Public Expenditure Management: Training-of-Trainers Program
27 May - 8 June 2001, Tokyo
Executive Summary of Proceedings

Key Messages

1 Public Expenditure Management (PEM) and budgeting is best developed within a medium-term expenditure framework that reflects the full cost of the planned and funded activities of governments. [¶ 9, 10]

2 Governance is a key element in the development of effective PEM. Similarly, PEM plays a central role in the development of effective governance. [¶ 3, 4, 5, 7-9, 13, 21-23]

3 One of the key elements in the reform and strengthening of PEM is to shift from an input to an output and outcome approach to budgeting. [¶ 8, 10-11, 13-14]

4 The capacity to use PEM systems as a vehicle for targeting expenditures for poverty reduction is a necessary element in the design of poverty reduction and alleviation strategies. [¶ 3, 5, 8, 21, 22]

5 Budgets are not solely about financial matters but should more importantly focus on the generation of results. [¶ 9, 16, 21, 24]

6 PEM reforms must be carefully designed and sequenced through building upon existing systems rather than importing wholly new ones. [¶ 49]

7 Performance and strategic-based management are key ingredients in the development of PEM programs. [¶ 8, 9, 13, 14, 21, 24, 32, 34-36, 44, 47, 48]

8 While there is no one best organizational model for PEM to function most effectively, the importance of effective coordination and alignment of activities should not be underestimated. [¶ 8, 9, 10, 27, 34, 36, 37, 42, 44, 49]

9 The watchword in strategies of PEM reform is captured by the metaphor of the “tortohare” (“tortoise and the hare”) approach: go as slow as you must and as fast as you can. [¶ 13, 30]

10 A system of internal and external audits is the central activity that must be developed in the implementation of any PEM improvement program. [¶ 21]

11 The involvement of civil society in the budgeting process provides a creative means for strengthening accountability, transparency and the monitoring of service delivery and quality. [¶ 44, 45]

12 Effective PEM systems provide for the reallocation of resources toward supporting policy priorities. [¶ 32]
Introduction

1. As a core program of its capacity-building activities, the ADB Institute has developed a training-of-trainers (TOT) series on PEM. The TOT program is aimed at training a core group of trainers from a given country or group on PEM and exposing them to teaching and learning techniques for effective capacity building. On return to their home institutions, the trainers would then conduct the PEM program on their own for participants from their own country. In this way, it is envisaged that the TOT program would result in a multiplier effect where an increasing number of officials in each country could be trained over time. The PEM TOT workshop, held in Tokyo from 27 May to 8 June 2001 is the second program of its kind offered by the Institute. The first TOT program was conducted for trainers from Pakistan, Viet Nam, Indonesia and PRC. In this program, the trainers came from selected institutions from Bangladesh, India, Cambodia and Indonesia. Following the completion of the program, the trainers were expected to conduct local PEM programs on their own in their own countries in early 2002. Summaries of past proceedings and local conducts were published under the ADB Institute Executive Summary Series No. S29/00 and No. S40/01 and are available online at www.adbi.org/publications/ess.asp

2. The workshop was jointly organized and sponsored by the ADB Institute, the ADB and the World Bank Institute. Video-conferencing was used in the Institute for a resource speaker from India to give his presentation to participants. This was done through arrangements with the World Bank Institute and was run on a trial basis.

3. Dr. Joel Turkewitz, Senior Governance Specialist, World Bank Institute, gave a presentation on the linkages between PEM, poverty reduction and governance. Turkewitz defined governance as the processes and institutions by which authority in a country is exercised and in particular:

   - The process by which governments are selected, held accountable, monitored, and replaced
   - The capacity of governments to manage resources efficiently, and to formulate, implement and enforce sound policies and regulations
   - The respect for institutions that govern economic and social interactions among them

4. Turkewitz next reviewed empirical evidence to illustrate the relationship between governance and key aspects of development. Governance, he stressed, matters for development.

