Prioritising and sequencing public sector reform

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Question

Identify and summarise literature on prioritising and sequencing public sector reform in developing countries. Where possible, focus on policy and planning, public financial management (PFM) and civil service reform.

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1. Overview

While there is a great deal of literature that alludes to the importance on prioritising and sequencing reform, there is very little literature that defines, in detail, what order public sector reform should take place. The exception to this is within specific public sector reform areas, such as Public Financial Management (PFM), where there is significant literature that highlights how reforms should be ordered. Consequently, this report looks at a selection of literature which may not specifically reference prioritisation or sequencing but which can provide insights into how to prioritise or sequence reform. This includes literature that explores development or governance trajectories (i.e. how these progress), as well as more specific literature that outlines orders or sequences for specific areas of public sector reform.
Criticisms of sequencing approaches

Some argue that the concept of prioritising and sequencing is inappropriate as development is complex and evolving, rather than a linear process. Critics of the idea of linear development argue that there is a risk of creating public sector organisations that take on the appearance, but not the function, of effective organisations – e.g. police with the appropriate equipment and structure, that fail to enforce the law. Such critics advocate an iterative, adaptable approach that allows for flexibility and experimentation.

Prioritising and sequencing governance reforms

Some literature identifies the governance conditions that are important for countries at different development stages. It may be possible to prioritise and sequence the appropriate public sector reforms so as to achieve these governance conditions. An empirical study exploring relationships between different governance institutions and development concludes that for countries that are less developed, the institutions that are most important are those that improve the state capacity to coordinate and implement a strategic vision. The study argues that it is only in a later stage of development that the inclusion of previously marginalised groups and the formalisation of rules become crucial for development. Other theorists have drawn similar conclusions, arguing that implementing rules-based governance reforms, such as in relation to the civil service, are only important at later stages of development.

Some have suggested that there are development trajectories or sequences that countries tend to follow. Reformers can identify and implement interventions appropriate to the country’s stage in this sequence. Another notable approach is political economy analysis which can help identify appropriate and feasible reforms in a particular context, rather than prioritise and sequence reform in the long-term.

Prioritising and sequencing within public sector reform areas

Research for this report found significant literature on prioritising and sequencing PFM, and some literature on other public sector reforms. When managing and monitoring centrally designed, multiple agency reforms to improve central government performance it may be important to first, reflect on the role of the state before other reform steps; second, implement strategic frameworks, legislation, and other elements of reform; and then third, implement measures to improve service delivery.

Some advocate a best practice universal approach for PFM reform, arguing that it is important to put in key fiscal controls before establishing mechanisms to improve fiscal stability and systems to promote service delivery efficiency. Such approaches have been developed into checklists that highlight the essential, basic reforms, or outline how to order PFM reform at different levels of decision-making.

Others criticise the best practice approach for PFM reform and instead suggest linking PFM reforms to the development objectives of reform. Objectives such as macroeconomic stability, efficient allocation of resources, service delivery and state-building. This approach notes that PFM functions are interlinked, that reform cannot be approached in isolation, and that thorough contextual analysis and tailoring is essential for an appropriate reform programme.
2. Literature overview

Research for this report found the literature on prioritisation and sequencing to be contradictory and largely inconclusive. Some literature emphasises context (including existing capacity) and how it is not possible to define a set sequence, whereas other literature sets out a specific order of reform. In some cases (e.g. Diamond, 2013a) the literature suggests both that there should be a rigid reform sequence that must be followed, but also that context matters, and every situation is different. Where the literature does highlight that context is important, it does not go in to detail and does not advocate specific reforms for specific contexts. Research for this report did not find studies which identified how to order reform across the whole public sector, rather literature that focused on the general development or governance level, or within specific public sector reform areas. Also other literature (e.g. Welham et al, 2013) emphasises that reform must be tailored to specific development objectives, rather than to achieve ‘best practice outcomes’.

