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BY THE COMPTROLLER GENERAL 110397

Report To The Congress

OF THE UNITED STATES

Training and Related Efforts Needed To Improve Financial Management in the Third World

Developing country governments continue to experience a shortage of trained financial management personnel which often results in an inability to produce timely and accurate financial data for government decisionmakers In fact, the Agency for International Development and other large international donor organizations have curtailed their technical assistance and institutional support programs in this field Improvements in financial management, however, are essential to ensure that program assistance resources reach targeted recipients among the poor majority and that these programs are run as efficiently and effectively as possible GAO makes recommendations concerning improvements that might be made

UNITED STATES GENERAL ACCOUNTING OFFICE

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D C 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report addresses the need to improve financial management in developing countries, and discusses the shortage of people trained in accounting and related fields who are willing to work for developing-country governments. The types of training and other efforts needed to change this situation are also discussed. Improved accountability for and control over public funds will assist the development process by insuring that government resources are properly utilized and that programs reach those that need them most.

Copies of this report are being sent to the Director, Office of Management and Budget; the Secretaries of State and the Treasury; the Director, International Development Cooperation Agency; the Administrator, Agency for International Development; to interested Government agencies; cognizant congressional committees; and to various other interested organizations and individuals.

Comptroller General
of the United States

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COMPTROLLER GENERAL'S REPORT TO THE CONGRESS

TRAINING AND RELATED EFFORTS NEEDED TO IMPROVE FINANCIAL MANAGEMENT IN THE THIRD WORLD

D I G E S T

The absence of effective financial management in developing countries is a major obstacle to the optimum use of resources, both internal and external, that are available to improve the standard of living in Third World countries. Effective financial management is essential because anything less dissipates available resources and thwarts development. To improve financial management, developing countries must

--develop effective accounting and auditing practices,

--insure the presence of skilled personnel to effectively run their financial management systems,

--develop a comprehensive and up-to-date training program at both the national and regional level of the developing countries, and

--increase their commitment to the realization of an effective training development program and work more closely with the international donor community in this effort.

DEVELOPING-COUNTRY AUDITING AND ACCOUNTING PRACTICES NEED IMPROVEMENT

The major weakness in government accounting in most of the five countries GAO visited is a lack of integrated financial information, produced in a timely manner, that can be used as a management tool in decisionmaking. In many cases financial information developed by government ministries is incomplete, unreliable, and subject to extended reporting delays. What financial management information is developed may, therefore,

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not be very useful. Quite often, central government budget information is not tied in with past and present accounting data, so that past performance is not used to project future requirements and no real comparison of planned and actual financial performance can be made.

Traditionally, Comptroller General offices in developing countries have emphasized precontrol (approval of disbursement requests) or postcontrol voucher audits. These audits are primarily concerned with the legality of transactions with little or no emphasis on financial controls, management systems, program evaluations, or the economy and efficiency of operations. Most Comptroller General offices GAO visited are interested in conducting professional financial audits similar to those by certified public accounting firms as well as economy and efficiency reviews of government programs. Legislative requirements for detailed voucher audits, and lack of trained manpower, however, restrict their efforts.

SHORTAGE OF TRAINED FINANCIAL MANAGERS AND LACK OF GOVERNMENT DEDICATION HINDERS IMPROVEMENT OF FINANCIAL MANAGEMENT SYSTEMS

A severe shortage of trained financial managers exists in the public sector of Third World countries. The GAO study showed that the relatively small number of trained and experienced people in developing countries are often reluctant to work for the government. Reasons for this include low pay and ineffective civil service systems which neither protect career employees from political actions nor provide for merit promotions.

Governments of developing countries need skilled personnel who can plan and budget public programs, develop and operate management information systems (e.g., data processing), account for expended funds, and evaluate program results and relate this factual information to future budgets and plans. Few government officials currently have such skills; those that do are often frustrated by lack of interest on the part of the government in applying modern management procedures and the shortage of skilled people needed to implement them.

Training of skilled personnel alone, however, will not overcome these deficiencies in financial management systems. The host government must be dedicated to improving the systems and must be willing to devote a reasonable part of available resources to this end. In the absence of such dedication, substantial resources could be expended without any real improvements in financial management. Moreover, in situations where governments have accorded a low priority to improving government capabilities, major donors have redirected their resources to other projects, thereby reducing efforts to overcome one of the major obstacles to effective development.

FINANCIAL-MANAGEMENT TRAINING PROGRAMS RECEIVE LOW GOVERNMENT PRIORITY AND ARE OFTEN OF POOR QUALITY

Government interest in providing training in accounting, auditing, and program evaluation outside the Comptroller General's office is currently quite low in most countries. Most government training in the areas of administration and management is concentrated in subjects other than those mentioned above.

Also, training offered by developing-country institutions in financial management and control is often inadequate and of poor quality. For years, accounting and auditing positions in many of the countries GAO visited have been staffed primarily by high school or technical school graduates. Currently, many universities and other post-secondary training institutions are adding accounting courses to their curriculums to upgrade professional qualifications of accountants and auditors.

GAO identified numerous problems with the financial training that is offered in the countries visited. Two of the biggest problems encountered were an insufficient supply of qualified, dedicated, full-time faculty members and a shortage of current textbooks and teaching materials translated into the local language. Assistance is also needed to strengthen developing-country institutions and improve their curriculums.

The Agency for International Development (AID) and other international donors still offer a limited amount of administrative and management training. AID has reduced its program as a result of changing priorities highlighted by the New Directions mandate adopted by the Congress in 1973. This mandate directed AID to provide more direct assistance to the poor majority.

Most developing countries prefer establishing or improving national and regional training to sending people to developed countries for training. One reason training given in industrialized countries is not very popular is the loss of these personnel to the country that trained them ("brain drain").

STEPS NEEDED TO STRENGTHEN TRAINING IN FINANCIAL MANAGEMENT AND PROGRAM EVALUATION

Major donors and recipient governments should work together to upgrade public sector financial management primarily through improved training. A national training plan is a necessary and vital part of this effort. Donors and recipient governments should coordinate their identification of future training needs and should incorporate these needs in such a training plan. Prior and current training experience should be fully examined to identify which training has been more successful as compared to training which should be deemphasized, or even avoided, in the future.

Long-range plans should provide for (1) the training of people to overcome existing deficiencies and (2) other types of assistance, including the provision of facilities and staff to improve the in-country capability for meeting future training needs.

GAO found that there is a need to improve and expand training offered at institutions serving only one country as well as regional institutions serving the nationals of several countries. Additional assistance will be needed for this effort, both by providing more resources and by demonstrating to high government officials how improved financial management and control can help save scarce public funds. In this vein, the U.S. Comptroller General has initiated a fellowship program that is enabling developing-country nationals to receive training at GAO.

CONCLUSIONS AND RECOMMENDATIONS

The serious deficiency in financial management in the Third World is generally recognized as a major obstacle to the effective use of available resources in improving the standard of living in those countries.

There is general agreement that the international community must assist Third World countries in improving financial management in government; however, agreement on the precise measures to insure these improvements is needed. The donor community has been devoting more of its available resources proportionally to programs and projects that have an immediate impact on the poor majority, neglecting the need to improve financial management. One cannot take issue with the efforts being made to assist the poor majority; however, failure to pay more attention to improving financial management will prove to be shortsighted and result in continued ineffective and inefficient use of what scarce resources are available.

In this spirit, GAO recommends that the Congress amend the foreign assistance act, as follows.

"It is the sense of the Congress that improvement of governmental financial management should be given a higher priority within the development process. More of the development assistance resources being made available to Third World countries should be directed toward improving financial management capabilities through more effective training and technical assistance in this field."