5. Within this general framework, Turkewitz addressed the relationship between good governance and poverty reduction, focusing specifically on the linkages between corruption and poverty reduction. He highlighted the following key relationships in this area:

   - The poor bear the greatest direct burden as a proportion of their income
   - Diversion of funds in public agencies reduces accessibility of public services and hurts the poor the most
   - Corruption causes distorted public expenditures and investments and lowers levels of domestic and foreign investment
   - Transparency increases poverty reduction impact, reduces the frequency of bribery and reduces the purchase of public positions

6. He pointed to the weak relationship between salaries and levels of corruption, the types and extensiveness of rules and corruption, the degree of rule enforcement and corruption and between corruption and availability of resources.

7. He summed up the first part of his presentation by noting that:

   - governance matters for reducing poverty
   - corruption cannot be “stamped out”
   - improving governance and performance requires changing the process by which government works, the rules by which it works, and the relationship between government and the public
   - areas that deserve particular attention in the use of public financial resources include revenue generation, procurement, service delivery, management of state assets, financial liabilities

8. Turkewitz moved to the specific relationship between governance and public expenditure management (PEM) and applied a governance framework to the budget (see Fig. I). He highlighted, within this framework, a set of core questions that need to be addressed to assess the budget from the perspective of good governance, such as:

   - Is the budget a credible signal of government’s policy intentions?
     - Are there clear policy priorities?
     - Are there strategies for key sectors?
     - Can sectoral strategies be changed easily by the head of the government?
     - Are policy proposals required to specify outcomes and costs?
     - Is there any way to check how the money has been spent?

   - Can spending units predict their funding and cash flow for the year?
   - Are the policies of government explicitly pro-poor in design or implementation?
   - Is tax policy effective? What is the divergence between actual revenue and potential revenue?
   - Is the revenue administration corrupt?
9. Turkewitz concluded by outlining the following governance framework for the reform and improvement of PEM in developing countries:
- Ensure predictable and timely availability of funds
- Adopt a multiyear budgeting framework
- Establish effective internal controls to ensure that funds are spent in line with approved budgets
- Create meaningful oversight from parliament and audit institutions
- Simplify the tax system to increase understanding and reduce administrative costs

Medium-Term Expenditure Framework

10. The second session of the workshop introduced participants to the rationale and design principles for a medium-term expenditure framework (MTEF). The workshop was led by Mr. Len Early, former Deputy Secretary of the Treasury, Government of Australia. The MTEF provides a multiyear framework for assessing and making public the forward year costs of current year budget decisions. Early suggested a number of benefits using an MTEF:

<table>
<thead>
<tr>
<th>Process of budget creation and monitoring</th>
<th>INPUT VARIABLE</th>
<th>OUTCOME VARIABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Participation</td>
<td>Quality of:</td>
<td>Extent of radical shifts in</td>
</tr>
<tr>
<td>2. Ability to hold actors accountable</td>
<td>1. Budget</td>
<td>budget size and allocations</td>
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<td></td>
<td>proposals</td>
<td></td>
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<td></td>
<td>2. Budget choices</td>
<td></td>
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<td></td>
<td>3. Of delivery of funds</td>
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<td></td>
<td>4. Of accounting for money spent</td>
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<table>
<thead>
<tr>
<th>Capacity of government to formulate budget proposals, make budget decisions, and implement the budget</th>
<th>INPUT VARIABLE</th>
<th>OUTCOME VARIABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality of:</td>
<td>Effectiveness:</td>
<td></td>
</tr>
<tr>
<td>1. Budget proposals</td>
<td>1. Receipt of goods/use of services</td>
<td></td>
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<td>2. Budget choices</td>
<td>2. Achieving targets</td>
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<tr>
<td>3. Of delivery of funds</td>
<td>3. Enhancing growth</td>
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<table>
<thead>
<tr>
<th>Respect for budgetary institutions</th>
<th>INPUT VARIABLE</th>
<th>OUTCOME VARIABLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Spending in accordance with budget passed</td>
<td>1. Extent of theft</td>
<td></td>
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<tr>
<td>2. Application of taxes consistent with law</td>
<td>2. Extent of budget diversion</td>
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Fig. I: Application of Governance Framework to the Budget

