

VOLUME 4

# PUBLIC SECTOR REFORM

Edited by Andrew Massey

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## VOLUME IV

*Different Paths to Reform: African, Other Asian and  
Latin American Pathways*

Edited by

Andrew Massey



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# PUBLIC SECTOR REFORM

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## Budgeting in Poor Countries: Ten Common Assumptions Re-examined

Naomi Caiden

If there was ever a subject which has been over-written, over-analyzed and over-theorized with so little practical result to show for the effort, it is budgeting in poor countries. Report after report by reputable experts has exhorted, cajoled, and pleaded in almost identical terms, yet the very consistency of the findings and prescriptions of these reports indicates that little has resulted in the way of budgetary improvement over the years.<sup>1</sup> The same complaints occur with disturbing regularity. After two decades of criticism, for example, a 1975 report was still lamenting inconsistent classification used in budgeting, planning, and national accounting, lack of integration in the budget document, a short time perspective, inadequacies of traditional budget classification, academic model building, and over-centralization.<sup>2</sup> There are still the same problems in gaining accurate, up-to-date, and timely information.<sup>3</sup> Failure to budget recurrent costs of capital projects remains commonplace with disastrous results.<sup>4</sup> Inadequate coordination between planning and budgeting is seen as a persistent problem.<sup>5</sup> Those actually doing the budgeting in poor countries find few concrete suggestions they can activate amid the torrent of verbiage. The experts for their part are increasingly frustrated because the principles they espouse remain on paper.<sup>6</sup> What has gone wrong and why has so little progress been made?

One problem would seem to be the assumption that the major difficulties of budgeting in poor countries are understood and agreed upon. There seems reason to question this premise in the light of difficulties in applying theory to practice. If the theorists are unclear as to their objectives, or if those

objectives are inapplicable and unrealizable in the reality of the administrative contexts to which they are directed, it is little wonder that nothing much has happened to their prescriptions. This paper is directed toward an assessment of some common assumptions of the budgeting literature addressed to poor countries. Because budgeting touches so many aspects of government administration and policy, the assumptions made by anyone attempting to theorize about it are, of necessity, legion. Ten have been selected for discussion.

### **Assumption 1: There Is a Common Pattern of Budgeting Which Will Fit All Circumstances**

Because budgeting is such a pervasive activity of governments, it has been easy to assume the applicability of a single set of prescriptions to all countries. Usually these prescriptions are drawn from the experience of Western countries without adequate realization that they depend on institutional features which have been taken for granted. Specifically, budgeting practices in these countries are based on high resource mobilization, high accountability for expenditures, and strong administrative controls. Where these conditions are present, they interact to reinforce one another. For example, accountability in the expenditure of public resources is an important condition for the easy raising of revenues from the public. Where one or all of these institutional conditions are absent, the pattern of budgeting may be quite different, and require different proposals.<sup>7</sup>

Budgeting is too easily conceived as a closed system, independent of its environment. Thus, the principles which appear to work in rich countries are transferred with little question to poor countries. In *Planning and Budgeting in Poor Countries*,<sup>8</sup> Aaron Wildavsky and I drew attention to the importance of functional complex redundancy in the smooth working of budgeting in rich countries.<sup>9</sup> Such redundancy acts to provide greater reliability, allow for looser estimating and calculation, and increase the number of options available now and in the future. Where it is not available, the impact of uncertainty has a devastating effect on budgetary forecasts and implementation. It seemed obvious that different solutions would be needed to help countries where this redundancy was not available, but the distinction was difficult to operationalize.

