monitoring & assessment
- Defines single financing instrument
- Outlines rules of financial management & procurement
- Outlines institutional dispositions – including high-level steering group, technical direction committee, & work groups

Risks in carrying out PFM reform programme

- Absence of political will
- Risks due to content of the reform: errors in evaluating technical & capacity constraints
- Risks from reform management institutional factors
 - Inadequate management structure
 - No long-term support of cooperating partners
 - Inefficient monitoring & assessment framework
 - Incomplete or inefficient legal & regulatory framework
- Risks in implementation
 - Delays in activities (e.g. procurement, funding)
 - Inadequate implementation agenda

Risk mitigation and management

- Strong sustained engagement of political actors
- Monitor capacity building
- Adequate & efficient management structures
 - Coordinated, flexible & unique funding mechanism, adequate control publication of reports
 - Coordinated approach in legal & regulatory framework
 - Effective & efficient procurement system
- Adequate agenda
 - Particular attention to management of link between different components, implementation & sequencing of agenda
 - Coordination of PFM reform programme with other public sector reforms

Budgetary and financial management of PFM reform programme

Preparation of:

- expenditure programme (5 to 7 years) & cash flows
- annual budgets (work programmes) with explicit result objectives, indicating funding sources
- procurement plans, which distinguish:
 - Recurring & non-recurring expenditures
 - Direct & indirect costs
- monthly expenditure reports
- annual monitoring & audit reports
- annual control statements

Monitoring and assessment

Monitoring of:

- inputs
- activities
- number of trained employees
- preparation & finalisation of legal & regulatory texts
- reports published
- PFM outputs indicators
- PEFA & OECD/CAD procurement indicators
- Indicators not tackled by PEFA

‘Viability’ conditions

- Integration with national budget
- Management rooted in public administration structures
- If possible, permanent positions in Reform Secretariat
- Retaining of office trained personnel
- Regularly informing all parties of progress

Reform management: three levels

- Strategic level: defining objectives, approach & decisions
 - Inter-ministerial committee, Council of Ministers
 - Management board
- Technical, national level
 - Reform Secretary
 - Technical Thematic task force
- Ministerial departments level

Recommendations for Governments

- Ensure clear and **coherent support** for PFM reform within the **Executive** (Cabinet as well as MoF): broaden support across the political spectrum over time!
- Give serious attention to **design and staffing** of PFM reform coordination and management structures
- Those responsible for coordinating PFM reforms should control external support to PFM & dialogue with Budget Support donors
- Structures for monitoring PFM reform should promote the practise of **learning from experience** and adapting implementation plans accordingly
- Finally, the regular **training** of PFM staff needs to be a consistent priority

Key messages

- A reform strategy & programme must be established
- An efficient reform management system must be put in place

Test Out and Participants' feedback survey

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Thank you



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