**Appropriate aggregate budget outcome**
- The MTEF results in a budget that is comprehensive and includes all expenditures of government
- The budget aggregates are determined by general economic situations
- The MTEF produces realistic budget estimates through its emphasis on cost and future affordability
- The MTEF imposes discipline in budget formulation and execution
- The MTEF increases transparency

**Resource allocation reflects strategic priorities**
- The MTEF forges links between policy-making, planning and budgeting
- It provides a medium-term perspective of 3-4 years
- It increases legitimacy
- It provides flexibility through portfolio based reallocation procedures

**Efficient Use of Resources**
- The MTEF focus is on outputs and outcomes thus increasing service delivery effectiveness
The MTEF provides for appropriate management flexibility at local levels increasing the capacity to innovate in service delivery.

The MTEF increases the degree of predictability in the budget and management process of government and encourages planning in that context.

The MTEF provides clear performance information and allows for program evaluation.

The MTEF increases the accountability of politicians and bureaucrats to parliaments and citizens.

11. Early examined the central role that outputs and outcomes play in the development and implementation of an MTEF (Fig. II). He began by distinguishing between the following two concepts:

- **Outputs** are the goods and services produced by agencies on behalf of the government for organisations or individuals
- **Outcomes** are the results, impacts and consequences of actions by the government on the community

**Outputs**
- Are the goods or services provided to external individuals or organisations?
- Are the outputs identified and described clearly?
- Are they described in terms of what they are, not what functions they perform?
- Does the output contribute to the realization of planned outcomes?

**Examples**
- output
  - strong army
  - budgetary policy advice
  - health services
  - graduate students
- outcome
  - peace
  - sustainable government
  - healthy people
  - better qualified workforce

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**Fig. II**

A SYSTEM FOR ESTABLISHING SOCIETY’S PRIORITIES

<table>
<thead>
<tr>
<th>HIGH PRIORITY PAP</th>
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<tr>
<td>(Like Irrigation Service)</td>
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<table>
<thead>
<tr>
<th>MEDIUM PRIORITY PAP</th>
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<tr>
<td>(Like Fire Prevention Service)</td>
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<table>
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<tr>
<th>LOW PRIORITY PAP</th>
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<tr>
<td>(Like Regulation of Bus Conductors)</td>
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<table>
<thead>
<tr>
<th>INTERMEDIATE OUTCOMES</th>
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<tr>
<td>(Like Higher Agricultural Productivity)</td>
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<table>
<thead>
<tr>
<th>INTERMEDIATE OUTCOME/S</th>
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<tbody>
<tr>
<td>(Like Lower Fire Incidence Rate)</td>
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<table>
<thead>
<tr>
<th>INTERMEDIATE OUTCOME/S</th>
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<tbody>
<tr>
<td>(Like Lower Road Transportation Accident Rate)</td>
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<table>
<thead>
<tr>
<th>ULTIMATE SOCIETAL OUTCOMES</th>
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</thead>
<tbody>
<tr>
<td>(Like Lower Poverty Incidence Rate)</td>
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Other Indicators of Attainment of Missions in MTPDP
Good output specification

- the output is identified and described clearly
- it is described in terms of what it is, not what function it performs e.g. ‘education campaign’ not ‘awareness raising’
- it contributes to the realization of planned outcomes

12. Following his explanation of the MTEF framework, Early next led the participants through a detailed simulation exercise in the development of an MTEF and the forward costing principles that are used in such systems.

13. The third session was led by Dr. Ed Campos, Senior Economist for Governance, ADB, Campos covered the subject on an outcomes-based approach on PEM. He opened the session by posing the question: what is it that one wants a PEM system to achieve?