The Director of the newly established International Development Cooperation Agency (see p. 4), along with the Administrator of AID, should act to improve the financial management in developing countries by

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--cooperating more fully with other major donors, such as U.N. organizations and the multilateral development banks, in an effort to strengthen regional and national institutions that provide financial-management training to Third World countries;

--determining, at the time of authorizing assistance projects and programs, to what extent the developing-country implementing agency requires training and technical assistance in general management, and particularly in financial management, in order to carry out the U.S.-assisted effort;

--strengthening the U.S. capability to plan, program, and assist in implementing financial-management programs and projects;

--instructing U.S. representatives and delegates to international organizations and other forums to emphasize the benefits to be gained by improving financial management in developing countries and to propose and encourage that the necessary resources be directed toward this objective; and

--convening an international symposium or workshop of major donors and recipients, at the earliest opportunity, to launch a coordinated effort for instituting a financial-management improvement program to remove this major obstacle to development.

AGENCY COMMENTS

This report was reviewed by Agency for International Development officials associated with the programs discussed. Agency officials also attended GAO's February 8, 1979, symposium and commented on the discussion summary of that meeting. (See app. I.) They were generally receptive to GAO's approach. Comments made are incorporated in GAO's report.

C o n t e n t s

ABBREVIATIONS

AID	Agency for International Development
GAO	General Accounting Office
U.N.	United Nations
U.S.	United States

CHAPTER 1

AGENDA FOR ACTION

INTRODUCTION

The absence of effective financial management 1/ in developing countries is a major obstacle to the optimum use of resources, both internal and external, that are available to improve the standard of living in Third World countries. Effective financial management is essential because anything less dissipates available resources and thwarts development. To improve financial management, developing countries must

--develop effective accounting and auditing practices,

--insure the presence of skilled personnel to effectively run their financial-management systems,

--develop a comprehensive and up-to-date training program at national and regional levels of developing countries, and

--increase their commitment to the realization of an effective training development program and work more closely with the international donor community in this effort.

To identify why developing countries do not have sound financial management in the public sector, we visited five countries in Latin America, including some of the more developed and some of the lesser developed. Our work was aimed at identifying major weaknesses in both financial management and training. This was a review not only of U.S. assistance activities but also of other programs designed to improve indigenous financial and management expertise. Our review was planned and executed as a case study and included the public-sector need for trained manpower.

Using the results of our study, we held a symposium on the need to improve financial management and the whole spectrum of public administration in developing-country governments. The panel for this symposium was comprised of 14 experts from academia, business, government, and

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1/Financial management includes accounting, auditing, budgeting, and review and evaluation of the economy and efficiency of government programs and projects.

international organizations. We also invited interested observers who contributed to the discussion. (See app. I for a summary of topics discussed at the symposium.)

The major problems to be dealt with to improve financial management in the developing world, which led us to the following conclusions and recommendations, are discussed in some detail in the following chapters.

CONCLUSIONS

The serious deficiency in financial management in the Third World is generally recognized as a major obstacle to the effective use of available resources in improving the standard of living in those countries.

There is general agreement that the international community must assist Third World countries in improving financial management in government; however, agreement on the precise measures to insure these improvements is needed. The donor community has been devoting more available resources proportionally to programs and projects that have an immediate impact on the poor majority, thereby neglecting the need to improve financial management. One cannot take issue with the efforts being made to assist the poor majority; however, failure to pay more attention to improving financial management will prove to be shortsighted and will result in continued ineffective and inefficient use of what scarce resources are available.

Our symposium panelists agreed that there is a need to further develop both financial management and the broader area of public administration in developing-country governments. Training additional managers and administrators is one task required to upgrade governmental administration and management, and panelists agreed that additional training efforts and commitments are needed by developing countries and donor organizations.

We have long shared the majority view of the panelists and officials contacted during this review, that adequate financial-management systems--including program and project evaluation capabilities--are essential for properly managing the development process. For example, in our recent report on the Sahel Development Program 1/ we stated that

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1/"The Sahel Development Program--Progress and Constraints," (Mar. 29, 1978, ID-78-18).

"The lack of trained administrative and technical personnel is considered by many Sahelian and donor officials to be the Sahelian countries' greatest development constraint."

The report added that there seems to be a chronic shortage of capable program managers, administrators, and financial and accounting personnel.

Before any effective assistance programs can be considered, however, governments and many existing training institutions must first realize the importance of resource management and its potential role in the development process. These organizations must be persuaded to change their often passive attitudes toward these important functions and must then accord relevant training and reform programs a higher funding priority.

Once an increased commitment has been made, governments, with the help of all interested parties, should identify present training in these areas and additional training needs and types of assistance required to satisfy these needs. It should be possible, then, to provide assistance in a more coordinated manner. Specific steps could then be developed by the host government with as much input as possible from international and regional assistance organizations.

Although primary donor organizations have been curtailing assistance for this type of training, the Agency for International Development (AID) has recently begun to reconsider the role that administrative and management development should play as an integral part of the development process. AID should provide a significant increase in assistance to programs and projects. In addition, the Congress should emphasize the need to improve financial management and public administration because administrative and management capabilities are necessary for poorer countries to achieve maximum benefit from their development projects. Further, donor countries and organizations should realize that better management will result in more effective assistance and will provide greater benefit to the poor majority. If the U.S. Government makes a commitment to help developing countries improve their management, other international donors may follow suit.

RECOMMENDATIONS

In this spirit, we recommend that the Congress amend the foreign assistance act, as follows.

> "It is the sense of the Congress that improvement of governmental financial management should be given a higher priority within the development process. More of the development assistance resources being made available to Third World countries should be directed toward improving financial management capabilities through more effective training and technical assistance in this field."

We also recommend that the Director, International Development Cooperation Agency, 1/ along with the Administrator, AID, act to improve the financial management in developing countries by

- --cooperating more fully with other major donors, such as the U.N. organizations and the multilateral development banks, in an effort to strengthen regional and national institutions that provide financial-management training to Third World countries;
- --determining, at the time of authorizing assistance projects and programs, to what extent the developing-country implementing agency requires training and technical assistance in general management, and particularly in financial management, in order to carry out the U.S. assisted effort;
- --strengthening the U.S. capability to plan, program, and assist in implementing financial-management programs and projects;

1/The International Development Cooperation Agency was established by Presidential Reorganization Plan No. 2 of 1979 which prescribed a reorganization plan for the administration of the U.S. foreign economic assistance program. It was assigned the responsibility for policy direction and budgetary control over the program, while the Agency for International Development remained as the principal operating organization for program implementation.

--instructing U.S. representatives and delegates to international organizations and other forums to emphasize the benefits to be gained by improving financial management in developing countries and encourage that the necessary resources be directed toward this objective; and

--convening an international symposium or workshop of major donors and recipients, at the earliest opportunity, to launch a coordinated effort for instituting a financial-management improvement program to remove this major obstacle to development.

CHAPTER 2

DEVELOPING-COUNTRY AUDITING AND ACCOUNTING PRACTICES NEED IMPROVEMENT

The major weakness in government accounting in most of the countries we visited is a lack of integrated financial information, produced in a timely manner, that can be used as a management tool in decisionmaking. In many cases financial information developed by government ministries is incomplete, unreliable, and subject to extended reporting delays. Financial management information that is developed may, therefore, not be very useful.

Traditionally, Comptrollers General offices in developing countries have emphasized precontrol (approval of disbursement requests) or postcontrol voucher audits. These audits are primarily concerned with the legality of transactions with little or no emphasis on financial controls, management systems, program evaluations, or the economy and efficiency of operations. Most Comptrollers General offices we visited are interested in conducting professional financial audits--similar to those by certified public accounting firms--as well as economy and efficiency reviews of government programs. Legislative requirements for detailed voucher audits, and lack of trained manpower, however, restrict their efforts.

