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Introducing New Financial Management Systems in Growing Countries

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Abstract
A growing country is one with comparatively low economic output. There has been a lot of debate as to where to draw the line between a developed country and a developing one, which can be seen by the lack of one single meaning for the term. Growing countries (GCs) have been encouraged to reform their governmental expenditure management systems and computerize their government operations. Most popular among these have been projects to computerize government accounting and payment operations, by introducing government financial management information systems (NFMSs). This paper investigates the reason for almost universal failure to implement and sustain NFMSs in GCs. It starts with a review of the "received wisdom" in implementing these projects. Based on the identified factors, suggestions for addressing them are offered in the hope of improving success rates.

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I. Introduction

In most growing countries (GCs), budget execution and accounting processes were/are either manual or supported by very old and inadequately maintained software applications. This has had deleterious effects on the functioning of their governmental expenditure management (GEM) systems that are often not adequately appreciated. The consequent lack of reliable and timely revenue and expenditure data for budget planning, monitoring, expenditure control, and reporting has negatively impacted budget management. The results have been a poorly controlled commitment of government resources, often resulting in a large buildup of arrears, excessive borrowing, pushing up interest rates and crowding out private-sector investment and misallocation of resources, undermining the effectiveness and efficiency of service delivery. Further, governments have found it difficult to provide an accurate, complete, and transparent account of their financial position to parliament or to other interested parties, including donors and the general public. This lack of information has hindered transparency and the enforcement of accountability in government, and has only contributed to the perceived governance problems in many of these countries.

In light of these adverse developments, it is perhaps not surprising that many GCs have pressed for, or have been pressed into, adopting financial management information system (NFMS) projects to strengthen their GEM systems. The establishment of an NFMS has consequently become an important benchmark for the country's budget reform agenda, often regarded as a precondition for achieving effective management of the budgetary resources. Although it is not a panacea, the benefits of an NFMS could be argued to be profound. First, the improved recording and processing of government financial transactions also allows prompt and efficient access to reliable financial data. This supports enhanced transparency and accountability of the executive to parliament, the general public, and other external agencies. Second, an NFMS strengthens financial controls, facilitating a full and updated picture of commitments and expenditure on a continuous basis. Once a commitment is made, the system should be able to trace all the stages of the transaction processing from budget releases, commitment, purchase, payment request, reconciliation of bank statements, and accounting of expenditure. This allows a comprehensive picture of budget execution. Third, it provides the information to ensure improved efficiency and effectiveness of government financial management. Generally, increased availability of comprehensive financial information on current and past performance assists budgetary control and improved economic forecasting, planning, and budgeting.

II.FEATURES OF NFMS

In terms of terminology, an NFMS usually refers to computerization of public expenditure management processes including budget formulation, budget execution, and accounting with the help of a fully integrated system for financial management of the line ministries (LMs) and other spending agencies. The full system should also secure integration and communication with other relevant information systems. Because of the integration requirement, the NFMS is commonly characterized as an integrated financial management information system (INFMS).

In many functional areas specialized information systems are in place and will still be required even with the implementation of an NFMS. It should be noted that in this paper the term NFMS has been used generically to include an INFMS. As the name implies, there are, and should be, three guiding characteristics for a well-designed NFMS:

• It is a management tool when developing an NFMS it is important that it cater to management needs—not just those of the central agencies, but also line agencies. Moreover, as a management tools it should support the management of change. It must be viewed as an integral part of budget system reform—hence not be designed just to meet present requirements, but also to support those needs that are likely to arise as parallel budget reforms are implemented.

• It should provide a wide range of nonfinancial and financial information as a tool of management it should provide the information required for decision making. For this purpose it is anchored in the government accounting system, and should be designed to perform all necessary accounting functions as well as generate custom reports for internal and external use. However, this does not mean that it should exclusively concentrate on financial information. Managers will require other nonfinancial information. For example, personnel information such as numbers of employees, their grade within the organizational structure and rates of remuneration. For performance-based budgets, performance information will be important to managers, such as the identification of programs, the objectives or outcomes of programs, the types of goods and services produced, as well as indicators by which to judge the efficiency and effectiveness of programs.