A forthcoming GSDRC topic guide on prioritisation and sequencing of reforms, with a focus on fragile and conflict affected states, identified a limited evidence base on: how such prioritisation has been done, the sequence that followed, and its effects on outcomes (Herbert, forthcoming). The author finds that the literature is fragmented as sequencing itself is rarely the focus of the research. Sequencing may be interpreted in a number of different ways, to mean either (a) the sequence that a state follows when rebuilding the state after a period of conflict or fragility; and/or (b) the sequence of state-(re)building reforms enacted by the government or other actors. The literature is primarily qualitative, often theoretical, or policy orientated, with the majority of texts published (or funded) by donors. It is also often normative suggesting reforms that should be done without a clear evidence base justifying the reforms advocated.

3. Criticisms of sequencing approaches

There is a significant amount of literature that argues that development processes should not be thought of as linear. This literature often refers to wider development rather than public sector reform specifically. Rihani (2002) notes that traditional thinking on development assumes a linear development that is ordered, predictable, deterministic, where known results can be obtained from the input of certain variables, and with a clear beginning and end. The author notes that more recently there has been a paradigm shift towards thinking of development as non-linear. Ramalingham et al. (2009) argue that rather than a linear approach, an approach based on complexity, is more relevant for development and humanitarian efforts. Application of complexity theory, involves thinking of development as non-linear, sensitive to initial conditions, self-organised, co-evolving, based on interconnected and interdependent dynamics and elements, and with results that cannot be linked to specific causes. Feedback processes within systems promote and inhibit change, and system characteristics and behaviours emerge from rules of interaction.

One of the criticisms of prioritising and sequencing reform approaches is that it leads to ‘isomorphic mimicry’ rather than reform appropriate to the local context. Isomorphic mimicry, when applied to public sector reform relates to reform that results in organisations with the appropriate de jure characteristics (e.g. a police force with ranks, uniforms, buildings, weapons) but which de facto fail to function (i.e. fail to enforce the law) (Pritchett & de Weijer, 2010). This can lead to ‘capability traps’ where state capability stagnates or worsens despite reform attempts. Instead, Andrews et al. (2012) advocate an iterative,
adaptive approach that focuses on locally-defined performance problems, creates an environment amenable to experimentation, has tight feedback loops, and engages with a broad range of agents. Rather than a best practice set of sequential reform it can be more relevant to support flexibility, participation, evaluation and adjustment in response to country transitions (Bellina et al., 2009).

4. Prioritising and sequencing governance reforms

Research for this helpdesk query was unable to identify literature that specifically advocated one type of public sector reform in advance of another. There is however, some notable literature that looks to identify the governance reforms that are more important for countries depending on their level of growth. From these it may be possible to prioritise and sequence the appropriate public sector reform.

Miesel and Ould Aoudia (2007) undertook an empirical analysis using a global database on institutions with institutions defined as both formal rules (e.g. constitutions, laws and regulations, political systems) and informal rules (e.g. value systems, beliefs, mental images, social norms, etc.). The authors conclude that what are often termed ‘good governance’ reforms in recent literature (e.g. individual rights respected, contracts secured, effective administration, democratic, political institutions) is not a priority for countries going through ‘economic take-off’ – the period of lasting acceleration in the growth of developing countries where there are productivity gains and improvement in the standard of living over the medium-to-long term. Instead, so-called ‘good governance’ reforms become relevant once a country has experienced sustained and lengthy growth, and then undertakes a ‘catch-up’ stage where it seeks to converge with developed countries. For developing countries at the initial ‘economic take-off’ stage, the priority is to build capacities for strategic vision and co-ordination among elites, what the authors term ‘governance focal monopoly’.

In their analysis the authors aggregate governance indicators into three families of indicators (Meisel and Ould Aoudia, 2007). The three indicator families and relevant indicators are:

- **Governance focal monopoly/ the functions of coordination and strategic vision:** the capacity of the state to coordinate forms of consultation in order to bring out common interests, the state’s capacity for autonomous decision-making, the elites’ priorities for development, coordination within and between administrations, capacity of the political authorities, authorities’ strategic vision, society’s aptitude for innovation, technological environment of enterprises, investment in the population’s future, and venture capital.

- **The opening up of the social regulation system:** These are indicators for economic openness (regulation of competition, ease of enterprise creation, ease of market access, dispersion of share-ownership, information on firms’ share-ownership), social openness (social mobility; non-segmentation of the labour market; non-discrimination based on ethnic, religious or gender criteria; training of elites, trade union freedom) and political openness (political rights and civil liberties, media pluralism, decentralisation, and transparency of the consultation process).

