Reforming Public Financial Management in Africa

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Abstract

Successful public sector reform is rare in Africa. Over twelve years, Ethiopia transformed its public financial management (PFM) to international standards and now has the third best system in Africa that is managing the largest aid flows to the continent. This article presents a framework for understanding PFM reform based on the Ethiopian experience. Reforms succeed when they are aligned with the four drivers of public sector reform: COPS—context, ownership, purpose and strategy. Public financial management is a core function of the state and its sovereignty and it is not an appropriate arena for foreign aid intervention—governments must fully own it, which was a key to the success of Ethiopia’s reform. The purpose of PFM reform should be building stable and sustainable ‘plateaus’ of PFM that are appropriate to the local context and they should not be about risky and irrelevant ‘summits’ of international best practice. Plateaus not summits are needed in Africa. Finally, a strategy of reform has four processes: recognize, improve, change, and sustain. Ethiopia succeeded because it implemented a recognize-improve-sustain strategy to support the government policy of rapid decentralization. All too often, much of PFM reform in Africa is about the change task and climbing financial summits.

Keywords: public financial management, public sector reform, civil service reform in Africa, foreign aid, budget support, economic development, Ethiopia

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Successful public sector reform is rare in Africa. Over twelve years, Ethiopia transformed its public financial management to international standards and now has the third best system in Africa that is managing the largest aid flows to the continent.¹

The financial reform succeeded because it was embedded in a government led political and administrative reform—decentralization. The reforms were driven by a domestic political imperative not a foreign technical agenda, and rapid results were needed in public financial management to keep up with the accelerating pace of decentralization. Rapid results required improving the existing financial system rather than changing it with advanced financial techniques of ‘international best practice.’

Against all odds

One could not find a more challenging environment than Ethiopia in 1996 in which to reform public financial management (PFM). The four horsemen of the apocalypse were permanently stabled in country. The country had been devastated by a seventeen-year civil war and the revolutionary party that assumed power was an ethnic minority with tenuous control over a vast country. The bureaucracy was demoralized and many skilled professionals had fled the country. Foreign aid rushed in to support the new regime, which produced an inchoate and crowded aid agenda that further

¹The best public financial management in Africa is ranked as follows: first—South Africa (population 49.3 million); second—Mauritius (population 1.3 million); and, third—Ethiopia (population 85.2 million) (World Bank, 2010). In an assessment of the evolution of the public financial management systems of sixteen African countries from 2001 to 2007, which covers the core period of PFM reform in Ethiopia, only Ethiopia scored a nineteen percent improvement. Other countries that have been touted as the success stories in Africa scored lower: Burkino Faso (8.3%), Mozambique (4.8% with 9.5% mid-period decline), and Tanzania the oft-touted poster child (12.5%). See Hedger and de Renzio (2010, p. 3). Table 1 presents the achievements of Ethiopia’s public financial management reform.
burdened a weak administrative system barely coping with daily operations. The government’s strategy of ethnic decentralization to regions implemented shortly after the change of power stretched further an already strained administration. Less than two years into the start of the reform, the horsemen of war, famine, pestilence and death arrived in even greater force.²

Offsetting these odds was the fundamental discipline of Ethiopian society, which carried over into the operations of government—prudent, indeed tightfisted, management of public resources. It was upon the rock of fiscal discipline and an ethos of self-help that this reform was built and why it worked.

Allen Schick in his seminal article on the stages of budget reform argues that successful budget reform must first establish control before moving to the successive stages of management and planning.³ The discipline of Ethiopian society and its government meant that a financial system was in place before the reform began which provided reasonably effective control. The control was not efficient however, as the country faced a backlog of six to seven years in its accounts, and the existing financial system was not up to supporting the government’s ambitious policy of decentralization.

This article presents a framework of public sector reform, which is based on the experience of a twelve-year PFM reform in Ethiopia, which brought its limited and inefficient system of financial control up to international standards and a rating of third best in Africa. The lens through which this reform is presented is the Decentralization Support Activity (DSA) Project which designed and implemented with government the

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² In May of 1998, Ethiopia and Eritrea went to war for two years. In late 2002, Ethiopia experienced a one hundred year famine with over fifteen million people at risk of starvation.
³ Schick (1966). These three budget roles Schick acknowledges comes from Robert Anthony’s typology of administrative processes: strategic, planning, management control and operational control. See Anthony (1965, pp. 16-18).
reform of five core financial systems: budget planning, budgets, accounts, disbursements and financial information systems (Table 1).  

The DSA project (henceforth project) succeeded because it followed a prudent strategy of reform. Public sector reform involves four processes: recognize, improve, change, and sustain. We shall address these in more detail shortly, but in brief, the project adopted the following sequence: it recognized the existing system, improved it, and introduced change only when absolutely needed. The imperative of rapidly decentralizing financial management to tiers of government with limited capacity meant that the existing system, though limited, was operationally familiar to staffs and could with improvement, be rapidly decentralized. Sustaining the reform was essential which the project promoted by strengthening human capacity through training and developing an infrastructure for in-service training.  

In its early years, the project was criticized by the Bretton Woods agencies, which the government had excluded from the reform, as not doing a reform because it focused on improving systems not changing them. Reform need not be ‘change’ and can be any or all of the other three reform processes. The project’s strategy of evolving the existing system and changing it only when necessary meant that the reform could keep pace with the government’s rapid decentralization. A strategy of reform focused on change, would have taken much longer to implement, would have had much higher risk, and would have not been available to support the decentralization policy.

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4 Of its $34.7 million budget, the DSA project spent approximately ninety-two percent on training over 72,000 government officials. Decentralization Support Activity Project (2006).  

5 The in-service training strategy for the reform was developed early on and the subject of a long discussion with the Prime Minister, select members of his cabinet and myself (Peterson, 1997).
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The project evolved financial control in Ethiopia to international standards. It also introduced management and planning reforms that provide lessons on both the process and content of introducing variants of advanced techniques suitable to a country’s context. The field of PFM reform tends to be dominated by foreign aid agencies and is overly normative in its focus on technique. The holy grail of this perspective is the search for ‘sequencing of technique.’ The Ethiopian reform provides a timely corrective to this myopia, and following Schick, the reform started with a focus on the control stage, and made it efficient. The financial reform stages of management and planning emerged out of a domestic demand to support decentralization (a new intra-regional fiscal transfer system) rather than an external supply of technique. The donor/lender perspective of the primacy of ‘sequencing techniques’ wrongly specifies the dynamic of PFM reform. PFM reform should be about evolving the stages of PFM (control, management, planning) based on the domestic needs of the administrative system and these can have many configurations in terms of sequence and overlap. Sequencing is positive not normative. The Ethiopian reform demonstrates that the key to successful public sector reform of which PFM may be a component, is achieving an alignment with the four drivers of reform.

