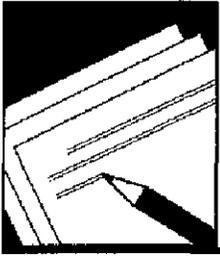


Public Financial Management: Principal Issues in Small Pacific Island Countries



IMF Policy Discussion Paper

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Asia and Pacific Department

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February 2002

Abstract

<p>The views expressed in this Policy Discussion Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Policy Discussion Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.</p>
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The paper discusses reform in public financial management in small, resource-constrained economies such as the Pacific island countries (PICs). It describes the efforts undertaken by PICs in the past and assesses their results. A principal conclusion is that reform in public financial management needs to be defined against the capacity of countries to sustain it at the national level. This requires a careful definition of priorities for action and the determination of appropriate pacing and sequencing of reform. In this decision, achievement of the imperatives of expenditure control and sustainability of deficits is typically more important than exploitation of the scope for efficiency gains promised by “cutting edge” public financial management systems.

JEL Classification Numbers: H5; H6; H61

Keywords: Fiscal policy; budget systems; public financial management; small country issues

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I. THE SETTING

1. The effective management and control of the public finances is at the heart of economic, social, and at times even political developments in most countries of the world. The design and firm implementation of a good public financial management system is therefore critical not only for the stability and sustainability of the public finances themselves but for economic performance and social development more generally. It is also increasingly seen as an element of international competitiveness and attractiveness as a location of investment.

2. The importance of sound public finances and effective public financial management is even greater in Pacific island countries (PICs) than most elsewhere in the world because of the unusually large size of public sectors in the region, with public expenditure in some countries close to 100 percent of gross domestic product (GDP), and in a number of others well above 50 percent. As a result, fiscal policy and public financial management practices and decisions have a dominating effect on economic stability and development in most PICs.^{1/}

3. It is therefore not surprising that in PICs the focus is on government and its operations when things go wrong, or do not go as well as one would have expected or hoped for when looking at other countries. For a number of years now, there has been general disappointment

^{1/} The Pacific island countries discussed in this paper are those receiving technical assistance from the *Pacific Financial Technical Assistance Centre (PFTAC)*, a multi-donor institution in Suva, Fiji for which the IMF is the Executing Agency. The PICs assisted by PFTAC include: Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Republic of the Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tokelau, Tonga, Tuvalu, and Vanuatu. With the exception of Tokelau, these countries are also members of the *Pacific Islands Forum*, a regional organization representing through its Secretariat in Fiji the interests of PICs in international fora and fostering cooperation among its members (which also include Australia and New Zealand).

about the growth performance of PICs, especially when considering that they received on average probably more foreign financial assistance than any other group of countries in the world. At the same time, however, economic stability has not been a principal concern in the region, apart from a few selected cases, many of which were the result of exogenous events.

4. When assessing the scope for better economic performance in PICs, attention has therefore shifted quite naturally to the role and effectiveness of government or, more broadly, of the public sector. An additional concern has been the sustainability of the public finances in general, and of public expenditure levels in particular. Concern about sustainability has increased over the past ten years or so because of indications in some countries that the flow of external earnings would contract or official development assistance could be reduced. In this situation, both the control and effective management of the public finances were considered high priority and a close look at laws, regulations, and practices in public financial management became an important part of reform. Interest in this subject was also raised because it was observed that the quality of fiscal activities and their effects on economic incentives and the allocation of resources was an important determinant of the effectiveness of government and development of the private sector. Finally, attention to public financial management was sparked by concerns about governance, accountability and transparency, as well as efficiency in the execution of government policies and use of public funds.

5. A more specific question in this context was whether the traditional budget and planning systems in place in PICs were best suited to meet the demands on government and its financial management in a rapidly changing world of globalization and information technology. While it was recognized that the traditional input-based budget system, if managed efficiently, is quite

robust and allows for an effective control of spending, considerable conceptual and practical weaknesses were also observed. These included in particular the inertia and lack of responsiveness to changing needs, weak performance orientation, and the wide-spread separation of recurrent and development budgets, coupled with an absence of an integrated medium-term framework for the overall budget.

II. THE ENVIRONMENT

6. In this situation, most Pacific island countries embarked on more or less ambitious economic reform plans, ranging from the *Comprehensive Reform Program* in Vanuatu, and a similarly broad program in the Cook Islands, to a number of more limited programs in other PICs, most of which, however, included the reform of public financial management as a critical component. The environment in which these reforms were being advanced was influenced by a number of international and regional developments in the theory and concepts of fiscal policy and management.