The main point though remains valid: that insofar as budgeting is successful, it depends not only on its own internal workings but upon the environment in which it operates. The attempt to found a universal theory of budgeting which will work in all contexts, from Afghanistan to Zaire, is likely to end up working in none. What is required is a comparative theory which will relate specific conditions to positive practical proposals. The distinction we made between rich and poor countries, and the possibility of distinguishing different patterns of budgeting based on the presence or absence of



institutional conditions are steps in this direction, but much more needs to be done to differentiate the needs of countries presently lumped together under the title "developing." It is necessary to conduct research to discover a suitable comparative frame of reference within which it would be possible to discuss the common problems of different groups of countries. Until now only the criterion of region has been used, though a category of "least developed" countries has begun to emerge.<sup>10</sup> Other possibilities might be size, type of resources, kind of tax system, type of political institutions, level of industrialization, ideology, dependence on external forces. Classification should not be determined *a priori*, but through empirical examination of budgeting practices to discover meaningful criteria of differentiation. This should be regarded as an essential first step in developing theory which could relate specific environmental conditions to realistic prescriptions.

### **Assumption 2: The Aim of Budgeting Is National Economic Planning**

Comprehensive national planning for economic development is one of the hardest things poor countries have been asked to do. Such planning involves making long-term commitments in a changing world, moving a large number and wide variety of public and private bodies with different values and interests toward a single set of targets, making "rational" decisions among multiple alternatives whose consequences can only dimly be perceived, and applying theories of development which veer with the prevailing opinion and take little account of political reality. Not surprising, it is difficult to find successes in development planning. Plans are often subject to interruption and, even when completed, they often lack evaluation. Planners explain lack of success in terms of lack of power of planners, failure to go beyond formal paper plans, and inauspicious circumstances. Sometimes planners are castigated for not really planning; other times, conditions are blamed as not yet ripe for planning. Very often, budgeting is seen as a major impediment to planning, and much of the budgeting literature is devoted to recommendations aimed at correcting this situation. Specifically budgeters are urged to increase the time-span of their forecasting and appropriations beyond the customary annual framework and to coordinate and integrate their budgets with planning goals.<sup>11</sup>

The realism of this advice is open to question. Even in rich countries budgeters have found it difficult to incorporate planning values into budgeting (witness the demise of PPB in the United States federal government), while poor countries find that realistic budgeting even for one year is beyond their capabilities.<sup>12</sup> Further, the division of the budget between planners and budgeters in separate institutions may set up conflicts which cannot be resolved by the simple command to coordinate. For this reason many countries have incorporated the planners into their ministries of finance. Even

more important than the feasibility of planning as a budgetary goal is the downgrading of the other purposes of budgeting, viz., control of expenditures and efficient attainment of expenditure objectives.<sup>13</sup> Much of the budgeting literature appears to regard these purposes either as already achieved, or as unworthy of consideration, or as unrelated to development activities. In fact, such mundane activities as the making of reasonably correct estimates, releasing funds when they are required, obtaining a clear account of what has actually happened to funds, and ensuring that money is spent on the purposes for which it has been allocated are very real achievements. All too often, budgeting officials who are being urged to plan are facing enormous difficulties with budgets which are 20 to 30 per cent "off" from estimates and accounts which remain unclosed for months or even years after the end of the financial year.<sup>14</sup> Clearly more sophisticated uses of budget machinery will be unsuccessful until such problems can be overcome.

### **Assumption 3: Improved Budgeting Depends on Adequate Resources**

A recent report of the United Nations sets out among the requirements for improved planning and budgeting adequate short-term levels of resources, adequate medium-term resource growth, and certainty of resource availability.<sup>15</sup> These conditions are not generally present in poor countries, and the report suggests international action to achieve them through lifting trade restrictions, realignment of world production patterns, and international aid to offset the worst revenue uncertainties caused by natural disaster and commodity price fluctuations. Budgeters in poor countries might be entitled to ask what they should do in the meantime while the "new international order" is hopefully emerging. Undoubtedly budgeting is much easier where resources are adequate, growing, and stable, but poor countries are poor precisely because these conditions are lacking. To rely upon outside action may be unrealistic. Governments in poor countries need to know how they can improve their resource positions through their own efforts, how to budget in conditions of resource constraints and uncertainties, and specifically how to devise budget policies for inflation.

