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and Social Development Division

REPORT ON
A NATIONAL TRAINING WORKSHOP
ON
SENIOR FINANCIAL MANAGEMENT
IN THE PUBLIC SECTOR

(Lusaka, Zambia, 22-26 March 1993)

April 1993

CONTENTS

Page

- I Organization, venue and attendance
- II Objective and programme of the workshop
- III Official opening
- IV Summaries of topics discussed
- V Evaluation and closing of the workshop

Annexes

- i List of participants
- ii Closing speech
- iii Case studies

I ORGANIZATION, VENUE AND ATTENDANCE

1. The Public Administration, Human Resources and Social Development Division of the United Nations Economic Commission for Africa (UNECA) organized, in collaboration with the National Institute of Public Administration (NIPA) in Lusaka (Zambia), a national training workshop on senior financial management in the public sector for senior public financial management officials of the Government of the Republic of Zambia. The workshop was held at NIPA in Lusaka (Zambia) from 22 to 26 March 1993 and it was attended by fourteen officials. The list of participants is shown in Annex i to this report.

II OBJECTIVE AND PROGRAMME OF THE WORKSHOP

2. Financial management in the public sector is a continuous process of related operations which contributes to necessary management decisions. It is the political process of mobilizing, allocating and controlling public financial resources for socio-economic development. In Africa countries, the management of these processes has been mixed. For example, the determination of programme priorities in public expenditure programming has been done not in accordance with development objectives thus giving rise to inefficient allocation of public financial resources among competing sectors. Financial reporting needed for the flow of management information to policy makers and for the provision of timely data on government finances has been weak; skills needed for the efficient management of public financial resources have been inadequate.

3. To address the above issues, the main focus of the workshop was, however, on two areas of public financial management: expenditure programming (allocation) and expenditure control. The aim of the workshop in these areas was to assist in upgrading the skills of the participants needed for the better understanding and appreciation of the emerging practices in public expenditure programming and government financial control.

4. The programme of the workshop covered group work for two case studies, "hands on" experience in the use of micro-computers and the discussion of the following topics:

- i Nature and scope of public investment decisions;
- ii Financial Planning: Allocation of public financial resources through budgeting;
- iii Sources and structure of government expenditure;
- iv Nature and scope of public financial management;
- v The use of computers in public financial management;
- vi Project management experience in the Government of the Republic of Zambia.

III OFFICIAL OPENING

5. The workshop was officially opened by Mr. L.T. Amulomba, Acting Head of the Accountancy Training Department, NIPA, Lusaka (Zambia). In his brief opening statement, Mr. Amulomba welcomed the participants and urged them to participate actively in the workshop. Mr. Amulomba, in concluding his statement, thanked UNECA for its support in the building of the training capability of NIPA in the area of public financial management.

IV SUMMARIES OF TOPICS DISCUSSED

A Nature and Scope of Public Investment

6. Scarce resources are used not only to produce consumption goods such as food and clothing but also to maintain, improve, reproduce and multiply so that greater quantities of consumption goods can be produced in the future. This phenomenon of allocating present real resources (land, labour, capital, material) to future production and consumption is the essence of the process of investment. Investment consists not only of improving and adding to buildings, machinery and stocks of materials for production (physical capital) but also through education and training, of improving the quality of people (human capital).

7. Investment can be private (firms) and public (government). Firms invest (that is, create capital because they expect to earn profits. They anticipate that newly created capital will yield a series of returns during its life time which will exceed the costs incurred for its purchase and maintenance. The firm undertaking investment will estimate the net additional profits to be derived from the increased output and these expected net annual receipts can then be expressed in the form of a percentage yield in the productivity of capital or Public investment in the form of expanding a nation's capital, both physical and human. This is viewed as the primary strategy for promoting social and economic development. In order to devote the necessary resources to expand the stock of physical and human capital, domestic savings (individual, corporate and public) have to be increased to finance public and private investment.

8. Investment, public and private, results in increasing national income. As a result of this increase in the national income, further investment decisions may be made resulting in reduced un-employment and consequently an increase in output from increased production.

9. Although investment is recognised as a factor in economic growth and development, there is much dispute as to the way in which the two are linked. While it is true that no nation has achieved a very fast growth rate without a high rate of

investment, there are several examples of nations which have invested heavily and failed to achieve high growth rates. These are nations which have invested in sectors which do not have direct influence on productive efficiency. In assessing the likely effects of investment on economic growth and development, one must look at the type of investment and the sectoral investment. The extent to which new capital is used efficiently is also an important consideration.

10. In the past, the technique for allocating public resources for investment was seen to be best achieved through central planning, comprehensive planning, indicative planning and planning inspired by external assistance agencies. In the 1970s and early 1980s, the limitation of planning became obvious. Many African countries realized that comprehensive planning could not assist them in transforming their economies.

11. There has now been a shift in the practice, method and philosophy of planning toward short term, rolling (investment) planning and public investment programming.

12. The current trend now in planning investment is on public investment programming (PIP) which focuses on two elements: macro-economic framework of policies to spur economic growth and elicit desired behaviour from both public and private entities and a public sector investment programme which allocates scarce resources to high priority public needs.

13. In order to make a viable investment decision, the whole of the project development cycle has got to be taken into consideration as well as the sectoral criteria.

14. Projects grow out of problem or opportunities. A project is born when someone reacts to the level of frustration surrounding a problem or someone sees an opportunity to move into a new venture. When a decision is made to do something, about the problem or opportunity, a project exists. A project is (i) an activity in a specific location such as a construction of a training centre at a place; (ii) a set of inter-related activities taking place in a specific location; (iii) a set of interrelated activities taking place in varied locations. The essential criterion of a project is that it always has a clear beginning and an end.

15. The project development cycle comprises:

- the pre-investment
- the investment and the operational phases

Each of these three major phases is divided into stages, some of which constitute important activities. The pre-investment phase comprises the following stages:

- the identification of investment opportunities;
 - the preliminary project selection and definition (pre feasibility studies);
 - the project formulation or feasibility studies;
 - the final evaluation and investment decision;
- support and functional studying are also part of the project formulation stage. These stages assist in making investment decision.

16. The priority to be given to sectors such as education or health relative to industry or agriculture in public investment entails political choices. Most governments in African countries are organized into sectoral ministries such as ministries of health, education, transport and communication, industry, trade etc. but the precise demarcation of sectoral boundaries varies from country to country. To be able to determine the amount of allocation to be made to one sector relative to another sector, sector analysis will be required.

17. An important contribution of sector analysis is to determine the impact of a sector on the development of other sectors. While sector analysis will be focussed on a sector, it is necessary that the analysis is done in coordination with analysis of other sectors.

B Financial Planning: Allocation of Public Financial Resources through Budgeting

18. The government budget is the principal administrative instrument through which public investment programmes are transformed into tangible achievements. The links between the budget and the investment plan, therefore, should be strengthened.

19. A government budget has two main purposes: to serve as the major tool of executive management and legislative control and to reveal information for significant economic analysis and at the same time to provide the framework for a policy of stability and development. To achieve these purposes, the budget should be comprehensive: all receipts and expenditures resulting from government activities should be included in the general budget; all special accounts including earmarked revenues should be shown as an integral part of the general budget and all public undertakings should generally be included in the budget.

20. For making resource allocation decision, the budget format used is crucial. At the turn of the 20th century, when the budget idea took hold, achieving a single document listing a government's estimated annual expenditures and revenues was regarded as a

major accomplishment, and, given the historical background, it was. In the decades since, budgeting theory and practice have been elaborated, with much energy devoted to experimentation with formats and their supporting procedures and analytical techniques.

Government Budget Formats

21. There are currently five budget format types:

- Line-Item Budgeting (LIB), also known as traditional budgeting.
- Performance Budgeting (PerB).
- Programme Budgeting (ProB).
- Planning/Programming/Budgeting System (PPBS).
- Zero-Based Budgeting (ZBB).

These formats are not neutral in their effects on resource allocation decisions. Thus each is thought to reflect, or produce, a unique ethos, or policy bearing. Table I shows "An Analysis of Budget Formats." As noted, each format is distinguished by reference to a different array of supporting procedures and/or techniques.

22. Table I also classifies each format by a basic question. People think about what is put before them. Different formats encourage different questions and are thought to produce different answers by policymakers.

23. It should be noted that the ZBB approach is hardest to classify, because its recommended procedures can be used to explore public goals, as well as work loads. However, by all reports, ZBB practitioners seem to pour their energy into the description of programme structures (decision packages) and into work load justifications useful in assigning ranking priorities. In addition, the "less," "same," "more" structure of the decision packages tends to concentrate attention on the issues of marginal efficiency within a programme, a characteristic of PerB.

