

PUBLIC ADMINISTRATION AND PUBLIC SECTOR FINANCE

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BARRIERS TO EFFECTIVE PUBLIC SECTOR FINANCIAL BUDGETING AS COMPARED BETWEEN DEVELOPED COUNTRIES, RUSSIAN FEDERATION AND COUNTRIES OF CENTRAL ASIA SUCH AS KAZAKHSTAN AND KYRGYZ REPUBLIC

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Abstract

This article discusses issues related with public financial management, provides analytical comparison of the public expenditure and budgetary processes in the developed world (European countries and United States) and also in the developing countries (Russian Federation, Kazakhstan and Kyrgyz Republic), advises the measures for improving systems in the public sector and the budgetary techniques for minimising barriers to the effective public financial budgeting.

Keywords: public financial management, budgetary system, public expenditure, budgetary reforms, cost-efficiency in public sector.

In the public sector there is a long history of budgetary reforms being at the heart of administrative ones most of which were initiated in the United States and Europe and subsequently transferred to other countries. In the context of public administration, public financial management, including the budgetary system, was subjected to the changes, evolved and started to include new features. In a classical model, the public financial management considered implementing tax policies on revenues, expenditures and investments as a main function. In a new public management model its primary function was a search for the potential revenues using cost-efficient approach of service provision. The governance model suggests public financial management to secure financing in order to keep organisational and network coalitions intact [1].

Public financial management is performed by means of budgeting. This helps to coordinate financial and production strategy as a whole in the public organisation, provides systematic verified processes of formation of financial reporting and analysis of the risks. It is applied for the purposes of effectiveness and provision of financial strategy at each level of the public sector [1]. Effective budgeting is provided via financing of public sector organisations in accordance with their established goals, strategies, programmes, resources, services and results. This process results in the formation of budgeting requests that take into account not only financing to be provided but also results to be achieved via such financing [2].

As a key for successful policy implementation, financial budgeting became a necessity to the efficiency and effectiveness of a government and the entire public sector. The regular reconsideration of the role of government by the society depending on an agenda of the day and calls for making the activity of government and public sector effective have resulted in the innovation and introduction of new budgetary systems which were aimed to meet demands of citizenry, and eventually increased the complexity of public administration and social development. In this regard, the effective financial budgeting faced and still faces obstacles of various natures, including cultural and traditional environment, difficulty to reshape systems presented in public sector, lack of autonomy and flexibility [3] as well as many other limitations inhering in many countries or in a specific country. In this regard, the present material provides critical consideration of the barriers to effective public sector financial budgeting with presentation of relevant reasons and examples from the practical experience of some developed countries, Russian Federation and countries of Central Asia, including Kazakhstan and Kyrgyz Republic.

Traditional administrative reforms being introduced are intended to improve the quality of public services provided to the citizens, increase the cost-efficiency of public sector (decrease of expenditures for execution of state

functions and services provision), strengthening of executive order (provision of the execution of decrees, resolutions, plans and programmes) [4]. In the process of achieving set goals there may be deviations from the established route. Therefore each step is to be counted by the government considering variations of its further actions and measures. The instrument for this process is budgeting. As a plan for a specified period expressed in the numerous (as a rule, money) indicators, the budget is prepared in order to effectively attain strategic guidelines. Consequently, the budgeting is a procedure of processing and execution of budgets on the continuous basis. In some countries there is still no due attention focused on the budgeting as a part of financial management of a state, while it is required for the purposes of understanding where, when, how and for whom the state is intended to provide services; what resources are needed for the achievement of set goals, reaching of effective usage of available resources, which as a result will lead to the increase of effectiveness and efficiency of public functions. That is not to be a single but a permanent target of the government and public sector, budgeting can be an effective tool to implement policies aimed at accumulation of national savings and their further re-distribution at all regions of a country or an economic union (like in case of European Union).