7. The most important regional development was the strengthening of cooperation and coordination of economic policies in the context of the Pacific Islands Forum's process of an annual *Forum Economic Ministers Meeting* (FEMM) to develop regional economic policy strategies and seek commitments to reforms in their support.^{2/} Within this framework, a broad *Economic Action Plan* was agreed upon in Cairns, Australia in 1997, which included the definition of the *Forum Eight Principles of Accountability* as well as a commitment by PICs to

^{2/} The FEMMs bring together the Ministers of Finance of the Forum countries and all principal international organizations and bilateral donors active in the region. The meetings are the most important venue for discussing economic and financial reform issues and developing cooperation agreements and other policy commitments of PICs.

adopt “*at a whole of Government level, (...) principles of “best practices” for public accountability.*”

8. At the same time, at an international level, the International Monetary Fund developed the *Code of Good Practices on Fiscal Transparency* for its world-wide membership in support of sound fiscal management and good governance. The *Code* was expected to lead to a better-informed public debate about the design and results of fiscal policy and make governments more accountable for the implementation of fiscal policy, and thereby strengthen public understanding and credibility of macroeconomic policies and choices. The *Code* is an important element of the IMF’s *second generation reforms* to build sound social, political, and economic institutions and processes that improve governance in both the public and private sector; increase transparency and accountability; install open and reliable legal, regulatory, and supervisory frameworks; are sensitive to social and economic needs of citizens; and achieve a broad ownership and broad legitimacy. During the 1998 meeting of Forum Economic Ministers in Nadi, Fiji, the *Code* was adopted by Ministers as “*a model on which Forum Countries can draw.*” ^{3/}

9. An earlier and without doubt more immediate and direct effect on fiscal management reform strategies in PICs emanated from the development in Australia and New Zealand of new approaches to public financial management in their own countries. These approaches responded in good measure to internal pressures in the two countries for greater effectiveness, efficiency,

^{3/} Following this commitment by Ministers to the objectives of the *Code*, the *Pacific Financial Technical Assistance Centre* has assisted PICs with the assessment of compliance and development of reform agendas.

and innovation in government, but also sought to address some pressing problems of fiscal control and the development of clear priorities for government activities and involvement in the economy.

10. In Australia, initial emphasis was placed on the design of well-focused and tightly managed budgetary structures and processes, including in particular those pertaining to Cabinet decision making. In addition, major improvements were introduced in financial reporting and forward estimates. Many of these reforms were considered as setting standards world wide. The second phase of the reform focused on the establishment of a legal framework for standards on fiscal transparency in fiscal management, as well as the implementation of output and accrual budgeting and reporting. Full implementation of these reforms took almost four years.

11. In New Zealand, reforms in public financial management were part of a more comprehensive economic reform strategy, which responded to the rather disappointing economic performance of the country during much of the 1970s and 1980s and sought to redefine the role of government more generally. Reforms concerning fiscal operations were defined in the *Public Finance Act 1989* and the *Fiscal Responsibility Act* of 1994. The latter focused on decision making processes, information systems, and the promotion of stability and predictability in fiscal policy, while the former developed a novel coherent set of principles of financial management, including notably:

- Clarification of strategic and operational objectives.
- Specification of roles in organizational structures and governance.
- Linking resources to desired results.

- Decentralization of management authority, coupled with accountability for results.
- Incentives for performance.
- Information on results and their ongoing monitoring.

While other countries had also sought to address a number of these issues in their reform programs, none had approached them as rigorously and consistently as New Zealand.

12. Important for the eventual public financial management reform strategies in PICs was also the development of refined accounting methodologies such as accrual accounting which, among others, can substantially strengthen financial reporting systems and improve the analysis of public sector activities and their impact on economic development.^{4/} Given their many analytical advantages over existing methodologies, they were soon adopted by a select group of countries, including Australia and New Zealand, and recommended as “best practices” by a number of international organizations. The scope for an effective introduction of these new methodologies was substantially improved by the momentous advancement of information technology.

^{4/} Under accrual accounting, financial transactions of government are accounted when the transaction occurs, regardless of the timing of the related cash receipt or payment. Accrual accounting permits the assessment of the full costs of an operation and gives a simultaneous picture of changes (and stocks) of public sector assets and liabilities. Accrual accounting also provides a comprehensive picture of government liabilities (including payments arrears) and permits the establishment of realistic budgets through an assessment of future impacts of current policy decisions.

