THE MANAGEMENT OF PUBLIC EXPENDITURES AND ITS IMPLICATIONS FOR SERVICE DELIVERY

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Introduction

The formulation and execution of budgets is an, if not the most, important factor affecting the delivery of public services. If governments spend more than what they can comfortably sustain, services are likely to deteriorate over the medium term. If budgets are misallocated, the services that people need (and presumably desire) may not get adequate levels of funding. And, if funds are misappropriated, both the quality and quantity of services that are offered will suffer. Hence, when problems persist in the provision of services, the logical place to start on problem solving is almost always at the budget process.

The practice of budgeting in the public sector has evolved over the past two decades towards greater focus on outcomes, results, and more generally performance. Public expenditure management (PEM) reflects and encompasses this fundamental shift in orientation -- hence the shift in terminology from public sector budgeting to PEM.

PEM is an approach to public sector budgeting that is oriented towards achieving socially desired outcomes. Ideally, PEM promotes the attainment of three broad outcomes, namely, aggregate fiscal discipline, allocative efficiency, and operational efficiency. Aggregate fiscal discipline refers to the systematic alignment of public expenditures with total revenues (domestic revenues plus a sustainable level of foreign borrowing). Allocative efficiency on the other hand refers to the consonance of budgetary allocations with the strategic priorities of the country: And, operational efficiency refers to the provision of public services at a reasonable quality and cost.

The attainment of these outcomes is plagued by complex, underlying problems. That is why public sector budgeting is perhaps the most challenging routine task for any government and by implication why service delivery is fraught with many difficulties.
This paper discusses issues relating to these three outcomes and then examines two pressing issues in budget reform, which require specific attention when attempting to enhance spending quality—the complexities of politics and of civic engagement in budgeting processes.

**Instilling Aggregate Fiscal Discipline**

In the context of aggregate fiscal discipline, governments confront what is referred to as the “tragedy of the commons” problem. The annual budget is akin to the common pool of fish in a river. Each claimant to the budget considers the budget, just like the fish in the river, as a “free” resource. And, as with anything of high value that is offered at a low price, in this case for free, each claimant is bound to impose excessive demands on the budget. But, of course, if every claimant behaved this way, the aggregate of their demands will far exceed the available funds. Hence, without credible constraints, meeting the various demands on the budget is likely to result in large, unsustainable deficits that translate into high inflation, high interest rates, and burgeoning current account deficits, all of which lead to a high degree of unpredictability in the funding of programs and projects and, invariably, to belt tightening. These in turn lead to a reduction and deterioration in the level and quality of public services.

The complex links between deficits and recession, budgetary politics and service delivery are illustrated by the recent experience of Argentina. After three years of recession, Argentina’s economic and financial crisis deepened during 2001. In its fourth year of recession (2002), the economy declined by about 16%, bringing the decline in GDP to over 25% since its 1998 peak. With the peso depreciating sharply since its float and undefined monetary policy, Argentina is experiencing significant inflation for the
first time since 1991. The downturn has sharply aggravated the already difficult social conditions in the country. Already high levels of unemployment (18.3% in October 2001) jumped to 21.5% as of May 2002 according to official indicators. Poverty is also in the rise, confirming the well known links between economic crises and sharp increases in poverty. This extremely negative context has had a strong impact on the health and education sectors where there is growing evidence of deterioration in service delivery. In the health sector, financing for the different subsystems has fallen drastically, with national health funds taking a big hit due to the rising unemployment and increased non-payment of monthly contributions. The fall in coverage has led to a rise in the demand for public hospital services but no budgetary increases have been available to these hospitals so that services are strained. The cost of medication and drugs has risen due to the devaluation affecting access to them, especially by the poor.\(^3\)

To address the “commons” problem, countries have established institutional arrangements that effectively impose hard budget constraints. In Sweden, a two stage voting procedure on the budget was introduced to de-link deliberations on programs and projects from the discussions and debate on the affordable level of spending and the sectoral envelopes. In the European Union, all member countries agreed to limit budget deficits to no more than 2% of their respective GDPs. In both Brazil and Chile, a law on fiscal responsibility (LFR) – akin to New Zealand’s Fiscal Responsibility Act -- was promulgated to establish a credible means of limiting budget deficits. An LFR incorporates indicators and targets which government is legally bound to meet. In the case of Brazil, indicators and targets were established down to the sub-national level, with the ability to borrow premised on a sub national entity meeting majority of those targets.\(^4\) In Peru, Colombia, Uruguay, and the Philippines, the constitution constrains the
legislature from amending upwards the President’s proposed budget. In Chile, the legislature can increase the proposed budget for individual items but only if revenue sources can be identified (which could include reduction in the allocations for other items). In each of these instances, the objective has been to set credible hard budget constraints that bind government (and politicians) to affordable limits.

Among the major sources of hemorrhaging in the budget are public enterprises. While some of these enterprises have performed well, the majority have imposed a significant burden on national budgets. Governments have had to subsidize many such enterprises to the point where the subsidies account for a significant portion of the budget. It is no surprise then that the response of some governments to undisciplined spending has often included as a key component the privatization, closing down, or reform of public enterprises. In both Mexico and Chile, the debt crisis of the 1980s, which spurned huge budget deficits, led to major, large scale efforts at privatizations. The efficiency gains that would be generated were seen to be large enough to reduce a significant portion of the budget deficit. In New Zealand, the now well known radical public sector reforms, which were driven in large part by the deteriorating state of public services, began with a “purge” of public enterprises since these were seen as a major cause of inefficiencies and the consequent persistence of budget deficits. Only after the State Owned Enterprise Act was passed (1986) and implemented did the rest of the reform elements follow – the State Sector Act (1988), the Public Finance Act (1989), and the Fiscal Responsibility Act (1993).

Many reform arrangements presume that the budget is comprehensive. That is, it takes account of all sources of funding and expenditures including, in particular, contingent liabilities that could become real liabilities in the future. In most developing
countries, the budget fails this test. And, in an increasing number of cases, the consequences have been harsh if not brutal. In Thailand, where instilling fiscal discipline was a major preoccupation of the central ministries, contingent liabilities emanating from the banking/finance sector blind sided the government and triggered a region wide financial and economic crisis that crippled the economy and severely contracted public services. In 1998, the year following the onset of the crisis, the budget was cut by 20%, although later in the fiscal year, it was increased to help soften the social impact of the crisis (though still down by 10% from the previous year). Forty eight percent of the reduction was in social services: education got a small increase while health suffered minor cuts; rural development services were reduced substantially.\(^8\)

Though revenue administration has not traditionally been the concern of PEM, it has gradually crept into discussions of budget reforms. In particular, reliable revenue estimation/forecasting has come to be regarded as an essential component of a well functioning PEM system. When revenue estimates miss targets, they can create havoc on the annual expenditure program. Cuts are made midway through the year, making funding unpredictable. Projects are discontinued, programs are forcibly scaled down, and plans are thrown down the tube. The persistence of poor forecasting leads to uncertainty in agency budgets which constrains the agency’s ability (and motivation) to prepare appropriate plans. Moreover, because cuts lead to cash rationing, opportunities for corruption emerge in the procurement of goods and services as suppliers and contractors que up to get paid. These undoubtedly affect the ability of the agency to deliver services adequately.