### **Assumption 4: Budget Decisions Can be Separated from Policy Decisions**

Budgeting is often conceived as a purely technical exercise, neutral in its implications. Better budgeting is one of those things, like motherhood, that no one is against; but budgeting is a means not an end, and too little consideration is given to the purpose for which it is put. If budgeting is subsumed

under planning, the problem may disappear, since planning is invariably tied to notions of development. The prescription would then be quite simple: assume development as the goal, plan toward that goal, and adopt methods of budgeting that would support and implement the plan.

The simplicity of such a scenario is belied by the real world. It is generally agreed that budgeting encompasses much broader goals than economic development planning (although it is often regretted that its scope is narrower), because by definition it encompasses all the goals of the government. The problem is that in changing budgeting methods, one inevitably changes budgetary outcomes. The issue is not only one of process, since in undertaking budgetary reform there are really only two possibilities. The first is that the process changes but the outcomes remain the same, in which case there is little point in undertaking the reform in the first place. The second is that changes in the process lead to changes in the outcomes which may be unacceptable. In either case, one cannot judge the process without reference to its outcomes. As Michael White has pointed out, “budget policy, far from being a technical exercise alone, is born in the basic political conflicts of the budget process.”<sup>16</sup>

The criteria for the outcomes are hazy. Theoretically, budget policy and processes should be judged by their contribution to national development. Even now, development is not an undisputed concept, and in the field of budgetary conflict, the word simply attracts to itself the strongest contestants in the dispute. Moreover, the term development (if it means anything at all) connotes growth plus structural change, which may load it heavily against the actual, if not avowed, aims of ruling elites. In any case, development is usually only one goal of government, and the actual present distribution of estimated government expenditures may be the best clue to where their values really lie.

What, then, should be told to those who say they wish to improve budgeting in their countries? Any realistic proposals which seek to align budgeting to development will probably involve changes in budget totals which depend on political acquiescence. Alternatively, simply to frame proposals in terms of the existing distribution of expenditures is to endorse present policies without query. In either case more effective budgeting cannot be discussed without consideration of its outcomes. (Of course, budget proposals could be directed simply toward saving money whatever the budget category, but in fact the literature is rarely concerned with this line of reasoning.)

### **Assumption 5: Whatever Is Best Coordinated Is Best**

Coordination must be the most over-worked word in the budgeting vocabulary. Budgeters are invariably told to coordinate a multitude of things – plans and budgets, planning and budgeting, all the activities of the public

sector, public enterprises and government departments, the private and public sectors. This theme is reiterated throughout the reports already referred to, and one or two examples suffice to illustrate it. The Report of the Expert Group on Budget Formulation asks for coordination in planning and budgeting and at policy level. It recommends permanent or *ad hoc* intergovernmental meetings to coordinate activities in certain fields and permanent coordination and cooperation among political decision makers, central planning and budgeting ministries, key financial institutions, and executing agencies.<sup>17</sup> An earlier report stressed that "integration must involve a continual dialogue between the planning and budgeting processes so that there was a constant interchange of ideas and, if necessary, a confrontation between opposing outlooks. It was not sufficient to ensure consistency between the two documents, namely that of the plan and that of the budget." It insisted that planning and budgeting should not be merged, but "coordinated."<sup>18</sup>

What exactly are budgeters being asked to do, and what are the implications? At its least demanding level, coordination simply means that people should inform each other of what they are doing and what they have in mind to do next, and there is no doubt that in some administrations this would be a distinct improvement. Usually, however, the advice to coordinate has a stronger meaning. According to Webster's Dictionary, the verb "to coordinate" means either (1) to place in the same rank; to make of equal value, or (2) to bring into proper and relative order; to harmonize; to adjust.<sup>19</sup> The first meaning does not seem applicable since one of the main goals of the budgeting or planning process is to assert priorities which will inevitably make activities, purposes, and institutions unequal. The second meaning would appear to apply more closely to budgeting concerns, but it brings with it important assumptions relating to a "proper and relative order," harmony, and adjustment. In other words, coordination involves an agreed upon set of goals to which all are prepared to subscribe and shape their activities toward. The planning process is supposed to furnish such goals, so that the main job of the budgeters is to adjust and harmonize revenue and expenditures toward them.