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6 Perhaps the zenith to date of finding the ‘right’ sequence comes from Ronald Quist’s proposal to use PEFAs to define reform sequences. Ronald Quist has argued for a ‘Sequencing Rating Indicator (SRI)’ based on a 74 by 74 matrix of PEFA sub-indicators that can be expressed in an equation. Defining a country’s PFM reform sequence can then be ‘conveniently and instantaneously’ calculated by plugging the PEFA scores and sub-matrix into the SRI equation. Given that PEFAs do not examine the sources of poor PFM performance in term of systems and their execution, it is unclear how one could use this diagnostic to determine a reform sequence. See Quist (2009, p. 9).
COPS drive public sector reform: context, ownership, purpose and strategy (Table 2). The principal driver of public sector reform in Ethiopia was the context of a new government using decentralization to improve service delivery as well as promote its legitimacy. Contextual preconditions for reform were largely in place as decentralization defined the need, the government’s homegrown Civil Service Reform Program specified the help required, and urgency was paramount.\(^7\) The challenge for technical assistance was to craft a strategy that built upon these preconditions and established trust. Trust of external technical assistance was especially important, as the government was new and rightfully leery, if not suspicious, of foreigners in sensitive government agencies. Context explains the broad canvas of the reform and the specifics of reform of each financial system (e.g. how overnight devolution to districts made the budget planning reform extremely urgent for regions).

\(^7\)Public sector reform requires four necessary, though not sufficient conditions: trust, need, help and urgency (Peterson, 1996a).
Ownership of reform is often given lip service and confused with commitment, but is rarely unpacked in terms of the share holders and their shares (e.g. wholly or minority owned by government, donor/lenders, contractors) and the agents involved in the reform (the saints who support reform, the demons that don’t, and the wizards who design it and help the saints implement reform) (Peterson, 1998). The purpose of reform is often assumed, indeed not critically scrutinized, and not used to define a vision of where it is all going. Unfortunately, in Africa the vision of PFM reform is one of attempting the summits of international best practice, rather than consolidating the basics of a firm financial plateau. The success of the Ethiopian reform was in large measure due to an appropriate strategy of reform focused on recognition and improvement of existing systems and judicious change.

CONTEXT

Virtually every account of PFM reform begins and ends with the observation that PFM reform is contextual. Context has three dimensions: macro-level (political, social, economic), mid-level (administrative structure, bureaucratic culture, legacy procedures), and micro-level (necessary but not sufficient conditions for reform—trust, need, help and urgency). The political context was the triumph of the Tigrayan ethnic group after seventeen years of civil war. As a minority, the Tigrayans needed to rapidly consolidate power, which meant penetration of the country, especially the rural areas through decentralization. Decentralization was conducted in two phases the first being the establishment in 1994 of ethnic federalism in nine regions. A deeper decentralization below the regions to weredas was conducted in 2002 with the rationale of bypassing regional political organizations that were gaining strength and becoming

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8 In addition to its nine regions, Ethiopia has two administrative areas: Addis Ababa and Dire Dawa.
more loosely aligned with the central party. Making decentralization work was a strategy of regime survival. To promote effective decentralization, the government developed on its own within the Prime Minister’s Office, a far-reaching Civil Service Reform Program a component of which was PFM. So the macro political context for the PFM reform was not just firmly in place, there was no higher priority because it was core to the political strategy of control and in turn, the government policy of decentralization.

Ethiopian culture, the macro social context, reinforced the political context. The severe discipline of the culture ensured adherence to political direction. This discipline extended to public finance as Ethiopia was the only country in Africa with single digit inflation from 1955-1995 and despite its currency being tied to the U.S. dollar, Ethiopia continued on the gold standard after the U.S. departed the standard in 1971. If a PFM reform is to succeed, it must begin with a government living within its means—the hard budget constraint.

The second level of context, mid-level, is comprised of the administrative structure, the bureaucratic culture, and the legacy administrative procedures. The administrative structure includes the tiers of government (federal, region, administrative area, zone, wereda and kabelle) and the structures within tiers (e.g. the organization of the Ministry of Finance). During the PFM reform the structure of government and administration underwent dramatic change. Overnight in 2002, the government delegated financial responsibility over the bulk of regional resources to weredas. Also during the reform, the separate organizations of finance and planning were merged. Into

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9 The Civil Service Reform Program (CSRP) had five sub-programs: Top Systems Management, Human Resources, Service Delivery, Ethics and Expenditure Management and Control (EMCP) (Task Force for Civil Service Reform, 1996). The DSA project implemented five components under the EMCP: budget planning, budgeting, accounting, cash management, and information systems.
these dramatic changes the PFM reform was introduced and how this turbulence promoted or hindered reform was the key contextual dynamic shaping the reform. Our thesis is that this change was fundamental to opening up the bureaucracy to people in new roles that were more receptive to doing their jobs better. Turbulence created the opportunity for reform.

The third or micro-level of context is whether there are the necessary, though not sufficient conditions in place for a reform program and supporting technical assistance to succeed. The necessary conditions of reform are trust, need, help, and urgency (Peterson, 1996a). Trust was secured from the start in large part, because it was a government not foreign aid designed reform. The government ensured its trust in the design of the reform by dividing and managing the foreign technical assistance it requested to implement its reform. The Bretton Woods agencies were specifically excluded because the government did not want to take loans for the reform, nor did they want their financial patrons inside the house. While there was trust in the design of the reform, the various technical assistance projects had to build trust at the operational, and at times, strategic level. Trust is built through a momentum of success and small wins achieved with close partnership of government staff. That was the formula for success of the DSA project.

