

**SPECIAL EVALUATION STUDY OF
EFFECTIVENESS AND IMPACT
OF ASIAN DEVELOPMENT BANK
ASSISTANCE TO THE
REFORM OF PUBLIC EXPENDITURE MANAGEMENT
IN
BHUTAN, INDIA, KIRIBATI,
AND LAO PEOPLE'S DEMOCRATIC REPUBLIC**

March 2000

ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	Developing member country
MFEP	–	Ministry of Finance and Economic Planning
NAO	–	National Audit Office
PDMC	–	Pacific developing member country
SWOT	–	strengths, weakness, opportunities, and threats
TA	–	technical assistance

NOTE

In this report "\$" refers to US dollars.

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EXECUTIVE SUMMARY

Public expenditure management is a key instrument for ensuring sound development management and good governance. Asian Development Bank (ADB) recognizes that public expenditure management is a core function of governments and that external assistance needs to focus on building governments' capacities to fulfill these functions. Therefore, ADB developed its focus on capacity building concomitantly with its increased attention to governance issues.

The evaluation was designed to analyze which aspects of the public expenditure management cycle ADB's technical assistance (TA) addresses and which approaches it uses for building capacities. The evaluation chose a cross section of TAs from four countries as case studies for illustrative purposes. In Bhutan, a series of four TAs aimed to strengthen the capacity of the Ministry of Finance to efficiently monitor, manage, and account for public sector resources. Assistance to the government of Gujarat, India, was provided to cover resource generation and expenditure aspects, the latter comprising assistance to improve the budget and for the reform of state-owned enterprises. In Kiribati, assistance was provided to improve financial and economic management by addressing the range of macroeconomic policy making, investment management, and budgeting. In the Lao People's Democratic Republic (Lao PDR), a TA grant was given to help with the country's economic and financial management, while a second TA was provided to set up an oversight function.

"Ownership" is one of the key ingredients to develop capacities. Little documentation is available to illustrate the extent of analyses of ownership issues during TA design. Such analyses should include identifying the "owners" of the reform process and those who might oppose it, analyzing whether the reform agenda of the owners concurs with ADB's objectives, and identifying manifestations of commitment to change. In India, the Gujarat State Finance Commission identified even before ADB's TA was designed that previous budget reform proposals had not been implemented. These insights should have been used to analyze the reasons for resisting reforms and whether/how ADB's TA could overcome such hurdles. Failing to do so resulted in a lack of ownership and commitment to the TA. Counterparts often cannot determine the need for capacity building. A process of policy dialogue and capacity mapping, which helps to identify existing capacities and areas that require reform, is essential to build ownership of the subsequent capacity building process.

Capacity mapping entails a thorough analysis of the agencies involved in the public expenditure management process, their functions and tasks, their interaction and communication, the resources allocated to them, and their normative and societal contexts. Resources allocated for TA design are minimal, thus a comprehensive capacity mapping exercise cannot be done. The typical TA design describes the functions of counterparts without detailed analysis of the causes of shortcomings, process inefficiencies, power structures, and communication gaps, or a clear description of how the counterparts are expected to function. On the positive side, TAs tend to recognize the need to involve more than one core agency, although assistance to others is limited to participation in brief workshops, which are insufficient to address the range of capacity building issues that need to be considered.

The TAs typically did not develop a comprehensive action plan for implementing change, which would include priorities (reforms that are needed before others can be introduced effectively), sequencing, and interim targets. Instead, the default approach is to recruit consultants who prepare reports, develop and document tools, and train counterparts. Because the tools often focus on narrow areas such as macroeconomic modeling or computerization of

budget releases, the extent to which public expenditure management capacities are built is meager. The TAs usually assist only a small segment of capacity building requirements, which is largely insufficient to bring about significant improvements in the public expenditure management process.

The public expenditure management process involves policy making; budget instructions; budget proposals; budget approval; budget execution; and controls, such as audit and evaluation. Governance criteria that ADB adopted and that relate to the budget cycle include efficiency, effectiveness, transparency, and accountability.

Efficiency can relate to the use of public resources, which is the most common way to consider efficiency in the context of public expenditure management, or in terms of process efficiency. ADB's assistance tends to concentrate on process efficiencies, as illustrated by the following three examples. The TAs in Kiribati and the Lao PDR could increase the efficiency of macroeconomic policy making by providing modeling tools that could help analyze policy options. Problems were experienced because the models were implemented in isolation, lacking capacities on the input side to provide requisite data and on the output side to actually use the results produced with the modeling tools. The former hampers the extent to which the models can function, putting staff members who run the models into a difficult situation. The latter impedes the effectiveness of the TAs. The budget approval process in Bhutan has become more efficient because the computerized system enables faster comparison of new proposals, previous allocations, and actual expenditures.

By introducing an output budget format in Kiribati, the TA increased the potential for greater effectiveness in resource allocation. However, the absence of costing standards makes it unclear how programs are designed and how decisions on resource allocations are made. Effective budget execution requires that actual expenditures do not exceed original allocations. The TA in Bhutan and a complementary bilateral TA in Kiribati could help improve expenditure control in that they have computerized the budget execution process, and thus immediately identify areas of overspending. However, better budget control does not automatically result from this because overexpenditures can easily be justified with supplementary budget requests that are typically granted.

The macroeconomic modeling tools introduced by the TAs in Kiribati and the Lao PDR could contribute to greater transparency in the policy-making process. However, because the models do not operate fully due to the lack of input data and policymakers tend to ignore the models' results, the models have not made the basis for decision-making more transparent. The output budget in Kiribati can increase transparency in allocating and using funds by linking financial resources to what they should attain. To achieve this link requires costing standards for outputs to be transparent and actual results to be evaluated some time after the budget was executed. The TAs cover neither of these two aspects.

The TAs in Kiribati and the Lao PDR could increase the accountability of policy making by illustrating whether and how policy choices were substantiated and whether policies resulted in expected developmental impacts. The output budget in Kiribati might contribute to greater accountability in budget preparation and execution provided the output budget is accompanied by actually giving people the authority required to prepare and implement the portion of the budget for which they are responsible, and by holding them accountable. The National Audit Office (NAO) set up through the TA in the Lao PDR should contribute to greater accountability. The TA is not yet completed; the extent to which NAO will become effective depends on the resources and authority allocated to it.

ADB's understanding of capacity building has not evolved to fit the modern concept of capacity building, which goes beyond institutional development and training (para. 0). This assessment is more obvious and understandable for older TAs, but the observation applies equally to the more recent TAs. Among the sample TAs, the design has not changed significantly since internal reviews (para. 0) were made in 1992 and 1994. One of the main weaknesses of the TAs in terms of capacity building efforts is their focus on one agency (or sometimes involving some staff from other agencies but that as participants in workshops), which is insufficient for building capacities. Failing to identify (through capacity mapping and an analysis of strengths, weaknesses, opportunities, and threats) and deal with interinstitutional relationships (and the normative and societal contexts), the TAs are unable to generate an understanding of and plan for addressing systemic issues, rendering even technically sound TAs ineffective. Further compounding the situation is the limited time and lack of resources allocated for the complex process of capacity building. ADB's initial staff guidelines on capacity building could have been used to contribute to fostering a broader understanding of the concept and of the resources required for working in this area.

None of the TAs took a comprehensive approach to analyzing the budget cycle as a whole and assessing it against ADB's governance criteria. As a result, the TAs addressed a variety of issues but overlooked ways in which public expenditure management as a whole can be improved. The effectiveness of the TAs was limited by their narrow approach, as complementary activities were required to gain the full potential of improving the budget cycle.

I. BACKGROUND

A. Governance at ADB

1. Governance issues have been an explicit part of Asian Development Bank's (ADB) agenda since the early 1990s, when strategic planning documents included various aspects that today fall within the understanding of governance. The various medium-term strategic frameworks highlight the importance of sound development management, including the effective and efficient use of public resources, and accountability and transparency of processes for this purpose. Public expenditure management is a key instrument to ensure sound development management. Public expenditure management links macroeconomic policy decisions to budget priorities, and manifests governments' decisions on investments and outlays on regular operating expenses. Through executing the budget, governments control access to resources (and power), and determine their distribution, geographically and across sectors. Preparing and executing a budget involves the ministry of finance at the center; line ministries and agencies to design and implement their programs; and the head of state and cabinet to approve and oversee the budget; and oversight agencies, such as auditors and evaluators. This range of participants involved in national and subnational budget processes necessitates a capacity building approach (para. 0).

2. ADB recognizes that sound development management and, by association, public expenditure management are the core business of governments, even if external agencies provide advice and assistance for preparing the budget and influence priorities through their funding choices. Thus, ADB increased its focus on capacity building, concomitantly with its governance agenda, to provide its developing member countries (DMCs) assistance for expanding required competencies whenever needed. The evaluation focuses on capacity building provided through technical assistance (TA).