Perhaps in some situations such advice might work, but it is important to recognize the limitations of coordination. First, planning and planners are only one component in policy making, and their goals are not the only ones, so that simple adjustment to an *a priori* order is not a realistic view of the policy-making process. Second, there is unlikely to be agreement on what should be the "proper and relative order" of budgetary priorities. In its absence, there is nothing to coordinate to. There will certainly be a process by which such priorities are worked out, which may include bargaining, calculation, and strategies, but it is unclear just where coordination in the absence of agreed upon or stipulated goals will improve this process. Third, the literature of planning and budgeting is shot through with the vocabulary of harmony, integration, and coordination, with little clue as to how these

desiderata are to be achieved in conditions of conflict, or any indication that their achievement will involve winners and losers. By implication, conflict is a dirty word, and those who insist on disrupting conformity and consensus are to be condemned (even though they might be right). Once again, process substitutes for policy. It is not that coordination is a bad thing in itself but, like all such bland words, it is empty of content in the absence of stipulation of the aims it serves.

### **Assumption 6: Comprehensive Decisions Are Superior to Partial Decisions, and Complex Solutions Are Better Than Simple Solutions**

It is a truism that social action takes place in the context of a vast and complex system which includes the interactions of large numbers of societal and ecological variables embracing the total environment of a country and including even international ramifications. Unfortunately, knowledge of how this system works is not commensurate with the insight of its existence, but the insight has, nonetheless, been translated into policy-making stipulations. Decisions, it is asserted, are to be judged according to the number of variables they take into account. Again, emphasis is on process not out-comes, and Yehezkel Dror has already criticized this position in terms of general policy making.<sup>20</sup> Despite his strictures, budgeting proposals often continue to follow the line that the more comprehensive budgeting is, the better it is. Proposals are heavily directed toward integration, centralization, and complexity. Undoubtedly some of this advice is good – the splintering of budgets in poor countries through earmarking and special funds often seriously weakens governmental policy making and frequently prevents any kind of budget policy at all. Often proposals insist that everything, even some areas of the private sector, should be included in a single centralized budget or closely integrated budget system. As far back as 1959 recommendations were being made for a national budget to include “absolutely” all the income and expenditures of the public sector together with budgets “of enterprises, of households, of the external sector, of real national product and income, of saving and of domestic investment.”<sup>21</sup> The 1975 Report of the Group of Experts follows this tradition in stipulating that “If it is to perform its role effectively, budgeting cannot be limited to central government spending. What is needed is a comprehensive and integrated budgeting system for development.”<sup>22</sup> Some emphasis is usually given to decentralization and participation, but these are generally subordinated to central decision making, and little indication is given of conflict which may arise between central and local demands.<sup>23</sup>

To overstretch the principle of comprehensiveness in this way is to place burdens precisely on the qualities which are in short supply in poor countries,

such as information and skilled personnel, without improving the actual budgetary decisions made. Moreover, since calculations are increased by the number of variables and sub-budgets to be taken into account, the time span of the budget process is lengthened, not only producing increased delays and uncertainties, but also increasing the possibility that forecasts and estimates will be out of date in a fast-moving world. Finally, the integration of systems, insofar as it can be achieved, may be counter-productive in increasing system vulnerability, as the ramifications of decisions have a wider scope.