III. REFORM EFFORTS AND THEIR RESULTS

13. In the design of reform programs for public financial management in Pacific island countries, all these regional and international developments played a considerable role. Given the intellectual appeal, conceptual clarity, and potential operational benefits of the “New Zealand model,” it is not surprising that donors and technical assistance providers in the region tended to lean toward recommending it to PICs seeking to improve their fiscal management. In its full form, the *Public Finance Act 1989* of New Zealand calls for a performance-driven system of management including a far-reaching decentralization of managerial decisions and increase in the delegation of responsibility, as well as a major change in the roles and accountability of almost all parties involved in the process. In addition, the emphasis on a detailed and refined *ex-ante* specification of performance measures is combined with an *ex-post* measurement of the results. The efficiency gains of the system are expected to be maximized in a system of output budgeting^{3/} and accrual accounting (or even accrual budgeting) methods which are widely regarded as “cutting edge” and “best practices” in public financial management.

14. From the mid-1990s onwards, a great number of PICs have endorsed a stronger performance orientation in public financial management and have embarked on programs to move toward output budgeting and accrual accounting, usually with significant financial support and extensive technical assistance from the donor community. These reforms have

^{3/} Output budgeting is an advanced form of performance budgeting under which budgetary appropriations are linked to specific outputs of ministries or government departments and agencies. The definition of outputs in turn permits the establishment of well-defined contracts for delivery as well as a tight evaluation of results, both of which are expected to increase effectiveness and efficiency of budgetary operations.

probably taken most extensive roots in the **Cook Islands** where accrual budgeting was introduced in FY 1998-99, following a two-year phase of output budgeting. A more limited and still incomplete move toward output budgeting and accrual accounting has been made in **Niue**. In the **Federated States of Micronesia**, the Government presented a performance/output-based budget in mid-1999, following an extensive campaign for its introduction and involving substantial external technical assistance. A similar situation applies to **Kiribati** which, however, has already experimented with output budgeting for a number of years.

15. In **Samoa**, a more gradual approach has been pursued under which initial priority was given to the formulation of strategic and corporate plans, followed by the definition of suitable outputs and assessment of their costs, quantity, quality, and timeliness without, however, consistently ensuring logical and operational linkages between outputs and strategic and corporate plans. Annual Appropriations Bills are still presented to the Legislative Assembly on the basis of resources of financial resources required for each agency, although this is accompanied by an attribution of resources to agency outputs. Measurement of performance against plans is undertaken by line managers for submission to Treasury. Corporate plans for ministries and departments have also been developed in **Tonga**, albeit not for all agencies. While general objectives and performance measures are specified in these plans, their measurement continues to present problems and the budget remains in essence focused on the consumption of inputs.

16. In **Vanuatu**, a massive effort was undertaken in 1998 with the assistance of substantial external technical assistance to move directly, and for the public sector as a whole, to a full fledged output budgeting system, including the development of corporate plans and definition of

outputs and their components. Unfortunately, this move was accompanied by a certain loss of expenditure control because the traditional reporting and management tools such as expenditure by economic category were abandoned in favor of the new system. At the same time, the expected benefits of the new system failed to materialize not only because of a lack of qualified staff, but also because the necessary coherence between policy objectives and outcomes on the one hand, and mission statements and outputs by department on the other was not achieved and the definition of meaningful and monitorable indicators of performance proved to be difficult.

17. In Fiji, a comprehensive reform of public sector management included the passing by Parliament of both the *Public Finance Management Act 1999* (PFMA) and the *Public Service Act*. The former was largely inspired by the New Zealand model in that it combined critical components of the *Public Finance Act 1989* and *Fiscal Responsibility Act*, including provisions such as “purchaser-provider arrangements” that seek to exploit efficiency gains from the application of commercial competitive practices in the supply of goods and services by and between government departments. The implementation of this Act was put on hold by the Government which came into office in May 1999 and suspended its application and returned to the old Act for the preparation and passing of 1999-2000 budget. Since then, consultations have been undertaken with various institutions, including PFTAC, on the scope for implementation of the 1999 Act under a more gradual implementation schedule. In September 2001, the new government endorsed the Finance Ministry’s *Proposed Implementation Strategy for the Financial Management Reform (FMR) Project*, under which priority is given to a strengthening of the *Financial Management Information System (FMIS)* on a cash basis. This first phase is expected to be concluded after three years and include progress in the move toward performance-oriented budgeting. Under Phase 2, a partial implementation of the accrual system

under the PFMA is planned, which is to be concluded during Phase 3. The reform project is to be completed with a progressive decentralization of input controls under Phase 4. The duration of Phases 2-4 is left open and will depend on the progress achieved under previous phases, as well as on human and financial resource constraints.