14. Campos suggested that there are three following broad outcomes of PEM that were desirable.

Aggregate Fiscal Discipline

15. Aggregate fiscal discipline, explained Campos, essentially means not living beyond one’s means as shown in the following equation:

\[ \text{expenditures} = \text{revenues} + \text{sustainable borrowing} \]

16. Campos addressed what he called an underlying incentive problem in the development of public budgets. It relates to what is known as the tragedy of the commons: resources to which people have free and common access are over-utilized and eventually depleted. The budget, he said, is like a common pool and tends to produce an upward bias in the number of projects/spending activities. This creates a natural or built-in “deficit bias”. The implication of this pattern is the need to establish institutional arrangements that restrain upward bias and accountability mechanisms to enforce them. An example of such an institutional arrangement can be seen in the deficit to GDP requirements imposed by the EU through the Maastricht Treaty or balanced budget amendments such as that in force in the United States.

Allocative Efficiency

17. Allocative efficiency, entails spending money on the right things. In this area, there too exists underlying incentive problems related to preferences and costs. Campos explained as follows:

Preference revelation

- How can one know what the benefits are?
- What are the real preferences of society?
- How does one get people to reveal real preferences?
- There is a need for a practical mechanism to deal with preference formation

Cost revelation

- Line or implementing agencies have a better idea of the true costs of a program
- They have incentives not to reveal the true cost to central agencies
- Central agencies need some mechanism to offset this

18. A possible mechanism to resolve these incentive problems is the MTEF. A well functioning MTEF will have the following number of clear elements:

Top-down elements

- A system for establishing society’s priorities over the medium term
- A set of explicit fiscal targets over the medium term: revenue, debt, deficit
- Hard but sustainable aggregate expenditure and sector ceilings

Bottom-up elements

- A medium term estimate of the cost of government policy
- Clear rules for updating estimates
- Procedures for program evaluation

Operational Efficiency

19. Operational efficiency entails getting the best buy for your money by providing acceptable quality public services at a reasonable cost. The incentive issue in operational efficiency is related to the relationship between agents and principals. In the public sector, government is often a monopoly supplier of goods and services. This creates a situation in which the agents (departments) may establish their priorities over that of the principal, i.e. the government as a whole.

20. The implication of this is that there is a need for some mechanism to induce line agencies to adhere to agreements with an oversight agency. Often this is provided by the Ministry of Finance or Treasury Board. The following other strategies also exist.
Use private markets
- privatize services in areas where competition is feasible
- contract out management to private sector where feasible
- outsourcing
- expose public sector agency to private competition
- benchmarking

Civil Service Reform
- government is monopoly supplier
- need to establish a well-functioning civil service
- procurement reforms
- adequate compensation
- merit-based recruitment and promotion
- political independence
- accountability for performance

Performance Accountability
- output based budgeting
- individual performance linked to organizational performance

21. Dr. Clay Wescott, Senior Public Administration Specialist, ADB, gave a presentation on the linkages between PEM and poverty reduction. He outlined the following four elements of good governance that could contribute to sound PEM.

Accountability
- reviews or evaluates programs
- anti-corruption measures in place and enforced
- regular internal and external audits and remedial action taken

Participation
- opportunities for citizens’ participation in budget formulation, implementation and monitoring
- market and donor approval of budgets
- broad support from other layers of government
Predictability
- budget law or administrative framework specifying responsibilities, and budget approval and implementation

Transparency
- dissemination of key financial information
- budget documentation showing monitorable objectives of programs
- annual reports of agencies
- timely publication of annual accounts

22. He next described a conceptual framework (Fig. III) for crafting poverty reduction strategies through the governance framework. Good governance, he suggested, helps the poor in a number of specific ways:
- by facilitating markets and economic growth
- by promoting participation and empowerment
- by enabling delivery of high-quality services
- lower income homes pay more for corruption in Bangalore (India), 33 per cent of the poor have to pay bribes as compared with 14 per cent of the non-poor
- Corruption hurts the poor through lower growth, regressive taxes, reduced and lower quality services, higher investment risks, and lack of protection of legal and civil rights.

