

# UNDERSTANDING PUBLIC FINANCIAL MANAGEMENT: HOW IS YOUR MONEY SPENT? SOAS, UNIVERSITY OF LONDON



## WEEK 1

### WELCOME TO MARS COLONY

**What can a novella by Isaac Asimov tell us about public financial management?**

In his 1952 classic *The Martian Way*, Asimov describes the adventures of space scavengers from a fictional Mars Colony. As they seek to colonise the rest of the solar system, they are charged with justifying the increasingly costly settlements on Mars, Venus and the Moon which have become drains on Earth's fragile economy.

The novella presented some intriguing parallels to many issues faced by governments and public organisations today and provided a great starting point for our discussion. We've taken a few liberties with the story, however.

As we progress through each week, we'll be using our own very liberal adaptation to introduce you to some key concepts of basic public financial management, to help you develop your own understanding and ask questions about acquiring and spending public monies.

Each week of the course opens and closes with a short segment from the narrative. Read through each segment in turn to see how the main characters grapple with the issues, procedures and institutions that affect how successfully they're able to manage public finances, and draw your own conclusions in the comments section after each step.

Our adapted narrative begins in the next step, where we join the colonists at the start of their mission as they consider how to bring the financial management of Mars Colony into line.

## WEEK 1

### AN AUDITOR ON MARS

**"Ms Borisenkova. The Captain informs us that we shall land in about 15 minutes."**

Sophie Borisenkova woke and looked out the window of her landing craft, hoping to discern some landscape beyond the reddish dust. She had never thought she would become the first auditor in human history sent to Mars – until a few weeks ago. Of course, there had been plenty of auditors who had served in very distant territories from the homelands; she recalled stories of accountants hired by the English East India Company and inspectors of Jesuit missions in Latin America in 1600s. But putting an auditor on Mars!

In less than one hour, she found herself sitting around a table in a small conference room. The director of the Mars Colony sat before her, explaining how energy costs had increased because of the impact of dust storms on the efficiency of solar panels. None of this was news to her, even before her interplanetary voyage. Analysts at the Earth Space Governance Body had already carried out a painstaking examination of the Colony's financial statements in order to explain the persistent deficit and growing debts of the Mars Colony administration. The very reason for her presence there, indeed, was to better understand why the financial managers of the Colony were not able to contain rising costs while earning revenues from the flourishing local economy.

She addressed Colony Director Mr Ferrari.

"I think it's time we get down to the details," she said. "Let's start from the income statement and the causes for last year's deficit. We can then discuss issues with the management of the liquidity and the sustainability of debts in the medium term."

The Director looked at her quizzically. They both sensed that the meeting would take several hours.

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What do you think the main issues are for emissary Borisenkova? What do you think her priorities should be right now? Use the comments to share your thoughts and suggestions.

## WEEK 1

### WHAT'S THE FISCAL OUTLOOK FOR MARS COLONY?

#### Patience is over

**"Ms Borisenkova, I hope that you are satisfied with your review."**

After more than four hours of discussions, the financial condition of the Mars Colony looked as dismal as ever. Deficits had become larger every year. Expenses had skyrocketed, especially for contracted services, maintenance and R&D. Income had only slightly increased - due more to higher prices than larger quantities of minerals being extracted from Martian soil. The Mars Colony administration may not have been facing any serious liquidity crisis in the short term, but the growing amount of debts posed some serious threats to financial stability.

"I am, but we both know that the Earth Space Governance Body will not keep paying for your bills forever," Borisenkova replied. "They expect you to improve fiscal discipline and stop running deficits."

In Earth, many still looked at the construction of the Mars Colony – the very first human outpost beyond low Earth orbit – in awe. But feelings were different among the public officers of the super-national institution that supervised and funded, in part, the operations of the Martian administration: for them, pressure to restore the fiscal balance of the Mars Colony had intensified over the last few years.

## WEEK 2

### SPACE: THE NEXT FRONTIER

"What can you tell me about *that*?"

Sophie Borisenkova pointed at a massive construction yard that she and the Director of the Mars Colony could see through the large windows of the conference room. Despite the distance, they could both make out the shapes of cranes that operated around the unmistakable form of a space pad. Beams and sparks of lights occasionally punctuated the site, where apparently work did not stop even after sunset.

"That," replied the Director, "is precisely where most of our development budget goes, madam.

"As I explained earlier, since the new administration of the Colony came to power three years ago, there has been an unprecedented interest in new space exploration. The space pad is an investment that will enable us to undertake further steps in the human colonisation of the solar system."

Sophie knew that this was a very bold move, but also one that only the Mars Colony could make. Back on Earth, most efforts – and public spending – were focused on tackling environmental issues that had not been properly addressed for over a century. No government there would divert public resources to explore new places when home was in such dire straits.

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What's the real dilemma here? Can you see the pros and cons of each position? Share your thoughts on the steps you would recommend right now.

## WEEK 2

### SPENDING ON MARS

#### Clearance required

**"That is something that the Earth Space Governance Body did *not* authorize."**

The latest developments had been long discussed in the super-national organisation, and had also fuelled animated debates among the general public. When the new administration of the Mars Colony announced the space exploration programme, many world leaders warned that they discouraged such ventures. In their view, the Mars Colony was required to serve the interests of Earth, specifically to provide reliable imports of minerals. Embarking on space explorations fell outside of the mandate of the special extra-terrestrial jurisdiction.