Since it is being increasingly recognised that a sound public financial management system, including a budgetary process, is a public good of high value, the administrative reforms of recent years are addressed at strengthening a budget system via introduction of multi-year budgeting programmes. Hence, as a main instrument of a state to influence the growth of economy and living standards, the budgeting is considered as a useful means to reflect national priorities. Government budgets reflect the strategies aimed at various socioeconomic issues, promote development of the very sections of economy that can improve the entire economic structure and increase competitiveness of the economy itself. This indicates an increasing acknowledgement that the usual approach to budgeting process based on the annual framework, in fact, undermines budgetary performance promoting fiscal instability and inefficient and ineffective utilization of available resources [5]. Until budgeting is required to take account of longer term realities of resource availability and becomes more oriented to policy priorities, the annual budgets are likely to face crises, with increasing need to urgent interventions. Eventually, traditional bottom-up budgeting was supplemented with additional approaches such as top-down, medium- and long-term, zero-based and performance budgeting, which were aimed at enhancement of the annual budget process. Hence, within the framework of an up-to-date budgeting concept, planning and control over the execution of budgets had shifted from simple planning of expenditures into the sphere of detailed justification of the results and their budgeted cost.

As one of the common barriers to the effective financial budgeting in the public sector, final results determination is a difficult task, sometimes in

conflict in relation to the choice of regulations and procedures according to which these result indicators are approved and controlled. Consequently, it is insufficient just to define planning indicators, it is also necessary to provide their achievement, i.e. to ground the resources that guarantee achieving these results. Solution of this problem entails the effective financial budgeting of a performance based type [6].

In this regard, in the countries, particularly those of OECD, where medium term budgeting was adopted in order to transform national policy goals into allocations of public expenditure within the framework of multi-year macroeconomic and fiscal strategy, one of the main barriers is recognised as the lack of capacity of public sector organisations to prepare economically grounded expenditure programmes which would result in the effective achievement of set objectives [7].

For instance, in Britain with traditional domination of 'incremental' approach to budgeting, the experiments with alternative approach namely 'rationality' in the budgeting system in practice resulted in the occurrence of 'hybrid budgetary systems' which combined the elements of both the incremental tradition driven by the realities of politics and rational approach promoted by the commitment of senior civil servants towards new managerialism [8]. Here a traditional status quo became an obstacle for the effective financial budgeting.

In case of United States, the economic history and even private financial scandals have pushed the concept of accountability to the forefront. This has an impact on the financial budgeting. Governments always stretched to provide more services to meet growing public needs in the wake of budget deficits, economic uncertainty and natural disasters. As a result, many public sector organizations tend to apply performance based budgeting as a way to defend tough budget decisions and increase accountability. While the performance based budgeting concept seems rather straightforward, the reality of its implementation can be complicated by the challenges related to the cultural status quo, outdated legacy systems and disparate data sources. In addition, the public sector did not uniformly adopt some elements the private sector considers as a key in performance based budgeting like activity-based costing. As a result, the lack of reliable information on public program performance and outcomes is a gap that must be addressed in order to comply with federal mandates, justify funding and to show taxpayers the level of accountability they demand [9].

In 2004 the Russian Federation also started implementation of performance based approach in the form of reports on results and main lines of activity for entities of budget planning, development of medium term financial plans, differentiations of budgets if existing and re-undertaken obligations, improvement of budgeting classification [10]. Despite the novelty and absence of practical experience, the implementation of this budgeting approach was

performed though with the findings of mixed nature. Negative feature, that can also be viewed as a an obstacle to the effective financial budgeting, is the occurrence of a great number of government agencies which became in practice 'mini-ministries' and provide the same range of services, i.e. produce duplicated functions which fundamentally leads the inefficiency. As per the survey conducted by SAS Institute in the Russian Federation, another barrier for implementation of effective financial budgeting is the cultural resistance which is also the basis of another barrier: public sector organisations tend not to share information and not to collaborate with each other [11]. As a result, public sector organisations insufficiently understand the general national strategy. This in turn leads to the lack of balancing within these organisations.