23. Wescott concluded by having participant’s work through a series of checklists that are used to assess the quality of governance and its impact on aspects of public sector functioning. These checklists can be accessed at the ADB Website at www.adb.org

24. Dr. Salvatore Schiavo-Campo, Senior Economist, World Bank, conducted a number of thematic workshops as part of the PEM TOT program. His first session dealt with the budget preparation process. He stressed that annual budgets needed to include the following three key multiyear factors:
- Future recurrent costs of capital expenditure
- Funding needs of entitlement programs
- Contingencies affecting future spending

25. Budgeting also requires hard choices and these are best made, he suggested, early in the budget process. In this regard, he noted that low revenues should not be confused with overestimated revenues and high expenditures should not be confused with underestimated expenditures. Most fiscal problems flow from low revenues and high expenditures. Budgeting process problems flow from overestimated revenues and underestimated expenditures.

26. Over-optimistic budgets, as a result, produce the following four effects:
- Sharp expenditure cuts during execution
- Accumulation of arrears
- Confusing compliance rules
- Alibi for everyone to do as they see fit

27. A hard budget constraint is also necessary for effective budgeting. In this regard, Schiavo-Campo suggested that there needs to be a mental shift from a “needs mentality” to an “availability mentality”. A hard budget constraint, at the outset of the process, can go a long way toward dampening the impact of incremental budgeting, open-ended wants-driven processes and excessive bargaining.

28. He noted that there was no blueprint that could guide the organizational dimensions of the budget process. The key was not structure, but achieving coherence and coordination in the process. The center of government must lead the process of policy formulation and frameworks within which policy priorities were set. These central government guidelines are most frequently captured and communicated thorough the budget circular that launches the annual budget cycle.

29. Schiavo-Campo next described the following three basic budgeting systems and highlighted their advantages and disadvantages:

- **Obligation-Based Appropriation**
  This is to give the authority to make certain commitments and pay accordingly without a specified time limit. This can be used for special programs, but must be accompanied by an annual cash plan.

- **Cash-Based Appropriation**
  This system gives the authority to make cash payments over a time-limited period (typically one-year). This fits the needs of short-term macro-economic programming and expenditure control, but can be shortsighted and lead to wasting of assets.

- **Accrual-Based Appropriation**
  This gives the authority to cover the full costs over a limited time period; that is, the cost of goods consumed rather than purchased. This system budgets for the full cost and aims at greater efficiency, but is amenable to manipulation and requires substantial capacity and skills to be implemented.

30. The overall approach recommended in the session was to strengthen the cash budgeting, lengthen the time perspective of budgeting and introduce specific performance targets over time.
31. All the three budgeting models could benefit from the infusion of performance management and performance indicators. In this regard, Schiavo-Campo stressed what he called the following as the CREAM of good performance.

- Clear
- Relevant
- Economic
- Adequate
- Monitorable

32. Schiavo-Campo concluded his presentation with a focus on strategies for improving PEM systems in developing countries. Certain themes emerge from this continuing effort at reform and improvement and he offered the following as guides to the participants in the workshop.

- Never underestimate the power of rules

In an effort to improve PEM, the rules of the game are important and will undo well meaning efforts at change unless the rules are changed as well. An incremental budgeting rule will most certainly prevent reallocation of resources toward policy priorities.

- Do not move too far ahead of the system

Change requires understanding and ownership from those involved in the budget process. and change takes time.

- Do not count on continuity

Institutional reforms are by their very nature discrete and discontinuous. Major reform, for that reason, cannot be instantaneous. Fits and starts will be the norm and should be expected in the process. Budgeting reform requires patience to outlast the pauses and alertness to spot openings.

- Accept neither gradualism or shock therapy

This dichotomy is inherently false. The valid premise of gradualism is that trying to do too much too quickly is a recipe for failure. But gradualism as a strategy is tantamount to timidity and also bound to fail. The valid premise of shock therapy is that isolated reforms cannot succeed without complementary supporting actions.

33. But shock therapy as a strategy is not sustainable over time. The simple rule that emerges from this is to go slow when you must and go fast when you can.