B. Public Expenditure Management at ADB

3. From 1986 to 1989, ADB approved 39 TAs for \$20 million for public expenditure management. ADB's assistance concentrated on small DMCs, largely in the Pacific for which 22 projects worth \$9 million were approved. Three countries in transition were assisted with eight TAs for \$7 million. Only one large DMC, India, received TA for public expenditure management at the state level. Most TAs aimed to address a range of interrelated aspects of public expenditure management, including policy analysis, results-based budgeting, budget formulation and management, domestic and foreign resource mobilization and management, accounting, management information systems, and audit. ADB does not have an explicit comprehensive program that would define the conceptual framework for providing assistance to the reform of public expenditure management.

4. From the 39 TAs, a sample of TAs in four countries was selected (Bhutan, India, Kiribati, and Lao PDR) that represents, to the extent possible, the diverse institutional settings in which this type of TA was provided. Bhutan and Kiribati received a series of TAs, allowing longer-term cooperation to be compared with the short-term one time assistance. India is an interesting case because assistance was given at the state rather than the national level, as in the three other countries, thus allowing analysis of linkages between central and decentralized governments as they relate to ADB's TAs. The TA in India was provided in conjunction with a program loan,

providing insights into the effectiveness of this combination. Kiribati,¹ and other Pacific DMCs (PDMCs), faces special challenges resulting from small institutions where the loss of even one qualified staff member has a significant impact, making capacity building in any area difficult. The Lao PDR, as a transition economy, faces similar challenges of staff turnover combined with the demands of reforming its public administration in an increasingly open economy. ADB assistance in the Lao PDR included establishing a national audit office to ensure effective monitoring and control, contrasting the example of India where the revenue side was included. Table 1 provides basic data on the TAs.

**Table 1: Basic Data for Selected Technical Assistance
(\$'000)**

TA No.	TA Title	Approved	Completed	Estimated Cost			Actual Cost ^a
				ADB	Others	Total	
0970-BHU	Institutional Strengthening of the Department of National Budget and Accounts of the Ministry of Finance	19 Apr 1988	Dec 1990	230	0	230	203
1487-BHU	Institutional Strengthening of the Department of National Budget and Accounts (Phase II)	20 Feb 1991	Dec 1993	0	600 ^b	600	585
1932-BHU	Strengthening the Ministry of Finance	18 Aug 1993	Jun 1995	100	0	100	94
2691-BHU	Further Strengthening of the Ministry of Finance	17 Oct 1995	May 1998	100	0	100	96
	Subtotal			430	600	1,030	977
2552-IND	Restructuring Program for State-Owned Enterprises in Gujarat	2 Apr 1996	Apr 1998	0	600 ^b	600	591
2668-IND	Gujarat's Reform of Public Finance	23 Oct 1996	Feb 1999	600	0	600	291
	Subtotal			600	600	1,200	882
1796-KIR	Technical Assistance to the Ministry of Finance and Economic Planning	7 Dec 1992	Dec 1993	100	0	100	91
1976-KIR	Institutional Assistance to the Ministry of Finance and Economic Planning	10 Nov 1993	Dec 1995	0	503 ^b	503	464
2657-KIR	Strengthening Institutional Capacity for Financial and Economic Management	7 Oct 1996	Feb 1999	600	0	600	913
	Supplementary TA to TA 2657-KIR	14 Jul 1998		380	0	380	0
	Subtotal			1,080	503	1,583	1,468
2047-LAO	Strengthening Economic and Financial Management	23 Dec 1993	Feb 1999	514	683 ^c	1,197	1,172
2987-LAO	Establishing the National Audit Office	9 Feb 1998	ongoing	400	0	400	260
	Subtotal			914	683	1,597	1,432
	TOTAL			3,024	2,386	5,410	4,760

TA = Technical Assistance.

^a Disbursement up to July 1999.

¹ The evaluation did not include more PDMCs because the Office of Pacific Operations separately reviewed its reform programs, resulting in the report *Assessment of Bank Assistance for Reform Programs in the Pacific*, July 1999. To avoid overlaps, the evaluation focused on one of the PDMCs not included in the review. Many of the findings reported in the assessment coincide with the evaluation findings presented in this report.

^b Japan Special Fund.

^c United Nations Development Programme.

Sources: Technical assistance papers and technical assistance information system.

5. The TAs were selected as case studies to illustrate which aspects of public expenditure management and capacity building are addressed through ADB assistance and to analyze how effective the TAs were in attaining governance and capacity building goals. However, this evaluation does not follow a typical approach and does not aim to rate the TAs' performance.

C. Selected Technical Assistance

6. In Bhutan, a series of four TAs² aimed to strengthen the capacity of the Ministry of Finance to "efficiently monitor, manage and account for public sector resources." When the first project was developed, the Government had introduced a budget format that distinguished cost centers and overhead costs, specific programs, and identifiable program objectives. The first TA focused on issues related to human resources needed for budgeting and accounting, and the management and control of expenditures related to public sector corporations and enterprises and foreign debt servicing. The second TA aimed to streamline the accounting system, emphasizing its computerization. The subsequent two small-scale TAs built on the second TA and had the objective to enhance and maintain the computerized system, with the last TA completed in May 1998.

7. Two TAs³ were approved to assist the government of Gujarat, India.⁴ The first TA aimed to support the process of overhauling state-owned enterprises, which was expected to positively affect public expenditure. The second TA aimed, among other things,⁵ to strengthen the public finances of Gujarat by building the Finance Department's capacities for budget policy, planning, management, and control systems. The second TA was not limited to budgeting and expenditure management, but also aimed to reform the existing taxation system (revenue generation). The TA's objective was "to support the public finances in Gujarat through structural reforms of tax and expenditure systems ... by (i) building institutional capacities of the Finance Department to improve budget policy, planning, management, and control systems; and (ii) modernizing and computerizing of the tax and expenditure departments to effectively improve policy enforcement and compliance."⁶ The TAs were completed in April 1998 and February 1999.

8. Three TAs⁷ were provided to the Ministry of Finance and Economic Planning (MFEP) of Kiribati. All three aimed to improve financial and economic management, cutting across issues

² TA 0970-BHU: *Institutional Strengthening of the Department of National Budget and Accounts of the Ministry of Finance*, for \$230,000, approved on 19 April 1988. TA 1487-BHU: *Institutional Strengthening of the Department of National Budget and Accounts of the Ministry of Finance (Phase II)*, for \$600,000, approved on 20 February 1991. TA 1932-BHU: *Strengthening the Ministry of Finance*, for \$100,000, approved on 18 August 1993, and TA 2691-BHU: *Further Strengthening of the Ministry of Finance*, for \$100,000, approved on 17 October 1995.

³ TA 2552-IND: *Restructuring Program for State-Owned Enterprises in Gujarat*, for \$600,000, approved on 2 April 1996. TA 2668-IND: *Gujarat's Reform of Public Finance*, for \$600,000, approved on 23 October 1996.

⁴ ADB is currently assisting another state in India with TA 2943-IND: *Support for the Government of Mahya Pradesh Public Finance Reform*, for \$780,000, approved on 15 December 1997. The TA's implementation was delayed and progress was insufficient at evaluation to justify including the TA in this report.

⁵ The TA strongly focused on revenue generation and taxation, which are not subject to this evaluation.

⁶ TA 2668-IND (footnote 3), para. 9.

⁷ TA 1796-KIR: *Technical Assistance to the Ministry of Finance and Economic Planning*, for \$100,000, approved on 7 December 1992. TA 1976-KIR: *Institutional Assistance to Ministry of Finance and Economic Planning*, for \$503,000, approved on 10 November 1993. TA 2657-KIR: *Strengthening Institutional Capacity for Financial and Economic Management*, for \$600,000, approved on 7 October 1996.

such as macroeconomic policy, investment management, and budgeting, including program or results-based budgeting. Consultants of initial TAs fulfilled staff functions at the ministry. Later TAs emphasized on developing the ministry's own competencies, which translated into capacity building assistance for three divisions, two of which were directly related to public expenditure management. The Macroeconomics and Public Finance Division was expected to provide the macroeconomic framework for national development planning and annual budgeting. The division's other responsibilities also included "advising the Budget Management Division on the fiscal strategy and confirming the reasonableness of the revenue estimates and the expenditure limits."⁸ The new Budget Management Division was made responsible for the annual budget cycle, assisting the Cabinet in setting expenditure priorities, reviewing annual budget submissions, and monitoring revenue and expenditure levels. The last TA was completed in February 1999.

