SECTION I - BASIC PRINCIPLES OF CHANGE MANAGEMENT

1.1 What is change management? - Change management is a structured approach to shifting individuals, teams, and organisations from a current state to a desired future state. Change management is an organisational process aimed at empowering employees to accept and embrace changes in their current work environment.

1.2 Why is change management important? - For three reasons.
   • First and most important, it recognises the importance of human factors in implementing change.
   • Second, change management provides a structured approach in which different elements of the change process can be carried out in the correct order and in a coordinated way.
   • Third, change management increases the chances of sustainable, irreversible change.

1.3 The four fundamental questions of change management –

   | 1. Where are we now? | 2. Where are we going? | What do we need to know? |
   | 3. How are we going to get there? | 4. How will we know when we’ve got there? |

For any change to be successfully implemented, those leading the change must know and be able to communicate the answers to four fundamental questions, each of which is examined in more detail below.

WHERE ARE WE NOW?

1.4 Diagnosis of the current situation - Change management starts by examining the current situation. Without a convincing and widely shared diagnosis people will not be persuaded of the need for change. The description of the current situation should also recognize what aspects of the current situation we want to preserve and build on as we move to the desired future state.

1.5 The PFM Roadmap contains a diagnosis of the strengths and weaknesses of the Afghan public financial management system. This analysis needs to be augmented by examining opportunities and threats in the external environment for the Ministry of Finance in implementing the Roadmap.

WHERE DO WE WANT TO BE?

1.6 Developing a vision - Leaders of change need to have a clear and convincing vision of the desired future state. This vision needs to be realistic and tangible so people understand and ‘buy into’ it. It must also be honest – to promise too much and deliver too little provokes resistance.

At a workshop in January, the following vision for PFM reform was developed. By 1393, we will have:

- Made significant progress towards fiscal sustainability and self-sustaining government, with at least 50% of aid being channelled through the government budget;
- National priority programmes fully funded and being implemented, addressing the most pressing needs of the nation;
- Transparent and simple public financial management, with an Open Budget Index rating above 50%;
1.7 Communicating the vision - Change is not possible unless people are willing to help, so two-way communication is key for change management. The diagnosis and vision must be communicated. To create willingness to change people need to feel:

- *treated with respect* by having the reasons for and implications of change clearly spelled out
- *valued as individuals* by being asked for their views and reactions and
- *honoured as human beings* by being told the truth – costs as well as benefits must be explained.

**HOW ARE WE GOING TO GET THERE?**

1.8 The elements of a change management approach for the PFM Roadmap - A detailed implementation plan for the PFM Roadmap has already been developed. This change management approach should not duplicate the implementation plan but will ensure that – in completing the implementation plan – we do not forget the importance of:

- **Stakeholder management**, through
- **Communications and Capacity building/training**

A separate PFM Communications Plan has been produced recommending eg:

- Ministry of Finance town hall meeting
- PFM Roadmap press release and wider publication of the document
- Constructing a PFM section on the Ministry of Finance website
- Press release of Roadmap and presentation to government and external stakeholders
- Regular gatherings of staff from line ministries who need to implement change
- Kabul Reform Club to create a cohesive group of influential allies for PFM reform.

At a workshop in January 2011, stakeholder groups for each of the three elements of the Roadmap were identified. Initial work was done to understand what each of these groups might feel threatened by in the Roadmap and what key messages might persuade them of the need for change.

**HOW WILL WE KNOW WHEN WE’VE GOT THERE?**

1.9 Monitoring Once the desired future state has been identified a number of *indicators of progress* towards this desired end state should be determined. As well as identifying *indicators* for each main area in which change is desired, it is good practice to set *targets*.

1.10 PFM Roadmap indicators - The Roadmap includes three key indicators by which the Government aims to measure successful implementation by July 2011: further indicators and targets should be developed to guide progress after July 2011.

1.11 Evaluation takes places after completion of a project or change process, and assesses how far it achieved its desired objectives. It is concerned with outcomes as well as outputs.

**SECTION 2 - ADAPTING CHANGE MANAGEMENT PRINCIPLES FOR AFGHANISTAN**

2.1 How must a typical change management approach be adapted for Afghanistan? There are four factors of the culture and circumstances of government in Afghanistan which will influence the likelihood of successful implementation of the Roadmap:
• **Culture of secrecy** – much of the Roadmap is concerned to improve transparency, to increase the quantity and quality of budgetary/fiscal information which is available to the people, media and Parliament of Afghanistan.

• **High volume of change with low institutional capacity** – we need to keep strategies, plans and communications as simple as possible.

• **Absence of two-way communication** – we may have to use new and untested mechanisms. There are few recognized structures for ‘horizontal’ communication or collaboration across ministries and a tradition of edicts flowing from powerful central agencies (including Ministry of Finance) without regard for the capacity or willingness of the system receiving these instructions to obey.

• **Need to transfer responsibility** from donors to line ministries for spending and results, because current dependence on international advisers constitutes a major threat to sustainable change.

### 2.2 What kind of change does the PFM Roadmap entail?

One advantage PFM reformers enjoy over those attempting systemic reform in other areas of government work is that PFM Reform revolves around the annual budget process. Having this recurring process at the centre provides an ideal opportunity to proceed a step at a time. The PFM Roadmap largely builds on measures that have already been taken, hence are incremental rather than transformational. Incremental change is less risky, since each step builds upon the last. But with incremental change it can be more difficult to justify and communicate why change is needed now and to create a sense of urgency in the system.

If we see the number of areas of government work, and government institutions, which are affected, we can see it envisages system-wide change.