**Promoting Allocative Efficiency**
How should the constrained budget be allocated? This is the second major challenge that confronts any government in its efforts to establish a sound PEM system. And it is perhaps the most difficult since it involves what is largely a political process. The experience in many developing countries attests to this difficulty. Figure 1 illustrates the disconnect between budgetary allocations and desired outcomes in primary education, which is typical in many developing countries. In Ethiopia and Malawi, public spending increased from the 1980s to the 1990s. However completion rates for primary education fell for Ethiopia but increased for Malawi. In Thailand, spending increased but completion rates fell while in Venezuela, both spending and completion rates declined. One implication is obvious: in cases where spending has increased but outcomes have deteriorated, the intra sectoral allocations for the education sector could either have been biased towards other categories of education, e.g. tertiary, or plagued by inefficiency and/or leakage, or both. In any case, allocations do not match up well with the outcomes. Moreover, in these countries, where poverty is very high, majority of the citizenry would be expected to desire, if not demand, much better primary education.
In 1970, there were 22 state universities and colleges (SUCs) in the Philippines. By 1986, the number increased almost four fold to 80. Today, there are 111. This expansion has been driven largely by the need for politicians to create jobs, direct more funds to their districts, and gain political capital. Practically every province now has at least one SUC. This development unfortunately has led to detrimental effects on both the budget for (and by implication the quality of) basic education and the quality of tertiary education.

In 1970, 7.5% of the total education budget went to tertiary education and 92.5% to basic education. By 2002, the former almost doubled to 14%, despite the fact that the private sector has historically provided most of tertiary education services, and the latter dropped to 86%. This occurred even as the population (and thus the number of children needing basic education) more than doubled from 1970 to 2002. This has had deleterious indirect effects on the quality of primary education. One major indicator of this is the
perennial difficulty government has had in attaining a 1 to 1 ratio in the number of school children to textbooks since the 1980s. In some years, this ratio has gone up as high as 5 to 1.

More seriously, despite the increase in the relative share of the budget for tertiary education, the quality of graduates has deteriorated. Because of the steady expansion in the number of SUCs, the University of the Philippines (UP) has experienced a declining share of the tertiary education budget -- 59.2% in 1970 to 27.1% in 2002. The UP has been and is unquestionably the best state university in the country. Historically, their graduates have had an average passing rate of more than 90% in government licensure examinations. By stark contrast, from 1994 to 1998, the average passing rate for all SUCs was a dismal 38%. In some cases, graduates of run of the mill SUCs have consistently failed to pass these exams even after taking them repeatedly.\(^9\)

Compounding the difficulties inherent in priority setting is the cost revelation problem. In practice, line ministries are in the best position to know what the real cost of programs are since they are the ones who formulate and implement them. But line agencies have very strong incentives to withhold this information from the ministry of finance. For instance, it is common practice for a line agency to use the “toehold” approach for large programs/activities. In order to get easy approval, a line agency will first submit a low cost estimate for the program knowing that the Ministry of Finance is most discerning of high budget proposals but generally lenient on lower cost ones. Once the agency gets a “line item” in the budget, it then seeks additional funding the next year and the next etc.. In short, once a “property right” in the budget has been secured, the agency knows it will be easier to get the rest of the funds.
In some countries, both developed and developing, the problems of priority setting and cost revelation have been addressed through the introduction of a medium term expenditure framework (MTEF). An MTEF is a framework designed specifically to link planning and priority setting, which have a medium term outlook, with the annual budget, and, as a consequence, to link budgetary expenditures more systematically with socially desired outcomes. Its principal focus is on getting the government to allocate budgetary resources to programs and activities that support and/or promote the strategic priorities of the country.

An MTEF helps address the political realities of priority setting in a number of ways. First, it requires that binding sectoral (and in practice ministry/department) envelopes be established to guide the budget preparation of line agencies. The sectoral allocations are generally the product of political compromise but the results of diagnostic studies such as public expenditure reviews can provide a basis for informed, less politically slanted decisions to be made. Second, given the envelopes, an MTEF induces the government and the legislature to make trade-offs among different programs and thus to discuss and set priorities in a more transparent way. Third, in its most mature form, it involves systematic evaluation of selected programs and projects, which if done properly provides more and better information on the performance of on-going programs and thus an objective basis for decisions to terminate or continue politically motivated but socially less desirable programs.

The “mechanical” aspects of an MTEF are particularly useful for addressing the information asymmetry between the ministry of finance and the line agencies. At the core of an MTEF is a forward estimate system which requires line agencies to cost out
their programs over the medium term – essentially a rolling three, possibly four, year budget, with the outer (i.e. future) years involving estimates of future program costs, assuming no changes occur in the interim – and which provides for a well defined methodology for updating estimates each year, e.g. based on inflation, the exchange rate depreciation. Quite clearly, if implemented well, an MTEF can ameliorate the distortions caused by the “toehold” strategy of line agencies: agencies have to reveal costs of a program over three years which makes it more difficult to understate the real cost.

In many developing countries, allocations for recurrent costs often lag behind the levels required to maintain existing infrastructure. Roads, bridges, schoolhouses, clinics and other infrastructure thus deteriorate much more quickly than necessary. Table 1 below illustrates vividly the discrepancy between levels of expenses required to maintain roads in South Eastern European countries and the actual allocations in their respective budgets.

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimated expenditures required for road maintenance (as % of present budget)</th>
<th>Actual expenditures on road maintenance (as % of present budget)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>15</td>
<td>.8</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Croatia</td>
<td>3</td>
<td>.8</td>
</tr>
<tr>
<td>FR of Yugoslavia</td>
<td>4</td>
<td>2.5</td>
</tr>
<tr>
<td>FYR of Macedonia</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>4</td>
<td>.7</td>
</tr>
<tr>
<td>Romania</td>
<td>6</td>
<td>.3</td>
</tr>
</tbody>
</table>

Source: European Investment Bank, Basic Infrastructure Investments in South-Eastern Europe: Regional Project Review

Furthermore, recurrent costs often fall victim to an inherent bias of policy makers and politicians towards capital expenditures. In a study conducted in 1997, the IMF found
that, in a sample of 68 countries, “higher levels of corruption are associated with higher public investment, lower expenditures on operations and maintenance, and lower quality of public infrastructure.’’

