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Accounting for Government in the Global South: do global solutions match local problems?

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Abstract

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Keywords: public sector accounting; developing countries; global remedies

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INTRODUCTION

This paper examines the impact of globalised accounting and economic reforms on the public sectors of less developed countries; countries in which the majority of the world's population lives. According to the United Nations data, of the world's 6.1 billion people, 1.19billion live in "developed" countries, and 4.78 billion live "less-developed" countries (Nations, 2001). According to Neu (2001), mainstream accounting literature has paid scant attention to these poorer countries. Most research tends to be written from the perspective of, and in reverence for, first-world institutions and a wealthy sub-set of first-world population. Neu (ibid) argues therefore that accounting research has been insular and detached from the concerns of the majority of the world. As a consequence the voices of the people living in poverty (in developed and less developed countries) are ignored or even erased. Neu (2001) refers to such people as "subalterns"; those who do not have a voice. The purpose of this paper is to re-dress the balance. While we cannot claim to speak for the subalterns, we offer a sympathetic critique of the externally imposed reforms based on our experience in the field; experience of accounting in the poorer less-developed countries such as Africa and the Pacific nations. Over the last two decades, people living in the poorest countries have experienced debt crises, civil wars, coups, and on top of all that, externally imposed neo-liberal economic reforms. Accounting has been an integral part of those imposed "reforms". The results suggest that the reforms are not necessarily geared to the interests of the local populations who have had to endure them.

Our reflections are timely, as leading economists across the world are having to rethink their ideas in response to the current global financial crisis and economic recession. In addition, we have seen the election of a US president whose main slogan was "change". The previous paradigm of reduced regulation and limited state intervention has been replaced by the nationalisation of several leading banks (and car manufacturers) in the states which most supported neoliberalism and new public management; the US, the UK and Iceland. The widely held virtue of balanced budgets is being jettisoned in the face of dire economic necessity. Governments are borrowing heavily in order to protect their economies and their banking systems. We argue that a similarly dramatic re-think is also required in terms of type of the public sector financial management reforms which the international financial institutions and the national aid agencies have been promoting across the Global South for the last decade or so.

Our interest is in the international institutions that have been instrumental in introducing common, global remedies which appear to be based on theoretical understandings as opposed to experience of the effects of their interventions. A growing concern is being expressed about such interventions, but there is a sparcity of reports from the field.

The reports in this paper cover two aspects of intervention. Firstly, the imposed marketisation of services of previously state controlled organisations which we argue may not improve the lot of local populations. Secondly, we illustrate that the improvements in accounting procedures in central government have been less successful than anticipated. The use of expensive external consultants at the expense of local experts is discussed. We conclude with some lessons for a way forward, suggesting greater reliance be placed on local expertise which needs to be nourished.

Before presenting the actual field evidence, the paper provides some background on the financial plight of the governments in the Global South, especially those of the sub-Saharan countries of Africa, and argues that there may be a widespread misconception about the causal nature of their predicaments. We need to consider whether the poverty is a result of the poor administration and financial practices, or whether poverty is the cause of such maladministration.

Background to the large levels of debt

The perceived need for improvement in quality of governance and public financial management has gained renewed emphasis in recent years and since at least 1997 the World Bank and other aid agencies have played an influential role in this area across most of the Global South. The currently dominant view is that poor governance and public financial management is a major cause of poor economic growth in many countries.

We argue that the causal relationship runs the other way. Economic problems (originating from external events) led to the deterioration in the quality of governance and public financial management in many African countries. The international financial institutions and bilateral aid agencies used the crises to introduce wide ranging public sector financial management reforms, for example the Medium Term Expenditure Framework (MTEF) and Integrated Financial Management Information System (IFMIS). They also unsuccessfully argued for the adoption of International Public Sector Accounting Standards and performance audit.

The origins of the Global South's debt burden

In the first few years after independence the economies of many African countries grew significantly and so their governments could afford to dramatically expand public services, especially for health and education. With the first major oil price rises in 1973-74 funds were readily available for these countries to borrow for significant public investment programmes.

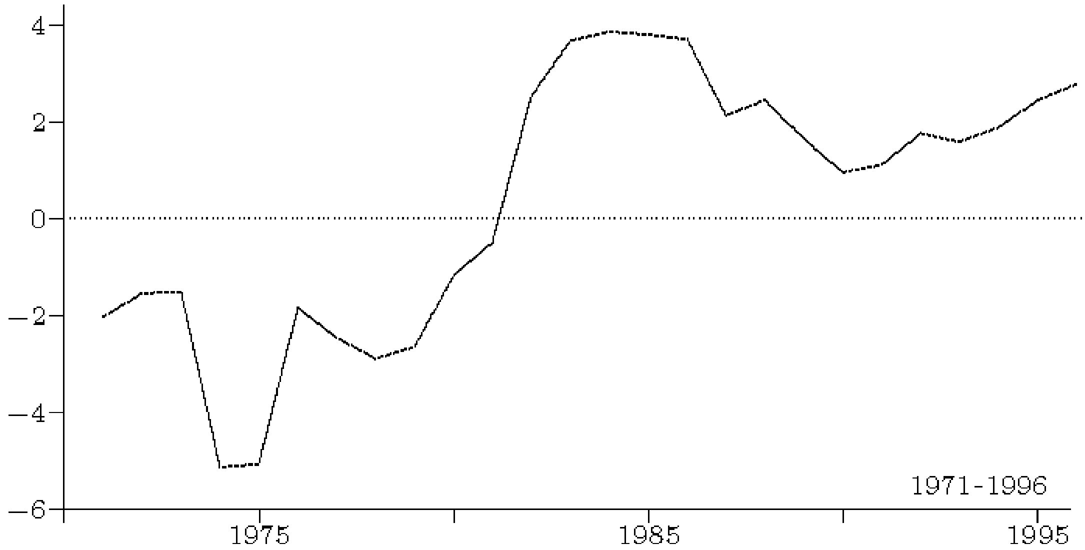
> *Not surprisingly, then, many countries concentrated on Big Projects - showpiece government development projects that could be the motor for economic transformation, such as Ghana's Volta River Project, which involved construction of the Akosombo Dam in the early 1960s to form the world's largest artificial lake and building aluminium smelters to take advantage of the country's bauxite resources.* (Situmbeko and Zulu 2004 :16)

Later in the paper, we will explain how such a major project worked in favour of overseas private interests rather than the local population of Ghana, many of whom still have no access to affordable electricity. Yet, this approach was widely accepted at the time by the World Bank and others. The experience of the US and UK in the years following the second world war had shown that extensive government borrowing could facilitate economic growth. In the US the Federal debt alone (excluding state or local government debt) reached over 120% of GDP in 1946 (Office of Management and Budget 2007) and in the UK Government debt peaked at nearly 250% of GDP (Clark and Dilnot 2002) at around the same time. The sustained economic boom of the 1950s and 1960s meant that these levels of debt were sustainable, could be accommodated and were eventually repaid.