24. Classification of budget items is a necessary tool for linking the budget and the investment plan. The budget can be classified according to organization, objects of expenditure, functions or programmes and economic. Object classifications have proved, however, inadequate since they yielded no information on the objectives of an expenditure such as providing irrigation to a specified area. As a result of this deficiency, alternative budget classifications have been developed which divide government receipts and expenditures into functions, programmes and economic categories.

25. The above mentioned budget classifications are improvements over traditional practices. However, budget classifications should be used to meet the basic requirement

of making it possible to track the public investment programme through line items of budget appropriation and expenditure. This is seldom achieved. Classifications should, therefore, be frequently reassessed or updated to reflect the changing tasks of government.

Table I AN ANALYSIS OF BUDGET FORMAT				
Format	Characteristic	The Question	Orientation	Criterion
LIB	♦ Expenditures and revenues are related to commodities	What is to be bought?	Control	Economy
PerB	♦ Expenditures and revenues related to work loads ♦ Elaborate array of organizational cost centers ♦ Unit costs display	What is to be done?	Management	Efficiency
ProB	♦ Expenditures and revenues related to public goals ♦ Transorganizational cost centers	What is to be achieved?	Planning	Effectiveness
PPBS	♦ Expenditures and revenues related to public goals and benefits ♦ Transorganizational cost centers ♦ Analysis of alternatives ♦ Multiyear projections	What is to be achieved?	Planning	Effectiveness
ZBB	♦ Expenditures and revenues related to work loads ♦ Elaborate array of nonorganizational cost centers ♦ Alternative service and financing proposals ♦ Ranking procedures	What is to be done?	Management	Efficiency

C Sources and Structure of Government Expenditure

26. Definitions of public expenditure and its division between federal and state and local governments may vary greatly from one country to another and even vary from time. Public expenditure can, therefore, be defined widely or narrowly depending partly upon the purpose of study.

27. Government expenditure in African countries has accounted for a rising proportion of the national income. The consequences of a fiscal expansion of government would appear to call for a measure of the budget deficit or surplus. Measurement of total government spending is required in order to examine such issues as how the division of output between public and private goods affects economic growth. Public expenditure consists of expenses on items of economic character and expenses on types of services provided or financed by government.

28. Public expenditure (consumption) expressed as a ratio to gross national product (GNP) is used to demonstrate the size and growth of public spending. Compared with

experience of industrial nations, according to recent studies, governments in African countries are consuming much higher fractions of GDP at their stage of development. No hard and fast rules can be laid down regarding the desirable magnitude and rate of growth of public expenditure, as much depends on the institutional factors and the timing. However, it can be accepted that public expenditure cannot indefinitely grow at an accelerating rate, since public expenditure has to be financed from the available financial resources. Another measure of the growth rate of public expenditure in relative terms is the elasticity, the percentage change of public expenditure with respect to 1 percent change of gross domestic product (GDP). An elasticity larger than unity means public expenditure is growing faster than, GDP, which means that the tax payers burden is increasing over time.

29. Public expenditure is commonly classified by its economic characteristics and by the function or purpose to which it is made. The important economic distinction is between current and capital expenditure. The former includes expenditure on goods and services, interest payments, subsidies and other current transfer. In terms of functional categories, public expenditure figures cover services such as education, health, housing and community amenities together with social security and welfare economic services and miscellaneous.

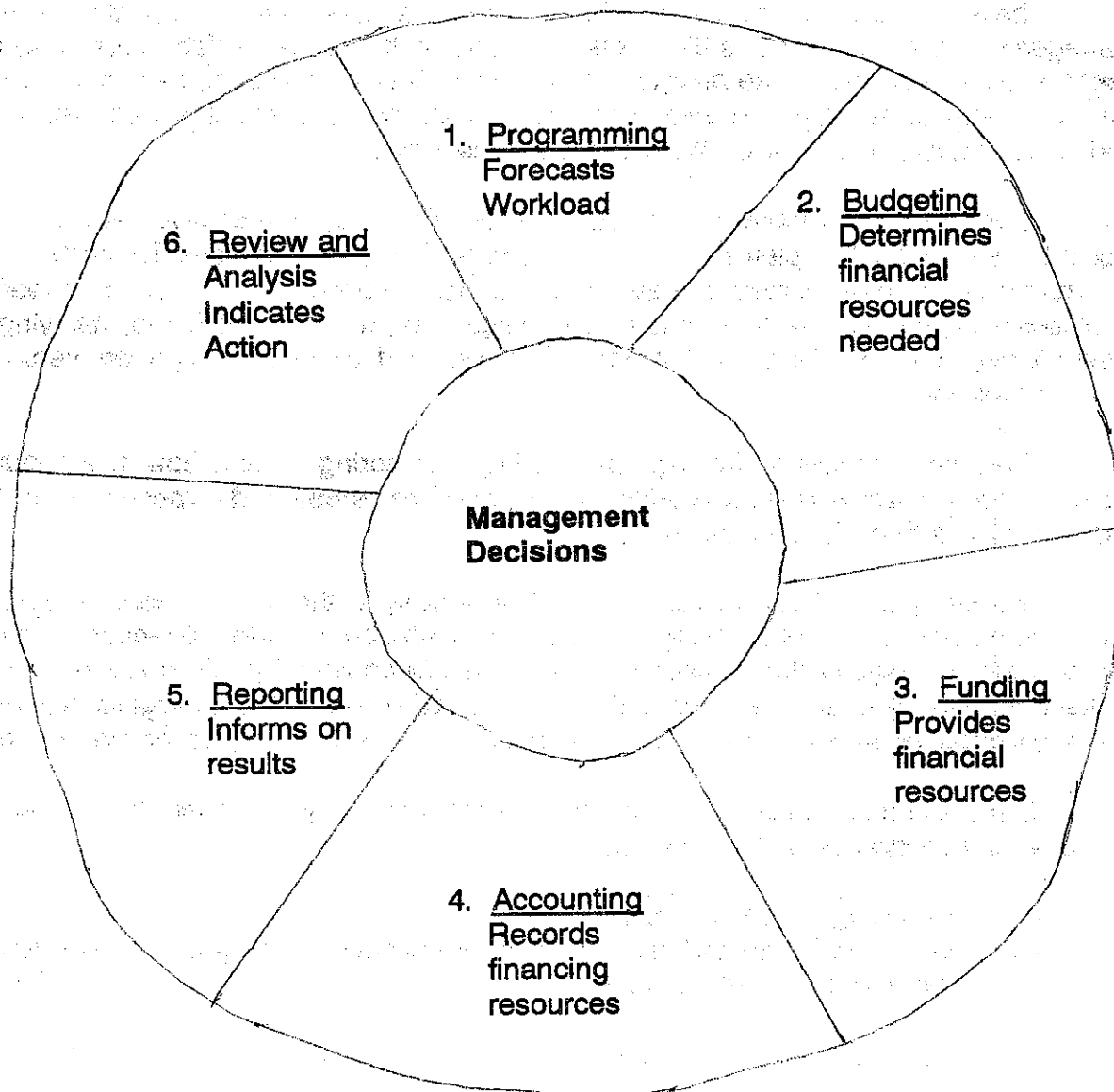
30. The growth of public expenditure in general has been due to interrelated factors among which are political, economic and socio-demographic factors. For instance, it has been found that rapid population growth and subsequently demography transitions may account for a significant amount of the increase in government spending, especially for health and education services.

31. There does not seem to be a strong relationship between the expansion of government spending and socio-economic development. It could be said, however, that government spending, particularly investment, may provide goods that enter directly into private sector production; government spending may also indirectly influence the efficiency of private sector allocation of inputs. If public and private capital formation are truly complementary, government projects may stimulate entrepreneurs and enhance private investment and growth.

D Nature and Scope of Public Financial Management

32. Financial management in government emerges from policy decisions which involve a whole series of policy options or alternatives. The strategic issue in public financial management is how a government may use the information generated from its budgeting and accounting systems to achieve efficient use of resources.

33. Public financial management function can be said to incorporate appropriate programming, budgeting, accounting and reporting practices. Besides providing the basis for accountability, it gives opportunity to evaluate how well and how sufficiently operating management has carried out its assigned responsibilities. Diagrammatically, this function is illustrated below:



Source: UN: A Manual for Programme and Performance Budgeting

34. Planning ahead is an important issue in public financial planning and this consists of the preparation of the annual investment and current budget. In whatever way plans and budgets are planned, a critical step is the development of estimates in order to determine the funds which will be available.

