

THE IMPORTANCE OF PUBLIC EXPENDITURE MANAGEMENT IN MODERN BUDGET SYSTEMS

UDC 336.1

Jadranka Djurović-Todorović, Marina Djordjević

The Faculty of Economics, University of Niš, Serbia
jadranka.djurovic@eknfak.ni.ac.rs

Abstract. *The national budget is the main instrument through which governments collect resources from the economy, in a sufficient and appropriate manner; and allocate and use those resources responsively, efficiently and effectively. Public expenditure management (PEM) is one instrument of government policy. The basic goals (principles) of public expenditure management are accomplishing macro financial discipline, strategical priorities (productive source allocation) and functional application (technical productivity). These three objectives are complementary and interdependent. Public Expenditure Management approach was put into practice in the early 1980s by World Bank.*

A set of "baseline" criteria that set out the essential requirements of a well-functioning public management system are: institutional framework, medium-term fiscal framework, budget preparation process, budget execution and monitoring, accounting and reporting, financial control, procurement systems and budget management of EU Funds.

Medium-term expenditure system (MTEFs) is estimation for sources affecting political changes and new programs and arranging budget necessities in future with multi-year expenditure planning applications. Medium-term expenditure system is a basis for measuring the effects of political changes on the budget. This expenditure system provides an opportunity for viewing the comparison with financial magnitudes during the application of budget expenditure.

The aim of this paper is to point out an importance of public expenditure management and its using in the area of public finance and budget.

Key Words: *Public expenditure, medium-term expenditure system, fiscal discipline, budget concept.*

INTRODUCTION

The core of public finance depends on spending someone else's money by some people. In democratic countries, this process has been constructed by the voters to whom they have given the public force elected by themselves (Shah, 2007, p.27). This case is the

basic characteristic of public finance (Von Hagen, 1998, p.1). States act as determining basic players of the performance in economy by forming the main frame of the market economy with the accumulation of the revenues and expenditures accomplished. However, the growing fiscal burdens as a result of the expansion of the state economy have become a barrier in the development of the economy. Especially, during the recession in 1980, Naomi Caiden, a budget theorist, has made a clever warning on "the work of public budget has increased extremely more complicated, abstruse and worrying (Hou, 2006, p.730). How far this warning made by Caiden was taken into account has found a response in the re-experienced 2001 recession.

State budgets, through revenue and expenditures units, keep their importance in economy increasingly today as in the past. The increasing significance of budgets in economy has obliged utilizing new techniques in managing it. Particularly, the significance of the budget's expenditure unit has been stressed by both theorists and practitioners through their studies. Since the application of initial state budgets, the achieving of sources, effective and productive usage, source allocation, deficits and gradually increasing public loans have continued to become a problem. Owing to these reasons, scientific studies made heavily depend on state budgets' expenditure direction in the last twenty years in particular. The public expenditure management presents new approaches for these former problems mentioned (Schick, 1999, p.1).

Nevertheless, public expenditure management, while presenting new approaches, differs at these two points by not denying traditional budgeting exactly. Firstly, it includes political rules into traditional routine rules. Secondly, it gives importance to institutional and administrative arrangements instead of traditional partnerships. The prerequisite of a good financial performance can be covered through a good institutional arrangement during budgeting (Shah, 2007, p.48).

CONCEPT OF PUBLIC EXPENDITURE MANAGEMENT

Every country (developed or developing, rich or poor, small or big) needs serious financial resources for its existence. All governments have to: collect resources from the economy, in a sufficient and appropriate manner; and allocate and use those resources responsively, efficiently and effectively. The national budget is the main instrument through which these transactions are planned and carried out.

However, the growing fiscal burdens as a result of the expansion of the state economy have become a barrier in the development of the economy. The government expenditures, as in the past, still keep its importance today. Especially, despite the fact that it has already been proved in literature that the public expenditures have continually been increasing owing to various reasons, the problems related to essential, effective, productive and on time-using of the increasing public expenditures have gradually been enlarged. But in every situation where we talk about public expenditures we have to keep in mind the integral relationship between revenue and expenditure, i.e. between the money collected directly or indirectly from the people, and the use of that money in a manner that reflects most closely the people's preferences.

