

Introduction

Objective; nature of problems; approach and framework of the tool kit

There has been a growing recognition of the importance of expenditure management in the public sector during recent years. In recognition of this importance, a volume entitled '*Managing Government Expenditure*' was published in 1999. As an integral part of the continuing effort aimed at strengthening governance agenda and action plan 2000-2004, this tool kit has been prepared so that it may be useful to the bank staff and more important, to the officials engaged in expenditure management in the member countries.

Capacity building and institutional improvement is a continuing process involving a cycle of four steps: identification of problem areas, formulation of action packages, implementation of action packages, and evaluation of the experience and learning lessons for future application. The nature and magnitude of problems differ, however, among countries, given the enormous diversity of membership of the bank. The membership includes developed countries, and countries that have recently become independent with their own sovereign status; countries which follow market friendly approaches and those that are moving from central planning to market influenced management approaches; countries that provide considerable foreign aid and many that are extensively reliant on foreign aid. Despite this enormous diversity, three concerns in the management of public expenditure are common to all, viz. pursuit of macroeconomic stability, effective delivery of services, and pursuit of economy and efficiency in the process of resource allocation and utilization.

Experience shows that governments experience problems in the working of the fiscal machinery and in the systems and operational techniques employed by them. Although a distinction is made between the executive and legislative spheres, it is recognized that three types of lags have tended to impact the management process; (i.) identification lags-time taken in the precise identification of problems; (ii.) policy formulation lags-time taken in the formulation of appropriate policy responses; and (iii.) implementation lags-time taken to implement the approved and announced policy packages (fiscal slippages). In turn, these lags have their origins in the administrative process, in the technology applied, and in the human factors such as the availability of trained personnel and its professionalism.

This tool kit is intended to assist the staff of ADB to undertake a review of the existing financial management capacity of the member countries so that the strengths and weaknesses could be identified and the latter addressed in a constructive way. As an extension, it seeks to enable the country authorities to identify for themselves, their own strengths and, more important, the problem areas that need to be addressed. Together, it provides a basis for a more meaningful dialogue between the bank staff and the country authorities on the next steps for improving the expenditure management capacity. In short, the effort is to raise the probing questions-to what extent is the fiscal machinery helpful or hindering policy formulation and implementation, and in broadly serving the objectives of a civic society and how can it be made more effective-and answer it.

The tool kit is divided into four parts: strengthening financial management, policy framework, budget management and supporting infrastructure. Each part is subdivided into functional areas and under each area, the features, broad issues currently experienced, and the way in which the issues may be addressed are considered. In view of the fact that the previous volume, *Managing Government Expenditure* has discussed the features of the various steps of the financial processes, their discussion here is

limited in scope, intended more to recapitulate the essential features that set the frame for the consideration of issues. Considerable emphasis is placed on graphics, in particular, tables given at the beginning of each section to present the features or issues at a glance.

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