

Designing Change in Public Financial Management: Lessons from Pakistan

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In the 1990s, the Government of Pakistan decided to modernize its accounting and auditing functions by introducing a new Chart of Accounts and computerized accounting system, establishing an independent audit function, and improving professional capacity. To this end, in 1997, following a World Bank diagnostic study, the Project to Improve Financial Reporting and Auditing (PIFRA) became effective. Components included computerization and gradual migration to accrual accounting; modern auditing guidelines and automated tools; human resource and change management; training; and a management information system, a project management unit (PMU), and office automation.

Despite the Government's recognition that there was clear need to improve public financial management, PIFRA took more than five years to take root—and much of this delay can be attributed to the reluctance of policymakers to address institutional issues. Although PIFRA enhanced dialogue on public financial management at the local, regional, and national levels of government and strengthened demand for reforms, it proved difficult to translate top-level ownership into actions on the ground, keep relevant policymakers' attention focused on achievement of PIFRA milestones, and develop incentives for PIFRA project management and implementation.

Lesson 1. Such projects should be framed as expenditure management system reform rather than accounting systems reform

A government-wide payment and accounting system, as envisaged in PIFRA, has implications for multiple agencies and possibly for multiple levels of government, and requires the active support of the Ministry of Finance (MOF). To get MOF support, the project team needed to impress on Government and other development partners that PIFRA primarily addressed a public expenditure

When project design brings all stakeholders on board upstream, sets realistic goals, and confronts issues of competency and vested interests early on, it can reduce efforts to impede reform. Sometimes, as was the case in Pakistan with the Project to Improve Financial Reporting and Auditing, this lesson is learned the hard way—but at least it has been reflected in PIFRA II, scheduled for implementation from late 2005 to 2010.

management issue rather than only an accounting issue. In the absence of a reliable fiscal reporting system, the Government would not be able to manage its fiscal resources, and donors and international financial institutions would not be able to assess the impact of assistance. Framing the project primarily as an expenditure management reform initiative raised the importance of the problem and won the attention of senior policymakers and their donor counterparts. When linkages were established between PIFRA and requirements under policy-based lending from both the Bank and the IMF, the MOF became interested in ensuring that PIFRA milestones were met.

Lesson 2. Project design must address threats to status and career prospects

In PIFRA, splitting of the audit and accounts function was resisted by the officers of the Pakistan Audit & Accounts Service (PA&AS), who perceived a threat to their career prospects. The change of budget classification structure was also resisted in the MOF by a group of officers who feared that the replacement of the legacy system with a new system would involve their displacement.

The original design of PIFRA I did not adequately address these aspects. It took into account the need for a high-level change agent and identified this in the then Auditor General (AG). The problem was that the AG was not part of the PA&AS and therefore did not consider the service turf issues important. The agreements reached with him unraveled when he was replaced with an AG who was part of the PA&AS and who considered the turf/career issues to be very important. When the change agent retired, project elements lost momentum in the face of his replacement's concern that the separation of accounting and auditing functions might both bring unwanted career issues to the fore and be unconstitutional. This change was approved only after a military

government came to power that wanted to overhaul the bureaucracy anyway. Conditionality attached to a structural adjustment credit and IMF involvement helped pave the way for legislation that separated the auditing and accounting functions. Even then, it proved necessary for management of accounting policy and of the joint accounting and audit staff to remain under the AG's aegis.

The key lessons are that (a) design of new arrangements needs to preserve the essential status elements while allowing organizational changes to take place in an acceptably phased way; and (b) better communication, by citing examples where similar changes have been successfully implemented without reducing career prospects, could assure staff that their fears are unfounded.

Lesson 3. Design should include incentives against inertia and resistance to change

Even in career/turf-neutral situations, there are often insufficient incentives within civil service structures and systems to encourage people to change existing systems. In fact, the risk of imposition of penalties in case of implementation problems or failure of the reform program may act as a disincentive. This resistance may be reduced if the change agents are exposed to similar changes that have been successfully implemented elsewhere. Additionally, incentives for participants and rewards for change are needed (e.g., bonuses for staff involved), especially when the change process involves losers as well as winners. The Bank could help by arranging for the project team to showcase experiences to international audiences engaged in similar projects.

Lesson 4. Implementation requires an adequately staffed project management structure with authority to take decisions

Implementing a new, automated government-wide accounting system is a complex undertaking that requires (a) the PMU to be headed by a competent public sector senior manager who enjoys the respect of colleagues and superiors and has full financial and administrative authority to make project-related decisions; (b) a core group of committed professionals trained in the implementation of the new system to act

as change agents as the system is rolled out; (c) expertise within the project secretariat to deal with complex IT procurement and systems installation (expertise that both the client and the Bank can accept as independent of suppliers and vested interests), along with expertise in project and contract management techniques for monitoring of project progress; and (d) inclusion of counterparts of all stakeholders who are responsible for managing the interface with their respective agencies.

However, in PIFRA, the project director was changed 14 times in seven years; the PMU lacked capacity to make independent judgments on complex technical issues related to the installation of the computer-based system; the PMU lacked contract management expertise, resulting in delayed payments to consultants, consultant withdrawals and dismissals, and noncompletion of acceptable outputs; and major players, including central and provincial Finance Departments, were not initially represented in the project management group.

Lesson 5. Such projects must include a major change management and training component

There should be a continuing program of outreach and orientation for clients to ensure that, when key players change, the new incumbents are briefed on project details—most importantly on the advantages the project holds for them. In addition to being imparted just prior to implementation, training should be segmented (implementation at several pilot sites indicated that most staff needed to know just the specific features of the system that they would be using, and only a few had to have comprehensive knowledge about the functionality of the whole system).

Lesson 6. Design should include provisions to hire specialist technical staff from the market

IT personnel do not have a defined career stream in the public sector in Pakistan. Without adding to a unit's headcount, short-term solutions to address this personnel issue include outsourcing the function by contracting with private sector firms or hiring—on a contract basis—specialist staff at private sector salaries.

Lesson 7. Implementation at the subnational level should reflect the local political economy

Extension of the central treasury system to subnational levels of government has posed problems in many countries. The solution has to be found in the context of the local political economy and the relationships between the central and subnational governments. The basic issue is whether control over provincial payments is necessary for fiscal management of central resources, as would be the case when the central government subsidizes the provinces. In Pakistan, over 80 percent of provincial finances come from the center. The MOF thus has some justification for insisting on the implementation of a central system. However, implementation of a common system should only mean that a common set of standards and controls is applied to both sets of transactions in terms of whether the payment request has budgetary and cash provisions. Particular care should be taken that the agency exercising the payment control function does not exceed these limits.

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This note series is issued by the Financial Management Anchor to summarize good practice and key policy findings on FM-related topics.