- **The formalisation of rules:** efficiency of public administration, control of corruption, security of formal property rights, security of transactions on the markets for goods and services and on financial markets, security of property rights and contracts, institutional forms of solidarity, regulation of the financial system, and observance of labour law.

Figure 1 compares these families of indicators with those ‘good governance’ indicators showing how different indicators are suited to the various phases of development of ‘take-off’ then ‘catch-up’.
Figure 1. Comparing ‘good governance’ to ‘governance for development’

Source: Meisel and Ould Aoudia (2007, p. 43)

The findings of Mesiel and Ould Aoudia (2007) are consistent with the North, Wallis and Weingast hypothesis (e.g. North et al. 2009) that countries’ development trajectories often feature an initial period of low-rules-based governance that is accompanied by high GDP growth. The countries then face declining economic growth rates, due to the limits on human capital imposed by keeping non-elites out of types of employment that are crucial for continued high economic growth. In response, the elites begin to take a more rules-based approach to access to positions of economic power, in order to tap a broader set of human capital (North et al. 2009). This suggests that implementing rules-based governance reforms, such as in relation to the civil service, might be more appropriate for those developing countries at the stage of converging with developed countries, as opposed to those that have not yet undergone a stage of high economic growth.

Other approaches highlight a range of potential development trajectories. Levy and Fukuyama (2010) set out a range of potential development sequences in which economic, political and social dimensions
interact and evolve over time to break out of low levels of growth and start a ‘virtuous spiral of cumulative change’ (2010: abstract). These are:

- **State capacity building** provides a platform for accelerated growth via improved public sector performance and enhanced credibility for investors. Strengthened political institutions and civil society come onto the agenda only over the longer term.

- **Transformational governance** involves the reshaping of a country’s political institutions. Institutional changes enhance accountability, and reduce the potential for arbitrary discretionary action. This can shift expectations in a positive direction and result in accelerated growth.

- **For the ‘just enough governance’ sequence**, the initial focus is on growth itself, with the aim of addressing specific capacity and institutional constraints as and when they become binding – not seeking to anticipate and address in advance all possible institutional constraints;

- **The bottom-up development** sequence involves the engagement of civil society as an entry point for seeking stronger state capacity, lower corruption, better public services, improvements in political institutions more broadly and subsequently unlocking constraints on growth.

Levy and Fukuyama (2010) argue that the sequences should not be viewed as a toolkit from which a reformer should choose but through recognising a sequence it may be possible to identify appropriate and practical interventions, such as public sector reforms, which are relevant for the specific country settings.

Another notable approach to identifying appropriate reforms in a particular context, rather than prioritising and sequencing reform *per se*, is the use of political economy analysis. Political economy analysis can provide an understanding of the prevailing political and economic processes in society which can support more effective and politically feasible reform strategies, as well as more realistic expectations of what can be achieved, over what timescales, and the risks involved (Mcloughlin, 2012).  

5. **Prioritising and sequencing within public sector reform areas**

Research for this report was unable to identify literature that suggested the sequence in which public sector reforms should be undertaken. For example, it was not possible to find literature which suggested civil service reform should precede public financial management (PFM). There was however significant literature which looked at prioritising and sequencing within reform areas. In relation to civil service reform, a recent GSDRC topic guide did not identify a correct sequence for reform but rather that reform should be flexible, pragmatic, and exploit windows of opportunities (Rao, 2013). Neither did research for this report find significant literature on ordering policy and planning. However, the research for this report did find significant literature on prioritising and sequencing PFM, as well as some literature providing an overview to sequencing ‘grand design’ public administration reforms (see section 4.1).

5.1 **Sequencing ‘grand design’ public administration reforms**

In a policy note on managing and monitoring ‘grand design’ public administration reforms (i.e. centrally designed, multiple agency reforms to improve central government performance), Verheijen (2013) highlights the need for reform coherence, effective anchorage in a legal or strategic framework and

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1 For further information on Political Economy Analysis see Mcloughlin (2012) or Haider and Rao (2010).
blending technocratic solutions with substantive service delivery improvements. In relation to sequencing the author suggests the following steps be taken in this order:

1. Reflect on the role of the state before other reform steps: This helps to avoid fiscal risks, to better frame strategic options and to identify potential savings to finance reform.