Public expenditure management (PEM) is one instrument of government policy. Public expenditure management is a basic means of government policy distributing and util-

izing sources productively, effectively and sensitively (Allen, Tommasi, 2001, p.19). A clear distinction occurs between expenditure management and expenditure policy. While expenditure policy is trying to find an answer for the question "what" is to be done, expenditure management tries to find an answer for the question "how" it is to be done. It is true that attempts to set over rigid boundaries between policy and implementation tend to lead eventually to unrealistic policies, ad hoc implementation and, over time, both bad policy and bad implementation. However, the distinction between the soundness of PEM procedures and processes and the goals that they are meant to achieve remains very important. Among other things, the mechanisms, techniques, skills, and data required for good PEM are different from those needed to formulate good policy.

Although public expenditure management system varies from one country to another, it necessitates (Campos, Pradhan, 1997, p.425) accomplishing some complicated and determined duties. The basic goals (principles) of public expenditure management are accomplishing macro financial discipline, strategical priorities (productive source allocation) and functional application (technical productivity). All three goals are in very strong interaction (World Bank, Public Expenditure Management Handbook, 1998, p.3) both theoretically and practically. These three objectives are complementary and interdependent. Without fiscal discipline, it is impossible to achieve effective prioritisation and implementation of policy priorities and programmes. Improving the internal management systems to achieve efficiency without a hard constraint is not credible. But mere fiscal discipline in the presence of arbitrary resource allocation and inefficient operations is inherently unsustainable.

Fiscal discipline has a close relation with the control of budget magnitudes effectively and it assumes a binding role on both macro level and expenditure unit by means of expenditure ceilings (Allen, Tommasi, 2001, p.19). In macro financial discipline, budget totals do not only arrange expenditure demands; results in decisions applicated must be clear as well. These totals should be set before individual spending decisions are made, and should be sustainable over medium-term and beyond (Schick, 1999, p.2).

In providing financial discipline, utilizing effective rules leads to differences among countries. While some countries barely comply with the rules related to current expenditures, some applicate these rules in capital expenditures as well (Schick, 2001, p.14). Providing financial discipline covers expenditure controls, and it necessitates struggling for realistic income and expenditure approximations. Institutional arrangements for aggregate fiscal discipline can range from formal constitutional restraints on aggregate expenditure (Indonesia) through formal laws (Maastricht, New Zealand, Australia) to public commitments by the executive (with or without the commitment of the legislature – the U.S.) (World Bank, Public Expenditure Management Handbook, 1998, p.27). For many countries, international financial institutions may play a key role, particularly in the absence of open financial markets. Independent Central Banks can also play an important role in disciplining aggregate expenditure (World Bank, Public Expenditure Management Handbook, 1998, p.27).

Source Distribution in Harmony with Government Priorities (Strategic Priority). Efficiency in allocation is the skill of distributing sources in budget priorities. Here, replacing inefficient activities with more productive activities, leaving former priorities to newer ones and accomplishing these values in line with the state's goals are of great significance (Allen, Tommasi, 2001, p.20). Efficiency in source distribution can be done among various

units of the state. Expenditures must be based on the government's priorities and the efficiency of public programs. Budget system should act according to each important step of reallocation of sources (Schick, 1999, p.2).

Productivity in Public Services (Technical Efficiency). The effective utilization of budget sources as technically and functionally depends on applicable capacity of programs and providing of services with lower cost or minimizing per capita (Allen, Tommasi, 2001, p.20). Competing of public administrations with market prices and obtaining sustainable gains is contingent upon producing assets and services with the lowest cost (Schick, 1999, p.2).

DEVELOPMENT OF PUBLIC EXPENDITURE MANAGEMENT

Public Expenditure Management approach was put into practice in the early 1980s by World Bank and this approach has been improved to a large extent so far (Rajaram, Krishnamurthy, 2001, p.2). In particular, institutional and administrative arrangements are of great importance. Especially, it has been observed that expenditure allocations, provisions, financial management and evaluations which form the significant units of public expenditure management approach have been followed by the countries at an increasing ratio after the year 2001.

However, another face of this development is that struggling by World Bank (WB) and International Monetary Fond (IMF) towards this direction in particular has facilitated the collection of revenues from HIPC's for these institutons. The economical programs of member states by World Bank and IMF for public expenditure management approach have begun as public investment reviews (PIRs) and investment projects have taken priorities. Public expenditure reviews (PERs) took the place of public investment reviews (PIRs) owing to increasingly broadening budgets in 1980s. In West Africa alone, a total of 27 PIR/PERs were undertaken over the first half of the 1980s (Rajaram, Krishnamurthy, 2001, p.2). Particularly, during this period, it was seen that public expenditure reviews were heavily focused on budget allocation. In order to provide a better balance among various expenditure categories, it has been focused on capital expenditures instead of current expenditures, repair and maintance instead of prices, subvansion (or monetary aid) instead of investment expenditures (Rajaram, Krishnamurthy, 2001, p.2).

