Working Paper
The public expenditure management system is in a state of flux. Traditional approaches of expenditure management have serious limitations in addressing current and future tasks. The new approaches toward improved expenditure management, which emphasize the creation of task-oriented agencies, performance agreements, and competitive tendering and contracting, have considerable potential in meeting the tasks. But it is essential to address the detailed operational aspects of these new approaches so that they do not contribute to a shadow government or a government that continues to be weak in regard to contracts and third-party transactions.

JEL Classification Numbers:  
H50, H57, H61
Issues and New Directions in Public Expenditure Management

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Summary

The public expenditure management system is in a state of flux. During recent years, the inadequacies of the system in addressing macroeconomic stabilization or in providing cost-effective services to the community have come to be recognized. Several promising new approaches, which emphasize the application of market tests and corporate practices, have evolved. These approaches, however, remain to be implemented in developing countries. Meanwhile, an examination of the strengths, weaknesses, opportunities, and threats in this state of affairs, which this paper undertakes, shows that continued efforts to strengthen the expenditure management machinery are needed.

In considering current and future expenditure management, and in applying the new approaches to secure improvement, it is essential that the operational aspects of policy formulation, control process, third-party payments, and contract implementation receive greater attention. This need is further strengthened by likely changes in the role of government and in its expenditure portfolio. In addition to seeking decentralization, performance agreements, detailed cost information, and an enhanced accountability framework, it is also important that finance ministries and spending agencies are strengthened and that new investments are made in developing information systems to facilitate regular monitoring and analysis of developments. Without attention to such operational aspects, there is a danger that the creation of task-oriented agencies could lead to a “shadow” government beyond normal accountability. Similarly, the dependence on third-party transactions could lead to leakages stemming from moral hazard situations, and the excessive dependence on contracts could lead to a situation of rampant collusion and corruption.
In every modern civilized community, the outlay of public funds collected by contributions from the community in a variety of forms, calls forth the liveliest interest from the taxpayers and demands the greatest carefulness from authorities entrusted with the outlay. In theory, at least, the layout of these monies must be, like the sowing of the seed by the farmer, in the hope and with the intention that it would be returned a hundredfold to the sower.

M.K. Gandhi, 1923

The significance of crises is the indication they provide that an occasion for retooling has arrived.

T.S. Kuhn, 1962

I. INTRODUCTION

Public expenditure management is now viewed as at the heart of economic policy making in many countries. The renewed consideration of the need for having responsible, responsive and effective government that works better and costs less is only one of the many factors contributing to the impetus, indeed a new urgency, for examining the issues in public expenditure management. The growing fiscal deficits have created the uneasy feeling that expenditure management in public bodies has become both herculean and sisphyian, the former reflecting the growing complexity and difficulty in addressing the multiple dimensions of expenditures, and the latter reflecting the failure of efforts in addressing the issues and consequently the frequent recurrence of the same type of issues. Necessarily, however, the order of magnitude, as well as the combination of issues, varies from one country to another and inter-temporally. This recurrence of issues coupled with the growing skepticism of the public on the governmental capacity to deal with them, on the one hand, and the imperative need to control deficits, on the other, is inducing governments to look inward and assess the adequacy of the expenditure management systems to address the current issues encountered by them. This desire is further supported by the need to have flexible and responsive systems to deal with the issues emerging from the opening of the national economies and liberalizing the fiscal, financial, and foreign trade regimes. There is a growing recognition that domestic issues are affected by international events that in turn are influenced by the globalization phenomenon. This too is forcing the governments to review their structures of administration so that they could be more effective in an interdependent world. Moreover, there is a recognition that achieving a budget surplus or establishing a fiscal order of prudence is not necessarily equivalent to the provision of quality services to the public in a timely fashion.
Management is no longer reactive as the limitations of such an approach have become abundantly clear over the years. Management now is as much about reacting to identified issues as it is proactively looking into the uncertain future and seeking opportunities. The issues in expenditure management have become such that they do not render themselves for quick solution during the short span of a fiscal year. For these and associated reasons, governments are now engaged in examining their role and scope of operations - what they should do and pay for, what they should pay for and not do, and what they should neither pay for nor do. An integral (and important) part of this exercise is to identify the issues that are now experienced, as well as those that are likely to arise in the future, so that systemic solutions could be envisaged. There is recognition however, that the contours of the problems that arise in the future may not be specific, as do the solutions. But as Aristotle noted (The Nicomachean Ethics), “It is the mark of the trained mind never to expect more precision in the treatment of any subject than the nature of that subject permits.”

II. SCOPE OF THE PAPER

The scope of the paper is limited. It recognizes that expenditure management has unique tasks as it has to address both the macro and the micro aspects of economic policy making and detailed operational management. It is a matter of intense and growing interest to the public and to the members of the legislature. Its processes are dependent, for their effectiveness, on the systems at work, application of technology, and the level of human resource development. It is also an area where disciplines, such as political science, economics, public administration, management, and accounting converge, and their influences are to be felt in the day-to-day tasks of expenditure managers. The worlds of these expenditure managers are however, different both spatially and temporally. Given this large canvas, there is an imperative need to specify the conceptual lenses used in this paper at the very outset.

This paper provides an overview of the issues and the tasks that remain ahead so as to permit an organized discussion, and in the light of that discussion, the formulation of a general agenda for future action. The paper is concerned, therefore, with the themes and issues. Specific reference to any country experience has consequently been eschewed. Rather, the focus is on the themes of expenditure management emerging from the individual country experiences. Inevitably, therefore, conclusions drawn would have different degrees of applicability to the countries.

The paper considers, in the following sections, first the developments in expenditure management. This is followed by a discussion of the broad issues and the emerging tasks, which are then developed into fuller discussion of issues and approaches, as well as the organizational measures that may be needed to achieve a more effective expenditure management system.
EXPENDITURE MANAGEMENT: A HISTORICAL PERSPECTIVE

The second half of the 20th century has witnessed several momentous events in the economic life of countries. Most countries became independent from colonial rule, and very soon thereafter the pursuit of development planning became a major theme for their governments. It was recognized that the traditional forms of budgeting and expenditure management were inadequate to deal with the developmental tasks. As a consequence, development budgets or capital budgets were organized and supporting institutions such as planning ministries or commissions were set up. Massive investments were undertaken, numerous public enterprises were set up and, in general, the public sector grew rapidly and the overall share of expenditures as a share of GDP grew steadily. The prevailing philosophy was that if there was a need for society, that need was to be addressed by the governments. The growth in expenditures brought the uneasy feeling that money spent did not necessarily mean that the choices were wise or that the resource use was economical. To address these issues, investment appraisal techniques were installed, and versions of performance budgeting, program budgeting, and planning, programming budgeting systems were introduced in governments. These systems of budgeting emphasized the application of quantitative techniques of analysis for evaluation of projects and programs, planning over a period of years, improvement in budgetary structures, and establishment of enhanced information systems to track physical and monetary progress in major investment projects.

As progress was made in the application of improved budgetary and expenditure management techniques, the altered economic factors after the oil shocks indicated the need for different strategies of expenditure management. It was found that development plans, which were supply driven, and which spawned a spending culture, could not be sustained. The expansion of the role of the state and the features of the welfare state added steadily escalating expenditure pressures. This was exacerbated by the failure of many public enterprises and the growth of open-ended subsidies. It was recognized that the systems of planning, programming and development budgets were more suitable for periods when the resources were available to match the growing expenditures rather than to address the issues of declining availability of resources. To address this situation, some governments attempted to introduce variants of zero-base budgeting and when that proved to be inadequate, resorted to cutback management on a massive scale. From this experience emerged a new philosophy of government management that emphasized austerity, limits on the role of governments, regulatory reform, privatization of government activities, as well as emphasis on the application of corporate practices to government. As an integral part of this reorganization, the orientation of expenditure management changed as well. To moderate the growth of expenditures, budgetary ceilings were formulated on a top-down basis and compliance machinery was strengthened. Many a government imposed a freeze on manpower growth and some actively encouraged the growth of automation to compensate for the stagnation or reduction in manpower levels. Subsidies and transfers to public enterprises were reduced as were the overall levels of development outlays. Placing emphasis on macroeconomic stability, many governments reduced their investment outlays in order to be within the available resources and with a view to controlling the inflationary impulses generated by governments.
This emphasis has ushered an era where expenditure management has come to be justifiably dominated by deficit reduction packages. These approaches have also had their impact on the organizational aspects. First, there was a continuing search for new tools to limit public spending or, at any rate, to moderate its growth. This in turn contributed to a stricter application of commercial principles to some government operations, to evolving new sectoral controls in areas where the rate of growth of expenditures was deemed to be high and to introduction of scrutinies, political reviews, and on-going evaluation of completed projects and programs. Second, it affected the capacity of the ministries of finance and their increasing inability to moderate the expenditure growth has come to be recognized, by the public and the controllers. Meanwhile, past approaches of the governments added to the problems of the central agencies. Instruments such as automatic stabilizers, indexation and norms and laws relating to development expenditures steadily contributed to a supply driven growth of expenditures. Similarly, growing borrowing for capital projects contributed to the overheating of the economy, while development plans reduced budgetary flexibility. The control was also fractured owing to the extensive prevalence of extrabudgetary funds and foreign aided projects and programs that tended to promote an enclave mentality. These, in turn, contributed to frequent crisis in expenditure management in that the budgetary ceilings were so frequently adjusted that they eroded the credibility of the finance managers. The accumulation in unpaid bills came to symbolize the failure of the conventional control mechanisms.