While capital expenditures tend to increase, the allocations to recurrent costs tend to decrease implying that corruption in infrastructure projects has been a primary determinant of how budgets are allocated. The result is poor quality of infrastructure. And, the general implication is that public service suffers. A properly functioning forward estimates system can induce line agencies to set aside more, if not adequate, funding for the recurrent costs of capital projects and thus help improve the delivery of public services.

The forward estimate system can also positively influence the composition of spending within sectors. The system enables the government and the legislature to focus discussions and debate on proposed new programs since the allocations for all on-going programs will have been decided in the previous year and any future adjustments to them are based on well defined parameters such as the inflation rate. That is, at any given year, no further discussion is needed on on-going programs unless there are dramatic changes in the policy regime. One implication of this is that, in times of fiscal stress, any new program will most likely have to be funded out of funds already allocated in the previous year to on-going programs. This gives the ministry of finance a lever to require line ministries to propose cuts in on-going programs in parallel with proposals for new programs. Prioritization is thus sharpened.

The MTEF offers a lot of promise in promoting allocative efficiency. But the experience so far in developing countries has been mixed. A (very) preliminary assessment of several countries progress in implementing an MTEF suggests that the
process is difficult and will likely take a long time to mature. Among the countries included in the study, Uganda, South Africa, and Albania have a framework that appears to be relatively more “mature”. In Uganda, the reform process began in 1992. In Albania, a formal MTEF was introduced in 2001 but the requisite capacity and necessary supporting systems took many prior years to establish. In South Africa, an MTEF was first introduced fairly recently in 1998. But, because it was born out of the desire and need to engage politicians, legislators in particular, actively in prioritization and allocations/reallocations, progress has been more swift. This highlights one of the main findings of the study: an MTEF can only succeed if politicians are brought actively into the process for it is they who have substantial influence over budgetary allocations. The challenge then for most developing countries is how to engage the politicians in a reform that is likely to affect age old arrangements that support their hold on power and authority.

**Enhancing Operational Efficiency**

The degree of operational efficiency is predominantly influenced by the budget execution process. The implementation of programs, activities, and projects occurs as budgets are executed. But implementation is plagued by two fundamental problems: (i) principal-agent relations and (ii) the government as monopoly provider of public services.

The principal agent problem affects all types of organizations, large or small. The owners (principals) of an organization have a set of preferences and priorities which they seek to satisfy. Management (agent) may not necessarily have the same preferences nor
share the same priorities. When such misalignment occurs then there will be a tendency for some managers to try and “shirk”, i.e. do other than what the principals want them to do. The more severe the misalignment, the higher will be the cost of monitoring the performance of managers. And the higher the cost of monitoring, the less monitoring there will be. Consequently, inefficiencies will creep in.

Clearly, the problem does not stop there since there are different layers of principal-agent relations down the management chain. But, more important, it is particularly severe in government because the likelihood of misalignment is much higher. In a private firm, market competition and the price mechanism provide signals to stockholders and managers that help in monitoring the performance of staff. If profits go down in one product line, management will generally know where to look and whom to hold accountable. Unfortunately, in the public sector, there is no real equivalent to market signals. Hence, the cost of monitoring and the impetus for inefficiency (and poor service delivery) is naturally higher. The implication of this is that, to the extent possible and reasonable, government should shed off activities for which the private sector has a comparative advantage in managing. This could take the form of privatization, contract management, or outsourcing.

The privatization thrust of the 1980s through the 1990s was triggered primarily by persistent and severe macroeconomic problems. But inefficiencies in the delivery of services that had a direct daily impact on the lives of the citizenry influenced which sectors and public enterprises would be targeted for privatization. Indeed much of the early privatizations involved public utilities – energy, water, telecommunications.
While privatization, outsourcing, and/or contract management can help improve efficiency in the provision of some services, they are by no means a universal panacea. There will always be public services which the government will have to deliver. For such services, the government confronts a double whammy – principal agency and monopoly.

The New Public Management reforms, which began primarily in the United Kingdom and the Commonwealth countries, have attempted to grapple with this dual problem. The thrust of these reforms has been to enhance accountability -- through the introduction of internal contracting arrangements between principals and agents across different hierarchical levels, a more transparent accounting system, and tighter private sector like financial management controls -- in exchange for greater managerial flexibility. The New Zealand reforms epitomizes an extreme variant of these reforms.14

The experience to date in developing countries with NPM type reforms is mixed. The evidence so far seems to suggest that, except for a few isolated cases, the reforms have not led to significant improvements in efficiency. In what is perhaps the most extensive review of experience with these type of reforms to date in developing countries, Batley concludes that the effect has been mixed at best with some improvements in efficiency and mixed results on equity. On the downside, the transactions costs of splitting policy making and provision tend to outweigh the efficiency gains of unbundling, and the separation of purchasers from providers may have decreased accountability – and consequently, inequity has grown.15

Sequencing of reforms

The NPM reforms are designed to instill a performance focus within the bureaucracy and thus improve service delivery – and in more developed countries has
indeed led to improvements. In its most extreme form, civil servants cease to have any tenure and their continued stay in office or their promotion depends on the successful completion of contract specified deliverables.

Traditional bureaucracies, whether of the closed type, e.g. Weberian, or the more open type, e.g. U.S. system, can be equally performance focused. In a detailed statistical analysis of the determinants of bureaucratic performance, Evans and Rausch (1997) show that the key drivers of performance are a merit based recruitment and promotion system, adequate compensation, and relative autonomy from political interference. Other studies have shown that having a sense of purpose (embodied in an “esprit de corps”) is also important. The important point to make is that more traditional bureaucracies can be performance oriented as well.