18. In **Palau**, a Budget Reform Act was introduced in July 2001. The Act establishes a “performance budgeting system” that requires the development of performance indicators and improved monitoring procedures. In the **Solomon Islands** the generally weak public administration and, more recently, ethnic strife did not permit advancement of a coherent reform in public financial management. Instead, at various times, governments made efforts to strengthen basic expenditure control mechanisms and cash management, the effects of some of which were reversed after the change of government in July 2000.

19. While some notable improvements have been achieved in selected country cases, the results of these reform efforts have on the whole been disappointing in PICs, and in some cases worrisome. In most countries it has been fairly easy to “sell” the brilliance of the new approaches and their anticipated benefits, and obtain political support for the intended reform. However, implementation on the ground has remained a considerable problem primarily because the reforms were in most cases introduced without sufficient regard to local capacity constraints, notably in management and accounting. The result has been that, with few exceptions, the process has remained driven by external experts and has therefore raised the question of sustainability. Problems with local capacity are aggravated by the frequent failure to build a performance culture and foster ownership of the reforms. In addition, in some countries commitment at the political level is far from complete; and even where it is fairly broad, it is

often not based on a solid understanding of the complexities and costs of implementation. As most of these reforms are donor-financed, this is probably hardly surprising.

20. There are also a great number of technical problems that have impaired success. They are mainly related to (i) the complexities of definition of appropriate outputs and their breakdown into price and volume components; (ii) the meaningful definition and treatment of the quality of services; and (iii) the massive flow of information needed in support of accrual accounting and output budgeting, as well as the monitoring of performance. More importantly, however, the relationship between outputs defined at the departmental level and desired outcomes stipulated at the political level has in many cases remained uncertain, and in some cases questionable. As a result, it could not be assured that the objectives and performance indicators defined and pursued at the departmental level were fully compatible with national policy priorities.

21. An additional problem has been the confusion which all or parts of the reforms have created on the part of those who have to implement the new system as well as those who have a constitutional duty or otherwise to assess, audit, and pass the fiscal operations of government. For example, in the Federated States of Micronesia, the Congress had considerable problems understanding the output budget presented in 1999. It finally approved the budget in principle but demanded that the Government present, six months into the budget year, satisfactory explanations on the usefulness and functioning of the new concept. While this may be part of a learning process, it still raises the question of the content and form of budget presentations that are best suited to allow legislative bodies to exercise their duties in the budget process. No good purpose is served if the complexities of the budget system undermine rather than enhance

transparency and control. Concerns of this sort have also been expressed in the Cook Islands. Care will therefore have to be taken to limit the scope of the reform and disaggregation of fiscal activities to an appropriate level to ensure that the big picture is not lost, the understanding of legislative bodies and the general public ensured, and the link between the strategic objectives of government and their translation into action remains strong and clear.

22. There are also indications that the move from an input-based line item budget system to a performance-oriented output or accrual budget has weakened the effectiveness of some of the more traditional functions under the budget such as cash management or even the control of expenditure more generally. Where this is a teething problem, it is likely to be corrected more or less automatically over time. The problem is more critical when it is a manifestation of more lasting capacity constraints that require a trade off between the effectiveness with which various budget functions can be handled such that progress in one area can only be achieved by neglecting another. In this case, priorities need to be established and translated into a suitable budget process and system.