9. In the Lao PDR, the TA for strengthening of economic and financial management⁹ was part of an umbrella project financed jointly by the United Nations Development Programme and ADB. The entire project had five components, with ADB focusing on two: planning and policy coordination, and public investment programming. The Government was responsible for the program coordination and aid coordination components, while the International Monetary Fund was to implement the public expenditure management component. The TA envisaged that ADB would "assist in the formulation of a coherent, comprehensive, and fully integrated framework for the country's economic and financial management within the context of a planning, programming, budgeting, and financing process."¹⁰ The TA was completed in February 1997. The TA for establishing a national audit office (NAO)¹¹ was approved in response to the recognized need for external audit services "to determine the faithfulness and economy of expenditures and the correctness of Government receipts. In respect of the Government's development projects, especially those assisted by external agencies, it has been felt that audit is needed to validate the effectiveness and efficiency of project performance and to determine whether value has been obtained for investment....The objectives of the TA are to assist the Government in its effort to establish an independent [national] audit office (NAO) and to develop plans to augment NAO's capacity at the initial stage of its operations."¹² The TA is ongoing.

⁸ TA 1976-KIR (footnote 7), para. 7.

⁹ TA 2047-LAO: *Strengthening Economic and Financial Management*, for \$514,000, approved on 23 December 1993.

¹⁰ TA 2047-LAO (footnote 9), para. 4.

¹¹ TA 2987-LAO: *Establishing the National Audit Office*, for \$400,000, approved on 9 February 1998.

¹² TA 2987-LAO (footnote 11), paras. 3 and 10.

II. EVALUATION DESIGN

A. Objective

10. The objective of the evaluation is to assess which governance elements the TAs covered (para. 0) and the effectiveness of the TAs' capacity building approaches (para. 0). The insights derived will help to improve the understanding of how ADB's approach to these dimensions could be enhanced. The findings of the evaluation are expected to help ADB staff design future assistance of this nature, and counterparts and consultants implement TAs effectively. This objective corresponds to the concern for the quality of governance projects and the desire to avoid mistakes and take corrective action, as soon as necessary. The scope of the evaluation involves 11 TA case studies (paras. 0-0).

B. Issues and Indicators

11. Capacity building efforts of the TAs are evaluated against three main aspects: ownership (participation), an analysis of existing capacities and identification of desired future ones (capacity mapping or a systematic analysis of strengths, weaknesses, opportunities, and threats [SWOT]), and an implementation plan for the reform process. The expression of ownership is traced in the design and implementation stages, and in the extent to which the government accepted and implemented suggested changes to the budget system. Capacity mapping and the action plan for implementing change typically take the form of reports or written statements, whether as part of the TA design or as a TA output, which is assessed in terms of availability (whether it has been done), and quality. Appendix 1 provides specific questions concerning these three dimensions and indicators.

12. For evaluating the public expenditure management process several dimensions of governance are considered: (i) efficiency; (ii) effectiveness; (iii) transparency; and (iv) accountability, the latter two being means for attaining greater efficiency and fiscal discipline. The four dimensions reflect aspects of ADB's governance concept, expressed in its medium-term strategic frameworks, which are applicable to public expenditure management. The evaluation aims to identify on which of these governance dimensions the TAs focused, which areas of the public expenditure management process the TAs addressed, and what type of approaches the TAs used to introduce changes. The assessment against governance indicators involves quantitative analysis (provided baseline and current operating data are available) and comparative analyses of documents and processes. The TAs performance against these criteria is evaluated only if the TAs aimed to address that particular area. Appendix 2 provides performance criteria.

C. Information Sources and Data Collection

13. The evaluation started with developing the methodology and revising it as necessary while reviewing relevant TA papers and reports, correspondence, and other materials that document governments' follow-up action taken on TA recommendations. The review served as preparation for visits to the four DMCs, where discussions were held with representatives of the counterparts and other agencies associated with the public expenditure management process. The Bhutan case study was conducted in October 1998,¹³ while field visits to the other countries were conducted in July 1999. The draft report was circulated to counterparts in DMCs and within ADB for comments.

¹³ This case study was issued as a separate report: TE-24: BHU: *Institutional Strengthening of the National Budget and Aid Coordination Division of the Ministry of Finance*, December 1998.

III. CAPACITY BUILDING

14. The concept of capacity building evolved from an earlier focus on institutional development that comprised systems development (through consultants' services) and training or human resource development. The concept was developed in recognition of the fact that individuals and organizations do not operate in a vacuum and their interdependencies have an important influence on their performance, individually and collectively as a system. Capacity building is broader than institutional development in that it encompasses a variety of factors such as participants, functions or tasks, resources, and normative and societal contexts.¹⁴ With this holistic approach, capacity building interventions have the potential to address systemic issues at macro (political and societal support, and public policy), meso (organizational, institutional, and interorganizational), and micro (individual) levels.¹⁵

15. Methods for capacity building include participatory approaches to ensure ownership and to help understand interdependencies between participants. Capacity mapping is one form of systematic analysis that enables the participants in the capacity building process to arrive at a strategic option of optimally sequenced actions by the government and interventions by external agencies. Such a SWOT analysis includes reviewing the network of interrelated organizations and bottlenecks, and identifying the possibilities for capacity building. The change process involves building political, public, and institutional support for change, sometimes requiring attitudinal changes; developing missing or inadequate links between participants, and enhancing each participant's capability to contribute to the system's overall functioning. A process approach, rather than a fixed set of inputs and terms of reference, is often needed to ensure flexibility for responding to changing requirements in a dynamic capacity building process, and to allow adequately timed sequencing of interventions.

16. ADB's Interdepartmental Review Committee on Technical Assistance Operations¹⁶ and of the Task Force on Improving Project Quality¹⁷ found TAs to be inadequate in attaining institutional development or capacity building targets as they did not address underlying and systemic issues. The Strategy and Planning Office subsequently undertook an informal review and found that requisite analyses were not conducted rigorously, assistance was too short to have an institutional impact, and TAs rarely identified or monitored tangible measures of success. In implementing TAs, training and hardware requirements were emphasized too much, and consultants were not always capacity building specialists. Initial guidelines¹⁸ for capacity building were introduced in 1995 to ensure that this area of critical need in DMCs is addressed more systematically, professionally, and effectively. These concerns guided the analysis of the TAs' performance, while adding a focus on ownership as an important ingredient for capacity building.¹⁹

¹⁴ Organisation for Economic Co-operation and Development. 1995. *Development Assistance Committee on Capacity Development in the Environment, Developing Environmental Capacity: A Framework for Donor Involvement*. Paris. Even though the framework was developed for environmental capacities, it can be applied to capacity building in general.

¹⁵ Qualman, Ann and Joe Bolger. 1996. *Capacity Development: A Holistic Approach to Sustainable Development*. Development Express 8.

¹⁶ *Findings of the Interdepartmental Review Committee on Technical Assistance Operations*, July 1992.

¹⁷ *Report of the Task Force on Improving Project Quality*, January 1994.

¹⁸ *Initial Staff Guidelines on Bank's Capacity Building Services to DMCs*, April 1995.

¹⁹ The evaluation includes at least one TA in each country that was designed after these guidelines were issued.

A. Ownership

17. Ownership is one of the most critical ingredients for capacity building. Without ownership, suggested capacity building approaches might not be appropriate or acceptable to the agencies concerned, and thus would not be implemented. In developed countries the reform of public expenditure management is often driven by the agencies themselves (when they face financial constraints and are forced to improve efficiency), and by the public at large (when it demands better but cheaper public services). DMC governments experience several forces that drive the reform process, including the international agenda and a desire of DMCs to be among the rewarded champions of change; multilateral and bilateral agencies, through policy dialogue and interventions; enlightened leaders within a DMC's political and administrative systems; the public sector; and to an increasing extent, the public at large. Not all these interest groups have common views on the desired direction of change, which makes it difficult to develop common ownership (particularly because more than one agency needs to be involved), and ensure sufficient support for reforms.

18. As an indication of ownership of the reform process, the evaluation aimed to identify the origin of the TA ideas, because the originator is the main proponent of reforms. This was problematic because institutional memory is weak and documentation often does not explain whether the TA is an outcome of ADB's negotiation during country programming and loan processing or whether the idea for requesting TA originated from the counterpart. While in both cases the governments officially requested TA, an important difference exists: if ADB instigates the TA, ADB may be trying to convince the agency to accept certain reforms, and thus would need to build ownership. However, the agency that requests TA is likely to be already engaged in a reform process and seeking additional assistance, indicating stronger ownership and commitment to change.

19. As part of its reforms, the Gujarat government appointed the Gujarat State Finance Commission, which issued a report in 1994.²⁰ The commission suggested, among other things, implementing a combination of zero-based and output budgeting to ensure optimum use of limited resources (p. 97, para. 12.4), which is in line with the TA's objectives to develop budgetary planning, management, and controls.²¹ The commission noted that zero-based budgeting had not been implemented despite an earlier effort to do so. This indicates the Finance Department's limited support of these reforms, which in part can be explained by the impermanence of senior staff in the lead department, and illustrates the need to build common support for reforms even when its proponent comes from within the government. None of the other three countries had such a comprehensive internal analysis of the need for reform. The first TA in Bhutan (TA 970-BHU) indicated that the need for TA was identified by a counterpart in the Ministry of Finance. However, once the consultants were appointed, their terms of reference were changed and none of the original areas to be addressed by the TA were sustained. In Kiribati and the Lao PDR, ADB and other multilateral agencies played a key role in initiating the TAs. One of the most explicit examples is TA 2987-LAO, where the TA paper²² specifically states the instrumental role of ADB in determining the need for the NAO. Counterparts do not always have the capability to identify the need for reform or capacity building assistance, leaving it to external agencies to determine requirements and possibilities for providing TA.