Given all three broad types of systems can engender good performance, what then really matters? Figure 3 below offers some insights. At any point in time, operational efficiency depends on the balance between managerial flexibility and accountability. In particular, given the principal agent problem, flexibility without sufficient accountability is likely to lead to poor performance. This suggests a general principle in mounting public sector reforms. The setting of accountability measures should precede the granting of increased flexibility. Figure 3 illustrates heuristically how reforms should be sequenced: introduce accountability measures in steps consonant with the capability of the agency and, at each step and after the accountability measures have been put in place, grant a corresponding degree of flexibility.
The experience in Bolivia with recent public administration reforms exemplifies the problems that emerge if accountability measures do not precede the grant of managerial flexibility. In 1990, Bolivia passed a landmark law that called for a radical transformation of its public administration. The law replaced traditional ex-ante external controls with eight integrated ex-post control systems to be implemented internally within each agency. It also delegated responsibility over personnel management to the agencies. The government attempted to implement the law. But, as a World Bank assessment of the reform program states “an important theme that emerges from this review is the importance of strengthening central oversight capacity as a prerequisite for moving towards greater operational decentralization and delegated decision making for results oriented public management.”

While agencies were given flexibility in managing personnel (including hiring, firing, and promotion), the new control mechanisms necessary to enforce accountability were not put in place. Today, the Bolivian public administration still suffers from the same problems it faced before 1990.
The Bolivian experience fortifies the principle that accountability should precede flexibility. But it also magnifies the conundrum that most if not all developing countries confront. Ex-ante central agency controls are necessary if line agencies lack the competency and do not have adequate internal control systems to properly manage resources. But then with the ex-ante controls, line agencies do not have any incentive to acquire the required competency and establish the necessary internal controls. Governments are thus faced with a catch-22.

Thailand has embarked on an innovative “hurdle” approach to addressing this conundrum. Under this approach, a line agency is offered a reward of increased flexibility in exchange for establishing a subset of internal controls. The complete gamut of required controls is divided into several “hurdles” or subsets. As the agency overcomes each hurdle, additional flexibilities are granted.

The hurdle approach differs from traditional approaches to budget reform in two main ways. First, the easing of central controls is formally linked to the strengthening of line agency management systems. Under more traditional budget reforms, the former is less formally linked to the latter. The traditional approach reflects an implicit assumption that line agencies are potentially well manages and that relinquishing central controls will be enough to realize this potential. Second, central controls are being reduced on an agency by agency basis. Devolution is conditional on individual agencies achieving hurdle standards. In the traditional approach, central controls are eased at the same time for all agencies.


Strengthening Accountability -- Internal Control Mechanisms

Establishing effective internal control mechanisms is a key to improving operational efficiency over the long run. These mechanisms generally cover three areas: procurement, financial management, and monitoring and evaluation.

Procurement

Public procurement encompasses three broad categories of “purchasing” activities conducted by government agencies: (i) the purchase of goods, supplies, and materials; (ii) the contracting for infrastructure projects; and (iii) the hiring of consultants. It is the spout through which budgetary funds for new and on-going programs, including those funded partially or wholly through development aid, are released and spent.

The cost and quality of government programs depends critically on the extent to which inefficiency and leakage occurs in the procurement process. Burdensome procedures lead to delays and higher cost of money to bidding firms which in turn result in higher program costs to government. Leakage, primarily through fraud and corruption, lead to sub standard equipment and infrastructure, lack of essential medical supplies, insufficient textbooks, unneeded low priority goods, and, more generally, poor quality in public services. The institutional arrangements that govern the procurement process are thus critical to improving operational efficiency – lower program costs and better quality services.

The five phases of the procurement process – planning, advertising of the contract to be bid out, screening of bidders who have expressed interest in the contract, evaluation of bids of bidders who have been found eligible from among those who expressed interest, awarding of contract to the winning bidder – encompass an intricate
and complex set of rules and procedures each of which could retard or promote
transparency, accountability, contestability, predictability, and/or (time) efficiency.
Improving procurement thus often requires extensive analysis of these rules and
procedures. It is for this reason that, in 1998, the World Bank restructured and refocused
its Country Assessment Procurement Review (CPAR) as a developmental tool to assist
client governments in streamlining and rationalizing their procurement systems. Since
then, CPARs have been conducted in approximately sixty client countries..

To support the streamlining process, a number of middle and upper middle
income countries have turned to information and communications technology for help.
Brazil, Chile, Mexico, the Philippines, and South Korea have each developed in varying
degrees an e-procurement system (see Table 2 below).
Table 2

Comparative Features of E-Procurement Systems in Selected Countries

<table>
<thead>
<tr>
<th>Disclosure Facilities</th>
<th>Brazil</th>
<th>Chile</th>
<th>Mexico</th>
<th>Philippines</th>
<th>S. Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>Laws/Regulations</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Supplier/Contractor Roster</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Goods/services Catalog</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Tender/Contract Opportunities</td>
<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Bidding Documents</td>
<td>x</td>
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<td>x</td>
<td>x</td>
<td>x</td>
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<tr>
<td>Contract Awards</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>x</td>
</tr>
</tbody>
</table>

| Transaction Facilities | |
|------------------------|--------|-------|--------|-------------|---------|
| Electronic Purchasing marketplace |        | x     |        | development stage | x       |
| Electronic Bidding Marketplace | x      | x     |        |             | x       |
| Electronic Tendering Facilities | x     | x     | x      | x           | x       |
| Electronic Payments | x      | x     |        | development stage | x       |

| User Support Facilities | |
|-------------------------|--------|-------|--------|-------------|---------|
| Contractor Registration | x      |       |        | x           | x       |
| Contractor Profiling & Early Warning of Bidding Opportunities | x | x | x | x |
| Bid Preparation Support |        |       |        |             | x       |
| Electronic Supply Catalog Formation |        |       |        |             | x       |
| Solicitation Preparation Support | x |       |        |             | x       |
| Reference prices | x      |       |        |             | x       |
| Bid Evaluation Support | x      |       |        |             | x       |
| Online Procurement training | x |       |        |             | x       |

Source: World Bank, Electronic Government Procurement Forum, 2002; Procurement Service, Department of Budget and Management, Government of the Philippines; South Korean Public Procurement Service.
The adoption of such a system has resulted in greater transparency, increased competition/contestability, higher efficiency, and lower prices. In South Korea, for instance, the processing times for contracts has been reduced substantially – 68.2% for government ministries and 84% for the Government’s Public Purchase Service – and this has led to substantial cost savings. In Chile, 62% of the cost savings have come from lower prices. And, in the Philippines, the introduction of an electronic tender board (the equivalent of the advertising page of a newspaper) and a supplier registry has led to a marked increase in the average number of firms participating in public biddings for infrastructure projects and in a consequent reduction in prices. For instance, in the capital city region (Metro Manila), infrastructure projects costing five million pesos or less used to attract from 5 to 10 bidders. With the launching of the e-system, this number has jumped to between 40 and 50.