2. Implement strategic frameworks, legislation, and other elements of reform (e.g. pay enhancement packages): Strategic and selective reward mechanisms can be useful, but should be limited to critical change management positions. These reward mechanisms do not generate visible results on service quality.

3. Improve service delivery: Approaches include linking performance appraisal to service delivery results, introducing complaints and feedback mechanisms, and re-engineering service delivery processes. At this stage performance-related-pay awards could be introduced across the civil service to induce performance improvements.

Verheijen (2013) argues that while it is possible to successfully manage reforms without going through these steps, missing step 1 is likely to drive up fiscal costs and combining steps 2 and 3 is likely to lead to losing sight of service delivery improvements. The author also notes despite the need for steady reform, political constraints will always exert pressure to achieve rapid progress.

5.2 Best practice approaches to PFM Sequencing

In a policy paper on sequencing PFM reforms, Diamond (2013a) argues that sequencing decisions should focus on three main PFM priorities determined by the principal deliverables of a PFM system:

1. Putting in place controls to ensure a minimal level of financial compliance (fiscal control).

2. Establishing mechanisms to improve fiscal stability and sustainability.

3. Introducing systems to promote the efficiency and effectiveness in service delivery.

Figures 1 and 2 below show how deliverables 1, 2 and 3 are dependent on each other and why deliverable 1 is essential for the remaining deliverables.
**Figure 2. Schematic overview of the PFM conceptual framework based on key deliverables**

Source: Diamond (2013a, p.13)

**Figure 3. Reform priorities reflected in the typical PFM development path**

Source: Diamond (2013a, p.14)
Diamond (2013a) argues that these priorities should be the same for all countries and attempting to leapfrog over these priorities will likely lead to unsuccessful reforms. That said, focusing reforms on one priority does not exclude significantly contributing to the others.

In a review of the sequencing literature, Diamond (2013a, 2013b) notes that the importance of sequencing in the design of PFM reforms is recognised in the literature, but in different ways and to different degrees. Some advocate individual interventions to get the ‘basics’ right first (e.g. Schick, 1998) where others argue for an integrated set of PFM interventions which result in processes that once established can act as a solid basis for building the reforms of the next platform (e.g. Brooke, 2003). In their paper on strategy for results-oriented budgeting, Ecorys (2012) argues that agreement exists in the literature that the basics of the budgeting system should be in place before starting major reform processes, and suggest using Schick’s approach on ‘getting the basics right’ as a checklist. Schick’s approach can be outlined as the following (IBRD, 1998 cited in Ecorys, 2012, p. 19):

- The government should foster an environment that supports and demands performance before introducing performance or outcome budgeting.
- Control inputs before seeking to control outputs.
- Account for cash before accounting for accruals.
- Establish external controls before introducing internal control.
- Establish internal control before introducing managerial accountability.
- Operate a reliable accounting system before installing an integrated financial management system.
- Budget for work to be done before budgeting for results to be achieved.
- Enforce formal contract in the market sector before introducing performance contracts in the public sector.
- Have effective financial auditing before moving to performance auditing.
- Adopt and implement predictable budgets before insisting that managers efficiently use the resources entrusted to them.

Based on the work of Jack Diamond (e.g. Diamond, 2010), Ecorys (2012, p. 19) outlines the following two stage process for ordering PFM reforms:

**Stage 1: Advising higher levels of decision making:**

- Define reform priorities and put them into a hierarchy. Try to reduce reform complexity to the minimum possible.
- Identify weak links in the PFM system (use of PEFA² assessment is recommended). Discuss whether it should be addressed first - it might impose risk to reform actions.

