THE AFRICAN CAPACITY BUILDING FOUNDATION

PUBLIC FINANCIAL MANAGEMENT REFORMS IN DEVELOPING COUNTRIES: LESSONS OF EXPERIENCE FROM GHANA, TANZANIA AND UGANDA

ANDY WYNNE

ACBF WORKING PAPER
NO. 7, DECEMBER 2005

THE AFRICAN CAPACITY BUILDING FOUNDATION

ACBF WORKING PAPER

ACBFWP/07/2005

Public Financial Management Reforms in Developing Countries: Lessons of Experience from Ghana, Tanzania and Uganda

Andy Wynne[1]

7th & 15th Floors, Intermarket Life Towers, Harare, Zimbabwe

Produced by the Knowledge Management and Program Support Department
The African Capacity Building Foundation
First printing December 2005

ACBFWP/07/2005

[1] Mr. Andy Wynne is the Head of Public Sector at the Association of Chartered Certified Accountants (ACCA) and Member of the African Capacity Building Foundation's Technical Advisory Panel and Network on Financial Management and Accountability (FIMANET).

PUBLIC FINANCIAL MANAGEMENT REFORMS IN DEVELOPING COUNTRIES: LESSONS OF EXPERIENCE FROM GHANA, TANZANIA AND UGANDA

ANDY WYNNE

The Association of Chartered Certified Accountants (ACCA)
London, United Kingdom. & Member of ACBF FIMANET

ABSTRACT

The Medium Term Expenditure Framework (MTEF) and Integrated Financial Management Information Systems (IFMIS) are two major public expenditure management reforms that have been adopted in many developing countries in recent years. A review of the publicly available literature on the implementation of these reforms in three African countries considers the history of their introduction and their relative success. On the basis of this review, consideration is given to the risks involved with adopting such large scale reforms; the extent to which the international financial institutions and consultants were wise to recommend such widespread adoption of large scale reforms; and whether public sector financial officers in developing countries were wise to accept these prescriptions quite so uncritically in preference to paying more attention to tried and tested financial controls and getting the basics right. However, additional research is needed to ascertain whether the introduction of an MTEF or IFMIS can successfully ensure the effective use of public sector resources whilst maintaining the principles of universality, equity and accountability.

Key words: Medium Term Expenditure Framework, Integrated Financial Management Information System, African, public sector financial management, reforms, World Bank, basics, risk.

I. INTRODUCTION

In the last decade or so, there has been a growing interest in the quality of public sector financial management in developing countries. In contrast, "during the cold war, aid was generous, but often doled out to political allies with few questions about whether the money was put to good use, wasted or stolen" (Financial Times 2005:12). In the early years after the fall of the Berlin Wall in 1989, interest in the state was limited, but following the World Bank's Report (World Bank, 1997), the role of the state has become increasingly prominent in development efforts, and particularly in the drive against poverty.

"The new agenda recognized that, while there may be too much state intrusion in the economy, there was also often too little government capacity to make policy, perform basic administrative functions, work with private partners, and ensure the provision of infrastructure and public services" (Batley and Larbi, 2004).

In 2001, the UK's Department for International Development (DFID) issued its guide on public expenditure management which noted that in "recent years, there has been a dramatic surge of interest in public expenditure issues amongst governments, development agencies and the wider public" (DFID, 2001 a:4).

The traditional approach to international aid was for the donor agencies to fund individual projects that were expected to have their own bank accounts and often separate financial management arrangements. The increased interest in the state and the realization that all aid was fungible, led to a gradual move away from project aid to general budget support. Consequently, aid is provided directly to the recipient government to support its general services, in the context of its poverty reduction strategy paper agreed by the World Bank and the International Monetary Fund (IMF).

"Though general budget support accounted for only a small part of total official development assistance in the 1990s, recently several donors have signaled a commitment to increasing the share of aid given as budget support. For instance, the World Bank spent about 50% of its total assistance on budget support in 2002, up from about 10% in the 1980s. Similarly, DFID spends about 15% of its current budget on budget support, a proportion that is to increase in coming years" (Kolstad, 2005).

Ghana, for example, was receiving almost half of its aid as general budget support by 2004. In Tanzania, direct budget support was expected to cover 22% of the total government recurrent expenditure estimates in 2003/04 (DFID, 2003). The UK's DFID provided 75% of its aid to Tanzania in the form of budget support for that year. General budget support to the Ugandan Government is 7.5% of GDP, equivalent to nearly a third of its annual budget (Forster and Mijumbi, 2002). This move to general budget support signals the keen interest of the World Bank and national aid agencies in ensuring the quality of recipient countries' public expenditure management systems. Economic changes in recent decades and the subsequent debt crisis in many developing countries gave the international financial institutions and the aid agencies the necessary leverage to exert direct influence over public sector financial management reforms in these countries.

The economies of several developing countries suffered as a result of the oil price hikes in the 1970s and the declining terms of trade, especially in agricultural and other primary products. The United Nations Food and Agricultural Organization (FAO 2005) estimated that if commodity prices had maintained the same real value as in 1980, developing countries would be earning an additional $112bn in annual export revenues, which is double the current level of aid flows. The high levels of debts in many underdeveloped countries became unsustainable forcing the governments of these countries to approach the IMF and the World Bank for support. As a result, the financial institutions and other aid organizations started to exert considerable influence in many areas of policymaking including public sector financial management (SAPRIN, 2004).

One result of such influence has been the widespread acceptance in developing countries of a new set of objectives for public sector financial management. Traditionally, public sector financial management aimed at avoiding wastage and extravagant spending, and especially, the loss of resources through possible fraud, irregularity or improper spending. The rise of New Public Management, associated with neo-liberalism, has significantly reduced the emphasis given to public financial management regularity and probity. The World Bank's Handbook (World Bank, 1998), for example, outlines the three main objectives of public sector financial management as ensuring:

- aggregate fiscal discipline
- allocation of resources in accordance with strategic priorities, and
- efficient and effective use of resources in the implementation of strategic priorities

In many developing countries, a series of fundamental reforms have been encouraged and guided by the World Bank and the aid agencies. These organizations may have played an important role in encouraging the adoption of New Public Management type of reforms through their aid programmes and related conditionalities (Minogue, 2000). The need for these reforms arose, at least partly as a result of the change in perceived objectives for public sector financial management. Thus, for example, an IMF report on financial management in Anglophone Africa commented that:

"in several cases the legal framework is largely orientated towards a compliance and control framework of line-item budgeting. Although in some cases they are being adapted to include features of recent developments in modern budgeting" (Lienert and Feridoun 2001: 11).

Two of the most significant reforms championed by the World Bank, DFID and others have been the introduction of a Medium Term Economic Framework (MTEF) and an Integrated Financial Management Information System (IFMIS).

An MTEF consists of a medium-term financial framework (usually three years) for the planning of government expenditure. This should include agreed annual aggregate expenditure and income totals. Sector strategies, with priorities for future spending and estimates of the future costs of existing and proposed policies, can then be developed within the constraints of this resource envelope.

An IFMIS is a common computerized financial system used in government offices. It often includes government ministries, departments and agencies and may be extended to regional and local governments. It has a single database in which the financial transactions are recorded, a uniform coding structure for the analysis of the transactions, and the possibility of entering each transaction only once. It usually comprises the core modules of budgeting, cash and debt management and accounting, and in some cases ancillary components such as payroll and procurement.

This paper reviews the publicly available literature on the implementation of these two reforms in three Anglophone African countries. Tanzania, Uganda and Ghana are considered as having relatively effective public financial management systems. They are currently at various stages of implementing their MTEF and IFMIS initiatives and have achieved different levels of success as summarized below:

- Tanzania – successful MTEF, working IFMIS
- Uganda – maturing MTEF, IFMIS delivered at pilot stage
- Ghana – struggling MTEF, failing IFMIS.

The main two sections of this paper consider the experience of implementing the reforms in the three sample countries. The final section considers the main lessons that may be drawn from this experience. Given the challenges that these three countries have faced in implementing such reforms, the paper questions whether the reforms were suitable and whether alternative, smaller-scale public financial management reforms would have been more appropriate and could have been implemented with far lower risks.

II. THE EXPERIENCE WITH MEDIUM TERM EXPENDITURE FRAMEWORKS

(a) Introduction

Medium Term Expenditure Frameworks (MTEFs) were developed to overcome some of the weaknesses of the limited planning horizon of the traditional annual public sector budget. Long-term planning would ensure fiscal discipline and improve the link between a government's priorities, as agreed in its Poverty Reduction Strategy Paper (PRSP), and the allocation of its financial resources. It was also assumed that an MTEF would ensure the adequate planning of recurrent capital spending implications.

"A key distinguishing feature of an MTEF is the integration of policy, planning and budgeting within a medium term perspective. An MTEF typically consists of a top-down resource envelope consistent with macroeconomic stability and broad policy priorities and a bottom-up estimate of the current and medium term cost of existing national programmes and activities and an iterative process of decision-making that reconciles these costs with available resources" (Holmes with Evans 2003:5).

As such, an MTEF has a good fit with the now dominant ideas of monetarism and neo-liberalism, which emphasize the importance of a balanced, or least a fiscally sustainable, budget. They also appear to assist with the reconciliation of this requirement with the overwhelming demands of national development and poverty eradication, which are to be found in almost all African countries. Thus, "MTEFs provide the link between ambitious poverty reduction targets and the annual budget priorities of government, linking what is desirable with what is affordable and most likely to deliver results" (Holmes and Evans, 2003:6).

In the countries where an MTEF is introduced, it can also be argued that the emphasis on budget performance and the increased transparency in budget allocations and implementation has led to a cultural change. As a result, politicians and civil servants would be compelled to become more disciplined and less corrupt .

Effective medium term government financial planning is a relatively recent phenomenon. "Virtually all of the experience with fiscal targets [and MTEFs] has occurred over the past decade, a period of relatively favourable, stable economic conditions. It is highly unlikely that targets will withstand a serious or sustained weakening of the economy" (Schick 2001a).

In the case of the UK, which has a relatively long experience of trying to introduce a medium term planning dimension for its government budgeting process, the attempts can be traced back at least as far as the Plowden Commission in 1961. This body recommended the introduction of a medium-term planning framework, through surveys of long-term spending needs to address the various weaknesses of the Government's financial planning system (Lienert and Feridoun 2001). However, despite repeated attempts in the following decades, it was not until 1998 that an apparently robust system was finally introduced. The biennial Comprehensive Spending Reviews now form the basis for the Government's annual budgets. The success of this reform is yet to be attested during a period of relatively economic stability and the Government has yet to prove its ability to stick to its medium terms plans in the event that economic factors take a turn for the worse. In fact, the UK Government has announced in mid-2005 its plan to postpone the spending review scheduled for 2006 to the following year. This experience underlines the challenges faced by developing countries when implementing an MTEF. It may also lead to question whether the reform is mature enough and whether it has undergone serious tests and trials.

The "middle to late 1990s saw the proliferation of medium term expenditure frameworks (MTEFs) throughout the developing world. By one count (World Bank, 2001: 6) as many as twenty five countries in Africa, Asia (eastern, central, and southern), Latin America, and Eastern Europe are at various stages in the process of adopting MTEFs, and another ten are seriously considering it. This proliferation has occurred over a relatively short time period. Of the twenty-five existing MTEFs, nearly 90% were adopted over the five-year period, 1997-2001. It is not premature to say that MTEFs are a trend in developing country public expenditure management (PEM), and the trend shows no signs of cresting" (Le Houerou and Taliercio, 2002:1).

