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The Role of the Pakistani Government in the Efficient Management of Public Funds

SUMMARY: This paper describes different methods and guiding principles applied to the management of public spending, gives an overview of relevant literature and the theoretical framework. Main conclusions include the important pillars of efficient public spending management: fiscal and financial discipline, joint control over expenditures compatible with macro-economic constraints (ensuring the availability of funds for expenses), efficient allocation of resources (reflecting the priorities of spending policy), efficient provision of public services, and cost reduction in budget management. The paper aims to provide help to the Pakistani government in developing proper strategies for the possibility of efficient control over public spending.

KEYWORDS: public spending, accountability in government, Pakistan
JEL CODES: G18, H3, H11, H30, H61

Public expenditure management is not a new concept; it is just a new approach to the old management systems. Public expenditure management has always been an important issue for many governments as it is one of the important key factors that can help any government to have control over its expenditures compared to its revenue receipts. In the past, these allocations have been made through the use of budgeting, through the process devised by the governments, balance between revenue and expenditures, and the allocation of funds among public activities. The way in which public expenditure management operates is that first it combines conventional procedures with the new policy norms to efficiently achieve policy outcomes, and, secondly, it covers a broad range of institutional and management arrangements, not just the traditionally associated budgetary procedures. The term public expenditure management is not a complex procedure; it is just effectiveness in the cost cutting method in the case of public goods and services, efficiency in the collection of revenue receipts and the balance between the revenue receipts and expenditures so as to avoid a deficit situation. In effective public expenditure management, the aim is to avoid a situation of excess expenditure and to provide maximum utility of publicly provided goods and services so as to reduce the cost associated with these goods and services and enhance utility to the maximum level.

The governance styles do have a major impact on effective public expenditure management in the sense that the authorities at a higher level have to monitor and allocate expenditures in such a way as to assure proper monitoring of the expenditure made and also to calculate and subsequently evaluate the

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expenditure and revenue analysis to calculate the effectiveness of these expenditure management programmes.

OBJECTIVE OF THIS STUDY

The main objective of conducting this study is to look at the policies and methods adopted by different countries to manage their expenditure and to understand the role of governance in this context. This study will help in devising strategies for the Pakistan government which will help control expenditure.

LITERATURE REVIEW

Public expenditure management is not an entirely new concept; rather it is an instrument of government policy whose basic goals are achieving macro financial discipline, financial tools and techniques and productive resource allocation. The best governance style for better functioning of public management system incorporates institutional framework, budget preparation, financial control and budget management (Todorovic and Djordjevic, 2009). In predicting expenditure behaviour under good financial governance, it is not just a one-sided picture; good financial governance has many aspects. Good financial governance is led by a reform process involving productive operation of all the institutions with public funds and also requires collaboration between parliament, the donor community, and regulatory and audit agencies. On the revenue side, good financial governance means that the revenue receipts are generated through a fair tax system rather than by imposing an extra burden on tax payers and thus these revenue receipts fully accommodate the budgeted expenditures. On the expenditure side, good financial governance includes effectively planned execution of public expenditure according to the population's preference needs (Witt, 2007). In the case of agricultural countries, this entails a reduction in subsidies provided directly to agriculture and the utilisation of resources to provide indirect support to agriculture, such as the provision of private investments along with facilities for infrastructure (Labintan and Adeniyi, 2010). Borrowing and public expenditure are the same, as borrowing is mainly undertaken for financing expenditures from the crowding out perspective (Khan and Gill, 2009).

The incentive to let other people pay while you enjoy the benefits is known as „the free rider problem". The market may fall short in terms of providing the efficient amount of the public good. Studies show that people do not fully exploit free riding possibilities. Nonetheless, in certain cases, free riding is a significant problem in deciding on public or private provision. Relative wage and material costs. Which is cheaper? Under public provision, any fixed administrative costs can be spread over a large group of people. The larger the community, the greater the advantage to being able to spread these costs. To the extent that such diversity is present, private provision is more efficient because people can tailor their consumption to their own tastes.

The benefits of allowing for diversity must be weighed against any possible increases in administrative costs. Distributional issues include fairness and "commodity egalitarianism".

Public or private production is a key determining factor as to which will be more efficient is the market environment. Another important question is the extent to which complete contracts can be written with private sector service providers. Although education is generally publicly provided, it is not clear that education is a public good. Moreover, statistical research suggests that the link between spending and educational outcomes is tenuous. Although general increases in educational expenditure to reduce classroom size seem unlikely to enhance educational performance, some targeted spending programs seem to be quite effective. In particular, well-designed early interventions appear to raise both future test scores and earnings. Some economists are convinced that public schools would improve if they were subjected to competition. One proposal in that direction is a voucher system, under which financial support for education goes to the family of the student, not directly to the school. The voucher could be redeemed at whatever qualified school was preferred by the family.