The need for strengthening financial management was clear to all though the need for some of the components of the reform, especially the budget planning reform, were not seen by the federal ministries of finance and planning as a need. The design of the DSA technical assistance project was viewed as appropriate help to address the needs in two areas initially (budget, accounts), to which was added budget planning, financial information systems, and disbursements. Urgency was of the essence due to
the overnight, mid-fiscal year decentralization of financial management from regions to weredas.

OWNERSHIP

The political context confirmed sole government ownership over this reform. The Prime Minister personally chaired the Civil Service Reform Program (CSRP) from its inception in 1995-1996 until the commencement of hostilities with Eritrea in May of 1998. The CSRP was quietly developed within the Prime Minister’s Office with no input from foreign aid agencies and with only one expatriate advisor. The war with Eritrea that began approximately two years after the CSRP was unveiled reinforced government ownership. Most foreign aid agencies dramatically downsized their staff and programs and some key donors to the PFM reform, notably the European Commission that had agreed to fund the financial information system under the PFM reform, stopped all assistance.

Ownership can be viewed in terms of who are the shareholders (i.e. government, donor/lenders, contractors, and others—civil society) and how many shares they hold (i.e. majority, minority). Owners in turn can be further understood in terms of the roles they play in reform: saints (government staffs who lead and protect the reform), demons (any actor that actively obstructs or passively fails to support the reform), and wizards

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10 The lone expatriate advisor, Peter Silkin, was directly contracted by the government who learned about him through its own connections established during the civil war. An auditor from the National Audit Office in the U.K., the CSRP was Peter’s first foray in providing technical assistance to a foreign government. The focus on control in the design of the EMCP was clearly influenced by Peter’s audit background.

11 The European Commission is barred from funding countries in conflict. The U.S. government did draw down all non-essential personnel throughout the duration of the conflict but allowed contractors to remain if they accepted all responsibility for their safety. USAID funded the DSA project and all of its staffs remained in Ethiopia throughout the war. The decision to continue U.S. assistance to Ethiopia was in part a political objective of not leaving an ally in the lurch.
Domestic not foreign ownership over the CSRP and its PFM component was clarified from the very start. A defining feature of the Ethiopian PFM reform is that for over a decade, the Government excluded the Bretton Woods organizations from participating in the core areas of the CSRP. The Government did request bilateral donor (not lender) agencies to provide support to components of its comprehensive civil service reform—a strategy of divide and manage foreign aid.13

Clarifying the ownership of reform was critical to the success of Ethiopia’s financial reform. But excluding the Bretton Woods and compartmentalizing donor assistance was not the only ownership to be clarified. The federal government did not have a domestic monopoly over this reform as regional governments made it very clear when the reform arrived in their jurisdiction, that they were responsible. So there were two principal tracks of reform—federal and regional, and within the regional track there was considerable diversity. Reinforcing the two tracks of PFM reform and systems in Ethiopia are the very different roles of the federal level in disbursing and consolidating financial reports and the regional level that is responsible for service delivery.

The first track, the federal reform, was where the reform began. In brief, the federal reform developed the crosscutting structures (budget classification, chart of

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12 Wizards are not an undifferentiated good. Wizards can be classified as appropriate (they have relevant and lengthy experience and judgment), inappropriate (they lack the qualities of the appropriate wizards) and imposters. A common fault of wizards is that they tend to view a new assignment as a continuation of the previous country they worked in and tend not to adequately see the new context. They also tend to take the easy path of installing a cookie cutter approach of technique and sequencing and pay little attention to context.

13 Excluded from the CSRP, the Bretton Woods agencies made a concerted effort to gain involvement in the financial reform in Ethiopia, which at times meant criticizing the ongoing reform. These agencies spearheaded the creation of the Ministry of Capacity Building, which was created several years after the CSRP had begun and this caused significant tension with the Ministry of Finance over the leadership of the PFM reform.
accounts, financial calendar) embedded in an information system that assured consistency of the PFM system amongst all of the tiers. But from the beginning, the federal reform was not a national reform. The work of reform was organized into federally staffed reform teams with members picked from the functional specialties of the Ministries of Finance and Planning. These exclusive reform clubs were established in three areas: expenditure planning, budgeting and accounting. These clubs excluded membership of federal sectoral ministries and regional organizations.

A critical question for a PFM reform in a decentralized government, is what role should the central ministries of finance and planning play? In a prelude to the design of its support to the Government’s CSRP reform, USAID invited the former Minister of Finance to share his thoughts on financial management in Ethiopia. His frank assertion that the Ministry of Finance was in danger of becoming a ‘post office’ struck and stuck with me ever since. A post office is a good metaphor for the Ministry of Finance and the Ministry of Planning for its national not federal role—delivering the fiscal transfers and collecting and consolidating reports. At the start of the reform in 1996, the Ministry of Finance was responsible for the federal recurrent budget while the Ministry of Planning was responsible for the federal capital budget. Economic policy was made in the Prime Ministers Office, as was close scrutiny of the capital budget. The finance and planning ministries did not have a significant policy function. Indeed, the critical fiscal transfer formula for federal to region allocations was excluded from the EMCP and eventually the role of the merged Ministry of Finance and Economic Development (MOFED) in
providing technical guidance on the formula was transferred to the House of Federation.¹⁴

Defining the role of the Ethiopian ministries of finance and planning as one of a post office is not pejorative nor is it surprising. Policy in a one party state rests with the inner circles of the party, not a federal bureaucracy. The post office role meant that the federal ministries maintained a limited role viz a viz the regions. A critical question of PFM management in a decentralized system is the boundaries of federal and regional finance institutions. Interestingly, and to their credit, the federal ministries in Ethiopia erred on the side of minimum rather than maximum intervention. The relative autonomy of regions was a key factor in the success of the reform as it allowed regional context to play out which was especially important in managing second stage decentralization to weredas.

Track 2 of the reform, the regional and district reform, was focused on building the capacity of weredas to deliver front-line services, principally primary education, health care and eventually, food security. Interestingly, three months into the pilot reform in the SNNPR, the government directed that financial management be devolved to weredas. At a stroke, sixty to seventy percent of all regional financial resources were to be transferred to weredas. This ‘second stage’ devolution changed the goal posts of the reform eight fold. Second stage devolution also laid to rest any significant federal role in the reform and confirmed a two-track (federal and region) strategy. Second stage devolution also firmly laid to rest foreign aid intervention in the PFM reform.