In the vast majority of these cases, the World Bank was involved in the decision of adopting and implementing MTEFs. In fact, the MTEF has become a standard item in the Bank's public expenditure management toolkit. The World Bank economist view the MTEF 's as the ideal tool that is appropriate to the economic conditions of these countries, many of which were suffering from huge government debts and high inflation rates. The review of the introduction of the MTEF by the World Bank has shown the dominant influence of these economists by acknowledging the assistance provided by nine country economists, but not that of a single financial management specialist (Le Houerou and Taliercio, 2002). This tool has also found almost universal support amongst the World Bank's financial management specialists and other consultants.

As such, the concept of the MTEF formed the central piece of the set of reforms outlined in the World Bank's seminal work on public expenditure management (World Bank, 1998) with a supporting role for an IMFIS. Other aspects of the public expenditure management reform are included in the MTEF approach, such as performance budgeting, which provides budgeting for outputs or outcomes rather than just for financial inputs, and the related budgeting by programme.

DFID claimed that it "is not surprising that MTEFs should receive near universal support. They can be an effective tool for introducing strategic thinking into the budget process". However, it also sounded as a note of caution that "MTEFs are not the universal panacea that many have taken them to be. There are in fact few well-established MTEFs in developing countries. Those that do exist have only been recently introduced and are still evolving" (DFID, 2001 a).

Occasionally, the World Bank has indicated that a country's public sector financial administration is not ready for an MTEF, for example:

"The system of preparation of the Djiboutian budget does not have a perspective of a medium term framework; the view of allocating funds according to results or performance; nor the view of budgeting by programmes. Indeed it is not yet ready for these types of reforms" (World Bank 2004, d: 5).

Others have also emphasized the importance of ensuring basic financial control and having access to the necessary expertise before the introduction of an MTEF. Thus one commentator noted that "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).

The importance of local political support for the MTEF has also been emphasized. "In some countries, the MTEF has been effectively used to shape fiscal policy and strategic priorities; in others, it is merely a technical exercise that has little bearing on budget policy. In both types of countries, the procedures are similar, but the political input differs. An MTEF makes a difference only when it is invested with political support". "In sum, an MTEF is only as effective as economic circumstances and political leaders permit it to be. Inasmuch as it is still relatively new, the concept of an MTEF has not been adequately tested. If it lives up to the promise, MTEF may assist poor countries in using government resources to promote development and ease poverty, if it doesn't MTEF will join a long line of failed budget reforms" (Schick 2001a).

Others have suggested that the challenges and problems of implementation of an MTEF are more to do with the lack of local ownership and control of the reforms and the associated change management process. Thus one of the consultants who had been directly involved in the implementation of the MTEFs in Ghana and Tanzania believes that it is not the MTEF approach which is at fault, but the manner of its implementation which, in some cases at least, has involved:

- "The lack of a clear overall consistent framework for moving to a performance focus which covers all stages in the financial management system
- Unrealistically phased process for introducing these reforms
- Governments not being clearly in the driving seat with opportunities and resources to have independent advice on best practice

Using overly sophisticated IT solutions which are not appropriate to the environment or capacity of the governments"

In addition, the MTEF reforms have been implemented following the reductions in public spending and civil service wage bills. This may have had a negative effect on the morale and motivation of government employees, which in turn may have had adversely affected their ability to implement such complex reforms. This challenge has been widely recognized. For example, the Economic Commission for Africa stated that, "the structural adjustment reforms of the 1980s and the 1990s were accompanied by attempts to improve public sector performance, but there is widespread consensus that these attempts have largely failed, leaving little government capacity after the drastic downsizing during the early years of adjustment". One of the recommendations made by the Economic Commission for Africa was "an accelerated programme of improving pay and other incentives in the public sector" (Economic Commission for Africa, 2005).

The next section of this paper considers the actual experience of implementing MTEFs in the three sample countries. It considers the extent to which these reforms have been successful in achieving their main objectives of facilitating fiscal discipline and reallocating spending in line with agreed poverty reduction strategies.

(b) MTEF in Uganda

"In the early 1990s, Uganda's priority was to establish macroeconomic stability, following a lapse in fiscal discipline which resulted in high inflation" (Williamson, 2003). As a result the Government of Uganda introduced an MTEF largely on its own initiative.

Once some progress had been made towards a balanced budget, the MTEF was used to assist with the reallocation of Government resources towards poverty reducing expenditure, although the success on this measure is far from being clear (Bevan and Palomba, 2000).

"Uganda and South Africa are the only two cases where MTEFs were initiated independently of any donor-led operation. In Uganda, despite the proliferation of donors and aid programmes, the Ministry of Finance, Planning and Economic Development has continued to exercise strong leadership over the process and its subsequent evolution. The fact that, from an early stage, the MTEF was used as an umbrella into which other World Bank and donor-supported public expenditure management initiatives were incorporated was clearly significant in this regard" (Holmes and Evans, 2003). However, the World Bank participated in the reform and provided advice on an ad hoc basis (Le Houerou and Taliercio, 2002).

b.1 Fiscal stabilization

"The introduction of the medium-term expenditure framework (MTEF) has made it possible for the Government of Uganda to formulate a resource envelope for medium-term planning that is consistent with projected macroeconomic development. Most importantly, the MTEF also makes it possible for the Ministry of Finance, Planning, and Economic Development to project the size of different budget components (for example, wage, non-wage, or development) in different scenarios on an aggregate level. In this respect the MTEF is an important stabilizing fiscal factor" (World Bank, 2004c).

b.2 Increasing allocations to priority areas

The period over which the MTEF was introduced has certainly been associated with a move towards a balanced budget, but the extent to which the MTEF has been used to reallocate resources towards priority areas dealing with the problem of poverty remains unclear. At least in the early years of the reforms, this second objective did not appear to gain sufficient recognition, thus it was claimed that "until a few years ago, the MTEF was failing to deliver on its compositional prospectus" (Bevan and Palomba, 2000: 17). In addition, the establishment of the Poverty Action Fund alongside the MTEF may have played a large role in funding priority areas than the MTEF itself.

More recently, some commentators have been more optimistic in this regard:
"Over the five years to 2002 there have been major shifts in the size of budgeted expenditures and a shift in their composition towards priority PEAP [Poverty Eradication Action Plan] programmes. Initiatives such as the Medium Term Expenditure Framework (MTEF) and the Poverty Action Fund (PAF) have helped in this reorientation" (Williamson, 2003).

Others have been less certain, for example, "in the Ugandan case there is also some evidence that the MTEF has been associated with limited sectoral reallocation" (Le Houerou and Taliercio, 2002). Thus, for example, resources were said to have been directed to priority areas such as education.

However, there may still be significant problems with the budgetary allocation process in Uganda, which the introduction of the MTEF has not been able to overcome. Thus "throughout the last five years, no sector has seen a reduction in its MTEF allocation. There is now a danger that the budget process will be reduced to one where sectors focus on trying to solicit additional resources from the MFPED for the following year". In addition, "the situation is exacerbated by cuts in disbursements against operational budgets that are often experienced by ministries during the financial year" (Williamson, 2003: ix).

One research report claimed to "demonstrate that while this problem has not been fully resolved, it has still been possible for the Government of Uganda to deliver some major shifts in expenditure more or less according to plan. There has been a substantial and sustained increase in the share going to education; the share going to roads has also risen, but in a more volatile way" (Bevan and Palomba 2000: 17).

However, the same report pointed out that "successive budgets have seen a remarkable switch in the planned composition of spending towards the social sectors generally and those components believed to impact most on poverty reduction in particular. However, the crucial question is how these budgeted shifts get translated into actual expenditures" (Bevan and Palomba, 2000: 16).

The data appears to confirm the validity of this insight. There has been no increase, as a proportion of total expenditure, in the spending on education since 1997/98 or for health since 1995/96 (see table below). However, absolute funding rose in these two areas. The actual spending on education grew by over 50%, compared to an overall increase of recurrent expenditure of 35% over the period from 1994/95 to 2002/03. In addition, the actual spending in the two priority areas of education and health soared by USh134bn between 1997/98 and 1999/2000. The actual spending on the three non-priority areas of Public Administration, Security & Defense, and Law & Order also expanded by a total of USh147bn over the same period.

Table 1: Sectoral Composition of Ugandan Government Expenditure, 1994/95-2002/03 (Wage, non-wage, and domestic development expenditures)
Percent of total expenditure

	1994/95	**1995/96**	**1996/97**	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**
	Out-turn	Out-turn	Out-turn	Out-turn	Out-turn	Out-turn	Budget	Projected	Projected
Education	19.8	18.8	22.0	26.0	26.9	26.0	26.8	26.3	26.6
Health	8.0	9.9	7.2	6.6	6.7	6.3	7.6	8.4	10.0

Source: Bevan and Palomba, 2000

Note: Data provided in the 2004 Country Financial Accountability Assessment (World Bank, 2004b) indicates that the actual figures for 2002/03 were in line with the projected figures above, at 25.5% and 9.8% respectively.

"Even after the doubling in the share of Poverty Action Fund (PAF) spending in Uganda, for example, it still accounts for only one third of public spending, and the growth of PAF has not prevented increases in non-PAF priorities such as the main roads programme. Officials interviewed felt that PAF had protected poverty spending from being squeezed by expenditure on State House or Defense, though they acknowledged that one consequence was that some important programmes not protected by the PAF, including secondary education, had suffered from greater budget uncertainty" (Foster et al., 2002).

There has been some limited debate over the importance of having sound basic financial management in place before implementing sophisticated tools, such as MTEFs. In the case of Uganda, it has been suggested that the "implementation of an MTEF can provide an impetus to the building of the basics" (Holmes and Evans, 2003). It could be argued, however, that basic financial control could still benefit from substantial improvement in Uganda as, for example, "money lost in Government offices to corruption has averaged Ugandan Sh. 200bn per annum since 1993, equivalent to more than 15% of public expenditure over the period" (Forster and Mijumbi, 2002). The Auditor-General of Uganda stated, however, that this is a highly debated statistic, which does not constitute a credible estimate.

b.3 Conclusions

The Ugandan MTEF is now considered to be one of the best examples of the success of the initiative in Africa. It has been variously described as being maturing (Forster and Mijumbi, 2002) or "close to having a fully operational MTEF" (Le Houerou and Taliercio, 2002). In addition, it has been encapsulated in law, as the Budget Act 2001 requires a Medium Term Expenditure Framework (World Bank 2004b).

One of the reasons for the success of the Uganda MTEF in could have been the Government's public sector pay reform launched in 2001, which increased the wages of professional staff and reduced pay differentials between higher-level and middle-level civil servants (World Bank 2004c: 5). As a result, the number of professional accountants rose dramatically in the last decade. The current Auditor-General was the only accountant in the civil service a decade ago, and it is estimated that there is currently 100 accountants.

Another study of the MTEF concluded that, "the MTEF and ancillary policymaking instruments in Uganda have been very successful in delivering macroeconomic stability in an environment which has not been excessively turbulent, but has certainly posed some problems for macroeconomic management. It has been very successful in overseeing a substantial shift in expenditure composition, most notably in favour of education" (Bevan and Palomba, 2000: 44). Donor support of the Ugandan Shilling also assisted with the achievement of macro-economic stability.