IV. LESSONS LEARNED

23. Despite some progress in selected countries, public financial management in Pacific island countries is for the most part still far from being satisfactory. Moreover, the results of new approaches to public financial management have on the whole been disappointing. A reassessment of the direction and scope of reform agendas in this critical area of economic management remains therefore necessary, especially with respect to the three principal areas of effective fiscal policy, namely (i) the articulation of aggregate fiscal objectives and their control; (ii) the definition of strategic priorities for public sector activities and the corresponding allocation of resources; and (iii) the operational efficiency and effectiveness of the budget

process. Reforms in these areas should therefore remain high on the agenda of governments, with an understanding that progress does not depend on the wholesale introduction of advanced budget management concepts and systems. There are less advanced and ambitious alternatives that can achieve most of the desired results of “cutting edge” systems at considerably lower resource costs, especially if they focus on such key objectives as expenditure control, transparency and accountability, and performance orientation and audits. Progress in these areas would help ensure compatibility of fiscal policy with macroeconomic stability and support achievement of sustainability of public expenditure and deficits. It would also enhance the legitimacy of government spending decisions and strengthen accountability of ministries and government agencies. Finally, it would make a major contribution to the effectiveness and efficiency of the budgetary process.

24. In support of systematic progress on these objectives, PICs will also have to strengthen a number of management mechanisms which are quite basic, while at the same time being fundamental and urgent. They include in particular:

- *The establishment of well-functioning policy formulation and decision making institutions and processes* that permit a regular and solid examination of the issues, definition of priorities, development of strategies, and translation of decisions into effective action.
- *An adequate and readily accessible information system* that can assist government, administration, and Parliament and statutory bodies in understanding the issues, making informed decisions, and monitoring results, while at the same time increasing transparency and strengthening accountability.

- *An effective "motivation" or incentive system* that encourages and rewards performance and strengthens commitment and ownership.

25. Critical for the success of reform in public financial management is not only the system chosen but also its reach and pacing. Wholesale moves to new systems have the advantage of internal consistency and may strengthen the credibility of the authorities' commitment to reform. However, they also carry the risk of incompatibility with an engrained culture as well as the level of economic development and local capacity constraints. A careful examination of a great number of issues, including in particular assessments of capacity and appropriate sequencing, will therefore have to be undertaken before considerations should be given to implanting entire systems—especially those that represent “best practice” in advanced industrial countries—into developing countries in general, and the small PICs in particular.^{6/} We all like to drive a Rolls Royce but have to acknowledge that it is not an all terrain vehicle, that its maintenance requires special skills, and that its running costs are high.

26. Such an examination of critical implementation issues has generally not taken place in PICs. Moreover, instead of asking what is wrong with the existing system and how can it be improved, more often than not its complete replacement was decided on the sole strength of the conceptual advantages of the new system. However, experience around the world has shown that new budget systems on their own—however successful they are elsewhere—will not automatically achieve improvements in performance in different settings. Particularly important in the context of public financial management is the balance between the delegation of power—

^{6/} A number of recommendations about critical sequencing issues have been made by Professor Allen Schick in a presentation entitled *Getting the Basics Right* (see Appendix I). They are explained in part in the discussion below.

and the related discretion on the part of managers—and political responsibility and accountability for the budget as a whole. This balance depends critically on the existence and strength of a “performance culture” and is likely to differ substantially between countries at different stages of development and with different traditions and hierarchical structures.

27. In public financial management, as much as in any economic policy decision, a careful analysis of priorities and constraints should determine the nature, reach, and sequencing of reforms. In addition, for each part or stage of the reform, a broad assessment of the incremental costs and benefits should be undertaken to ensure that additional costs are justified by additional benefits. The general economic law of declining rates of return applies: refinements of the process surely promise additional benefits but at a progressively diminishing rate and with increasing costs. Where the financial and human resource constraints are tight, as is commonly the case in PICs, the costs of moving to refinements can be particularly high not only in financial and human resource terms but also because of a potential loss of focus and direction.

28. Reform is a process not an event. More important than the achievement of specific results at an early stage is therefore the successful implementation of manageable and efficient processes, the building of skills, and changes in culture and work ethic. This requires time and patience but is also more likely to ensure sustainability. A gradual approach that allows for experimentation and the development of a learning curve by carefully monitoring the results, adapting the approach, and expanding the reach of the reform therefore has many attractions not least because it would at each stage of the reform process give the necessary feedback with respect to capacity requirements and the scope for meeting them and would thereby support sustainability.

29. A more gradual approach may also be advisable because there has generally been a substantial underestimation of the financial and human resources needed to move to more advanced systems of public financial management. This has been true even in New Zealand and Australia and concerns in particular the availability of competent and performance-oriented managers and skilled accountants. Until shortages in these two areas are removed, a comprehensive devolution of management functions and the move to complex accounting and reporting systems carries the risk of undermining rather than strengthening the success of modern forms of public financial management.