Ownership is a fundamental concept in public sector reform in general and in PFM reform specifically. The management of public money goes to the heart of

¹⁴ To manage decentralization, Ethiopia has a federal body, the House of Federation, which is responsible for among other federal issues, approving the fiscal transfer formula, which determines the transfer from the central government to regional governments.
sovereignty and it is not appropriate for foreign aid to demand, much less manage, the change of PFM systems. Government can request support, which is, very different from foreign aid ‘inviting themselves’ which is often the case and indeed is often part of the first paragraph of their mission reports.

Beyond the critical issue of impinging on the sovereignty of African states, the core problem of PFM on the continent is execution not systems (Linert, 2002; Stevens, 2005). Foreign aid largely concerns itself with the establishment of new systems and the dilemmas of sequencing techniques. The execution task tends to be neglected in large part because it is fundamentally an issue of improving government management of staffs and organizations and thus outside the purview of foreign aid. The decision by foreign aid agencies to use government financial systems for the delivery of loans and grants should be binary with appropriate benchmarks as necessary.

Pundits of PFM reform stress the importance of high-level commitment and authority but they don’t dwell on ownership. One reason for that is that the drivers of most PFM reforms in Africa are foreign aid agencies and the notion of ownership over a core sovereign function raises delicate contradictions. While ownership of the reform may have been fragmented or more accurately, compartmentalized between tiers of government (federal and region) in Ethiopia, it was always domestic not foreign and that made all the difference.

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15 One finds in some foreign aid frameworks of PFM reform phrases such as ‘acceptance’ and ‘authority.’ Governments, especially in developing countries, are command and control systems and executing a government reform has little to with acceptance or authority—these exist by definition. Illustrative of a foreign aid focused framework of PFM reform from an armchair observer is Matt Andrews’ odd ‘hippo minders, camel seekers, and oasis builders,’ which was unveiled to the Center for International Development, Harvard Kennedy School, Fall 2009.
PURPOSE

Ownership is the defining variable of a financial reform and it connotes property—physical and intellectual. Public financial management is a constituent part of sovereignty, which defines the state as property. To capture the qualities of property and ownership it is useful to think about a PFM system as a plateau. A well-established PFM plateau has an array of the basic systems of financial control (e.g. budgets, accounts, audit) that are adequately executed and sustained with government resources (funding, staffing, institutions). A plateau should be the wholly owned property of a government and it extends beyond PFM and encompasses the structure of government and administration. Successful PFM reform is aligned with the needs of government and fits within these structures.

The PFM reform in Ethiopia can be viewed as the building of multiple plateaus—the most fundamental geographic distinction being the federal and regional plateaus—which differed because of their functions—post office versus service delivery. As noted above, the regional reform created different plateaus both within the large and high capacity regions (Amhara, Oromia, SNNPR, Tigray) and within the small and low capacity regions. Second stage devolution created a new set of plateaus—the wereda plateau—that differed significantly from the federal and regional plateaus by its use of a financial pool.\(^\text{16}\) A daunting challenge in reforming PFM in a country with the depth and breadth and width (the types) of decentralization as found in Ethiopia, is how to build appropriate plateaus in the various tiers of government while also

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\(^{16}\) Given the immediacy of building financial management capacity in weredas and the limited number of finance staffs, a finance pool was created in the wereda finance office, which concentrated the finance function of weredas in one office. The pool removed budget execution and procurement from the spending offices, which tightened financial control. The pool arrangement of the wereda plateau was not introduced in any other tier of government.
maintaining coherence of financial management. The plateau is a useful metaphor for understanding the complexities.

Practitioners need a metaphor of PFM that is accessible, comprehensive and relevant. As accessible, the metaphor should help practitioners translate, indeed visualize, the complex array of PFM inputs (systems), throughputs (processes) and outputs (quality). As comprehensive, the metaphor should capture the key relationships between the parts and the parts with the whole. As relevant, it should direct the practitioner to the strengths and weaknesses (the bedrock and the crevices) of a country’s PFM.

Plateau as a Perspective on PFM

Plateaus provide a nuanced perspective of a country’s PFM. As territory, it stresses the sovereignty of PFM, which is a core function of the state. As a point of departure or destination, it stresses the need to recognize what exists and the need to establish the basics of financial control. As geology, it reminds one of the difficulty of changing administrative structures and the virtue of the stability of those structures. As landscape, it presents how the parts relate to the whole (financial systems and their execution as well PFM and the broader structure of government and administration). As place, it reminds one that PFM is a cultural, linguistic, and historical artifact. As environmental quality, it brings focus to the quality (output) of PFM—sustainability, sectoral allocation, composition of expenditure, and risk. As elevation, it shows how decentralized systems have different plateaus at varying elevations (capacity and

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17 For a description and analysis of the three types of decentralization see Cohen and Peterson (1999, pp. 19-50).
18 The first offering of the Harvard Executive Program in Public Financial Management was held at Egerton College Kenya in 1987 and Harris Mule, then Permanent Secretary of the Ministry of Finance of the government of Kenya, opined that budgeting is a language and a ‘fragile tradition’ that one should take care in changing.
sophistication) and the challenge of maintaining communication with diverse terrain. As layers, it brings focus to what is bedrock and what are the fault lines. Finally, a plateau perspective illustrates the virtues of a PFM reform sequence of recognize-improve-sustain, rather than defining reform as only change. Reform as building a plateau not a summit accords with what Karl Weick calls the ‘small wins’ approach to successful implementation of public policy.

A series of small wins is also more structurally sound than a large win because small wins are stable building blocks….A small win is a concrete, complete, implemented outcome of moderate importance. By itself, one small win may seem unimportant. A series of small wins at small but significant tasks, however, reveals a pattern that may attract allies, deter opponents, and lower resistance to subsequent proposals. Small wins are controllable opportunities that produce visible results (Weick, 1984, p. 43).

Small wins also reduce the risk of reform.

Small wins are like short stacks. They preserve gains, they cannot unravel, each one requires less coordination to execute, interruptions such as might occur when there is a change in political administration have limited effects, and subparts can be assembled into different configurations [they can be adapted to different plateaus] (Weick, 1984, p. 44).