The introduction of an MTEF has certainly been associated with improved macroeconomic stability in Uganda, although it is difficult to prove the causal relationship. However, this reform has not focused on shifting funds towards poverty reduction activities. All areas of expenditure benefited equally from increased absolute funding during the implementation of the MTEF. Education, which is one of the priority areas, grew marginally, but its share in the overall government expenditure remained unchanged over the period of five years ending in 2002/03.

(c) MTEF in Tanzania

In Tanzania, the World Bank initiated the MTEF in 1997 during its annual Public Expenditure Review exercise (World Bank, 2001). This process "played an important role in identifying a need for a more medium term approach to budgeting and subsequently in supporting its evolution (Holmes and Evans, 2003). In addition, its development was made a condition of the Programmatic Structural Adjustment Credit (Le Houerou and Taliercio, 2002). The first MTEF covered the three fiscal years from 1999/2000 to 2001/02 and it has been rolled forward to cover an additional year (Bird, 2003).

The Tanzanian MTEF process has also relied on considerable external assistance. During the 2001 PER/MTEF cycle, nine donors (UK, UNDP, EC, Denmark, Sweden, Switzerland, Japan, Norway and World Bank) financed a total of 16 studies commissioned by the Ministry of Finance. Donor support has, however, occurred within the framework of a clear vision and strong leadership from the Department of Budget in the Ministry of Finance. Nevertheless, the MTEF could have been introduced without the involvement of the international agencies. As a result, it has been regarded as a central element of the budget planning process. The Ministry of Finance recognized the need for a greater internalization of the MTEF management and a clearer separation of roles between donors and the Government. As a first step, during 2002/03, the PER Secretariat was planned to relocate in the Ministry of Finance (Bird, 2003).

The MTEF also benefited from a previous initiative, the Rolling Plan and Forward Budget (RPFB) introduced in 1992/93 which sought to strengthen linkages between development planning and the budget process following the phasing-out of the five-year development plans in the early 1990s. The RPFB allowed for capacity development in the Ministry of Finance and provided lessons on the development of the MTEF, despite its limited success and its strong focus on the development budget (Bird, 2003).

The Tanzanian MTEF consists of two stages:

- "Stage 1: Preparation of the Budget Guidelines. This is primarily a "top-down" process with the Policy Department in the Ministry of Finance taking lead responsibility for the development of the proposals and the determination of resource ceilings.
- "Stage 2: Ministries, departments and agencies are required to present their budget proposals in the form of detailed three-year forward budgets" (Bird 2003).

Although Tanzania is now considered to have one of the best -developed MTEFs in Africa (Le Houerou and Taliercio, 2002), the "parliamentary overview of expenditure policy is currently limited to an 'annual perspective of the budget'" (World Bank 2001: 11). The dissemination process of the MTEF has not been transparent due to the lack of a clearly identifiable MTEF document that is approved by the Government during the annual budgeting exercise (Bird, 2003). In addition, "full implementation of Performance Budgeting/MTEF methodology is likely to take several years and require long-term capacity building" (World Bank, 2001:15).

While the MTEF process has significantly improved since its introduction, there are still "certain areas of concern, in particular:

- Integration of donor assistance in the MTEF is still proving challenging due to its uncertainty, and in some cases government typically only had firm commitments for one year.
- The budget process itself shows little responsiveness to results, the focus is more on delivering inputs as defined in the Medium Term Expenditure Framework rather than measuring outputs" (World Bank and IMF 2004: 20)

c.1 Fiscal stabilization

The case for the MTEF delivering on its main target of fiscal stabilization is rather limited in Tanzania. "By the time that the MTEF was introduced, Tanzania had already made considerable progress towards fiscal stabilization and developing a realistic macroeconomic framework for budget planning. This was aided by the operation of a cash budget, which resulted in in-year corrections if the framework proved unrealistic" (Bird, 2003). A further study by the World Bank agreed and, whilst accepting that fiscal deficits in the post-MTEF periods were somewhat smaller, said that "the difference is not very significant when compared with the pre-MTEF period. In addition, the data provide no support for a link between the MTEF and reduced fiscal deficits" (Le Houerou and Taliercio, 2002).

c.2 Increasing allocations to priority areas

The World Bank study also provided a contradictory view on the extent to which the MTEF had helped to increase allocations to priority areas. Thus, it stated that the Tanzanian MTEF did "provide some limited support for the hypothesis that MTEFs are associated with reallocations of resources to government priorities" (Le Houerou and Taliercio, 2002). It then admitted that it was "not clear that the increased social share should be attributed to the MTEF."

The amount of money actually directed to the priority areas, especially to poverty reduction programmes, rose by 180% between 1998/99 and 2002/03. However, the amount of money spent on non-priority areas also increased by over 100% . However, in absolute terms, the increase for the non-priority areas of the budget was only TShs.232

billion, as against the increase of actual spending for priority areas, which almost doubled and stood at TShs.489 billion.

The following table shows the consistent growth over the years of the share of priority areas in the Government expenditures, despite the fact that the increase has been below the MTEF's or annual budgets' forecasts.

Table 2: Expenditure in priority sectors as a percentage of total expenditure by the Government of Tanzania

	ACTUAL	BUDGET
1998/99	35	
1999/00	35	42
2000/01	39	43
2001/02	46	52
2002/03	47	62

Source: Ministry of Finance, Tanzania (2004:3); Naschold and Fozzard (2002)

Note: Actual figures are calculated from data in table 1 (Ministry of Finance, Tanzania, 2004:3) and compared to the budget (computed from data in figure 4, (Naschold and Fozzard, 2002))

c.3 Conclusions

The Tanzanian MTEF is considered to be one of the most comprehensive in Africa (Le Houerou and Taliercio, 2002). But its success, as demonstrated above and measured against the support for fiscal balance, in promoting the reallocation of financial resources to finance poverty eradication programmes appears to be rather limited. Although spending in the priority poverty reducing areas seemed to have increased more than in other areas of the Government's budget, this increase has been relatively modest.

(d) MTEF in Ghana

In Ghana the introduction of an MTEF "was sponsored by the IMF, the World Bank and the British Department for International Development" (IDASA 2002). After some initial success, the approach is now still being used as the basis for annual budget setting process, but little attempt has been made to produce accurate, costed forecasts.

As in the case of Tanzania, the idea of the MTEF originated from the World Bank co-ordinated Public Expenditure Reviews (Anipa et al., 1999). "In October 1996, the World Bank agreed a Public Financial Management Technical Assistance Project, one of whose components was the MTEF" (Short, 2003). "Some preliminary work started in 1997, with the process starting in earnest in 1998" (Anipa et al, 1999: 18). Initially, all ministries used the MTEF in 1999 to prepare their expenditure estimates.

d.1 Role of consultants passing on approaches

An MTEF was developed in Malawi in 1995, and was first used for the development of the 1996/97 budget. It was then extended to all ministries over the next two years (Anipa et al., 1999). As early as 1998 the Malawian MTEF was highlighted as a case study in the World Bank's Handbook (World Bank, 1998).

At this stage, the Malawian reform experience was also being directly influential in Ghana where "a detailed report was prepared based on the experience of the MTEF approach in Malawi by the consultants who had supported the Malawi Government in the introduction of the MTEF" (Anipa et al., 1999: 17).

In June 2001, a case study of "Ghana's experience with the Medium Term Expenditure Framework was commissioned by the World Bank". This study, whilst noting that some challenges, concluded that the "MTEF process in Ghana has yielded some notable achievements" (Schick, 2001b).

In contrast, the 2001 field work for the Country Financial Accountability Assessment for Malawi found that there were "serious flaws in the operation of the MTEF… it has not lived up to expectations" and that the "first phase of the MTEF failed to address the problem of costing of activities" (World Bank, 2003b). Similar problems were subsequently discovered with the MTEF process in Ghana.

Thus, the MTEF approach was developed in Malawi and then exported to Ghana through the use of the same consultants before it had been demonstrated to be sustainable or operating effectively. Subsequently, problems developed with the MTEF in both countries.

d.2 Initial success

In the early years after implementation, the MTEF in Ghana was considered as a success:

"The major achievement in Ghana is that in the first year of implementation all Ministries were able to produce a three-year, integrated, broad-based (i.e. Government of Ghana and donor) budget, based on agreed objectives, outputs and activities. This has led to changes in the way ministries prepare their budget, by emphasizing their reason for existence and the outputs (i.e. performance) they are aiming to produce" (Anipa et al., 1999: 21).

The same study noted that a "recent DFID review of the MTEF process undertaken by a team local and foreign experts found that the implementation of the MTEF in Ghana to be extraordinary" (Anipa et al., 1999: 22).

In 2003, the success of the MTEF was still being emphasized by the World Bank, which claimed that:

"Its achievements to date are:

- Articulation of an aggregate fiscal framework for the budget, on a rolling three-year basis, determining the resources envelope for each year and the allocations between sectors.
- Preparation of line agencies budgets within a single capital and recurrent envelope including increased coverage of donor-funded expenditure.
- Improved review by ministries of their sector policies, encouraging them to cost their policies and enabling them to make the trade-off required if programs are to be sufficiently funded.
- Greater inclusion of performance related information in budget documents.
- A more meaningful relationship between running costs and program costs" (World Bank, 2004a: 13).

d.3 Recognition of the problems

However, the same document also noted that the MTEF was not actually managing to achieve its objectives:

"In reality the MTEF has as yet failed to solve many of the problems that it was designed to address. It has yet to change budget outcomes decisively. It provides volumes of data on activity input costs that the reader finds difficult to interpret and use in the context of determining spending priorities and making purchase and investment decisions. It requires simplification and adaptation to the core needs of Government of Ghana" (World Bank, 2004a: 13).

In addition, the plans as developed in the MTEF are not necessarily implemented as shown in the following table.

Table 2: Expenditure in priority sectors as a percentage of total expenditure by the Government of Tanzania

	1999-2001 MTEF	2000 Budget
Social services	31	29
Infrastructure	25	16
General administration	22	35

Source: Le Houerou and Taliercio (2002)

Further research published in 2003 also reported that:

"a second MTEF cycle should have started for the 2002 budget, but this did not happen… there is no evidence of the detailed sector expenditure review process having taken place at the start of each of the two MTEF cycles so far" (Short, 2003).

During the HIPC assessment undertaken early in 2004, it was noticed that only lip service was being paid to the development of fully-costed three-year budgetary projections:

"the figures for the latter two years appear to have been derived by applying uniform growth factors— Government of Ghana and donor-financed spending respectively - to the budgeted expenditure for the different functional areas and the different ministries, departments and agencies (MDAs) for the first year. The uniform growth factors implicit in the 2004 budget… are:

Growth factors applied to the 2004 MTEF

	04 ⇒ 05	05 ⇒ 06
Government of Ghana-financed	14.2 %	14.0 %
Donor-financed	3.9 %	7.3 %

Source: Government of Ghana budget documents

The factors applied are derived from the Government of Ghana's growth scenario. However, this approach does not reflect a detailed costing exercise for ongoing and planned programs nor does it reflect any changes in sectoral prioritization based on the Ghana Poverty Reduction Strategy" (World Bank and IMF, 2004a: 20).

d.4 Conclusion

The introduction of the MTEF in Ghana appears to be an example of consultants and aid agencies encouraging the adoption of multi-year budgeting based on the limited experience in similar countries. This reform may have been over-ambitious as in recent years Ghana has been struggling to implement its agreed annual budget, as this assessment written in 2002 demonstrates:

"There have been serious complaints by MDAs about the failure of government to release funds as approved in the budget. Even the ministries do not know why certain MDAs get all their approved funds while others do not" (IDASA 2002).