CURRENT ACCOUNTING PRACTICES DO NOT SERVE GOVERNMENTAL NEEDS

Financial information not used as a management tool

Many countries maintain accounting systems which produce financial data that cannot be readily used for budgeting and decisionmaking. Most of the problems and weaknesses we found support this general conclusion. Panelists attending our symposium who addressed the subject agreed. According to these panelists, developing-country accounting systems have not been able to produce adequate, timely financial information on which governments could base management decisions. The U.N. publication, "Report of the Fourth Meeting of Experts on the United Nations Programme in Public Administration and Finance," points out that this fundamental weakness in financial management is shared by many developing countries today.

"The link between planning and budgeting processes is * * * weak in many developing countries and needs to be strengthened. Successful working of programme budgeting calls for significant reforms in prevailing accounting systems, training of officials in the new skills and strong support from the political and administrative leadership. The developing countries should accord priority to these measures."

In several countries we visited, there is little communication between government ministries. Generating the cooperation needed to institute integrated financial systems is, therefore, difficult. In fact, each agency has set up its own accounting practices, with little or no regard for its integration or compatibility with similar data in its ministry or in the government as a whole.

Financial information when it does exist in the government sector is often unreliable, incomplete, and unduly delayed. The U.N. study, "Government Accounting in Economic Development Management," shows that, for developing countries as a whole:

"Government accounting is still seen mainly as an accountability device for public receipts and expenditures; its evaluation, performance measurement and managerial functions tend to be neglected. Accounting in the public sector has, by and large, adhered to a bookkeeping or administrative/legalistic approach; the accounts are generally kept according to the cash basis system rather than the accural system * * *. The amount of paperwork is vast, but neither efficiency, accountability nor financial control is improved. Financial decisions tend to be subject to unwarranted delays."

The U.N. study added that accounting data, on which budgets have to be based, is often inaccurate and incomplete. The situation does not appear to be as bad for the state-owned enterprises and autonomous agencies, which are revenue producers. Specifically, in the two countries where we inquired, these organizations have adopted the modern financial management practices of the private sector more quickly. The central government agencies and municipal governments have lagged behind.

Few comparisons of budget and program performance are made

Quite often central government budget information is not tied in with past and present accounting data, so that past performance is not used to project future requirements and no real comparisons of planned and actual financial performance can be made. In one country only 30 to 40 percent of national government revenues pass through, or are reflected in, the national budget because each ministry chooses methods to report accounting and financial data. Quite often these ministries collect and spend government revenues without accounting for them in the national budget. The U.N. study previously cited confirms that in many countries,

> "* * * budget items are rarely assessed from a managerial (performance budget) point of view. A tremendous gap might exist between budgetary estimates and actual receipts or expenditures."

Panelists attending our symposium stated that, in some cases, program budgets have not been fully implemented because of a lack of historical data to plug into the budgets. Financial management practices are often worse at the regional and municipal levels. In one country, for example, it takes from 6 to 8 months to get financial information from the regions to the national capital. Some regional governments simply do not have the qualified people necessary to complete routine financial functions.

In the government sectors of two countries, we found (1) very little cost accounting and (2) no real sense of cost/benefit relationships. The American Accounting Association in its August 1978 study, "Accounting Education and the Third World," concluded that in developing countries throughout the world,

> "* * * a great need exists for cost accounting and the presentation of analyses and various statements for planning purposes and decision-making. The economic development process is in need also of effective cost-benefit measurements for project and program evaluations, and of information for operating measurement, internal organization, pricing, and other management and economic policies."

Lack of parallel development
of accounting and budgeting

In many countries there has not been parallel development of accounting systems and new budgeting systems; therefore, there is often insufficient financial data to compare with budget line items. We were told by officials in one country that part of this problem is due to the past emphasis of international lending organizations on technical assistance in budgeting to the exclusion of comparable assistance in accounting. Some countries have elaborate program budgets that do not work simply because there is no timely or reliable financial data generated to compare with the developed budgets.

Under-utilization of computer systems

Computers and computer systems are often looked upon as a cure-all for inadequacies in financial management systems. Quite often when the computers are received, however, governments lack the personnel trained to operate them. In one country, the Ministry of Finance had 50 percent of its new computer hardware in storage for a year prior to our visit. The remaining 50 percent was under-utilized; it was operated only 6 hours a day and only for certain transactions.

AUDITING AND INTERNAL CONTROL
PRACTICES ARE WEAK OR NONEXISTENT

In most countries visited, internal control and post-transaction auditing practices were minimal or nonexistent. A U.N. study pointed out that in most developing countries, "Productivity appraisals are ineffectively carried out * * *." Many government ministries do not have internal audit staffs. Those in existence, however, are generally not staffed with trained personnel. A recent U.N. study, stated that performance evaluation constitutes another neglected area in government accounting and budgeting.

For the most part, Comptrollers General offices traditionally tend to emphasize precontrol, or approval of, disbursement requests. In addition, 100 percent of government expenditures are subject to the detailed review of the Comptroller General offices in some countries, either through approval of major expenditures before they are made, or in post-control voucher audits of governmental financial transactions. These voucher audits, however, are primarily concerned with the legality of transactions with little or no emphasis on internal controls, economy, or efficiency.

The American Accounting Association study concluded that,

> "* * * in a number of developed and developing countries, audit institutions have been set up by the national legislatures, independent of the executive branch of the government, to aid the legislatures in performing these [auditing] tasks. The traditional concepts of control and accountability were, however, somewhat narrowly defined in terms of verifying whether the government transactions were in accordance with the sanctions of the legislatures. Consequently, audit functions were limited and concentrated on checking the financial correctness and legal propriety of government transactions."

In one country, most new legislation stipulates that the Comptroller General's Office will conduct a detailed voucher audit of all financial transactions. These accumulated requirements for voucher audits of all transactions tie up most of the Comptroller General's professional staff time, allowing little opportunity to conduct professional financial audits--similar to audits of certified public accounting firms--and economy and efficiency reviews.

Most Comptrollers General offices expressed an interest in conducting these types of audits, but stated that existing legislative requirements and insufficient trained manpower restricted efforts primarily to the detailed financial reviews of individual government expenditures. In one country, for example, both the Ministry of Finance and the Comptroller General's office are required by law to review government expenditures to determine adherence to budgetary limits.

CHAPTER 3

SHORTAGE OF TRAINED FINANCIAL MANAGERS IN THE PUBLIC SECTOR CREATES MAJOR PROBLEMS FOR EFFECTIVE FINANCIAL MANAGEMENT

A severe shortage of trained financial managers exists in the public sector of Third World countries. Our study showed that the relatively small number of trained and experienced people in developing countries are often reluctant to work for the government. Reasons for this include low pay and ineffective civil service systems which neither protect career employees from political actions nor provide for merit promotions.

Trained financial managers are needed to provide the necessary information to enable country leaders to assess the actual results of their major development initiatives. The information they provide will help make managers accountable for program results by assisting them in finding out what actually happened, and in understanding the causes and the significance of deviations from their plans.

THE SHORTAGE OF TRAINED MANPOWER CREATES MANAGEMENT PROBLEMS

In all five countries visited, government officials, businessmen, and officials of international organizations and foreign embassies agreed there is an urgent need for trained financial technicians and managers in the public sector. These needs are illustrated by the following observations:

--Because of a lack of well-trained government officials who can record and account for development funds, and a general lack of understanding about managing finances, AID programs in one country were delayed and made less effective.

--In another country, government ministries cannot determine how much they have received from AID and have to request such information from the Agency. AID also has to reconcile government records to their own about once a year. Government officials, however, do not resent this involvement because they realize the government lacks the expertise to account for these funds. A regional development bank noted similar problems. Small and medium size borrowers, especially, cannot document their cash flow and, thus, may not be making the best use of their loans.

--A study of the national development bank in another country noted serious weaknesses in the development banking system partially due to the lack of trained personnel. The study found that there was no effort made to match project progress with cash disbursements on their development loans.