However, most governments of the Global South were not to be so lucky. In 1979-80 further oil price rises increased the price of their imports. Around the same time, in the late 1970s and early 1980s, the United States raised interest rates to nearly 20% in a battle to throttle back its persistent inflation (Stiglitz 2006). The real (inflation adjusted) interest rates paid by the Global South increased from minus four per cent in 1975 to almost plus four per cent a decade later (Bond 2006).

> *A strategy for development, based on indebtedness… was suddenly transformed into an actual catastrophe by a decision emanating from a fraction of ruling classes within leading capitalist countries, with a total indifference for the hardship imposed on the third world (as well as for the rise of unemployment everywhere)* (Duménil and Lévy (2001).

Global South: Real apparent rate of interest, %



Source: The above graph is from Duménil and Lévy (2001, p.16).

The rapid increase in world interest rates in the early 1980s, on top of the oil price rises, led to a world recession. As a result most countries in the Global South faced a reduced demand for their exports whilst having to pay much higher interest rates on their debts. As Christian Aid (2003: 22) reported

> *the prices Third World countries receive for many of their traditional exports, from coffee and cocoa to rice, sugar, and cotton, continue to decline. The relative value of their exports has declined even more—for example, in 1975 a new tractor cost the equivalent of 8 metric tons of African coffee, but by 1990 the same tractor cost 40 metric tons.*

The United Nations Food and Agricultural Organisation (FAO 2005) estimated that if commodity prices had maintained the same real value as in 1980, the Global South would be earning an additional $112bn in annual export revenues, which was double the current level of their aid receipts. Putting it another way, between 1970 and 1997 changes in the terms of trade cost non-oil producing African states (excluding South Africa) a total of 119% of their annual GDP, according to the World Bank (2000). External debt grew by 106% of GDP over the same period. So all the external debt of African countries at the end of the twentieth century could be explained by falling prices for their exports and increasing prices of imports – both changes over which their governments had little or no control.

As UNCTAD (2004: 5) describes the result:

> *From just over $11 billion in 1970, Africa had accumulated over $120 billion of external debt in the midst of the external shocks of the early 1980s. Total external debt then worsened significantly during the period of structural adjustment in the 1980s and early 1990s, reaching a peak of about $340 billion in 1995.*

In the same report UNCTAD calculates that between 1970 and 2002 Sub-Saharan Africa received $294 billion in loans, paid back $268 billion in debt service, but was left with debts of some $210 billion (page 9).

> *Africa now repays more than it receives. In 1980, loan inflows of $9.6 billion were comfortably higher than the debt repayment outflow of $3.2 billion… by 2000, only $3.2 flowed in, and $9.8 billion was repaid, leaving a net financial flows deficit of $6.2 billion… By the early 2000s, the debt remained unbearable for at least 21 African countries at more than 300 per cent of export earnings.* (Bond 2006: 39)

The neoliberal policies of the World Bank and IMF have worsened economic prospects for the global south.: *We may observe in Africa today that, contrary to the teachings of the neo-liberal rubric, measures of privatization and financial liberalization can lead to a plundering of the economy* (Hibou 1997: 71)

Examples of corporatisation/privatisation and user charges

We argued above that the high and unsustainable levels of debt in many LDCs were due to external economic events beyond the control of their governments. However, whatever its origin, this debt forced these governments to approach the IMF and the World Bank for support. As a result, these financial institutions and other aid organisations started to exert considerable influence in many areas of policymaking including public sector financial management.

The debt burden gave the World Bank and IMF the leverage it needed to implement its newly adopted policies of deregulation and privatisation through structural adjustment programmes. These almost invariably included the following elements:

- reduced government spending and greater fiscal discipline to control inflation
- removing import controls and restrictions on foreign investment
- privatisation of state enterprises
- devaluation of the currency
- making labour more flexible by reducing legal protection, food subsidies and minimum wages.

As Colin Leys described, the dominant view became that:

> *Governments were part of the problem, not part of the solution; they were inefficient and often corrupt and hence parasitic, not stimulators of growth. The solution was to privatize the public sector, reduce the scale and scope of government spending and give up all policies, from exchange rate controls to subsidies and redistributive taxation, that altered any prices that would otherwise be set by the impersonal forces of the market.* (Leys 1996: 18)

As well as greater fiscal discipline required of LDCs, the World Bank and IMF coerced borrowing nations to adopt policies of deregulation and the corporatisation and /or privatisation of previously state controlled enterprises. Privatization was encouraged of previously state-run organizations in industries such as telecommunications, postal services, shipping, forestry, water supplies. The examples in the following section illustrate that even when such corporatization/privatizations and their associated accounting and administrative changes are successfully accomplished, the local population may be adversely affected by the ideologically driven reform process.

There is a tension between the drive for efficiency through market solutions and the needs of the local population which may require public provision of basic services. For example, the Volta River Authority was a government inspired project to assist the development of the Ghanaian society and economy. It involved the creation of the largest man-made lake in the world. It was partly financed by the World Bank together with private investors who set up an aluminium smelter in Ghana. As reported by Rahaman and Lawrence (2004), the original financing scheme for its establishment involved an agreement to supply Valco, an American aluminium smelter 60% of the power at a set price for fifty years. Over time, the price paid by Valco was too low to cover costs. The rates paid by Valco were insufficient to guarantee a return on assets that the VRA must achieve in order to satisfy its major financier, the World Bank. The rates paid by Valco are a fraction (one-fifth) of those paid by domestic electricity consumers. The Volta River Authority is caught in the middle of political agreements. It is encouraged to be a self-sufficient financially independent corporate entity which earns an adequate return on assets. Accounting procedures are used to justify large price increases to local consumers (while Valco is protected against such cost escalations). The result is that local people for whom the Volta River Authority was originally established are denied access to affordable electricity. A scheme that was supposed to encourage the development of the Ghanaian economy and society has instead impoverished the local community, as a foreign investor exports its profits.