For a public good, the group willingness to pay is found by vertical summation of the individual demand curves. With a private good, everyone has the same marginal rate of substitution but people can consume different quantities. Therefore, demands are summed horizontally over the differing quantities.

For public goods, everyone consumes the same quantity, but people can have different MRSs. So, for standard private goods, everyone sees the same price and then people decide what quantity they want. For public goods, everyone sees the same quantity and people decide what price they are willing to pay.

There are some important lessons to be learned from reform in public expenditure management from some of the developed countries like Australia, Germany, Sweden, Japan, France, the Netherlands, New Zealand, the United Kingdom and the United States of America (Tanaka, 2005). There are some key actors in the expenditure process having their respective roles such as in the British system; spending ministries are responsible for the execution of the budget unlike in France where the ministry of finance plays the key role. In Anglophone countries, spending ministries are fully charged with the expenditure process unlike in the Francophone system, where such a wide range of authorities and responsibilities are not provided to the spending ministries, i.e. they can only initiate the expenditure process but do not have the authority and power to execute the expenditure process or issue instruments such as payment orders to make expenditures by themselves like in the Anglophone countries (Linert, 2003).

Managing public expenditures to achieve higher results is followed by higher cost effectiveness, increased customer satisfaction, improved policy outcomes and accountability.

All these characteristics come under four approaches starting with a contractual or hierarchical approach based on contracts on performance with executive agencies and individual staff, centralised or decentralised approach or private sector contractors which involves setting targets and objectives and performance review, integrating into a budgetary system approach which involves programme budgeting and finally focusing on an outcomes approach comprised of focusing on output targets (John, 2003). Equality of government spending and government revenue is an important element of budget management. One of the main problems in executing a budget is the multiplication of quite exceptional procedures which bypass arrangements of expenditure control. Exceptional procedures are those which are introduced to speed up urgent expenditures but these are mostly abused and generally discouraged. Transparency requires all government transactions to go through the budget. Contingency reserves are there for exceptional expenditures. There should never be recourse to “exceptional procedures” or off-budget accounts. Poor governance can undermine fiscal adjustment (Sobhee, 2004).

Public expenditure management follows the budgeting process primarily because procedural rules have a strong influence on expenditure outcomes. Public expenditure management focuses on three outcomes, i.e. the total amount that has been spent, composition of the expenditure and, finally, on the efficiency of government operations (Schick, 1999).

Making public performance only to be compliant with budgetary norms leads to a deviation from the original purpose of spending monies obtained from the public, which eventually leads to the culture of means despite the ends and to a disregard for the public.

Now there has been increasing use of the effective indicators for measuring performance and results, both in the managerial practices and in the execution of public expenditure programs (Campo and Tommasi, 1999). Effective expenditure management is not feasible without clear and well-defined expenditure policies. Ideally, all government expenditure transactions should be classified in four ways, i.e. by administrative responsibility, by economic category, by function, e.g., health and education as defined by the United Nations, and by programme, for example by policy goals and objectives.

Attempts have been made to establish a connection between foreign aid and the fiscal behaviour of Pakistan, and it has been found that there is corroborative evidence suggesting that foreign capital flows channelled through the government have a strong positive impact on social and non-development expenditures. However, such positive impact accentuates the finding that foreign aid has little effect on development expenditure (Iqbal, 1997).

Major changes in the management of public expenditure have only occurred after some major reforms in the public sector, after a change in the underlying purpose of the management of the public expenditures system. Administrative approaches that were traditional in nature emphasised expenditure control, and were assessed in terms of compliance along with legislatively mandated expenditure policies and procedures whereas, on the other hand, the management of public expenditure focuses on performance, assessed along with the goals of economy and macro-economic stabilisation, efficiency and effectiveness in the utilisation of public funds (Premchand, 1993). There have been in the last few decades many systems came which basically tried to improve the concept of public expenditure management, and new public management is one such step which consists mainly of the change in focus of management from the input and process involved in the processes to the outputs and outcomes so that the focus would be on the final outcomes which will definitely point the processes involved in the system in the right direction (Sarker, 2006).