35. The approval of the investment plan and the budget does not end public financial management, the next issue is the implementation of the budget which focuses on the major levers which control the budget in action: the allotment process; transfer of funds, the use of supplementary and emergency appropriations; cash management; resource and supply management; and other control mechanisms.

36. These levers concern the central budget offices, operating agencies and the legislatures in budget implementation. The central budget office uses for control and monitoring of public resources, the allotment process, expenditure ceiling, encumbering appropriations, setting aside reserves for emergencies, impounding funds, delaying of expenditure, retaining flexibility through virement, and clamping down on year-end spending sprees.

37. There are two forms of budget monitoring: monitoring of cash flow in and out of the consolidated funds and monitoring of ministries' revenues and expenditure on the basis of returns from the line ministries.

38. Effective public financial management especially in the area of control requires adequate financial information or reporting. In many African countries, financial reporting systems are inadequate for management purposes because they fail to provide policy makers with relevant information on a timely and regular basis. In this regard, technical and administrative procedures are needed to provide timely data on government finances.

39. There are three basic types of financial reporting in government based on the purpose the reported data are to serve:

- Reporting for accountability;
- Reporting for internal departmental control and reporting for central financial and economic management

Types of financial reporting: purposes, content, and timing			
	Purposes	Content	Timing
1. Accountability	Provide assurance to legislative body that expenditures and receipts conform to statutory authorizations (budgetary appropriations) and financial regulations.	Recording of government transactions for publication in the annual government accounts. External auditor certifies annual accounts showing disposition of budgeted funds and reports on the results of his examination.	Statutory timetable dictates timing.
2. Departmental controls	Enable departments to monitor the implementation of budgetary appropriations and suballocations to agencies and cost centers. Provide basis for management decisions and audit of the activities.	Statements showing allocations and relevant expenditure/receipts to be provided at periodic intervals, according to the nature of the activity. Reports compiled from central accounting system or from departmental accounts, depending on the degree of centralization.	Promptness in reporting is of first importance, but actual rather than estimated results are required for this purpose.
3. Central financial and economic management	Enable policymakers at central level to monitor overall fiscal developments as the year proceeds and take appropriate measures to correct deviations from the intended pattern of expenditure, revenue, and financing items. Enhance central financial and economic management on a wider basis.	Summarized statements showing actual revenue and receipts together with surplus/deficit financing provided from central accounting system, usually on monthly cumulative basis for comparison with budgeted amounts and predicted cash flows. Periodic (quarterly) reviews in light of actual outturns and revision of underlying budgetary assumptions.	For this purpose promptness in reporting must take precedence over need for complete accuracy. Substantial degree of estimation may be required if accounting system cannot provide all necessary figures by due date.

Source: IMF and World Bank: Finance and Development 1988.

40. Government financial reporting system to serve its purposes needs improvements in the following areas:

Accelerating reporting: The problem of timing is probably the greatest obstacle to efficient financial reporting. So efforts must be made to speed up the reporting of data.

Simplifying reporting channels and formats: Decentralized accounting systems usually entail a larger number of reporting channels than centralized systems. A separate reporting channel for central financial management would usually supplement, replace, existing channels.

Monitoring: Assumptions made for the budget estimates and the phased cash flow do not necessarily hold as the fiscal year progresses; major deviations from the

expected may result. These considerations, therefore, call for periodic monitoring on a quarterly basis, at a minimum.

Staffing, organization: For financial reporting to make its full potential contribution, the function needs to be made the responsibility of sufficiently qualified staff, with appropriate administrative arrangements for operating the system on a regular basis.

E The Use of Computers in Public Financial Management 1/

41. Computer technology has developed and continues to develop so rapidly that in every environment, business or otherwise, it would be folly for personnel not to have any working knowledge of this technology. Managers in every field now need to be conversant with computers and their use in their respective fields. Public financial managers are not different in this respect, perhaps more so for them because all business organizations rely on their craftiness for their survival. Now more than ever before, financial managers, be they in the private or public sector need to be able to use computers to make effective financial decisions. Due to its broad coverage, good financial management is crucial to the success of business organisations.

42. The term public financial management encompasses a wide range of financial activities carried out by civil servants. Chief among these activities are the following:

- making investment decisions;
- managing finance in general and assessing the volume of finance required by the departments in order to carry out identified investment decisions and to ensure efficient and profitable operations;
- making decisions about financial resources the department requires;
- controlling the use of such employed financial resources;

The definition of financial management is derived from these activities and can, therefore, be said to be concerned with how organisations choose the investments they make and how they should raise the necessary finance for such investments.

43. The nature of private sector activities implies profit-seeking organisations. The financial management roles are more rigidly carried out in such organisations than in the public sector where the main objective is the provision of services. Organisations within the public sector that have a profit motive also employ the stringent financial management rules similar to those in the private sector. Financial management in the public sector is

1/ Edited version of a paper presented by Mr. G.S. B. Jere, B.A.M.Sc. Staff member of NIPA.

more an "accountability" function although the roles of making investment decisions, determining the volume and type of finances required and the controlling of such finances are similar to those carried out in the private sector. The role of the computer in aiding the carrying out of these functions cannot be overemphasised.

44. Without a computerised financial management information system, an organisation will tend to lag behind in making crucial decisions that can impact upon it for a long time to come. As a strategic planning function, financial management requires to provide managers with information to enable them to make decisions quickly. Only when computers are used in financial management will it be possible to make such quick decisions.

45. A financial management system can be used on mainframes as well as on mini/micro computers. Different levels of management require different types of information in order to facilitate effective operations. Fig. 1 below shows a comparison of applications that can be used for various functions in an organization. Clearly the financial management function is a top level one - a strategic function.

46. Investment decision making encompasses investment analysis and capital budgeting. Computer software is readily available to assist the analysis of investments. Such software have the capacity to calculate the return on capital employed (accounting rate of return), the payback period, the net present value and internal rate of return of discounted cash flow and many more. The software may take into consideration such parameters as inflation and taxation as situations dictate. Capital budgeting facilities are normally part and parcel of these software.

47. In most African countries, very few organizations can afford to acquire generic investment decision software. Due to this, many organizations opt for an easier way out - the use of financial modelling which is best done with the aid of a spreadsheet package. These spreadsheet packages differ in their abilities but perhaps the most powerful is the Excel spreadsheet followed by Lotus 123. Other spreadsheet packages widely used include Supercalc (V5) and multiplan, to mention but only a few.

Fig. 1: SOFTWARE TO AUTOMATE AN ORGANISATION - MANAGEMENT LEVEL AND COMPUTER TYPE COMPARISON

GOALS OF AUTOMATION		SOFTWARE THAT ACCOMPLISHES THE GOALS	
		Mainframes	Micro & Mini Computers
Process volumes of raw data LEVEL 1 OPERATIONAL	Examples of raw data Orders and Bills Accounts Receivable Checks Accounting Transactions Tenant Bills	<p>GENERAL SOFTWARE CATEGORIES</p> <ul style="list-style-type: none"> * Data Processing Systems * Production or Operations * Information systems <p>SPECIFIC SOFTWARE CATEGORIES</p> <ul style="list-style-type: none"> * Billing Systems * Accounts Receivable Systems 	<p>ACCOUNTING</p> <ul style="list-style-type: none"> * Stand-alone accounting packages such as sales order processing and accounts receivable packages * Integrated accounting system packages which combine several stand-alone accounting packages. <p>INDUSTRY SPECIFIC PACKAGES such as</p> <ul style="list-style-type: none"> * Advertising Agency Packages * Property Management * Hotel Management
Transform raw data into useful management information LEVEL 2 TACTICAL	For all the above tasks produce: * Summary Reports * Control Reports * Exceptional Reports	<p>GENERAL SOFTWARE CATEGORIES</p> <ul style="list-style-type: none"> * Management Info. System <p>SPECIFIC SOFTWARE EXAMPLES</p> <ul style="list-style-type: none"> * Marketing Info. Systems * Personnel Info. Systems * Customer Info. Systems 	
Make information more efficient for decision making LEVEL 3 STRATEGIC	Provide data manipulation, inquiry and report generation to suit an individual's personal decision-making style	<p>GENERAL SOFTWARE CATEGORIES</p> <ul style="list-style-type: none"> * Decision Support Systems (for modelling) * Data base management system (for inquiry and reporting) 	<p>GENERAL SOFTWARE CATEGORIES</p> <ul style="list-style-type: none"> * spreadsheet financial modelling and other packages (for modelling) * Data base management system packages (for inquiry and reporting)

48. Investment appraisal and capital budgeting models are created on the spreadsheet and parameters such as best/worst possible outcomes and other probabilities are designed into the model. Any number of projects can be analyzed on the model and the likely result of such an investment can be instantly known. Financial modelling using spreadsheet is perhaps the easiest way of using computers for investment appraisal and capital budgeting. It is also the cheapest as the package in use is a generic one rather than a tailor made one. It is, however, necessary to select a powerful spreadsheet that can calculate complex formulae and, therefore, relevant in investment appraisal.

