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FORUM HEARS DISCUSSION ON "UMBRELLA THEMES ON REAL PROBLEMS"

The December 3, 1997 session of the Washington International Financial Management Forum was pleased to hear a discussion by Mr. A. Premchand, Assistant Director, Fiscal Affairs Department, International Monetary Fund, on "Umbrella Themes Obscure Real Problems: An Appraisal of Recent Efforts to Improve Financial Management." Mr. Premchand was introduced to the meeting by Jim Hamilton, President of the International Consortium. Following is a transcript of the remarks of Mr. Premchand together with a resume of the question and response period which ensued.

Remarks of Mr. Premchand

I am very pleased to be with you today to discuss "Umbrella Themes Obscure Real Problems: An Appraisal of Recent Efforts to Improve Financial Management."

I. Prelude

Financial management in public bodies has been in a state of continuous change during the last forty years. During this period major changes have been witnesses in budgetary institutions, operational systems and techniques, and in the technical capacities of public officials. To a very substantial extent the changes in financial management reflected the broader themes that were being addressed as a part of improved public management. In some cases the lead was taken in the area of financial management which was then extended, on a more general basis, to the public sector management. There was, on the whole, a reciprocal beneficial influence between public sector management and its financial management. Notwithstanding the progress made in concepts, systems and techniques of financial management, the public's perception of the way in which government financial management functions, and the outcome of the efforts of those engaged in the government finances leaves a lot to be desired. Indeed it is a matter of serious concern in industrial as well as in developing countries. Consider the following items, which lend support to this view.

In 1964, three quarters of the American Public said that they trusted the federal government to do the right thing most of the time. In 1995, a poll showed a confidence rate of 15 percent at the federal level, 23 percent at the state level and 31 percent at the local level. In 1997, the poll showed a slight improvement in that the percentages moved respectively to 22, 32 and 38 respectively. The main reason for the sharp deterioration is that a major of the public believes the government operations to be inefficient, wasting money and spending on the wrong things.

It is observed that in the United Kingdom, the Prime Minister announced in 1994 the setting up of a committee on Standards of Public Life as a means of ensuring public confidence in the system of

public administration. The committee, while concluding that there were no fundamental failings or lapses in the standards in public life, also felt it necessary to reiterate the need for selflessness, integrity, objectivity, accountability, openness, honesty and leadership (seven principles of public life). The need for the reiteration of these solid conventions of the public bodies shows that the confidence level of the public in government has suffered some erosion over the years.

The erosion in the public's perception and their confidence in government is not due to lack of efforts. On the contrary, as noted at the outset, it is despite these efforts. As Mr. Charles Bowsher, Comptroller General of the United States noted, in a speech delivered on March 29, 1993, "the disturbing truth, however, is that they have yet to accomplish what they set out to do. He added, "we know that the Financial Integrity Act has not achieved its goal of improving internal controls throughout the government. We know that the reporting and auditing requirements of the Single Audit Act have become a matter of controversy. And we know that the CFO Act for all its promise, is far from achieving the resolution in federal financial management for which it was created".

Recent surveys of financial management practices in governments in Central and Latin America, Africa and Asia show that there are serious problems in getting up-to-date fiscal data to facilitate decision making and that structural and systemic weakness continue to have an adverse impact on the management of government finances. At a minimum, one third of the world's population do not have access to the budgets of their own countries.

In industrial countries, the achievement of a goal of sustainable fiscal situation remains an elusive one. The new measures, such as those relating to fiscal consolidation would appear to have contributed to short-term gains. The rates of growth of public expenditure in some countries have, however, resumed their previous pattern. The Plowden committee (U.K.) noted in 1961 that "the central problem is that of how to bring the growth of public expenditure under control and how to contain it within such limits as the government may think desirable". If these criteria are to be applied to the evaluation of expenditure management machinery in governments today the situation would be no different than what it was nearly four decades ago.

It could, however, be argued that the concern would have been greater in the absence of the efforts that have been made during recent years and that continue to be made. There is much to be said in favor of such an argument. At the same time, it needs to be recognized that the benefits could have been greater if adequate attention has been paid to some of the more practical problems encountered in the day to day financial operations and related maintenance of systems. But many of the reforms remain to be fully implemented in most countries and their benefits remain to be drawn. I argue that many of the reforms have been somewhat content with the pursuit of broad or umbrella themes and have been less forceful in addressing the details that make the fundamental mosaic of government financial management. This may be a case where, to use Weber's term, the "domain assumptions" may have the partial effect of obscuring the important practical issues. The themes of stability, efficiency, transparency and accountability are all important. Fulfilling these themes is very much at the heart of financial management. What makes financial management in government somewhat unique is the warp and woof of operational procedures that are to be utilized by the officials. Stendhal wrote a long time ago that beauty consists in details and the makers of Mercedes Benz cars remind us every day that perfection is in detail. Policy makers when confronted with the failure of the policy that they

designed often take refuge in the old saying that the devil is in details. It is true that details needs to be addressed. Broad themes win instant appeal from all sections because of their built-in ambiguity. But that very ambiguity could turn out, as indeed it has been so in some cases, to be the enemy of promise.