"I am well aware of this, Ms Borisenkova," countered the Director. "You know that the matter is still under consideration by the special arbitration committee and hundreds of conflicting legal opinions have been already produced.

As far as we are concerned with this review of the Mars Colony administration, however, I can reassure you that such investment is financially advantageous because of the long-term returns that we expect from the unique space pad that we offer to mankind."

## WEEK 3

### MARS: THE TAXATION ATTRACTION

**"I do not need to remind you that part of your budget is funded by the Earth Space Governance Body," replied Sophie.**

"It is not unreasonable that they expect that you follow their directives, and that all of your investment decisions should be subject to their approval."  
Sophie sipped the last cup of her tea, as the Director prepared his answer.

"The share of local revenues is increasing, though," he replied. "Transfers of financial resources from Earth are still important for funding operating and capital expenditures, but we expect to become less and less of a burden on the budget of our motherland in the future."

"I think that you should carefully consider your next move, however," said Sophie. "Your decision to lower corporate income tax was not welcome on Earth, especially together with the generous tax credits that you provide to high-tech companies to relocate. During the last quarter alone, all the main economies on Earth have been hit, in crucial industries like artificial intelligence, genomics and nanotech."

"Well, they will always find a business-friendly environment here; I'm sure lower taxes aren't the only reason that many have opted to make such a huge journey."

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So what now? What are the pros and cons of these different revenue sources? What can Mars Colony do to bring these sources into line and reassure the governing body that these policies are for the public good?

## WEEK 3

### MARS: DIGGING FOR SOURCES OF REVENUE

**A massive cargo aircraft passed over the directorate where the meeting was held.**

"This is one of the latest additions to our cargo fleet," the Director explained. "Mining has been extended to ores located hundreds of miles from the smelting centre. We need larger and larger aircrafts to make it economically advantageous to ship over such distances."

Mining had been the first economic activity established on Mars, at a time when demand for minerals from Earth surged. Profitability of mining had declined in the last few years, however, especially due to rising costs of extraction from deeper sources.

"Investors seem interested in your mining ventures despite rising costs, though," Sophie commented.

In its search for additional capital injection, last year the Mars Colony administration had launched a public-private partnership for expanding mining activity. Several businesses and investment funds rushed to join the scheme, which promised to deliver returns above industry average, albeit in the face of risks that nobody could really assess. 'Mars-quakes', or severe tremors, were not uncommon occurrences, which seriously shook the planet and its infrastructure.

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What do you think the real risks are in this scenario? From a financial and management perspective, how safe are these revenue sources for all concerned? Share your thoughts.

## WEEK 4

### MARS: GETTING THE FINANCIAL HOUSE IN ORDER

**"Mr Ferrari, thank you for your hospitality," began Sophie.**

"The meeting was very helpful and clarified the current financial management practices at Mars Colony administration. I will report to Earth Space Governance Body and you will receive their further instructions."

Sophie sat before the Director in his office. A shuttle was waiting to bring her to the spaceship, ready to depart.

"I suppose that I will see more auditors coming to check our accounts in the future, Ms Borisenkova?"

"Until a few years ago, this is what you would have experienced," she reassured him, "possibly together with more stringent requirements to review your capital expenditures in advance. As you know, nowadays the new policy orientation at Earth Space Governance Body is a bit different. They aim to make space outposts more responsible for managing their own finances.

"I can't anticipate their decisions, but I would not be surprised if they make further cuts to transfers to your budget in order to make you more financially judicious."

After some quick and cordial exchanges, Sophie left.

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What do you think of the proposed measures? What other measures could be put in place to control their public financial management while making them more responsible?



## WEEK 4

### MARS COLONY: EN ROUTE TO SELF-GOVERNMENT

**"Well. What should we expect?"**

The Chairman of the Mars Colony administration could hardly contain his trepidation.

"The inspection went quite well, Mr Chairman," Ferrari said, looking at the hologram replica of his senior officer. "Ms Borisenkova is a scrupulous and savvy auditor and she acquired all the information she was searching for."

"So, do you think that Earth Space Governance Body will be persuaded to grant us more financial autonomy?"

"I can't see why they should not. This would be consistent with their policy. We have provided adequate evidence that, if they cut their budget transfers further, we would learn to be more prudent in the management of our financial resources."

The Director's words eased the Chairman's anxiety. Well before the Chairman's election as chief of Mars Colony administration, a network of politicians, businessmen and intellectuals had debated whether the colony would have a brighter future by gaining independence from Earth and ultimately establishing institutions of self-government.

This objective was an open secret among the powers that be, and taking steps to gain more financial autonomy from the motherland was considered pivotal in preparing for the independence political struggle.

"Good," the Chairman replied firmly. "I will inform our friends."

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The mission has revealed much that is troubling on Mars: persistent financial deficit and growing debts, unregulated expenditure, and complex transfers of revenue from the Earth Governance Body have all helped destabilise the financial management of the Colony.

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Is more decentralisation in public financial management affairs a step in the right direction? How else could the Earth Governance Body help the Colony achieve self-government?