34. Within this broad outlook, Schiavo-Campo put forth a range of improvement targets for PEM, each of which received extensive discussion in the workshop:

**Budget Preparation**
- Build in financial constraints at the start of the process consistent with the macro-economic framework
- Develop macro-economic policy coordination mechanisms suitable to the local context
- Make line ministries accountable for program coordination and implementation and give them the authority to design programs
- Assure close coordination on different aspects of the budget

**Budget Approval**
- Build adequate capacity in the legislature to review and assess budget
- Timely preparation to allow for comment and implementation
- Revenue, expenditure and fiscal targets should be reviewed together
- Provide an opportunity to amend the budget but with specified time frames and guidelines

**Multiyear Perspective**
- Budget to be in a multiyear time frame
- Projections of major expenditures by line departments and functions
- Estimate forward costs of major programs

**Execution**
- Good cash planning and timely release of funds
- Effective controls on each stage of expenditure
- Clear procedures for registering transactions
- Transparent and efficient procurement
- Regulate carry-over procedures
- Market testing for prices in procurement
- Prudent consideration of contracting out

**Audit**
- Assure independence of audit
- Internal audit functions developed
- Focus on compliance audits first and next financial audit
- Introduce selective basis for program evaluation

**Accounting**
- Make good cash accounting systems first
- Register commitment prior to accrual accounting
- Consolidate all EBF’s
- Assure uniform and consistent budget classification system
- Publish readable financial statement

35. Mr. George Russell, formerly Chief Financial Advisor, World Bank, introduced participants to the following key elements of accounting and auditing, as they apply to
PEM. He dealt first with the division of responsibilities among central and spending agencies in the process of financial compliance. Central agency coordinates sector policy while spending agencies implement activities.

**Role of central agencies on budget administration**
- release of funds
- in-year revisions
- central payments
- consolidate accounts
- prepare progress reports

**Role of central agencies on policies**
- review progress
- revise policies
- propose changes

**Role of spending agencies on budget administration**
- allocation of funds to units
- procurements
- make commitments
- verification and payments
- budgetary accounting
- progress report / monitoring

**Role of spending agencies on policies**
- review program implementation
- identify and address problems
- reallocate resources

36. Russell, after a detailed review of key accounting concepts, emphasized to participants the importance of management control in the PEM process. Management controls, otherwise referred to as internal controls, are all the policies and procedures put in place by a government to ensure the proper and effective functioning of its organization and to achieve full accountability for the resources made available.

37. Management control assures:
- the economic, efficient, and effective achievement of the entity’s objectives
- adherence to external rules (laws and regulations, etc.) and to management policies
- the safeguarding of assets and information
- the prevention and detection of fraud and error
- the quality of accounting records
- the production of timely and reliable financial management information

38. Management control also includes mechanisms designed to assure that budgetary and policy decisions are executed properly, available resources are used appropriately, waste, fraud and mismanagement are minimized if not entirely avoided and reliable and timely information is obtained, maintained, and used for decision-making.

39. The leadership of an organization is responsible for management control. Supervisors should be committed, assure that everyone complies with control procedures, be aware of risks for override and collusion, respond to departures from requirements or expectations and be flexible.

40. A particular form of management control, namely internal audit, was highlighted by Russell. An audit, he said, is the systematic process of objectively obtaining and evaluating evidence about economic action and events and reporting thereon.

41. Auditing can:
- detect irregularities and identify related weaknesses in management controls
- determine the reliability of reports on budget execution and other financial data
- identify instances and patterns of waste and efficiency
- provide reliable data about program results
- act as a deterrent to fraud and corruption

42. Russell next reviewed with participants the standards for auditing developed by INTOSAI, the International Organization of Supreme Audit Institutions. The general standards are as follows:
- Management control structures exist to provide reasonable assurance that the objectives of an organization are implemented
- Specific control objectives are to be developed by each ministry/department/agency and are to be reasonable, comprehensive, appropriate and integrated with government wide objectives
- Managers are to monitor their operations continuously and take efficient and effective action to address problems
- The management control structure and all transactions are to be documented and recorded with documentation made available for review and assessment
- Transactions are to be executed only by persons operating within the scope of their legitimate authority
- Competent supervision is to be provided at all times