In this period, while institutional arrangements such as budget management carry less importance, the narrowing of budgets by central governments is of greater significance. These approaches suggesting the lessening of central government's expenditures have met a great reaction in many societies. By institutional arrangement approach in 1980s, public management understanding has become more widespread. The 1983 World Development Report was entitled *Management in Development*, and this report led to the establishment of a unit in the Bank focusing on core issues of public sector management (PSM). Public sector management has developed basic experiences and literature of public expenditure approach. This experience was summarized in the 1987 *World Development Report* by the management. In Douglass North's (1993 Nobel Prize Winner) study, the stress of institutional arrangements in the development of both private and public sector has led the Bank's attention to concentrate on this direction. Examining the World Bank's studies, it is possible to see "medium-term expenditure system" which forms the most important step of public expenditure management and budget rules.

It is seen (World Bank, Public Expenditure Management Handbook) that a substantial amount of "public expenditure management handbook (1998)", which is one of the basic sources of this study, has been covered by institutional arrangements and medium-term expenditure system. This approach shapes the state budget and stresses the understanding "rules of the game" in practice. Today, these institutional approaches provide the definition of public expenditure management as "public expenditure and institutional reviews" (PEIRs) approach (Rajaram, Krishnamurthy, 2001, p.4). These approaches made on weak institutional arrangements and public managements have given an opportunity to recollect the revenues given by the World Bank and International Monetary Fund in particular. The World Bank has supported (World Bank Annual Report, 2000, p.110) many countries both technically and financially in terms of their harmony with medium-term approaches in public expenditures. Today, many countries have been able to develop (Rajaram, Krishnamurthy, 2001, p.5) their institutional capacities for conducting budget allocations and budget plans better through public expenditure management. In the next years as well, it can be told that public expenditure management is going to maintain its feature of being an important means and basic guide in this sense.

Public expenditure management approach has been taken into consideration not only by World Bank and IMF but also The Organization for Economic Co-operation and Development (OECD) and European Union has supported this approach. As a result of both institutions' cooperation, so as to provide a better management in public, "Support for Improvement in Governance and Management in Central and Eastern European Countries" (SIGMA) has been constructed. "The Transition Economies Public Expenditure Management Handbook" placed by this program in 2001 has provided the development and widening of public expenditure management approach.

A set of "baseline" criteria that set out the essential requirements of a well-functioning public management system covering both EU funds and national resources provided through the budget are:

a. Institutional framework. Clearly defined principles should be set out in a country's constitution, the organic budget law and related laws. The regulatory framework should provide a sound balance between the legislative and the executive powers. Parliament must be enabled to properly scrutinise the budget, and debate and review fiscal policies. For good macroeconomic management and efficient allocation of resources, the budget should cover all revenues and expenditures. Extra-budgetary funds and sources of external finance (e.g. EU funds) should be integrated into the national budget.

b. Medium-term fiscal framework. Future EU Member States should be able to provide budgetary information within a medium-term framework, and set medium-term fiscal objectives. Once they become EU members, either within or outside the European Monetary Union, they will have to submit either stability or convergence programmes. Both programmes will have to specify the main elements of a medium-term fiscal framework that complies with certain methodological principles and standards.

c. Budget preparation process. There should be a well-defined and widely understood sequence of steps in the budget preparation process, allowing sufficient time for each step to be implemented efficiently. Procedures used for preparing the budget for operational and capital investment expenditures should be integrated. Hard budget constraints should be included. The draft budget should be presented to parliament in an appropriate format to allow parliament to scrutinise it properly. It should specify the government's fiscal

policy objectives, the macroeconomic framework, the budget policies and identifiable major fiscal risks. Budget information should be presented to the public in a clear and accessible form.

d. Budget execution and monitoring. The line ministries should enforce spending limits stipulated by parliament, and the ministry of finance should be able to supervise these limits. The ministry of finance should monitor and control the flow of expenditures during the year on the basis of a unified system of financial accounts. Systems for monitoring and controlling personnel expenditures should be as robust as for other areas of the budget. Line ministries should make regular reports to the ministry of finance that compare actual spending with monthly forecasts based on the budget appropriations. Parliament and the council of ministers should have appropriate responsibilities for reviewing periodic reports on financial performance relative to the budget and for revising targets and/or policies as required by changed economic or financial circumstances. The cash management (or treasury) function should be strictly managed through a treasury single account under the control of the ministry of finance.