²⁰ This report was used when designing the policy matrix in Loan 1506-IND: *Gujarat Public Sector Resource Management Program*, for \$250 million, approved on 18 December 1996.

²¹ TA 2668-IND (footnote 3), para 10(v).

²² TA 2987-LAO (footnote 11), para. 6.

20. The authorship of TAs rests with ADB. Staff and consultants design TAs in consultation with the recipient government. The extent to which such consultation requires or allows counterparts to actively participate in the design process is hard to determine, but the arrangement that ADB formulates the TA indicates that ADB's takes the lead.²³ Counterparts would be more involved and assume greater responsibility if they were required to prepare a draft TA proposal when requesting assistance.

21. The need for building ownership of the reform process is not explicit in the TA design and during implementation depends on the efforts and attitude of counterparts and consultants. Typically, workshops are used to present TAs, their objectives, and their outputs to counterparts and sometimes a wider audience. However, the extent to which such workshops generate ownership is limited when the consultants (or ADB) are perceived to drive TA agenda rather than the counterparts.

22. During implementation, ownership of the TAs evolved with considerable variations. In Bhutan, there was little institutional memory of the first TA, which had little counterpart involvement. By contrast, the second group of TAs involved counterpart staff through training in the use of computers in general and of the budget system in particular, and for system's maintenance. This extent of ownership resulted from the TAs developing a system that eased the daily work routines of counterpart staff, thus meeting an identified need. In India, a high-level committee that was supposed to have supervised and given requisite weight to the consultants' work under TA 2668-IND was not appointed until the TA had been completed. Counterparts and offices were not made available until several months into the consultants' contract. This was contrasted by the experience of TA 2552-IND, where the consultants worked within the appropriate framework of the technical secretariat. However, the value of the TA lay in producing reports needed by the technical secretariat with lesser emphasis on institutional development. In Kiribati, ownership manifested itself differently; consultants typically became part of MFEP's staff and supported the ministry by producing requisite policy and other documents. Counterpart staff was assigned to work with the consultants, but their limited number and high turnover rate were not conducive to developing ownership or building capacities. In the Lao PDR, the consultants of TA 2047-LAO trained lower level staff to use a macroeconomic forecasting model without involving higher level staff, which limited their understanding of and interest in using the projections of the macroeconomic model. The information system developed under the same TA is suffering from the lack of required data inputs from other agencies that were not involved in the TA. Stronger ownership exists of the TA to assist NAO, where staff was assigned to participate in training and case study audits.

23. The ownership of TA implementation is mirrored in the acceptance of results. Where TAs produced a tool that was useful to the counterpart, ownership developed. This was the case in Bhutan, where the computerized system eases daily work routines. To some extent, the same thing happened with the macroeconomic model developed in the Lao PDR. The counterparts developed some ownership of the model, but the interest of decision makers was not the same as in Bhutan, so demand for the model and its results remains low. In Kiribati, MFEP accepted the output budget format, but the extent to which it has been internalized will remain unknown until the budget is prepared without external assistance and executed. The

²³ "Participation is sometimes equated with consultation—but consultation often falls short of empowerment which is necessary for capacity development. Consultation can range from listening, to dialogue, to debate, to joint analysis, and to joint agreed solutions. Empowerment asks stakeholders to take responsibility for change..." Qualman, Ann and Joe Bolger. 1996. *Capacity Development: A Holistic Approach to Sustainable Development*. Development Express 8.

reports produced under the TAs to Kiribati and TA 2552-IND were welcomed and used by the respective agencies, because the consultants' reports filled an existing reporting gap. However, this use of reports does not necessarily indicate ownership of a reform process and certainly does not imply any capacity building. These examples of full or partial ownership are contrasted with the example of the reform TA in India (TA 2668-IND) that produced reports that will eventually be reviewed by the high-level committee, which should have been in place during implementation.²⁴ This review might be useful but is less effective than if the consultants had been advising a body authorized to make reform decisions and ensure their implementation. The administration politely acknowledges the existence of the consultants' report. However, interest in implementing recommendations is limited by their quality (para. 0) and cognizance of what the recommendations entail.

B. Capacity Mapping

24. The holistic perspective of capacity building requires a comprehensive SWOT analysis of the capacity components and their interrelationship (para. 0) to identify the origins of shortcomings and their causes.²⁵ Such analyses should entail a review of the functions (such as service provision, policy analysis, and formulation; networking and information flow; and decision making); the people who perform such functions; and the normative underpinnings and the societal context in which the participants operate. For instance, deciding on macroeconomic policies requires tools for planners to use to improve their understanding of the effects of various choices and consideration of other influences on the decision-making process that might render a modeling tool ineffective. Comprehensive capacity mapping would also facilitate coordination among external agencies.

25. The TAs²⁶ were reviewed to identify whether they analyzed capacity components. All TAs described the functions of the counterpart, although shortcomings are discussed in a cursory manner without detailed analysis of the causes or a clear description of how functions should be ideally performed. The brevity of these descriptions is in part due to an implicit assumption that "ideal functions" should be self-understood, and because problems are attributed to shortages in staff and/or deficiencies in their skills. The analyses do not consider other potential problems, such as process inefficiencies, power structures, and communication gaps. This problem is also reflected in the resource analysis, which mentions the lack of staff and/or skills, but none of the other resources (informational, financial, and technological). None of the TAs provide details on the resources required to perform the envisaged functions.

26. On the positive side, many TAs recognized in their design the need to involve more than the core agency to ensure capacity building, although none of them analyzed whether agencies interacted in an appropriate and conducive way to the public expenditure management process. This would be necessary to understand cooperation and communication gaps that impede the functioning of interinstitutional and intrainstitutional systems. For instance, in the Lao PDR, controversies among the agencies involved in managing the country's resources impeded the performance of one of the TAs. This problem could have been identified through capacity

²⁴ Although it was not, the loan could have been used as leverage to ensure an earlier appointment of the committee.

²⁵ Mackay, Keith. 1999. *Diagnostic Guide and Action Framework*. Evaluation Capacity Development, Working Paper Series No. 6: World Bank. The publication provides a step-by-step diagnostic process for identifying opportunities to develop evaluation capacities and provides useful suggestions for capacity mapping. The guide is directly relevant to public expenditure management of which evaluation is integral.

²⁶ Small-scale TAs were not included in this review because their design is limited to one paragraph, which is insufficient to provide details necessary for capacity mapping and designing a capacity building project.

mapping and would have required capacity building assistance rather than trying to enable individual agencies (or departments within them) to perform specific tasks that might overlap.

27. Regarding the normative context, most TA papers describe the reform efforts of governments, but none analyze whether the context is conducive to reform. In India, for instance, it was clear during TA design that impediments existed to implementing reforms as evidenced in the report of the Gujarat State Finance Commission (para. 0). But these impediments were not recognized in the TA, although this would have been instrumental for assessing the potential for the TA's success. In addition, capacity mapping would have illustrated the extent to which budget reforms were possible at the state level, as the federal Government standardizes and prescribes rules for budget preparation and execution. The societal context of TAs and the reform process typically is not evaluated in detail during the TA design or early implementation stage. Appendix 3 summarizes the extent to which TAs' mapped existing capacities.

C. Action Plan for Implementing Change

28. The TAs involved only limited efforts to provide action plans for change that identify requisite interventions and their sequencing. Ideally, such a plan should contain actions that need to be taken with interim targets and be based on an understanding of which changes must be introduced first before others can be effective. This observation is particularly relevant to situations where a series of TAs were extended without having an overall framework for doing so, which renders the TAs piecemeal. The frequently adopted default approach was to recruit consultants who prepared reports and sometimes tools (such as computerized systems or macroeconomic models), documented the systems, and trained counterparts in using the systems.

29. In their implementation, the TAs focused largely on their main counterpart, partly because of resource constraints and possibly due to a limited understanding of the need for interaction between agencies. This approach is typical for institutional development rather than capacity building. For instance, an information system based in the central budget office may remain ineffective if requisite data to feed into the system is not available or unreliable. ADB-assisted macroeconomic models in Kiribati and the Lao PDR are facing this problem. They cannot be used fully because input data is missing. Similarly, the preparation of an output-based budget cannot be limited to the central budget office because line ministries and decentralized agencies need to be involved in rethinking the budget preparation and execution. Otherwise, central agencies might insist on or assist in preparing budget documents with declared objectives and intended outcomes, which remain meaningless for the lack of understanding in line ministries or at subnational levels. This is the case in Bhutan, where the program budget is an annotated line item budget.²⁷ In Kiribati, where the program budget was prepared with the help of consultants, staff of various agencies participated in workshops to generate a better understanding of the program budget. However, workshops were too short for a complex management tool such as a program budget, which requires extended training for the concept to become fully internalized.