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² “The Public Expenditure and Financial Accountability (PEFA) Framework, officially known as the Public Financial Management (PFM) Performance Measurement Framework, is intended to provide an integrated and harmonized approach for measuring and monitoring PFM performance progress, while also helping focus support on country-led PFM reform programmes.” Source: PEFA Framework [http://go.worldbank.org/XS9RD1JSG0](http://go.worldbank.org/XS9RD1JSG0)
Stage 2: Advising lower level of decision making:

- Discuss choice of scope of reform actions, their order and the timing.
- Discuss necessity of other reforms in conjunction with the introduction of results-oriented budgeting (i.e. accrual accounting, medium term financial planning).
- Based on a cost-benefit analysis and analysis of country capacity to manage two programmes, consider introducing accrual accounting together with the introduction of programmes.
- Consider whether simultaneous introduction of medium term financial planning and results-oriented budgeting could overburden the country’s capacity to manage the reform process.
- Programme budgeting might be an appropriate reform step before moving to performance budgeting.
- Discuss pros and cons of a step-by-step or incremental approach vs. a ‘big-bang’, all-at-once approach.
- Discuss trade-offs: the more interventions that are programmed, the longer the time-frame will be till completion.
- Discuss whether timing is appropriate in terms of the complexity of the single reform activity. Adapt sequencing to the specific country context. Consider political factors that might cause delays (e.g. elections).

5.3 Linking PFM reforms to development outcomes

Welham et al. (2013) note that for governments facing severe and prolonged capacity constraints, it may be unrealistic to aim for ‘best practice’ outcomes. They instead argue that an alternative approach would be to focus on the specific development objectives governments are trying to achieve and their relationship to PFM reforms. Through focusing on development objectives governments can prioritise certain PFM functions above others, and use this prioritisation to inform the design of a reform programme. Table 1 outlines four commonly desired development objectives that are often thought to be supported to some degree by certain PFM functions.

**Table 1. Common development objectives and relevant PFM functions**

<table>
<thead>
<tr>
<th>Development objective</th>
<th>Priority PFM functions identified as contributing to development objective</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macroeconomic stability</td>
<td>Timely and reliable fiscal and financial information</td>
<td>The ability of PFM systems to provide relevant information on status of, and risk to, debt and deficits is its most significant contribution.</td>
</tr>
<tr>
<td></td>
<td>A basic understanding the overall debt position of the government</td>
<td></td>
</tr>
<tr>
<td></td>
<td>An awareness of key risks to the fiscal position of the government</td>
<td></td>
</tr>
<tr>
<td>Efficient allocation of resources</td>
<td>Timely and reliable fiscal and financial information</td>
<td>PFM systems which focus on providing relevant information on available resources, and a timely budget preparation process that</td>
</tr>
<tr>
<td></td>
<td>A well-structured budget preparation process viii</td>
<td></td>
</tr>
</tbody>
</table>
Prioritising and sequencing public sector reform involves all stakeholders, can contribute to the right allocation, depending on political incentives.

<table>
<thead>
<tr>
<th>Service delivery</th>
<th>Regular payments of salaries and wages to staff engaged in delivering basic services</th>
<th>The link between PFM functions and service delivery is less clear but regular staff payments is likely to be important to all public service delivery. Beyond this the relevant prioritisation of PFM functions to contribute to service delivery will depend on the nature of the sector being considered.</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Beyond salaries, the PFM functions to be prioritised will depend on the nature of the priority public service sectors chosen</td>
<td></td>
</tr>
<tr>
<td>State-building</td>
<td>Basic budgeting in the sense of expenditure control and execution ability</td>
<td>The relationship between PFM functions and state-building is complex. A focus on building PFM functions that can support a basic budget and regular payment of staff salaries as a stabilising and confidence-building measure, provide long-term information on revenue generation to help finance the state, and perhaps promote a social contract in the long-term, could provide the starting point for a reform programme.</td>
</tr>
<tr>
<td></td>
<td>Regular and timely payment of public-sector salaries</td>
<td></td>
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<tr>
<td></td>
<td>Understanding of the current structure of the revenue base and options for expansion in the future</td>
<td></td>
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</tbody>
</table>

Source: Based on Welham et al. (2013, p. vii-viii)

Welham et al. (2013) also note that in practical terms, these recommended PFM functions are heavily interlinked and reforms could not be approached in isolation. In all cases, a thorough analysis of local context and constraints will be necessary to design a reform programme that accurately matches the level of ambition to available capacity.

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