In addition, some other basic controls over its financial management, such as bank reconciliation and prompt publication of audited accounts have not necessarily been operating as required. As a result, the following warning may be relevant:

"the MTEF can only achieve improved fiscal discipline, accountability and open and good governance if the related democratic and public sector management reforms, such as budget planning and preparation, budget implementation, accounting as well as monitoring/audit and evaluation, are in place" (IDASA, 2002).

One of the key reasons for the weaknesses in public sector financial management in Ghana is the migration of professional staff to the private sector. According to the World Bank, the Government will have to raise salary levels "to attract and retain skilled staff, which in the short run might entail an increase in the total wage bill" (World Bank, 2004a: 7).

III. INTEGRATED FINANCIAL INFORMATION SYSTEMS (IFMIS)

(a) Introduction

Views on the role and significance of IT in African economic development may sometimes be over optimistic. A World Bank publication stated that "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" (World Bank, 2000). This reference may have been intended to be somewhat rhetorical, but it does show the enthusiasm with which this subject may be approached. As a result, consultants and other advisors of governments in Africa may have some responsibility to temper this enthusiasm and to point out the very real and significant risks associated with the introduction of modern information technology.

"'Integrated financial management system' (IFMS) is the generic term that has emerged to describe computerized government financial management systems. The World Bank's 'Treasury Reference Model' has a concept of core and non-core components:

- Core components include the general ledger, budget management, agency budget execution and cash management.
- Non-core components include budget preparation, debt management, payroll and tax administration, and a number of other possible areas.

Thus, an IFMS is a budget management and accounting system for a government, with other functions being included as appropriate for a specific country" (ACCA International Public Sector Bulletin, 2004: 4).

Many people, especially in developing countries believe that all industrialized countries have implemented the IFMIS. However, in the UK for example, each ministry, local government or other public sector organization has its own financial information system and a wide variety of different software and computer platforms are used. In addition, the UK public sector has experienced frequent problems with the introduction of new computer systems. For instance, an investigation carried out in April 2005 by the parliamentary intelligence and security committee, has found that the computer upgrade in the security service MI5 suffered from persistent problems, limiting the department's capabilities (Public Finance, 14 April 2005). The French Government is also struggling to implement the IFMIS across the central offices of Government ministries with a plan to connect the regional outposts.

At a World Bank presentation in late 2003, Bill Dorotinsky provided a useful overview of the Bank's experience of providing over $1billion to finance Integrated Financial Management Information System (IFMIS) projects over the last decade. The average time for the completion was over nine years for African projects and the average cost of each of the 34 projects worldwide was $12.3 million (Dorotinsky, 2003). The UK Government's Department for International Development has provided similar figures from their experience, with a total cost of between $10 and $20 million and a completion period of at least five years (Department for International Development, 2001a).

If success is defined on the basis of budget, time and deliverables, 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. In only 6% of cases were these projects considered to be sustainable and this figure was lower for Africa than other regions (Dorotinsky, 2003).

In a similar vein, the UK Government's DFID has also commented more generally that:

"It may not be worth developing an FMIS if there is a lack of political or bureaucratic will to use the budget as the authoritative tool in resource allocation or to use the output of the FMIS to hold people to account. At an absolute minimum, the Ministry of Finance/Accountant General's Department must be willing and able to substantially influence the accounting operations of spending ministries" (DFID, 2001a).

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)

The following table provides an assessment undertaken in 2002 from an African survey of IFMIS projects, including the three countries reviewed in this paper.

Table 4: Comparative Assessment of IFMIS Reforms

	Ghana	**Tanzania**	**Uganda**
Commitment to reforms	+	++	++
Identification of functional reform priorities	++	+++	++
Adequacy of roll-out plan and sequencing of reforms	+	+++	+
Adequacy of technical solution	+	+++	n/a
Adequacy of capacity building activities	+++	++	
Realism of cost estimates	+	+	+

\+ weak ++ medium +++ strong/successful

Source: World Bank, 2002

Table 4 demonstrates the significant variation in the adequacy of the preparation for the significant risks involved when investing in large scale IT schemes. It also suggests that funding was an issue for these IFMIS reforms, which may evidence that effective change management had not been comprehensively considered.

The governments of each of the three countries under review adopted a private sector IT package for their main financial systems. In the case of Ghana and Uganda, it was the sophisticated Oracle Financials, whereas Tanzania used the Epicor package. Each of these systems required significant customization in order to provide key public sector systems such as budgetary control. In contrast, relatively simple IT systems designed specifically for the public sector are available, for example, FreeBalance that is being implemented in Sierra Leone and the southern region of Sudan. Such systems are more robust and there is no risk of additional costs associated with customization when future upgrades are being implemented.

In addition to the above considerations is the issue of the adequacy of the remuneration packages, especially for IT and professional accounting staff, who are scarce in African governments. A World Bank study of the introduction of an IFMIS in five African countries recommended that a:

"careful evaluation of the salaries and packages for the relevant staff in both public and private sector should be done including an assessment of the implications of improved salaries for the broader public sector environment. Such a strategy would aim at striking a balance between the need to attract/retain qualified staff and the financial and social implications of better wages for specific employees" (World Bank, 2002).

This analyzes the introduction of IFMIS in each of the three sample countries, with a particular consideration given to the timetable, the impetus for implementation as well as the scope of the schemes in each country and their relative level of success to date.

(b) IFMIS in Tanzania

The international financial institutions, as in other countries, have emphasized the importance of the IFMIS project in Tanzania. For example, in 2001 the World Bank stated that the IFMIS was "at the core of the Ministry's reform programme aimed at greater financial control and accountability" (World Bank, 2001).

However, in contrast to other countries, the Tanzanian reforms have been introduced on a modular and step-by-step basis:

"Tanzania … appears to have adopted a more prudent approach… the initial scope of the reform agenda was less ambitious and focused on specific areas of public finance identified as key priorities. In addition, the implementation focused primarily on a few key institutions (Accountant General and pilot ministries in Tanzania…), which were considered critical for improving public finance. Only after a consolidation phase, the implementation continued in other areas of government. Despite delays and setbacks…, the reform process has been successful, resulting in visible public finance improvements" (World Bank, 2002).

In addition, the costs involved in implementing the Tanzanian IFMIS have been relatively modest, totaling an estimated US$5million (World Bank, 2002). The main funding institutions, SIDA and NORAD, may be the ones promoting the adoption of this prudent approach (Andersson and Isaksen, 2002).

b.1 Roll-out Timetable

Prior to the introduction of the IFMIS, a manual central payment system was in use since 1996. The system was then computerized on a pilot basis initially in four ministries, and was subsequently extended to another 10 ministries in 1997 (Andersson and Isaksen, 2002).

Building on this experience, the pilot IFMIS was implemented in July 1998 (World Bank, 2001), resulting in the automation of 10 pilot ministries, departments and agencies. By the end of 1998, the core aspects of the system were functioning well, but the capture of revenue data was partial, reconciliation of central bank accounts difficult and the coverage of the system far from complete (as it excludes, for example, development funds and expenditure incurred by organizations based outside the capital city, Dar es Salaam). The IFMIS was extended the following financial year to include the other central government ministries, departments and agencies and the system was linked to the central served located in the Accountant General's Office. The information on the Office of the President and the Ministry of Defense has not been put online for reasons of national security and confidentiality (World Bank and IMF, 2004).

Tanzania also adopted a new payroll system in April 2000, but it was not integrated into the IFMIS, although "it is planned that this will happen in due course" (World Bank, 2001). In addition, "revenue is not yet included on the IFMIS system in any form, though it is intended for this to be the case from 1st July 2001" (World Bank, 2001). Initially, the IFMIS covered only non-pay revenue expenditure of the capital city, and it is still the case).

An independent evaluation carried out in 2000 concluded that "by June 2000, an IFMIS had been installed, with a common chart of accounts for budgeting and accounting purposes, and incorporating a central payments system and control over expenditure commitments. The system of accounting for public debt has been improved, and bank accounts have been rationalized". However, "whilst the overall results point to a progressive improvement in financial management in Government of Tanzania, the potential benefits of the IFMIS have yet to be fully realized, and a further consolidation phase will be required before the project is complete" (Andersson and Isaksen, 2002).

In 2001, the IFMIS was rolled-out to the sub-treasuries in each region. There were initially 19, but a further two were created at a later stage. Each region was provided with a local stand-alone computer that was supposed to be linked to the central server in

Dar-es-Salaam. All payment documentation is submitted to the relevant sub-treasury, which would input the data and transfer it to the central server. However, due to problems at the initial stage, data was transmitted manually to the capital city "because of a failure to obtain or maintain telephone lines, and hardware specification problems" (World Bank 2001). Two years later, these problems had been partially overcome and 14 of the 20 regions went on line (Bird, 2003). But this situation was later reversed.

In July 2002, the IFMIS was piloted in 28 of the more than 130 local governments (Bird, 2003). An additional 42 local governments were to be connected during 2004/05 (World Bank and IMF, 2004). However, full coverage will not be achieved in the coming three years, and it will be contingent upon the availability of funds. The local authorities use a modified version of the central government IFMIS (World Bank and IMF, 2004).

So far, as from July 2004, the IFMIS was rolled out to each of the regional administrative secretaries, which in turn were connected to their local sub-treasury (Ministry of Finance, Tanzania, 2005).

Note on the current position (March 2005)

Based on the information obtained during a visit to Dar-es-Salaam in March 2005, and discussions held with several Government officials including the Accountant General, the IFMIS currently connects only 40 ministries, departments and agencies based in Dar-es-Salaam. The following entities and systems are not integrated with or linked electronically to the central IFMIS in the Accountant General's Office:

- The 21 regional sub-treasuries and regional secretaries
- The ministries which are based in the political capital, Dodoma
- The Government's integrated payroll and human resources system
- The Tanzanian Revenue Authority's computer systems.

As a result, summary information on payments and receipts by these entities is entered manually into the IFMIS, with the ensuing risks of errors. In addition, the summary and detailed information are not available to the chief accountants and other officials based in Dar es Salaam. All budgetary data has to be entered manually into the IFMIS, after that the draft budget is agreed by the Ministry of Finance. This is in spite of the fact that most entity budgets have been developed on spreadsheets or other computer application softwares. In addition, the data input is centralized at the Accountant General's Office, and hence the volume of traffic on the Wide Area Network (WAN) at key times during the year is slowing down the response times of the remote locations.

b.2 Disadvantages of a modular approach

Despite the apparent success, there have been several disadvantages of adopting the step-by-step approach adopted for the introduction of the IFMIS in Tanzania. Thus earlier in the programme, and in connection with the current situation, the World Bank noted that:

"Because of the incomplete coverage of the IFMIS system, the data building up the accounts is drawn from a large number of sources and not an integrated accounting system. This clearly throws some doubt on the reliability and completeness of the information. A number of systems are not yet automated including external finance and the policy analysis division" (World Bank 2001: 30)

Also, during the initial phase, enough attention was not given to ensure the continuity of service. However, generators have now been installed at the Accountant General's Office and in the regions. In addition, a disaster recovery site is currently being developed (Ministry of Finance, Tanzania, 2005).