The philosophy of user pays, has had detrimental effects on many global south countries. For example, as reported by Sharma and Lawrence (2005) the Housing Authority of Fiji was a statutory body established to provide affordable accommodation for an increasing number of homeless, as Fijian's rural populations drifted to the cities in search of employment. The financing of this welfare organization was investigated by the Asia Development Bank (ADB) on behalf of the World Bank. The ADB reported (1989) that the Housing Authority's finances were in crisis. The solution was to run the Authority in a business-like manner and charge economic rent for its properties. New accounting procedures, including accrual accounting, were introduced under which all properties had to be revalued. The HA was set a target of achieving a 5% return on assets. Employees were given targets for rent collection, debt reduction. Mortgagee sales rose to 400 properties a year. According to a manager at the newly reformed Housing Authority, the latter was a signal that the debt collectors meant business. The result was a better performing public sector organization in financial terms. Unfortunately, it lost sight of its primary role – that of assisting those who could not afford economic rents. Mohanty (2005) reports that by 2005 there were 182 squatter settlements in Fiji involving 13,725 families with 82,350 members. The market solutions insisted upon simply excluded the very people that the organization was set up to serve.

In similar vein, the effects of user charges for education and health are widely reported. Fees for children to attend primary school and for people to access basic healthcare services were introduced as part of the IMF and World Bank structural adjustment programmes in the 1980s in line with the general practice of levying user charges for public services. There was mounting evidence, however, that school fees were a significant factor in reducing the demand for education by the poorest households, particularly in Africa, thus making it impossible to attain universal primary education. In Tanzania, for example, the gross primary school enrolment rate fell from 98 per cent in the mid-1980s, to 78 per cent in the mid-1990s (Therkildsen 2001:18).

Evidence from countries such as Tanzania, Uganda and Kenya, have shown that the elasticity of demand for education by poor households is high. School fees deter poor families from sending their children to school. Even nominal school fees can be a large share of a poor household's income, and these come on top of the forgone benefits of children's contributions to a family business or household chores. Schooling costs often figure in parents' responses about constraints on enrolment, and elimination of school fees appears to have spurred a large increase in enrolments in a number of countries, including Kenya, Tanzania, and Vietnam (Burnett and Kattan 2004; Sperling 2005).

The experience of fees for health care and related services has demonstrated a similar pattern (Brown 1995). The introduction of fees for visits to Kenyan outpatient health centres led to a 52 percent reduction in such visits. After fees were suspended, visits rose 41 percent. Similarly in Papua New Guinea, the introduction of user fees led to a 30 percent decline in outpatient visits. In villages in Gambia where insecticide was provided free of charge, bed net impregnation – for malaria prevention – was five times higher than in villages where charges were introduced. In Uganda, a Ministry of Health proposal to introduce user charges in health services in 1990 was stopped by widespread public opposition. This did not prevent local authorities from raising revenues in this way, and a nationwide system was eventually introduced in 1992, when the World Bank made it a condition for new loans to the health sector (Lucas and Nuwagaba, 1999:4). Ghana operated a cost-recovery health delivery system known infamously as the “cash-and-carry” system, which was introduced in 1985. Patients were required to pay up-front for drugs and health services at government clinics and hospitals, which had been free since independence. This, however, pushed healthcare far beyond the reach of the ordinary Ghanaian. In addition, the income raised covered less than 15% of the cost of healthcare services.

Thus hard experience has demonstrated that user fees, at least in the key areas of housing, primary education and health, are detrimental to the eradication of poverty and achievement of the Millennium Development Goals.

Great expectations

After stripping away activities that could be privatised, the remaining core government services were the targets of better financial management. Two of the most frequently recommended tools of public financial management for governments of the Global South are the Medium Term Expenditure Framework (MTEF) and Integrated Financial Management Information Systems (IFMIS). Two core chapters of the World Bank's *Public Expenditure*

Management Handbook are devoted to these reforms (World Bank 1998). We will examine the claims made for each of these techniques, and then their limitations and outcomes.

Although MTEFs differ across countries, broadly defined, the MTEF approach allows for the linking of policy, planning and budgeting. An MTEF consists of a "top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing policy and, ultimately, the matching of these costs with available resources" (World Bank, 1998: 48). As a result, ministries are expected to enjoy: greater independence in their resource allocation decisions; increased predictability of resource flows; improved accountability and transparency within government; and ultimately a more effective and efficient process of resource allocation towards strategic priorities within and between sectors.

The generic objectives of a Medium Term Expenditure Framework (MTEF) are generally considered to be:

- facilitating the achievement of a balanced budget (fiscal discipline)
- enabling the shift of resources to pro-poor areas of the budget in line with agreed poverty reduction strategies.

The MTEF can be supported by financial management systems. Another major reform which has been heavily promoted across the public sectors of the Global South is the concept of an Integrated Financial Management System (IFMIS). An integrated financial management system (IFMIS) is a computerized system designed to support public expenditure management goals and priorities. An IFMIS:

> *usually refers to computerization of public expenditure management processes, including budget formulation, budget execution, and accounting, with the help of a fully integrated system for financial management of the line ministries and other spending agencies* (Diamond & Khemani 2005: 3).

By tracking financial events through automated financial operations, governments are expected to be able to better control expenditure and improve transparency and accountability in the budget cycle as a whole. While definitions of the key components of an IFMIS vary, proponents argue that this technology provides a set of tools that assist government in undertaking the following tasks:

- designing appropriate fiscal and monetary responses to changing macro economic conditions;
- ensuring accountability for the deployment and use of public resources;
- improving the effectiveness and efficiency of public expenditure programs;
- mobilizing domestic resources and managing external resources (foreign aid and loans);
- managing civil services; and

- decentralizing operations with adequate controls.

The aim of an IFMIS is to integrate all aspects of the government's budgetary cycle and provide suitable interfaces to other systems and entities. The hope of reformers was that the MTEF and IFMIS technologies would support the modernisation of public financial management and the introduction of good governance.

Warnings of problems

Despite great claims made for the benefits of financial management reforms, there are sceptics:

> *many of the claims made have been based more on theory and what might happen after the reforms have worked their way through the system. These reforms have been heavily supported by the international financial institutions and the country aid agencies. However, the actual level of success from their implementation has been surprisingly low. In many cases, where results have not lived up to expectations, this is not laid at the door of the "reforms" but rather at the door of the governments who have not gone far enough, or have backed off under pressure from 'vested interests'* Rosskam (2006: ix).