49. In the public sector, financial modelling using spreadsheet or similar tools would be most helpful during the budgeting process period. Models of both revenue and capital budgets can be entered and the results of various allocations noted at a glance. This would also simplify the process of negotiations involving the amount of funds allocated to various departments in central or local government. The budget committees would find that their workloads would be reduced as calculations would have been taken over by the computer. The following are examples where financial modelling can be used.

CASH FLOWS FROM A STEEL PROJECT

	1989	1990	1991	1992	1993
	(K'000)				
Revenues	230	280	280	280	280
Less Operating Costs	202.3	241.5	241.5	241.5	241.5
Net Cash Flows from revenues	27.7	38.5	38.5	38.5	38.5
Net Cash Flow Before Interest + Tax	27.7	38.5	38.5	38.5	38.5
Interest	15	15	12.8	10.5	8.3
Taxes	0.5	2.4	2.6	2.8	3.0
Net Cash Flow capital Repayments	12.2	21.1	23.1	25.2	27.2
	-	15	15	15	15
Cash Flow to Equity	12.2	6.1	8.8	10.2	12.2
Tax savings on K35,300	3.5				
Increase in after tax cash to firm	15.7	6.1	8.1	10.2	12.2
Cumulative Cash Inflow	15.7	21.8	29.9	40.1	52.3

Internal Rate of Return:

Year	Cash Flows K	DISCOUNT RATES			NPV K	30%	NPV K
		15%	NPV K	25%			
1	15,700	.870	13,659	.800	12,560	.769	12,073
2	6,100	.756	4,612	.640	3,904	.592	3,611
3	8,100	.658	5,330	.512	4,147	.455	3,685
4	10,200	.572	5,834	.410	4,182	.350	3,570
5	12,200	.497	6,063	.328	4,002	.269	3,281
6	14,200	.432	6,134	.262	3,720	.207	2,939
7	16,200	.376	6,091	.210	3,402	.159	2,576
8	107,300	.327	35,087	.168	18,026	.123	13,197
Present Value	of Cash Flow		82,810		53,943		44,932

If initial investment was K51,000 then the IRR Must be higher than 15% and less than 30%. Using interpolation the rate can be worked out as follows:

	Discount Rate	Present Value
	25%	K53,943
	30%	K44,932
Difference	5%	9,011
	=====	=====

The rate is K2,943 above 25%, so

$$\text{IRR} = 25\% + (2,943/9,011) 5\%$$

$$= 26\%$$

ADAPTED FROM: T.M. Kennedy, M.J. MacCormac & J.J. Teeling, Financial Management, Fourth Edition, Gill and Macmillan, Dublin 1989.

50. Another concern of financial management is financial planning, both long term and short term. Financial planning is a necessity in ensuring that an organisation has sufficient funds for operations not only in the immediate year but also over the medium and longterm periods. Such planning takes the form of working capital and cash plans. The financial manager will maintain short and longterm plans for working capital and cash.

51. A good number of the available accounting software feature facilities for working capital and cash planning. Where such facilities are not available, financial modelling is used as a substitute. Alternatively, a programme can be tailor made to perform such planning for a particular organization. Fig 2 below shows some of the most popularly used accounting software that may have working capital and cash planning facilities. Modern technology ensures that generic software such as these are able to interface with each other or with tailor made programmes. The latter can, therefore, collect its data for analysis from an accounting package.

Figure 2

Popular Accounting Software

Pegasus Senior	Access Accounting
Sage Financial Controller	Sunsystems
Apple Accounting	Multisoft
Premier	Tetraplan

52. Cash budgets enable financial managers to plan well in advance how cash deficiencies are going to be met and how excess funds will be used. A good software should be able to give the manager various alternatives from which he/she will select a choice. In Louisiana, N. Bank USA, a system called the FPS (Financial Planning System) was installed to help top level managers (such as the financial manager) in two areas, viz;

- Profit planning and
- Liquidity analysis (working capital and cash).

The system is used by the organisation at the beginning of each month to generate reports. It is also used during the month for other purposes while at the end of each year it is used to facilitate the budgeting process.

53. Investment decisions and capital budgeting as well as assessment of financial requirements are followed by plans of how best to finance the decisions made. Two broad sources of financing exist, either internally from own sources of funds or externally using other peoples finds. Such financing can be either short term or long term. In either case, a computer package can assist in deciding the best course of action required for financing.

54. Two types of software can be used in aiding decision-making over the type of financing required, either Decision Support Systems (DSS) or Expert systems.

Decision Support Systems:

A decision support system is a computer software that supports managers in their planning and decision making roles. The system is an organised collection of people, procedures and devices used to support decision making. In assessing the funds type for example, the DSS would have to have a collection of various types of fund sources, internal and external and also an indication of whether such sources are long or short term.

55. DSSs only support managers and do not replace them in their decision making roles. The systems do not make a decision automatically but are useful for partly structured decisions such as the analysis of types and sources of financing. Human judgement, however, is always required at the end.

56. In the public sector, decision support systems could be used in the analysis of public sector borrowing requirement for central government and other sources of finances in local government. Computers have been known to simulate an economy and enable managers to make appropriate decisions from the results given. Finance ministries or treasury departments have found such computer analysis worth while. In Zambia, NCDP (National Commission for Development Planning) apart from using models could also use DSSs for financial planning.

57. The management of funds entails the control of both working capital and current assets. Although financial modelling using spreadsheet or database packages may be used for this purpose, generic accounting software widely available are able to perform calculations necessary for controlling the use of funds. Such accounting packages as those mentioned in Fig.2 incorporating data for the analysis of accounting records and subsequently the control of funds. The programmes will generate the following data to assist managers in the management of funds:

- Current Ratio
- Acid Test (Quick) Ratio
- Average Debt Collection Period and
- Average Creditors Payment Period

58. Day to day financial management tends to dwell on the interpretation of such and similar data. Fig. 1 shows the type of accounting packages - both generic and specific - that would be used for this purpose.

59. Most packages that can be used for financial management purposes can be used as single- to multi-user software. The latter is possible where the system is networked either as a local area network (LAN) or as a wide area network (WAN)

generic and tailor made software may be integrated with other packages to facilitate ease of collecting data used by the system. Most recent operating system also allow portability of such software across many types of hardware, UNIX being the most popularly used one. New Technology (NT), a window based type of operating system whose beta release was in October/November 1992 is poised to bring such portability to its full use. The NT full version was due out in March 1993. Such operating systems will also ensure that in future many areas of management including financial management will have wider software availability.

60. Computerised information ensures that information is readily available to managers for decision making. In addition unlike with manual data, computerised data cannot easily be lost nor corrupted.

61. It is necessary to consider security implications of any computer systems that an organisation installs. Backup and recovery facilities must be taken into account. The case of Zambia National Provident Fund is an example of a situation where such security may have been overlooked. When the organization's computer system broke down, all computers functions came to standstill. The organization has decided to replace its old computer with a modern one at a cost of K100 million. If measures had been in place to take care of such an eventuality, computer operations would not have come to a standstill when the misfortune took place. Arrangements could have been in place to ensure continuity perhaps even with a bureau or another similar organisation.

62. Security also entails data integrity so that only those persons with authority are able to access data. Management data such as that used by financial managers tends to be sensitive and, therefore, needs to be well secured. In the hands of wrong people, it can be used against the organization to its detriment. Features such as passwords needs to be incorporated into the system. Management information should, therefore, be treated with all the care that it deserves.

F Project Management in the Government of the Republic of Zambia

2/

(i) Theoretical overview

Defining the project

63. Projects grow out of problems or opportunities. A project is born when someone reacts to the level of frustration surrounding a problem or someone sees an opportunity to move into a new venture. When a decision is made to do something

2/ An edited version of a paper presented by Mr. Alfred Sampale, Acting Assistant Director, Human Resources Planning Department, National Commission Development Planning, Zambia.

about the problem or opportunity, a project exists - and, typically, someone is given the responsibility of carrying it out. That person becomes the project manager.

64. When the nucleus of the project team is assembled, its first order of business is to clarify the project and arrive at agreement among team members about the project's definition and scope, as well as the basic strategy for carrying it out.