The IFMIS also faces a number of other risks, for example, the lack of direct budgetary control over commitments and expenditure. While the IFMIS controls expenditure against releases from the Exchequer, it cannot do so directly against the relevant budgetary ceiling. Accounting Officers can therefore allow expenditure in excess of the relevant budget head, thus informally diverting funds from the priority areas for which they were originally intended (World Bank, 2001). Furthermore, as the Epicor software package, was originally developed for commercial companies, some modules had to be customized, for example, for budgeting and committing funds. This resulted in additional government expenditure for re-programming and regular update of the software.

b.3 Conclusions

In contrast to the benefits of a moderate and modular approach, it has been argued that the introduction of the IFMIS alongside the adoption of an MTEF has also some advantages, as noted by a researcher:

"An important feature of the Tanzanian experience is that an integrated financial management system (IFMIS) has been introduced concurrently with the MTEF reforms. This has meant that improvements in macroeconomic management and budget planning have been complemented by measures to strengthen budget execution and accountability. IFMIS has also provided more timely and accurate information on budget implementation, allowing this to be fed back into rolling forward of the MTEF" (Bird, 2003).

Overall, the Tanzanian IFMIS reform is considered as a success. The IFMIS has provided the Government of Tanzania with the capacity to produce timely central government fiscal reports (World Bank and IMF, 2004: 26). Internal budget reports are usually available within two weeks before the end of each month. In addition, commitment control has been greatly enhanced and payments generally disbursed in a timely manner to suppliers of goods or services.

However, there are still some problems, for instance:

"The successes and failures of the IFMIS as a control over expenditure is illustrated by the arrears situation as at 31st December 2000 as supplied to us by the Accountant

General from returns obtained from Accounting Officers." Overall, the level of payment arrears has been reduced, despite possible under-recordings, hence the observation that the "reduction of the arrears of goods and services appears generally to be as a result of the introduction of the commitment system" (World Bank, 2001).

Finally, the IFMIS has been implemented under the strict control of the Accountant General and the payments system is still relatively centralized. Whilst financial control has been strengthened, there are disadvantages related to the issue of ownership and the level of expertise available in the line ministries in the use of IFMIS information to improve the financial management of the ministries. The IFMIS allows for the preparation of detailed reports on costs by activity and programme, but still "there is a problem of limited capacity in the Ministry of Finance and MDAs to specify and analyze IFMIS reports" (Bird, 2003).

(c) IFMIS in Uganda

In early 2001, the Government of Uganda initiated an ambitious project to implement a comprehensive integrated financial management information system (IFMIS). As the Accountant General stated in early 2004, "The IFMIS is one of the most ambitious interventions the Government of Uganda has embarked upon recently" (ESAAG, 2003). So far the project appears to be reasonably on course with the pilot sites going live in February 2004, only a year behind the original schedule (World Bank, 2004b).

This project followed on from a number of stand-alone computerized systems, which had been installed in various Government Ministries, Agencies and Local Governments in the past few years (Ministry of Finance, Uganda, 2005)

The IFMIS in Uganda is planned to, eventually after nine to ten years, cover all the major Government business processes including:

- Budgeting, Accounting and Reporting
- Purchasing
- Payments / Payables
- Revenue Management
- Commitment Accounting
- Cash Management
- Debt Management
- Fixed Assets and Fleet Management
- Inventory/Stock Control

It is also planned that the system will interface with other systems such as the Integrated Personnel and Payroll system, the Government's revenue systems and Bank of Uganda systems (Ministry of Finance, Uganda, 2005).

c.1 Implementation timetable

A team of consultants supported the Accountant General in undertaking a study finalizing the specification for the IFMIS in March 2002. The procurement and evaluation process was completed in February 2003 with the contract awarded for the provision of a turnkey solution including hardware, application software, a Wide Area Network and supporting training and change management (World Bank, 2004b).

The project has been planned in two main phases, the first, covering the 17 central government ministries and 10 of the larger local governments, is being funded by the World Bank (World Bank, 2004b). The second phase, due to start in July 2005, will be more ambitious, extending the system to the remaining central government agencies and local governments. Funding has yet to be agreed for this stage (World Bank, 2004c).

c.2 Associated risks

Whilst funding the first phase of the project, the World Bank appears to be rather critical of the fact that a large comprehensive approach has been adopted. In its main report on the 2004 Country Integrated Financial Assessment, the World Bank commented that:

- "The IFMIS is highly complex, sophisticated, and expensive. Having chosen this route, the Government of Uganda must overcome a number of major challenges to fully realize the benefits of the system, while ensuring that security is not compromised. From an accounting and financial reporting perspective, failure to address specific issues relating to the sustainability, functionality, and extension of the system are liable to result in higher rather than lower levels of fiduciary risk. In particular there is a need to ensure that: either internally or externally there is sufficient capacity to manage the ongoing implementation process
- funds are available for the maintenance of the system
- government can retain staff at all levels who have the capacity to utilize the system effectively
- the coverage of the system is comprehensive, and
- funding is available to facilitate any future rollout"

(World Bank, 2004c)

Furthermore, the associated Country Financial Accountability Assessment reported the following risk:

"Should the IFMIS fail, there is no current backup at the moment other than the continued use of existing systems in parallel" (World Bank, 2004b).

c.3 Capacity

The project has been associated with considerable capacity building in the Ministry of Finance. The first professional accountant joined the Ministry in 1994. In 2001 10 professional accountants were hired to assist with the IFMIS and other projects. By early 2004, there were over 30 professionally qualified accountants in the Accountant General's Office (World Bank, 2004b). In addition, 20 graduate interns were also recruited to assist with the IFMIS project (Ministry of Finance, Uganda, 2005).

c.4 Conclusions

Uganda is at the pilot stage of a large and complex project to provide an integrated computer platform and financial system for the whole of central and local government. So far, the project has suffered only a limited delay relative to the original yearly timetable. However, the possibility that the country would not achieve the benefits from the investment, estimated to be around $30million, is high, unless all the inherent risks are regularly addressed, particularly regarding the provision of financial support.

(d) IFMIS in Ghana

The introduction of an ambitious and comprehensive IFMIS in Ghana was launched at about the same time as the one in Tanzania, but has been significantly less successful (World Bank, 2002). Implementation started in 1996 with a planned 'pilot' phase to last until 2001 at a cost of $15 million (World Bank, 2002). However, as the World Bank has noted, "the project has experienced numerous delays over a period of approximately six years of implementation and little tangible output" (World Bank, 2004a).

There are five planned aspects to the project:

- Accounts receivable
- Accounts payable
- General ledger
- Cash management, and
- Budget execution (World Bank, 2004a).

The project "is based on state-of-the-art IT technology (i.e. Oracle Financials) and will cover the entire central government, including its decentralized entities. Under the program, about 2,000 workstations will be installed and integrated into one network. Several thousand public sector employees will be trained to ensure compliance with the new system (World Bank, 2002).

"Ghana has adopted a far-reaching approach which is based on a comprehensive needs assessment. In the Ghana reform, significant investments are made to upgrade the accounting and IT skills in the public sector and to institutionalize the new FMS in public sector operations. Almost 5,000 staff will benefit from the training and capacity building activities" (World Bank, 2002).

d.1 Implementation timetable

The pilot phase, initially planned to be undertaken during 1996-2001, was supposed to include the introduction of an integrated budget and expenditure management system in the Ministry of Finance, the Controller and Accountant General's Department, and six other key ministries (World Bank, 2002).

"While the budget preparation component… took off as planned, the budget execution and expenditure management component encountered design and implementation problems, which resulted in substantial delays". In addition, "the project had to be restructured at the mid-term review to adjust the overly ambitious scope and implementation schedule to a more reasonable level" (World Bank, 2002).

At present, only the general ledger and accounts payable functions have been implemented and even here, they are still working in parallel with existing systems at only the two core institutions, the Ministry of Finance and the Accountant General's Office. As a result, according to the World Bank, "implementation at this point in time is very limited in relation to project objectives" (World Bank, 2004a).

d.2 Reasons for the problems

Many reasons have been put forward for the problems associated with the implementation of the IFMIS in Ghana. "Rapid implementation of the system has been constrained by significant technical, institutional and capability barriers. Most importantly… ownership and drive for the project have been constrained by a lack of qualified staff" (World Bank, 2004a). However, the over-riding reason appears to be the complexity of the initial design, which included a large pilot and multiple users:

"In Ghana the FMS reform has been substantially delayed because of numerous implementation difficulties. It became apparent that the initial reform agenda and the underlying timeframes were too ambitious. Consequently, the FMS reform agenda had to be scaled down significantly" (World Bank, 2002).

In addition and perhaps because of the other problems, there has been some opposition to the project, and hence the challenge of "dealing effectively with resistance to implement it" (World Bank, 2004a).

"Another indicator is the gap between formal and informal rules in public finance. The commitment for change is questionable if the gap is too large. If existing rules are ignored or manipulated by powerful interest groups, it is difficult to imagine that this behaviour will fundamentally change with a new FMS, which is based on compliance with formal rules. In the Ghana case, the government's unwillingness to address this problem had been well-established in prior analytical work and should have been an early sign to question government's commitment to change" (World Bank, 2002).

d.3 Conclusions

The Ghana case demonstrates the very substantial costs involved in implementing a comprehensive IFMIS project. In addition to the $15 million cost of the pilot project, it was initially "estimated that the total cost of operating an integrated FMS for the government was between US$1 and US$3 million annually" (World Bank, 2002). "The operating cost for the WAN that will distribute the FMS to the entire central government is estimated at US$800,000". Part of these costs also includes "key staff [who] are being paid outside the public sector salary structure" (World Bank, 2002).

These are long-term costs that will put a heavy burden on the already strained financial resources of the Government and demonstrate the substantial financial risks that are involved with the implementation of an IFMIS. Thus, careful initial planning is required to ensure that the benefits of the system will actually be achieved and that all significant risks to the implementation process are eliminated or, at least, reduced to an acceptable level.

In addition, the Ghanaian experience suggests two other major lessons:

"FMS reforms should be divided up into self-contained modules. This is one of the key lessons from the Ghana experience where the high interdependency of the various components and sub-components has created significant implementation problems. A modular approach would allow a focus changes that become necessary during project implementation on the specific module. The repercussions on the remaining project would be limited even in case of delays or other difficulties with one module" (World Bank, 2002).

"If the proposal entails the introduction of a complex MTEF-based budget process, like in Ghana, the advice would be to focus initially on budget execution and to streamline the accounting, cash management, and commitment control system before fundamentally overhauling the budget system" (World Bank, 2002).

Despite the significant problems and delays which have been encountered, and perhaps because of the huge investments that have already been made in this project, the Government of Ghana announced in 2004:
"that the project is to be completed under new project governance, management, own funding and contractual arrangements" (World Bank, 2004a).

IV. DISCUSSION AND CONCLUSIONS

This paper has reviewed the publicly available literature on the implementation of two types of large-scale public sector financial management reforms in a sample of three African countries. These reforms are at various stages of implementation, but in every case there are still significant risks, which will have to be overcome if the full benefits of the significant investments are to be achieved.