THEORETICAL FRAMEWORK

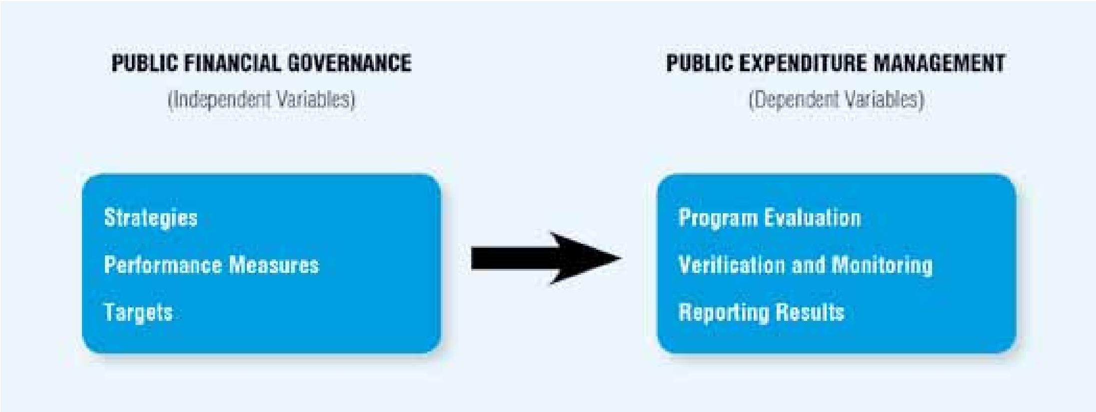
The independent variable in our research paper is public financial governance and the dependent variable is effective public expenditure management. *(See Chart 1)* As the independent variable is not sufficient to measure the responses that can be tapped, we are taking sub components that include strategies, performance measures and targets that will effectively measure the dependent variable. The responses that will help to tap the dependent variable include programme evaluation, verification and monitoring process, and reporting results. The effect of all the sub factors of the independent variable on the dependent variable that is effective public expenditure management will be measured, and then the result will be interpreted to see at what level the dependent variable is influenced by the independent variable.

METHODOLOGY AND FINDINGS

Increasing attention has also been given to public expenditure management and governance structures due to the fact that they play a very

Chart 1

PUBLIC FINANCIAL GOVERMANCE – PUBLIC EXPENDITURE MANAGEMENT



important role in the reallocation of resources in an effective manner by improving the efficiency and effectiveness of public expenditure. *(See Chart 2)*

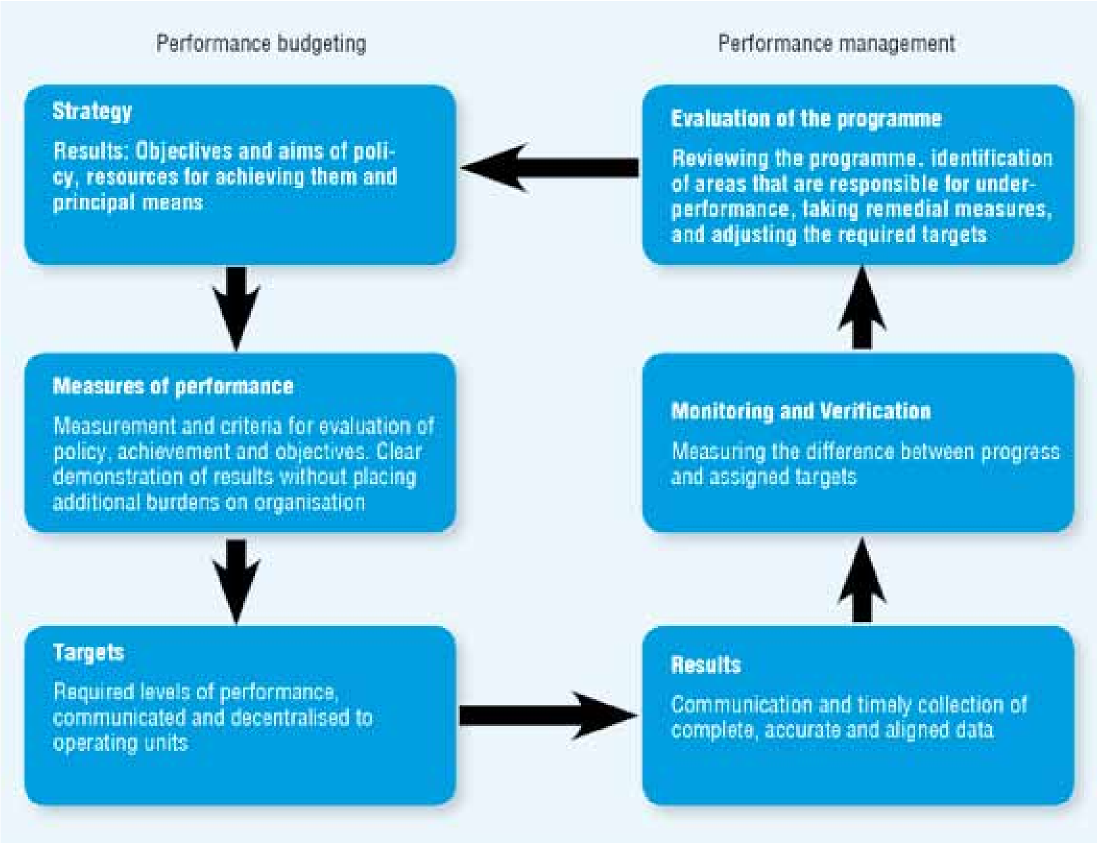
As a tool of governance, effective public expenditure management has received increasing attention since the mid-1990s. Therefore, in this context governance extends far beyond legislative compliance, along with the terms of expenditure and procedure policy, which was the main idea of the traditional approach of public expenditure management. Today, the transparency of decision making and policy implementation, proper disclosure, and proper functioning of the process of public accountability are major tools for measuring good governance. This shows the positive attitude towards government that has been exemplified by most of the developed economies. For many, good governance goes way beyond the disclosure of public information and the development of a formal accountability mechanism by parliament and also advocated by the International Monetary Fund so that there is more public involvement in procedures, allowing decision makers to be held directly accountable to the public and the customers of public services to be involved in decision making.