Building PFM plateaus does not imply that a country’s PFM has ‘plateaued’ meaning that further reform is not possible or even needed. The plateau metaphor reinforces the oft-heard recommendation in the PFM field of the need to first ‘get the basics right’, which means having a firm and coherent base—a plateau.
Plateaus not Summits in Africa

The plateau metaphor illustrates one of the principal causes of failure of public sector and PFM reforms in Africa—the focus on summits of sophisticated techniques (international best practice) rather than improving the bedrock of plateaus—basic systems and their execution (appropriate to locale). Many public financial management reforms in Africa have been akin to the attempts of climbers to summit high altitude peaks. Few make it, those that do don’t stay long, and most fatalities occur in the descent. In recent years, financial summits in Africa have included several techniques that governments and their technical advisors have slipped on—Medium Term Expenditure Frameworks, performance/program budgeting, Integrated Financial Management Information Systems, accrual accounting, and business process reengineering to name just a few. The summit strategy and the techniques that underpin it are inappropriate for most if not all African governments. Financial summiting is costly, risky and not needed.

An appropriate strategy for guiding African governments that promotes ownership, and establishes good financial control is to build solid financial plateaus. Only once a government has a financial plateau that is stable and sustainable, should it consider building a higher (more sophisticated) plateau. Governments should make such a decision alone and it should be justified in terms of improving outcomes—does it promote growth and social wellbeing. There is considerable evidence from developed

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19 Krakauer (1997). Unlike climbers that make mistakes and perish on Himalayan peaks, technical assistance advisors and their firms often live another day and another contract. There is a serious issue of accountability in this profession with two year wonders (contracts) which mean technical assistance leaves before it is held accountable for results and negative results rarely if ever follow them.

20 Beyond the risk, cost and dubious return, governments, and hopefully their foreign aid partners need to recognize that it takes a long time to implement a PFM reform—SIDA estimates it takes twelve to fifteen years (SIDA, 2007).
and developing country experience that advanced public financial techniques, assuming they can be made to work, do not improve the outcomes of public expenditure (Mellet et al., 2009).

In an important corrective to the emphasis on summiting, Ian Linert and in turn Mike Stevens have pointed out that most PFM systems in Africa are robust but not well executed (Linert, 2002; Stevens, 2004). Naomi Caiden and Aaron Wildavsky observed many years ago that if a government could not execute an annual budget, which is a one-year plan, it made little sense to embark on multi-year planning (Caiden and Wildavsky, 1990, pp. 315-322). Until African governments can execute the basics of financial control, it is not prudent for them to attempt to scale the higher elevations of financial technique. Even if governments attempt and reach these higher summits with intensive support (oxygen?) of their foreign guides, the path is risky and unsustainable.

The lust for summits by mountaineers ‘because they are there,’ should not be the driver of government financial reform—yes other techniques are there—but are they needed? Summiting has constituencies while plateaus do not. Financial summits are attractive to donor/lenders for several reasons: they are a source of benchmarks for conditionality, many involve significant commodity dumps (e.g. Integrated Financial Management Systems) which allow rapid disbursement of funds, they facilitate the placement of technical assistance personnel within core government functions who can monitor their funding and financial risk, they extend their influence over government, and they support the business model of technical assistance departments of foreign aid agencies. Governments are attracted to summits in part, because they are told to do so as part of conditionality and the need to be modern with international best practice. But a more telling reason for government support of summits is that they often generate
handsome rents—especially in large-scale financial automation projects. Plateaus are built on domestic not foreign resources, which limits the opportunities for rents. Plateaus do place a demand on the domestic budget (the fungibility of money notwithstanding), but that is good, because supporting systems are principally about better management of government staff and organizations, which are existing (and modest) budget commitments. Financial summits also provide cash cows for contractors because implementing projects with a complex scope within government bureaucracies that have limited capacity to manage even simple contracts makes it highly likely that project schedule and budget will be extended.

Plateaus and Platforms

Given the increasing use of the term ‘platform’ in PFM, it is important to distinguish it from the concept of a plateau. PFM can be viewed as having three platforms: transaction, policy and legal (Table 3). The transaction platform includes the systems of financial administration—revenue, budgeting, accounting, cash management and information systems and is a recognition that PFM systems are fundamentally about managing transactions. The policy platform includes fiscal management (macro-economic framework, fiscal architecture) as well as the outputs and outcome of the transactions (performance and program budgeting). The legal oversight platform includes the legal framework (constitution, organic budget law, financial regulations) and external audit and the legislative oversight. Effective PFM systems require that all three platforms perform well. The sequence of PFM reform is the array of reform to the components within and between these three platforms.

A later and very different formulation of the platform concept emerges from the literature on policy-based foreign aid and the conditionalities needed to reduce fiduciary
risk. Peter Brooke notes that the value of the platform approach is ‘in providing greater clarity to both the Governments and donors about the rules of engagement and disbursement and what each expects of the other in the partnership.’\textsuperscript{21} The Brooke platform approach views PFM reform as driven by the real or perceived needs of foreign aid. Our platform approach is generic and locates reform within the drivers of the reform (COPS) with sequencing emerging from the strategy of reform (the processes of recognize, improve, change and sustain) discussed next.

\textbf{Table 3}\textsuperscript{22}

\textit{The Platforms of Public Financial Management}

<table>
<thead>
<tr>
<th>Transaction Platform</th>
<th>Policy Platform</th>
<th>Legal Platform</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue administration</td>
<td>Macroeconomic framework</td>
<td>Legal framework</td>
</tr>
<tr>
<td>Budget</td>
<td>Fiscal architecture</td>
<td>External audit</td>
</tr>
<tr>
<td>Accounts</td>
<td>Performance/program budgets</td>
<td>Legislative oversight</td>
</tr>
<tr>
<td>Cash management</td>
<td>Regulation</td>
<td></td>
</tr>
<tr>
<td>Input management</td>
<td></td>
<td></td>
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<tr>
<td>Internal audit</td>
<td></td>
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</tbody>
</table>

\textsuperscript{21} Brooke (2003, p. 2). See also Department for International Development (2005).

\textsuperscript{22} The three platforms of PFM were introduced in the Executive Program in Public Financial Management at the Kennedy School of Government in Summer 2002. I am indebted to Perran Penrose for his inputs into this framework.
STRATEGY

There are four tasks in public sector reform: recognize, improve, change and sustain. The Ethiopian pathway of reform was a sequence of recognize-improve-sustain and only if absolutely necessary, change. It was a pathway of building a plateau. This reform sequence was appropriate given the priority of supporting rapid decentralization. One can argue, that the principal problem with public sector reform in general and PFM reform specifically in Africa, is defining reform as change, often perpetual, and ignoring the other tasks of reform.