And the Danish Institute for International Studies says:

> *blue-print approaches and fixed ideas about what constitutes a governance agenda can have dangerous consequences, and they demonstrate how pragmatic initiatives that do not necessarily reflect widespread ideas about 'good governance' can bring about positive results* - http://www.diis.dk/sw66424.asp

A need for a fundamental review of actual progress is supported by a former senior official of the World Bank who says that:

The introduction of the MTEF concept and its early application are now some 15 years old, and the time for a candid and fact-based assessment is long overdue. Given the hype the MTEF has enjoyed, its rapid expansion in the last decade, and the disregard of some fundamental considerations of institutions and capacity, a little extra emphasis in the interest of understanding the actual issues is timely (Schiavo-Campo 2008).

A review by Wynne (2005) of the MTEF and IFMIS reforms in Ghana, Tanzania and Uganda concluded that:

> *Due to the economic conditions in many developing countries, the World Bank, aid agencies and their international consultants wield considerable influence on the priorities and approach to public sector financial management. Continued care is needed to ensure that their prescriptions are actually relevant and appropriate to the needs of each particular country. In particular, given the past record of limited success with the implementation of MTEFs, IFMISs and other major reforms, the need for such approaches and the evidence of their successful implementation in other countries should be rigorously reviewed. The traditional public sector concerns with regularity and probity will, if anything, become more important when major reform*

initiatives are being considered. Small-scale investment in basic internal financial controls may often bring greater returns than large investment in innovative reforms with their associated significant risks of failure.

MTEFs and IFMISs are considered, at least by the international financial institutions to be core public financial management reforms for many developing countries. Their level of success, however, has been relatively modest and many of the assumed benefits have not necessarily been achieved. As a result, scarce resources and expertise may have been wasted on initiatives whose success in practice had not necessarily been adequately tested (Wynne 2005: 32).

Both the MTEF and IFMIS are large, complex and strategic reforms and so are high risk projects which have actually suffered high levels of failure. Thus, for example, World Bank staff have estimated that only 6% of the IFMIS they funded were likely to be sustainable (Dorotinsky 2003). However, it is the strategic nature of these reforms which can be attractive to those who believe that the public sector in LDCs requires fundamental change. A former IMF and World Bank official recently admitted that with the MTEF:

A first glimmer of recognition of these problems [with the MTEF] *appeared at the World Bank's "PREM Week" meeting of late 2000, when it was noted, among other things, that if a country cannot put together a sensible annual budget and execute it in minimally acceptable fashion it is very unlikely to have any use for a medium-term expenditure framework. One panellist (Alister Moon) gave a long list of preconditions for introducing an MTEF, including macroeconomic stability; revenue predictability; early political commitment; core capacity of the finance ministry and central agencies; supportive donor behaviour; capacity to enforce a hard budget constraint at the ministry level; executive commitment to having a transparent budget process; and capacity in sector policy analysis* (Schiavo-Campo 2008: 5).

So there may be problems of implementation that need to be examined. Despite warnings of implementation difficulties, and the calls for country-led reforms, the international financial institutions and aid agencies still have a dominant role in the direction of public financial management and MTEF and IFMIS are still being heavily promoted as the way to improve and to modernise public sector financial management across Africa.

Results /Outcomes

As indicated in the previous section, only a small percentage of the IFMIS funded by the World Bank were likely to be sustainable (Dorotinsky 2003). The approach of which there were such great expectations has often failed. The results of nearly fifteen years of this experience across the world was recently summarised by a former senior IMF and World Bank official as:

- *virtually no evidence of improved macroeconomic balance*
- *some limited evidence of reallocation to priority subsectors*
- *no evidence of a link to greater budgetary predictability*

- *no evidence of efficiency gains in spending.*

> *This is what the donors and the developing and middle-income countries have got in return for the billions of aid dollars, mountains of red tape, heavy burdens on local government staff, and literally centuries of full-time-equivalent technical experts (*Schiavo-Campo 2008: 6).

And:

> *there is mounting scepticism of all MTEF concepts—seen as exhausting and expensive initiatives pushed by donors, and carried out as supply-driven self-propelled exercises conducted mainly by external consultants (*Schiavo-Campo 2008: 7).

In addition, Prof Schick, a frequent presenter at World Bank public financial management events commented earlier this year that:

> *Medium Term Expenditure Frameworks (MTEFs) have not proven a panacea to the challenges of budget planning, preparation and management in most countries. A possible epitaph for MTEF-type reforms would read ―Died of many causes, each of which was sufficient* (Schick 2008).

In a major study for the World Bank, Le Houerou and Taliercio (2002) came to the following conclusions of the progress with the MTEF across Africa:

> *The limited quantitative evidence shows, thus far, that MTEFs are not yet unambiguously associated with their objectives… In terms of macroeconomic balance, with the possible exception of Uganda, there is no evidence that MTEFs have made a significant impact. In terms of resource allocation, there is some limited and qualified evidence to suggest that MTEFs are linked to reallocations to a subset of priority sectors. With respect to budgetary predictability and consistency, there is no support for the assumption that MTEFs are associated with greater discipline and less deviation. At best, then, these cases present a mixed picture* (Le Houerou and Taliercio, 2002: 24).

Another official has commented:

> *The realization of the magnitude of wasted resources and dashed expectations is sobering* (Schiavo-Campo 2008b).

This comment was made in March 2008, when the World Bank organised a major seminar to re-assess its public financial work including a review of its experience with the MTEF (World Bank 2008a). One of the presenters at this event asked "Have certain donor-led PFM (public financial management) initiatives complicated the PFM reform landscape in countries, eg MTEF?" and a World Bank staff member said that MTEFs had become a reputational risk to the Bank.