In poor and developing nations, after eliminating redundant functions, resources for funding highly justified services are very much scarce. Expenditures can be prioritised through the implementation of functional analysis through which the involved agencies clarify their objectives and missions, also allowing decision makers to make major distinctions between peripheral, core and superfluous functions, eventually streamlining the services being provided. There has been much support of the autonomous agency model for tax administration agencies as is favoured in Uganda, Malawi and Zambia as this has been quite helpful in increasing salaries and reducing corruption, and also in preventing interference on the part of political agencies and parties in day to day management.

One requirement of the comprehensive approach is to change the focus of evaluation and monitoring. Activities and outputs of individual projects can no longer be the subject of detailed evaluation. Donors have the responsibility of maintaining the efficiency and effectiveness of sector programmes of comprehensive nature. In such a scenario, at both a sector and macro level, Public Expenditure Review becomes a key monitoring instrument, therefore paving the way to conduct a comprehensive

Chart 2

THE CYCLE OF PERFORMANCE BUDGETING AND MANAGEMENT



analysis of expenditure policy and management. Recently, governance has also gained a lot of importance. Some dictionaries equate governance with government. Therefore, good government provides good governance. According to *Tanzi*, good governance is very important for effective economic and financial management incorporating macro-economic stability, social and economic equity, and the commitment and promotion of institutions that are quite active through reforms that are structural in nature such as domestic regulations and trade liberalisation.

Factors such as incompetence, lack of efficient institutions, ignorance, the pursuit of ideologies that are economically ineffective and economic models that are totally misguided. According to Tanzi, there are different ways that public expenditures like public investment projects, extra budgetary accounts, dead pensioners, procurement, "ghost" workers etc., and goods and workers provided below marketing prices and other decisions of a discretionary nature can be significantly affected by corruption.

CONCLUSION

The government sector should be distinctly separate from the rest of the economy, and the rules and policies within the government should be well defined with a clear legal and administrative framework. Independent or public scrutiny must be in place for the integrity of fiscal information. There is no doubt that governance is a key element in the development of effective public effective governments, but there is no one organisational model best suited to make public expenditure management the most effective. If the current government systems are not efficient, then replacement should not be made to such an extent so as to suddenly disturb the system at its very foundations, but to gradually develop the system parallel to the operation of the old system with its diminishing efficiency.

States have redefined their roles and the scope of their intervention in their economy through the privatisation of government and public enterprises, the promotion of non-governmental service providers, economic liberalisation and the downsizing of state institutions. During the 1980s, the approach of the World Bank to reforms in the public sector focused mainly on reducing its size through the privatisation of public enterprises and civil service reforms so that public expenditures could be cut to a minimum level in order to achieve goals of macroeconomic stabilisation.

Budget planning and preparation should have a centralised role in effective public expenditure management. Four forms are very important for effective public expenditure management, namely fiscal and financial discipline, affordability that is ensured by an aggregate control of expenditure consistent with macroeconomic constraints, resource allocation through effective means reflecting priorities of expenditure policy, and delivery of public services in an efficient manner, and financial cost cutting of budgetary management.

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