Recognize

Recognizing meaning understanding and respecting what exists, is the first and often most neglected step in reform. Recognizing also means not dismissing, indeed denigrating, ongoing reforms to impose one’s own. All too often, governments in developing countries do not understand the strengths of their systems and are too quick to change them, often on the advice of others. The practice of a cursory review of existing systems, if at all, before leaping to major reform in PFM in Africa is akin to the reengineering movement of the 1990s which advocated only a brief look at business processes on the grounds that they were going to be replaced (Hammer, 1995, p. 19).

Taking the Linert/Stevens argument that PFM systems in Africa are robust but not executed, one must thoroughly understand them to have confidence that they are indeed

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23 A problem with PFM reforms in Africa is having too many cooks in the kitchen. In many countries, separate foreign aid initiatives compete, overlap and undermine existing PFM operations and ongoing reforms. A silver lining for the Ethiopian reform was the Eritrean war that began less than two years into the reform, which sent most foreign aid agencies packing for two or more years. Only the DSA project cooks were left in the kitchen.

24 The author co-founded Harvard University’s Executive Program in Public Financial Management twenty-four years ago. Well over a thousand senior government finance officials have been trained over the years and a major take away especially by participants from Africa, was an appreciation of how good their systems were.
robust and if so, what if anything, should be done. Adequate description is especially critical in countries that are decentralized because they often have multiple systems (plateaus) changing on different timetables. While one can find detailed descriptions of the parts of a country’s PFM system (e.g. accounting), it is rare to find comprehensive description of a country’s PFM and the nuances across its plateaus. In countries that are decentralized, or even in countries that are centralized but have extremes in capacity, there is not ‘one’ PFM system and PFM reformers with a focus on technique, often fail to appreciate these differences that do matter. In Ethiopia for example, there was considerable confusion by foreign aid over the impact of their grants and loans on the offset of the fiscal transfer from federal to regional governments. For years, this confusion rippled throughout PFM management (e.g. medium term planning, budgeting, and accounting). Decentralization poses considerable complexity to the delivery of foreign aid and donor/lenders need to particularly recognize the nuances and the impact of their funding.

The recognition task of reform is significant for it focuses one on the definition of the problem rather than the leap to the solution. Unfortunately, PFM reform is much about technique and sequence and little about hard questions—why change and how does it improve outcomes. Again, the strategy of small wins makes sense.

The strategy of small wins addresses social problems by working directly on their construction and indirectly on their resolution…. A shift of attention away from outcomes toward inputs is not trivial, because the content of appropriate solutions is often implied by the definition of what needs to be solved. To focus on the process of problem definition is to incorporate a more substantial portion of psychology, specifically, its

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25 An early diagnostic of Ethiopia’s PFM system was conducted by Peterson through the European Commission funded Social Expenditure Review conducted by Oxford University in 1996 (Peterson, 1996b). See also Peterson (1996c).
understanding of processes of appraisal, social construction of reality, problem finding, and definition of the situation (Weick, 1984, p. 40).

Richard Allen, echoes this need for better recognition of the problem before leaping to the toolbox of techniques by noting that IMF finance advisors ‘are too technical (Allen, 2010)’ and that they need to ‘fumble around in the dark (Allen, 2009, p. 25).’

Overlooking the recognition task of reform is promoted by the dominant PFM diagnostic of the day, the Public Expenditure Financial Accountability Framework (PEFA), which is used to assess a country’s PFM (PEFA, 2005). A comprehensive assessment of a country’s PFM should cover the inputs (systems, execution), throughput (performance of process), and outputs (the quality and impact of expenditure). The PEFA examines only throughput and as such, principally functions like a temperature gauge in a vehicle telling the driver whether the engine is overheating. Taking the analogy further, a PEFA does not tell the driver where the car is going, or the capabilities of the engine and transmission, or the maintenance schedule.

Perhaps the principal weakness of a PEFA is that it does not allow for a cursory inspection under the hood (examining the inputs of PFM—systems and the elements of execution) to see the cause of overheating. At best, the PEFA is a very partial recognition of a country’s PFM system. By focusing on throughput, and thus funds flow, the PEFA diagnostic is of particular interest to donor/lenders and their concern for the flow of their funds, while most governments tend to be focused on outputs if only to promote their legitimacy (and control) through the delivery of services.

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26 Since PEFAs don’t look at the inputs and their link to outputs, they cannot specify an action plan because they do not address causality. A further deficiency of the PEFA is that it does not cover decentralized systems although there is an initiative to elaborate guidelines for multi-tiered assessments.
A promising new PFM diagnostic is the Country Integrated Fiduciary Assessment (CIFA), which examines all three attributes of a PFM system (inputs, throughputs and outputs). The bottom line of a CIFA unlike a PEFA is that it presents an action plan for PFM reform going forward which is meant to address the risks of a country’s PFM, which is of importance to governments and foreign aid alike.

**Improve**

Improving what exists is the essence of a small win. Improving also fits with the reality found in most African governments of systems being robust but not adequately executed. Toning up what exists and focusing on strengthening execution (i.e. in-service training, schemes of service, organization of finance functions) can have significant payoffs at modest cost. Reforms that focus on improving rather than changing, are faster, cheaper, less risky, and are less disruptive of daily operations. Most important, reform as improvement ensures that government remains in the driver’s seat of management and operation of PFM.

