

Part IV: Supporting Infrastructure

1. *Organizing Finance Ministries and Internal Financial Management Capability in Spending Agencies*

(Changes in philosophy; Subsidiarity Principle; Hierarchy vs. Teams; Internal Financial Management Capability in Agencies; Areas for Review)

No organization is perfect but each one tries, in its own way, to adapt to the changing needs and serve the purposes for which it was originally designed. Ministries of finance and other central agencies, as well as spending agencies are no exceptions to this general experience. What distinguishes them from others, is the nature of their tasks and the pace of adaptation.

(i.) Changes in Philosophy: During recent years, as a part of the application of new management philosophy and establishment of task related agencies with functional autonomy and specified accountability, there has been focus on the organization of finance ministries and on the ways in which they can be made more effective. The impetus for such a focus is largely derived from three approaches that are now dominating discussion in management philosophy. First, is the emphasis that organizations should basically recognize their core tasks and address them. It is pointed out, that organizations gather, over the years, largely due to the stress of the situation and what appears, at the moment, to be a convenient approach, several tasks for which they may not be best equipped. Focus on core tasks enables the organizations to discard the excess loads and assists them in renewing themselves for higher performance. This process involves five steps: (i.) identification of core competencies, (ii.) establishing a core competence agenda, (iii.) building core competence, (iv.) deploying core competencies, (v.) defending core competencies. Increasingly, it is recognized now that central agencies should primarily engage in 'steering' and that 'rowing' should be left to the spending agencies; and there should be greater and renewed emphasis on decentralization so that the agencies would have the freedom, incentive and supporting infrastructure to help them achieve their objectiveness.

As a result of these approaches, some countries (e.g. U.K.) have carried out fundamental reviews of the central agencies and established reorganized central agencies. The central agency for finance (whether called a treasury or a ministry of finance) would have some broad clusters of activities such as – Policy Analysis and Management; Budget Review and Formulation of Annual Budget; Output and Outcome Management; Procurement and Contracting Guidance; Guidance on Financial Management in Spending Agencies; Management of Financial Information; Public Debt Management; Legislative Liaison, etc. As a part of this approach, some traditional tasks such as, payments have been contracted out to the corporate sector.

It should be noted that all governments cannot have a uniform model in this regard; rather, the opportunity of review should be utilized to ascertain what is important and to discard those that are of a low priority.

(ii.) Subsidiarity Principle: The application of this principle to financial management requires that those tasks that are best done by the lower levels of organizations or levels of government should best be left to them and not be

administered, as distinct from providing guidance and stimulus, on a day-to-day basis, by the higher levels or central agencies. The functional relationships in budget management, as discussed in the previous sections, reflects a complex web in which the spending agencies end up spending a major part of the time in processing approvals from the central agencies than on the provision of services. This has, often contributed to, over dependence and to the loss of financial consciousness, (as a result of the command and control structure) in the spending agencies.

Increasingly, however, it is recognized that the relationships between central agencies and spending agencies the command and control structure should be replaced by partnership for improved collaboration. The emphasis on partnerships requires, as a first stage, delineation of the areas where more tasks, powers and responsibilities could be delegated, within a framework of accountability, to the spending agencies. In the determination of these areas, avenues for greater coordination that promote the pursuit of macroeconomic stability should be identified and strengthened.

(iii.) Hierarchy vs. Teams: Traditionally, the structures in government are designed in a pyramidal style with a large base and a narrow top. In between, there are several layers that are engaged as a part of supervisory duties, in a daily review and verification of the work done by the lower levels. It is now suggested that this approach should, to the extent possible, be undertaken by specified teams (reflecting the core clusters). Teams promote, while being less expensive, greater coordination. Even in the existing systems, several ad hoc teams are set up from time to time, for specialized tasks. In the proposed approach, teams would replace the hierarchy, and be somewhat, more durable.

(iv.) Internal Financial Management Capability in Spending Agencies: Delegation of greater responsibility to spending agencies requires, as a condition precedent, efforts devoted to strengthening their financial management capability. In general, experience shows, that in many governments major spending agencies have budget and accounting units engaged in the routine tasks of preparing budgets and implementing them. It is now suggested that there should be an adequate internal control system – a system which ensures, in addition to compliance with regulations, effective and efficient operations. To enable this objective, there should be an explicit commitment by management for the promotion of a financial culture oriented to efficient results, identification of risks and associated plans, and supporting information systems.

This internal control system should be reviewed, it is suggested, by the audit agency and an annual assessment provided as in the corporate sector. It is further suggested that the internal system should be preferably headed by a comptroller who would be responsible for advancing stewardship and accountability, while maintaining the internal control system on an efficient basis. These ideas remain, for the most part, to be implemented in many countries.