In some countries, such as Turkey, the situation is compounded by the complete absence of any framework law or code to govern and guide the conduct of public procurement. While in others, too many laws and regulations have added confusion to an already complicated process. In the Philippines for instance an extensive diagnostic study of the public procurement system revealed that more than 100 laws, regulations, executive orders, and the like affected the conduct of government procurement, and this created inconsistencies, gave discretionary headroom to agency officials, and generally contributed to long delays in completing the procurement cycle. In either case, a framework law or code of procurement defining the legal parameters for the conduct of government procurement has to be established.
However serious collective action problems plague the passage of any such law. On the one hand, those benefiting from the status quo are generally better organized, though they are much fewer in number. On the other, the general public, who undoubtedly would benefit from improvements in the procurement regime, is very diffuse and moreover no single individual has sufficient incentives to acquire the necessary knowledge to make a credible case for change. In these circumstances, even reform minded politicians will not be sufficiently motivated and/or will find it difficult to get a law with such wide ranging implications passed.

In the Philippines, the collective action problem was resolved through the creation of an NGO focused solely on combating corruption in public procurement. In 1998, the Government of the Philippines, through the initiatives of the Department of Budget and Management (DBM), launched a program to reform the public procurement system. With donor assistance, the DBM conducted an in-depth study of the country’s procurement system and identified many serious problems which could not be addressed adequately without legislation that could bring the many disparate laws and regulations impinging on procurement under a single, clearly written law. Getting such a law passed was a daunting task since the law would fundamentally affect age old arrangements between politicians and contractors. And for a year the reform program stalled.

But in 1999, the mood of the polity began to turn sour on government and, as survey after survey indicated, the focal point of its disenchantment was corruption. Moreover, of the activities that the citizenry considered seriously plagued by corruption, procurement was among the very top, second only to revenue collection. These developments provided an opportunity to move forward once again on the reform
program. The challenge however was to focus the citizen’s anger and frustration on corruption in procurement to create sufficient political incentives for well meaning and/or strategically well placed legislators to lead an effort to pass a procurement reform bill and to stymie efforts of politicians who, under less focused and visible circumstances, would block any such bill.

The NGO Procurement Watch Inc (PWI) was born in part out of the need to harness the collective anger and frustration of the citizenry towards corruption in government procurement. It was organized as a non-profit institution by (then) recently retired government officials, academics working on corruption issues, and private citizens with long standing concerns for problems in government procurement. In order to establish its credibility and gain the respect of citizen groups and legislators, PWI quickly developed technical expertise in the area of procurement. With well trained and experienced staff and an active board of directors, it managed to draw attention from the media on the need for a procurement reform bill, to secure advocacy support from different citizen groups throughout the country, to be invited to participate actively in the three technical working groups formed to formulate the law – one in the Executive, another in the House of Representatives, and the third in the Senate -- and to be sought after for advice by proponents of the bill in both the House and the Senate. With technical assistance from donors and advocacy support coordinated and managed by PWI, the DBM finally secured the passage of a landmark bill “The Government Procurement Reform Act of 2002” by both Houses of Congress. The President signed the bill into law on January 10, 2003, almost four years from the time the effort was initiated.
Financial Management – Reporting and auditing

The most common internal accountability mechanisms in public financial management processes relate to accounting and auditing. Through reporting on public accounts and auditing such, it is expected that governments will be held accountable for the way in which they use their funds. The focus of reports and audits has traditionally been on basic financial controls and cash flows. This focus reflects the control emphasis in public finances, and the long-established view that accountability for fund use relates to the disciplined use of resources within mandates (generally embodied in budgets). In recent years, however, accounting and auditing processes have been challenged to examine expenditure performance as well as conformance concerns. The new performance orientation is particularly relevant when considering operational efficiency concerns in budgets and suggests an expanded accountability conception—public financial managers now need to consider their roles as more than controllers, but also as contributors to final outcomes.26

In order to ensure that their practices reflect on broad government accountability issues, accounting entities in countries like New Zealand have expanded their reporting foci. Departmental accountants in New Zealand now provide the following set of financial statements to the executive and treasury on a monthly basis: A Statement of Financial Performance, A Statement of Financial Position, A Statement of Cash Flows, and A Statement of Service Performance. The Statement of Service Performance outlines the outputs produced versus the outputs agreed upon, and gives information about purchase performance much as a private firm would. This full set of statements facilitates the development of comprehensive aggregate financial statistics and ensures
that government reports on both the process and performance aspects of its budget (how much is being spent, how resources are being managed, and what the results of spending are). Because statements are uniform across government departments they can be summed to provide holistic financial statements which thus show (arguably) the net worth of government.

A similar expansion in focus is transforming the role of internal and external government auditors across the globe. In the United Kingdom, for example, traditional audit functions concentrated on financial management: Financial audits covered the examination and reporting on financial statements and of the accounting systems upon which these statements are based, while compliance or regularity audits examined legal and administrative compliance, the probity and propriety of administration, financial systems and systems of management control. Value for money audits constitute a recent addition to these traditional concentrations. These audits assess the management and operational performance of departments in using resources to meet stated results. As such, they could be called external audits of government performance or results.

These United Kingdom value for money audits are one example of a new type of audit in governments that focuses on results. These audits are being developed in other settings as well. In the United States, for example, “local government auditors are increasingly being recognized for their role in establishing accountability while improving government performance.” The role of the external audit has been expanded to include all of the methods, systems and functions used to achieve the purpose and mission of the organization—with auditors required to investigate every aspect of budget implementation and efficiency in resource use. External evaluations by these auditors are
both institutionalized checks on production performance, and motivating factors facilitating progress with results-oriented reforms. The external evaluations encourage change and in many ways provide the direction for capacity and reform development.

Monitoring and Evaluation

Accounting and auditing processes are a form of monitoring and evaluation mechanism. In the traditional form, these processes have often been seen to fail in reflecting on the actual implementation of budgets. A survey of 250 primary schools in Uganda found, for example, that on average schools received only 13 percent of the budgetary allocation for non-wage expenditures (even where budgets showed funds properly allocated). The remaining amount-en route from the finance ministry to the facilities-either disappeared or was used for purposes unrelated to primary school education.30

Because of such discrepancies in budget implementation, which affect both the overall allocation patterns of funds as well as the operational efficiency of spending, governments have increasingly moved to adopt monitoring and evaluation devices to complement accounting and auditing activities. “Monitoring embodies the regular tracking of inputs, activities, outputs, reach, outcomes, and impact of development activities.”31 Evaluation activities involve the interpretation of information accessed through such processes. Expenditure tracking is an example of such monitoring and evaluation (M&E), involving not only the tracking of resource flows, but also on the result of resource flows. The World Bank tracking activities in Uganda and Ghana have resulted in spending to sectors like education actually being translated into service inputs
and outputs, and have helped in developing an understanding of where money ‘leaks’ after it is allocated in budgets.