In each country, the presence of large and unsustainable government debt means that the relationship between public sector officials and the World Bank and other aid agencies is not an equal one. There must be a temptation for government officials to accept somewhat uncritically the recommendations provided by the international financial institutions, as a condition for receiving much needed international assistance and debt relief. The record of previous reform initiatives is, however, a warning that current advice from the international aid agencies should not necessarily be accepted uncritically. There are many other examples of reforms heavily promoted by aid agencies and international consultants, which with time, proved to be either mistakes or to incur significant additional costs. As the American academic Wildavsky pointed out, "the corridors of power are littered with the bodies of failed reforms". These include, for example:

- The introduction of Programme and Performance Budgeting in several developing countries was an idea that was developed in a few industrialized countries, promoted by consultants and the financial institutions in developing countries, and consequently failed in both regions (Dean, 1989).

- "In the 1980s, traditional World Bank project-based lending was replaced by a Public Investment Program (PIP) approach, an instrument that the Bank actively promoted. One unfortunate consequence of PIPs was their perpetuation of the dual budget, which may well be the single most important culprit in the failure to link planning, policy and budgeting, and poor budgetary outcomes" (Lienert and Feridoun, 2001: 9).

- In the early 1990s, facing runaway inflation and problems related to budgetary discipline, and encouraged by the IMF, several governments introduced the so-called "cash budget," in which government domestic spending is limited to domestic revenue, leaving no room for excess spending. It was only several years later that the adverse consequences of this approach became clear:

  "after some initial success in reducing hyperinflation, the cash budget has largely failed to keep inflation at low levels, created a false sense of fiscal security, and distracted policymakers from addressing the fundamental issue of fiscal discipline. More important, it has had a deeply pernicious effect on the quality of service delivery to the poor" (Dinh et al, 2002: 10).

- Fees for children to attend primary school and people to access basic health care services were introduced as part of the IMF and World Bank structural adjustment programmes in the 1980's. In recent years, these fees have been abolished in many countries and this has led to a significant increase in the rate of primary school enrolment and use of health facilities.

As the American academic Schick has commented:

"Budget innovations germinate in rich countries and before they have been fully assessed are exported to poor ones. The typical "export" is an innovation that has been tried in a few countries but has not yet been assimilated into standard budget practice. Many times, the novel practice has not yet even been fully implemented in the country of origin. Moreover, avant-garde methods are transplanted with little or no consideration of the recipient country's needs or capabilities, and without assessing its use of standard budget practices" (Schick 2001a).

This problem is gaining increasing recognition such that the Report of the Africa Commission (Africa Commission 2005: 57) observed that:

"History has shown that development does not work if it is driven from the outside. Regardless of how well-intentioned outside donors may be, they will never fully understand what Africa requires."

A recent Department for International Development (UK) publication also emphasized the importance of enabling genuine local government leadership (Department for International Development, 2005: 2). The Economic Commission for Africa also noted recently that "only a long-term, carefully thought-out and sustained effort, tailored to each country can succeed" (Economic Commission for Africa, 2005). Unfortunately this is a lesson that may still have to be learnt as "reforms drawn from developed country experience continue to be espoused even in the face of substantial evidence that they are not working" (Minogue, 2000).

IV.1 The attraction and risks of MTEF and IFMIS

MTEFs and IFMISs appear to be very attractive propositions. They appear to provide significant opportunities in addressing the challenges faced by the administrations of many African governments. They also appear to constitute key tools for achieving the main objectives of the World Bank and other agencies, which are a balanced, or at least fiscally sustainable, budget and the re-direction of government spending towards poverty eradication activities.

In addition, they may be useful to stimulate further reforms. According to a consultant who has an extensive experience in Africa, the introduction of an IFMIS could give consultants "far more leverage for change than most other types of intervention".

The experience to-date with these reforms, however, does not suggest that they have been particularly successful in achieving these objectives. The introduction of an MTEF is linked to macro-economic stability, but it is difficult to determine the causality relationship between the MTEF and a balanced budget or the wider economic benefits. Information from the World Bank suggests that 94% of IFMIS projects may not be sustainable – a gloomy prospect for the World Bank investments estimated at over $1billion during the last decade (Dorotinsky, 2003).

On the subject of MTEFs, an Africa Regional Working Paper of the World Bank provided the following conclusion on the preliminary lessons:

"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 World Bank Africa Regional Working Paper provided the following lessons on risk management when implementing an IFMIS:

"*Don't fall in love with IT*"—to effectively reform public financial management, it is critical to identify and focus on the systemic and institutional weaknesses of the existing system of public finance. A reform process typically entails complex technical, procedural, institutional, and behavioral adjustments.

"*Think small*"—a well-focused incremental approach to FMS reform is likely to be more successful. The priorities of the reform agenda should be carefully determined.
It should focus on areas likely to trigger the intended systemic and institutional changes. At the center stage should be the transformation of the existing budget execution process" (World Bank, 2002).

IV.2 Further research needed

Further research is, however, needed to determine the extent to which the introduction of an MTEF or IFMIS can be successfully used to improve the effective use of public sector resources whilst maintaining the principles of universality, equity and accountability. Views on the relative success of the MTEF approach or IFMIS type reforms, at least in the published media as reviewed in this paper, are varied. Research could be undertaken to ascertain the views of practitioners in the relevant countries based on the assessment of the actual success of the reforms, rather than to rely on consultants, many of whom are directly involved in the implementation of these reforms. Countries have also registered various results in terms of successful introduction of MTEFs or IFMISs. Thus, further research also is required to identify the key criteria to gauge the success of this type of reforms. In addition, training needs for accountants and other practitioners should be addressed in order to ensure adequately equipped human resources to deal with such reforms.

IV.3 Get the basics right

It may be more effective to directly target current weaknesses in public sector financial management and accountability, rather than introducing large-scale reform initiatives such an MTEF or an IFMIS in the hope that they will provide an appropriate framework to address such weaknesses. As Schick indicated "we need to get the basics right" or to recall another famous saying "small is beautiful". Even in the event of large-scale reforms that have been considered in this paper are introduced, the basics of financial control are still required to be addressed.

The first recommendation of a study on the experience of eight, mainly African countries, in implementing an MTEF stated:

“Build the basics, particularly around basic budget discipline, to support MTEF... Where this is not feasible, high priority must be given to putting the basics in place as part of implementation by the careful sequencing of reforms. The demands of the MTEF must be compatible with the existing state of public expenditure management in the country – the weaker the basics the lighter the demands” (Holmes and Evans, 2003: 35).

The World Bank study of the implementation of MTEFs in Africa provided the same recommendation to ensure financial control for the sound management of public expenditure:

“The MTEF should be seen as a complement to, not a substitute for, basic budgetary management reform. Before launching an MTEF reform a comprehensive and detailed diagnosis of the most important PEM problems should be prepared” (Le Houerou and Taliercio, 2002: 28).

In a study of budget management in Anglophone Africa, the IMF again emphasized the importance of basic financial control:

“care needs to be exercised to avoid a “high-technology” approach, especially if “fundamentals” are lacking. For example, developing IMFISs or MTEFs should not proceed until countries rectify inadequate accounting practices (e.g., where accounts are not reconciled, resulting in unreliable fiscal data)” (Lienert and Feridoun, 2001: 22).

In addition, Schick has provided the following warning and sensible observation:

"Despite the impulse to be at the cutting edge of budget innovation, many poor countries fall short in basic budget practices. Budget data are inaccurate or untimely, actual spending deviates significantly from authorized levels, budgeted activities are not carried out, the budget is rife with special funds and off-the-books transactions, and the hidden deficit is significantly larger than the reported one. Some critics have concluded that poor countries are retarded [sic] because they violate accepted budget rules. Their message is: if you behave like developed countries, you also would be developed. In fact, however, the reverse may be equally valid: poor countries are prone to mismanagement because they are poor. Instability and severe shortfalls in public resources introduce pathologies which are the effects not the causes of underdevelopment” (Schick, 2001a).

IV.4 Public sector capacity weakened by structural adjustment

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.

In addition, the lessons that can be drawn from recent reform experience are more widespread as indicated by the conclusions of an IMF study of this subject:

"It is clear that the international community has influenced public expenditure management systems considerably. Some of these influences have dissipated over time. Others are becoming the new "fashions" for reform. As general lessons from the past, it is worth noting that:

a. Technical assistance programs were not always fully institutionalized;
b. There was often weak political support for implementing public expenditure management reforms;
c. Insufficient training was given to local civil servants;
d. There was persistently weak implementation capacity (skilled civil servants quit for higher salaries);
e. Insufficient domestic budget provision were provided to maintain information systems (especially computers) once foreign financing was withdrawn;
f. Adverse political developments, including military coups and civil wars; and more recently
g. AIDS-related deaths of trained staff directly affect public expenditure management capacity" (Lienert and Feridoun, 2001: 11).

IV.5 Conclusions

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.

ANNEX ACQUIRING AN INTEGRATED FINANCIAL MANAGEMENT SYSTEM

by Michael Parry[2]

(Originally published in the ACCA monthly magazine on Accounting & Business of December 2004 and February 2005.)

Within your country you are the senior official with responsibility for government accounting, perhaps with the title of accountant-general. Your country is one described as a low income or emerging economy - for example in Africa, Asia or the former Soviet Union. Your present accounting systems make use of computers, but with a mixture of systems which have been developed over the years. You have decided that you want to acquire a new Integrated Financial Management System (IFMS) to replace your existing treasury management systems and you want to know where to begin.

Before even starting the acquisition process the fundamental question needs to be asked - why acquire new financial management systems at all? The private sector drivers for change - cost saving and gaining a competitive advantage - work differently for governments. In many countries, public financial management has traditionally meant ensuring expenditure is kept within the budget and that such expenditure complies with the financial rules. Concepts of financial management as an information system to improve the efficiency and effectiveness of government, provide transparency, ensure accountability and control corruption are quite new. Traditional accounting systems are not geared to these new objectives, hence reforming public financial management is likely to be a requirement for various forms of external support. In such situations, implementation of an IFMS provides the essential infrastructure for the required improvements in public financial management.

However, you should also be aware of the downside of such an IFMS acquisition:

- acquiring an IFMS is not a quick fix. It is likely to take years to implement fully and cost millions of dollars
- during this period other reforms may be delayed waiting for the new system to be implemented
- a new IFMS is not in itself improved financial management. It is an information tool that can help achieve the desired reforms
- an IFMS implementation can fail or, more commonly, may not realise in full the expectations from the system
- to realise the benefits from the IFMS, surrounding systems, financial rules and institutional structures will have to change

[2] Michael Parry is chairman of International Management Consultants Limited (IMCL), responsible for supervising projects across four continents, as well as speaking regularly at international conferences. He has been financial management adviser to the Government of Nepal and participated in projects to improve financial management in countries in Europe, Asia, Africa and the Pacific.

- sustaining an IFMS is likely to place new demands on government for technical support staff and ongoing financing, e.g. licence fees.

Acquiring an IFMS is not a decision to be taken lightly. It requires careful consideration, and a decision to proceed should have high-level government support and commitment. Furthermore, an IFMS is a major project, and as such requires a structured project management approach. The UK Government PRINCE (PRojects IN Controlled Environments), version 2, is non-proprietary and one of the most widely used methodologies.
However, if after careful evaluation a decision to acquire an IFMS is taken, then what next? There are six stages to the process:

Stage 1 - Plan for the IFMS
Stage 2 - Identify funding
Stage 3 - Define user requirements
Stage 4 - The bidding process
Stage 5 - The selection process
Stage 6 - Contract negotiation
Stage 7 - Implementation

Stage 1 - Plan for the IFMS

Planning involves a high level design of the system, identification of surrounding changes required and actions to make the new system sustainable.