Expensive general system failures

Large scale electronic information system implementations are notoriously risky. The hope in respect of LDCs was that they could benefit from the lessons of failed implementations in the developed world. In practice, this seems not to have been the case. The following three quotations indicate the huge gulf between the hype and the reality of IT reforms:

> *(i) In the Emerging knowledge-based economy of the 21st century, information and communications technology will likely assume an importance that dwarfs other types of infrastructure. This shift offers Africa a chance to leapfrog intermediate stages of development by avoiding costly investments in time, resources, and the generation and use of knowledge. Africa has a chance to benefit not only as a consumer in the new knowledge economy, but also as a producer. It cannot afford to miss this opportunity.* (World Bank 2000: 153)
>
> *(ii) e-government is difficult to implement, hard to manage and often fails* (Heeks 2006: 10)
>
> *(iii) Survey and poll results produce the following working estimates about e-government initiatives in developing/transitional countries:*
>
> *35% are total failures*
>
> *50% are partial failures*
>
> *15% are successes.* (eGov for Development 2007)

IFMIS in particular, and IT in general, have been promoted as providing the key answers to improving the quality and efficiency of a modern public sector. However, the reality has been a series of failed projects and, in many cases, the wastage of millions of dollars which are desperately needed for investment in many other areas of the public sector. In Ghana an IFMIS was launched in 1997 by Vice President Mills. He argued that the IFMIS would:

> *not only facilitate budget execution, accounting and financial reporting but will also place responsibility on the Ministers to monitor and account for resource use […] the policies we formulate, the programmes we implement, the resources we use, must all be accounted for in terms of the extent to which they help us improve our living standards* (PUFMARP newsletter, September 1997: 4-5; quoted in Fyson 2009: 335).

However, in May 2006 the Deputy Controller and Accountant General noted that:

> *there has as yet not been one Cedi* [local currency] *benefit from it. I have not used* [IFMIS] *to generate one report yet* (quoted in Fyson 2009: 336).

This experience has also been replicated in industrial countries. An important book (Gauld, Goldfinch & Dale 2006) reviews a number of IT case studies in Australia, Britain, New Zealand and United States. As a result, the authors reach the conclusion that IT is a dangerous enthusiasm. In contrast they argue that pessimism, or at least the expectation of failure, should be the guiding principle. These conclusions appear to be even more relevant and important in Africa, where the experience has, if anything, been worse in terms of the risk of IT failure, as the following quotations demonstrate:

> *the evidence does all point in one direction: towards high rates of e-government project failure in Africa* (Heeks 2002: 11)

> *information systems fail or under perform more often than they succeed in the public sector in Africa* (Peterson 1998: 38)

> *the success rate of introduced information technology systems in African state agencies has been distressingly low* (Berman and Tettey 2001: 2).

One of the reasons for this high failure rate is that the economics of IT investment in Africa is different from that found in industrial countries. In Africa, labour is relatively cheap, IT hardware and skills are not available locally and transport costs make IT more expensive to purchase and to maintain. Average public sector wage costs in Africa can be one-tenth or less than those in industrial countries. Average IT costs, in contrast, may be two to three times higher. E-Governance and automation using modern IT technology therefore results in replacing cheap civil servants with costly IT (Heeks 2002).

In late 2003, Bill Dorotinsky provided a useful overview of the World Bank's experience of providing over $1billion to finance Integrated Financial Management Information System (IFMIS) projects over 17 years. The average time for completion of each project was over nine years for African projects and the average cost of each of the 34 projects worldwide was $12.3 million (Dorotinsky, 2003).

If success is defined on the basis of being on budget, on time and delivered as planned, then only 21% of these projects were successful. An even gloomier view was provided by assessments of the same projects by the World Bank staff. A quarter of the projects were considered unsustainable, 69% likely to be sustainable and only 6% of the projects were considered highly likely to be sustainable and this figure was lower for Africa than other regions (Dorotinsky, 2003).

Dorotinsky stated that the general lesson from the World Bank's experience was the requirement to have clear political commitment and ownership by the borrowing country. He also pointed out that such schemes were generally less successful in poorer countries and highlighted the following additional risks:

- *Lack of capacity*
- *Lack of government commitment*
- *Too many project components*
- *Opposition by staff and line ministries* (Dorotinsky, 2003).

A government implementing an IFMIS can expect:

a long implementation path, and one that involves significant challenges. It will be a complex learning process for all concerned. A number of difficulties are likely to be encountered en route (Diamond & Khemani 2005: 27).

CONSULTANTS AND EXPERTISE

Worsening pay and conditions for public sector workers

The general deterioration in the economic conditions across the Global South led to a significant reduction in the real pay of public sector workers and so had a detrimental effect on the quality of public financial management across much of the Global South. Their public sectors were down sized and wage levels deteriorated significantly leading to problems of loss of skills and capacity.

> *Efficient, accountable, adequately paid and well-motivated civil servants are essential for an effective public sector, and especially to implement relatively complex reforms such as an MTEF or an IFMIS. Civil service reform was a major component of structural adjustment lending in the 1980s and the 1990s. Yet for the World Bank and IMF, such reforms primarily meant reducing the size of the civil service. At the same time, structural adjustment programmes led to a large decline in wages for civil servants who remained (Hawley, 2000). The IMF, for example, prompted wage reductions averaging 14 per cent in 20 African countries in the 1990s (Lienert and Modi, 1997:18). The use of outside experts, funded by technical assistance loans, may also have hampered the growth of local expertise and capacity (Rama, 1997: 2) and demoralized the existing local professional staff, thereby adversely affecting their ability to successfully implement such complex reforms.* (Wynne 2005: 31-32)

Africa's fragile and marginalised economies went into crisis from the late 1970s. Annual growth rates fell from a respectable 4 percent in 1970-79 to 1.7 per cent in 1980-1989 and only 0.4 per cent in 1990-1994 (Capps 2005). Even the World Bank was forced to admit in 1989 that "overall Africans are as poor today as they were 30 years ago" (World Bank 1989: 1) and per capita income in sub-Saharan Africa in 2000 was 10 per cent below the level reached in 1980 (UNCTAD 2001). Real wages in nearly every African country were estimated to have fallen between 50 and 60 per cent since the imposition of the Structural Adjustment Programmes of the 1980s (ILO/JASPA 1991).

By 1990 Margaret Joan Anstee, the UN Under-Secretary General could warn that:

> *The impact of recession and adjustment in the 1980s has been dealt with by economists and policy makers, within a framework of macro-analysis that pays scant attention to the people directly caught up in these economic events. These trends were inexorably leading to an ominous deterioration of sub-Saharan Africa's scarce human capital, which can be replaced only at great cost. They were setting the stage for an accelerated spiral of decline in the continent's future development.* (quoted in Brown (1995: 266)

Public sector workers were not immune and in many cases suffered from reduced pay and greater insecurity. This was the result of reduced government income, but also conditionality requirements from the World Bank and the IMF. The result was that from the early 1980s to the early 1990s, the number of people employed by central government in Sub-Saharan Africa fell from 1.8% to 1.1% of the population and the average government wage also fell from 6.1 times per capita GDP to 4.8 times (Schiavo-Campo, de Tommaso and Mukherjee 1997). In Anglophone Africa, public sector wages declined by as much as 80% in real terms between the early1970s and the early 1980s (Ayee 2005). One of the authors had personal memories of this having taught in Southern Sudan in the late 1970s and returned in 1984 when teachers were clearly much poorer and the intermediate school teachers encountered had only received salaries for six months of the previous year.