--Frequently, economists and other employees are used to fill accounting and auditing positions because of a shortage of trained people. Economists often have a poor understanding of accounting principles, however, and using them to fill acounting positions is not satisfactory, according to one Comptroller General.

TRAINED FINANCIAL MANAGERS PREFER NOT TO WORK IN THE PUBLIC SECTOR: THE REASONS WHY

Those relatively few people trained in financial management normally do not opt to work in the public sector for reasons discussed in the following sections.

Low salary levels

Most trained accountants and auditors prefer private-sector employment because of low salary levels in public jobs. Government agencies have had great difficulty hiring and retaining trained people because of this factor. Some employees, for example, would enter business right after college. Others, however, would join government agencies (some for the sole purpose of receiving training at government expense), and would then join a private company following their training.

An industrial development center had a 45-percent turnover due primarily to low salaries. When salaries were increased, towards the end of the project, the turnover rate decreased. Further, many government employees are underpaid and have one or two other jobs. These employees tend to neglect their government jobs to concentrate on their private-sector work.

Pay incentives have helped government offices in one country compensate for employee turnover. For example, the Comptroller General's office encourages continued education by offering incentive pay increases ranging from 5 to 40 percent over a 5-year period, based on the number of credits received. The Ministry of Finance there provides a 30-percent salary differential to its accountants.

Low professional status

Another problem governments (and the accounting profession as a whole) have in attracting trained accountants and auditors is the low esteem accorded these professions in many countries. In most countries we visited, accounting is considered to be one of the least prestigious of all professions. Economists and engineers are both considered of higher status than financial managers. One official equated accountants with floor cleaners, in terms of public esteem.

The Director of the Institute of Administration and Management at a major university advises high school students who want careers in accounting or auditing to first obtain degrees in engineering to give them more flexibility and prestige. In addition, the quality of undergraduate training in that country is better in engineering than in accounting. The Director then advises these students to get hired by a major certified public accounting firm which could finance further education in accounting.

Absence of effective civil service systems

In many countries, advancement depends less on merit and more on political connections. In one Comptroller General's office, all 500 employees are appointed by the Comptroller General. The government of that country did a study showing that because there were no strong civil service laws, appointments were being made through political connections rather than on merit.

Well trained people leave public service for the private sector because advancement in private enterprise is based more on merit than on politics. Advancement through merit in the public sector is much more difficult. Higher postions do not necessarily go to the most qualified; political connections often count more than ability.

Career tenure systems in the public sector are rare. Therefore, university graduates generally prefer private-sector employment where they have job security. One official estimated that of approximately 1 million government workers in one country, only 5,000 employees have career tenure. The rest can be fired for any reason. This situation was also found to exist in another country which had no career tenure civil service system. In several countries, particularly those with more resources, government-owned and mixed-capital corporations, when compared to government ministries, pay higher salaries and offer career tenure and merit promotions. These enterprises, operating more like privately owned businesses, attract better qualified people.

GOVERNMENTS HAVE LITTLE HOPE OF IMPROVING FINANCIAL MANAGEMENT WITHOUT SUFFICIENT TRAINED PERSONNEL

Public administration systems that cannot retain qualified financial experts have trouble maintaining program continuity and have little hope of improving resource management. Lack of continuity of skilled professionals in turn makes it even more difficult to implement badly needed governmentwide integrated financial systems and other badly needed accounting and auditing reforms. In two countries, comprehensive financial reforms for the government sector have been enacted into law but not implemented due to the shortage of trained financial personnel and the low priority accorded their implementation. One international organization official stated that developing countries usually do not have much continuity in key government positions and have not established serious development training plans. He felt the net result has been a substantial waste of public funds.

CHAPTER 4

FINANCIAL MANAGEMENT TRAINING PROGRAMS RECEIVE LOW GOVERNMENT PRIORITY AND ARE OFTEN OF POOR QUALITY

Government interest in providing training in accounting, auditing, and program evaluation outside the Comptroller General's office is currently quite low in most countries. In addition, training offered by developing-country institutions in financial management and control is often inadequate and of poor quality. Most government training in the areas of administration and management is concentrated in subjects other than those mentioned above. For years, accounting and auditing positions in many of the countries we visited have been staffed primarily by high school or technical school graduates. Now many universities and other post-secondary training institutions are beginning to add accounting courses to their curriculums to upgrade the professional qualifications of accountants and auditors.

We identified numerous problems with the financial training offered in the countries we visited. Two of the biggest problems we encountered were (1) an insufficient supply of qualified, dedicated, full-time faculty members and (2) a shortage of current textbooks and teaching materials translated into local languages. Assistance is also needed to strengthen developing-country institutions and to improve their curriculums.

AID and other international donors still offer a limited amount of administrative and management training. AID has reduced its program as a result of changing priorities highlighted by the New Directions mandate implemented by the Congress in 1973. This mandate directed AID to provide more assistance that would directly benefit the poor majority.

Most developing countries prefer establishing or improving national and regional training to sending people for training in developed countries. One reason training given in industrialized countries is not very popular is the loss of these personnel to the country that trained them ("brain drain").

GOVERNMENTS ACCORD FINANCIAL MANAGEMENT TRAINING LOW PRIORITY

One factor limiting the provision of training is the low priority developing-country governments have accorded financial management and control compared to other areas of development. One official stated that, in his opinion, financial management is accorded a lower priority than any other sector of public administration--which itself is not given a high priority. Governments have been reluctant to provide much money to train financial and program managers and, consequently, to upgrade accounting and auditing systems. For example, inadequate funding has been the main constraint to the growth of one Comptroller General's school program. In that same country, it was stated that of more than 500 Comptroller General office employees, only 3 are university graduates. One reason is because many people cannot afford to attend school for 5 years full-time without earning regular incomes. Employees of this office are now qualified for routine work but not for more necessary specialized audits, such as program performance reviews. Two countries we visited, however, have shown some interest in improving their financial management by requesting projects from international donors to reform government budgeting and accounting systems.

One reason training in financial management and program evaluation has received a low priority is because governments do not understand the need for such training. In some countries, major government agencies, such as the Ministry of Finance, have little understanding of the contribution that sound financial management and review practices can make to sustained national development. As a result, these offices provide no training in this area. Panelists attending our symposium agreed that governments do not understand the benefits to be derived from proper accountability of funds and from program and project evaluation that would enable them to amend or cancel marginal projects. Further, governments often have not identified their own needs in these crucial areas.

International organizations are cutting back their assistance to public administration and finance programs. A major institute for public administration has had to eliminate or reduce certain activities because of inadequate funding resulting from low government priority. Budgeting and accounting courses were dropped in 1976 for this reason. Another program which involves editing and publishing course material and textbooks at reduced rates has also been hampered by a lack of funding.

Another reason so little attention is given these important subjects is a lack of student and university interest in training in accounting, auditing, and related subjects. A large program in one country with over 13,000 active scholarships, for example, has only three students majoring in accounting. Another 503 students are enrolled in the general areas of administration (430) and management (73). No other students are majoring in areas related to financial management. Student demand for these subjects would have to increase before improvements could be made.

WEAKNESSES IN TRAINING AT NATIONAL AND REGIONAL INSTITUTIONS

Training offered in financial management and control given by developing-country institutions is often inadequate and of poor quality. For the most part, it does not prepare graduates for careers in the accounting and auditing professions. Training in auditing computer operations is particularly weak. The training which privately run universities and institutes offer, however, is generally considered to be better than that given by public institutions.

Shortage of qualified instructors and modern teaching materials

Two important deficiencies, noted primarily in public university-level training programs, are (1) an insufficient supply of skilled and dedicated full-time faculty members and (2) a shortage of current textbooks and teaching materials translated into local languages. The American Accounting Association study referred to shortages of teaching staffs, materials, and physical facilities as the "greatest weaknesses in accountancy training in Third World countries." Officials in all five countries we visited also mentioned these problems.