• It is a system Its role is to connect, accumulate, process, and then provide information to all parties in the budget system on a continuous basis. All participants in the system, therefore, need to be able to access the system, and to derive the specific information they require to carry out their different functions. The converse is also true, if the NFMS does not provide the required information—that is, has not the right functionality—it will not be used, and will cease to fulfill its central function as a system. Although the NFMS does not capture all the information flows, adopting a comprehensive approach in the development of the project is fundamental to ensure that all functional interdependencies are identified, hence securing the capture of all related information

flows. Figure 1 sets the NFMS in a broader context of interrelated information systems, and illustrates the main functional processes from medium-term planning and budget preparation to budget execution and accounting.
An NFMS will consist of several elements with different functions. In the description that follows, the term "module" will imply that the system is a sub-element in a NFMS. The core of an NFMS could be expected to include the following modules and systems:
• General ledger, • Budgetary accounting • Accounts payable • Accounts receivable
The noncore or other modules are, inter alia:
• ayroll system • Budget development • Procurement • Project ledger • Asset module.

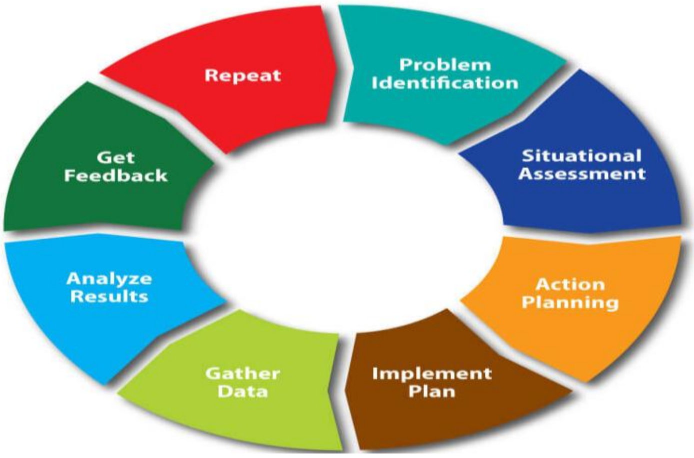
III. STRATEGY FOR INTRODUCING NFMS IN A GROWING COUNTRY

The introduction of an NFMS in a developing country should be regarded as part of a long process of reform. This process takes years to fully implement, costs millions of dollars, and has a substantial recurring operating cost. Thus NFMS should be regarded as a major project requiring a structured project management approach.1 Viewed in this way there are four main stages in the process of introducing an NFMS, which are presented in Figure 2: preparation, design, procurement, and pilot and roll-out.

These four stages describe the main process followed in the design, procurement, and implementation of an NFMS. The successful implementation of this process also requires three supporting elements: sound project management; adequate resources and complementary organizational development; and parallel improvements in business procedures and practices supported by a suitable legal and regulatory framework. These supporting reforms should not be neglected in NFMS design and implementation, and without them it will not be possible to achieve the full benefits of an NFMS.