Uganda provides one of the most vivid examples with pay for civil servants in the late 1980s falling to only $10 a month (Kiragu and Mukandala 2005). A reform programme was launched in 1993 which halved the number of public servants through the reduction in ghost workers, a voluntary retrenchment scheme and a selective freeze on recruitment. Although this was coupled with significant salary increases in the early 1990s, the objective of a minimum living wage for civil servants is far from being realised according to Mark Robinson who concludes that:

> *Failure to make progress on pay reform for the vast majority of public servants contributes to declining motivation. Large differentials between administrative grades and top civil servants, along with special treatment for senior officials in the political bureaucracy and semi-autonomous bodies like the URA, fuel resentment, undermine morale and provide a stimulus to corruption. The lack of incentives for public servants who have to cope with continuous reform initiatives and future uncertainty further runs counter to a key objective of the reform programme as set out by the 1991 presidential commission, namely the creation of a committed, responsible and results-oriented civil service, which would be better paid, more efficient, and have more effective staff* (Robinson 2006).

Similarly in 2002, Charles Byaruhanga could conclude that in Uganda:

> *Public sector pay has improved over the last decade though pay reform remains on the public sector institutional agenda. Pay for managerial, technical and professional civil service remains un-competitive, leading to difficulties in recruiting and retaining competent staff and also negatively impacting on public service delivery.* A more recent example of the effect of economic collapse of the salaries of public officials is Liberia where salaries of civil servants fell to a range of only $30 to $55 per month (Kumar & Brar 2008).

Many experienced and qualified staff left the public service and the country. This loss of human resources contributed to the major breakdown of government systems. Similar effects are being reported with the economic collapse in Zimbabwe where doctors' salaries are reported to be only $10 a month (Sunday Times, 11 January 2008).

The poor pay and conditions in the African public sector has been matched by the attraction of working in developed countries:

> *Approximately 20,000 skilled workers leave Africa each year. The World Bank's estimate of the share of Africa's skilled workers with a tertiary education who emigrate is more than 15 per cent, higher than any other region.* (Bond 2006: 89)

In many cases the loss of key public sector financial managers has led to the use of foreign consultants who can often earn each day what their local counterparts take a month to earn.

Link to increased corruption

The economic crisis in Africa made worse by the structural adjustment policies has meant that it became accurate to speak of the collapse of public administration in many African countries with the associated growth in corruption as argued by Hibou (1997: 91):

> *Since the mid-1980s, the rapid decline in the standard of living of civil servants, the virtual disappearance of operational budgets, frequent delays in the payment of salaries, the feeling of insecurity which now pervades elites and their consequent haste to enrich themselves, and the climate of total impunity have all conspired to cause a fall in the productivity of public officials. This was already low owing to the widespread practice of civil servants taking second jobs, the loss of their various allowances, the habit of charging for the performance of official duties, corruption, the erosion of accepted standards of public administration and the decline in the prestige of the state generally.*

The well known economist Jeffrey Sachs (2005: 312) has argued robustly that poverty in Africa does not result from corruption. If anything, it is the reverse, African corruption is caused by its poverty:

> *Africa's governance is poor because Africa is poor… Africa shows absolutely no tendency to be more or less corrupt than other countries at the same income level. There is no evidence whatsoever that Africa is distinctly poorly governed by the standards of very poor countries.*

One of the controversial aspects of the reform process in LDCs has been the use of external consultants. Private sector consultants have increasingly been called upon to assist aid-dependent countries to strengthen their public sector governance systems. Almost invariably IFMIS projects will be unique in the country concerned, at least in the public sector. Thus the use of consultants will usually be considered essential. However, many of the consultant firms are major companies and so the relationship between the client government and the consultant is not a relationship between equals. The budgets of consultancy firms often outstrip those of the countries in which they work. Price Waterhouse Coopers for example, recorded a total net revenue of US$14.7 billion for financial year 2003 – a figure that far outstrips the GDP of any country in Sub-Saharan Africa with the exception of Nigeria and South Africa (Hilary 2004: 7, quoted in Fyson 2009: 316). In addition, the international consultancy firms have access to more information about actual successes and challenges which other governments have experienced with their IFMIS reforms (they may also have relationships with suppliers of IT equipment or software).

> *Some of the literature focuses on the work of contractors as a necessary contribution to the development effort bringing both resources and expertise to assist in building local capacity… In contrast, at the other end of the spectrum, scholars have argued that the work of the consultants funded by development agencies, will necessarily have a nefarious impact on the longer-term prospects for development (Berg, 1993; Easterly, 2002; Hilary, 2004). After all, how can private sector consultants earning many times their counterparts' salary assist the public sectors of low-income and aid-dependent countries (as exemplified in Eastern Europe by the so-called _Marriott Brigades' (Wedel, 1998)? Instead, expatriate consultants and advisors are perceived as a ―systematic destructive force which is undermining the development of capacity in Africa (Jaycox, 1993).* (Fyson 2009: 320).

The need to employ consultants to assist with an IFMIS project will generally increase the financial and other risks associated with the project. Great care is needed to ensure that the consultants provide value for money and that they do not lead to the further demoralisation and capacity reduction of the government's own staff. External consultants should only be used when this approach is essential. Skill transfer to public sector officials is an essential element of all IT projects. The capacity to manage an IFMIS has to be internalised as soon as possible to ensure that the project is successfully implemented and sustained.

Suggestions for a way forward

In this section we examine possible ways to assist the LDCs in their efforts to improve their use of information systems and accounting technologies, suggesting that local experts should take control to rebuild public sector financial management.

The international financial institutions and aid agencies may adopt suitable strategic objectives, but these are not necessarily properly implemented. They are only used as slogans and are not seriously used as a guide to action. Thus the following ideas have been correctly promoted in recent years to guide public financial management reform, but have not been delivered in practice:

- county ownership
- getting the basics right
- sequencing of reform

If we accept the arguments of the previous sections, then public financial management has had a successful history, but became degraded in many governments of the Global South as a result of events beyond the control of these governments. In these circumstances, what these countries need is a rebuilding and refinement of their public financial management systems rather than the root and branch reform suggested by such mega-reforms as the MTEF and IMIS. This should be led by the countries concerned, and specifically, their financial managers who are the only experts on these systems.