IV. EMERGENCE OF NEW APPROACHES TO EXPENDITURE MANAGEMENT

The recognition of the inadequacies of the conventional approaches has contributed to the emergence of a new approach that is generally known by the label “new managerialism,” which places emphasis on performance, decentralization, application of market principles, and enhanced accountability through investment in developing relevant and cost-effective information systems. The emphasis on performance is expected to contribute to the movement of a traditional control culture rooted in process controls, inputs, minutiae, and a kind of one-size-fits-all approach to one that focusses on conservation and utilization of resources, that emphasizes economy, and effectiveness in the delivery of services to the public, and that includes a publicly articulated framework for evaluating the performance with reference to explicit criteria including empirically based benchmarking.

Development of a performance-based culture does not evolve on its own. It requires a restructuring of the existing institutions and the development of appropriate systems to fulfill the objective. Toward this end, the new managerialism envisages the establishment of agencies to be managed by managers that provide an assured delivery of goods and services of a specified quality within a fixed budget. This is expected to contribute to a decentralized and somewhat less hierarchical structure so that decisions on resource utilization and delivery of services could be made closer to the point of delivery. This enables the manager to explore alternative ways of delivering services and to be cost effective.
The application of the market principles involved the liberation of the spending agencies from the government monopolies and to seek their inputs from the best source on the basis of competitive bids. On the receiving side, the consumer also would have the option of getting the service suitable to his/her requirements. In both cases, the traditional monopoly structure, which may have contributed, over the years, to acceptance and tolerance of low-service standards, yielded place to the pursuit of choice for both the provider and the consumer.

Decentralization should not, however, be at the expense of strategic policies of government, nor should freedom for the managers to manage mean an exception to the much needed accountability. For this reason, the responsibility for the formulation of strategic macroeconomic policies continues to be located in the central agencies. The operational agencies, however, are expected to have, in exchange for managerial autonomy, specific arrangements for the articulation of objectives and performance indicators to facilitate in-year monitoring and year-end evaluation. Toward this end, considerable emphasis is placed on the development of information technology.

The above ingredients contribute to a new nexus between the central and spending agencies that envisages a buyer/provider partnership and a firmly forged macro/micro link. The buyer/provider and macro/micro links have several layers in turn reflecting the administrative levels, from central management bodies to line departments and agencies, from central to autonomous agencies and lower levels of government and from the public sector to the private sector.

As a part of the above approaches, greater emphasis is also laid on public-private partnerships. Traditionally, these partnerships covered a variety of transactions including service contracting, turn-key construction, leasing, management contracts, and build, operate, and transfer approaches. The new emphasis on the public-private partnership is twofold: joint participation and financing of capital projects; and provision of services that were hitherto funded and provided for by the government itself. The scope of these public-private partnerships is gradually growing and during recent years a third party government has emerged where services are funded by government but are provided by private parties to the consumers and where the functional relationships between the provider, receiver, and the funding agency are likely to be far more remote than in the conventional approaches.

To buttress the service delivery, while ensuring adherence to the financial ceilings, performance agreements or contracts are concluded between the buyer and the provider. The agreement is the means through which performance requirements and enhanced accountability are specified providing in turn a result-oriented culture and client or citizen-oriented expenditure management system. To sum up, the new systems are expected to facilitate the tasks inherent in the multiple dimensions of expenditure management - macroeconomic stability and responsiveness, maintenance of financial discipline, transparency, managerial flexibility, accountability for results, financial disclosure, citizen participation, and political acceptability. Expenditure management is only one of the main elements of the approaches to
public sector management. With a view to providing an appropriate perspective, the features of the broader strategies are summarized in Table 1.

V. CONTINUING ISSUES

The above description should not lead to the conclusion that all issues are being addressed and that what remains is primarily a matter of implementing them. A more detailed analysis would however, indicate that such a conclusion would be premature and technically wrong. For one thing, many of the concepts and systemic improvements remain to be implemented. Even where they have been implemented, there have been, as is to be expected, several teething problems. New and moving frontiers create new issues and some of these aspects are discussed further on. The preceding discussion, however, illustrates that problems are being addressed, although with a time lag. As hopes are gained about the presumed or claimed success (and both may be different from the reality at the ground level), new problems, with substantial impact on the operational systems, appear to emerge that in turn need to be addressed. It also illustrates that adequacy of macroeconomic policies does not by itself ensure their full implementation. Indeed, there are several micro factors that come between intent and realization.

These micro factors, which differ from one country to another, are however, deeply embedded in the organizational processes. It is therefore appropriate that a detailed analysis of the strengths, weaknesses, opportunities, and threats is undertaken. This analysis is shown in a summary form in Table 2: there are, however, four major interrelated issues that need to be considered in some detail.

A. Approaches to Policymaking

Policy formulation represents by far the most important segment of expenditure management in government. It sets the tone for process control, and in general, compensates for the shortcomings of the process controls. The controls in the implementation or the process mostly relate to ensuring compliance of rules and regulations that aim at maintaining financial discipline. In some situations, the controls may seek procurement of economies in expenditure. These economies, however, are not comparable to the savings that might be inherent in the very choice of policies and associated programs. What is lost in the policy can hardly be compensated by the effective application of process controls.

Policymaking in many developing countries is best viewed as an area of shared decision making in which international financial institutions and donors that provide bilateral aid tend to have a role that is proportionate to their contribution. Where such foreign aid is sizeable, there the area of shared decision making could be correspondingly large. Over the years, this shared decision making has contributed to a functional dyarchy in expenditure management in that there are areas that are under the direct control of the government and areas that are shared. The shared areas tend to have their own priorities and more frequently,
Table 1. Public Sector Management Improvement Approaches

<table>
<thead>
<tr>
<th>Category</th>
<th>Broad Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Improving policy development.</td>
<td>A series of actions and ideas focused on policy advice: establishment of policy review mechanisms.</td>
</tr>
<tr>
<td>2. Restructuring the organization.</td>
<td>Steps aimed at reducing the role of government through appropriate focus on core businesses of various departments. These include creation of small, task oriented, financially self-sufficient agencies which will be assigned specific implementation tasks. The intent is to provide decentralization while enhancing accountability. This category also includes reengineering which involves a rethinking and redesigning work processes.</td>
</tr>
<tr>
<td>3. Reorganizing work structures.</td>
<td>This involves reduction in the hierarchies and replacing them with flatter, leaner, and more flexible structures. In some cases, employees supplementing the above step, may be organized into self-managing work teams with delegated responsibilities.</td>
</tr>
<tr>
<td>4. Reorienting the organizational culture.</td>
<td>Somewhat more abstract and ambitious, this seeks to promote a customer orientation through the specification of standards, provision of information, openness and customer choice, courtesy in the provision of service and value for money. It seeks to make the public service client-driven.</td>
</tr>
<tr>
<td>5. Reorientation of Human Resource Management.</td>
<td>Shift from career to contract-based service (see 3 above about related management structures); market-based remuneration; rewards for meritorious service; and strengthening anti-corruption activities.</td>
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<thead>
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<tbody>
<tr>
<td>6. Commercialization and market testing.</td>
<td>Government agencies are expected to be, where feasible, commercial in their approach. Market testing involves a service being offered for internal and external competitive tender to promote level playing fields. In several cases, services may be contracted out.</td>
</tr>
<tr>
<td>8. Activity-based costing.</td>
<td>Involves in many cases overhaul of the existing budget processes so as to be output and performance based. Strategic objectives are specified and expected outputs and outcomes are also indicated. Where contracting out is resorted, there is a greater specification of what is sought to be accomplished.</td>
</tr>
<tr>
<td>9. Application of Information Technology.</td>
<td>Technology Application</td>
</tr>
<tr>
<td></td>
<td>Governments are exploring the feasibility of accrual based accounting systems and measurement of activity costs (including capital charge) to facilitate reduction of costs and healthy competition among units. It also promotes a greater awareness of the value of assets.</td>
</tr>
<tr>
<td></td>
<td>Governments are undertaking massive investment to alter the manual systems. This is expected to contribute to improved service delivery, productivity gains and over a period, cost reduction.</td>
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Table 2. Expenditure Management: A Synoptic Review of its Strengths, Weaknesses, Opportunities and Threats

