Administrative Development: A Journal of HIPA, Shimla. Volume 4 (6), 2016.

PARADIGM SHIFT IN PUBLIC FINANCIAL MANAGEMENT: EVOLVING ARCHITECTURE, CONTEMPORARY ISSUES AND CHALLENGES

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Abstract

The course of reforms in budgeting followed a visible trajectory in the Indian fiscal roadmap. From the initial approaches of 'line item budget' to performance budget, and to ultimately outcome budget has brought about a definite strength to Indian fiscal federalism. Providing 'outcome orientation' to the budget and strongly ingraining the features of 'gender budget'. This was a brave attempt to ensure that the output achieved from the Performance Budget was necessary but sufficient to achieve the benefits for the ultimate beneficiary.

New Zealand surprised many stalwarts of fiscal championship when it proclaimed fiscal management through strong budgetary (revenue) reforms. Subsequently following by United Kingdom remained still quite unheard in many developing countries. Beginning from the latter half of the 20th century or even before the governments across the globe started getting stressed with management and repair of the capacity base of their countries which faced the challenges of forex risks and deficit risk.

However, the third world nations realized that excessive dependence on the Central Banks would be a sure recipe for financial and fiscal disaster if the banking systems didn't improve. Financial sector reforms aimed at providing better financial markets for governments as well as for corporates in terms of cost-effective borrowings.

Sound fiscal management for steady, faster and sustainable economic development became inevitable with the faster blowing winds of financial volatility and trade reforms agenda already in place across the globe. Indian fiscal architecture was to be seen in terms of fiscal federalism that surrounded the letter and spirit of fiscal ethos. [*]

Fiscal Responsibility and Budget Management Act of 2003 and subsequent rules (Kelkar Committee) in 2004 set unique milestones. Fiscal facilitation and fiscal consolidation under Debt Consolidation and Relief Facility (DCRF) of the Government of India promised those states that have

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*enacted their own FRBM Acts with better prospects and endowed capacities to meet future challenges of expanding and qualitative expenditure. Long path has been treaded, longer is to be treaded yet.*Key Words: (Health Economics, Market failure, policy failure, health insurance, health financing)

Keywords: *Public Financial Management, Financial Markets, FRBM Act 2003, DCRF, Planning Commission, Budgetary Deficits.*

"Faced with growing debt and an uncertain macroeconomic outlook, many governments are experimenting with institutional innovations such as new budgetary rules and fiscal councils. Yet the naïve import of reforms has uncertain benefits".

Joachim Wehner

"… … … a rather recent concept, which emerged after the end of the Bretton Woods monetary system, which was displaced by decentralized global financial markets—it includes a number of seminal remarks on the international financial standards developed by the Basel Committee on Banking Supervision.

Mario Giovanoli

In terms of concepts and approaches (rules, policies, systems and procedures) there has, always, existed a crucial yet subtle difference in addressing the issues concerning (laurels of) accomplishment the global challenge of ensuring 'value for (public) money' when it comes to expending public money by the public authorities drawing monies from public exchequer viz. the 'consolidate fund'. Controlling of public money is very much like conservation of any other physical resources with the envisioned objectives for making modest the quality of life, including mounting tax liabilities for posterity.

Incidentally the following three sets of reforms introduced by the Government of India, in some cases (also including the sub-national/ /state governments) have been a tremendous applaud not only within the country but also attracted unending global spheres by the ***Bretton Wood Twins:***

A. Reforms in Budgeting

The course of reforms in budgeting followed a visible trajectory in the Indian fiscal roadmap. From the initial approaches of 'line item budget' to performance budget, and to ultimately outcome budget has brought about a definite strength to Indian fiscal federalism. Providing 'outcome orientation' to the budget and strongly ingraining the features of 'gender budget'. This was a brave attempt to ensure that the output achieved from the

Performance Budget was necessary but sufficient to achieve the benefits for the ultimate beneficiary. **Prof. Ravi Srivastava** (2005) “highlighted the following three dimensions of schemes:

1. Track outcome;
2. Broad policy frame; and
3. Outlay /outcome.

Individual schemes have to be critically appraised with policy inferences from the design stage so that the outcomes expected of and also the time frame for the monitoring (whether it is at the midstream or at the end) could be defined”.

Outcome Budget is the document prepared and presented annually to the Parliament, reflecting the purposes and objectives for which funds were provisioned, the cost of various programs and activities proposed for achieving these objectives and quantitative projection of the work performed and services rendered under each program and activity (*GoI Budget Manual 2010*).

A Program Outcome and Response Monitoring Division (PO&RMD) was set up (2005) in the Planning Commission to measure the physical outcomes of major programs /schemes viz.