Because of low salaries which require professors to seek other sources of income, many professors teach only part-time and, thus, are not able to devote sufficient attention to their courses. Also, many students attend classes part time. Because they work during the day and attend school at night, learning is even more difficult for them. Other problems include (1) apathy of some professors who do not attend all classes and (2) professors who are not fully qualified.

Many officials believe that either foreign instructors or more foreign-trained local instructors are needed to develop suitable curriculums and to provide better classroom instruction. Further, some officials preferred having developed-country instructors go there to teach on exchange programs, although others wanted to send local instructors, or those capable of teaching, to developed-country universities for training. A private university, for example, has several graduates pursuing masters degrees at U.S. universities.

Several universities who want to start masters programs do not have the required number of professors with masters degrees. One university in this predicament has arranged for qualified professors from the national university of another country to teach there. By upgrading local university programs, officials might generate more student interest.

Obsolete texts are in use because up-to-date translations of foreign texts are often hard to obtain primarily because they are too expensive; good local texts are in many cases nonexistent. At least one university is still using a translated copy of a 1932 U.S. accounting text. The Director of the School of Business Administration of a national university added that obtaining translated copies of U.S. textbooks is one of their major problems. Some officials, however, believe educational materials, including case studies, should be developed or amended locally so they are more relevant to developing-country conditions. Straight translations of U.S. textbooks are not satisfactory, they believe, because developed-country instructional materials do not relate accounting theory to developing-country realities.

University and graduate-level programs are not adequate

University and graduate-level programs in accounting, auditing, and program evaluation are relatively new to many institutions. Universities in one country began granting accounting and auditing degrees as recently as 5 years ago. In addition, one Catholic university (8,000 students) in a large city began its undergraduate business administration program approximately 4 years ago. Graduation for the first class of 35 or 40 students was scheduled for this year.

One university does have a public administration program but it is poorly attended; few people want to be qualified only for government work. Some of our symposium panelists stated that developing-country universities are not, for the most part, emphasizing subjects related to public administration and financial management. The American Accounting Association study, "Accounting Education and the Third World," stated that government-operated, financial/administrative institutes, which train the majority of government accountants tend to emphasize existing practices and methods and neglect newer and more relevant government administrative developments such as budgetary techniques and cash-flow accounting.

Private accounting firms and Comptrollers General offices have recognized the need to provide even the most basic accounting and auditing training to supplement university and other institution programs. College graduates must be included because universities, particularly public institutions, do not properly train students.

In addition, many officials questioned the relevance of university training to public-sector accounting and auditing. They claimed that universities do not generally offer training tailored to public fund management because their courses are more business-oriented. Some officials feel that current training does not place proper emphasis on cost-benefit analysis for the public sector. Case studies used by the national university in one country, for example, deal with multinational companies and are not relevant to problems affecting the public sector.

An increase in both the quantity and quality of accounting and auditing courses is, therefore, considered important. Accounting courses in training institutions are weak at all educational levels, and curriculums must be periodically updated. Symposium panelists believed that more specialized training in accounting and related subjects was needed rather than additional training in generalized subjects.

A high priority need is training in the operation of, and auditing through, electronic data processing systems. In two countries, for example, equipment was purchased before people could be trained to operate it. We believe this is an area where U.S. businesses (possibly on U.S. Government contracts) might best be able to render training assistance.

According to some of the documents reviewed and officials contacted, more training is also needed in the general areas of budgeting, taxation, cost-benefit analysis, and government accounting and auditing. The U.N. publication, "Government Accounting in Economic Development Management," lists 13 topics which a government accountant training program should include.

<u>Training institutions need strengthening</u>

Assistance is needed to strengthen existing training institutions and universities. Cooperative efforts are being made to improve their programs in accounting, auditing, and related subjects. As part of this effort, members of international certified public accounting firms are now beginning to teach at these facilities.

In spite of the deficiencies in their accounting and financial management education programs, universities in one country are openly hostile to training provided by government agencies and private institutes. Universities have attempted to absorb the Comptroller General's school in this country even though they lack the ability to offer this type and quality of financial training.

Experts have suggested creation of government training centers and international centers to train accountants and auditors. The latter might be established on a regional or sub-regional basis. In addition, public administration institutes and other specialized training institutes have been used in several countries. Business schools in developing countries can also teach financial management and accounting skills to government employees, particularly those with public corporations and cooperatives that are more business-oriented.

Coordination of training programs is not effective

The national planning office is often responsible for coordinating training given by government agencies. In one country, however, they have been so slow in distributing training information that course announcements were often received after it was too late to send participants. Duplication of government-sponsored courses may be the result of poor coordination. This particular national planning office began their coordination efforts about 3 years prior to our visit in an effort to eliminate course overlap. Their efforts to that point had not been completely successful. The problem in another country is the lack of a systematic, centralized program for projecting human resource needs or for coordinating training.

Lack of cooperation may also be the result of professional rivalry and jealousy. Instead of pooling the scarce resources of qualified instructors and up-to-date textbooks, government agencies, universities, and private institutions have, in many cases, been working independently.

AID ASSISTANCE

The AID program in public administration and finance has been declining since the 1960s when its emphasis was on higher education. In 1973, because of concern over the emphasis of the AID program, the Congress mandated the Agency to refocus efforts to provide more assistance directly to the poor majority. The Congress stressed that AID should concentrate its efforts in the three key sectors of food and nutrition, population and health, and education and human resources development.

Technical assistance plus supporting assistance levels dropped from $28.3 million in fiscal year 1967 to $14 million in fiscal year 1973. Further, AID had a centralized division with 22 staff members back-stopping their field program in 1959 (when program activity was still increasing), while in 1979, according to an Agency official, only two permanent staff members are working on public administration programs in Washington. The fiscal year 1979 AID request for administrative and managerial education was reduced by the Congress from $11.6 million to $9.2 million. A Senate committee recommended this reduction because they felt AID should reorder its priorities to place more emphasis on primary education and less on higher education.

AID has recently been reconsidering the role that improved administration and management should play as an integral part of the development process. During 1978 congressional hearings, an AID official testified that although activities to strengthen administrative and managerial capacity in developing countries does not directly affect the poor, and often involves the training of people who do not come from impoverished backgrounds, they are a critical component of any balanced strategy of economic development. Primary school teachers, village-level workers, and others working with the poor need to be backstopped by administrators, planners, and managers who can effectively deal with the problems and concerns of the poor. In 1979, the same official stated that the Agency's reaction to the congressional mandate was almost an over-reaction. Under the atmosphere that prevailed at the time, public administration was squeezed out.

Some AID officials now believe their initial interpretation of the New Directions mandate was too narrow. They have to be concerned with their main objective of assisting the poor in the most essential areas. The Agency is trying to develop a context in which the poor can prosper to close the gap between themselves and the richer population. An AID official added that, on the whole, the Congress understands this concept and has permitted AID to take a somewhat broader interpretation of their original directives. During the 1978 hearings, for example, one Congressman stated that although a larger part of the AID education and human resources program must be programed to reach the poor people in a direct manner, some higher level education assistance is needed to improve the quality of professional administrative personnel.

TRAINING SPONSORED BY INTERNATIONAL DONORS: ITS WEAKNESSES

International organizations and developed countries have provided little training in financial management and program evaluation. Some countries, however, have had problems with the limited training provided by these donors. Training in some of these countries has been at too high a level for local employees to comprehend and, in some cases, international organizations have sent highly educated experts to teach more advanced subjects than local needs dictate. Some advisers have used conflicting approaches to the same problem, while at other times their advice simply did not work. Other advisers have provided developing-country governments with valuable assistance in reforming their national accounting and auditing.