### **Assumption 7: The Prerequisites of Budgeting Are a Matter of Technique and Will Rather than the Product of Environmental Conditions**

Good budgeting depends on a number of factors – reliable and adequate information, timely and accurate reporting, careful record-keeping, ability to forecast costs and trends, and skilled staff. Budgeting for development further demands the ability to apply development theory and translate development plans into viable budgetary estimates, creative planning and project preparation, and adaptation to feedback. Where these are absent, budgeters in poor countries are urged to develop them, without the realization that the matter is not entirely in their hands. Often the conditions required for good budgeting, such as information, are related to environmental features and are not capable of substantial improvement without wide-ranging environmental changes which, paradoxically, are the very factors budgeting itself is trying to change. John Friedmann has drawn attention to the differing capacities of countries for rational action and planning, but his analysis has found little recognition in budgeting literature.<sup>24</sup> Those countries which already possess good information networks and skilled staffs have little need of advice. Are those which do not possess them condemned to wait until the poverty and uncertainty of which their lack is an aspect have disappeared? In short, what can we tell budgeters about how to budget in the face of constraints in resources, information, and skilled personnel? If our advice is only usable in optimal conditions, it will be of little use in poor countries where such conditions are absent.

### **Assumption 8: Politics Are Not as Important as Economics**

The relationship of budgeting to economics and administration appears self-evident. On the revenue side, tax theory draws its concepts from economics and attempts to trace the impacts of various public finance policies upon the workings of the economy. Discussions of tax administration are concerned with the technical justifications of different ways of calculating taxes and the formal procedures of collection. On the expenditure side, analysis deals with

the economic costs and benefits of projects. Yet, budget policy decisions are, in the last resort, political decisions; budgetary information serves political purposes and budgetary estimates reflect political preferences and ideology. Moreover, the ability of the government to raise revenues for what should be public needs depends not only on the economic resources and economic structure of the country, but also on the willingness of the population to provide those revenues. Governments have to command the capacity to tap the major sources of wealth in the country, and to convince the population that the resources it takes in taxation are used for their own good. Budgeting proposals are rarely sensitive to the political implications of their suggestions, and they ignore the needs for accountability of officials to those they serve.

### **Assumption 9: Good Budgeting Is a Matter of Regulation**

Because of the difficulty of controlling events in conditions of poverty and uncertainty, budgeting is often conceived as a matter of regulation. The pervasiveness of corruption in public life, the difficulties of gaining information over large distances, and the frequent existence of “muddle” seem to put a premium on detailed supervision, rigid narrow categories and procedures, and the prevention of discretion in budgetary matters. All too often such policies are counter-productive, resulting in rigidity, lack of initiative, inflexibility, inability to adjust to changing conditions, and frustration. Attempting to secure better estimating, compliance with budget estimates, and closer accounting for monies spent, authorities redouble their efforts to narrow categories, pre-audit expenditures, and demand check and counter-check of all transactions. As a recent United Nations report on government accounting put it, “The amount of paperwork is vast, but neither efficiency, accountability, nor financial control is improved.”<sup>25</sup>

The results are not good: red tape and bureaucracy are not conducive to development which requires commitment, initiative, and enthusiasm. Not only does the proliferation of regulation inhibit these, but it also often fails to achieve even its avowed objectives of curbing corruption and dishonesty. In order to gain organizational goals, officials are often forced into evasion of the rules, and rules evaded for legitimate purposes are easily circumvented for personal gain.

### **Assumption 10: Budgeting Is Relevant to Development**

It has been assumed that good budgeting practice and development are related to each other, and conversely that, to a large extent, development depends upon the harnessing of government budgeting to the development effort. There is no real evidence to support these assertions. Development in



the past has taken place irrespective of government initiative which has only stepped in at a later stage to provide services, meet public demands, and solve the problems of growing industrialization. It may very well be that in present circumstances government action may be the only possibility available to start and maintain a development process in poor countries. If so, this option should be treated as an unproven hypothesis which requires empirical testing at every stage, rather than as an initial truth.