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tbody>
<tr>
<td>Well organized Budget offices in most countries.</td>
<td>Emphasis on routine and neglect of policy issues or the use of overall resources.</td>
</tr>
<tr>
<td>Closer integration with economic analysis and policy.</td>
<td>Poor guidance to the Spending Agencies. Budgets have yet to live up to expectations as plans of action.</td>
</tr>
<tr>
<td>Established routines for examination of budget requests and policy analysis.</td>
<td>Poor analytical capability in many budget organizations and considerable dependence on Spending Agencies for data.</td>
</tr>
<tr>
<td>Enhanced application of information technology.</td>
<td>No forward plans for adjustment. Budget outcomes are often different from intent.</td>
</tr>
<tr>
<td>Reasonably professional staff.</td>
<td>Cutback management proved to be a costly failure with enduring damage to the system. Pursuit of reactive approaches.</td>
</tr>
<tr>
<td>Comprehensive case and administrative law available in most cases.</td>
<td>Little reliance on cost data. Traditional paradigms about expenditures have a continuing impact on budgetary approaches.</td>
</tr>
<tr>
<td>Gradual development of performance indicators.</td>
<td>Inadequate link-up with fiscal spending outside the budget. In some cases what is covered by the budget is relatively small.</td>
</tr>
<tr>
<td>Past response to changing needs reveals a mixed picture—half full, half empty phenomenon.</td>
<td>Much of what is included in the annual budget is determined by the previous legislation.</td>
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<tr>
<td>Introduction of new managerialism shows a marked departure from the previous practice. It remains to be accepted by most countries including those in Western Europe.</td>
<td>Steady circumvention has become a steadfast subversion eroding the credibility of the system.</td>
</tr>
<tr>
<td>Acceptance of the fact that deficit management would require different approaches including learning from the private sector's experience and forging new links with private sector and non-governmental organizations.</td>
<td>Piecemeal responses to changing needs have had their own adverse impact.</td>
</tr>
<tr>
<td></td>
<td>Organizational paradoxes or perversities continue to dominate the scene contributing to regular tensions between the Central and Spending Agencies as well as among the Central Agencies.</td>
</tr>
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<td></td>
<td>Lack of a diversified system to deal with ever growing expenditures. One size fits all approach.</td>
</tr>
</tbody>
</table>
Table 2. Expenditure Management: A Synoptic Review of its Strengths, Weaknesses, Opportunities and Threats

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
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<tbody>
<tr>
<td>• Gradual reopening of the economy, liberalization of the control regime, phased withdrawal from the previous levels of benefits and an enforced determination to deal with the fiscal deficits provide a major opportunity to redesign the system.</td>
<td>• Lack of concerted action to address the weaknesses would pave the way for a steeper decline in the public's perception of the budgetary capacity.</td>
</tr>
<tr>
<td>• Introduction of sectoral cost controls on the lines of the private sector practice of activity based costing provides a much needed opening to redesign the budget planning and control system in Spending Agencies.</td>
<td>• Governments reduced capacity to deal with emerging problems would erode its strength.</td>
</tr>
<tr>
<td>• Innovations in information technology will permit several initiatives, such as outsourcing some budgetary activities, that could not be conceived earlier.</td>
<td>• Liberalization of the economy reduces the degree of freedom and policy maneuverability available to governments. This threat needs to be addressed scientifically and the overall focus of government budgeting needs to be reexamined.</td>
</tr>
<tr>
<td>• Extended acceptance of strategies promoted by regional organizations, such as the principle of subsidiarity, deficit and debt provisions of the Maastricht Treaty would have a beneficial impact in terms of an improved environment for taking measures aimed at strengthening budget organizations.</td>
<td>• Information technology offers a new boundary but in the absence of internal revitalization, the investment in new technology may not yield results.</td>
</tr>
<tr>
<td>• Absence of efforts to address the organizational paradoxes or the emerging tasks would compound the magnitude and complexity of issues that would prove increasingly intractable with the passage of time.</td>
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©International Monetary Fund. Not for Redistribution
supporting systems of expenditure management. Apart from the fragmentation in the exercise of controls, this shared decision making would appear to stand in the way of having a total policy perspective to expenditure management. Further, frequent stop and go approaches in aid disbursements have added an additional degree of uncertainty to policymaking.

Policymaking is also adversely affected by the supply driven approaches of plan expenditures. Plan projects and programs have their own norms and yardsticks that are not even remotely related to the availability of resources. Once included in the development plan, the programs acquire a new legitimacy that keeps contributing to the inexorable growth of expenditures. Moreover, the estimation of costs of most of the projects leaves a good deal to be desired as is evident from the fact that the actual outlay is often double, if not more, the initial estimate. As more projects gain entry into the plan through underestimated costs, allocation of resources becomes thinly spread on all the included projects. While this may keep the lobbies of vested interests at bay provisionally, it has the effect of staggering the implementation schedules and deferral of expected benefits.

The portfolio of expenditures has also been changing during recent years. A greater part of the outlays is now devoted to interest payments and transfer payments to individuals, enterprises owned by the government and in the private sector, as well as to other levels of government. Most of these transfers are prescribed in law, and some are supply driven. In either event, there is little annual flexibility without changing the law, or the design of the program of transfers. But the requisite policy analysis of these aspects, in particular, the implications of the transfer programs for expenditure management have not received the attention due.

Many central agencies do not have information on the profiles of expenditures and therefore tend to have an incomplete understanding of the factors contributing to expenditure growth. Further, they also lack information on the cost aspects of the programs. Here again, the redesign of the delivery of services is rendered difficult owing to the absence of focus.

Most important, however, are the identification, measurement, and dissemination of data on the needs and affordability. The spending agencies are not given adequate guidance about the resource availability. Consequently, they do not focus on the revision of priorities necessary in the context of reduced availability of resources. In the tight time squeeze of the budget calendar, some cuts are imposed and a budget is prepared some how or other. Inasmuch as the need is really to address a continuing problem, the short-termist approach of arriving at acceptable budget totals tends to be less of a solution and more of a problem. Inevitably then, the expenditure management process becomes a scramble for resources that in turn perpetuates the spending culture.

B. Myth of Control

The general impression is that the central agencies have monolithic powers of control to meet every situation and contingency. In reality, however, these powers are widely shared,
and, in many cases, circumvented. Personnel determination is made by the civil service departments on the basis of norms (and not on resource availability). Supply of inputs may be managed by central procurement organizations, subsidies by quasi-independent commissions, development outlays by the donors and some areas such as defense may have overriding considerations as well as procedures different from others. In the absence of an information system that makes the approaches of these organizations clear to the other participants, each party tends to work in isolation of others. Such an approach is frequently considered to be an appropriate part of the turf protection of each agency. When the totality of these approaches implies a higher level of expenditures than could be afforded, then arbitrary cuts are imposed on the individual allocations to agencies.

These reductions are perceived by spending agencies as temporary and as such, no adjustments in the programs are made. On the other hand, to overcome the centrally imposed cutbacks, agencies resort to the employment of consultants to overcome staff shortages, lease equipment rather than purchasing, underfund operations in expectation of supplemental appropriations, exploit inflation estimates, protect previous allocations in the name of "truly needy" and to avoid disastrous consequences, pile up unpaid bills, or lobby for extrabudgetary funds that could be financed by direct donor transfers. The cumulative effect of all these factors is that in the end, the control structure appears, like the emperor’s nonexistent clothes, ineffective.

C. Institutionalized Distrust

The central and spending agencies have a symbiotic relationship and intertwined destinies. Inevitably, such relationships are dominated, depending on the situation, by love or hate or adversarial politics. Traditionally, finance ministries had dominated all the stages of expenditure management from budget formulation to payment, to the compilation and consolidation of accounts. It reflected, at one stage, a kind of internal financial colonialism. This colonialism remained distant and frequently adversarial and the colonizing of the mind of the spending agencies has never taken place. These approaches have gradually been eroded over the years, by at least four factors. First, the growth of development planning and related formulation of annual and medium term plans contributed to the establishment of new power centers in the government. These new power centers gained at the expense of the traditional functions of the finance ministries. Second, there was a perceived failure of central controls. Most controls had a one size fits all approach about them, and in the absence of an expenditure management philosophy, the exercise of controls came to be trivialized and vulgarized. The emphasis on economy became an ideology in itself. But, there were frequently no instruments aimed at achieving economy other than a routine incantation of the slogan. Slogans lead to weariness when they are not supported by finely honed instruments. Further, the control followed an assumed paradigm to the effect that there is no financial consciousness in the spending agencies and that the finance ministry alone was the repository of financial consciousness in the government. The central agencies, pursuing this belief, built up several layers of control and in the context of fiscal stress sought even more of a concentration of power. Inevitably, this contributed to regular battles for relaxation of the components of the
centralized approach and when that failed, to the pursuit of circumvention. Centralization too has its limits and the efforts at greater centralization in the name of macroeconomic stability did not match with the requirements of governments that have grown too big with too diverse a portfolio of tasks and expenditures. Many finance ministries did not succeed in managing the fiscal stress for so long as their efforts concentrated on smothering small fires rather than addressing the major themes. This too eroded the intellectual capital of the central agencies. Third, the emergence of new management approaches implied a new message that stressed the importance of decentralization and greater congruence between tasks, responsibilities and financial powers. This contributed to the view that the days of centralized financial controls have receded into the past. Fourth, the approaches of the donors and their frequent insistence on the establishment of extrabudgetary funds that are more in conformity with the donor’s ethnocentric designs of development have also eroded the role of the finance ministries.

But the emergence of new ministries of finance that fit in with the changing landscape has yet to become a reality. Meanwhile, the previous regimes of control, with all their systemic and operational failures continue. As a result, distrust continues to be the dominant feature of expenditure management. The absence of trust also means that an important lubricating element of the administrative system is missing. As a consequence, transactions costs have grown, decision making processes became cumbersome, and more important, finance ministries could not perform the role of a change agent. Indeed, their inability to be successful change agents came from within their organizations rather than from outside.

D. Contract Management

The growth in developmental outlays has also brought with it an enormous growth in the contracts awarded each year for goods and services. The items procured include food grains, POL products, and defense items ranging from the inexpensive to the most expensive equipment. Notwithstanding the growth in the contracts, experience shows that financial controls in this area are extremely vulnerable to manipulation and that on balance, there is much to be improved upon. The problems encountered in this area include the following:

- Procedures for procurement are often centralized. While detailed procedures are specified about the tendering process, experience shows that they are too elaborate, and take enormous time. This has contributed to a separation of responsibilities in that the user’s interests may diverge from those reflected in centralized procurement.