**Change**

Change should be done judiciously and justified in terms of improving the quality of PFM outputs (e.g. sectoral allocation, composition of expenditure). Returning to Everest, the key to surviving the climb, whether one summits or not, is the establishment and adherence to ironclad decision rules before the climb (Krakauer, 1997, pp. 284-288). On Everest, while summiting may be an option, survival should not be. Most fatalities occur on the descent, often by those who successfully reached the summit but did not follow the decision rules of when to turn back.\(^{27}\)  As with

\(^{27}\) The failure to follow the rules of the climb is often the result of ‘summit fever’ and severe degradation of judgment due to oxygen deprivation. I shall leave it to the reader to decide the degree and causes of impairment of judgment, which many PFM reforms on the continent reflect.
mountaineering, the significantly higher risk of changing rather than improving PFM requires clear rules to manage risk and avoid failure. Over the course of the reform, the DSA project developed several rules of reform.28

Two rules in particular were critical to the success of this reform. First, make the existing system current. Introducing a new financial system (e.g. moving from single entry to double entry bookkeeping) while officials struggle with backlogs in accounts and are not efficiently managing the existing system, overtaxes capacity and is a prescription for failure of both systems. With limited manpower that is constantly turning over, it is difficult to juggle two balls (systems) at once.29 For new systems to succeed, the legacy system must be made sufficiently efficient to free up staffs to learn the improved/new system and run both systems until the improved/new system can fully come on stream.

A second key rule of reform the project followed was to put in place the infrastructure needed to support existing systems (e.g. in-service training facilities and programs), which could then be used later to support new systems.30 Having the infrastructure in place for supporting PFM means that these systems can adapt to rapid changes in government policy. Given that PFM reforms are very long-term affairs, they

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28 Through hard won experience, the DSA project established seven principles which guided the reform: (1) financial reform should be led by finance institutions; (2) devolution should be completed before the budget and accounts reforms are introduced; (3) simplification of the wereda financial management (reducing the number of budget institutions) should precede the budget reform; (4) accounts should be current before the budget reform is introduced; (5) budget reform should precede accounts reform; (6) reforms should be properly resourced; and, (7) senior government officials should understand the reform (Harvard University, 2004, pp. 12-14).

29 Some governments attempt to juggle three or more systems at once. Ethiopia now has three financial information systems—one functioning, one under perpetual development and a newly contracted COTS IFMIS.

30 The establishment of the in-service training program in the regions prior to the rollout of the procedural reform was critical to the success of the reform. Second stage devolution, which was introduced overnight with no warning, succeeded because fortunately, the in-service training program had been in place in the four largest regions and the regions had selected wereda level staff in particular for training.
must be designed for the inevitable and often disruptive political and administrative changes. It is far easier to weather a violent storm from a firm plateau, than from an exposed summit.

One rule governments find difficult to exercise is when to stop a reform or exercise the role of a flagman to delay eager initiatives that cannot be entertained at that moment. The introduction of new systems must have clear benchmarks to measure progress and absorption by government. Lack of discipline of adhering to this rule has been the principal reason for the widespread and costly failures of financial automation projects in Africa. \(^31\)

While recognizing the risk of changing financial systems, two striking lessons emerge from the Ethiopian reform. First, if proper preparations are made for the introduction of a new system, capacity is not as serious a constraint as expected. More often than not, the DSA project was pleasantly surprised on the upside of the capabilities of federal and regional governments to defy dire capacity warnings and implement the reform. \(^32\)

Capacity and the need to build it is often an overstated constraint to reform. Again, some armchair observers of PFM reform have elevated ‘ability’ (read capacity) to be a key factor in reform. The twelve-year experience from Ethiopia shows that

\(^31\) On failure rates of IFMISs in Africa see Dorotinsky (2003). One reason governments and their donor/lender patrons are hesitant to stop a project, especially those that are as visible and costly as automation projects, is that they are sunk costs and failure and the waste of public funds has to be explained and officials within government and foreign aid agencies (if they provided funding) need to be held accountable. An example of failing to stop a non-performing reform is Ethiopia’s IBEX 2 automation project, which was tasked to implement a modest upgrade of the existing financial information system, and is still vaporware after three years.

\(^32\) The DSA project accounting advisors were very concerned about the directive from government to move from single to double entry bookkeeping. The initial design of the EMCP to remain with single entry. The project advisors were justified in their concerns given that the average educational qualification of finance staffs was tenth grade. The change to double entry was a surprisingly smooth success but was the result of a carefully crafted in-service training program.
ability is an overrated binding constraint to PFM reform. Again, taking the Linert/Stevens proposition that PFM systems in Africa are robust but not executed, this suggests that the constraint of execution is one of the incentives of management not ability. Capacity building initiatives can also become welcome commodity dumps for foreign aid (and rents for government). Capacity building often becomes blue sky—some is good, more is better, and even more is even better. Blaming the lack of capacity is often a far too easy explanation for failure and excuse for not doing the due diligence of understanding what exists and working with it.

A second lesson from the reform was that change worked if driven by a clear not derived need (e.g. the need to have an equitable intra-regional transfer formula with the advent of second stage decentralization to weredas). The reform demonstrated that properly nuanced advanced PFM techniques (e.g. performance frameworks and costing methods) could be introduced if driven by demand rather than supply.

*Sustain*

Sustaining is the orphan of reform. As noted above, it lacks constituencies. Sustaining a reform, however, is the key to effective execution of systems, and that is the weak link in PFM reform in Africa. Sustaining is the ‘operating and maintenance (o&m)’ of reform. Governments the world over underfunds o&m and gives priority to new expenditure (capital) and required expenditure (recurrent wage and recurrent statutory). O&M is discretionary. The dearth of resources for sustaining existing PFM systems is a reflection of the broader PFM problem—poor composition of expenditure. Developing a strategy for sustaining a reform, especially for in-service training, should not be an after-thought or a last minute agenda as a technical assistance

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33 The composition of expenditure refers to the respective balance of expenditure (recurrent wage, recurrent o&m, recurrent statutory and capital) for a particular activity.
project is closing down, much less, the glimmer for a follow-on technical assistance project. From the start of the Ethiopian reform, the project defined the key constraint as training and indeed one of the first initiatives was to establish a training infrastructure at the federal and regional levels that could prepare finance officials for the reform and train future staffs to sustain it.\textsuperscript{34} The virtue of a small wins plateau approach to PFM reform, is that sustainability is developed all along.

ALIGNMENT AND THE QUALITY OF REFORM

The key to successful public sector reform is alignment with the four drivers of reform. If the alignment is good, good things happen. The concern, indeed fixation, within the field of PFM about sequencing, is misplaced. Sequencing emerges from alignment and experience from Ethiopia shows that there is considerable flexibility in sequencing. The core management task of the DSA project during this reform was to maintain good alignment under rapidly changing conditions. The most important alignment of this reform was building financial plateaus at the lowest and weakest tier of government, rather than summiting from the highest and most capable tier.

