



The FreeBalance Approach to PFM Reform

Enabling PFM Reform That Matters

December 2022

PFM First

Many within the Public Financial Management (PFM) community think that FreeBalance is an software company that happens to build PFM solutions for improved governance and transparency. Actually, it's the other way around...

FreeBalance is a PFM specialist firm that happens to build software – something we discovered when we were helping the Government of Canada to calculate how much it legally had available for spending, known as the “free balance”.

The free balance is the original budget minus commitments (or soft commitments or pre-encumbrances), minus obligations (or hard commitments or encumbrances), minus actuals.

The Complexity of PFM Reform

Why hasn't PFM reform sequencing been turned into a science? The discourse seems to revolve around generalities and conventional thinking: “the country context is key” or “leadership is needed.” Some brave souls go so far as to suggest PFM reform is a forlorn hope.

It is in this environment that [The Limits of Institutional Reform](#) by Matt Andrews is a welcome relief. Andrews delves into the soft underbelly of PFM reform. He describes how reform comes with “considerable expense, and with great anticipation” yet fails to achieve desired results despite decades of practical experience. Improved management of public financials is accepted as an important element in improved governance. Andrews finds a gap between legal reform and informal practices.

This is where “country context” becomes critical in diagnosing reform paths. Andrews digs beyond the generalities of “context” to include “regulative, normative and cultural-cognitive elements” of reform. He describes how “informal elements of incumbent logics holding on even when regulative mechanisms appear to change.”

Legal reform is seen as “signalling” the international community that a government is in process of change – even though there could be very little real change in informal processes. Laws and senior leadership “buy-in” is not sufficient for institutions to change.

Andrews suggests that we shouldn't attempt to simplify the complexities of institutional reform. There is no magic bullet – it's a question of **embracing the complexity to map a path to success.**

PFM Reform Good Practices

FreeBalance has been involved in PFM reform in developing countries for decades. In our experience, the good practices listed below are more effective than blindly following 'best practices'.

Enlist Change Agents

More successful PFM reforms are driven by a cadre of change agents who have resilience to achieve sustainable changes.

Create a Positive Narrative

A positive narrative around what the PFM reforms will achieve as programs are rolled out – rather than the often negative narrative around large IT projects – helps to create and maintain buy in.

Take Iterative Small Steps

“Big bang” approaches to change rarely work – iterative small steps are more likely to succeed in the long run.

Never Waste a Good Crisis

Crises create an environment more ready to change. Disruption from other factors is more likely to create an internal viewpoint that change is needed.

Start with Budget Execution

PFM projects that begin with improved budget preparation and macroeconomic planning fail to improve spending. PFM reform typically should start with budget execution control and the implementation of core financial functionality such as the modules of the [\(PFM\) Public Financials Management](#) pillar of the [FreeBalance Accountability Suite™](#).

Change Management is Key

Budgets for change management, training, capacity building, professionalizing and certification are rarely sufficient. It's a shame that so much is spent on technical assistance up-front followed by information systems and so little on creating a critical mass of expertise in government and effective incentives.



FreeBalance Change Management Workshop in Trinidad and Tobago

The Importance of PFM Reform Signals

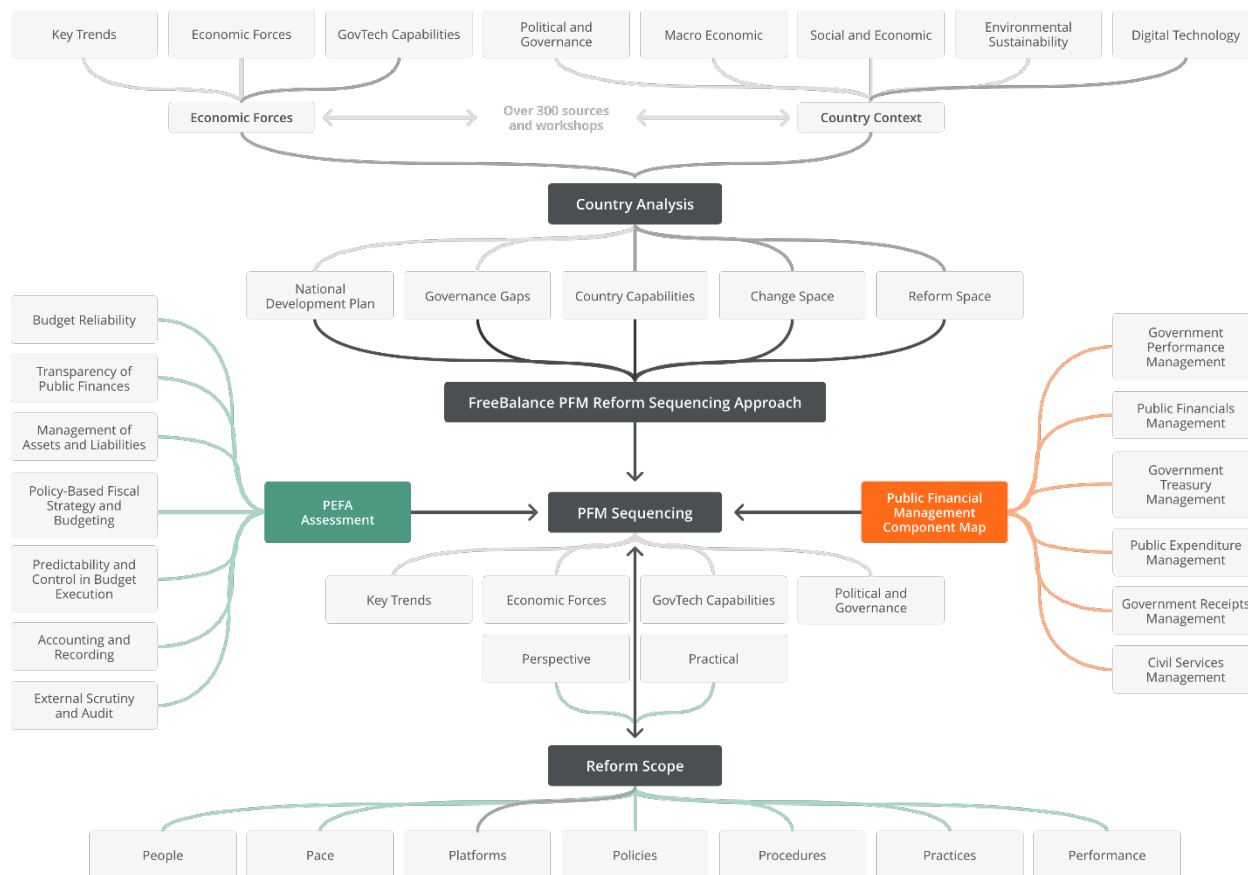
Legal reform often provides superficial change on the ground. However, other PFM initiatives around transparency: budget, revenue and procurement – can be more than a signal. It's way more difficult to hide poor governance in this environment and very difficult to re-introduce opaque processes.