30. The less successful examples occurred where consultants prepared a report that described or analyzed the current situation and made some suggestions for changes. Such

²⁷ ADB's TA focused on computerizing the budget system, which helps in keeping track of budget ceilings and supplementary budget requests that are frequently approved. The TA did not concern itself with the substance of the program budget or in helping to monitor and evaluate whether the intended outcomes were actually achieved.

performance falls short of building capacities as the counterpart is left to analyze, interpret, and implement reports and their recommendations. This was the case with the first TA in Bhutan, for which the reports are not available any more. In the budget policies and management part of the public expenditure reform TA in India, the report makes general comments about the need for reforms without providing a detailed action plan or concrete suggestions.

IV. GOVERNANCE: PUBLIC EXPENDITURE MANAGEMENT

31. Public expenditure management is important to ensure sound development management as it concerns the transparent and accountable allocation and use of public resources. According to the Organisation for Economic Co-operation and Development, “All budget systems—reformed and traditional—have three basic budget tasks: (1) to maintain aggregate fiscal discipline, (2) to allocate resources in accord with government priorities, and (3) to promote the efficient delivery of services.”²⁸

32. Public expenditure management involves a series of steps that forms an annual budget cycle. The dimensions of governance considered in this evaluation (efficiency, effectiveness, transparency, and accountability [para. 0]), have different implications for each of the steps. For instance, transparency in policy making requires documentation of criteria and reasons for making policy choices, whereas in the budget preparation process transparency manifests itself in providing details on program choices and reasons for the resources allocated. The common factor in the examples is the need to reveal underlying reasons for the choices exercised. Appendix 4 provides an overview of the budget cycle and describes the meaning of each governance dimension as related to the steps of the cycle.²⁹

33. Table 2 illustrates the areas addressed by the TAs and shows that no systematic patterns exist in the types of assistance. Included in the table are areas where TAs have the potential to assist, although these potentials might not have materialized. The evaluation recognizes that the sample may not cover all areas, as it represents about 30 percent of the TAs, randomly selected. The absence of a conceptual framework (para. 0) and related system, identifying TAs depending on their coverage, would necessitate an in-depth analysis of all TAs to ascertain which areas they covered and whether ADB assistance helps the entire range of the public expenditure management cycle.

Table 2: Budget Cycle and Governance Dimensions

Budget Cycle	Efficiency	Effectiveness	Transparency	Accountability
A. Policy Making	Kiribati Lao PDR	—	Kiribati Lao PDR	Kiribati Lao PDR
B. Budget Instructions	—	—	—	—
C. Budget Proposals	Lao PDR	Kiribati	Kiribati	Kiribati
D. Budget Approval	Bhutan	Bhutan India	—	—
E. Budget Execution	Bhutan India	Bhutan India (Kiribati)	Bhutan Kiribati	Bhutan Kiribati Lao PDR
F. Evaluation	—	—	—	—

— = None.

34. The above classification of the TAs is based on their design and implementation. The TA design is not always explicit about the governance dimensions the TA intends to address, but most often refers to generic efficiency gains. Therefore, actual implementation results were also

²⁸ Organisation for Economic Co-operation and Development. 1999. Paris. The Changing Role of the Central Budget Office, Organization of Economic Cooperation and Development, Public Management Service.

²⁹ A detailed description of the budget process and related performance issues can be found in Schiavo-Campo S., and D. Tommasi. 1999. Managing Government Expenditure. Manila: Asian Development Bank.

considered to classify the TAs. The TAs do not cover the entire budget cycle, and no help was provided for issuing budget instructions and, more importantly, for measuring the performance of the executed budget (Table 2). The following details on the performance of the TAs illustrate a certain lack of a coherent framework, which links up with weaknesses in the capacity building approach.

A. Efficiency

35. The TAs in Kiribati and the Lao PDR had the potential for increasing the efficiency of the policy-making process. They developed macroeconomic models and databases for use in analyzing macroeconomic conditions and policy options.

36. In Kiribati, problems arose (and still do) at several levels. On the input side, the database depends on information from the national statistical office, which provides data in such intervals that quarterly economic reports are prepared with considerable delay or not prepared at all. Staff in the planning office has changed twice since the implementation of TA 1976-KIR, which introduced the economic reporting function.³⁰ The current planning officer is familiar with the database and the analytical tool. For example, after analyzing copra trade, prices, and subsidies, the economic office calculated that funds set aside for subsidizing copra prices will be depleted shortly. However, even when producing such reports, the policy office finds it difficult to convince decision makers of the need to reduce subsidies. This difficulty is partly due to political reasons, because cutting copra subsidies is unpopular politically, and partly due to a lack of understanding on the part of decision makers. This example illustrates shortcomings that arise from focusing on one agency without considering interrelationships with other participants. A comprehensive capacity building approach may have recognized the need to develop the understanding of the users of policy advice and the capacity to generate input data.

37. The situation is similar in the Lao PDR, where the TA introduced a macroeconomic model and trained some staff in its use. Staff turnover reduced the number of people running the model to one. This person was absent for two years on overseas training, during which time the model was not used. Apart from that, some of the data needed to run the model are not available (recognized by the consultants who developed the model), therefore assumptions must be made. The staff member is not experienced enough to make correct assumptions, so the projections have been inaccurate, which limits their utility to decision makers who do not give much credence to the model or policy options suggested with its help. Staff lacking technical knowledge cannot adjust the model to the situation after the Asian economic crisis. The second part of the TA introduced a management information system to increase the efficiency of preparing and updating the public investment program. However, the system is defunct due to a lack of input data from various sources. Instead of building the capacity of these sources, assistance is being provided to another government unit to build a similar system without linkages. Capacities for preparing the public investment program were not built as evidenced by continued assistance provided for this purpose, such as a TA grant currently processed by ADB.

38. Efficiency improvements were experienced in Bhutan, where the TA computerized the budget system, which helped speed up the comparative analysis of budget proposals and past allocations and expenditure. The computerized analysis helps the Ministry of Finance to assess whether budget requests are realistic in terms of spending capacity, and whether line ministries and agencies propose large variations over their previous allotments. Timely feedback speeds

³⁰ The office is minimally staffed, which makes institutional development extremely difficult.

up the budget preparation process. The second area in which the computer program improved efficiency is in budget releases. The need to request supplementary budget allocations is detected immediately, because the budget release system allows expenditure only up to the approved budget ceiling. In addition, the processing time for issuing budget release letters has been reduced from two weeks to one day.

39. In India, the TA to reform state-owned enterprises could ensure more efficient use of public resources by closing highly inefficient enterprises and reforming others. The TA consultants analyzed 10 enterprises. The consultants' reports were reviewed by the technical secretariat and revised for submission to the authorities for decision making. Apparently not all suggestions were acceptable, and the exit packages for staff layoffs were revised. The process is politically sensitive, and therefore time consuming. Since TA completion, decisions were made to close three or four enterprises, and merge others. Actual efficiency gains remain to be seen once divestments have been concluded.

B. Effectiveness

40. In Kiribati, TA 2657-KIR introduced a program budget format that could ensure effective resource allocation during the preparation of budget proposals. While the 1999 budget described desired outcomes and outputs and applicable performance standards, submissions were not prioritized. Because no costing standards were developed (which would have addressed the efficiency of resource use), it is not clear how programs are designed to fit effectively within the budget ceiling.

41. At the budget approval stage, the lack of prioritization necessitates that as soon as budgets exceed earmarked amounts, they are cut across the board, something that is common in most countries. Computerized budget systems can highlight when ceilings are exceeded but cannot help in the setting of priorities or in the negotiation process that requires balancing complex demands and pressures from various interest groups.

42. Effective budget execution requires that actual expenditures do not exceed original allocations. Instead of exercising financial discipline, supplementary budget requests are commonly used to revise the original allocation, thus authorizing excess expenditure. In Bhutan, the computer system helps detect when original allocations are exhausted, thus identifying the need for supplementary budget requests. However, financial discipline is not enforced because requests for budget releases and necessary supplementary allocations are made only when the line ministry or agency entered into a contractual obligation. Therefore, the Ministry of Finance has no option but to approve the request for supplementary allocations. The procedure has become a time-consuming formality that occupies much of the ministry's time without enabling it to manage the budget effectively. In Kiribati, ADB's TA does not deal with budget execution directly. However, TA financed through Australian bilateral aid (complementing ADB's TA) is computerizing the budget system and is likely to have similar results as ADB's TAs in Bhutan. Obviously, the structure of the process (line agencies entering into an obligation without having requisite resources) and cultural norms that make it impossible to reject requests for supplementary budget allocations have a much greater influence on the effective budget execution than a tool that can observe overspending. The public finance reform TA in India was meant to introduce greater fiscal discipline. However, given the TA's poor performance, this aim was not attained.