Project Management As explained earlier, the whole process of developing an NFMS should be regarded as a major project requiring a structured project management approach. The essential elements of a sound project management are described below. Commitment, participation, and management model The implementation of a government-wide NFMS is a substantial undertaking for any administration, and it is essential that the participants are fully aware of the magnitude of the undertaking. Ensuring project commitment at the highest levels of the political system and bureaucracy, and continuous participation from the direct users of the system and other stake holders is necessary in all phases of the project. It is also necessary that the project planning methodologies are used to plan, implement, and monitor the project, with project management responsibilities clearly identified. The management model needs to ensure broad in-house participation and involvement of all the relevant stakeholders, which usually are the ministry of finance and other central agencies, the office of the auditor general, the central bank and other banks handling government business, LMs, and local governments. The finance minister, assisted by the permanent secretary (PS/Finance) needs to take primary responsibility for overall management of the project. Since accounting is the backbone of the information system, the treasury that is in charge of this function—or in the Anglophone countries, the accountant general (AG)—is a key institution. Under PS direction, the AG is usually asked to take the lead role in the design, development, procurement, training, and implementation processes relating to the NFMS. Typically the AG must also collaborate with the head of the central information technology (IT) department in the design, development, and implementation processes. It is critical to mobilize internal management resources. The PS/Finance and the AG should be assisted by a well-staffed project management team headed by a full-time project manager. The project manager should be supported by a full-time technical team consisting of a number of assistant project managers, with specializations in IT, budgetary and accounting processes. To ensure continuous commitment participation of top politicians and key stakeholders, it would be useful to set up a steering committee2 under the chairmanship of the finance minister to manage and coordinate the entire process of design, development, and implementation of the NFMS. The committee should have considerable and authoritative influence, and should meet on a monthly/quarterly basis depending on the project progress. The cabinet and the parliament also need to be informed periodically by the steering committee on the progress in the implementation of the NFMS. Necessary measures should also be taken to strengthen the capacity in the project team as well as the AG's office and the budget office through all project phases. Simultaneously, it is also necessary to develop the necessary skills and capacity of the central IT department to provide strong support to the system. Continuity of key personnel involved in the development and implementation processes is also important for the success of the project.

Organizational Development At the outset of an NFMS project, it is necessary to ensure the availability of adequate financial resources. Experience has shown that the lack of sufficient resources can serve as a serious obstacle to the successful implementation of the project. Further, there is a need to clarify the future roles and responsibility for different functions.



Some of these critical functions are given below:

• System and data administration. Coordinating mechanisms should be created to ensure that a common set of policies, procedures, and standards are in place for managing data and systems government-wide. This could be achieved by developing a national IT strategy, including the use of Information Technology and Information Systems (IT/IS) in the public service.

• Wide consultation and acceptance. To be successful, the organization needs to be prepared for the introduction of the NFMS and be willing to recognize and accept the benefits that the changes will bring about and the costs of implementation in their widest sense. The continuous consultation within government departments is essential. This would be possible with the help of a strong champion for the reforms.

• New job descriptions in ministries, departments, and provinces. An NFMS will induce changes in the working environment. As a consequence of these changes, new job descriptions or working processes should be formalized. The civil service should be willing to accept that the NFMS would significantly change their influence and responsibilities. As an example, the operations in the processing of financial transactions will change dramatically from manual book-keeping to automated operations and processes. The role of both the head of finance and accounting functions, and the auditors (internal as well external) will also clearly change.

• Motivation: Defining and deciding upon new structures and working practices is one thing, but implementing them is another. The challenges in organizational development are multiple. For successful implementation, the stakeholders need to - 12 - participate and be motivated. Motivation and support for the decision of implementing the new NFMS are critical. Participation, information, and adequate training will often strengthen this support.

• Training: The training for the staff will not only include training in use of the NFMS for their respective operations and functions, but also training in the new legal and regulatory framework, the new codes and classifications, and the new business procedures put in place. In the initial stage of implementation, there is a need to develop new practices, and the associated training requires a great deal of innovation and tailoring to the specific features and capacity of the organization. A large proportion of the training should be on-the-job training, and be focused on "super-users." This implies decentralized on-the-job trainers deployed throughout the implementation period. User support is also necessary as a permanent service.

• Change management: The NFMS steering committee needs to develop a change strategy and establish a clear and agreed approach and timetable for implementing the various changes associated with the system. Implementation needs to be phased and flexible, and it is necessary for the ministry of finance to take a lead coordinating role in the whole process. Donors are inevitably required to provide technical and financial support for the entire process.