The first consideration is to decide precisely what the IFMS will cover - the business architecture and IFMS parameters. Four activities dominate government financial management - budget preparation, budget execution, accounting and reporting. Within these activities are many important government functions, often extending beyond financial management, e.g. payroll (typically a very large proportion of government expenditure), procurement, tax collection, cash and debt management. Many of the transactions will be the responsibility of individual government ministries and organizations, often using their own systems, e.g. tax collection.

In general, the greater the coverage of the IFMS, the greater the potential benefits, but also the greater the complexity, cost and risk of failure. Big integrated systems will inevitably require a large integrated software package, demand substantial technical skills and place heavy demands on hardware and networks. There is a judgment decision on the balance between the benefits of comprehensive integration against cost and risks, and this decision can only be made in the context of a specific country. The decision on the architecture and parameters is a management decision, but it must be informed by technical advice on the issues and options.

Planning also involves identifying the technical architecture - for example how are transactions initiated outside the accountant-general's office to be incorporated into the IFMS? How many users will have on-line access to information? What security is required, and what procedures will be put in place to protect against disasters, e.g. a fire destroying the computer centre? There are a number of alternative solutions to these and other issues, but in total they will define the networks, servers and workstations required for the system - the technical architecture.

Planning also involves considering the surrounding organizational structures, regulations, human and financial resources. The implementation of an IFMS is likely to impact on all of these if it is to be successful. Organizationally, some units may exist for functions that will be automated or integrated with other functions, and there will need to be specific organizational points responsible for managing the IFMS and supporting users. Financial rules, and sometimes legislation, often specify forms and procedures, which may need to be changed (e.g. electronic authorization rather than paper signatures). Human resources must be trained to operate and manage the new systems, and technical support must be available for the new IFMS. Budget provisions must be established for new costs, e.g. software license fees, support contracts. Records management must be addressed - how long are electronic records to be kept, in what format, and how will access be controlled?

At the planning stage, other related reforms need to be identified and sequenced. Revisions to the chart of accounts are likely to feature among such reforms. The chart of accounts is the key to both integration and interface with external systems. For example, it will be very difficult to transfer payroll information to the accounting system if each uses a different classification for payroll expenditures, and this applies whether payroll systems are part of IFMS or separate.

Planning is fundamental to the success of the IFMS. Time and effort at this stage will yield benefits later. Furthermore, the planning stage can be used to build understanding and ownership of the changes by the users.

Stage 2 - Identify funding

There is no simple answer to how much an IFMS costs. It depends on the size and complexity of the system, as defined in the business and technical architecture. The World Bank conducted a survey of 34 IFMS implementations and found the average cost was US$12.3m. However, there is a wide variation within this average. The minimum cost, even for a small system and related hardware just in the Ministry of Finance, is unlikely to be less than US$2m.

For many countries, this scale of expenditure will require some external funding. Given the current focus on improving public financial management, such funding is usually not difficult to identify, but does require a clear definition of the planned system. If the country does not provide such definition, the danger is that the funding agency may effectively take over the project and push their approach and solutions. In any event, if the acquisition is to be funded by concessional loans or grants, the procurement requirements of the funding agency will have to be observed, so it is easiest if these are built into the process from the start.

Stage 3 - Define user requirements

You must identify and clearly state the user requirements. This will be in the form of a series of statements, for example:

- the system must allow for current and previous year transactions to be available for on-line enquiry and reporting
- previous year's data-files to be backed-up, and subsequently be accessed off-line for enquiry and reporting.

Requirements should be categorized as mandatory or desirable. The vendor will be required to demonstrate that it can satisfy all mandatory requirements, and as many as possible of the desirable requirements. Key mandatory requirements should be carefully specified, such that if a bidder fails to meet a requirement, the bid may be rejected. This, of course, must be clearly documented for the vendor in the bid documents when they are prepared.

In order to make a proper evaluation, test scripts may be developed for key requirements, using, where appropriate, dummy transactions, which the vendor will be required to process to demonstrate that the functionality works as required.
The evaluation of the competing systems will take account of the vendor's written response to the user requirements, as confirmed by reviewing at least a sample against the test scripts. To facilitate the process, test scripts are normally provided in advance to a vendor so that it can set up a demonstration.

Developing user requirements should involve existing users, but is a process that needs to be carefully managed. When asked, users will normally specify detailed requirements that replicate existing processes and usually make most mandatory! Also, detailed requirements create a number of problems:

- the opportunity to use the more efficient workflows and transaction processing of the package may be lost
- the further the requirements move from the way the package is designed to operate, the greater the cost, time and risk of implementation failures, and
- the vendor may have to develop procedures or modules that are not part of the package. These will be very expensive, and may not be supported through future upgrades.

Although there must be defined user requirements, these should be kept to high-level requirements that are matters of principle rather than detailed procedures. Working with users to develop this approach can be a change management exercise and help prepare for the inevitable procedural changes when the IFMS is implemented.

Stage 4 - The bidding process

Planning involves a high-level design of the system, identification of surrounding changes required and actions to make the new system sustainable.

The first stage of the bidding process is to decide who will be invited to tender. There are three options for selecting invitees:

- pre-qualification, with potential vendors submitting expressions of interest which are then evaluated to generate shortlist
- open tender, with a general advertisement
- limited tender, with the government inviting only a few firms to tender.

The first two approaches are the most obviously transparent, but take additional time and effort. The limited tender approach is quick, and can be justified because there are relatively few software vendors with any experience of government integrated financial management system (IFMS) implementations; however, all stakeholders have to be satisfied that this is a sufficiently open process.

A decision must also be made as to whether the bidder will be for a complete system - hardware and software - or just for the provision of the software. In the latter case, bidders will be required to specify the hardware they require for their system to operate. Whichever method is used to select bidders, bidding documents have to be prepared. Formats are normally prescribed by funding agencies, but all comprise standard elements:

- a formal request for bids with standard information, including bid deadlines, evaluation procedures, etc
- description of the requirements, using the architecture descriptions and Statement of User Requirements (SOUR) developed above (test scripts may also be included or sent later)
- list of information requirements from bidders, including bid price and other financial information (under some bidding systems, financial details are not required until the bid has been accepted as being technically appropriate), and
- details of the contractual arrangements that will apply if the contract is awarded.

Bids will be received, and there should be a formal process for controlling bid documents, restricting access and opening of bids. At this stage it is likely that some bids will be rejected because the bids do not in some way comply with the bid requirements. Those that are left will be evaluated as described below.

The selection process may be single-stage or two-stage. In a single-stage process all compliant bids are evaluated, usually with visit and demonstration by bidders, and a preferred bidder identified. Under a two-stage process there is an initial evaluation, possibly with a demonstration, and then two or more preferred bidders are invited to demonstrate their system against the selection criteria and test scripts. A two-stage process is obviously more thorough, but takes more time, increases costs for the bidder and government, and at the end may not result in a better decision.

The whole bidding and selection process is a very sensitive area, especially if an external funding agency is involved. That agency will be very concerned to be able to audit the bid and selection process to ensure that it was open, fair, and free from any possibility of corruption. Furthermore, major software companies that bid for IFMS implementations are powerful organizations, and may complain if they consider the process has been unfair. This imposes a need for a bureaucratic process that provides documentary evidence all bid stages are properly carried out and can be demonstrated to be fair.

Stage 5 - The selection process

The details of the evaluation process will vary between countries and the requirements of funding agencies, but there are always standard elements as described below. It is always preferable that an evaluation and scoring system is defined in advance, and essential that all information is properly documented.

Some or all of the bidders may be invited to visit your country and demonstrate their systems. If some bidders are rejected even before this stage, it is essential the reasons for rejection are fully documented for the aforementioned reasons.

The demonstrations should be more than a 'sales pitch' by the bidder. Rather, it should be a rigorous process with the bidders demonstrating their ability to comply with the user requirements using the test scripts. Users of the system should be actively involved in this evaluation, and the results recorded in detail. The results will be combined into a score, and bidders ranked according to their technical scores.

Bidders will also be evaluated according to their financial proposals. It is important that all financial bids are evaluated equally, which will mean identifying additions, exclusions, etc, and adjusting bids to identify a final price, to which net present value techniques should be applied to future costs in order to establish a full current bid price. The financial evaluation should take account of all costs, including hardware, through life support of the system, training requirements, and what is included and excluded in the financial proposal. Other factors will also be taken into account, including the financial stability of the bidding organizations, their experience, the implementation team, hardware requirements, and other relevant factors.

The scoring systems and specific procurement procedures being followed will determine how the final evaluation is conducted, but the outcome will be the identification of one preferred bidder who will then be invited to contract negotiation.

Stage 6 - Contract negotiation

Contract negotiation requires careful management. Any changes should not move outside the bid requirements, otherwise the bid and evaluation process is invalidated. On the other hand, it is essential that all details and deliverables are specified. In particular, there must be defined and staged acceptance criteria and timetables, with payment linked to meeting these. Key persons and management structures on both sides must be defined, with clearly stated procedures for acceptance.

It is common for changes to be made or requirements added during implementation. Such changes and additions may be necessary, but are also a frequent cause of delays and cost overruns. As such they need to be carefully controlled. The contract must specify procedures and documentation for any contract variations after the contract has been signed.

The contracting process rarely fails, but it should lead to a tightly drawn and very clear contract that minimizes the scope for later disputes. Finalization can take some time.

Stage 7 - Implementation

Last, but certainly not least, the selected system has to be implemented. This article does not go into the detail of how a particular system works, but there are some general points.

Implementing an IFMS is a major project, and the agreed project management structure must be put in place before the implementation starts. This may involve institutional changes, appointing staff and actions to delegate authority. Furthermore, such organizational structures are likely to be specified in the contract, and so must be in place to avoid delays and cost overruns which the contractor can legitimately charge to the government.

If the contract with the vendor does not include the provision of hardware and networks, then the requirements and responsibilities for such integration must have been specified in the appropriate contracts. It is essential that these are procured and implemented in accordance with the contractual requirements. This may in itself be a quite substantial procurement and implementation exercise, and needs to be built into the project plan.

The implementation of the IFMS will be a major change for all users, and the users are likely to extend outside the economic ministries to other agencies of government. This is an exercise in change management. The new system must be seen to have high-level political support, and all involved must be fully briefed on the changes. As far as feasible there needs to be broad support for the IFMS. What you do not want is a ministry or agency announcing it is in the middle of implementing its own system, and therefore cannot implement IFMS - this is where advance briefing and high level support become essential.

The whole implementation process must be managed. The project and organizational structure referred to above should provide for such management, but it must be made to work. At all stages there must be detailed documentation, including acceptance procedures. Not only does this demonstrate proper management, but will be essential in the event of any dispute with the contractor.

Conclusions

This article has provided an overview of the steps and actions involved in the acquisition by a government of an integrated financial management system. It is clear that many of these are subjects in their own right - for example project management, change management - but what does become clear that this is a major and important change for any government, and as such does require strong management. Finally, it must be recognized that implementing an IFMS does not automatically lead to better financial management. What it does is to provide the financial information infrastructure on which reforms can be built. It is the beginning not the end of the process.