Country ownership

Country ownership has been widely accepted and considered vital for the success of large scale public financial management reforms, especially since the OECD's Paris Declaration was adopted by over one hundred Ministers, Heads of Agencies and other Senior Officials in 2005. This agreement committed the donors to:

> *Respect partner country leadership and help strengthen their capacity to exercise it.* (OECD 2005)

The report to the follow-up meeting in Accra, Ghana in October 2008 reinforced this view noting that:

> *Country ownership and leadership are critical to success. Even when external pressures or internal crisis are the main triggers PFM reforms, the starting point for real reform must be a country-owned response to such pressure in the form of a program of reform and a country-owned structure for managing the reform process.*(Working Party on Aid Effectiveness 2008: 17)

This report also noted that:

> *The literature on PFM is replete with stories of failed reforms that were driven by donors rather than led by the country; such reforms may initially appear to be successful, but they are unlikely to be sustained and, in the worst cases, may be reversed after the withdrawal of donor support.* (Working Party on Aid Effectiveness 2008: 18/19)

Despite these harsh warnings, the Declaration claims that it is the responsibility of each government in the Global South, "to take leadership of its development processes" (Working Party on Aid Effectiveness 2008: 4), rather than the international financial institutions and aid agencies, as the most powerful partners, having the responsibility to ensure that governments of the Global South are allowed to control their own destinies.

In practice the international financial institutions and aid agencies (led by the IMF and the World Bank) maintain close control over the public financial reforms. Most public financial management projects which are funded by World Bank loans will have originated from a World Bank report. In addition, many aid projects are also micro-managed by the aid agencies, for example, all contracts let under World Bank funded projects for public financial management reform have to be screened by World Bank officials to receive a 'no objection' clearance before the contract can be awarded. In addition, the contracts may be managed by independent agencies and periodically reviewed by World Bank officials. As a former senior official of the IMF and World Bank said at an IMF seminar in October 2008:

> *There is little or no country ownership. MTEF is often pushed onto reluctant countries by donor agencies*

Despite this approach, the World Bank, for example, still has a tendency to blame the relevant country rather than the particular tools it has promoted. So in 1998 the World Bank said that, “advocates continue to suggest that the failure of these performance-orientated tools [an aspect of the MTEF] or techniques have been in implementation rather than in concept” (World Bank 1998: 16). Over a decade later at a World Bank seminar Allen Schick was still claiming that:

> *the widespread failure of MTEF has been due to the way it has been implemented, not because of a design flaw* (Schick 2008).

This accords with the argument of Rose and Miller (1992), following Foucault, that political rationalities prescribe solutions (as the “truth”) and provide ways to achieve these solutions. These political rationalities are always failing; but their implementation is the search for ever new ways of governing.

The World Bank employs public financial management advisors in most dependent countries, directly provides or supports a range of training initiatives for public financial management officials and produces a range of publications relating to particular countries or of more general interest. Co-operative bodies for public financial management officials, for example, AFROSAI-E (for auditors general) CABRI (for budget officials) and ESAAG (for accountant generals) are dependent on the aid agencies for support and for the provision of international speakers for their events. All these activities tend to increase the influence of the international financial institutions and the aid agencies. In addition, these bodies are able to recruit leading public sector financial managers and officials, for example, the former Federal Minister of Finance of Nigeria worked for the World Bank before and after her term in office. The current president of Liberia worked for the World Bank, the head of public sector financial reform in Sierra Leone went on to work for the World Bank and the Auditor General of Uganda had a spell working for the PEFA Secretariat before returning to Uganda.

The standard approach to evaluating the quality of public financial management in the Global South is now the PEFA Framework. These have been undertaken in over 70 countries with particularly high coverage in Sub-Saharan Africa (Working Party on Aid Effectiveness 2008). However, very few of these assessments were undertaken with the active involvement of the public sector officials of the country under review. Most are led by the World Bank and involve international consultants. The Auditor General of Uganda did undertake a PEFA type review in 2007, but this was criticised by the PEFA Secretariat as it was uncertain whether the donors would accept it as part of their fiduciary assessments.

Getting the basics right

Public financial management reform should clearly be based on firm foundations, we have to “get the basics right” to use Allen Schick’s often repeated (and then ignored) phrase. Specifically Schick has called for the need to “operate a reliable accounting system before installing an integrated financial management system” (World Bank 1998) and “focusing on the credibility of the annual budget before introducing a medium-term perspective to budget planning” (Schick 2008).

Despite these wise words, governments have been encouraged to adopt the MTEF and IFMIS before basic internal financial controls have been brought up to an adequate standard. As an IMF working paper noted:

> *MTEFs have sometimes been introduced prematurely, in the sense that annual budget outcomes and monitoring mechanisms were still quite primitive, resulting in outer-year scenarios that were inconsistent with actual budget outcomes and/or the macroeconomic framework* (Lienert and Feridoun, 2001*).*

As Cuffie, Lam, Tung, Watanabe, and Wendle (2007: 25) noted:

> *since foreign direct budget support is a large component of Tanzania's budget, unpredictability of aid causes serious problems hindering budget predictability. The reported discrepancies are consistent with data gathered through our interviews: "The unpredictability of aid flow from donors over a 3-year period limits the scope of MTEF on fiscal stability" "Difficulty of planning with unpredictable donor budget is a real issue…Problem getting worse*".

In addition, there is evidence that the MTEF and IFMIS are being seen as the basic approaches to be implemented by all governments, national and local. Schiavo-Campo (2008: 7) warned against this saying that:

> *The "reform" momentum is still at work, however. Especially troublesome is the notion of extending the MTEF to general government, requiring subnational entities to go through the exercise--as currently envisaged in some countries, e.g., Tanzania.*

This is also the case in Nigeria where both the World Bank and the Department for International Development (UK) are supporting public sector reforms in a number of state governments. The MTEF is seen as a key part of these reforms (at least by the donors) although PEFA indicators for basic internal financial controls are no better than the in example from the two countries above.

Somalia is well known for not having had a functioning national government for nearly two decades. Despite this, a World Bank mission to Somalia in late 2007 led to the recommendation to introduce an IFMIS. This is despite Schick's recommendation to ensure that manual systems are working well before an IFMIS is introduced. Similarly donor supported IFMISs have been implemented in several other post-conflict countries, including Liberia (Kumar and Brar 2008), Sierra Leone and Southern Sudan.