Parallel Reforms and Improvements to Business Processes Another significant concern is that without the essential GEM reforms in place, or in the process of being implemented, no major gain will accrue from an NFMS. There is little advantage in introducing an NFMS that merely follows existing GEM working processes and practices. Restructuring of working processes and practices requires new procedures to be formalized and unified throughout the government. In developing countries there often is a lack of financial discipline, which also represents an important challenge. An NFMS is effective only if the underlying budgetary and accounting systems are robust and well managed. At the same time an NFMS can be a vehicle for change. Experience indicates that an NFMS will induce several reforms in existing systems, including:

• Structure of the budget and the accounts. Introducing an NFMS necessitates unifying the codes and classifications (both the budget classification and the chart of accounts). These should be maintained at a central level. The reporting requirements are the basis for defining the structures of these codes and classifications.

• Main budgeting and accounting principles. Typically, a number of GCs use a single-entry accounting system in a manual mode, with the budgeting and accounting system on a cash basis. Off-the-shelf systems are normally designed for accrual accounting. With the implementation of an NFMS, financial transactions will be entered into the accounts payable and accounts receivable modules with the due dates, thus allowing for a gradual move toward an accrual basis. The GCs could take a step toward modified cash basis accounting, while keeping the budget on a cash basis in the early stages of implementing the NFMS.

• Cash management. To ensure that the budget and accounts are comprehensive, it is essential that all the cash flows be channeled through the NFMS, and hence that all transactions, both receipts and payments, are processed by the NFMS, including the payroll payments. The NFMS could also aim at rationalizing the government banking arrangements and establishing a treasury single account for optimizing the management of government cash balances.3

• Control structure. The design of the NFMS should introduce an improved system of internal and external controls for financial management. The internal controls regulate the cycle of recording, analyzing, classifying, summarizing, communicating, and interpreting financial information. The internal audit function helps the management in evaluating and assessing compliance with these controls. The external control system is exercised through external auditing carried out by the supreme audit institution.

IV.CONDITIONS FOR DEVELOPMENT OF NFMS

A characteristic of many public sector reforms is that they are introduced in an organization with neither the willingness to accept the reform nor the technical ability to understand and implement the reform, or indeed to maintain it once introduced. As a result, the reforms either do not succeed or are badly delayed, and create distortions that have damaging effects, so that in many cases the reforms are eventually abandoned. Although recognizing the magnitude of the problems faced in this area, it would also appear that GCs have little option but to persevere with such projects. The NFMSs will remain important to a longer-term GEM reform agenda, and it is essential that FAD and other technical assistance providers collaborate, if only to avoid the future problems that could arise if the NFMSs are poorly designed, as well as to ease problems of implementation. The question to be posed is what is the optimal way of improving these projects, and what support FAD can offer in this area. First, since these projects take time, it is most important in planning technical assistance that, even if accepted as a longer-run solution, the NFMSs make allowances for the problem of filling an interim period of two to three years prior to their full implementation. In this period, it is often essential to ensure that the existing accounting and reporting systems are maintained, that business practices in the MOF are adjusted to function in the new computerized environment, and to ensure that the desired functionality of the NFMS is incorporated in its design. It seems inevitable that this work will need to continue.

V.CONCLUSIONS

There are three main conclusions emerging from this review. First, the introduction of an NFMS in a developing country should be regarded as a component of a wider reform process. These projects, therefore, should not be viewed as isolated interventions, but should be accompanied by, and related to, other reforms in public sector financial management. It is also necessary that the NFMS objectives and outputs are both relevant and consistent with wider fiscal policy reforms. Second, the decision to introduce an NFMS needs to be accompanied by strong commitment, sufficient manpower and financial resources, widespread internal support, and an agenda for effective change management. Unless these are in place, the chances of success are limited. Third, the implementation strategy both in terms of functionality and number of entities needs to be phased. The benefits expected from the system develop only over time, and it will be necessary to maintain interim arrangements to facilitate various aspects of financial control and reporting. Country authorities should be prepared for a long implementation path, and one that involves significant challenges. It will be a complex learning process for all concerned. A number of difficulties are likely to be encountered route, but the existence of the previously indicated three conditions, along with resolute commitment of key stakeholders, should overcome these difficulties and ensure success of this worthwhile reform.

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