The result of these kinds of monitoring and evaluation activities have been encouraging. In Uganda, for example, “As evidence on the degree of leakage became public knowledge, the central government enacted a number of changes: it began publishing monthly transfers of public funds to the districts in newspapers, broadcasting them on radio, and requiring schools to post information on inflow of funds. An initial assessment of these reforms shows that the flow of funds improved dramatically, from 13 percent on average reaching schools in 1991-95 to around 90 percent in 1999.” While such monitoring and evaluation activities constitute a new challenge for financial managers—focusing attention beyond resource flows to the outputs and outcomes of such—they are vital to ensure that budgets are translated into services: “Success in reaching the Millennium Development Goals, particularly those related to human development outcomes, will depend not just on faster economic growth and the flow of resources, but on the ability to translate those resources into services.”

**Working with (and not against) Politics**

The kinds of advances made in public management and with regard to the internal accountability mechanisms discussed are indeed encouraging. They augur well for the attainment of key budget objectives: fiscal discipline, allocative efficiency and operational efficiency. A lingering threat to such objectives and a perennial factor to consider in any discussion of budgeting and of the link between budgeting and service provision remains, however—politics.
The preparation and execution of budgets is among the most political of routine activities that a government needs to undertake every year. While there are useful technocratic approaches and solutions to problems in this area, they cannot be divorced from the political realities that generally permeate systems for managing public expenditures and, in practice, need to be adapted to such realities. Politicians have their own preferences and interests and they are often in a position to influence the way budgets are prepared and implemented in ways that cater to those preferences and interests. Solutions need to incorporate the implications of these underlying incentives.

Over the past twenty years, democratic forms of government have began to emerge in most of the developing world. Elections thus have become the norm through which politicians come to and/or stay in power. The incentives of politicians thus revolve mostly around the need to get elected or reelected. As discussed earlier, such incentives lead naturally to an excess demand for budgetary funds and, in the aggregate, to unsustainable budget deficits. That is, individual political preferences when aggregated run counter to aggregate fiscal discipline.

Despite this seeming misalignment, many countries have managed to contain budget deficits within sustainable levels. Recent research suggests that certain political arrangements are better suited to instilling aggregate fiscal discipline. Dominant party parliamentary governments and presidential systems tend to do better in terms of maintaining aggregate fiscal discipline than multi party parliamentary governments. In the context of Latin America, the dominance of the Executive branch, in particular the Ministry of Finance, in the preparation and execution of the budget has been shown to lead to better fiscal discipline. This is in line with the more general findings since many
countries in the region have presidential systems with relatively greater influence on the budget process residing in the presidency.\(^{36}\)

In presidential systems or in parliamentary systems with a dominant party, ruling politicians can be much more easily held accountable for high inflation, high interest rates, and, more generally, a poor macroeconomic environment. Consequently, their incentives are consonant with maintaining a stable and manageable macroeconomic environment which implies keeping budget deficits within tractable limits. The examples of Brazil and Chile (both under presidential systems) noted earlier with laws on fiscal responsibility attest to this. There, politicians from all parties have agreed to legally bound (any) government to attaining certain annual fiscal targets and suffer consequences in the event that these are not met. In contrast, in multi-party coalition parliamentary based governments, no single party can be blamed for macroeconomic mismanagement so the incentives to control budget deficits are weaker.

Among the three levels of desired outcomes, allocative efficiency is the most directly linked to and affected by political considerations. The setting and funding of priorities is much more a political activity than a technocratic exercise. And, because politicians preferences tend to be parochial and relatively narrower in focus, budgetary funds may tend to be allocated to activities different from those that might be dictated by the public interest. As illustrated earlier, in the Philippines, the electoral imperative to “bring home the pork” has led to an astounding expansion in the number of state colleges and universities at the expense of the overall quality of tertiary education and the capacity to provide basic education.
As a more general example, political imperatives are likely to influence the relative composition of the budget. Maoro suggests that corruption is likely a significant determinant of the allocation of public expenditures. His research shows “evidence of a negative, significant, and robust relationship between corruption and government expenditure on education. . . . A possible interpretation of the observed correlation between corruption and government expenditure composition is that government officials find it easier to collect bribes from some expenditure items than from others.” This is consistent with the findings of Tanzi and Davoodi on the relative bias of governments towards capital expenditures and away from operations and maintenance. Because of the possibility of under the table commissions from public contracts, government officials (and their political patrons) may favor allocating relatively much larger amounts to capital expenditures. In many emerging democracies, politicians need to find innovative ways of raising funds for their campaigns and to provide patronage based services while they are in office. Depending on the country’s procurement regime, commissions from public contracts can offer creative alternatives.

An MTEF can provide clearer and better information on inter-sectoral and inter-temporal trade offs and, as such, can ameliorate some of the potential distortionary effects of political imperatives on allocative efficiency. It can, for instance, highlight the implications of inadequate allocations to operations and maintenance and thus temper the political bias for capital expenditures. But the difficult part is in getting politicians to agree to establishing such a system and to binding themselves to it. Left to their own devices, politicians are unlikely to support any such initiative since it constricts their ability to direct resources to areas that increase their chances of being reelected.
In the area of operational efficiency, political imperatives can create uncertainty and unpredictability in the levels of funding that go to spending agencies. In Peru, for instance, the president has sufficient powers to reduce or increase allocations to programs and activities even after the budget has been approved by the legislature. Between 1994 and 2001, the Presidency issued 748 decrees, with approximately 70% either directly amending or indirectly but significantly affecting the budgets of agencies. Under such conditions, agencies cannot plan and, in fact, are de-motivated from planning. Consequently, operational efficiency suffers.

Corruption in government procurement is a major cause of operational inefficiency in many developing countries. Client surveys conducted in countries as disparate as India, Latvia, the Philippines, Indonesia, Ghana, Bolivia all indicate the existence and persistence of corruption in the delivery of public services. As argued earlier, greater transparency, accountability, and/or contestability in procurement processes and the financial management system as well as better monitoring and ex-post evaluation can go a long way to curbing corruption. But again political incentives work against the implementation of reforms needed to promote these changes.