International assistance organizations often do not seriously coordinate their activities. An official of one organization stated that local representatives are not forced by their headquarters to coordinate and integrate activities; he feels that pressure from the top is needed. Another official believes recipient governments should be more active in coordinating international assistance.

In the countries we visited, the training offered in developed countries' is not very popular because of

--lack of relevance to developing countries' situations,

--high cost for each person trained (more people can be trained at home for the same amount of money), and

--loss of trained personnel.

Graduate training given in the United States and in other developed countries may not properly prepare foreign nationals for situations at home. Training foreign nationals at U.S. educational institutions prepares them for the U.S. labor market, not for the conditions and needs that exist in developing countries. Students returning to work for their governments can become quite frustrated because they often cannot put modern concepts and theories learned in the United States into practice.

Selection of participants to attend these programs is another problem associated primarily with overseas training programs because the most qualified and dedicated participants are not always chosen. Study trips to the United States and other developed countries are sometimes provided to relatives and political acquaintances. These trips can become, in effect, little more than extended vacations and shopping trips for the elite rather than a serious effort to learn new ideas that can be applied back home. The selection process for overseas training must, therefore, be handled very carefully.

Although many officials we contacted generally believed training should be offered at home or in a nearby regional institution, some believed a limited amount of high-level training offered in developed countries is desirable, particularly as developing-country financial control systems become more advanced. Top-level managers with sophisticated skills will be needed then.

"BRAIN DRAIN"

People that do receive government-sponsored training quite often leave public service once they are trained. This outflow of skilled personnel, known as "brain drain," has two major components, according to the "Report to the Fourth Meeting of Experts on the United Nations Programme in Public Administration and Finance." One component is the emigration of highly qualified people from developing countries and includes students attending developed-country universities who fail to return home upon graduation. The other component is the loss of skilled personnel employed by developing-country governments to the private sector. Though such persons are still resources available to the country at large, their exodus from the public sector adversely affects the government's ability to provide needed services. The U.N. report added that the loss of qualified personnel by public agencies, particularly at the senior level, is a serious problem in many countries.

"Brain drain" was described as a major problem in the countries we visited. The latter type, loss of skilled personnel to the private sector, was considered more serious. The former type, emigration of highly qualified people, seems to be more of a problem in poorer countries. Skilled personnel are more anxious to leave these countries than those with higher standards of living.

Governments have taken some steps to compel employees to remain in public service after training and participants are often required to sign agreements to return to their public jobs. These agreements, however, are ignored by many, and considered by some officials to be unenforceable. In one country, however, they must be signed by (1) the training recipient and (2) someone accepting equal responsibility for noncompliance. Because both parties are subject to legal action by the Government in case of default, this system has been very effective in preventing migration to the private sector. Many government employees, however, remain for the term of their agreements and then go to the private sector for higher salaries. Further, some students work for government agencies while attending local universities, but when they graduate and obtain a sufficient amount of experience, they often gravitate to private-sector jobs.

CHAPTER 5

ADDITIONAL EFFORTS NEEDED TO STRENGTHEN TRAINING IN FINANCIAL MANAGEMENT AND PROGRAM EVALUATION

We found that there is a need to improve and expand training offered at those institutions serving only host countries as well as regional institutions serving the nationals of several countries. A national training plan is a necessary and vital part of this effort. Additional assistance will be needed by providing more resources and by demonstrating to high government officials about how improved financial management can help save scarce public funds. In this vein, the U.S. Comptroller General has initiated a fellowship program that is enabling developing-country nationals to receive training at the U.S. General Accounting Office.

TRAINING DEVELOPMENT PLAN

Before a government upgrades its training programs, it should take stock of existing human resources, identify present training programs, and determine future needs. This process should first include preparing a national inventory that would list all current training relevant to both public and private accounting, auditing and other areas related to financial management. Once an inventory of existing training is developed, the government should prepare an inventory of future training needs, based on available human resources, anticipated future resource requirements, and current ongoing training programs. This inventory could be used to prepare a national plan for upgrading training so that anticipated future requirements can be fulfilled. The plan should include the role of international donors and foreign institutions.

This entire process of developing a national training plan should be done by a centralized government agency having access to all government offices such as the national planning office. The Office of the Comptroller General might also be a logical choice because of its government-wide contact and its interest in this type of training.

IN-COUNTRY TRAINING AT NATIONAL INSTITUTIONS MUST BE IMPROVED AND EXPANDED

Many officials, both in the countries we visited and at our symposium, believed training should primarily be given in-country on a national basis. Improvements appear to be most urgently needed in the public institutions. These schools are most attractive to people employed in the public-sector as well as those who may eventually work there.

By concentrating training at the country level, more attention could be given to the specific needs and problems of each country. It is difficult to consider the developing countries as a totality; country-specific approaches are needed for almost everything that is done. Disparities between the countries in terms of their level of development are great, including development in terms of financial management. It is difficult to generalize in a way that will fit the extremes of the developing countries.

The Economic Development Institute of the World Bank, as of November 1977, offered two thirds of its courses to developing-country officials in-country in cooperation with national and regional institutions. They place less emphasis on direct teaching and more on support of these partner institutions overseas. This includes training local instructors that can do the actual teaching.

REGIONAL TRAINING IS ALSO NEEDED

Training at the regional level should also be strengthened and encouraged. Regional training centers could be established under the jurisdiction of the United Nations or other organizations or by a separate regional organization comprised of the involved governments. Such training programs should be more effective and relevant to local conditions because they could cater to specific regional requirements. Regional institutions tailored to fulfill certain specific needs could provide better instruction in more narrow technical subjects than country-level training institutions which may have to teach more general subjects. They would also save time and money compared to sending students overseas to developed countries.

Such regional centers could also assist in the development of procedural manuals, accounting concepts, and auditing standards. These centers might also be an ideal vehicle for carrying out research programs on a mutually beneficial basis, and for sponsoring regional gatherings which provide a good opportunity for the exchange of country experiences, practices, and ideas. Students, teachers, and instructional materials could also be exchanged through these centers.

Many panelists attending our symposium believed that expanded training should be offered primarily through a regional center or a network of regional centers. Some panelists added, however, that these institutions often can only train a relatively small number of the skilled personnel needed because of the costs involved. These institutions generally have financial-support problems.

INTERNATIONAL DONORS CAN HELP

Additional exchange programs between U.S. and national institutions in developing countries could be promoted. Several U.S. universities have management development programs designed for Third World participation.

More technical assistance programs are also needed. Outside advisers can provide useful information on establishing new training programs or on implementing modern accounting and auditing principles and practices. In addition to technical assistance projects geared exclusively to improving financial management, most other major projects can or do include a financial-management component. Advisers can also teach accounting principles which project participants can use in other jobs. For example, a World Bank industrial development loan (to a country other than the five we visited) for construction of a cement plant included technical assistance to the state auditing and accounting enterprise. Improvement in accounting and auditing practices was the anticipated major benefit of this technical-assistance component. In addition to this type of on-the-job training, many assistance projects have classroom training elements where advisers develop training programs to prepare participants for employment.

GAO EFFORTS TO HELP DEVELOPING COUNTRIES IMPROVE THEIR FINANCIAL-MANAGEMENT CAPABILITIES

In October 1978, we announced a program whereby we would train a certain number of developing-country nationals each year to help strengthen their financial management. The U.S. Comptroller General sent letters to the leaders of more than 100 supreme audit institutions around the world, inviting them to nominate individuals for fellowships to work here. In selecting participants, we looked for candidates who have the capability to teach fellow workers when they return home. Sponsoring countries are expected to pay travel and subsistence expenses, with the United States picking up the cost of training. We will assist the sponsoring countries in obtaining available assistance from other U.S. agencies.

Six developing country nationals are participating in this program in 1979. Their stay here will last from 6 months to 1 year. This will be an ongoing program.