In case of Kazakhstan, main barrier for effective financial budgeting in public sector is that the expenses are planned by the local department of economy and budget planning, while revenues are planned by the local department of finance. The linkage between planning of expenses and revenues is not present, which results in the inadequacy of expenditure section of budget in regard to its revenue section. In fact, local government does not participate in the process of financial budgeting; it only provides data about the financial requirements of the local entities of public sector. The effective budgeting is also impeded by the absence of expenditure rates, there are no standards for specific items of expenditure, for example, in relation to the sanitary condition of public buildings etc. (as a rule, standards enacted during the Soviet Union period are applied). As a rule, budgeting for a new period is based on the previous one with taking into account the inflation rate (i.e. incremental budgeting) [12]. Despite the enactment of a long term strategic plan "Kazakhstan-2050", and the introduction of a number of agencies to regulate and control the country's budgetary system, the government and Parliament have yet to adjust legislative and administrative frameworks to achieve declared goals. The steps to facilitate budgeting process and increase financial effectiveness were taken, including those related with the formation and implementation of performance based budgets for a three-year period. On the level of Republic the usual barriers for effective budgeting are identified as 'sluggishness' of budget program administrators and problems with conduct of public purchases [13]. For instance, the failure to apply all funds allocated for implementation of the "hundred schools, hundred hospitals" programme as a public-private partnership was caused by the absence of private investors that were intended to take part in this project.

According to the reports of the Audit Commission of the Republic of Kazakhstan, many cases of ineffective spending of funds is due to the fact that executors do not know exact goals, tasks and outcomes they are to achieve upon the completion of a budgetary programme. Due to financial budgeting inaccuracies, many buildings constructed for public funds are not commissioned in time [13]. Moreover, the practice showed that line managers are usually not

prepared to disburse funds allocated. It is clear that in order to improve the financial budgeting system in Kazakhstan the linkage of budgetary and taxation policy with monetary, crediting, investment and regional policies is to be reinforced. In addition, a unified system of reporting implementation of Republican level and local regional budgets which would include financial budgeting indicators needs to be established. An integral and transparent model of financial control over the budgeting in Kazakhstan, in the long term, may result in the reliable guarantee of all levels of the budgeting process starting from the Ministry of Finance to each aul (smallest unit of territorial division in Kazakhstan), establishing a functioning budgetary system in the relationship of various level budgets and secured by the procedures of development, consideration, approval, execution, control as well as reporting on the execution of Republican level and local budgets. In addition, such recent improvements related with the electronic government system show positive impact, especially in public electronic procurement which in turn contributes to the better budgeting and transparency for public expenditures.

In case of Kyrgyz Republic, barriers to the effective budgeting are quite similar to those presented in the developing countries. In this regard World Bank reports that the policy-based budgeting has not become better much. Nonetheless, during the period between 2009 and 2014 the Kyrgyz public financial budgeting system has enhanced, especially in its credibility, predictability, control over the execution, accounting and reporting, which contributed to the higher standards in public accountability and stronger management of public assets [14]. Another important development is that the Budget Code is being now drafted and its enactment will introduce essential improvements into the public financial budgeting system and its processes. Currently implementation of good international practice such as the introduction of open budget hearings and electronic procurement system has already increased transparency and made it more difficult to misuse public funds [14]. In medium and long term, such measures tend to decrease corruption in the public sector of Kyrgyz Republic.

To conclude above mentioned, this article provides detailed description and analysis of budgetary processes, explanation of why effective financial budgeting is needed, other interrelated issues and critical presentation of the barriers to the effective public sector financial budgeting, which are generally identifies as cultural resistance or traditional status quo, lack of autonomy and flexibility, difficulty to reshape and improve the systems in public sector, and many other depending on a specific country features. Although the countries use a variety of budgetary techniques usually combining technical innovations with managerial reforms for the purposes of minimisation of the barriers to the effective financial budgeting, it can be noted that the general recommendation for sound public sector organisations, provision of flexibility to manage resources and at the same time holding them responsible for the results. While

barriers to the effectiveness of financial budgeting field in public sector will tend to be improved but still changing in accordance with the socioeconomic agenda, change of budgeting forms and frameworks, administrative innovations etc., it is clear that the renewed attention is presently focused on the 'better financial management and accountability' [15], which means that the financial budgeting will keep the tendency of reconsiderations and reformation. Moreover, the complexity and variety of public financial management tools tend to extend and multi-year budgeting framework is not an end in itself.

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