Though difficult and challenging, there may be ways of altering the decision calculus of politicians to make them more amenable to reforms. As discussed extensively below and suggested earlier, active citizen engagement in different phases of the budget process may raise the ante in favor of adopting reforms such as the MTEF or an improved procurement system so that some politicians may find it in their self-interest to support their adoption.
Voice and Civic Engagement in Budgeting

The development community is increasingly emphasizing “Strengthening public accountability through participation.” The budget process has been a focus of such attention, primarily because citizen involvement in this area of governance is seen as a way of expanding the political agenda in the decision processes leading to budget allocations and increasing the pressure on elected and bureaucratic officials to reform these processes—altering the decision calculus of these officials such that they consider social demands in a broad sense and create budgets that are truly focused on required service provision needs. Improved civic participation in budget processes is particularly expected to effect an improvement in the citizen-direction of allocations and greater accountability and efficiency in service provision. As such, participation in budgeting processes is a crucial focal point of the World Bank’s work on budget reform—with the Bank’s Empowerment Framework, for example, relating directly to the issue.

Citizens, budget formulation and allocative efficiency

The most prominent ‘participatory budgeting’ initiatives come from cities like Belo Horizonte and Porto Alegre in Brazil. The participatory budgeting model in these cases involves setting up a mixture of budget fora in decentralized regions of the cities and regular district assemblies at which elected delegates meet throughout the year to determine the fiscal responsibilities of city departments. Neighborhoods put forward their demands for spending at the budget fora and delegates then carry the demands to the assemblies, ensuring a high level of civic voice in budget decisions. Case studies suggest that civic demands have had a significant influence over actual allocations and the implementation of budgeted projects. A similar, though more top-down, approach in
Asuncion and Villa Essa, Paraguay involves neighborhood committees holding public budget hearings at which they develop ‘petitions’ to be presented in city government budget discussions. While the civic influence is less defined and assured, there have also been positive results from such initiative: “Of the 98 petitions submitted, 55 percent received a favorable response and were included in the projects slated for fiscal year 1998.”

Moving up from the local level, the Institute for a Democratic South Africa (IDASA) bases much of its work on providing accessible information about budget allocations to citizens, concentrating on both the provincial and national level in South Africa. IDASA employs technical experts who break public budgets down to facilitate civic comment on the direction of allocations. They release reports to show how much money is allocated, for example, to gender-related and children’s issues. Civic organizations can use such reports in their interaction with government to lobby for specific types of expenditure. IDASA also releases commentaries on the budget and proposed budgets (especially the Medium Term Budget Policy Statement) that are also intended to improve citizen understanding of allocations decisions and to facilitate civil society participation in the decision-making process. The most direct influence of IDASA’s work is probably evident in the way it has strengthened the understanding parliamentarians have of budgets, and enhanced the ability of these political representatives to participate in budget discussions.

*Citizens, budget execution and operational efficiency*

The Mazdoor Kisan Shakti Sanghathan (MKSS) is an NGO that works to enhance civic influence over government in the north Indian state of Rajasthan. MKSS focuses on
improving civic access to information about how budgets are meant to be implemented, allowing a participatory evaluation of such. This is done by demanding access to budgetary information (through various means, which combine into a ‘right-to-information’ movement), ‘de-mystifying’ the budgets so that citizens can understand them, and then holding village-level public meetings (called jan sunwais) at which the de-mystified details of state budgets are presented to citizens. At these meetings budgets become accessible and meaningful to citizens, who can raise their voices regarding any area of public disbursement in their jurisdiction—commenting on whether funds were allocated as stated in the budget, the efficiency of project implementation and such. Political and bureaucratic officials have free access to the hearings and can be called to account for resource use in such, but do not control meeting agendas or determine whose voices are heard. Such meetings have uncovered significant corruption in the state government and have also enhanced efficiency in budget implementation.44

*Future challenges to promoting voice and citizen engagement in budgeting*

The kinds of initiative discussed above have done a lot to improve public participation in budget processes. But participation is still limited in most governments, leaving a number of challenges for reform in the future. Three of the primary challenges are: (1) to create budgets that are legible and interesting to citizens; (2) to ensure that officials listen to civic comments, complaints and suggestions related to such; and (3) to relate this ‘new’ ideology of democratic participation and external accountability to the more established financial management ideology of internal accountability and control that dominates public sectors throughout the world.
The lack of legible and engaging budgets has resulted in many ‘participatory budgeting’ efforts having limited effect. Decentralized budget conferences have not facilitated participation in many cases. The “majority of the citizens of Uganda” did not contribute to District Budget Conferences, for example, because “the mechanisms for constructing budgets are too complex” for most citizens to comprehend and contribute to.\textsuperscript{45} In Thabanchu, South Africa, efforts to engage citizens in planning and budgeting decisions have faltered because individuals suffered a “lack of understanding of concepts” and hence withhold their voices.\textsuperscript{46} In both cases—and in governments throughout the world—budgets and budget processes require radical reform to ensure civic understanding. At the most basic level budgets should be relevant and readable, should provide clarity as to the officials responsible for budget implementation, and should make budgets easy to report on. While a battle rages as to the technical feasibility of performance-based budgets in developing countries, the citizen-friendliness of such budgets is obvious and they should at the very least be seriously considered at the local level where services are arguably more easy to quantify, performance easier to evaluate and performance-based incentives more effective than at the national level.\textsuperscript{47}

Structuring budgets to ensure citizen-legibility is certainly required to enhance citizen information regarding budget decisions. This information empowers citizen ability to contribute to these decisions and to monitor and evaluate such. Increased information alone does not, however, ensure that citizen voices so expressed are heard or acted upon. It is common for officials in the dominant technical, closed administrative culture evident in many governments to dampen the influence of civic voice in core governance processes. An overt administrative influence enforced “dominant organizational,
ideological, and discursive forms” of existing administrative processes in North Dakota, for example, limiting voice influence.\textsuperscript{48} Officials in Thabanchu, South Africa, were quick to ignore contributions that ran counter to their ‘normal professionalism’: “Where individuals articulate issues that don’t fit in with the process consultant’s definition of the session, the information (mostly useful) becomes lost in the process.”\textsuperscript{49} In such situations institutional changes are required to ensure that administrative rules and organizational norms focus officials on citizens. Citizen-oriented budget processes require institutions that facilitate (in a meaningful sense) citizen demand revelation, citizen reflection and resolution opportunity (in the budget decision/approval stage), citizen reporting abilities (regarding budget implementation), and citizen response and redress avenues (that influence the incentives administrative and political officials face).\textsuperscript{50}

One of the reasons why public officials may resist the voice of citizens, and which complicates the kind of institutional reforms posed here, is that there are two distinct ideological approaches to governance and financial management in the public sector: a traditional top-down managerial control approach and the democratically-motivated bottom-up participatory reforms discussed here. In many cases these two approaches have been merged into complex reform initiatives. In Malaysia, for example, reforms mix performance-based budgeting with a citizen-focused Client’s Charter and the introduction of public complaint bureaus, designed to facilitate expression of citizen ‘voice’ into the governance process.\textsuperscript{51}