65. Before mounting to a full scale project, a feasibility study must be carried out to test the preliminary strategy and answer the basic question: "will it work?". Depending on the nature of the project, one or more of the three alternatives will help answer this question. The choices are to do a market study, pilot test, or computer simulation. If the results of a well-conceived and executed feasibility study indicate that the project should proceed, the project team can then move confidently into detailed planning and implementation of the project. If the results are discouraging, the data are used to do a product redesign, followed by another feasibility study, and so on until a successful product concept is identified.

Planning the project

66. Planning is crucial in project management. Planning means listing in detail what is required to successfully complete the three critical dimensions of quality, time, and cost. A work breakdown structure is the starting point for planning all three parameters of a project namely quality, cost and time. It is a technique based on dividing a project into subunits or work packages. Because all elements required to complete the project are identified, the chances of neglecting or overlooking an essential step are reduced.

67. A work breakdown structure is typically constructed with two or three levels of detail, although more levels may be required for very complex projects. It can be constructed starting by identifying logical subdivisions of the project, and then breaking each of these down further. The goal of constructing a work breakdown is to identify a unit of work that is discrete and that advances the project toward its completion.

68. Planning for quality requires attention to detail. The goal of quality planning is to ensure that the output of the project will perform that it will do what it is supposed to do. the quality plan also establishes the criteria of performance by which the project output will be measured when it is completed. Planning for quality entails specifications for quality and types of materials to be used, the performance standards to be met, and the means of verifying quality such as testing and inspection. Two techniques facilitate planning for planning for quality: a work breakdown structure described above and project specifications.

69. From the breakdown structure, specifications for quality can be written for each subunit of the project. Specifications include all relevant requirements to meet the project's quality dimension - materials to be used, standards to be met, tests to be performed, etc. Extreme care should be used in writing specifications, because they

become the controlling factor in meeting project performance standards, and directly affect both budget and schedule.

70. Apart from planning for quality, project planning also, involves planning the time dimension. The objective when planning the time dimension is to determine the shortest time necessary to complete the project. Beginning with the work breakdown structure, time required to complete each subunit can be determined. Next, there is need to determine in what sequence subunits must be completed, and which ones may be under way at the same time. From this analysis, the three most significant time elements will have been determined. These are: a) the duration of each step; b) the earliest time at which a step may be started and, c) the latest time at which a step must be started.

71. Planning the time dimension can best be done by people who have experience with the same or similar activities. If one does not know how long it takes to do something, one will need to rely on someone else who does have the requisite experience. Many project managers find it realistic to estimate time intervals as a range rather than as precise amount.

72. With a time duration determined for each subunit of the project, the next step is to determine the earliest and latest starting times for each subunit. There are two commonly used methods for Charting the project: Gantt Charts and PERT diagrams. A gantt chart is a horizontal bar chart that graphically displays the time relationship of the steps in a project. It is named after Henry Gantt, the industrial engineer who introduced the procedure. Each step of a project is represented by a line placed on the chart in the time period when it is to be undertaken. When completed, the gantt chart shows the flow of activities in sequence as well as those that can be under way at the same time.

73. Some parallel steps can be carried out at the same time with one taking longer than the other; this allows some flexibility about when to start the shorter step, as long as the plan has it finished in time to flow into subsequent steps. This situation can be shown with a dotted line continuing on to the time when the step must be completed. When the Gantt Chart is finished, one can see the minimum total time for the project, the proper sequence steps, and which steps can be under way at the same time. but Gantt charts are limited in their ability to show the inter-dependence of activities. In projects where the steps flow in a simple sequence of events, they can portray adequate information for project management. However, when several steps are under way at the same time and a high level of inter-dependency exists among the various steps, PERT diagrams are a better choice.

74. PERT stands for Programme Evaluation and Review Techniques. It is a more sophisticated form of planning than Gantt Charts, and it is appropriate for projects with many interactive steps. There are three components of a PERT diagram. Events are represented by circles or other convenient, closed figures; activities are represented by arrows connecting the circles; and non-activities connecting two events are shown

as dotted-line arrows (A non-activity represents a dependency between two events for which no work is required). PERT diagrams are most useful if they show the time scheduled for completing an activity on the activity line. Time is recorded in a unit appropriate for the project with days being most common, and hours, weeks, or either months occasionally used. Some diagrams show numbers for time estimated - a high estimate and a low estimate.

75. A PERT diagram does not only show the relationship among various steps in a project, but also serves as an easy way to calculate the critical path. The critical path is the longest path through the network and as such identifies essential steps that must be completed on time to avoid delay in completing the project. The critical path can be shown as a heavy line in the diagram.

76. Project planning further entails planning the cost dimension. There are many reasons for doing careful planning of project costs. To begin with, if one overestimates costs, one may lose before one begins because one is not competitive. A good plan includes the identification of sources of supplies and materials, and this careful research assures that the costs are realistic. The main function of a good budget is to monitor the costs of a project while it is in process, and to avoid cost overruns. The following are typical costs components:

- a. Labour: the wages paid to all staff directly working on the project for the time spent on it.
- b. Overhead: the cost of payroll taxes and fringe benefits for everyone directly working on the project for the time spent on it. Usually calculated as a percentage of direct labour cost.
- c. Material: the cost of items purchased for use in the project. It includes such things as timber, cement, steel, nails, screws, rivets, bolts, and paint.
- d. Supplies: the cost of tools, equipment, office supplies, etc. needed for the project. If something has a useful life beyond the project, its cost should be prorated.
- e. Equipment rental: the cost of renting equipment such as scaffolding, compressors, cranes, bulldozers, trucks, etc. for use on the project.
- f. General and Administrative: the cost of management and support services such as purchasing, accounting, secretarial, etc. for time dedicated to the project. Usually calculated as percentage of project cost.

- g. Profit: in a for-profit project, the reward to the firm for successfully completing the project, usually calculated as a percentage of project cost.

Implementing the Plan

77. The key duties during implementation stage are controlling work in progress, providing feedback, negotiation for materials, supplies and services, and resolving differences. Each one of these components is discussed briefly below.

(i) Controlling work in progress

78. Basically, controlling involves three steps namely, establishing standards, monitoring performance and taking corrective action. Typically, standards for the project were set in the detailed specifications created in the planning stages. The project manager must constantly refer to these specifications and make sure the project team is also referring to them. If the project deviates from the original specifications, there is no guarantee that the success predicted by the feasibility studies will actually happen - the product or project outcome might fail to meet performance standards.

79. Monitoring performance or work in progress is the heart of the critical process. It is a way of knowing what is going on and how the actual compares with the plan. With effective monitoring, it is easy to know if and when corrective action is required. Common ways to keep abreast of project progress include inspection, interim progress reviews, testing and auditing.

80. Interim progress reviews are communicated to those responsible for the various subunits of a project. Progress review can be in a group or on an individual basis, and either face-to-face or by telephone. Alternatively, progress reports can be submitted in writing. Progress reviews typically occur on a fixed time schedule - daily or weekly, or keyed to the completion of project subunits.

81. Testing on the other hand is one other way to verify project quality. Certain tests are usually written into the specifications to confirm that the desired quality is being achieved.

82. Taking corrective action is a third step in controlling. As a project progresses and performance is being monitored, there will be times when actual does not measure up to plan. This calls for corrective action. Caution should, however, be taken not to take action too quickly. Some deficiencies turn out to be self-correcting. It is unrealistic to expect steady and consistent progress day after day. When quality is not according to specification, the customary action is to do it over according to plan, although this may not be an automatic outcome. If the project begins to fall behind schedule, there are three alternatives that may correct the problem. The first is to examine the work remaining to be done and decide whether the cost time can

be recovered in the next steps. If this is not feasible, consider offering an incentive for on-time completion of the project. The incentive could be justified if this expenditure is compared to potential losses due to late completion. Finally, consider deploying more resources. This too will cost more, but may offset further losses from delayed completion.

83. When the project begins to exceed budget, consider the work remaining and whether or not overruns can be recouped on work yet to be completed. If this is not practical, consider narrowing the project scope or obtaining more funding from the client.

(ii) Provide feedback

84. Project managers find many opportunities to provide feedback to those who have a hand in completing the project. Through feedback, individuals learn about the effect their behaviour has on others and on the project's success. It serves to maintain good performance and correct poor performance. To be effective, however, feedback must be handled properly.

(iii) Negotiation for materials, supplies and services

85. Negotiation is a discussion between two parties with a goal or reaching agreement on issues that separate them when either party has the power (or the desire to use its power to force an outcome).