e. Accounting and reporting. Budget and accounting categories at the national level should have a common system of classification that facilitates policy analysis and promotes accountability. Accounting concepts need to be made compatible with concepts related to the disbursements of EU funds (commitments, payments, eligible expenditures, etc.) and the definition of "deficit" and "government" aligned with the ESA95 standards. Fiscal reporting should be timely, comprehensive, reliable and identify deviations from the budget. Procedures for evaluating the efficiency and the effectiveness of expenditure policies and programmes, including those funded from EU sources, should be established.

f. Financial control. A coherent and comprehensive statutory base defining the systems, principles and functioning of management control, or internal control, is required. The following systems and procedures are essential for sound internal (management) control: (i) standards and regulations for financial reporting; (ii) a modern accounting system conforming with international standards; (iii) a defined audit trail, which for the management of EU funds should clearly define the roles and the responsibilities of the different national entities involved, including the National Fund, Paying Agencies and Implementing Agencies; (iv) ex ante controls of commitments and payments; (v) public procurement procedures that comply with EC regulations and are effectively implemented; and (vi) control of state revenues. An efficient internal audit/inspectorate mechanism should be put in place. It should meet the following criteria: (i) be functionally independent; (ii) have an adequate audit mandate; and (iii) use internationally recognised auditing standards. Systems should be in place to prevent and take action against irregularities and to recover any amounts lost as a result of irregularity or negligence.

g. Procurement systems. Achieving a properly functioning market is one of the priority tasks of the European Union. One of the key ways of achieving this goal, and other related and essential elements of good governance, is to have an efficient procurement system in which competition is encouraged for contracts awarded by public sector bodies. Sound procurement policies and practice can reduce costs of public expenditure; produce timely results; stimulate the development of the private sector; and reduce waste, delays, corruption and government inefficiency. Measures to improve procurement procedures include: sound public procurement legislation; the establishment of a central public procurement organisation with overall responsibility for the design and implementation of

public procurement policy and national training programmes; the development of the capacity of spending units in efficient procurement procedures; and the establishment of effective control and complaints review procedures.

h. Budget management of EU Funds. The European Commission expects that candidate countries for EU membership will prepare themselves for managing the pre-accession funds (Phare/ISPA/SAPARD) so that, when they join the EU, they have the required budget and control instruments in place. In order to comply with this, governments should have the capacity to present multi-annual programmes involving careful co-ordination between partners at different levels of government, well-designed co-financing procedures and sound technical and economic appraisal of such programmes.

BUDGET CONCEPT

The word "budget" (as "budjet" in Middle English) meant King's wallet (Shah, 2007, p.57). As for today, it can be called as basic policy document of public financial management that besieges all incomes and expenditures of public (OECD, p.7). These comprehensive documents, politically, are public management tools for curbing illegality and raising democracy. In terms of administration, it means planning of legislation and administrative units' coordination; technically, improving of managerial productivity (Hou, 2006, p.730). Separately, state budgets can also be defined as keeping the registrations of income and expenditures of the government which belong to a definite time period (Shah and Von Hagen, 2007, p.28).

The budgeting institutionals and budgeting period execute some significant basic functions. These functions are as follows (Shah and Von Hagen, 2007, p.27);

- Allocation priorities of public sources;
- Planning for succeeding political goals;
- Providing financial control of the rules and harmonious input;
- Providing managerial function with financial savings;
- Providing confidence of taxpayers through honesty and accountability.

In addition, the other functions of states budgets are providing economical growth and employment and re-distribution of incomes in economy (Premchand, 2001, p.1023). However, it is disputable whether budget reflects political priorities or economical priorities.

When reforming a budget system, the three basic objectives of PEM provide a framework to assess progress in improving performance of the budget system. The optimal mix of measures that is required in order to make progress according to these three basic objectives depends on the country context. Improvements in one or another area can and should go forward as and when circumstances permit. But a coherent vision of the entire reform process is needed to prevent "progress" against any one objective from getting so far out of line as to compromise progress against the other two objectives.

The main links between the three basic objectives of PEM and budget processes can be described in the following manner:

- *Aggregate fiscal discipline* requires overall expenditure control, with expenditure estimates based on realistic revenue forecasts, and the capacity to set up fiscal targets and enforce them. The preparation of a macroeconomic and fiscal framework must be the

starting point of budget formulation. To achieve aggregate fiscal discipline, the role of the ministry of finance is crucial.