Several panelists at our symposium agreed there was definitely a role for the General Accounting Office to play in the process of improving developing countries' administration and financial management. In addition to the program described above, the panelists thought we might send some of our own people to developing countries as advisers and teachers.

CHAPTER 6

SCOPE OF OUR REVIEW

Our objective was to identify the causes of inadequacies in the developing countries' ability to establish sound financial management in the public sector. We believed an inventory of training being provided to nationals of countries receiving development assistance was needed initially to assess such training in developing countries. We sought this data at the headquarters of major donors--such as AID--at various organizations and international financial institutions.

We quickly realized what an almost impossible task we had undertaken. Although we accumulated much valuable information, we found there was no central data base in any of the organizations to supply the information we were seeking. Further, we found evidence that a great deal of training may be provided by international organizations under project assistance that cannot be identified without a detailed project-by-project search.

Faced with these and other problems, we decided to switch our approach to the country level, working back to the financial-assistance source. We chose Latin America because we were somewhat familiar with the growing awareness of (1) the need for improving governmental accounting and control over available resources and (2) the efforts of the Latin American Institute of Auditing Sciences and others to help themselves. We visited five countries, including some of the more developed and some of the lesser developed. We then expanded the scope of our work to include an identification of some of the major weaknesses in both financial management and training provided by developing countries. This was a review not only of U.S. assistance activities but of all programs designed to provide the developing countries we visited with indigenous financial and management expertise. Our review was planned and executed as a case study and included the public-sector need for trained manpower.

We met with officials of counterpart agencies--the Office of the Comptroller General (or the Court of Accounts)--in each country we visited. We also met with officials of Ministries of Finance and Education and other government offices; international and regional organizations, including the United Nations Development Program, the World Bank, the Inter-American Development Bank, and the Organization of

American States; the U.S. Embassy; AID missions, where one existed; and embassies of other countries, particularly the Federal Republic of Germany. We also talked with officials from universities, private accounting firms, and other businesses. In the United States, we met with officials of the World Bank, the Inter-American Development Bank, AID in Washington, and the United Nations and the United Nations Development Program in New York.

We also held a symposium on the need to improve financial management and the whole spectrum of public administration in developing-country governments. The role of training in this process was also addressed. The panel for this symposium was comprised of 14 experts from academia, business, government, and international organizations. We also invited interested observers who contributed to the discussion. Comments from the symposium are interspersed throughout this report, and a summary of the major points of discussion is included as appendix I.

We did not obtain written agency comments on this report but did discuss it with AID officials associated with the programs discussed. They were generally receptive to our approach.

SUMMARY OF TOPICS DISCUSSED BY PANELISTS AT GAO'S FEBRUARY 8, 1979, SYMPOSIUM ON FINANCIAL MANAGEMENT AND PUBLIC ADMINISTRATION TRAINING FOR DEVELOPING COUNTRIES

The General Accounting Office held a symposium on February 8, 1979, to discuss financial management and public administration capabilities of developing-country governments, as well as training and other efforts needed to improve those capabilities. The panel was comprised of 14 experts from academia, business, government and international organizations. (See p. 39 for a list of panelists.) Observers from the above organizations, in addition to a GAO contingent headed by the Comptroller General of the United States, also attended the symposium.

The panelists reached a consensus on the following major issues.

--Developing countries need to further develop public administration and financial management in the public sector in all regions of the world. Most governments of these countries, however, accord public administration and financial management a very low priority in terms of reform, training, and funding in general. The symposium panelists agreed that upgrading these areas must be made a high priority if development is to be successful.

--AID and other donor organizations have cut back administration and financial management training programs as a result of New Directions mandates and legislation.

--This change in emphasis of U.S. assistance, however, does not diminish the need for additional training.

--Training programs should be offered primarily through regional and national centers and institutions rather than in technologically advanced countries.

--Additional foreign assistance will be needed to help the less developed countries improve their financial management and public administration. Both developing countries and donor organizations must make additional individual and cooperative efforts and commitments to accomplish this task.

A summary of statements made by the participants supporting each of the consensus issues follows.

NEED TO FURTHER DEVELOP FINANCIAL MANAGEMENT AND PUBLIC ADMINISTRATION

Developing country governments, in most cases, don't understand the benefits to be derived from proper accountability of funds and of program and project evaluation that would enable them to (1) plan more effectively or (2) amend or cancel projects providing insufficient benefit. Further, governments often fail to identify their needs in these crucial areas. For the most part, governments, universities, and professional groups in developing countries have given little attention to training financial managers and administrators.

One reason for this lack of attention is that accounting as part of a management information and control system is largely unrecognized. This is partially due to former colonial practices which overlooked the need for measuring cost and benefits, and for fulfilling other management requests. Financial management and administration do not touch people as directly as health care and other services which are needed immediately, and thus attract little attention when not performed well.

Officials at various governmental levels are not aware of what good financial management and accounting can do for them. The symposium panelists thought finance officers and accountants were somewhat to blame for this lack of awareness. The failure of most accountants to publicize either the value or requisites of modern financial management and accounting have contributed to their low status in developing countries. Developing countries need to improve the status of accountants and auditors in order to attract and retain more qualified people. Throughout most of the developing world there are only a few countries in which accounting is a respected profession.

Panelists agreed, however, that the principal problem is the general lack of understanding about what financial management really involves. Unless the value of effective public administration to the economy and to the society is realized, the measures necessary to achieve improved financial and administrative management will not be supported.

Quite often, government leaders simply do not consider the relationship between sound management principles and practices and the program goals. This is partially true because many of these officials do not possess effective skills for judging and measuring program performance. The work and the administrative structure both need to be evaluated. Leaders focus primarily on the technical aspects and the physical progress of the work. They may be experts in specific fields--health care, education, and agriculture--but their concepts of good administration are generally extremely poor.

Unfortunately, it is very difficult in many countries to find persons who are interested and intensely motivated toward improving the managerial aspect of government activities. People generally perform in accordance with what is familiar and traditionally acceptable. The importance of financial management, however, is not a part of the value system in most low-income countries. As a consequence, developing-country officials disregard management--financial or administrative--and may act in ways that make effective management impossible.

Inadequate financial information

Developing countries, in most cases, have not developed and installed accounting systems which can produce timely financial information needed to serve as the basis for government management decisions. In some cases, program budgets have been designed but have not been effectively implemented because governments lack both competent staff and adequate financial data to plug into their budgets. Indeed one of the most striking deficiencies of the period from the early 1960s to the present has been the inauguration of some type of program budgeting system in most developing countries without the requisite accounting data.

EFFECT OF NEW DIRECTIONS LEGISLATION

AID panelists were asked to describe how the Congress' New Directions mandate has affected efforts to improve management and financial administration and its implications for the future. They stated that in the 1950s through the mid-1960s, public administration was well defined as an identifiable sector within the AID organization. In the late 1960s and early 1970s, however, under the pressure of fund reduction, resources for this activity were substantially reduced. Finally, in 1973, the New Directions legislation directed AID to focus its attentions to programs that would provide more benefit to the poor majority.

AID interpretation of the legislation

The AID reaction was almost an over-reaction, taking very literally the notion that programs should be aimed directly at the poor. There was a lot of internal debate on these issues, but AID officials believed it was imperative to convince the Congress they were taking this mandate seriously and, therefore, they preferred to focus on activities that would reach the poor in each country.

In the course of that endeavor and the narrowing of the variety of activities AID chose to fund, public administration activities and staff were cut back. The legislation under the general education heading does include language which refers to public administration as one important part of development. The legislation made clear, however, that the intent of the Congress was to see that U.S. assistance would be focused on the poorest segment of each society.