86. For effective negotiations, the following guidelines are essential: 1) prepare, 2) minimise differences, 3) listen, 4) take notes, 5) be creative, 6) help the other party 7) make trade offs, 8) be quick to apologise, 9) avoid ultimatums, 10) set realistic deadlines.

(iv) Resolving differences

87. Skill in resolving difference is an important quality of successful project managers.

Completing the project

88. The goal of project management is to obtain client acceptance of the project result. This means that the client agrees that the quality specifications of the project parameters have been met. In order to have this go smoothly the client and the manager must have well-documented criteria of performance in place from the beginning of the project. This is not to say that nothing can change, but when changes are made, the contract must be amended to list the changes in specifications along with any resulting change in schedule and budget.

89. Objective and measurable criteria are always best, while subjective criteria are risky and subject to interpretation. There should be no room for doubt or ambiguity, although this is often difficult to achieve. It is also important to be clear about what the project output is expected to accomplish. For instance, these three outcomes may produce entirely different results; the project product performs the specified functions; it was built according to approved design, or it solves the client's problem.

90. The project may or may not be complete when results are delivered to the client. Often there are documentation requirements such as operation manuals with complete drawing, and a final report which usually follow delivery. There may also be people trained to operate the new facility or product, and a final audit is common.

91. Finally, project team members need to be reassigned, surplus equipment, materials, and supplies disposed off; and facilities released.

92. The final step of any project should be an evaluation review. This is a look back over the project to see what was learned that will contribute to the success of future projects. This review is best done by the core project team and typically in a group discussion. Project completion checklist and project evaluation form may be designed to enhance evaluation reviews.

(ii) Project planning process in the government of Zambia prior to 1992

93. Prior to the emergency of the Third Republic following democratic elections in October 1991, broad policy guidelines for socio-economic development of Zambia were established during UNIP General Conferences. The earliest General Conference provided guidelines for 1974-84. The General Conference which was held in 1983, provided guidelines for the next ten years up to 1993. These Party General Conferences provided the basis for the formulation of medium and long-term national development plans. Annual plans were also formulated within the framework of the five-year development plans and these in turn provided the basis for the implementation of Government programmes. All in all, the planning process was seen within the context of the policy guidelines formulated by the Party General Conferences and the Government institutions established to implement these policies.

94. The planning process had various stages and was performed in sequence. Project identification which was claimed to be based on national, sectoral or regional planning strategies and policies was usually done jointly by National Commission for Development Planning (NCDP) and project Preparation and Evaluation Units (PPEU) of the line ministries. It should be noted that NCDP had created provincial planning units (PPU) in line with the policy of decentralisation by the UNIP Government.

95. The PPEUs normally handled pre-feasibility studies and project preparation. All projects were then submitted to NCDP for approval. The NCDP ideally examined the technical, financial economic and social feasibility of projects. Once the project was cleared, a detailed programming and budgetary exercise was carried out by the

implementing agency. Subsequently, project implementation including monitoring and evaluation was the responsibility of the implementing agency.

a Project Identification

96. Project identification was usually based on the needs assessment of the population, taking into account physical, human, institutional and financial resources. The needs of the population were assessed through either talking to the people or by looking at past trends in the demand and supply of goods and services and likely trends, or using both techniques.

b Project Appraisal/Ex-Ante Evaluation

97. NCDP appraised projects taking into consideration various aspects of technical, economic and social feasibility of projects during the process of project appraisal. Technical feasibility involved looking at the technological packages optimality of location, scales of operation and points at which diseconomies set in etc. Institutional feasibility involved the identification of constraints related to institutions, training, channels of communication and assessing realism of implementation schedules using network analysis.

98. Financial feasibility was seen from the points of view of the project beneficiaries (net cash in-flow), the project as a whole (project cash flow over its expected life) and the government (cash flow statement justifying grants and subsidies deemed desirable). Economic feasibility was looked at the net benefits in terms of the efficient use of scarce national resources.

99. The Government sought to maximise the difference between total benefits and total costs. Financial and Economic analysis assumed that the Kwacha or the benefits of a project had the same social value for both poor and rich. Through social feasibility analysis, greater weight was attached to benefits which accrued to the poor, to benefits which were saved (rather than spent on consumption), and to benefits which went to the public (rather than the private sector planning) focusses less on financial and economic feasibility and more on institutional and social uses. This in the end led to collapse or near collapse of certain state-run enterprises like UBZ and those in the manufacturing sector.

100. Commercial profitability is the main criterion by which public sector projects can be assessed. However, as market prices were distorted in Zambia, costs and benefits of commodities and services had to be evaluated in terms of their next best, i.e. "Shadow prices" or "opportunity costs". The main problem in public sector evaluation was, therefore, how to obtain appropriate shadow prices for specific commodities, services of unskilled labour, and the "act of waiting" (the rate of discount). The problem was further complicated by the fact that shadow prices depended not only on the purely technological possibilities facing the Zambian economy but also on the

variety of Government policies including taxes, tariffs, quotas, licences and public investment.

c Programming and Budgeting

101. The PPEUs of line ministries normally submitted project proposals with preliminary programming and budgeting. Once the project was cleared by NCDP, detailed programming and budgeting were prepared by the PPEUs (for the sectoral Ministries) and by the project preparation and Review Unit of NCDP (for the parastatals).

102. The artificial budget division into "development (capital)" and "recurrent" expenditure with the former Controlled by NCDP and the latter by implementing agencies, resulted in lack of coordination.

d AID Coordination and Monitoring

103. The planning and "programming cycle" of donor agencies (multilateral, bilateral and NGOs) included programme preparation, implementation, monitoring, tripartite reviews, annual and mid-term implementation reviews and impact evaluations.

104. NCDP had established a National AID Coordination and Monitoring Committee (donors and GRZ Ministries) to coordinate and monitor aid activities. A monitoring unit which acted as a secretariat to the Committee was established in NCDP.

e Data Requirements

105. The planning exercise was often based on a weak data base. Consequently, some projects lacked quantifiable objectives and targets. Hence there was and there is still need to strengthen data collection system at national and subnational levels.

The Role of Monitoring and Evaluation

106. Monitoring and evaluation plays a key role in the planning process as earlier indicated. This involved data collection, analysis, interpretation and use. At the planning stage, ex-ante evaluation focusses on financial, economic, and social analysis of the projects. Through cost-benefit analysis, the usefulness of the project as compared with alternative resource allocation strategies can be examined.

107. In Zambia, the NCDP had the overall responsibility for monitoring programme implementation at the national level. All line ministries were empowered to monitor project performance and take the necessary remedial actions. However, line ministries were required to submit annual reports (mainly financial statements) on the implementation of capital projects to NCDP. Based on the review of these reports and the budget ceilings, decisions were made in collaboration with NCDP as to which projects to terminate or continue at the end of the year.

108. Different multilateral and bilateral agencies had policies and procedures governing the monitoring and evaluation of their respective projects. However, in general, the progress of projects funded through multilateral aid was monitored through monthly/quarterly/annual reports and adjustments were made through the tripartite review mechanism chaired by NCDP. Bilaterally funded projects were monitored through meetings and annual consultations.

109. There was often a weak link between monitoring and evaluation. The failure of programmes could often be attributed to faulty or non-implementation of projects rather than to the effectiveness of the programmes. Hence, the monitoring system could be seen as a necessary adjunct to ex-post evaluations.

(iii) Limitations of government effectiveness

110. The picture which emerges suggests that government intervention or management of economic activities like projects and programmes may not always be beneficial. It is therefore suggested that government limits its intervention to provision of social and physical infrastructure which are not particularly attractive to the private sector because of externalities involved. Hence government should, undertake activities that would compensate for market failures.

111. During the First and Second Republics, it could safely be said that government failure in the economic sphere significantly outweighed market failure. There were many failures, both of omission and Commission in Zambia during the period under review. Failures of Commission included exceptionally high-cost public sector enterprises, engaged in a variety of manufacturing and other economic activities not traditionally associated with the public sector. Notable among them were: National Agriculture Marketing Board (NAMBOARD), which often served as a monopoly distribution network and frequently also provided inputs (erratically and often subsidised) to farmers, state ownership of retail shops like ZCBC, National Home Stores, Mwaiseni, etc. for distribution of foods and manufacturing activities, state enterprises accorded monopoly rights for importing a variety of commodities e.g. NIECOS, Nationalised banking (ZANACO) and insurance (ZSIC) operations; even big luxury hotels were and still are in the public sector.

112. In addition, government investment programmes were highly inefficient and wasteful; government controls over private sector activity were pervasive and costly; and government public deficits, fuelled by public enterprise deficits, excessive investment programmes, and other government expenditures, led to high rates of inflation, with their adverse consequences for resource allocation, saving behaviour and the crowding out of private investment.