Sequencing of reform

Sequencing of public sector financial reforms is clearly important and may be another way of ensuring that basic internal financial controls are refined before wide ranging mega-reforms such as the MTEF and IMFIS are implemented. But this approach may also be based on the assumption that donors know what is needed and it is just a question of moving there in small easy steps. Thus the Department for International Development (UK) describes this type of approach as follows:

> *The platform approach aims to implement a package of measures or activities designed to achieve increasing levels "_platforms" of PFMA competence over a manageable timeframe. Each platform establishes a clear basis for launching to the next, based on*

> *the premise that a certain level of PFMA competence is required to enable further progress to take place* (DfID 2005: 1).

This approach assumes that we know what we want to achieve, that the main attributes of sound public financial management are well understood and that all countries should achieve this common goal. It is just a question of determining where on the development ladder a particular country finds itself to indicate what the next steps should be. However, reality is more complex. There are a variety of different approaches to public financial management and each country and organisation has, to a greater or lesser extent, developed its own approach.

> *The rush for reforms, especially when driven from outside, has often wreaked havoc in vital institutions that societies had created either to foster national unity, defend disadvantaged groups and regions or support national investments* (Larbi 2006: 3).

We have to start from a clear understanding of the particular priorities, demands, history and culture of each country, elements which local public financial managers are best able to understand. We then have to consider carefully how existing systems may be re-built, improved and refined in the light of local experience, informed, as appropriate, by the lessons and experience of other countries.

Conclusions

The economies of many LDCs went into deep decline from the mid to late 1970s with the associated rise in government debt. This was largely due to external events; the increased price of oil, increased interest rates and declining prices for their exports. Events which governments had little or no control over and for which they were not responsible. However, it deed mean that their income was severely curtailed. As a result, and encouraged by the IMF, World Bank and aid agencies, they had to restructure their economies, corporatize and/or privatise key sectors of the economy, adopt western accounting procedures and systems, reduce the number of their public servants and in many cases significantly reduce their level of pay. This clearly had a detrimental effect on the quality of public services including financial management and overall governance.

> *Of course, if the developing countries had solved all of their own problems better, if they had more honest governments, less influential special interests, more efficient firms, better educated workers – if, in fact, they did not suffer from all the afflictions of being poor – they could have managed this unfair and dysfunctional globalisation better* (Stiglitz 2006: 58).

However, these events have given the World Bank and aid agencies the power, through aid conditionality, to influence significantly the public sector financial management reforms which are introduced. This has often been through the use of, usually European, consultants paid significantly more than the financial managers they are retained to advice.

Public sector financial managers, far from being the cause of this decline, have in many cases struggled to try and maintain standards whilst suffering retrenchments, forced retirements and dramatic cuts in their living standards. In addition, their morale has been undermined. Global solutions do not necessarily satisfy local needs. The evidence of the previous sections demonstrate the failure of systems and procedures imported and implemented by „experts who may not appreciate the local history, society or culture in which they are sent to operate. The great expectations of the "solutions" results mostly in expensive failures.

> *Costly failures have demonstrated that—as any other institutional reform—successful introduction of a programmatic MTEF takes years of persistent efforts consistent with capacity, resources, awareness, incentives, and institutional realities. The two ingredients of the approach are therefore gradualism and selectivity, and the main conditions of success are simplicity and communication. If prematurely introduced or badly implemented, a formal and detailed programmatic MTEF causes enormous waste, frustration, and illusion—for trivial or non-existent benefits. The same is true of the informatics infrastructure for public financial management* (Schiavo-Campo 2008: 26).

We need to build on and enhance existing public financial management capacity, to nourish it and facilitate its development. The local officials are the international experts for the systems they are responsible for managing. For any systems *the* international experts are the local officials. No consultant from outside the sector or country can know or understand the system as well as the public sector officials who have been managing the system for years, often in very difficult circumstances. These arose as a result of external events beyond their control or that of their governments. All public financial management reforms should be led by the relevant officials and should be subject to informed local political support.

Complex systems and reforms are always more risky than simple approaches. We need to ensure that proposed reforms are kept as simple as possible. "International best practice" has to be adapted to make it fit local conditions – international best practice is never the complete answer.

We also have to make sure that actual international best practice is being adopted and that it really has been tried and tested and been proved to be successful. Multi-year budget frameworks and programme budgeting may be good ideas, but they have been difficult to implement in practice. The UK tried for 30 years until 1997 to implement a three-year budget framework and it is not clear that the current arrangements will survive the recent international financial turmoil. France only implemented its current approach to programme budgeting from 2006 and is only implementing a three-year budget framework with effect from 2008. The US Government does not have an MTEF.

There are many other examples of reforms which were heavily promoted by aid agencies and international consultants which time has shown were either mistaken or carried significant additional associated costs. As the American academic, Wildavsky said, "the corridors of power are littered with the bodies of failed reforms".

It would appear that the World Bank and the IMF are now slowly revising their support for mega-reforms, such as the MTEF and IFMIS. In 2008, both organisations have held significant seminars reviewing the evidence for the success (or more common failure) of such reforms; the World Bank in March and the IMF in October. Thus in Benin, an action plan for reform of public financial management developed in late 2008 for the donor community does not call for an MTEF or an IFMIS. Rather, it includes measures to improve the medium term projections of macro-economic aggregates and standards to ensure the compatibility of computer systems within the Ministry of Finance (Dendura, Chatelain and Schwap 2008).

However, there is still a long way to go. We need to gain widespread recognition that the governance and financial management problems suffered by many countries arose from global events over which they and their governments had little or no control. The international financial institutions and the donor agencies need to ensure that they use their financial power judiciously to enable public financial managers to take real leadership of their reform agenda.

The change agenda arising from the world recession and the election of Barack Obama as the next US president should help this process. We need a move away from mega-reforms such as MTEF and IFMIS. Public financial managers need to be provided with the political support and necessary resources to implement basic tried and tested reforms.

The World Bank says it is working for a world free of poverty. However, its prescriptions for public sector financial management are unlikely to achieve this ideal. The far more modest aims of the Millennium Development Goals are also now, as a consequence of the global recession, not likely to be achieved. The private sector free market approach of neoliberal and New Public Management reforms have failed. We need to change direction and build poverty reduction strategies on the firm foundations of redistributing resources from the richer to the poorer sectors of society through the use of progressive taxation and public services provided free at the point of use.

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