- The information on costs available to the governments is weak both in terms of coverage and timeliness. Further, in regard to certain proprietary items, more expenditure may be incurred.

- Design of public works is frequently changed after the award of the contract. This could be due to real needs, technological change, political interference or poor choices in the initial stages.
• Vast amounts are committed in the budget but these remain unspent in the initial years due to substantial lags in the acquisition of sites.

• Project costs tend to be different from the original estimates partly due to price factors and partly because of design changes.

• Compensation for price fluctuations is usually adjusted in favor of the contractor, particularly in those contracts that are based on a cost-plus basis. Where government contracts are based on cost-plus or where purchases are based on a net rate of return to the producer, there is little incentive for the contractor to be economical.

• Contractors are usually provided with cash advances by governments that are then recoverable, after a grace period, from the payments due to them. As however budget allocations tend to be smaller than required, the life cycle of the project gets extended and the initial advances get immobilized.

• After a stage, the implementation rate of the project tends to be contractor driven, and frequently may be higher than implied in the budgetary allocations for the year. This contributes to the accumulation of unpaid bills and the link between annual allocations and the amount of work done becomes tenuous. The allocations are utilized to pay the spillover of bills from the previous year, while leaving a legacy of unpaid bills to be settled in the following year.

• There are substantial “user costs” incurred when schedule or quality cuts are made in order to be within the annual budgetary allocations. These user costs are never given explicit consideration, let alone an estimation of the magnitudes involved.

• Budget severity is met through the stretching of project schedules, which, in the final analysis tends to be far more expensive than being economical.

The above built-in features suggest that there is little congruence between the economic and organizational agenda of a government in expenditure management. On the other hand, the systems reveal an unspecified and therefore implicit agenda that may be contrary to the economic agenda. Put another way, the pursuit of economic agenda requires changes in the supporting administrative structures.

VI. TASKS AHEAD

The tasks of expenditure management in government are partly derived from the previous discussion and partly from the changing role of the state itself. Broadly, however, the
structure of objectives of expenditure management illustrated below in Table 3 have a universality about them.

While some of these objectives are of a continuing nature, some are new and reflect the changing fiscal realities. Together they offer a formidable agenda for expenditure management. The issue is whether these objectives can be achieved by the existing machinery of expenditure management. In most cases, including those where major efforts have been made during recent years, the answer would be a predictable no. This situation, to recall the previous discussion, has arisen for three reasons. First, the response to the changing needs has often been partial, ad hoc and generally on a delayed basis. Second, in several cases, even the meager results expected from the partial reforms did not accrue largely due to the neglect of micro factors that tend to impede implementation, and, third, the new approaches sought to be applied in industrial countries have as yet to find markets in developing countries. It is clear however, when circumstances change and when the heirophanies cease to be effective, new methodologies have to be evolved. As indicated in the first section of the paper, such methodologies, variously described as new managerialism, public choice school approaches as applied in Australia and New Zealand or simply as public sector reform are now available. These include, as noted earlier, restructuring the organization (small, task-oriented and generally financially self-sufficient agencies), reorganizing the work structures (moving from a hierarchical to more flexible and team-oriented structures), market testing (services being offered for internal and external competitive tender to promote level playing fields), performance or output based budgeting and accrual based accounting systems.

Specifically in regard to expenditure management, the new approaches emphasize a proactive management strategy involving global ceilings based on specified objectives, outputs to be achieved, and outsourcing many of the activities to achieve economies in operations. A major element of these approaches relates to a buyer/provider link that dominate all expenditure transactions. Thus departments or agencies provide services or outputs to the ministers or the legislature who appropriate the requisite amounts. The link between the two is provided through a performance agreement that specifies the objectives, allocations that buy the inputs, specification of expected outputs together with cost, quality, and time schedules, where appropriate. Monitoring the performance becomes the key task during the year. The applicability of these principles to governments would have the effect of transforming governments from being a direct provider (as has been the case thus far) to a financier, arranger and overseer.  

1The terms are those of Dilulio, Jr.; Garney and Kerl, (1993), p. 32.
Table 3. Objectives of Public Expenditure Management

| Effective Government | • Provision of services to the public within specified time and cost schedules.  
|                      | • Achievement of allocative and technical efficiency.  
|                      | • Ensuring that budgetary intent and outcome are congruent.  
|                      | • Matching outlays with resources.  
|                      | • Provision of management flexibility to the implementation agencies.  
| Responsive Government | • Achievement of macroeconomic stability.  
|                      | • Responsiveness to changing economic situations.  
|                      | • Responsiveness to the changing needs of the client/consumer.  
|                      | • Provision of a choice to the client/consumer.  
|                      | • Promotion of a utilization culture in lieu of a spending culture.  
| Accountable Government | • Accountability for results  
|                      | • Provision of accurate information on the status of government finances.  
|                      | • Decision making process to be transparent.  

It is clear however, when circumstances change and when the heirophanies cease to be effective, new methodologies have to be evolved. As indicated in the first section of the paper, such methodologies, variously described as new managerialism, public choice school approaches as applied in Australia and New Zealand or simply as public sector reform are now available. These include, as noted earlier, restructuring the organization (small, task-oriented and generally financially self-sufficient agencies), reorganizing the work structures (moving from a hierarchical to more flexible and team-oriented structures), market testing (services
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The implications of these changing roles for expenditure management are illustrated in Table 4 and the issues identified in the table are discussed further below. The overall structure of expenditure management would then be dependent on the structure of government transactions. This structure is illustrated in Table 5. Together, these tables illustrate the future portfolio of expenditures and the organizational tasks involved therein. The issue is, what are the areas that need to be specifically addressed in strengthening expenditure management. It is only natural that each country will initiate efforts to strengthen its machinery in a manner that reflects its own needs as well as administrative capacity. In so adapting, it is appropriate that attention is paid to the following systemic and micro level factors.

VII. SYSTEMIC FACTORS: ISSUES AND APPROACHES

A. Changing the Management Cultures

Administrative cultures that have grown over the years are not susceptible to quick and programmed changes. Rather, they will evolve themselves when changes are made in the systems and the procedural and operational changes made as a part of that overhaul become ingrained habits and the individual responses reflect the new requirements. The management culture that is sought to be promoted is rooted in trust, and specification of management responsibility. This implies that the principle of expenditure management hereafter would be based on trust where individuals or organizations would be assigned both tasks and responsibilities. They would be responsible for outputs while scrupulously avoiding incurring additional liabilities.

2The terms are those of Dilulio, Jr.; Garney and Kerrl, (1993), p. 32.
Table 4. Changing Tasks in Expenditure Management

<table>
<thead>
<tr>
<th>Area</th>
<th>Function</th>
<th>Economic Tasks</th>
<th>Organizational Tasks</th>
<th>Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Allocation</td>
<td>Arranger</td>
<td>• Determination of what the government should do and pay for, what it should pay for and not do, and what it should neither pay for nor do.</td>
<td>• Determination of who will carry out what.</td>
<td>• Assurance of continued funding.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Determination of the best means for carrying out the tasks through sub-contracting and internal market mechanisms.</td>
<td>• Assurance of continued funding.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Determination of aggregate expenditures and their distribution</td>
<td>• Specification of the information-based organizational processes to facilitate the macroeconomic role</td>
<td>• Specification of objectives.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Recognition of the linkages with macroeconomic objectives and delivery of services</td>
<td>• Specification of the management strategy for achieving the objectives</td>
<td>• Provider/Purchaser link</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Specification of proactive organizational responsibilities</td>
<td>• Shadow government</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Issues of a pseudo market</td>
<td>• Third party government</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Specification of indicators for monitoring</td>
<td>• Performance controls vs. performance agreement</td>
</tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Financier</td>
<td>• Determination of aggregate expenditures and their distribution</td>
<td>• Specification of the information-based organizational processes to facilitate the macroeconomic role</td>
<td>• Payment terms including lending terms where appropriate or grants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Recognition of the linkages with macroeconomic objectives and delivery of services</td>
<td>• Specification of the management strategy for achieving the objectives</td>
<td>• Controls to avoid moral hazard issues</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Specification of proactive organizational responsibilities</td>
<td>• Payment controls to avoid fraud.</td>
</tr>
<tr>
<td></td>
<td>Direct provision</td>
<td>• Specification of provider/purchaser link</td>
<td>• Specification of indicators for monitoring</td>
<td>• Control culture vs. management culture</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Issues of a pseudo market</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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Table 4. Changing Tasks in Expenditure Management

<table>
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<th>Economic Tasks</th>
<th>Organizational Tasks</th>
<th>Issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resource Utilization</td>
<td>Direct provision</td>
<td>• Ensuring that the budgetary outcome is in conformity with budget estimates</td>
<td>• Delivery of services within specified costs</td>
<td>• Development of performance indicators</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Adjustment in the policies as and when needed</td>
<td>• Assurance on the quality of services</td>
<td>• Promotion of efficiency in operations</td>
</tr>
<tr>
<td></td>
<td>Manager and overseer</td>
<td>• Compliance with budgetary targets</td>
<td>• Delivery of services within specified costs</td>
<td>• Development of performance indicators</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Promoting local discretionary action within specified framework</td>
<td>• Establishment and use of reporting systems</td>
<td>• Development of performance indicators</td>
</tr>
<tr>
<td>Resource Use Accounting</td>
<td>Direct provision</td>
<td>• Development of reliable data on assets and liability and resource use</td>
<td>• Development of accounting standards for application within the government</td>
<td>• Specification of accounting base and standards</td>
</tr>
<tr>
<td></td>
<td>Manager and overseer</td>
<td>• Data on the patterns of resource use</td>
<td>• Development of standardized accounts</td>
<td>• Transparency in the use of accounting standards</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Audit applicability</td>
<td></td>
</tr>
</tbody>
</table>
Table 5. Structure of Government Transactions