- *Allocative efficiency* operates at different levels within the government. The allocation of resources among "strategic areas" and/or line ministries entails appropriate arrangements at ministerial level, and between ministries, to formulate policies and decide on sectoral financial envelopes. The allocation of resources among programmes, projects, and activities within these strategic areas requires both appropriate arrangements within line ministries for sector policy formulation and adequate technical capacities within spending agencies to select the most cost-effective programmes, projects and activities.

- *Technical efficiency* mainly concerns the operational level, and is dependent on arrangements to implement programmes within spending units on the basis of efficient and effective management systems.

Operational performance in programme implementation and service delivery calls for both efficiency and effectiveness in use of resources. Effectiveness in service delivery is closely related to resource allocation decisions and allocative efficiency. But achieving improved efficiency and effectiveness at the operational level also depends on many factors not directly related to the budget system (e.g. the application of EC regulations, and, in the education sector, to policies relating to school curricula).

Aggregate fiscal discipline and the efficient allocation of resources are often impeded by the so-called "tragedy of the commons". There are many claimants to the budget, e.g. interest groups, legislators, line ministries. Each has preferences over the manner in which the budget should be allocated. The sum of these individual preferences puts pressure on increased expenditures. The allocation of resources is the more challenging of the three key objectives because it is dominated by political factors. As Petrei (1998) puts it: "Resource distribution among programs is perhaps the least technical part of the budget process. With the exception of investment projects, spending decisions are rarely based on technical principles or on detailed work to determine the population's preference. The allocation of funds results from a series of forces that converge at different points of the decision-making process, with an arbitrator who rules according to an imperfect perception of present and future political realities. The ministries, the headquarters of the principal agencies, and many other decision-making positions are occupied by politicians who, theoretically, have developed a certain intuition about what people want." Budgetary outcomes are profoundly influenced by institutions, which comprise both formal and informal rules.

Transparency and accountability mechanisms are needed to impose implicit costs and, when relevant, explicit sanctions on politicians and bureaucrats for violating budgetary rules. Accountability means that politicians and public officials have to respond periodically to questions concerning their activities and must be held responsible for the exercise of the authority provided to them. Accountability is essential but does not become operational until one defines accountability "of whom", "for what", and "to whom". Accountability requires clarity in the definition of responsibilities. Being held responsible should lead to consequences that can include rewards or sanctions, as in the case of misuses of public funds. Accountability is required for a variety of areas from policy commitments made by politicians to operational activities. There are various forms of accountability: some are "internal" to the executive branch of government, others affect the relationship between the executive and the other branches of government, or the external world. Accountability to parliament is essential, and one of the basic conditions for sound budgeting.

Transparency underpins accountability. Fiscal and financial information, made available on a full, regular and timely basis, is an important ingredient of an informed executive, legislature, and public. Competent legislative staff and independent public media are essential to processing and disseminating this information. It is important not only that such information be provided, but that it be in a relevant and understandable form. In 1998, the IMF assembled a *Code of Good Practices on Fiscal Transparency* (see Box 0.1 and Annex IV) that emphasises the importance of clear fiscal roles and responsibilities; public availability of information; open processes of budget preparation, execution, and reporting; and independent reviews and assurance of the integrity of fiscal forecasts, information and accounts. This Code identifies good practices that constitute a minimum standard that should be implemented by all transition countries.

Predictability is important for operational performance. Lack of predictability of financial resources undermines strategic prioritisation and makes it hard for public officials to plan for the provision of services (and is an excellent alibi for poor performance). Predictability of government expenditure in the aggregate and in the various sectors also provides important signals to the private sector in making its own production, marketing and investment decisions. However, assuring predictability does not mean making unconsidered promises, which would weaken fiscal discipline. Predictability is a relative notion, the challenging task being to deal with uncertainty in the most suitable manner, taking into account a country's economic and fiscal context.

So, if we want to have a good budgetary system, we have to take into account the following:

- A budget law or administrative framework, covering budgetary as well as extra-budgetary activities and specifying fiscal management responsibilities should be in place.
- Taxation should be under the authority of law and the administrative application of tax laws should be subject to procedural safeguards.
- Extra-budgetary activities should be covered in budget documents and accounting reports.
- Original and revised budget estimates for the two years preceding the budget should be included in budget documents.
- The level and composition of central government debt should be reported annually with a lag of no more than six months.
- A fiscal and economic outlook paper should be presented with the budget, including among other things, a statement of fiscal policy objectives and priorities, and the macroeconomic forecasts on which the budget is based.
- A statement of "fiscal risks" should be presented with the budget documents.
- All general government activities should be covered by the budget and accounts classification.
- The overall balance should be reported in budget documents, with an analytical table showing its derivation from budget estimates.
- A statement of accounting standards should be presented with the budget.
- Final central government accounts should reflect high standards, and should be audited by an independent external auditor.
- Standards of external audit practice should be consistent with international standards.
- Working methods and assumptions used in producing macroeconomic forecasts should be made publicly available (IMF, 1999).