(v.) Areas for Review: The following areas lend themselves to review:

- Review of the tasks of central agencies and ensuring that they concentrate on the core competencies

- Review of the framework of relationships between central and spending agencies and exploration of avenues for renewed partnership through greater decentralization
- Review of the continuing need of the multiple layers of hierarchy and the possibility of introducing enduring teams; and
- Review of the internal control systems in spending agencies and exploration of channels for strengthening them.

2. Financial Management and Technology

(Improved Work Processes; Information Storage; Problem Areas; and Areas for Review)

The application of technology to the daily tasks performed by governments is bringing benefits that would not be imagined a couple of decades ago. As an extension, it is also revealing some problem areas that were not anticipated before. The experience of government financial management confirms both these aspects. Both the benefits and problems are dependent on the extent of application of computer technology and these aspects are discussed below.

(i.) Improved Work Processes: The application of computer technology to government financial management shows improved, and less expensive, work processes in the following areas.

- In a few governments, the compilation of budget draft estimates, their submission to and review by the spending agencies is done electronically and the paperwork has been mostly eliminated. It has also enabled the reduction of the time spent in the process
- The preparation of the medium term expenditure planning as well as the preparation of the annual budget scenarios, are undertaken electronically
- During the phase of budget implementation, the available software permits simultaneous access to data both for central and spending agencies and the need for additional reporting has been largely eliminated.
- The existing facilities permit a regular window to ascertain the status of the commitments made, payments made, services received, resources utilized etc.
- In several cases, payments for payroll, pensions and debt payments are processed electronically; the scope of further extending the coverage of electronic payments is being regularly explored; and
- The compilation of annual accounts has been considerably facilitated with the result that they are available within a month after the close of the fiscal year.

(ii.) Information Storage: The above benefits, as is obvious, have their origins in the data storage capabilities of the computers – whether of mainframe or other types. Most significantly, electronic processing has enabled the recording of transactions and the compilation of accounts to be up-to-date. In addition, through the storage of data, the machinery permits the maintenance of an inventory of vendors, while alerting the finance managers about the payments

due. The composition of government accounts, reflecting the size of operations (by far the largest) has been rendered substantially easier. It has also permitted greater transparency of government operations to the public where they have been permitted access through the web sites.

The machinery has also enabled the smooth functioning of the many large projects undertaken by governments though their capacity for storage and quick retrieval of data.

(iii.) Problem Areas: Although the application of technology differs widely among governments and the developing countries are slowly moving forward in deriving benefits, some common problem areas are becoming evident.

First, the application of electronic technology was expected to yield an abridged and a leaner civil service and reduced work processes. In several cases, this has not been realized as the technology has been used for processing of data, rather than as an effective substitute for manpower.

Second, experience also reveals that the new systems were introduced, rather suddenly, and the previous manual systems were given up immediately thereafter. This proved problematic when the new systems developed glitches, and there was no manual record to fall back.

Third, far too many types of software are used (e.g. Payroll) with the result that interchange of data within governments has been rendered difficult; and

Fourth, the excessive dependence on technology has brought out its own quota of problems. Admittedly, the types of problems that emerge are dependent on the extent of application of technology in governments.

(iv.) Areas for Review: The areas for review are mostly dependent on the existing level of application and the plans for future extension including transition from a main frame to a network of personal computers. It is prudent to review the following:

- What are the areas to which technology has been applied and what were the benefits?
- What are the plans for future applications? and
- What are the improvements in financial management as a result of technology applications?

3. Looking Ahead: Managing for the Future

It is increasingly becoming clear that management of government finances would become more complex and the managers would have more uncertainties to deal with. That alone is reason enough to review the expenditure management systems and to keep them ready to address the changing tasks and the needs of the community. A review on the lines suggested in the preceding sections has the potential of revealing the numerous problem areas that need to be addressed. Some of them, may be perceived to be major, and some, minor. Some may need immediate attention, while some can be deferred. Some may pose fundamental challenges while quite a few could be of routine nature. In analyzing these aspects, a combination of three mindsets is indicated. As in the field of art, it requires the combination of skills of a landscape artist as well as the skills of a miniature artist. As in the field of sports, particularly Karate, it requires the mindset of a Mu-shin, i.e. absorbing all the minutiae but keeping the mind uncluttered,

about the goal. As in the field of medicine, it requires the application of a triage – to separate those requiring immediate attention from those who can wait a little longer.

An explicit recognition of the above, and an effort to gather support for the needed changes is the primary task of managing for the future.