1. Sarva Shiksha Abhiyan
2. Mid-day Meal
3. Food for Work and Employment Guarantee Scheme
4. Rural Health Mission
5. Urban Renewal Program
6. Bharat Nirman, all six component programs for rural infrastructure, viz.
    - Rural Roads
    - Rural Telecom Connectivity
    - Rural Housing
    - Rural Drinking Water
    - Rural Electrification
    - Irrigation
7. Rural Sanitation
8. Backward Region Grants Fund.

According to hand book of Public Expenditure Management of the World Bank the principles of sound budgeting and financial management (in government) include the following:

1. Comprehensiveness and discipline
2. Legitimacy

3. Flexibility
4. Predictability
5. Contestability
6. Honesty
7. Information
8. Transparency and accountability

Backed by

- Political Commitment
- Simplicity/Comprehensiveness
- Country Implementation Capacity

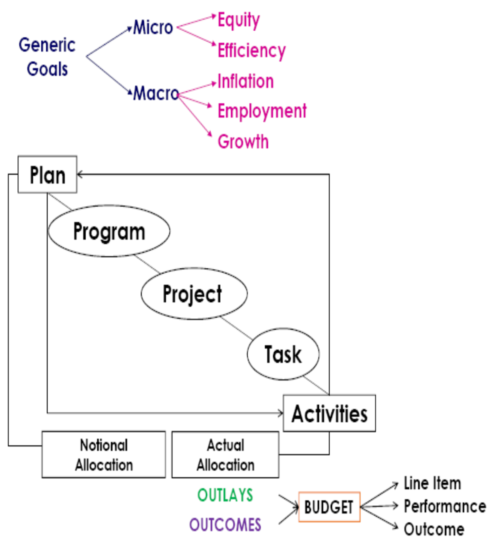
Further to above, ingraining strongly the features of ‘gender budget’ has been seen as extremely fiscal enterprising endeavor of the Government of India. Ms. Maneka Sanjay Gandhi (2015) maintains “Gendering budgeting as we know, is about viewing the budget from the gender prism, it is about taking into consideration the differentiated needs of every one – women, girls, men and boys. It is basically investing into gender equality and women empowerment. For sectoral gender mainstreaming, capacity of the officers concerned is extremely crucial.” NABARD Consultancy Services PVT. Ltd. (NABCONS) has been assigned the task of undertaking Evaluation of the Gender Budgeting Scheme's performance during the XI Five Year Plan NABCONS has submitted the report with recommendations**.**

B. Reforms in Sector Costing Strategies

“Life Cycle Costing (LCC) also called Whole Life Costing is a technique to establish the total cost of ownership. It is a structured approach that addresses all the elements of this cost and can be used to produce a spend profile of the product or service over its anticipated life-span. The visible costs of any purchase represent only a small proportion of the total cost of ownership. The cost of ownership of an asset or service is incurred throughout its whole life and does not all occur at the point of acquisition”.

C. Reforms in Accounting

It is pertinent to mention that the above three reforms together with marvellous (specific) enactment , coupled with specialized policy led and systemic developments in the ‘broader domain of fiscal management’, have not only made the accomplishment of the value for public money more possible but have also bred reasonably sufficient transparency in tracking the otherwise quality expenditure.



The way we have been moving now required a complete coordination between our planning and budgeting, between budgeting and programs, and also between planning and tasks/ activities. Today we need project specific activities, and not so many programs and schemes that would disproportionally blow up the revenue expenditure. The Trajectory has been well conceived in the diagram. What the diagram suggests is simple and in no uncertain terms it is the value for money to be realized from each spent. It is a journey from outlay to outcome.

In view of above what still invigorates the fiscal wisdom is what was said by Meier (1970) almost four and half decades back ‘‘the selection of sectors, projects and techniques is complicated by any number of developmental objectives. There are no single criteria for ranking of investment priorities; instead capital allocation is very much a matter of judgment, since the optimal allocation depends upon what objective is being maximized and over what period of time. The objective may be maximum real national income maximum real per capita income, maximum per capita consumption, or maximum employment. Each of these objectives also may be subject to number of constraints; for example, the objective may be to maximize real per capita income, subject to the constraint that income distribution is not worsened in the process or that the balance of payment does not deteriorate – it is, therefore, not surprising that different investment criteria are applicable depending upon different objectives to be achieved over different periods of time.” (*G.M. Meier, 1970)*

“Modern fiscal management Fiscal management refers, in particular, to the management of the ‘advanced and tech-savvy fish’ – the exchequer. Obviously it is concerned with the spending and generation of the resources by the governments. More precisely the fiscal management refers to the management of the fiscal deficit – that refers to gap between the revenue and the expenditure drawing reference to the interest repayment liability of the government. Therefore, fiscal management, in today's context, would refer to the management of the following three types of deficits5 within the government budget:

- Fiscal Deficit
- Revenue Deficit
- Primary Deficit

There are three specific aspects, besides many others, of fiscal management that need attention by the fiscal managers. These are as mentioned below:

1. What rules govern fiscal management?
2. What is the yardstick for ascertaining the success of effective fiscal Management?
3. What are important and essential fiscal functions the governments must discharge prudently – the fiscal prudence?