Poor Alignment, Poor Reform

A brief example of a PFM reform that has not worked in Ethiopia can be explained by our framework of alignment of the drivers of public sector reform. In 2004, just prior to the rollout of the budget and accounts reform to the Oromia region, a Bretton Woods agency criticized the reform and recommended the introduction of performance/program budgeting. Two years later and once the dust of the government designed EMCP reform had been completed in Oromia and nearly all of the other regions, the federal government attempted this initiative in five federal agencies. The

\textsuperscript{34} The in-service training program for budget and accounts was presented and approved by the Prime Minister. See Peterson (1997).
government had to stop this initiative mid-fiscal year because the five agencies could not complete their budgets and were delaying the submission of the federal budget to parliament. Ever persistent, the initiative continued and in late 2010, the technical assistance advisor responsible for developing the performance/program budget departed after a year and one-half leaving a manual which was deemed to be of no use by the federal budget team.

The lack of alignment with the drivers of public sector reform explains the failure of this initiative. From its inception, the reform failed to respect the government policy of rapidly rolling out and completing the ongoing reform. This initiative was launched just prior to the critical and massive task of reforming Oromia with its 280 plus weredas and the training of over 8,000 staffs. This initiative also failed to recognize the achievements already on the ground specifically, the development of performance agreements for weredas that were improving the core government policy—front-line service delivery at weredas. This initiative was professionally irresponsible and poorly designed and to echo Richard Allen, it was all about technique not context. The initiative was about a federal summit rather than sustaining regional and sub-regional plateaus. Whether or not this summit will ever be reached is of little consequence because it does not address the key issue of PFM in Ethiopia—the performance of the wereda plateau.35

Progress is not certain, and unfortunately since 2008 when the project ended, Ethiopia has embarked on further reform as change rather than consolidating the new plateaus established over twelve years of reform (reform as sustain). The current reform

35 Perhaps the most pressing PFM issue in Ethiopia is the performance of reporting from weredas and regions. The performance/program budgeting initiative for federal public bodies does not address this issue and indeed, distracts MOFED from devoting attention to the reporting issues and supporting the wereda plateaus.
is focused on summiting from the federal level. While the rating of having the third best PFM system in Africa is deserved, the regional and sub-regional (wereda) plateaus are under severe stress. Turnover of finance staffs in weredas ranges between thirty and sixty percent per annum, and delays are emerging in reporting on critical donor/lender programs. Instead of addressing the constraints to executing the existing plateaus, the government is focused on summiting from the center. The climbing agenda is not modest and would tax even the most developed countries as Ethiopia is now climbing four of the highest PFM peaks: performance/program budgeting, modified/accrual accounting, an Oracle IFMIS, and a medium term expenditure framework.

RETHINKING PFM REFORM IN AFRICA

Reform of PFM in Africa has lost its way. Richard Allen points to the fault of too much technique and not being in touch—understanding the realities on the ground. The fundamental problem however, is that many PFM reforms do not address the hard questions—sustainability and quality of expenditure.

PFM reform in Africa has been much about summits and not about plateaus. What often drives summiting is foreign aid specifically, using PFM summits as conditionality’s and or supporting the business model of donor/lender technical assistance departments. Tying a long-term reform to the timescales of short-term disbursement is imprudent and destined to fail. The Ethiopian reform took twelve years to build up a financial plateau that had inefficient control to one of effective control of international standards. Reforming financial management of any country takes years but there seems to be a school of thought and unfortunately practice, that if one just gets the sequence of techniques right, summits can be done quickly and risk can be managed.36

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36 Perhaps the zenith of metric mining in PFM has been reached with the proposal to use PEFAs to define reform sequences. Ronald Quist has argued for a ‘Sequencing Rating Indicator (SRI)’
PFM reforms in Africa, and on other continents have lost their way because they have forgotten the guides. Aaron Wildavsky’s ‘A Budget for all Seasons: Why the Traditional Budget Lasts’ along with ‘If Policy is Everything, Maybe its Nothing,’ needs to be reread or I suspect, read for the first time by those funding and directing PFM reforms (Wildavsky, 1978; Wildavsky, 1973). His message is clear, timeless, and certainly on target for Africa. He argues that budgets, and PFM writ large, must be robust and while they may not reach perfection on any metric, they must not fail on any metric. Second best in all categories is best practice, international or otherwise. He argues that while second best may be traditional, it is not sclerotic and it provides a bedrock for sophistication in administration and analysis. For Aaron, and hopefully most budget directors, little concern would be raised if a performance target went missing while much concern would be raised if cash did. Aaron’s work illustrated a point that seems to be lost in current PFM thinking—that public financial management is significantly different than private sector management and the latter can adopt sophisticated techniques because its task is far simpler.

Aaron’s work directly addressed the heart of public finance—risk. Risk is the gravity of public financial management. It is always there, difficult to measure, but ignored at one’s peril. Risk is the core of financial management for both the public and private sectors (Peterson, 2010). The crisis of our age is the mismanagement of financial risk within and between these sectors. A country’s PFM system is the

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37 Reformers and their patrons could also profit by also reviewing Wildavsky (1979) on how specialists can speak to senior government policy makers responsible for PFM reform.
38 The crisis of our age is the result of the global LIE: leverage that is unfathomable, institutions that are discredited, and, experts who are uncertain about the uncertainty (Peterson, 2010, p. vii).
instrument for managing financial risk and should never be at risk (second best is better than first). The focus on financial summits not plateaus in Africa has not worked and has caused considerable harm. The Ethiopian experience shows a pathway of reform that built plateaus and managed risk. It also reaffirms that there are no shortcuts to progress in Africa (or elsewhere) (Hyden, 1983).

Why hasn’t one, if not the most successful PFM reforms of the past decade in sub-Saharan Africa, in the second most populous country, been studied? The reason may lie between the exclusion of the government of the Bretton Woods from the reform—it wasn’t their show—and the reform’s unorthodox focus on plateaus not summits. Hopefully for students, but especially practitioners, this article starts to address this oversight and provides a new landscape for understanding and guiding PFM reforms in Africa and other developing countries.

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30 The traditional budget is robust because it is the best budgetary technique for managing risk—it is a minimax solution—it minimizes the maximum loss.
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