In an article written in 2009, Richard Allen of the IMF warns of the dangers of taking PFM reform too quickly and transplanting into developing countries radical reforms which may not yet have been tested in developed countries. The record of successful budgetary reform in Afghanistan over the

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past three or more years suggests these risks have largely been avoided here. Allen prescribes a 5 point approach for developing countries:

a. All development partners must recognise that progress will be slow;
b. In low capacity countries, focus on basic needs first;
c. Huge reform plans covering all areas of the budget process over a few years are almost always unrealistic;
d. Focus on a simple strategy that targets a few key areas to build a foundation for more advanced reform; and
e. Coordination between donors and providers of technical assistance is vital.

2.3 Diagnosis of change readiness
Understanding that the PFM Roadmap sets out a programme of system-wide, largely incremental, change – how well equipped are we to implement it? This question should be examined in two parts:

• What is the capacity/capability of Ministry of Finance to lead the change? A self assessment conducted on 15 January 2011 gave the following results:

<table>
<thead>
<tr>
<th>Experience leading similar change before</th>
<th>AMBER</th>
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<tbody>
<tr>
<td>Cohesive leadership</td>
<td>GREEN</td>
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<td>Convincing shared vision</td>
<td>AMBER</td>
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<td>Willingness to engage stakeholders</td>
<td>GREEN</td>
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<tr>
<td>Ability to build relationships and alliances</td>
<td>AMBER</td>
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<tr>
<td>Technical skills</td>
<td>GREEN</td>
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<tr>
<td>Robust plan and tight project governance</td>
<td>GREEN</td>
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• What is the state of readiness of the stakeholders? – all the evidence is that capacity in the system to absorb change is very low. This should be reflected in realistic PFM goals and timescales.

2.4 What are the ten most important lessons for PFM Reform in Afghanistan?

1. CHANGE TAKES TIME – the kind of public financial management reforms set out in part in the Roadmap occurred over periods of up to 200 years in countries such as France, the UK and USA. We should be realistic about the speed with which we expect change in Afghanistan.

2. NO DEGREE OF PLANNING CAN GUARANTEE SUCCESS – when dealing with complex human systems, the unexpected is inevitable. So we must monitor progress and be able to adjust plans, timescales and even goals if we encounter significant barriers to progress.

3. JUST DO IT, AND LEARN FROM IT – most of the problems encountered in government reform, especially in Afghanistan, is weakness in implementation, not planning. Good planning is necessary but not sufficient for successful change – at some stage leaders must take a leap into the unknown and “just do it”. Learn from successes and failures to adjust future action.

4. REWARD DESIRED BEHAVIOUR – find ways to give recognition to those who perform well, even if this is just through informal means. Try to understand what motivates people, for example having a high reputation among their peers, and find ways to use those motivating factors to encourage the new ways of working. At an organisational level, consider sanctions against non compliance.

5. KNOW THE CULTURE in which we are operating and work with it. For example, in Afghanistan written communications are less effective than face to face. What new habits do we want to encourage? These should be modelled consistently by top management. Know where to expect resistance and plan how to overcome it, or find ways around it.
6. PRACTICE TIGHT PROJECT GOVERNANCE – an implementation plan has been developed. Ensure that progress against the actions there is monitored and blockages are addressed. People must be held accountable for achievement or not of the milestones in that plan. And donors must be kept informed of progress, given the high profile the PFM Roadmap had at Kabul 2010.

7. BRING MIDDLE MANAGERS WITH YOU – ensure they are consulted about change that significantly affects their areas of responsibility and have the chance to influence how that change is implemented. Without their support, change can and will be blocked or reversed.

8. INVOLVE PEOPLE WHO WILL BE AFFECTED BY CHANGE – through two-way communication: give people the chance to express their views. Be ready to adjust plans if legitimate and well founded objections are raised. Try to see things from customer perspective and allow the people who are experts in the current system to suggest ways of improving it. Change that is locally owned is sustainable; change that has been prescribed by outsiders usually isn’t. Give people the skills they need to succeed and give them space to air negative and positive emotional reactions to change.

9. MAKE IT REAL – ensure the vision of your desired future state is sufficiently clear to be understood. Make it plain how change will affect people, and be honest about the costs as well as the benefits of change. Ensure people are told “What’s in it for me?” and that the see how PFM reform is solving recognised problems, such as persistently low budget execution.

10. LOOK AROUND FOR ALLIES AND POTENTIAL CONFLICTS in the wider environment – does PFM Reform complement or conflict with changes currently underway in eg Parliament, civil service?

— Buddha  
There are two fatal errors that keep great projects from coming to life:  
1. Not finishing  
2. Not starting

PFM Roadmap: Outline change management action plan

<table>
<thead>
<tr>
<th>Mobilisation: Establish and resource PFM reform Change Management Unit in Office of Dep Min</th>
<th>Jan-Mar</th>
<th>Apr-Jun</th>
<th>Jul-Sep</th>
<th>Oct-Dec</th>
<th>Jan-Mar</th>
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<tbody>
<tr>
<td>Mobilisation: agree overall change management approach, with active participation of MoF</td>
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<td>Communications: agree PFM comms strategy, implement immediate recommendations</td>
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<td>Stakeholder engagement: interactions with Parliament during 1390 Budget</td>
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<td>Stakeholder engagement: regular implementation problem solving sessions with line ministries</td>
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<td>Training: agree approach, conduct training Impact assessment and reflect in improved approach</td>
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<td>Training: design template materials on end-to-end budget process and roll-out for training delivery</td>
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