113. Complementary to these phenomena were failures of omission: determination of transport and communication facilities which raised costs for many private (and public) sector activities; maintenance of fixed nominal exchange rates in the face of rapid domestic inflation, buttressed by exchange controls and import licensing;

insistence upon nominal rates of interest well below the rate of inflation with credit rationing so that government could supervise credit allocation among competing claimants; and failure to maintain existing infrastructure facilities.

114. As by-products of these failures, large-scale and visible corruption often emerged. Further evidence mounted that many of the programmes and policies that had been adopted with the stated objective of helping the poor had in fact disproportionately benefitted the more affluent members of society. All of these phenomenon took place in the context of pervasive government involvement in, and control over, economic activity through various programmes and projects management.

115. There were other problems of investment/project planning and management under bureaucratic management of public enterprises. Investment planning created shortages, partly because of the deliberate efforts to raise overall rate of capital accumulation and partly because of the inevitable uncertainties in synchronizing planned activities with assured market, producers tended to step up supplies in certain sectors of the economy. The managers of public sector enterprises produced for the captive market. Given the "soft budget constraint" under which they operated (losses incurred by the public enterprises were automatically borne by the government). Over time, the industrial economy became wasteful. It neither generated enough surplus for reinvestment (which was one reason for state intervention) nor was it able to derive sufficient dividends in terms of the growth and the equity objectives of the society for its investments.

116. Another problem Zambia experienced with regard to public enterprise project management had to do with policies. Political pressures often shaped economic programmes and projects in ways that were not consistent with the ideal resource allocation goals initially envisaged. Pressure groups often exerted strong disproportionate influence over policy formulation, and policy execution was far from what had been intended. Corruption and favouritism surrounded bureaucratic allocation of investment licences, import licences, and the awarding of government contracts. Consequently, location of projects was uneconomical resulting in failure.

117. Related to the above points is the fact that the government consisted of a multitude of actors: politicians who sought political support from various groups, bureaucrats, technocrats, ad so on. There were often divisions within each of these groups, and it was rare that any individual or group was unconstrained in its decision-making or implementation functions.

V. EVALUATION AND CLOSING OF THE WORKSHOP

118. The participants, in their evaluation through questionnaires of the workshop, appreciated the joint efforts of UNECA and NIPA for organizing the workshop. More than 80% of the participants gave very good rating for the effectiveness and relevance of the workshop.

119. For future workshops, the participants suggested that consideration should be given to longer duration, the holding of the workshop away from Lusaka and the selection of participants to be of the same level and status.

120. The workshop was closed by Mr. C.Z. Mwale, the Acting Controller of Accounts, Ministry of Finance, Lusaka, Zambia. In his closing speech (see Annex ii to this report). Mr. Mwale said that the workshop was considered important because it was mounted at a time when financial management and transparency in the public sector of Zambia was assuming greater attention. He further said that there was need for adequate public financial management especially when the government of the Republic of Zambia was shifting to open liberal economy.

121. In conclusion, Mr. Mwale, said that the topics discussed during the workshop covered a wide range of aspects of investments and financial management and he expressed the hope that the participants benefited from the workshop and that they would strive to put into practice the skills and knowledge acquired from the workshop.

ANNEX I**List of Participants**

1. Mr. Patson Kakubo - Chief Internal Auditor, Livingstone
2. Mr. David Lombe Kolo - Chief Accountant, Livingstone
3. Mr. Joyce C. Kema - Acting Chief Accountant, City Council
4. Ms. Alfonsina W.M. Ndolo - Acting Senior Accountant, Lusaka Cabinet Office
5. Mrs. Laetitia D. Phiri - Senior Accountant, Lusaka, Lusaka Province
6. Mrs. Brenda M. Mvula - Senior Accountant, Commerce and Industry, Lusaka
7. Mr. Bruno D. Boma - Assistant Controller of Accounts, Home Affairs, Lusaka
8. Mr. George N. Simasiku - Acting Principal Accountant, Lusaka: Community Development
9. Mr. John Lupoleka - Senior Accountant, Finance, Lusaka
10. Mr. Matthaas C. Phiri - Accountant, Cabinet Office Lusaka
11. Mr. W.A. Phiri - Senior Accountant, Finance Lusaka
12. Mr. J. Silungwe - Acting Senior Accountant, a Communication and Transport Lusaka
13. Mrs. Betty M. Nichata - Senior Accountant, Lusaka Environment
14. Mr. Humphrey H.M. Zimba - Acting Chief Accountant, Lusaka City Council

ANNEX II

SPEECH DELIVERED BY MR. C.Z. MWALE, THE ACTING CONTROLLER OF ACCOUNTS, MINISTRY OF FINANCE AT THE OFFICIAL CLOSING OF THE SENIOR FINANCIAL MANAGEMENT IN THE PUBLIC SECTOR WORKSHOP ON 26TH MARCH 1993 AT THE NATIONAL INSTITUTE OF PUBLIC ADMINISTRATION

Mrs. Acting Deputy Principal, National Institute of Public Administration,
The Acting Head, Accountancy Training Department,
Esteemed Resource Person from ECA: Mr. Paul Bassi,
The Course Director,
Course Participants,
Invited Guests,
Ladies and Gentlemen,

It is with honour and privilege that I was invited to come and officiate at the closing of this important workshop of Senior Financial Management in the public sector.

Mrs. Deputy Principal, I should hasten to say that this workshop is of paramount importance and, as such, it should be taken seriously by all concerned. I say this, Mrs. Deputy Principal, because the workshop has been mounted at the time when the issue of financial management especially that of accountability and transparency in the public sector in this country is at its hottest, following the changed political and economic situation in the country.

Indeed, we all have heard at one time or another, or read in the press, for instance, about the outcry from the public over inconsistencies in public expenditures and investments by the Government.

We have also heard about the outcry from the working masses, especially government employees, that their incomes are rather too low thus they feel "punished" unduly by government for being in employment because of lack of adequate financial management controls especially in the public sector resulting in wasteful expenditure.

Furthermore, ladies and gentlemen, with the recent return to multi-party politics under the leadership of the MMD Government, the nation is in the process of shifting from a restrictive and over-protective economy that evolved in the second Republic, towards an open liberal market economy in which the private business-men and industrialists, both indigenous and foreign, are encouraged to invest in business ventures in Zambia. This major shift, Mrs. Deputy Principal, means the increased participation of foreign investors and multinational companies thus the need for adequate financial management controls especially in the public sector. Ladies and gentlemen, it is the intention of the MMD government to re-institute an effective financial management system to control unnecessary expenditures. It is, therefore, incumbent upon you

accountants and economists to advise the government wisely on these issues so that the programme which the MMD government has launched to revamp the economy can bear fruit.

This workshop, Mrs. Deputy Principal, should be looked at as a timely response to government's efforts to address the issues of financial management especially in the public sector. I am more than confident that the workshop has dealt with these issues effectively. I have been privileged to see the content of this workshop which I am about to close and it is my earnest conviction that the participants have no doubt benefited greatly from it. I am glad that the workshop content covered a wide range of aspects on investments and financial management:

1. Nature and scope of public investment decisions;
2. Public investment decisions: the case of Zambia;
3. Financial planning and budgeting,
4. Sources and structure of government expenditure,
5. Nature and scope of financial management,
6. The use of computers in public financial management,
7. Introduction to computers,
8. Project management problems and issues in the regions of Zambia.

To you participants, you should have considered this workshop as a rare opportunity for training and self-development in this most important economic field of knowledge. I should remind you that you are agents of change and development in the area of financial management and that the responsibility to bring about positive change and progress lies squarely on your shoulders. I have no doubt that you have taken the workshop seriously and you will always strive to put into practice the knowledge and skills that you have gained from this workshop. With these few words, I declare the senior financial management in the public sector workshop officially closed.

Thank you

ANNEX III

CASE STUDY I

FACT SHEET

The Republic of Tayoto is a small country off the coast of the continent of Sora. It has a population of 1.2 million, 50% of whom are under the age of fifteen years. Since independence some twenty years ago the population has doubled and is presently growing at 3.5% per annum which will double the population in fifteen years.

The government of Tayoto is made up of 4 ministries namely:

1. Financial Affairs
Economic Affairs, Planning and New Industries and Fishing.
2. Constitutional Affairs
Educational, Health, Social Welfare and Personnel.
3. Infrastructure
Roads, Telecommunications, Electricity, Water & Sewerage Shipping and Aviation.
4. Law and Order
Police, Prisons, Defence and Foreign Affairs.