- Government Budget
  - Funds directly spent by the Government Units
  - Transfers to Autonomous Agencies of the Government
  - Transfers to Public Enterprises
  - Transfers to Private Enterprises
  - Payments for the third party transactions
  - Transfers to Regional, State, Local Governments
  - Transfers to Individuals

- Funds spent on outsourced activities
- Extra Budgetary Funds

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The generation of trust involves a shift in emphasis from enforcement of compliance to improved policymaking, from management of appropriations to management of resources, from consolidation of accounts to evaluation of results and from an administrative neglect to a growing partnership in management. Trust is a two way street in that it has to be earned even as it is being delegated. There is an inherent need for an improved dialogue and communication between the central and information agencies. These, in turn, emphasize the need for investment in information technology. Experience elsewhere has conclusively shown that when there is simultaneous access to information through on-line systems, exercise of even the traditional controls becomes routine than a hierarchical process. Development of trust requires changes in the way policy formulation and budgetary processes are organized.

B. Policy Formulation

Policy formulation is a vast area. The concerns here are limited to expenditure management and therefore focus on four elements: corporate plans and proactive expenditure strategy; cost-output nexus; methodology for looking into the future financial implications of current policies; and, the areas of shared decision making.

Whether by intent or design, whether as a part of the development plan or through other means, it is now generally accepted that all spending agencies have to prepare corporate plans so that the goals to be pursued and the services to be provided could be determined. Although the practice of this goal indicates that more needs to be done, it is quite probable, indeed desirable, that agencies would be engaged hereafter in the preparation of forward looking corporate plans. The preparation of these plans imply a proactive expenditure management approach so that the tools associated with expenditure management could be fully utilized toward the implementation of the corporate plans. They also imply a total corporate vision for the government as a whole, which then has to be translated into a proactive expenditure management strategy for the government and this task is expected to be performed by the central agencies. It enables them to anticipate situations and to be prepared for them rather than reacting to events after they have emerged. Such a proactive expenditure management strategy would involve the formulation of a diversified control framework reflecting the portfolio of

3Management analyses tend to make firm distinctions between policy and administration, with policy being restricted to the specification of core values within which operational managers would have the freedom to make decisions that help them achieve the specified goals. The public choice school however does not recognize such a distinction as it would lead to the separation of political leadership and administrative class. To this school of thought, political dimensions dominate policy making and managers serve as agents of the political class. The discussion of policy making here is more pragmatic and is concerned with the processes of policy making in regard to expenditure management. It recognizes that all expenditure policies have political dimensions and do not lend themselves to be determined exclusively on technical considerations. The focus here is on the technical aspects of the elements that need to be considered as a part of policy formulation.
expenditures, of contingent plans for restructuring government goals when mandated by unexpected revenue shortages, revised priorities through abandonment or scaling down of selected activities, and identification of major leakage centers where expenditure controls have tended to be less than effective. These proactive expenditure management strategies could even be announced in advance of the fiscal year so that the participants in the process have a firm idea of what to expect and what to comply. The only way of restoring credibility to public expenditure management is through the formulation and implementation of credible approaches.

As noted previously, controls that do not address the basic issue of costs in government would not have much impact on moderating the growth rate of expenditures. In general however, cost data are notably deficient in governments. The pursuit of cost reduction requires as a step precedent, the formulation of properly estimated costs for programs and construction projects. As programs are contracted out, or as a major part of social sector outlays are incurred through nongovernmental organizations or other levels of government, it becomes progressively more necessary to formulate precise cost estimates. The continued practice of institutional deceit needs to be curbed from any point of view, and generally accepted accounting standards need to be applied for formulation of costs. More specifically, costs need to be formulated for medical, educational and other programs that tend to grow faster than other sectors. Insofar as construction is concerned, traditionally a distinction is made between pre-design stage and the construction stage. It is appropriate that the predesign stage should explore in detail the numerous alternatives and thus minimize the frequent changes during the construction stage. As a corollary, contracts have to be based on completed cost or full price basis rather than cost-plus basis. These approaches add more empiricism and provide a meaningful application of controls based on measurement.

The policy analysis and associated controls utilized during the budget formulation stage hitherto consisted of increase/decrease analysis, verification of legislative mandate for the program and other legal aspects. This approach would, however, be clearly inadequate in addressing the broader issue of what the government should do, what it should fund and what it should leave to the competitive private sector. Also important is the feasibility of an explicit strategy aimed at moderating the expenditure growth. This in turn would require the consideration of personnel buyouts, administrative reorganization, greenfield privatization, improved sectoral controls, cost recovery through fees, savings through closure of programs and projects. This exercise has to become an integral part of the policy analysis undertaken during the annual budget formulation stage.

Government programs have become so complex that any major adjustment in their design and delivery could take more than one year. Thus, governments are expected to estimate the continuing financial requirements of existing policies so that the draft on the future resources could be ascertained. Toward this end, medium term expenditure planning has come to be introduced in some governments. This exercise became later a full rolling expenditure planning under which the continuing financial implications of existing policies are estimated each year for the next two or three years. It is expected that this exercise would illustrate the components of various programs, the demand and supply factors at work, and thus become a
useful fiscal guide both for administrators and the public. As an extension of this approach, a *continuation level budget* has also come to be prepared. This is a budget in which the base for the coming fiscal year is not just the amount spent in the current year but where the base is adjusted to cover the effects of inflation, allowances for caseload growth, cost of living adjustments, and any other amounts required to continue the current level of services.

The above approaches remain, in most cases, to be commonly practiced in countries. In some countries, the exercise is restricted to investment outlays or plan expenditures. Experience also shows that where these systemic improvements were implemented, spending agencies tend to view the future estimates as minimum levels of funding, while the central agencies tend to view them as closer to global ceilings. Continuation budget costs tended to absorb the revenue growth and where that growth was less than the expenditure growth, it was viewed as a case of revenue shortfall. For this reason, it becomes essential to formulate the methodology of expenditure forecasting with care and specify the nature of the base and the nature of any adjustments. The success in policy formulation is dependent on the skills deployed in the specification of these aspects and in making them fully operational.

Two factors have contributed to the emergence of shared decision making in the fiscal area. One is the role of foreign aid—determination of its size, projects to be funded, local expenditure—and the other is the growing role of international investors in the purchase of domestic securities. The latter feature and its related globalization restricts the range of options of policy makers in the event of any sharp change in the fiscal parameters that helped shape the budget for a year. When confronted with revenue shortfalls, or expenditures, expeditious action needs to be taken to control the deficit. In the absence of such efforts, there may be capital flight, exchange rate depreciation, and increase in the interest rates that in turn tend to add to the fiscal pressures. These actions imply that policy formulation has to be acutely aware of the economic environment in which it is operating, anticipate the changes and be adaptable to those changes. In turn, this requires provision of margins to accommodate later day developments, and expeditious decision making in areas that require coordination with donors. As an integral part of this approach, governments would be required to focus on the yellow zone (which suggests a slow down to stop) so that the stop-go policies that hitherto dominated the fiscal landscape could be minimized. The hitherto neglected dimension of expenditure planning needs to be restored.

C. Process Factors

The budgetary process needs to be revitalized to address the following major tasks:

- search for economies in expenditure;
- development of an output orientation;
- explicit recognition of revenue constraints; and
• enforcing budget discipline and securing performance.

**Economies in expenditure**

In most countries, budgetary processes are organized on a bottom-up basis involving an aggregation of increases in expenditures proposed by the agencies. This, as noted before, has contributed to a management culture that focused on securing higher allocations and spending them during the year. While there is always need for more resources, this has to be tempered by a recognition that resources are limited and have alternative uses. The budgetary process should therefore also emphasize the search for economies, particularly in the context that the existing legislation often limits the range of flexibility in the annual budget. The search for economies would need to be a continuing exercise, with regular emphasis of evaluation of existing legislation, projects and programs so that there could be improved delivery of services within given resources. Toward this end, the central agencies, in consultation with the spending agencies, have to identify the areas where economies could be found and develop joint strategies aimed at harnessing them.

This exercise needs to be made an integral part of the budgetary process and where necessary, the budget cycle itself needs to be restructured. Expenditure management, it needs to be reiterated, has become an endless frontier comprising many complex tasks that require high technology background and in some cases, an experience in making high risk investment decisions. In several cases, however, the experience turns out to be different in such an environment of high risks. To minimize these costs, annual budget review should focus on evaluation of completed programs and projects as well as those areas that experience a higher rate of growth of expenditures.