30. The experiences with reforms of public financial management systems in Pacific island countries suggest that considerably more attention needs to be given to, first, the analysis of shortcomings of existing systems and practices, and, then, the establishment of priorities for reform, identification of resource constraints, and development of coherent and well-paced implementation plans. For such an approach, the *Questionnaire* which accompanies the IMF's *Code of Good Practices on Fiscal Transparency* and its *Manual on Fiscal Transparency* is an excellent diagnostic tool. The practices and guidelines developed in this set of documents underscore the importance of fiscal transparency for a great number of objectives of public financial management in a comprehensive, coherent and analytically sound way. The *Code* is rooted in the premise that the budget is a living political document that should reflect national objectives and respond to the needs of society. Moreover, the *Code* holds that governments are accountable to the people for the sound design and effective implementation of the budget. The *Code* explicitly recognizes that progress toward these objectives will be affected by diversity in fiscal institutions, legal systems, and implementation capacity prevailing in member countries.

31. The use of the *Questionnaire* has become a standard feature of the IMF's consultation and program activities for its world-wide membership. In the Pacific region, the *Pacific Financial Technical Assistance Centre* has promoted the adoption of the *Code* in the context of the Pacific Forum's FEMM process and has given particular attention to identifying those areas of the *Code*—as well as other elements of sound public financial management—which are of particular relevance to Pacific island countries. In this endeavor, the Centre has adapted the *Questionnaire* to regional needs and circumstances (without diluting its principal objectives and recommendations), while broadening the assessment to include such critical aspects as accounting systems, expenditure control, cash management, and auditing and evaluation of budget execution. The Centre is now actively assisting member countries with the assessment of needs and establishment of reform plans toward better public financial management practices that are both: in harmony with their priorities and constraints and compatible with the standards of the *Code*.

V. OUTLOOK AND CONCLUSIONS

32. Despite some progress over recent years, there is no doubt about the continued need for a strengthening of public financial management in the Pacific island countries. In fact, in a number of countries, there is considerable urgency for decisive action. Nor is there any doubt about the potential benefits of “best practice “ reform concepts and systems. However, before moving toward a wholesale adoption of such systems, assurances must be in place that the reform is achievable and sustainable at the national level. No good purpose is served by introducing overly ambitious systems that collapse under their own weight. Prioritization and careful sequencing and pacing of reform are therefore critical to build momentum and sustain reforms. In addition to a careful assessment of financial and human resource constraints, wider

issues such as culture, politics and constitutional arrangements will have to be considered in this context. Especially in an environment of tight financial and human resource constraints as in PICs, precision in measurement and definition of outputs would appear to be less important than transparency and functioning processes, supported by broad commitment and ownership.

33. In practice, these observations imply that PICs should aim less for the wholesale introduction of advanced systems and more for the achievement of measurable and sustainable improvements in the performance of their own public financial management in support of economic development. This appears entirely possible with well-functioning traditional budget systems, especially if these are adapted as needed to strengthen the performance of particular budgetary functions and to enhance the control and accountability of spending agencies.

34. Experience in the Pacific region suggests that in the difficult balance between ambitiousness and realism the tight resource constraints in most PICs require strong attention to the latter. However, gradualism must not be mistaken as lack of ambitiousness nor should realism be in the way of decisive action. To the contrary, the objectives for priority measures and outcomes can often be set higher when action is more focused, the mission of departments less diffuse, and the likelihood of effective implementation more realistic and sustainable. In cases of doubt, the reform should follow a recommendation which the Australian Treasurer Peter Costello has advocated even for advanced industrial countries: "Keep it simple, keep it focused."

SEQUENCING PUBLIC FINANCIAL MANAGEMENT REFORMS

Under the heading *Getting the Basics Right*, Professor Allen Schick advanced the following proposals for prioritization and sequencing in public financial management during a presentation to World Bank Staff in March 1998.

- Foster an environment that supports and demands performance before introducing performance or outcome budgeting.
- Control inputs before seeking to control outputs.
- Account for cash before accounting for accruals.
- Establish external controls before introducing internal control.
- Establish internal control before introducing managerial accountability.
- Operate a reliable accounting system before installing an integrated financial management system.
- Budget for work to be done before budgeting for results to be achieved.
- Enforce formal contracts in the market sector before introducing performance contracts in the public sector.
- Have effective financial auditing before moving to performance auditing.
- Adopt and implement predictable budgets before insisting that managers efficiently use the resources entrusted to them.