C. Transparency

43. Transparency in the policy-making process requires that the reasons for making policy choices be clearly stated. Potentially, the TAs in Kiribati and the Lao PDR could have contributed to greater transparency in decision making because they tried to introduce an objective means for choosing policy options. This potential has not been realized because the TAs did not succeed in setting up functional modeling facilities that were recognized and accepted by decision makers.

44. The budget is transparent if it provides details on the use of public resources and outcomes expected from executing the budget. Output or program budget formats are useful tools, because they require such linkages to be made. However, the tool is effective only if it is accompanied by costing standards that are equally transparent. Otherwise, the match between narrative and financial information may not be of much use. The output budget format introduced in Kiribati records expected outcomes and outputs and links them to resource allocations, which increases the transparency of the intended use of public resources. However, several program descriptions need to be more specific, and the costing needs to be clarified.

45. The requirements of NAO in the Lao PDR should help enforce greater transparency in the financial accounts of ministries and agencies, as they need to comply with reporting requirements. While the TA did not provide any direct assistance for this purpose, ADB will provide additional assistance for enhancing government accounting regulations and procedures that also should help ensure NAO's functioning, which otherwise could be impeded by the lack of capacities of line ministries and other agencies.

D. Accountability

46. Accountability in the policy-making process requires that policy options are clearly stated and specific targets are set so that performance can be measured. However, the process also requires a system within which accountability can be exercised: the accountable person or parties should have authority to pursue policy goals, and those to whom they are accountable should have the authority to hold them accountable. The TAs typically do not consider the latter aspects. The TAs in Kiribati and the Lao PDR had the potential to increase the accountability in the policy-making process, as they would have illustrated whether and how policy choices were substantiated, and whether policies resulted in expected developmental impacts or economic performance. However, the models are not functioning.

47. Accountability for preparing and executing budget proposals may increase as a result of introducing the outcome budget format in Kiribati, although this will depend on the extent to which people responsible for budget submissions will be held accountable for achieving targets set in the budget. The present perception is that when outputs are not produced in one year, they are carried forward into the next annual budget with new appropriations made for the same purpose.

48. In the Lao PDR, the TA to set up NAO could increase accountability, as the audit function will identify whether positions or funds have been abused and enforce necessary repercussions. NAO is not yet fully functional, so it remains to be seen whether any impediments to fulfilling these expectations exist. One potential problem is that the accounts of ministries and agencies are not always kept in a manner that is auditable.

V. CONCLUSIONS

A. Results

1. Capacities Built

49. ADB's understanding of capacity building has not evolved to fit the modern concept of capacity building, which goes beyond institutional development and training (para. 0). This observation is more obvious and understandable for older TAs, but it applies equally to the more recent TAs in the sample. Among those TAs, the design has not changed significantly since the internal reviews (para. 0) of 1992 and 1994. One of the main weaknesses of the TAs in terms of capacity building is their focus on one agency; although sometimes staff members from other agencies are involved but as participants in workshops, which is insufficient for building capacities. Failing to identify (through capacity mapping and SWOT analysis) and deal with interinstitutional relationships and the normative and societal contexts, the TAs are unable to generate an understanding of and plan for addressing systemic issues. This failure renders even technically sound TAs ineffective, and is further compounded by the limited time and lack of resources allocated for the complex process of capacity building. The initial staff guidelines on capacity building could have been used to contribute to fostering a broader understanding of the concept and resources required for working in this area.

50. The TAs come closer to an abridged³¹ form of institutional development where tools are developed and staff abilities fostered. The TAs were successful in

- (i) Bhutan where the TA developed a computerized tool that the staff continues to use;
- (ii) India, where some skills were developed for analyzing state-owned enterprises;
- (iii) Kiribati, where the foundation for macroeconomic analysis and program budgeting were laid; and
- (iv) Lao PDR, where skills were developed in macroeconomic modeling and the potential exists for NAO to function as an independent audit office.

51. The less successful examples in terms of capacity building, when TAs merely produced reports, were still useful for Kiribati, where these reports were used by the counterpart, particularly in international forums. In India, the consultants' reports produced under TA 2668-IND have greater value for the revenue generation side (not subject to this evaluation) for which the reports make detailed and practical recommendations. This is not the case for the part of the TA that dealt with the budget process reforms.

2. Public Expenditure Management Reformed

52. None of the TAs took a comprehensive approach to analyzing the public expenditure management system or budget cycle as a whole and assessing it against ADB's governance

³¹ The reason for calling this an abridged form of institutional development is that TAs are void of analyzing clients and the services that institutions should be providing to their clients, service delivery mechanisms, financing and managerial issues, and human resource development (as opposed to simple one-time training) questions.

criteria. As a result, the TAs addressed a variety of issues but overlooked ways in which public expenditure management as a whole can be improved. The effectiveness of the TAs was limited by their narrow approach, as complementary activities were required to gain the full potential of improving the budget cycle.

53. Some of the TAs attained—or have the potential to bring about—process efficiencies, reducing time and/or effort required for preparing or executing the budget. However, the potential of TAs that introduced program budgeting to attain greater efficiency in using public resources was forgone. To achieve improved efficiency in using public resources, TAs would have had to consider several things:

- (i) analyzing inputs required to produce a particular output, which involves assessing the person-days or person-hours and material inputs needed to deliver a specific service or product (such analyses are time-consuming and normally done for selected services/products or processes, usually in the context of process reforms);
- (ii) revising existing cost standards to reflect the actual costs; and
- (iii) introducing evaluation capacities that assess the efficiency of a process or program.

54. The program budget format introduced through ADB assistance in Kiribati could ensure effective resource allocation, provided supplementary TA is given to build capacities needed to prioritize budget allocations. Effective budget execution (fiscal discipline) could have been attained provided the computerization programs had been accompanied by TA for developing greater discipline of line ministries and agencies and/or providing the Ministry of Finance with sufficient influence to enforce adherence to original budget allocations.

55. Possibilities for increasing transparency in the policy-making process could have materialized if the macroeconomic modeling tools had been complemented by assistance to create greater understanding of policymakers. Their acceptance of policy advisory tools is essential to attaining impact. Frequent changes in the incumbents of policy-making positions (and sometimes the policymakers' backgrounds, which can be politically oriented rather than based on an awareness of economics), requires long-term involvement in policy dialogue and TA to build the capacities of policymakers. In addition, it would have been useful to extend capacity building assistance for generating data required as input for the models. Transparency of the budget preparation process would have required the revision of costing standards to better link the narrative description of the program to resources allocated for it. Establishing NAO in the Lao PDR requires accurate documentation of accounts of ministries and agencies, and thus could indirectly enforce greater transparency. However, the effectiveness of NAO may be impeded should these accounting standards not be met, making transactions unauditible.

56. Opportunities for increasing accountability depend on the extent to which it is acceptable to hold a person or group of people responsible for their decisions and actions. TAs typically do not address accountability. Therefore, whether introducing tools such as program budget formats or an audit function will yield higher levels of accountability remains to be seen.

B. Key Issues

57. ADB needs to devise an approach for developing public expenditure management capacities to ensure ADB interventions take place in a strategic framework that promises optimal sequencing, synergy, and impact of TAs. The conceptual approach is required for capacity building and public expenditure management. The Strategy and Policy Office is developing a handbook on governance issues, which might fill this gap.

58. Capacity building requires considerable understanding of the existing local capacity and the bottlenecks that hinder it from working effectively. Capacity mapping is one way to develop such understanding, which also can be used for building ownership if all the participants are involved in mapping capacities and conducting a SWOT analysis. Through capacity mapping, governments and ADB can arrive at a strategic medium-term framework that determines actions for the government to take (pre-conditions for the TA) and interventions by external agencies, including ADB. This systematic strategic framework would help programming missions in deciding on the areas that should receive assistance and enable individual TAs to be designed in context rather than addressing issues in a separate and ineffective manner.

59. Capacity mapping or any other systematic analysis is a complex and time-consuming process that cannot be attained within the framework of the typical short-duration TA fact-finding mission. Designing capacity building requires an up-front investment of time and resources to ensure strategic choices are made. The current arrangement for processing TAs is not conducive to such an approach.

60. Equally, building capacities takes long-term commitment on the part of governments and ADB, requiring a longer-term perspective rather than the short-term horizon of TAs, which is suitable to solve well-defined elements of a capacity building process. Capacity mapping provides the strategic framework, while the cluster TA is an ideal instrument for implementing the capacity building action plan.

61. Capacity mapping should be the first step, after which participants determine the capacities to be built (shortcomings to be overcome), the type and sequence of initiatives to be implemented by the government and external assistance required, and the first targets and externally funded inputs needed to attain the initiatives. At the end of each short-term TA, progress and medium-term targets in the capacity building strategy should be reviewed and revised as needed before designing and approving further TA. This review process could ensure (i) ownership (provided consultants do not drive the process), (ii) appropriate timing of and flexibility for adjusting required assistance (rather than to work with fixed inputs), and (iii) a focus on results.