**Output orientation**

The current approaches that have been content with the input orientation need to expand their approaches to include output or performance orientation. The corporate plans of the spending agencies seek to specify what the agencies are expected to achieve and the resources needed for the purpose. To a very large extent, performance is an indicator of the past and needs a good deal of skill to be used as a basis for allocation of resources. The relationship between resources and outputs is not always linear, and generally reveals more of hope than accuracy. The outputs may be objective-linked or responsibility-linked and in each case, consideration needs to be given to the output indicators needed for each organization, the number of those indicators, the cost of generating them and the way in which indicators at one level of the organization relate to the indicators at another level. Experience in some developing countries that have made attempts at introducing performance indicators shows a variety of problems that have effectively reduced the impact of these indicators. In some countries, performance based budget systems are being used as supplemental sources of information to the public than as operational tools. These aspects underline the importance of developing relevant timeframes for accomplishment of output orientation and supporting infrastructure. In addressing these tasks, it is also essential to minimize the importance of administrative factors.
that have tended to add an additional dimension of budgetary rigidity. These relate to the budgetary norms used for building up cases for additional funds, and the practical application of the plan and non-plan distinction found in some countries. The norms, which have been specified several years ago, tend to contribute to supply driven expenditure growth. The plan and non-plan distinction has contributed to the avoidable myth that the inclusion in the plan by itself is a valid reason to be given higher degree of priority and that much of the non-plan expenditure is nonessential and even wasteful. Budgetary processes which hitherto have pursued these myths now have to address the much-needed and larger reality of achieving results through effective use of given resources. The output orientation does not mean that requisite resources have to be provided, regardless of availability. Rather, the output orientation should facilitate the formulation of more relevant strategies that aim at optimizing outputs in the context of reduced resources.

**Recognizing resource constraints**

In many countries, budgetary processes relating to revenue and expenditure estimates are organized as parallel activities for the most part, coming together or intersecting each other’s path only toward the end of the annual journey. This separation is mostly based on the confidentiality attached to revenue proposals. Increasingly, however, the role of additional mobilization of resources through taxation has come to occupy a less important role than mobilization of internally and externally borrowed resources. Inasmuch as expenditures are now being planned in the context of a medium term framework or on a rolling basis, it is only appropriate that detailed resource planning is also undertaken so that appropriate bridges could be built between the two at various points of time in the processes. More important, those resource assumptions or forecasts need to be translated into global ceilings that can be subdivided into program and project ceilings. These ceilings need to be formulated and communicated to the implementation agencies as a part of the annual budget guidance. The ceilings have the potential of inducing an awareness of the resource limitations, and more significantly, permit them to adjust their strategies and use the resources with greater flexibility while being in full conformity with the aggregate constraints. To permit them to be flexible, the need for above referred norms and associated distinctions would have to be reconsidered. Budgets, to be used as management tools, require the avoidance of built-in rigidities.

**Enforcing fiscal discipline**

Pursuit of a budgetary outcome closer to the intent and achievement of success in macroeconomic stabilization requires addressing several problems that now afflict the implementation phase. These include long delays in the release of budgetary authority after the approval of the budget contributing to prolonged uncertainty in the spending agencies, insistence on several procedural formalities that are mostly unrelated either to the task at hand or to the changing requirements, and insistence on annual lapsability of funds that in turn generates a great rush of expenditure merely for the purpose of spending the appropriations. More significantly, cash releases are used as the ultimate form and weapon of expenditure control, in that payments are rationed to be within the available cash resources. Regardless of
the acronym or the label of the system used, it is necessary that these problems are addressed. Three approaches have come to be utilized for the purpose.

First, there is a general need to institute a more organized form of cash management. This, however, is not a proxy for the rationing of resources but is a technique that enables, through systematic and regular forecasting of revenues and expenditures, a firm link between borrowing and budget implementation plans. Each agency prepares its own forecasts which are then consolidated for the government. These are then utilized for arranging a time-sliced release of payment authority and supporting arrangements for borrowing are also made so that liquidity could be assured.

Second, the introduction of a time-sliced releases method is accompanied by a more liberal regime of delegated powers to the spending agencies. Frequently, this takes the form of a ceiling on the running costs (payments covering salaries and other administrative expenses) and agencies are endowed with flexibility in the use of resources. This enables them to use the resources as needed at the ground level, while being within the framework of ceilings.

Third, some governments have introduced a system of extended grants so that the budgeted funds would continue to become available even after the year. Some others have developed a system of reviewing the progress of expenditure closure to the end of the fiscal year and selectively permitting carry overs for development projects. These approaches offer alternatives to the current practices. Emphasis on the application of computer technology has also facilitated regular monitoring in particular, of the yellow zone, both for the spending and central agencies.

D. Control Factors

Expenditure control system has grown over the years. To adapt Tawney’s language, the system is neither white magic nor black, neither a formula for easy salvation nor a sanctimonious fraud. It is a tool which, like any other tool, is to be judged by its results, which like any other tool can be blunted or mishandled till it is flung aside in disgust, but which can be used, with adaptation and re-engineering to correct imbalances, if there is a will to correct them. The generally shared view, as the preceding discussion has demonstrated, is that the traditional system has become blunted and, in the process, has become inadequate, to address the new tasks. It is for this reason that there has been a demand for, and in some cases, real change in the expenditure control system. The control system is, of course, like a portmanteau with each of its contents revealing a different technique at work, and different experiences. Thus a problem observed in defense and a remedy evolved there may not be applicable to, say, medical services and vice versa. While these differences in application from one sector to another arise, a few

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4In one country, carryovers were also permitted on the current account. This very soon contributed to the emergence of a parallel budget in addition to the appropriations for the current year.
common principles have governed the approaches and the context of the expenditure control system.

These principles have been largely adapted from the private sector and revolve around the establishment of small agencies with specific tasks, resources, managerial flexibility, and a framework of accountability. The principles and the associated management philosophy have, however, become controversial even in their application to the private sector. Indeed, some consider that the new approaches have tended to treat management as an end in itself instead of as a service to organizations and their customers and believe that they have had the impact of eroding the organizations and the society itself. Management as a discipline has a long pedigree in controversy and a general approval is a difficult goal to achieve. While discussion of principles is essential, it is even more important to consider the issues and their application, in particular whether the uniqueness of government has been recognized and modifications made. Rituals should not be mistaken for efficiency but need to be analyzed.

In applying the principles to the government, four areas: (i) control culture vs. management culture; (ii) creation of agencies - a shadow government; (iii) provider-purchaser link; and (iv) control and third party government, need to be considered.

Control and management culture

The hitherto existing, and in many ways, continuing expenditure management systems are based, as noted before, on institutionalized distrust that was far from successful in achieving the desired results. The new management approach is, however, anchored in management trust and flexibility albeit with an enhanced accountability. Critics of this approach however, reveal a skepticism about the trustworthiness of the civil service, express fears about the abuse of powers and doubts about the adequacy of regulations controlling bureaucratic behavior. In their view, public servants may in the exercise of newly endowed entrepreneurial zeal cut corners, may be less complaint with the rules, and given the generally weak structures of legislative accountability, not to mention the lack of transparency, end up being all powerful technocrats.

It is further suggested that the new philosophy is based on performance, and in that context, the top layers of administration may resort to control by numbers. Where measurement becomes the religion of management, the top levels in an organization may do “nothing but exercise financial control and so drive everyone else crazy.” The tyranny of rules may yield to a tyranny of numbers. Although performance agreement may provide, in theory, a degree of autonomy, in practice it may be substituted by a performance oriented control and situations where financial controllers may, through the constant exercise of oversight, become an irritant rather than a lubricant contributing to the smooth functioning of the system. To some, this scenario is reminiscent of the number dominated centralized administration associated with...

\[5\text{For an interesting critique of the current situation in the private sector, see Mintzberg, (1996).}\]
centrally planned economies. Finance ministries endowed with the new power, may extend their oversight, in the name of economic management and surveillance. Some experiences lend credence to these beliefs. The alternative to this does not necessarily lay in continuing a discredited approach. Rather, it underlines the imperative need to address the details of the application of the new approaches.

Elsewhere, experience shows that line managers in many government departments have been reluctant to accept the new authority on the plea that they are not as yet ready to manage their own funds. This illustrates the erosion that has taken place over the years in the financial management capacities of the agencies owing to the centralized and dominating influences of the central agencies. Centralized management has reached its limits. But the growth of a management capability in the spending agencies has not been easy as they continue to find comfort in the dependency syndrome.

Creation of agencies—a shadow government?

The new management philosophy, with a view to institutionalizing autonomy to the managers, also seeks the establishment of free standing agencies to carry out specific activities within available resources. This is based on the belief, in part generated by the experience of the private sector, that government is too big and too diverse to be managed as one unit. While the approach has several merits, its application however, has problem areas that need to be addressed. First, if these agencies are expected to be fiscally self reliant, then following the determination of who should do what, it may be appropriate to delink them from the government. If, on the other hand, they are expected to be partly reliant on government transfers, then it would be necessary to specify the commercial and noncommercial objectives as well as the rate of return. Second, many governments have created, even before the emergence of the new management philosophy, autonomous agencies (distinct from the public enterprises) that are for the most part dependent on government finances while pursuing autonomy and goals that may be independent from those of the government. Some of the agencies have engaged in domestic and foreign borrowing with the guarantee provided by the government and not infrequently, the latter had to redeem them too. Many of the agencies may even compete with each other and there are several coordination weaknesses among the agencies and between the agencies and the government. Not infrequently, there is little information on the activities and the financial status of the agencies in the government. This has contributed to the view that a shadow government, beyond the control of the government and that of the legislature, has emerged. Third, the legislative accountability of these agencies leaves a lot to be desired. The experience of some countries show missing links in the chain of accountability to the legislature. These aspects need more explicit consideration in the formulation of new strategies.