The difficulties of linking budgeting and development go beyond the relationship of government and private sectors. Budgeting, whether government or private, is concerned with the concrete – the buying and supply of goods and services. It, therefore, fits well within a framework of development conceived as economic growth caused by capital formation. Budgeting is thus related to development by its contribution to fixed capital investment. The relevant literature, however, has swung away from the concept of development as a series of projects related purely to capital investment. The idea of development has broadened to encompass goals different from westernization and has deepened to embrace changes in attitudes and relationships. Capital output ratios, cost-benefit analysis, and *per capita* gross national product have been subordinated to less conventional indices of well-being and estimates of social costs. Because it is difficult to adapt budgeting techniques to these less defined standards, they are often ignored, and the budgeting literature continues to equate development with growth criteria and the achievement of specific investment targets. The implication is that government budgeting should control the development process and fix its direction. This is to ignore both the limitations of the budgetary process – the linking of public resources to objects of government expenditure – and the breadth of the development process. Thus, development is narrowed to fit the compass of budgeting while the very real strengths of budgeting are distorted to promote it to an unrealistic, comprehensive goal.

\* \* \* \* \*

It is always easier to criticize than to propose and to select points out of context to draw a caricature rather than present an accurate picture. Any brief survey of a large and complex body of material necessarily omits much detail and can only trace the main outlines. Thus, the welcomed inclusion of new topics in recent reports such as financial planning, budgeting in public enterprises, and government accounting has gone unmentioned. In analyzing the proposals relating to budgeting in poor countries, however, we have been concerned less with specific recommendations than with their general tenor and assumptions. These exhibit a remarkable consistency in approach, despite changes in emphasis over time. They stress a single model of budgeting heavily related to national economic planning and emphasizing highly



coordinated, comprehensive, and complex systems. They assume resources availability, ignore political policy implications, and rely on transfer of techniques. Until recently, little attention was paid to budget implementation or the side-effects of over-regulation. Government budgeting was expanded to subsume and encompass the development process.

Yet, the problems on the surface may seem simple and advice, well-based. Where deficiencies are glaring surely the remedies are obvious. For example, where budget decisions are made haphazardly, coordination seems to be required. Where information is lacking, it must be obtained. Where traditional budget classification seems an obstacle to proper evaluation of budgetary choice, substitute others. Where capital projects founder for lack of recurrent funding, ensure that recurrent expenses are budgeted at the outset. Where people are doing it wrong, tell them to do it right. It all seems very logical and commonsensical – until one has read the same complaints and recommendations for nearly 20 years. Clearly things are not as simple as they seem, and it is necessary to go behind current budget practices in poor countries to discover why they persist and why the proposals of the reformers encounter so many problems in implementation.

How can we frame realistic budget advice which those concerned with budgeting in poor countries will be both willing and able to follow – advice that they will perceive as being in their own interest and that will be feasible in the given circumstances? At the outset it should be realized that generalized advice from afar may not be helpful. Conditions may vary too much to allow for uniform prescription but, to the extent to which a common approach might be productive, it might benefit from the following considerations.

First, some attention should be given to the establishment of a comparative typology of countries which would be useful for making recommendations about budgeting. For example, federal states share certain common problems, as might countries with no indigenous oil resources, or those with a primarily subsistence economy. The aim would be not to set up elaborate categories or cross-classifications, but to establish groupings where people who were encountering similar problems could pool their experience.

Second, efforts should be made to develop means of budgeting which are not simply carbon copies of those used in developed countries. The aim should be innovation and experimentation which might be encouraged through contacts suggested in the first proposal. There is no reason to believe that everything anyone ever needed to know about budgeting has already been revealed or that indigenous sources of experience and ideas are not worth tapping.

Third, an attempt should be made to work out criteria of budget performance. These are notably lacking from the current literature which substitutes intermediate goals such as specific types of classification or coordination with planning machinery. There are only scattered references to what people would really like to see budgeting doing – for example, cutting down the