The financial rules governing fiscal management are following two viz. revenue management rule; and, expenditure management rule. Such rules are effected by a set of fiscal functions viz. Allocation Function, Distribution Function, Stabilization Function and Coordination Function

Allocation as a fiscal function the basic premise of this function rests on the fact that all goods and services cannot be provided for on the basis of transaction between/among individuals in the private sector/ market, and, therefore it is for the government to step into certain areas of the economic system in the larger interest of the populace. Distribution as a fiscal function the basic premise of this function rests on the fact that efficient use of resources depends largely on prevailing distribution pattern of income and wealth vis-à-vis factor endowments and that it is the pattern of distribution of benefits of developmental gains of various allocation exercises that decides upon the nature and pattern of economic development in its course. Stabilization as a fiscal function the basic premise of this function rests on the fact that for steadier development and growth of the economic system and for insulation against high volatility of the economic system it is all the more needed that a certain degree of price stability is perceived as prerequisite. Stabilization function also takes into account key role played my monetary functions. Coordination as a fiscal function the basic premise of this function rests on the fact that budgetary exercise is pivotal to the accomplishment of several short and long term goals reflected and/or prioritized in plans and budgets of the Central and/or State government(s). Of all the fiscal function mentioned above the allocation function seeks prime importance as it finds key place in both planning and budgeting.

Prabandhaki (2009) observed economic and financial resources have following characteristics:

- Resources reflect scarcity
- Resources undergo sacrifice
- Resources yield surplus
- Resources cost
- Resources lead to generation of output/capital, and income & employment
- Resources have opportunity costs.

In the above view as also in the larger perspective of fiscal-federal template order of the day it would be contextual to appreciate the evolution of an innovative Public Financial Architecture, very much on the lines of what Basel prescribed as International Financial Architecture. Barry Eichengreen (1992) has laid out a feasible agenda for international financial reform.

The financial management in the government with fiscal-financial template requires dovetailing in accounting with its budgeting together with a multi-year expenditure framework, which job has already started in select sub-national governments in India.

Prudence in fiscal discipline vis-à-vis quality expenditure on a real time basis is under perpetual systemic umbrella of the government of India in the name of public Financial Management System (PFMS).

Globally, especially in view of the financial and economic crises in east Asia, EU countries and earlier slow-downs of various giant economic systems it is pertinent to bond the financial-fiscal framework more tightly and a clearer interfacing of the three macrocosmic policies viz. comer policy (trade), monetary and credit policy and the fiscal policy is in place on a real-time basis. In the book edited by Marco Cangiano, Teresa Curristine, and Michel Lazare it is candidly spelt out that the first two decades of the twenty-first century have witnessed an influx of innovations and reforms in public financial management. The current wave of reforms is markedly different from those in the past, owing to the sheer number of innovations, their widespread adoption, and the sense that they add up to a fundamental change in the way governments manage public money.

In the Indian scenario when various enactments are in place what is the looming larger need is (a) coordination among and between various central ministries; (b) appropriate sensitization of the officials and personnel in the government and other stakeholders w.r.t. importance of the time and cost of various projects and schemes of the Central Government; and above all (c) due economic and social empowerment of the society by large with least rural-urban and digital divides.

The glaring challenges of the newer order of ‘new public management’ aren’t at larger variance with the broader template of the focused accomplishments public financial management in terms of healthily sustained fish; efficient and viably apt resources’ allocation;, and responsive and quality based deliverance of goods and services by the government / government outsourced agencies with largest outreach. The set of systems, processes, and rules ought to be well in place for achieving the above goals. A sound information and labour management system is obviously a pre-requisite. The entire gamut of new order of public financial management has already divorced the earlier conservative approach of controlling public money through archaic financial compliance and control.

The value for public money, flexibility, transparency, real-time data transmission, direct benefit transfers, public money tracking systems etc. are among few that have hall-marked the foundation of new public financial management architecture. What started in New Zealand long time back is on the map and scanner of each country which wants to progress in an inclusive, sustainable and equitable manner, shoulder to shoulder with the rest of the world.

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