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*For a detailed study of a country experience, see Jenkins, Simon (1996).*
Provider/purchaser link

An ingredient of the new approaches to expenditure management is the explicit provision for a provider/purchaser link. Thus, the legislature would be buying the outputs from the government, and within the government, the minister from the department, the department from the agencies and the agencies from the contractors. In each case, there is an intent to specify the outputs (outcomes or effectiveness are considered to be somewhat remote and there may not be explicit causal links between outputs and outcomes) in return for the funding provided. These outputs are specified in the form of a performance agreement or contract that would solidify the relationships. In order to provide a degree of verisimilitude, the outputs may be based on detailed benchmarks either from within the government or from comparable operations in the private sector. This agreement seeks to usher in a regime of management by results based on agreement on the goals, objectives, and the outputs and their quality indicators. The agreement system aims at achieving a greater congruence between the goals of the government in its capacity as the owner/principal (and representative of the public interest), and the goals of the agency/department engaged in the provision of the services.

The application of the above principle to the government requires an explicit consideration of the unique features applicable to governments. Apart from the generally recognized difficulties about measuring outputs in government, experience shows that they may be frequently underestimated initially so that greater efficiency may be shown at the end of the year. Quality is often difficult to judge despite the development of numerous indicators, and the relationship between quality and budgetary outlays is far more nebulous than is recognized. In addition, governments may not be able to provide stable external environments that may be implicit in the budget strategy. In an open economy, many external factors are beyond the direct control of the government which is more often than not at the receiving end. In the event, the assurance of complete autonomy may not be sustained and the government, as the owner and as the macro manager, may have to intervene and renegotiate the contract. When the presumed resources are not available, the scale of outputs would be reduced too. But that would contribute to unutilized infrastructure in the agencies and to higher costs. Also, as noted above, the insistence on outputs, which would soon be translated into targets, could induce a short term behavior aimed at achieving the targets, somehow or other. A performance contract also implies a high degree of specificity of outputs so that its enforceability could be strengthened. If such a contract is viewed as legally binding or justiciable in a court of law, then the principal/agent relationships, as applied to government would be far different from what they are now. At the same time, it is also essential to recognize that the new links provide a new management dimension to the agencies, and make them resource conscious, while being goal oriented. It should also contribute to a lowering of the costs of administration. The new approaches would require new skills in the civil service in that they have to be capable of formulating goals, targets, output measures and indicators and be responsive to environmental and policy developments.
Control and third party government

Another ingredient of the new approaches to expenditure management relates to the provision of services funded by the government budget but provided by third-party states, local governments, banks, hospitals, manufacturers, and non-governmental organizations. Thus, health services may be provided by private medical practitioners to clients, who are then reimbursed by the government. This approach is based on the philosophy that government transactions tend to be costly and that the same service could be provided by a nongovernment agency at a cheaper rate. This implies a significant departure from the direct provision to an indirect provision, where both the provider and the recipient would be remote from the funding agency.

The third-party transactions have been growing during recent years and experience suggests that these may grow further in the future. The third party approaches' main gain is that it brings with it a unique opportunity to marketize the transaction and make it available through a competitive process. This enables retention of public ownership while seeking market results. This imposes a new requirement on the expenditure management machinery. As these transactions grow, they would also require a greater degree of monitoring and a control system oriented to the yellow zone. Further, the issue of moral hazard is likely to emerge through a possible collusion between the buyer and the receiver that may not lend itself to quick detection by the government. The expenditure management machinery has therefore to develop a more diversified, but less intrusive control system that is also not expensive. More progress remains to be made in this area. Indeed, in some countries, the systems of control have not even recognized the new hazards let alone being prepared for it.

E. Public-private Partnerships

A less explicit but generally recognized element of the new expenditure management systems is the growing emphasis on public-private partnerships as a way of providing services to the community. Although there have been, and continue to be various forms of cooperation between the public and private sectors (after all much of what is consumed or utilized by the government including its defense requirements is produced by the private sector) the new emphasis has its origins in four factors.

First, it is suggested that in order for governments to be more responsive to citizens and be more effective, they needed to be restructured and focus more on management and coordination while the actual delivery of services would be in the realm of private profit and nonprofit organizations. Essentially, this view allots the production function to the private sector and the distribution and stabilization functions to the government. While there would be obvious problems of lack of compatibility between the objectives associated with the functions, it is expected that government would address them through other available policy instruments. Second, it is suggested that the provision of civic services cannot entirely be left to the market forces or to the imperatives of the state and that participation of voluntary associations, self-help groups, social movements and other organizations was vital for the successful functioning
of modern society. This expands the concept of the private sector to include forms of organization other than commercial enterprises. Indeed, the proponents of this view argue that the association of voluntary private groups provides an important alternative to the state provision of services while providing a crucial empowering role to the citizens. But critics of this approach observe that citizen participation in policy making as well as in the actual provision of services could contribute to too much democracy with inevitable legislative gridlock and associated policy paralysis. They also believe that decentralization, while a desirable goal, could have the effect of empowering the wrong organizations and wrong people. Third, persistent fiscal deficits and associated underfunding of social services, on the one hand, and the need for providing those services in response to growing demands has contributed to a new quest for financial partnerships with the private sector through build, operate and transfer and related arrangements. Fourth, it is suggested that partnership type of arrangements are needed to forge a new type of collaboration between customers and suppliers so that improved quality services, while achieving a cost reduction, could be provided. The impetus for this approach arises from a desire to avoid many of the problems that are inherent in an arm's length relationship with the private sector contractor. It is pointed out that small contracts have high transaction costs in terms of detailed specifications, which, given the difficulty, lead to more bureaucratic contract management. The partnership, on the other hand when forged, would have the effect of the partners sharing the strategic goal of making it a success while imparting the dimension of private sector management practices to government operations.

Thus, the scope of public-private partnerships envisaged is rather large. In practice, however, it has been limited to a few major capital projects. The experience, however, has generated few balanced judgements. Some consider it as an important reform, while others take the view that it has not been free from fraud and that indeed, what the private sector is doing under these arrangements, is exploiting the opportunity of providing services while leaving the risk of ownership and operation of assets to the government. It is also pointed out that the approach has created new problems for governments in terms of their maintaining control and coordination. Moreover, the difficulty of detailed specification continues to cloud the relationships between the public and the private parties, leading to frequent interventions by the former, thus undermining the very basis of a common approach. The partnerships, it is pointed out, also contribute to issues in terms of transparency and accountability.

The above types of criticisms are likely to be intensified in the future as more partnerships are developed. These in turn, have implications for expenditure management in that it needs to be far more diversified than before and there is a clear need for strengthening the

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7These include design, build, finance and operate (DBFO); design, construct, manage and finance (DCMF); build, own and operate (BOO); and build, own, operate and transfer (BOOT).
capacities of the finance ministries in this regard. The control machinery has the additional task of demonstrating that the private provision is indeed a better alternative to the direct provision of services by the State; that there is no unethical behavior in the selection and management of projects and that these partnerships have not become surrogates to government as domains of patronage created at public expense but maintained outside the realm of institutional scrutiny, and that the public is getting value for money. These tasks require modifications in the existing legislation in most cases, installation of monitoring and evaluation systems, and effective audit.

F. Micro Aspects

Personnel

As a part of the new management policies, increased flexibility is sought to be provided to the Chief Executive Officers of each agency so that the manager could choose the staff, salary scales, the ratio between manpower and computer equipment within the budgetary ceilings. This feature is, of course, completely different from the traditional bureaucracy, as well as an expenditure management system oriented to the uniform application of norms and standards. The new approach liberates the control system from the traditional anchor and shifts the focus to the determination of the budgetary ceiling.

The application of this principle to government organization poses some problems other than those relating to the future shape and content of the civil service. The changing context of the fiscal realities has forced many a government to reduce its personnel costs, which always represented the most visible and substantial segment of government expenditures. Measures aimed at reducing personnel costs covered a wide range and included freezing of salaries, freeze on recruitment, specification of reductions over a period, review of vacant posts, introduction of new types of remuneration systems and early retirement programs. To a very large extent, these are modeled on the private sector practices that emphasized downsizing. Like commercial corporations, governments too employed across-the-board cuts, slash and burn approach to reorganization, and cutting the staff to the minimum levels without explicitly considering the impact on the services provided. Despite the extensive use of these approaches, available evidence does not conclusively prove that they have been effective. Even in the commercial world, there is a recognition that this approach may have gone too far. It is suggested that when too many people are laid out, apart from the enormous adverse impact on the morale, the core capability itself may be seriously eroded resulting in a corporate anorexia. When uncertainty becomes dominant, the pace of change is affected and the organizational balance is disrupted.

In the government, the application of at least three features of the new management system poses important choices. First, the need for a lean and streamlined machinery has to be

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8 A detailed framework for improvement expenditure management has been presented in Premchand, A., (1995).
tempered by a recognition of the need for innovative people with high professional competence to undertake the manifold tasks of the expenditure management system. While powerful leadership can partly compensate for the shortage of staff, it cannot, by itself, establish, much less manage, the expenditure management system. Second, in order to be more responsive, governments have to be more flexible in their management of its most treasured (and frequently highly caricatured) asset - people. Such a flexibility may not be compatible with individual desire for security. Third, in the organizations of the future, there may not be a need for a bureaucratic career. Tasks may be performed without the necessity of having to house the team in the same location. But the professional people whose services are needed in the governments may need a career path that assures a steady upward movement. The answers to the conflicts that arise in making these choices are not easy. While these issues are of a broader nature, they have an impact on the design of the expenditure management system.