43. Russell concluded by describing the different types of audits and the benefits that can be derived from each:

- **Ex-ante Audit**

This is also called pre audit. Individual transactions are examined for propriety before they are completed. That is, a payment may not be made until the auditor has approved the voucher and transaction process. This type of audit is directed at insuring compliance and preventing corruption.
44. The issue of accountability and transparency in PEM is increasing in intensity throughout the world. One of the techniques related to improving both involves the active engagement of civil society in the process of budget development, monitoring and oversight. In this regard, Dr. Vinod Vyasulu of the International Budget Project in India addressed the workshop by video-conference from India. He noted at the outset that the budget process is often confidential, but has wide ranging impacts on people. Finding ways to bring people into the budget process is one of the objectives of involvement of civil society in PEM. He posed the following number of issues related to building effective people participation in the budget process:

- It is necessary to present the key points to ordinary people in a simple manner
- Choices and implications of choices must be made clear
- How can feedback from “people” be obtained?
- How can feedback from “people” get into the budget process?

45. He stressed this is not easy, and hence the importance of such sessions in the workshop is needed to help bridge the gap. He reviewed the experience of India in the process of having an active civil society role in budgeting and stressed that the effort takes time and skill to implement. In general, civil society offers a number of impacts on the budgeting process:

- Be a source of new ideas
- Developing new forms of implementation
- Providing for capacity building
- Acting as watchdog
- Be a source of data collection and verification
- Functioning as a source of community-based accountability for program delivery

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**REALLOCATIVE BUDGETING**

- Establish Policy Priorities
- Establish Funding Envelopes
- Establish Base line Budgets
- Determine size of reallocation pool

- Initial Draft add backs
  - Review of budget proposals against policy priorities, macro framework and performance

- Budget Call
  - Each unit presents Cuts to target level and impacts
  - Requests linked to policy priorities

- Determine Add package percentage

- Consultation/ cross impact analysis

- Set budgets, forward costs plus performance indicators

- Performance Management
■ Building and strengthening the process of local democratization
■ Strengthening the capacity of local governments to engage in budget work under decentralization policies

46. Dr. Terry Morrison, Senior Capacity Building Specialist, ADB Institute led the participants through a budget reduction and reallocation simulation (Fig. IV). Following extensive discussions and role playing, he introduced participants to a strategy for budgetary reallocation based upon the concept of generating a reallocation pool tied to policy priorities.

47. Morrison followed the presentation by stressing the role that decision packages play in budget formulation, especially in a reallocative process. He led participants through a process of creating a budgetary decision package using a template that had been developed for this purpose. (Fig. V)

Conclusion

48. The concluding sections in the PEM TOT program involved participants in country groupings in the process of designing their in-country PEM programs. In this process, the general PEM framework was adjusted to fit the circumstances in the countries with different areas of emphasis given depending upon the country and the size of its population and economy.

49. One of the themes that emerged from the discussions during the PEM TOT program was the importance of management skills and systems in implementing PEM improvement. The core concepts of PEM are, of course, important, but participants felt strongly that management processes needed to be central in such efforts at reform. So too, participants pointed to the importance of human resource management skills in order to effectively implement PEM reforms. The process of managing change and dealing with resistance to it was often highlighted during the workshop. Lastly, the participants felt that the revenue side of financial management needed to be given emphasis in the program, a suggestion on which the ADB Institute intends to act upon next year when it plans to introduce the Finance Management program covering both revenue collection as well expenditure management.

Fig.V

STRATEGIC PROGRAM BUDGETING TEMPLATE

| STRATEGIC FOCUS: Community Safety |
| STRATEGIC GOAL: Reduce Crime |

Program: Juvenile Crisis Counseling Centers

<table>
<thead>
<tr>
<th>Scope</th>
<th>Outputs</th>
<th>Current</th>
<th>Target</th>
<th>Outcomes</th>
<th>Current</th>
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