NEED FOR ADDITIONAL TRAINING

Additional efforts and commitments are needed both by the developing countries and donor organizations to improve administration and financial management. The panelists believed that emphasis on training is appropriate because training has a lasting impact which some "instant cures" seem to lack. Even when other things are impossible and the government may not be attuned to this area, some training can be promoted. However, training programs are long term by nature. Providing additional and improved training is not the only step necessary to improve these capabilities.

The panelists believed that the international donor organizations do not have big programs in this field partially because of lack of developing country interest and partially because of lack of donor country and organization interest in funding such programs. They have never been able to assemble sufficient resources to bear upon these questions of administrative development. Some panelists thought that the amount of technical assistance provided in relation to the problem has been minuscule. To hope that present deficiencies can be solved with this limited input is unrealistic.

More specialized training needed

Panelists believe too much emphasis has been placed on general training. For example, when a group is brought together for a few weeks to talk about various aspects of financial management, the more technical, basic training is sometimes missed. To teach accounting effectively, a good basic education in accounting is needed first. This element has been a missing basic factor in many countries. More emphasis should be placed on developing financial management and accounting specialists and less on developing people who are only generalists. Needed particularly is more in-depth training in accounting, financial and operational auditing, computer operations, and cost-benefit analysis.

Panelists also believe that training in financial management and administration should be closely related to each employee's current position. Many panelists believed this training should be given to employees in sectors such as food distribution, housing, health, and other areas so that good public administration and financial management practices could be applied more directly to development programs and projects. Emphasis on those training programs divorced from the day-to-day missions of the involved agencies and ministries, for example, are of little value. It is relatively simple, however, for lending institutions and other donors to include management project components for training in the institutions they deal with.

Regional versus national training centers

Many panelists thought that expanded training should be offered primarily through regional centers. Others believe training should be concentrated at the country level to give more attention to the specific needs and problems of each country. Regional institutions, however, can provide better instruction on specialized subjects than national institutions which may be forced to offer a large number of courses on more generalized subjects. Both types of training institutions are needed. The symposium panelists did believe, however, that developing-country nationals should, for the most part, be trained at national and regional institutions rather than in developed countries.

Regional institutions can be valuable. Because of the costs involved, however, these institutions often can only train a relatively small number of the skilled personnel needed. These institutions generally have financial support problems. Sometimes international organizations may also initiate these institutions; however, there may not be any other party ready to provide funding once the international organizations resources are withdrawn. In addition, before new training institutions are started, it should be determined if it would be more cost effective to strengthen an existing institution or system.

A few panelists believe regional institutions will only address some problems. They contended that we must have country-specific approaches to training needs. Disparties are great between countries in terms of development levels, including development in terms of financial management. These panelists maintained that it is impossible to generalize in a way that will fit both extremes.

Seizing the "moment of opportunity"

Some panelists stated that foreign assistance can and should be channeled to persons or organizations in each country who can make the best use of it. In this way countries can be helped when in a position to utilize that help. If, on the other hand, the favorable climate for action disappears when the government changes, assistance can be withdrawn. When there is an ability to provide and withdraw assistance at short notice it is possible to provide incentives to governments to overcome their lack of commitment to improving financial management and public administration.

The universities

Developing-country universities are, for the most part, not giving much attention to public administration and financial management subjects, according to some panelists. Some schools or institutes offer a capable vehicle for innovation, but many of the best training institutions have been established separate from universities. This is a discouraging picture. The question is how to organize and finance professional training and educational programs within universities that have enough independence and continuity to survive changes in university leadership and shifting political winds within the countries.

The frequent leadership turnover of the heads of the training institutions is an acute problem. Once these people have demonstrated competence, a government agency or private enterprise may lure them away. The institutions, therefore, lose the ability and experience of these people.

Other approaches

Other approaches to training developing-country personnel in these fields were also discussed, and the need to develop better communication between donor organizations so that scarce resources can be more efficiently utilized was mentioned. Panelists also generally advocated periodic meetings of donor and developing-country officials to discuss their programs, problems, and needs.

WHAT INTERNATIONAL DONOR ORGANIZATIONS SHOULD BE DOING

Some panelists placed part of the blame for the shortage in training on donor countries and organizations. They believe that these groups could do more, both through increased, professionally qualified and competent technical assistance programs and through larger contributions of unencumbered resources. Program activities are needed at both organizations' headquarters and through in-country projects. Both donors and recipient governments, however, need to make a commitment to change ineffective practices and improve training programs.

Only proven methods and techniques should be followed because more is needed than just additional resources. International donors should assure uniformity in approaches by coordinating efforts through common orientation, curricular guidelines and texts, and professional standards. The need for better trained and indoctrinated advisors hired by international organizations continues to be a problem. Obviously they should be qualified according to the standards of their profession. International donors should also instill pride of accomplishment and institutional loyalty in the developing-country nationals they are dealing with.

Panelists expressed the hope that multilateral and bilateral assistance agencies would pool more of their initiatives because closer coordination could bring everyone a better return on their investment. One idea is to establish a forum within which the developing countries and the donors can be brought together--if not frequently, at least every few years or so--to possibly reach agreement on a format to enable working together more effectively.

The panelists stated there was a role for GAO to play in the process of improving developing-country administration and financial management. They believed the step the Comptroller General took to invite people from developing countries to spend a year or so working at GAO was a good precedent. They suggested that, in addition to bringing developing-country auditors to the United States, GAO might send some of its own people to these countries as advisors and teachers. GAO would need to select individuals who can adapt to the conditions of the countries in which they would be working. Whatever the role, there is so much that needs to be done that every organization interested can, and should, be part of this process.

GENERAL CONSENSUS

The panelists reached a general consensus that there is a continuing and urgent need to further develop public administration and financial management in the public sector throughout the developing world. Important steps have been taken to identify the deficiencies in public administration and financial management, and the time has come to increase collaborative efforts to maximize the scarce resources currently available for technical assistance and institution building in this field. Panelists thought this symposium may have started a useful dialogue. They urged that the dialogue be continued and expanded to include representatives of regional and national training institutions from the developing world.

The panelists also recommended that future training in this field should be concentrated at the regional and national levels. Such training should concentrate on the specialized and advanced skills which are in short supply in this field.

Training is long-term by nature and more enduring than instant cure measures. This training, however, must go hand-in-hand with national government willingness to make the required reforms in administrative and financial management practice. Improvements in public administration and financial management should be geared toward ensuring that resources committed to the poor majority reach the intended recipients more efficiently and are not wasted or lost. Linking administrative and management improvements to a more efficient operation of the development process may interest developing countries and other parties who previously saw little if any need to strengthen these capabilities.

LIST OF SYMPOSIUM PANELISTS

Robert D. Bugher	Executive Director American Public Works Association
John J. Corson	Consultant
Marion Creekmore	Deputy Assistant Secretary of State for International Organization Affairs
Adolf J. H. Enthoven	Professor of Accounting and Director, Center for International Accounting Development, University of Texas at Dallas Chairman Committee on International Accounting Operations and Education, American Accounting Association
E. Jay Finkel	Alternate U.S. Executive Director Inter-American Development Bank
Orlando H. Lobo	Assistant Director International Monetary Fund Institute
Faqir Muhammad	Deputy Director Division of Public Administration and Finance, Bureau of Economic and Social Affairs, United Nations
Robert H. Nooter	Deputy Administrator Agency for International Development
Frank Pace, Jr.	President International Executive Service Corps
William K. Phipps	Director International Management Development Department, Syracuse University
Abraham A. Raizen	Financial Advisor Projects Advisory Staff, International Bank for Reconstruction and Development (World Bank)

Donald C. Stone	Adjunct Professor of Public Administration School of Urban and Public Affairs, Carnegie-Mellon University Chairman American Consortium for International Public Administration
Irving G. Tragen	Deputy U.S. Permanent Representative to the Organization of American States
James P. Wesberry, Jr.	Days Inns of America

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