62. Public expenditure capacity building requires capacity mapping to be combined with ADB's governance indicators as illustrated in this evaluation (Appendix 4). Combining these items will help identify the type of governance improvements TAs seek to attain and effectively channel limited resources toward achieving their goals of increasing efficient, effective, transparent, and accountable use of public resources.

63. Even when increasing participation in the design of the capacity building process, reforms are often perceived as threats, something that cannot always be avoided when institutions are outdated and need major changes. Capacity mapping cannot eliminate this problem. However, capacity mapping can help identify those groups that fear losing most and other forces that are likely to impede a reform process. An orientation toward functions that

need to be fulfilled and assistance to make them more easily attainable might help different agencies to work together on reform and service delivery.

64. While indigenous capacity for managing public resources is essential, it also needs to be understood which functions the government should perform and which activities are better outsourced to consultants with the help of external assistance. A solution such as this needs to be considered in particular in countries with small administrations, which should not be expanded for efficiency reasons, and for functions needed only at medium-term intervals.³²

³² *Assessment of Bank Assistance for Reform Programs in the Pacific* (footnote 1).

APPENDICES

Number	Title	Page	Cited on (page, para.)
1	Capacity Building Issues and Indicators	19	2, 0
2	Governance Indicators	20	2, 0
3	Capacity Mapping	21	4, 0
4	Annual Budget Cycle	24	1, 0

A. Appendix 1

CAPACITY BUILDING ISSUES AND INDICATORS

Capacity Building Component	Issues	Indicators	Information Sources
Ownership	?? Who is or was the owner of the technical assistance (TA), and how does this ownership manifest itself?	?? Origin of TA idea	?? TA design
	?? How was ownership built?	?? Role of the government in designing the TA	?? Correspondence
	?? Were the owner's interests respected in TA design and implementation?	?? Need for building ownership discussed in TA design or reports	?? TA reports, and Back-to-Office reports
	?? How was the owner advised to ensure that the owner's interests represented the best interest of government and country?	?? Level of government support and participation in TA implementation	?? Discussions and interviews
	?? Was the TA relevant to the owners' needs and significant enough to influence a process of institutional change?	?? Discussion and implementation of TA recommendations	?? Manifestations of the government's follow-up action
Capacity Mapping	?? Were existing capacities analyzed, and if so which aspects?	?? Availability	?? TA report containing an institutional analysis
	?? Who was involved in the analysis?	?? Quality: coverage, specificity, depth of analysis, identification of key problem areas, and consensus on these issues	?? Government comments on the institutional analysis
	?? Were requisite future capacities determined, and if so to what detail?		?? Discussions and interviews
Action Plan for Institutional Change	?? Was a plan for institutional change developed? If so, what did it contain?	?? Availability	?? TA report containing the recommended plan of action (these are mostly TA outputs such as a proposal for streamlining the budgeting system or computerizing it)
	?? Was it pragmatic, implementable, well-defined, acceptable, and accepted?	?? Quality: coverage, specificity, practicality of recommendations, and identification of potential implementation problems and requisite countermeasures	
	?? Did it discuss		?? Government comments and implementation

**explicitly institutional
aspects that might
hinder its
implementation?**

action on
recommendations

?? Discussions and
interviews

B. Appendix 2

GOVERNANCE INDICATORS

Governance	Indicators	Information Sources	
Efficiency of the Budget Process	?? Processing time: time required to process a particular transaction	?? TA reports ?? Records of agencies	
	?? Process flow: number of steps a process takes, ensuring the flow diagram is as streamlined as possible	?? Discussions and interviews	
	?? Process resources: number of person-days and other resources to accomplish a particular transaction		
Efficiency in the Use of Public Resources	?? Costing systems: specification and rationalization of cost standards; identification of cost-output relationships to ensure efficiency gains	?? TA reports ?? Instructions for budgeting/costing of outputs ?? Discussions and interviews	
	Effectiveness	?? Resource allocation: matching of outlays with available revenue and other resources, setting of priorities in line with policy objectives, and comparison of stated objectives and priorities with actual allocations	?? Budget document ?? Expenditure reports ?? Discussions and interviews
		?? Resource use: comparison of expenditure with allocations, analysis of goal attainment with given resources, and assessment of resource reallocation	
Transparency	?? Allocation process: criteria (what are they, how were they arrived at, how their application is ensured), and decision makers (who are they, who is informed of decisions, consultation, and consensus building)	?? Process specifications and requirements, and actual practices ?? Discussions and interviews	
	?? Release process: documentation, and checks and balances		
	?? Resource reallocation process: criteria, documentation, and checks and balances		
	?? Budget documentation: linking objectives and outputs to budget allocations, reporting on budget allocations and actual expenditure, and annual accounts		

Governance	Indicators	Information Sources
Accountability	?? Linkage to development goals: allocations in line with development plans, specificity of targets to enable accountability, and specificity of implementation plans	?? Development plans and budgets
	?? Financial accountability: use of funds, reporting, and audit	?? Financial accounting system: process specification, manuals, and actual practices
	?? Performance evaluation: monitoring and evaluation of goal achievements, reporting, and use of lessons (feedback into planning cycle)	?? Performance reports
		?? Discussions and interviews

C. Appendix 3

CAPACITY MAPPING

Capacity Components	Bhutan	India	Kiribati	
Functions	<p>?? TA 970-BHU contains a general description of the functions of the counterpart. Implicitly, it covers several functions of the government:</p> <ul style="list-style-type: none"> - Providing training to national accounts staff. The need for assistance does not identify weaknesses and why a review is needed. - Improving the performance of public sector enterprises, by assisting in developing a monitoring system. Reasons for the poor results of public enterprises are not given, therefore it cannot be said whether the solution (an improved monitoring system) is adequate. - Managing external loan and TA negotiations, the key problem being a lack of procedures. The TA did not identify the disadvantages being experienced and why standardization was needed but suggested developing procedures and documenting them in a manual. <p>?? TA 1487-BHU identified the lack of a computerized system for budget preparation and accounting that interfered with the integrity of data and inadequacy to form a reliable financial information system.</p>	<p>?? TA 2668-IND discusses the symptoms that manifest institutional limitations. For instance, the expenditure wing is cited as having limited abilities to manage and control slippages in current expenditures. The TA paper does not identify the reasons for these shortcomings and whether they are intrinsic to the expenditure wing or induced by the normative or societal context.</p> <p>?? For TA 2552-IND, the paper discusses the functions of the Technical Secretariat, but does not reveal why it required the support of external consultants financed by the TA to fulfill these functions.</p>	<p>?? TA 1976-KIR describes the functions of the Ministry of Finance and Economic Planning (MFEP) regarding macroeconomic planning, investment monitoring, and budget preparation. In all cases, problems are mentioned with the existing system, but little analysis is provided of the shortcomings.</p> <p>?? TA 2657-KIR details problems related to the budget preparation function of MFEP and the line ministries. Among other issues, this included the need for "departments to think much more critically about their activities and the end results they are expected to deliver (i.e., outputs), and also about cost effectiveness" (TA paper, para. 6). Weaknesses were also observed in the linkage between policy making and budget preparation, and in monitoring of the budget execution.</p>	<p>?? TA ; the impor the Com and Coop the ecor provide a functions performed</p> <p>?? The l was newl TA 2987-describes the existi inspector the Min insufficier expertise) financial manager</p>

Capacity Components	Bhutan	India	Kiribati	
Actors/Participants	?? The TAs focused on the central agency (the department within the Ministry of Finance with whom the TAs were implemented). The terms of reference of the second TA foresaw that a standardized computerized accounts package would be developed for use by all government departments. However, the extent to which other government agencies had the human and technical resources to implement and use such a package were not analyzed in the TA.	?? TA 2668-IND recognized that multiple actors were involved in the budgeting process and highlighted that the Finance Department and sector ministries had difficulties enforcing fiscal management (again without specifying the reasons why). However, the objective and the scope of the TA include only the Finance Department. TA 2552-IND mentions several bodies that would be associated with the TA in support of the Technical Secretariat, which was its main counterpart.	?? Both TAs (1976-KIR and 2657-KIR) recognized the need to involve MFEP and the line ministries. However, TA 1976-KIR did not specify the type of capacities to be built at the line agency level.	?? TA 2 the need selected to involve agency. ?? TA ; assistanc such enterprise Finance, assistanc National Further provided i
?? Individuals (community leaders, politicians)				
?? Formal organizations (government, non-governmental organizations, universities)				
?? Network or organizations (associations, action networks)				
?? Informal institutions (pressure groups, political movements)				
Resources	?? No detailed analysis was done of the resources available during TA design or of the resources required to implement and sustain the capacity building intervention.	?? Resource availability and constraints are not analyzed in the TA papers.	?? TA 1976-KIR does not provide a resource analysis. TA 2657-KIR determines the shortage of human resources with requisite educational background without discussing limitations to capacity building in the context of minimal institutional size.	?? TA ; the short key prc resource discusse ?? TA ; the short resource
?? Human (local skills, knowledge, motivation)				
?? Informational (technical data, government strategy, intelligence)				
?? Financial (domestic and external)				
?? Technological				
Normative Context	?? The first TA discusses the reform objectives of the Government. Details on factors supporting or conflicting with the normative context are not mentioned.	?? Both TA papers discuss the government's reform attempts but none elaborate on the reasons for delays in their implementation. This would have been useful for recognizing factors that may impede the performance of the TAs.	?? TA 1976-KIR did not contain details on this. TA 2657-KIR raises the urgency of establishing macroeconomic policies that stimulate greater involvement of businesses in the economic sector, increasing skill levels, and integrating the domestic economy into the world economy. The TA paper gives some information on these aspects, but without analyzing the potential for addressing them.	?? There other th assistanc reforms ir ?? TA ; the Gc assisted i to improv of state- and to t standards language, the ongoi the field o
?? Values (human rights, governance)				
?? Organizational strategies (devolution, privatization, public sector reform)				
?? Policies (economic reform, strategies for sustainable development, land reform)				
?? Cultural (ethnicity, religion, art, language, gender roles)				