Beyond the three basic objectives, a sound system of public expenditure management needs to take into account the wider values and requirements of society. Accountability, transparency, predictability and participation are important instruments for sound budget management, but also have an intrinsic value, and are generally seen as the four pillars of good governance. If budget managers do not comply with parliament's authorisations, or if public funds are used for private purposes, it is doubtful whether either aggregate fiscal discipline or efficient resource allocation, or both, will be achieved. The requirements of compliance with parliament's authorisations and accountability to parliament come essentially from the role assigned to the parliament in a democratic society. In modern societies, citizens expect probity from the people in charge of government activities. Corruption, which is the misuse of public or private office for direct or indirect personal gain, poses moral and legal problems and is a major source of inefficiency in PEM. Certainly, one effective route to strengthening PEM is to reduce the opportunities for corruption and punish corruption when it occurs. The reverse is also true: a major way to curb corruption is to strengthen public expenditure management systems. Corruption in government is often identified with large procurement transactions and major public works projects (see, for example, Tanzi, 1993). Effective systems of procurement, internal (management) control and audit are required to limit opportunities for corruption. Often in transition countries, the traditional inspectorates focus on relatively minor irregularities, while the more serious cases of corruption are not investigated and remain unpunished. Such cases are often found in the "hidden" part of the annual budget (such as contingent liabilities, off-budget expenditures, and multi-year expenditure commitments). Moreover, the expenditure budget is not the only source of potential corruption. Weak systems of tax administration, debt management, customs administration, privatisation, etc., are equally prone to corrupt and fraudulent activities. Fiscal transparency and accountability, and appropriate audit systems, are essential to fighting corruption in all these areas.

There is no automatic relationship between a particular instrument or institutional arrangement and the budget outcomes. The relevance and effectiveness of institutional arrangements and budget management systems depend on the country context. Hence, any instrument for public expenditure management originating from another country must be carefully analysed in the light of the local context and rejected, adopted, or adapted as needed. There are, however, some basic principles that every budget system should enforce (such as comprehensiveness), and as argued by Schick (1999), when reforming a budget system, the priority actions should be aimed at getting the basics right first.

Particularly important for improving PEM is an evaluation of the country's institutional framework.

If budget reforms are designed without taking key informal rules into account, they are likely to fail. Budget organisations can be restructured, recombined and created, and sophisticated instruments implemented, but no change in behaviour (and hence in budgetary outcomes) will result unless the basic rules, procedures, and incentives change as well.

In theory and practice there exist several budgetary principles, which countries should use in the process of budgetary reform:

1. Foster an environment that supports and demands performance before introduction of performance or outcome budgeting.
2. Control inputs before seeking to control outputs.
3. Account for cash before accounting for accruals.

4. Establish external control before introducing internal controls.
5. Establish internal controls before introducing managerial accountability.
6. Operate a reliable accounting system before installing an integrated financial management system.
7. Budget for work to be done before budgeting for results to be achieved.
8. Enforce formal contracts in the market sector before introducing performance contracts in the public sector.
9. Have effective financial auditing before moving to performance auditing.
10. Adopt and implement predictable budgets before insisting that managers efficiently use the resources entrusted to them (Schick 1999).

MEDIUM-TERM EXPENDITURE CONCEPT

Medium-term expenditure system (MTEFs) is estimation for sources affecting political changes and new programs and arranging budget necessities in future with multi-year expenditure planning applications (Pearson, 2002, p.1). Medium-term expenditure system is a basis for measuring the effects of political changes on budget. Medium-term expenditure system provides an opportunity for viewing the comparison with financial magnitudes during the application of budget expenditure (Schick, 1999, p.13). The system has been realized in the form of planning the next three years of government expenditures and it depends on the limits of expenditure, aimed income, financial posture of government and loan management policies (Africa Research Bulletin, 2005, p.16547). Medium-term expenditure system includes distribution of sources from upper part to bottom, estimation of present short and medium term political costs from lower part to the top, and the harmony of these costs with available sources in the end (World Bank, Public Expenditure Management Handbook, 1998, p.48).