The intent here is not to be critical of the themes. Rather the purpose is to identify the details that now form the road blocks to the realization of the goals. To some, this may appear as being contrarian. But as William Blake wrote a long time ago “without contraries, there is no progression”. As Warren Bennis pointed out recently “Instead of seeking easy answers and scapegoats, it is time for us to grow up and start using our heads to identify the real problems and the true villains”.

In addressing the real problems, it is first important to trace where we are and how we have reached that stage. In what follows, a brief description of the evolution of reforms in general and those that formed the main stream of financial management are considered first. This is then followed by a discussion of the problems that remain to be recognized, full analysed, and addressed as an integral part of the future efforts.

To facilitate discussion, and to make the presentation brief, as appropriate to a luncheon, greater use is made of graphics. The emphasis throughout is on the practical aspects. My approach is a slight variation on what Montesquieu noted during the eighteenth century. He wrote “when I visit a country, I don’t examine whether the laws are good, but whether they are executed, because there are good laws everywhere”. Similarly, my attempt is to deal more with the practical impact of reforms rather than with the intent behind legislation enacted or executive decrees issued by a government.

II. Evolution

The approaches to institution building and strengthening of government organization have been changing over the years. During the early sixties, the emphasis was on better systems; during the seventies, it shifted somewhat to securing better and well trained people. Now the emphasis is on a combination of better systems and better people. Within this overall framework, five stylized stages of institutional development can be discerned. These are shown, with their features, in Attachment I.

As will be evident from the table, the terms institution building sought to capture a good deal including redesigning of organizations and building up of linkages with other segments of social action. These terms were guided by a laudable objective of social engineering. What “scientific management” was to the corporate sector during the early part of this century, institution building became an equivalent of that, capturing the broad intent of all those engaged in public sector improvement. Little progress was made however, in terms of actual implementation, and the whole approach came to be a victim of its own ambitions, and what some considered to be an impractical scope.

A more refined version came to be advocated from the early seventies. This approach, which came to be known as organization development, concentrated on improving internal decision making and the implications of technology application for enhanced productivity. A variation of this ap-

proach surfaced in the late eighties. This variation concentrated its efforts on the identification of the constraints that are specific to the public sector, and on addressing them so that well-performing organizations could be established. Meanwhile, however, the approaches to corporate management have also been undergoing change. The primary shift was in terms of the focus given to strategic planning. In its application to the corporate sector, strategic planning had so far undergone at least three changes. In the first stage, the strategic planners concentrated their efforts on portfolio management. This yielded its place, in time to competitive strategy, which was the second stage. The third and current stage reflects the emphasis on core competencies. In turn these changes have had influence on those engaged in public sector reform. As a result, the fourth stage in institutional development in the public sector started focussing on converting organizations into entrepreneurial ones that emphasized customers and consequences, and developing a new management culture. An extension of this approach is the fifth stage which envisages the development of core competence and the basic strength of an organization and harnessing them for the achievement of specified goals.

The above referred phases left their own footprints on public expenditure management. For analytical convenience, the developments in this area are examined in Table 2 (see attached), in terms of seven stages of changing paradigms. Most governments have gone through these stages, either in full or in part, and all of them, collectively form part of public sector financial management cultures. As a result of this gradual, long and continuing journey, governments now have a large variety of objectives with reference to which the adequacy of the management systems are to be evaluated.

The objectives of governments are several and can be extremely complicated. For the sake of analytical convenience, these objectives are considered in terms of eleven categories -- ranging from the pursuit of macroeconomic stability to citizen participation. The essential question to be answered in this context is -- to what extent can these objectives be served by the family of different budget and management systems that are now available?