Many new public management and institutional reforms—embodied in some of the internal accountability mechanisms alluded to earlier—promote a technical proficiency and results-orientation in management, countering weaknesses associated
with the centralized and monopolistic character of public organizations. Democratically motivated participatory reforms are intended to enhance social responsiveness and citizen-oriented accountability: “Through participation DLG (Democratic Local Governance) promises to increase popular input into what local government does, and through accountability it bids to increase popular control over what local government has done or left undone.” Research suggests that the two reform approaches may be incompatible, because they emerge differently and reflect different kinds of financial accountability paradigm—one internal and the other external. Feld and Kirchgassner indicate that administrative and participatory reforms constitute two polar options in their question of “whether a "top-down" or a "bottom-up" budgetary procedure leads to more favorable results.” The following table shows some of the tensions that some argue to exist between the two approaches.

### Table 3

tensions between conventional financial management control ideology and the participatory approach

<table>
<thead>
<tr>
<th>Conventional Financial Management approach institutionalizes culture and incentives favoring:</th>
<th>‘Participation’ ideology embodied in World Bank Empowerment Framework institutionalizes culture and incentives favoring:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narrow ‘Fiscal accountability’ and fiscal discipline</td>
<td>Broad social accountability and pro-poor responsiveness</td>
</tr>
<tr>
<td>Reform and process standardization</td>
<td>Reform strategy variation</td>
</tr>
<tr>
<td>Controlled access, participation based on ‘normal professionalism’</td>
<td>Social access and broad participation</td>
</tr>
<tr>
<td>Technical excellence</td>
<td>Process transparency</td>
</tr>
<tr>
<td>Spending quantity (fiscal discipline, or the ‘how much’ question)</td>
<td>Spending quality (allocations and managerial efficiency, or the ‘how’ question)</td>
</tr>
<tr>
<td>Tools and techniques used in financial management process</td>
<td>People-related, service outcomes of financial management process</td>
</tr>
<tr>
<td>Top-down governing</td>
<td>Bottom-up governing</td>
</tr>
</tbody>
</table>

The basic message of the table is that top-down reforms aimed at enhancing control over spending may not provide the same incentives as participatory reforms in which concerns over spending quality dominate. Research into this tension suggest that the former kind of paradigm is driven by central agencies like Treasuries and Ministries of Finance, with street-level officials and civil society entities lobbying for the latter kind of reforms. This same research also shows that there the two kinds of reforms can complement each other. Legislated forms of budgetary participation (like referenda on spending decisions and revenue raising options) have been shown to effect more focused allocations and to encourage fiscal discipline, for example, suggesting that the incentives associated with greater ‘democratization’ of the budget process are not dissimilar to those of greater top-down control (both act to discipline the competing interests causing a commons tragedy). Centrally important to ensuring the success of complex reforms blending administrative controls and participatory elements is the consideration of “whether administrative culture is conducive to change” and able to bridge relational tensions in the change process.

Conclusion

‘Voice’ is one of the mechanisms reformers are now emphasizing in the effort to link public expenditure management and service delivery performance. Other connecting points are the focus of the new research in Public Expenditure Management (PEM), which is discussed in this paper. This approach to public sector budgeting is oriented towards ensuring that public expenditure policies and systems are geared to achieve socially desired outcomes, namely, aggregate fiscal discipline, allocative efficiency, and operational efficiency. These outcomes are discussed in detail in the early sections of
this paper. The discussion aims to connect recent reform mechanisms (like MTEFs) to these outcomes, to show why these mechanisms are considered important.

These reforms, and indeed the connection between public expenditure processes and outcomes like service performance, are crucially influenced by complexities of politics and of civic engagement in budgeting and governance processes. While technical reforms like MTEF have significant value, opportunities for such reform and the potential affect of these mechanisms on outcomes are often contingent on the political and social institutional environment characterizing the budget and governance process. This paper also emphasizes this point.

As described, the paper tries to reflect both recent advances in thought and practice and the complexities of such thought and practice. In so doing it is hoped that the paper clarifies why public expenditure management, and the budget process in particular, should be given special attention by governments attempting to improve service performance. Reforms in this area are crucial to performance improvement, and are themselves both complex and connected to broad political and institutional adjustment.

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De Vera, Romeo. “Proliferation of Philippine State Universities and Colleges and the Oversupply of less Knowledgeable Graduates,” Briefing Note, Department of Budget and Management, Government of the Philippines.


In Hungary, for example, public utilities providing telecommunications (MATAV), oil and gas (Mol) and electricity (MVM) were targeted for early privatization (See Canning, Anna and Paul Hare, “Political Economy of Privatization in Hungary: A Progress Report,” Discussion Paper Centre for Economic Reform and Transformation, September 1996). In Chile some of the first companies privatized included the telecommunications utilities (Entel and CTC) and the electricity utility (ENDESA), as well as the water utilities (see Paredes, Ricardo M. “Impact of privatization and regulation of utilities in Chile.”).


In a closed system, recruitment is done primarily at entry level and posts all the way up the management tree are filled through internal competition and promotion. In an open system, recruitment is open at all levels. Posts are filled through competition among internal and external candidates.


Planning includes the preparation of terms of reference/tender documents. Contract implementation can be considered a sixth phase but the problems in this area are quite different from those in the contracting stage and are usually dealt with separately.

Cho, Junghun, “Paths Toward Transparent Electronic Procurement Systems,” manuscript, Division of Public Administration, Department of Economic and Social Affairs, United Nations.

Ibid.

The system has proven to be so effective that legislators from provincial districts whose favored contractors began losing bids launched a concerted effort to exclude contracts from the ambit of the e-procurement system. A compromise was eventually struck in which, for a limited time period (effectively no more than two years), provincial infrastructure projects would be governed by the previous non-electronic system.

Bureau of Research and Standards, Department of Public Works, Government of the Philippines.


See for instance, Table 2.1, in World Bank, “Peru: Institutional and Governance Review,” August 2001. The table summarizes the relative influence of the Executive and the Legislature on the budget process.


The Empowerment Framework is based on “Empowerment and Poverty Reduction: A Sourcebook for World Bank Staff,” Draft, April 2002, by Deepa Narayan, Senior Advisor, PREM.


Uprety, C.R. Wielding the Bureaucracy for Results: Reorienting the Nepalese Civil Service, Asian Review of Public Administration, 9 (2), 104.