Source distribution from upper part to bottom is a macro economical model estimating revenues and outgoings and displaying financial target including high cost price programs such as financial obligations and public service reform where the government has put into service on the basis (Le Houerou, Taliercio, 2002, p.2). Sectors engage in reviewing from the lower part to top by examining sector policies and activities with a point of view optimizing inner sector allocations in order to complete macro economical model, like zero-based budgeting approach (Le Houerou, Taliercio, 2002, p.2).

Medium-term expenditure system is an expenditure planning orientating expenditures with political priorities and making it possible to connect to a definite method with budget realities and presenting connective frame (World Bank, Public Expenditure Management Handbook, 1998, p.3). The system is contingent upon safe commitments in reaching at macro financial discipline, binding of budget to a definite technique and strategical priorities of the government and central units for the allocation of public sources (World Bank, "What is MTEF"). In many cases, the needs exceed reachable sources by quite a lot and medium-term expenditure management provides technical help on the issue of allocating these limited sources to decision makers for specialized activities taking place in sector or intersectorally – ministry or institutions (Muggeridge, 1997, p.7). If the problem is that there is no link between creating policy, planning and budgeting, medium term expenditure system has been viewed as a potential solution (Le Houerou, Taliercio, 2002,

p.2). While creating policy, planning and budgeting periods are given as pre-requisites of developing countries' managements, medium term expenditure system has gradually been seen as central element of public expenditure management reform (PEM) (Le Houerou, Taliercio, 2002, p.2).

CONCLUSIONS

In company with globalization, the understanding of public management and public financial management in its parallel has altered. Public assets have gained a much more valuable appearance than the formal ones and the necessity for efficiency in expending public sources has become significant. In this sense, World Bank and Multinational Financial Institutions such as International Monetary Fund in particular state that public sources should be spent in accordance with fiscal discipline, strategical priorities and technical productivity through their various studies and sanctions toward members. While succeeding in this, institutional arrangements, accountability and transparency have appeared as the most important values for countries to achieve.

Transition countries recognise the importance of effectively managing government expenditure and are undertaking many important reforms in this area. Nevertheless, they are still burdened, to an extent that varies from country to country, by their inheritance from the previous regimes. In many transition countries, the tendency to impose decisions from the top, without adequate consultation and co-ordination, still creates inefficiencies in policy development and implementation. Moreover, the distribution of budgetary responsibilities between the ministry of finance and line ministries is often not clearly defined, and the ministry of finance remains insufficiently empowered to ensure adequate scrutiny of budget proposals. Budget fragmentation—e.g. through use of numerous extra-budgetary funds and separate capital and expenditure budgeting and programming procedures—reduces allocative efficiency. Little progress has been made to strengthen the policy-making function and create the necessary links with budgeting. Parliaments are inexperienced and are generally unable to perform their control tasks effectively. Accounting and reporting standards, and systems for financial control and audit, need to be developed further and brought into line with European Union requirements. The development of procurement law and systems is uneven.

Meeting the standards reached by EU Member States in PEM thus remains a challenging task for countries in the region that aspire to be members. In fact, the European Commission does not prescribe any particular model of public expenditure management on Member States. Indeed, there are few explicit requirements in this area except in the fields of aggregate fiscal discipline, the management of EU own resources and financial control. However, in countries of central and eastern Europe, the allocation and efficient use of EU funds and the necessity for maintaining fiscal discipline call for undertaking PEM reforms in several major areas. These reforms should be aimed initially at implementing essential elements of good practice in budgeting systems and also meeting specific EU requirements for Member States.