The answers to this are provided in Table 3 (attached). It shows that despite all the progress made, the systems cannot provide satisfactory answers to the range of objectives that governments are expected to pursue. Some are good in terms of providing enhanced accountability but those that do so, such as performance budgeting, have a very weak interaction in terms of fulfilling macroeconomic stability. Thus, a combination of various systems or their selected features would be needed to serve as a minimum threshold for serving the objectives. Such a combination is not as yet available. This indicates the progress that remains to be made. It is to be recognized, however, that not all the objectives may be pursued at the same time, and at any given point of time, some objectives may have greater importance than others. At a minimum, the range of objectives may have greater importance than others. At a minimum, the range of objectives would include macroeconomic stability, achievement of efficiency, transparency and accountability. Even with such a minimum program it will be observed that the available systems, even if fully implemented, would not endow governments with the capacity to pursue them with vigor and achieve the much needed results. This is primarily for the reason that each system has a limited major focus and as such is not in a position to address the diverse objectives.

III. Practice and Problems

The shift from the evolution of concepts and systems to practices that are found in day-to-day life shows that there are several problems to be addressed. Space and time considerations being what they are, it is obligatory for a luncheon speaker to be more selective and brief. I proposed to consider the problems in terms of three categories: (1) Problems inherent in the new management approaches; (2) Problems that persist even after full implementation of the financial management reforms; and (4) Neglected high risk areas.

Problems inherent in the new management approaches: The new approaches illustrated in Tables 2 and 3 have a number of problem areas that remain to be addressed. To be sure, not all the elements of the new approaches are fully reconcilable among themselves, but there are at least six areas which need more detailed analysis:

(1) **Public interest versus public pressure:** A significant point of departure from the traditional approaches is the emphasis placed on the much needed customer orientation and the need to be responsive to changing patterns of demand. In the corporate world, the consumer pays in full for the services rendered. In the public sector, it is more than likely that the service is either free or more frequently subsidized. Where there is a publicly funded service, there will be public pressure to change or to seek higher budgetary allocations. Where many of the features of the services provided are legislated, the increased pressures and associated lobbying will move toward the legislature. Where however, the design of services is within the jurisdiction of a program manager, the pressures take more subtle forms that may not always lead to improved delivery of services, or to macro-economic stability. The distinction between interest and pressure, or more specifically, the borderline where interest transforms itself into a pressure, and the way in which such pressure may be addressed, has not been given the recognition due.

(2) **Legislative regime versus social control:** Increasingly, as a part of new approaches, there is also a demand for social control of government finances and greater participation in the policy processes. Implicit in this approach is the underlying assumption that the legislative processes and procedures have not been entirely successful in enabling a participatory management and that in any event, management of public money is too important to be left to the legislators belonging to various political parties. But social control could also mean serious erosion of the credibility of the existing legislative institutions and could contribute to greater public pressures and formation of public movements designed to stop or secure greater allocation of funds. Social control could also contribute to a good deal of defensive policy making that could prove to be totally counterproductive. The full implications of these aspects remain to be explored.

(3) **Bureaucracy versus Management:** The new approaches imply a total indictment of the existing patterns of work which are considered to be hidebound, rule oriented and generally uneconomic. The managerial approaches, on the other hand, are expected to be task oriented and flexible. This very flexibility however becomes an issue of accountability. To what extent, is the legislature willing to provide that flexibility within the overall framework of accountability? It is ready to trust the decision of a public servant? The answers to these issues are becoming progressively problematic, as legislatures keep on adding more and more legislation and administrative rules that have the potential impact of reducing the managerial flexibility in government.

(4) **Organizational aspects: Process versus Technology:** The need for the progressive application of electronic technology to government operations is no longer a matter of debate. The only issues are how and when? Meanwhile, the experience of several countries shows that in the absence of efforts aimed at streamlining the process as a first step, information technology could become a fifth wheel to the coach. The way in which the process of government financial management has to be adapted to make the applications of technology effective remains to be an area that is awaiting a blueprint.

(5) **Integrated versus Segmented:** How should the new forms of management be introduced -- in one swoop or through a pilot program which could be considered for extension to the whole government after gaining sufficient experience. There are those who prefer the former and there are those that prefer the latter evolutionary approach. Here again, there is more controversy and little resolution.

(6) **Entity versus Ministry:** The focus of the application of the new management approaches is the "entity". The shape of an entity in the corporate sector could often be different from the form, purposes and content of an entity in the public sector. In fact, entities in the public sector tend to be highly uneven in organizational structures and budgetary allocations. In such circumstances preparation of independent financial statements, as is envisioned in the introduction of accrual accounting at the entity level, could be less useful. For purposes of policy formulation and implementation, it is the department which represents the hub of operations. Focus on entities could contribute to avoidable fragmentation.