Signalling can be an important political incentive. Yes, change agents are required – but change agents have little influence without some political will at the top. Governance signals are part of the arsenal of reform. And, in this environment where the press is fast to blame corruption and mismanagement at the feet of developing countries, it could be a powerful tool.

Our Approach

Improving Public Financial Management good practices is critical for countries looking to achieve sustainable economic growth and many governments are indeed working on PFM reforms. However, it can be hard to know where to start or which good practices to use and which to lose. FreeBalance has decades of PFM reform experience and have a range of services, products, solutions and training to help governments with this important task.

FreeBalance's follows a systematic approach to PFM reform as shown in the image below.



Country Analysis

Mainstream thinking holds that the determination of a country's specific context is more art than science. We don't agree.

We've adapted mainstream business strategy approaches to the public sector for a more objective determination of the country context within which governments operate. Techniques used by FreeBalance include:

- **Environmental Scanning** is a technique used in [business model design](#) that tracks global and regional key trends, economic forces, and government technology to assist governments
- **Country Context** is an adapted version of [PESTLE](#) analysis for the public sector that we call [GESCED](#) (governance, economics, social cultural, environmental, digital) using over 300 information sources augmented by internet searching and workshops with government stakeholders
- **Country Analysis** are a set of techniques designed to better understand the available change space and reform footprint in a country by tying the environmental scan, country context and national development plans to diagnose [governance gaps](#) and country capabilities

PFM Sequencing

We also believe that PFM reform sequencing is more science than art. A structured analytical approach yields effective plans that include prioritization based on context, logical mapping of inputs, that is adapted based on dependencies such as recognizing that effective cash planning is dependent on the Treasury Single Account, or that Medium Term Expenditure Frameworks are dependent on program budgeting classifications.

This approach also identifies how governments can [increase PEFA scores](#), although this can be seen as gaming the system with a focus on looking good rather than doing good.

- **Country Analysis Input** helps to identify logical reform priorities and the alignment with national development plans, although it is possible that these plans are not properly connected to what priorities ought to be
- **Public Expenditure and Financial Accountability (PEFA)** and other assessments provide diagnostics of current policies, procedures, and practices but are not prescriptive
- **Public Financial Management Component Map (PFMCM)** is a proprietary mechanism that identifies logical PFM components extending the Treasury Reference Model
- **Reform Scope** is identified by aligning country analysis, assessments and the PFMCM in a spreadsheet that adjusts to expert input designed to be practical and prescriptive by considering people (civil service capacity), pace (capacity and change readiness), platforms (technology, infrastructure and digital capacity), policies (legal reform), procedures (workflow not tied to legal reform), practices (form and informal reality), and performance (effectiveness targets)

These techniques have adapted over time based on our experience with so many global governments. We also dive into the literature. Experience plays an insight role too, so there does remain some art in the way that we recommend PFM reform sequencing – which we provide through our Advisory Services.

FreeBalance's Government Advisory Services

FreeBalance's [government advisory services](#) are customized for the public sector and include the identification of PFM reform sequencing priorities, modernization of institutional structures, as well as policy and budget alignment to development goals. Our services help governments to achieve balanced prosperity, combat corruption, and deliver good governance, citizen wellbeing, sustainable development, and digital transformation outcomes.

FreeBalance also provides public sector consulting services to help governments overcome the fiscal challenges related to global and national crises.

These government advisory services are designed to align country priorities, national development plans and donor objectives by

- Enhancing government capabilities through country context analytics
- Empowering government-led reform and modernization
- Enabling technology project management through government-specific agile methodology



Governance

Helping governments to identify the best sequence of PFM reforms based on their country context



Modern Ministry

Helping Ministries of Finance to achieve the internal structural and operational evolution required to support a modern PFM reform journey



Government Resource Planning

Helping governments to successfully implement the right GRP solution based on a risk and opportunity analysis of subsystems, data centre infrastructures and IT capabilities



Smart Prosperity

Helping governments to align policies and budgets in order to achieve citizen wellbeing and sustainable development



Blockchain

Helping governments to assess readiness for the adoption of blockchain technologies



Crisis Response

As the global PFM specialist, we've developed a portfolio of products and services to overcome fiscal challenges related to global and national crises

To speak to a PFM expert about how we could help with PFM reform in your country, please get in touch:

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