REFERENCES

1. Africa Research Bulletin (2005), Economic, Financial and Technical Series, Volume 42, Number 5, Blackwell Publishing Ltd, (May 16th–June 15th).
2. Allen, Richard and Daniel Tommasi (2001), *Managing Public Expenditure A Reference Book for Transition Countries*, SIGMA, OECD.
3. Campos, Jose E. and Sanjay Pradhan (1997), "Evaluating Public Expenditure Management Systems: an Experimental methodology with an Application to the Australia and New Zealand Reforms" *Journal of Policy Analysis and Management*, Vol. 16, No. 3.
4. Fabrizio, Stefania and Ashoka Mody (2006), "Can Budget Institutions Counteract Political Indiscipline?", *International Monetary Fund Journal Economic Policy*, (October).
5. Hou, Yilin (2006), "Budgeting for Fiscal Stability over the Business Cycle: A Countercyclical Fiscal Policy and the Multiyear Perspective on Budgeting", *Public Administration Review*, (September- October).
7. Le Houerou, Philippe and Robert Taliercio (2002), *Medium Term Expenditure Frameworks: From Concept to Practice Preliminary Lessons from Africa*, Africa Region, Working Paper Series No. 28, (February).
8. Muggerridge, Elizabeth (1997), Draft Report Mozambique: Assistance with the Development of a Medium Term Expenditure Framework, World Bank Draft Report, (June).
9. OECD, "OECD Best Practices for Budget Transparency", *OECD Journal on Budgeting*, Volume 1, No. 3, Note from the Editors.
10. Pearson, Mark (2002), "Medium Term Expenditure Frameworks (MTEFs)", DFID's Health Systems Resource Centre for the UK Department for International Development, London.
11. Premchand A. (2001), "Public Budgeting And Economic Development: Evolution And Practice Of An Idea", *International Journal Of Public Administration*, P.1023.
12. Rajaram, Anand and Mallika Krishnamurthy (2001), "Public Expenditure Management and Accountability: Evolution and Current Status of World Bank Work", *Poverty Reduction and Economic Management Network Operation Policy and Country Services Network*, (April).
13. Schick, Allen (1999), *A Contemporary Approach to Public Expenditure Management*, World Bank Institute, Governance, Regulation, and Finance Division, Second Printing, (April).
14. Schick, Allen (2001), "The Changing Role of the Central Budget Office", *OECD Journal on Budgeting*, Volume 1, No. 1.
15. Shah, Anwar and Jürgen Von Hagen (2007), *Budgeting and Budgetary Institutions*, Herndon, VA, USA: World Bank.
16. The World Bank, "What is MTEF?", (accessed December 11, 2007), [available at
17. <http://siteresources.worldbank.org/INTPEAM/Resources/MTEFprocess.doc>]
18. The World Bank, (accessed May 5, 2007), [available at
19. <http://siteresources.worldbank.org/IDA/Resources/Seminar%20PDFs/evolution.pdf>].
20. The World Bank (1998), "Public Expenditure Management Handbook", Washington, D.C., The International Bank for Reconstruction and Development/ The World Bank, p.17-52.
21. The World Bank (2000), "Annual Report 2000", (accessed January 21, 2008), [available at
22. http://www.worldbank.org/html/extpb/annrep2000/pdf/wb_7.pdf]
23. Von Hagen, Jürgen (1998), "Budgeting Institutions for Aggregate Fiscal Discipline", ZEI, University of Bonn; Indiana University; Center for European Integration Studies (CEPR).
24. www1.worldbank.org/publicsector/pe/befa05/OECDChapter7.pdf.

ZNAČAJ UPRAVLJANJA JAVNIM RASHODIMA U SAVREMENIM BUDŽETSKIM SISTEMIMA

Jadranka Djurović-Todorović, Marina Djordjević

Nacionalni budžet je osnovni instrument preko koga država prikuplja sredstva iz ekonomije u odgovarajućem iznosu i razmešta i koristi ove resurse na odgovoran, efikasan i efektivan način. Upravljanje javnim rashodima je instrument državne politike. Bazični ciljevi, odnosno principi upravljanja javnim rashodima su obezbeđenje makrofinansijske discipline; strategijskih prioriteta, odnosno efikasne alokacije resursa; i efikasno pružanje usluga, tj. tehničke produktivnosti. Ovi

ciljevi su komplementarni i nezavisni. Praktična primena koncepta upravljanja javnim rashodima otpočela je u ranim 80-im godinama prošlog veka od strane Svetske banke.

Skup bazičnih kriterijuma koji su neophodni za ostvarivanje dobrih performansi sistema javnog menadžmenta su: institucionalna infrastruktura, srednjoročni fiskalni okvir, proces pripreme budžeta, izvršenje budžeta i monitoring, računovodstvo i izveštavanje, finansijska kontrola, sistem obezbeđenja i upravljanje budžetom sredstava dobijenih iz fondova EU.

Srednjoročni budžetski okvir je procena izvora političkih promena i novih programa i neophodna priprema budžeta u budućnosti uz upotrebu višegodišnjih planiranih javnih rashoda. Srednjoročni budžetski okvir je osnova za merenje uticaja političkih promena na budžet. Ovaj sistem rashoda obezbeđuje mogućnost za sagledavanje sličnosti finansijskih sredstava tokom izvršenja budžeta.

Cilj ovog rada je da naglasi značaj koncepta upravljanja javnim rashodima i njegove upotrebe u oblasti javnih finansija i budžeta.

Ključne reči: javni rashodi, srednjoročni budžetski okvir, fiskalna disciplina, budžet.