The challenge for the expenditure management system is to retain its professional staff, reinforce their commitment and forge their cooperation to become the dominant feature of work. This will require more focus on the process of expenditure management so that organizational structures and utilization of manpower resources could go together. In the absence of a clear strategy aiming at capitalizing the strengths of the people and the processes, the new management culture may remain a promise that is yet to be fulfilled.

Contracting

The new management philosophy lays considerable emphasis on outsourcing or contracting. Such an emphasis is appropriate in that competitive tendering and contracting (CTC) would become integral parts of expenditure management. Judiciously implemented, CTC offers considerable potential for offering quality services and to achieve cost reduction.

It has, however, to be recognized that contracting, as noted in the previous discussion, has proved to be an Achilles heel of the expenditure management system. The new management systems do not offer any detailed guidance or instruments to overcome the existing anomalies other than to point out that there should be a rule of the law aimed at achieving a level playing field, and keen competition in all areas. While the principles themselves are unexceptional, it is the practice which is loaded with vulnerabilities. Rules, as Napoleon stated on the constitution, should be brief and ambiguous. Both these features provide a degree of flexibility to the manager. But this flexibility can lead to abuse as well as proper use and with a view to preventing abuse of power, there may be a strengthened desire to make specifications even more detailed. But then, it should be recalled that it is as a way out of these specifications that increased focus is given to public-private partnerships. The emphasis on competition, although appropriate, requires a strengthened role of the state as a regulator.

In applying CTC to government, three factors require explicit recognition. First, the contract specifications in government offer an immense variety and the requirements as well as the consumption patterns of each agency differ from another. Second, there is an imperative need to build up cost information on each of the components of a contract. This information
should also have appropriate bench marks for items that are commonly consumed by both the public and private sectors. And, third, the expenditure management system needs to be geared up to the intricacies of contract management. As an integral part of this effort, the yellow zone controls need to be strengthened, to avoid discontinuities in the provision of services.

The growth of a contract government requires more organized efforts to strengthen the contract management system and addressing these three factors constitutes a minimum program. Further, there is a perennial need to ensure that increased reliance on contracting will not create more opportunities for corruption.

Organizing finance ministries

Finance Ministries have several administrative, regulatory and policy roles. In the performance of these immensely diverse tasks inherent in these roles, the core functions may not be performed as well as they need to be. Although, the new management approaches focus on the need for organizational strengthening, their contribution in this regard is limited to the establishment of a Chief Executive at the top of the agency who will have the responsibility of managing the operations. This, however, is too general, and does not recognize the multiplicity of tasks or organizational demands associated with government.

A review of the finance ministries reveals that there is duplication between that ministry and the spending ministries, and that the internal organization of the ministry does not reflect the functions or the changing tasks. It is therefore necessary to review the organization and develop a core agenda promoting effective expenditure management. The new core will largely consist of: (i) macroeconomic policy for the medium term; (ii) improved guidance on the role of the spending agencies and agreements on what they are expected to do within the allotted resources; (iii) improved framework of controls for the shadow government, third party government, and the contract government; and (iv) improved accounting standards.

These functions involve strategic thinking for the future, formulation of budgets in an explicitly stated economic environment, specification of objectives and outputs through enhanced policy analysis, establishment of information systems that permit tracking, specification of controls in regard to work performed by autonomous agencies, third parties and through contracts, and provision of standards for estimation of costs. This core orientation should help the finance ministries to move out of the panoply of detailed controls, into a knowledge based organization devoted to strategic management.

Organizing spending agencies

All those engaged in expenditure management in governments are only too well aware of the crucial role of the spending agencies. Without their response and cooperation, the

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9For a review of the Treasury in the United Kingdom, see (i) and (ii), 1994.
improved strategic thinking by the finance ministries would be rendered ineffective. But a
cursory look into their internal organization shows that they are weak in analysis, forecasting,
monitoring, and ensuring the proper delivery of services. Even where the new management
philosophies have been introduced, experience shows that the need for preparation of annual
financial statements on commercial lines has not made them any more corporate in outlook than
they have been. It appears that the skills for the development of output indicators, or strategic
thinking, or the delegation of authority to lower levels are low and that in general, the level of
commitment for change is less than the demand for change. To an extent, these are natural and
in-built into the existing system.

The spending agencies have a long way to go in reengineering their organizations. They
have to be strengthened to provide for the continued maintenance of their own core services
with particular attention to the costs (and where necessary to redesign their delivery systems),
and to contract monitoring. Policy analysis starts with spending agencies and that core function
needs to be strengthened. Similarly, the performance orientation is of primary benefit to them as
they represent the cutting edge in the provision of services. These aspects have to become
integral parts of their organizations.

VIII. THE WAY FORWARD

There is admittedly a need for improving the expenditure management system in
governments. The need is existential both in the systemic factors and the fiscal realities of
countries. The principles of new managerialism, the application of market tests, and the
experience of countries who have been engaged in public sector reform and expenditure
management improvement, offer a vast agenda and an immense potential for transforming the
existing systems into effective ones that reflect the changing needs. But the uncomfortable
reality is that there are several institutional, and procedural issues- micro factors, that need to be
addressed. The conversion of an idea into the reality of an operational framework is a long
journey. As the Chinese proverb states, all journeys start with a single step.

The first step in this is for the countries to engage in a critical review of the adequacy of
their existing institutions and systems. For many, an internal examination and an admission of
failure or inadequacy carries with it a political risk that is partly compensated by the vision that
goes with it. Each country is best equipped to know its problems, which may then be addressed
in the light of its own administrative capacity, and the lessons learned from the experience of
others. That assessment is to be followed by the formulation of a strategy. The strategy may
take a long time to be implemented. The experience of many countries shows that a quick
change, however well intentioned, is a remote possibility. Indeed, the journey toward improved
expenditure management may be an evolutionary one. (Box 1 provides a chronology of events
in the United Kingdom as an illustration). While a late comer does not have traverse the
evolution in the same way and can make a quantum leap through an abridgement of some of the
steps, there is an inevitable gradualism in the movement.
The strategy has to be an authentic one, reflecting the experience and aspirations of the country itself. The long experience in institutional development shows that ideas and institutions that have not been rooted in the local situation or adequately indigenized, have a short life span. The need for authenticity can never be overemphasized. While the needs and challenges may form a long list, what is feasible is necessarily a short one. That short list should have a balance and internal consistency, as excessive focus on one aspect to the exclusion of others, could lead to unevenness that becomes problematic. This balance is existential in the situation and cannot be predicted on the basis of international experience.

Whether the proposed improvement package should become a political agenda to promote a wider debate and consensus or should be processed more within the administrative realm (which can be as divisive as the political arena) is a matter of choice for each country. The international experience shows that reform initiatives are dealt with in a more ad hoc way by committees, commissions, task forces or special working parties. Their outputs provide a much needed starting point. But they need to be galvanized through public support. Without that support, the public perception would continue to be skeptical. This illustrates the need for the establishment of mechanisms for consultation and negotiation.

The way toward improvement, to adapt a story popularized by the International Finance Corporation, is like driving a two horse cart. One horse is called Political Goals and is flighty and fickle; the other is called Economics and is slow and steady. They have to pull the cart along the road of expenditure management reform which is a rough, boulder-strewn track. The cart is full of vintage wine, but the horses are pulling in different directions. The bottles of wine, which can be enjoyed only when the cart reaches its goal, are labeled economy, efficiency, effectiveness, improved delivery of services, and macroeconomic stabilization. The negotiation of the track requires skillful driving as there may be conflicts and vested interests. Some carts may be too weak, and sometimes it makes sense to give the flighty horse its head and fly the trail headlong, abandoning case after case on the way. Sometimes it is possible to whip him into shape to follow his steadier partner. And many drivers simply give up, cut the horses loose, climb down and start back down the trail, hoping to find solace in the odd bottle that hasn’t smashed.

It is to be hoped that with improved awareness and enhanced skills, the destination may be reached with the bottles in tact or at any rate, fewer broken.
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
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<tbody>
<tr>
<td>1979</td>
<td>Program Analysis and Review Abandoned and Rayner Unit set up to carry out surveys for savings.</td>
</tr>
<tr>
<td>1981</td>
<td>Civil Service Department abolished and the function merged with the Treasury.</td>
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<tr>
<td>1982</td>
<td>(i) Forward estimates prepared in cash terms. This procedure continues to be in operation.</td>
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<tr>
<td></td>
<td>(ii) Introduction of financial management initiative.</td>
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<tr>
<td></td>
<td>(This had its antecedents in the experience of Defense and Environment Departments during 1979).</td>
</tr>
<tr>
<td>1983</td>
<td>Conversion of the Audit Department into a National Audit Office with a remit to &quot;follow money wherever it goes.&quot;</td>
</tr>
<tr>
<td>1987 and 1988</td>
<td>Next steps: creation of Executive Agencies</td>
</tr>
<tr>
<td>1992</td>
<td>Improved resource management with emphasis on outputs and delivery of services.</td>
</tr>
</tbody>
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REFERENCES