There is a Minister's group which actually allocate the funds by way of the budget.

The government has promised that civil service salaries will be increased and that priority will be given to finding jobs for the growing population.

All expenditures, capital and recurrent are included in one budget.

The Minister's Group, on the advice of the IMF and World Bank have decided that the deficit for 190-91 should not exceed that of the previous year by more than 10%.

MINISTRY OF FINANCIAL AFFAIRS**1. Financial Dept:**

This section having done its homework had found that the maximum amount of money that can be raised is \$60 million including grants and loans. In making these forecasts, the section has allowed for an increase in Income Tax from 25% to 30%; Sales Tax from 10% to 15% and a reduction in the civil service by 5%.

2. Economic Affairs Section:

Increased budget to open an office overseas to attract prospective investors.

3. Planning Section:

No increase in funds is requested but the economy is certainly not working, jobs are not being created and donor aid is drying up.

4. New Industries Section:

This section proposes to build a new canning factory at a cost of \$10 million to employ 25 people full time and 25 people part time.

5. Fishing Section:

Before independence this was the most important of the islands industries. This section is asking for funds to open a school for fishermen who are, so they say, "poorly trained". The amount of fish caught each year has been declining for the last five years or so.

Your bids for funds are on the attached sheet. You are to discuss whether these are valid and be prepared to defend them both individually and as a Ministry.

To help you

What are your priorities?

Are they in conflict?

Can you come to any compromise?

CONSTITUTIONAL AFFAIRS

1. Interior Section:

This section wants to open more district offices for sub chiefs.

2. Education Section:

This section wants to engage more teachers, provide more equipment and classrooms. All teachers are civil servants.

3. Health Section:

This section is proposing to improve preventive medicine care by employing another ten medical education assistants and also increase the size of the only hospital in Resamu, the capital.

4. Social Welfare:

This section comprises youth affairs, women's Affairs, housing, village water supplies and nersery schoolsfor working mothers.

5. Personnel:

The major cost of this section is salaries since all civil service salaries are paid from one vote. The section is asking for \$3 million increase: \$2.5 million for salary increases and \$0.5 million for new posts.

Your requests are given in the attached sheet. You are required to defend these both individually and as a Ministry which may mean that you will have to revise your bids and/or priorities in the knwoeldge that you will most certainly not receive all you asked for.

To help you:

Are your bids in keeping with the government's aims?

What are your priorities?

If you have to reallocate the funds eventually allocated to your ministry, how will you do this?

INFRASTRUCTURE

1. **Roads Section:**
The roads are in a dreadful state, no funds having been allocated for some years. The section wants to buy a grader and other road building equipment.
2. **Telecommunications Section:**
The telephone system is poor whilst the lack of maintenance leads to frequent break downs. The postal system is poor and slow. This section is asking for \$0.5 million to remedy this situation.
3. **Electricity, Water & Sewerage Section:**
There are frequent power failures due to the fact that the storage facilities for fuel are not sufficient. This is because the state cargo ship is often late in bringing supplies due to engine failure. If the electricity supply was regular, there would be no water or sewerage problems.
4. **Shipping and Aviation Section:**
The island's only means of bringing in heavy cargo is the state cargo ship. This is frequently out of commission due to engine failure. \$4 million is requested to hire a replacement ship whilst the present one goes to Hong Kong for a new engine funded by the Rialan Development Bank.

The island's only airplane used for internal flights and one a week service to Logola needs an engine replacement as well. \$7 million is requested for this including the hire of a replacement whilst it is being repaired. Without the plane, Sholotho will be cut off from the rest of the world and the Minister of Finance has to travel via Logola to Washington to attend an IMF meeting in two month's time.

Your bids are shown on the attached sheet. You are required to defend your bids both individually and as a Ministry and be prepared to reallocate the funds eventually given to you.

To help you:

Are your bids reason?

Are they in keeping with the government's declared policy?

Are your priorities right under the existing circumstances?

LAW AND ORDER

1. **Police Section:**

There is a rising crime rate amongst the unemployed population. More men, vehicles and communication equipment are required to combat the situation.

2. **Defence Section:**

The Defence Force consists of one company of troops and a fisheries patrol boat. The Section Commander, who has just returned from a course at the Riafran Military Academy wants a second company of assault troops and a new patrol boat to protect Sholotho's fishing waters from foreign fishermen.

3. **Prisons Section:**

Because of the rising crime rate the Prison is overcrowded and the International Prisons Board of the U.N. has produced an unfavourable report on this. Money is requested to enlarge it.

4. **Justice:**

Despite being overworked, this section is not asking for any increased funds but requires the Government to give magistrates overtime pay for the extra load they carry. This will cost \$250,000.

5. **Foreign Affairs Section:**

A new embassy is planned for Mazamba. The cost of the property to house the embassy is \$1.5 million.

Your bids are shown on the attached sheet. You are required to defend your bids both individually and collectively for your Ministry. If you have to make cuts because it is more than likely that you will not get the funds you asked for, will you be able to? If so where and how?

To help you:

Are your requests in line with government's policy?

Are your priorities correct?

Are your ministries requests in conflict with one another?

THE MINISTERS GROUP

The draft budget is on the attached sheet as requested by ministries.

You are to provisionally allocate funds to each ministry/section whilst they are preparing their cases to present to you.

You will listen to the presentations and will have to decide whether your provisional allocations are just. You may wish to make changes and question the ministries on their proposals.

Can you defend your allocations?

If you budget for a deficit, how will you finance it?

When you have decided your allocations, announce them with reasons for the cuts and invite replies from ministries.

**DRAFT BUDGET
REPUBLIC OF SHOLOTHO 1990-91**

	Last Year	Request 1990-91	Provisional Allocation
1. Financial Affairs			
Finance Section	2.0	2.5	
Economic Affairs	1.0	1.7	
Planning	1.0	1.0	
New Industries	1.0	15.0	
Fishing	5.0	10.0	
	10.0	30.2	
2. Constitutional Affairs			
Interior	5.0	5.5	
Education	12.0	17.0	
Health	7.0	10.0	
Social Welfare	1.0	2.0	
Personnel	12.0	15.0	
	37.0	49.5	
3. Infrastructure			
Roads	0.0	2.0	
Telecommunications	1.0	1.5	
Electricity, Water,	1.0	1.5	
Sewerage Shipping &	3.0	4.0	
Aviation	5.0	7.0	
	10.0	16.0	
4. Law and Order			
Police	1.0	1.5	
Defence Force	2.0	5.0	
Prisons	1.0	1.5	
Justice	0.5	0.5	
Foreign Affairs	0.5	2.0	
	5.0	10.5	
Total	62.0	106.2	
Total Funds Available	50.0	60.2	
Surplus/(Deficit)	(12.0)	(46.0)	

Case Study II

This case study deals with computerization of a government Ministry of A Land country. The group is asked to give advantages that the computerization effort of the budgetary management of A-Land Ministry of finance and Planning might have achieved.

Computerization in A-land Ministry of Finance and Planning

Because A-land contains some of the more popular tourist areas in Africa, it has had a greater degree of exposure to high technology culture and techniques for information management than have many of its developing neighbours. There has been substantial success in A-land with microcomputers, beginning in the early 1980s, with their introduction in the Ministry of Agriculture and Livestock Development. Since then microcomputers have been applied to a large number of budgetary management tasks, and over two hundred Ministry of Finance employees have been trained to use them.

Because of the multiplicity of elements to be integrated into a national budget, the management and processing of such detailed work required a series of applications interacting with one another. Microcomputers were the choice for this government budget application.

The budget information system comprised four main applications:

- Ceilings preparation process: Treasury officials estimate ceilings for different divisions given the total budget for the fiscal year (FY).
- Estimates preparation process: Using the five-year forward budget of the National Development Plan as a frame of reference. The Permanent Secretary to the Treasury oversees other officials in preparing program outlines describing changes and alterations within principal divisions. An updated forward budget is then revised, printed out, and distributed.
- Expenditure process: Because under-expenditure within the budget is as serious as over-expenditure, a fool-proof monitoring process is required and maintained throughout the FY. This complex process entails keeping track of all daily transactions of all ministries as well as monetary public loan servicing.
- Analysis and audit: In this essential part of the over-all budgetary process the Controller and the Auditor General issue an annual report on the government financial status but sometimes very late.

A great degree of detailed planning was necessary for the successful computerization of the microcomputer applications and networking implied in these integrated processes. Managers and officials had to be cognizant of technical equipment for sending and receiving information already set-up in other levels of the A-land government before they could implement their own system.