Capacity Components	Bhutan	India	Kiribati
Societal Context	?? The TA paper does not provide details on this aspect. However, falling under this category is the involvement of local levels in identifying development projects, which is useful for program budgeting, although not immediately relevant to the TAs with their focus on computerizing the budget system.	?? The TA papers do not provide details on this aspect.	?? TA 1976-KIR does not raise these issues, although they are mentioned in TA 2657-KIR (see previous paragraph).
?? Global (access to markets, changes in global governance, role of donors)			?? TA 2657-KIR does not provide details on this aspect.
?? Regional (trade patterns, sectoral cooperation)			?? TA 2657-KIR does not provide details on this aspect.
?? National (style of governance, sharing of political power, administrative capacity)			?? TA 2657-KIR does not provide details on this aspect.
?? Subnational (degree of institutional pluralism, ethnic issues)			?? TA 2657-KIR does not provide details on this aspect.

D. Appendix 4**ANNUAL BUDGET CYCLE**

1. The annual cycle of planning and using public resources involves the following steps, which are schematic but largely applicable to any budget preparation process.³³
 - (i) Policy decisions. Based on past performance, current development challenges, and opportunities, policy options need to be considered. Macroeconomic policy choices can be determined with the help of modeling tools, and economic and social development goals stated in five-year development plans influence the choices of investments.
 - (ii) Guidelines for budget preparation. The ministry of finance issues instructions, which contain an update on recent policy changes or reiterate goals stated in development plans. In some instances, line ministries and agencies are advised of budget ceilings within which they can plan their forthcoming budget. Member countries of the Organisation for Economic Co-operation and Development are moving toward multiyear frameworks³⁴ to reflect requirements for multiyear investment projects and to anticipate increases in the recurrent budget to fund operating expenses of completed investments.
 - (iii) Budget proposals. Line ministries and agencies present their budget proposals. When it is a line item budget, increases are often justified on grounds of inflation and higher expenditure requirements. These increases are determined by using a standard multiplier to the current year allocation, the multiplier taking into account cuts expected to be exercised by the central government. A well-functioning output or program budget implies that achievements against current objectives and outputs are made, and based on performance, new targets are developed with associated budget requirements. Implicit in this process is the need for an appropriate costing mechanism by which inputs (costs) can be associated with outputs, outcomes, and impacts.
 - (iv) Approval of budget proposals and appropriation of funds. Budget submissions are screened by the ministry of finance to identify trends in requests for resources, comparing past with current requirements and actual expenditure. This is a cumbersome process when financial systems are not computerized and/or up to date, which makes it difficult for the ministry of finance to identify whether requests are reasonable. When budgets are prepared in an output budget format, the ministry of finance, sometimes in cooperation with the planning agency, may analyze program objectives and outputs to assess whether they are in line with national development plans and coherent with budget allocations. This is equally if not more time-consuming, particularly when programs are ill defined and cost estimates are not well justified. The Cabinet, or its equivalent, approves the budget and relevant appropriations are made.
 - (v) Budget execution/plan implementation. During plan implementation, line ministries and agencies draw down funds from their appropriations. Their expenditures are controlled centrally by the ministry of finance, to which vouchers must be submitted to trigger budget releases. This mechanism should ensure financial discipline (i.e., adherence to allocated ceilings), but in reality many line ministries and agencies submit requests for budget releases after entering into a contract obligation that may be above the budget

³³ A more detailed discussion of public expenditure management issues can be found in *Managing Government Expenditure*. Schiavo-Campo, S. and D. Tommasi. 1999. Manila: Asian Development Bank.

³⁴ Organisation for Economic Co-operation and Development. 1998. Survey of Recent Budgetary Documents. Public Management Service.

allocation for that particular line item. Therefore, supplementary budget requests are the rule and are processed routinely.

- (vi) Evaluation of results and feedback into policy making and budget design. Results-oriented management, as the underlying rationale for output or program budgeting, necessitates monitoring and evaluation of results. Evaluation findings should influence all stages of the budget cycle: informing decision makers of their policy choices, helping to prioritize and sequence investments, improving program designs, and highlighting areas where budget execution and plan implementation require different approaches or greater managerial attention.

2. The following table summarizes how the four dimensions of governance considered in this evaluation relate to each of the steps in the budget cycle.

Budget Cycle	Efficiency	Effectiveness	Transparency	Acc
1. Policy decisions	Introducing decision-making tools that help model various options can bring about efficiency gains.	Effective policy making is manifested in the actual implementation of policy decisions, which depends on the quality of policies and on the enforcement mechanisms.	Transparency is gained if policy decisions are based on objective criteria and careful analysis of challenges and opportunities, and the reasons for making choices are exposed.	Assuming th developmen defined, acc enhanced in against these measurable.
2. Guidelines for budget preparation	Process efficiency can be enhanced with clear instructions that help prevent ministries and agencies from submitting proposals that are outside the government's priorities.	Issuing instructions that ensure matching outlays with available resources can attain effective budgeting.	By issuing budget instruction to all ministries and agencies, informing them for instance of their budget ceilings, transparency can be ensured.	The budget i clarify the all responsibility instance, if tl finance sets the ministry i the overall d resources ar Within that fr ministries an given author resources to and thus are priorities wit
3. Budget proposals	To ensure efficient use of resources, cost standards need to be accurate and designed in such a way that the cost of outputs can be determined.	Preparing budget proposals within allocated overall ceilings by prioritizing programs and subprograms ensures effective budgeting.	Transparency can be gained when budget proposals document their objectives and illustrate how they plan to attain these. An intrinsic advantage exists with output or program budgeting (over line item format) as it gives the opportunity to relate resource allocations to goals.	Program buc accountabilit well defined measurable performance
4. Approval of budget proposals and appropriation of funds	Process efficiencies can be gained by computerizing financial data, speeding up comparative analyses of budget requests and past performance. Standardized tools for analyzing program proposals can introduce greater objectivity into the process and make it more efficient with the use of checklists.	Effective budgeting exercised during the budget preparation process (1-3) can be unhinged if arbitrariness is exercised at the approval stage.	Transparency in the approval and appropriation process depends on the existence of objective criteria for modifying budget proposals and of a system that ensures appropriations are made in line with approvals.	The ministry accountable diligence to : budget prop the governm developmen advising the accordingly.

Budget Cycle	Efficiency	Effectiveness	Transparency	Acc
5. Budget execution/plan implementation	<p>Efficiency in the budget execution process refers to the expedience with which resources are made available.</p> <p>Efficiency in service delivery falls outside the budget process and would require reforms of the delivery process.</p>	<p>Effectiveness in budget execution concerns the actual use of funds in accordance with the budget plans.</p>	<p>Transparency is ensured when documentation shows which inputs were financed with public resources and for which program outputs these funds were spent.</p>	<p>Monitoring a requirement: financial acc</p>
6. Evaluation of results and feedback into policy making and budget design	<p>Efficiency of evaluation is ensured through standard evaluation formats and checklists that ensure expediency of the process.</p> <p>Evaluation can contribute to efficiency gains when costing systems are analyzed and improvements recommended.</p> <p>Management or value-for-money audits can result in gains in process efficiencies.</p>	<p>Evaluations can verify the effectiveness of budget allocations and use.</p> <p>Performance results (feedback from evaluation) provide insights that should help improve effective budgeting (setting priorities, resource distribution among sectors, sequencing of investments).</p>	<p>Evaluations can verify whether documentation has been complete and accurate.</p> <p>Evaluation reports add to transparency by documenting how public resources were spent and what has been achieved with them.</p>	<p>Evaluations : with which to accountability the use of pu identify whet fulfilled its re</p>