References and sources

Treasury Reference Model, World Bank Technical Paper No 505 (Ali Hashim and Bill Allan, 2001)

Implementing Financial Management Information System Projects: The World Bank Experience (Bill Dorotinsky, available on the World Bank website at www1.worldbank.org/publicsector/egov/ReinventingGovWorkshop/dorotinsky.ppt)

Treasury Diagnostic Toolkit, World Bank Working Paper No 19 (Ali Hashim and Allister Moon, 2003)

References

ACCA International Public Sector Bulletin (2004), *Why government IFMS procurements so often get it wrong,* Dr Michael Parry, International Management Consultants Limited (IMCL), Issue 4, January 2005, pages 4-7, http://www.acca.org.uk/doc/publicsector/tech_ips_004.pdf

Africa Commission, *Our Common Interest Report of the Commission for Africa,* Africa Commission 2005, http://www.commissionforafrica.org/

Andersson G. and Isaksen J. (2002), *Best Practice in Capacity Building in Public Finance Management in Africa, Experiences of NORAD and Sida*, SIPU.

Anipa S. Kaluma F. and Muggeridge E. (1999), *DFID Seminar on Best Practice in Public Expenditure Management: Case Study - MTEF in Malawi and Ghana,* Consulting Africa Limited http://www.eldis.org/static/DOC18466.htm or http://www.sti.ch/pdfs/swap134.pdf

Bale M. and Dale A. (1998), *Public Sector Reform in New Zealand and Its Relevance to Developing Countries,* The World Bank Research Observer, vol. 13, no. 1 (February 1998), pp. 103–21.

Batley R. and Larbi G. (2004), *The Changing Role of Government: The Reform of Public Services in Developing Countries*, Palgrave MacMillan.

Bevan D. and Palomba G. (2000), *Uganda: the Budget and Medium Term Expenditure Framework Set in a Wider Context,* Department of Economics University of Oxford and Geremia Palomba, World Bank, October.

Bird A. (2003), *Country Case Study 7: Design and implementation features of Medium-term expenditure frameworks and their Links to Poverty reduction* Overseas Development Institute.

Dean P. N. (1989), *Government Budgeting in Developing Countries*, Routledege, London.

DFID (Department for International Development) (2001a), *Understanding and reforming public expenditure Management*, Guidelines for Department for International Development, www.dfid.gov.uk/pubs/files/pfma-pem.pdf

DFID (2001b), *Financial Accountability Programme - Supporting the Uganda Second Economic and Financial Management Project,* Project Memorandum.

DFID (2003), *Department for International Development Plan for Tanzania.*

DFID (2005) *Briefing: a Platform Approach to Improving Public Financial Management*, July.

Dorotinsky W (2003), *Implementing Financial Management Information System Projects: The World Bank Experience Preliminary Results*, The World Bank, http://www1.worldbank.org/publicsector/egov/ReinventingGovWorkshop/dorotinsky.ppt, Accessed 15 February 2005.

Economic Commission for Africa (2005), *Striving for Good Governance in Africa.*

ESAAG (2003), *Talk of the Accountant General (Mr GOL Bwoch) to the 2003 AGM of ESAAG.*

Financial Times (2005), *The Moment of Truth Nears for Donors*, Tuesday 15 February 2005, page 12.

Fjeldstad O., Hansohm D., Isaksen J. and Naimhwaka E. (2004), *Budgetary Processes and Economic Governance in Southern and Eastern Africa. Literature review*
The Namibian Economic Policy Research Unit, NEPRU Working Paper 95.

FAO (2005), *The State of Agricultural Commodity Markets 2004*, UN Food and Agricultural Organisation.

Foster M., Fozzard A., Naschold F. and Conway T. (2002), *How, When and Why Does Poverty Get Budget Priority? Poverty Reduction Strategy and Public Expenditure Reform in Five African Countries, Synthesis Paper,* Overseas Development Institute.

Foster M. and Mijumbi P. (2002), *How, When and Why does Poverty get Budget Priority? Poverty Reduction Strategy and Public Expenditure in Uganda*, Overseas Development Institute.

Godfrey A.D. Devlin, P.J. and Merrouche C. (1996), *Governmental Accounting in Kenya, Tanzania and Uganda*, Research in Governmental Nonprofit Accounting, Volume 9, JAI Press Inc.

Hawley S. (2000), *Exporting Corruption: privatisation, multinationals & bribery,* The Corner House, http://www.thecornerhouse.org.uk/item.shtml?x=51975

Holmes M. with Evans A. (2003), *A Review of Experience in Implementing Medium Term Expenditure Frameworks in a PRSP Context: A Synthesis of Eight Country Studies,* Overseas Development Institute
http://www.odi.org.uk/PPPG/cape/publications/MTEF%20Synthesis%20Final%20Nov%2003.pdf

IDASA (2002), *Budget Transparency and Participation – five African case studies,* edited by Alta Fölscher.

Le Houerou P. and Taliercio R. (2002), *Medium Term Expenditure Frameworks: From Concept to Practice. Preliminary Lessons from Africa*, Africa Region Working Paper Series No. 28, The World Bank, http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000094946_02022804010866

Lienert I. and Feridoun S. (2001), *Systemic Weaknesses of Budget Management in Anglophone Africa*, IMF Working Paper 01/211.

Lienert, I. and Modi, J. (1997) *A Decade of Civil Service Reform in Sub-Saharan Africa*, IMF Working Paper, Fiscal Affairs Department, December.

Ministry of Finance, Tanzania (2005), *Financial Management Reforms* http://www.mof.go.tz/ Accessed 9 February 2005.

Ministry of Finance, Tanzania (2004), *Medium Term Expenditure Framework (MTEF) – Cross-Sector Strategy*.

Ministry of Finance, Uganda (2005), *The Integrated Financial Management Systems* http://www.finance.go.ug/IFMIS.htm, Accessed 10 February 2005.

Minogue M.(2000), *Should Flawed Models of Public Management be Exported? Issues and Practices,* Public Policy and Management Working Paper No.15, Institute for Development Policy and Management, University of Manchester
http://www.sed.manchester.ac.uk/idpm/publications/archive/ppm/ppm_wp15.htm

Naschold F. and Fozzard A. (2002), *How, When and Why does Poverty get Budget Priority - Poverty Reduction Strategy and Public Expenditure in Tanzania*, Overseas Development Institute Working Paper 165.

Public Finance (2005) *MI5 keeps details of IT problems a secret,* 14 April.

Rama, M. (1997) *Efficient Public Sector Downsizing*, Finance and Development, September.

SAPRIN (2004), *Structural Adjustment – the policy roots of economic crisis, poverty and inequality.* Zed Books.

Schick A. (2001a), *Managing Public Expenditures*
http://www.worldbank.org/wbi/publicfinance/publicresources/module6Schick.pdf, Accessed 15 February 2005.

Schick A. (2001b), *Medium Term Expenditure Framework - Case Study Of Ghana,* Module 6 of Fiscal Policy for Poverty Reduction, The World Bank.

Short A. (2003), *Assessment of the MTEF in Ghana*, Overseas Development Institute.

Stasavage D. and Moyo D. (1999), *Are cash budgets a cure for excess fiscal deficits (and at what cost)?* The Centre for the Study of African Economies.

Tara M. S., (1997), *Integrated Financial Management Systems Ghana: A Demonstration*, Public Digest Fund, Volume VIII, NO. 2, 1997

The Auditor-General (2004), *The Report of the Auditor-General to Parliament on the Public Accounts of the Republic of Uganda for the Year Ended 30th June 2003*
U4 Anti-Corruption Resource Centre, accessed 18 October 2005, http://www.u4.no/themes/pfm/issuebudgetsupport.cfm

Williamson T. (2003), *Targets and Results in Public sector Management: Uganda Case Study*, Working Paper 205, Overseas Development Institute.

World Bank (1997), *The State in a Changing World: World Development Report 1997*, The World Bank,
http://www.worldbank.org/html/extpb/wdr97/english/wdr97su1.htm, Accessed 24 August 2005.

World Bank (1998), *Public Expenditure Management Handbook*, The World Bank
http://www1.worldbank.org/publicsector/pe/handbook/pem98.pdf.

World Bank (2000), *Can Africa Claim the 21st Century?* The World Bank.

World Bank (2001), *Country Financial Accountability Assessment – Tanzania*, The World Bank.

World Bank (2002), *Design and Implementation of Financial Management Systems: An African Perspective,* Africa Region Working Paper Series No. 25.

World Bank (2003b), Country Financial Accountability Assessment for Malawi.

World Bank (2004a), *Ghana Country Financial Accountability Assessment*, The World Bank.

World Bank (2004b), *Uganda Country Financial Accountability Assessment*, The World Bank.

World Bank (2004c), *Uganda Country Integrated Fiduciary Assessment,* Volume 1: Main Report: (CIFA), The World Bank.

World Bank (2004d), *Djibouti Etude d'Evaluation de la Gestion des Finances Publiques (CFAA)*, The World Bank.

World Bank and IMF (2004a), *Public Expenditure Management Country Assessment and Action Plan (AAP) Ghana*.

World Bank and IMF (2004b), *Public Expenditure Management Country Assessment and Action Plan (AAP), Tanzania*.

THE ACBF WORKING PAPER SERIES

Overview: The ACBF Working Paper Series (AWPS) was launched in October 2004 as one of the instruments for disseminating findings of ongoing research and policy analysis works designed to stimulate discussion and elicit comments on issues relating to capacity building and development management in Africa. A product of the Knowledge Management and Program Support Department of the African Capacity Building Foundation, a Working Paper very often ends up as an Occasional Paper, a book or some other form of publication produced by the Foundation after a thorough review of its contents. It offers a means by which the Foundation seeks to highlight lessons of experience, best practices, pitfalls and new thinking in strategies, policies and programs in the field of capacity building based on its operations and those of other institutions with capacity building mandates. AWPS also addresses substantive development issues that fall within the remit of the Foundation's six core competence areas as well as the role and contribution of knowledge management in the development process.

Objectives: AWPS is published with a view to achieving a couple of objectives. Fundamental among these are the following:

- To bridge knowledge gaps in the field of capacity building and development management within the African context.
- To provide analytical rigor and experiential content to issues in capacity building and the management of development in Africa.
- To highlight best practices and document pitfalls in capacity building, the design, implementation and management of development policies and programs in Africa.
- To systematically review, critique and add value to strategies, policies and programs for national and regional economic development, bringing to the fore pressing development issues and exploring means for resolving them.

Focus: AWPS focuses on capacity building and development management issues. These are in the following areas:

- Capacity building issues in the following six core competence areas and their relevance to development management in Africa:
  - Economic Policy Analysis and Development Management.
  - Financial Management and Accountability.
  - Enhancement and Monitoring of National Statistics.
  - Public Administration and Management.
  - Strengthening of Policy Analysis Capacity of National Parliaments.
  - Professionalization of the Voices of the Private Sector and Civil Society.
- Engendering of development
- Development challenges, which include issues in poverty reduction, HIV/AIDS, governance, conflict prevention and management, human capital flight, private sector development, trade, regional corporation and integration, external debt management, and globalization, among others.

Orientation: Papers published by the Series are expected to be analytical and policy-oriented with concrete guide to strategies, policies, programs and instruments for strengthening the capacity building process and enhancing growth and development. In line with the objectives of the Series, such papers are expected to share experiences, information, and knowledge, disseminate best practices and highlight pitfalls in capacity building processes and/or the management of development policies and programs.

Contributions: AWPS welcomes contributions from policy analysts, development practitioners, policymakers, capacity building specialists, academics and researchers all over the world, but with a focus on the African context.