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RESEARCH ARTICLE

INCREASING THE EFFICIENCY OF THE USE OF PUBLIC FINANCIAL RESOURCES IN ENSURING EMPLOYMENT OF THE POPULATION

Abduraimova Nigora Radjabovna
Doctorate Student of the Academy of Public Administration under the President of the Republic of Uzbekistan.

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Abstract

The paper reveals the essence of the system of public financial management (PFM), defines its key elements of the PFM system, and articulates goals and objectives in enhancing employment. The author's definition of PFM is given. A comparative analysis of managerial financial cycles in the public and private sectors of the economy is carried out. The historical aspect of the PFM reforms is also analyzed, and various approaches to financial management (income and expenditure) in the public sector are studied and suggested better ways to improve the busyness of the population. Factors influencing the effectiveness of the PFM reforms are revealed. The challenges faced by financial managers in implementing public finance reforms are analyzed, and the opportunities that can be used to achieve the objectives of the PFM system, some of which are simultaneously challenges are analyzed.

Introduction:-

Public Financial Management (PFM) relates to the way governments manage public funds and the impacts on the growth of the economy and the wellbeing of citizens. Managing public resources involves how the government earns money, known as revenue, and how the government spends money, or expenditure(OECD, 2012). Revenue may come from taxes, money earned by state enterprises, or foreign aid, for example. Expenditures are, for instance, government wages, purchasing goods and services, and spending on infrastructure and public services(Berryhill et al., 2018). PFM begins with Budget Formulation and Preparation. Officials at the Ministry of Finance look at how much money the government will earn from all possible sources, and how much money the government intends to spend. Using this information, the government develops a Budget Plan, which determines how much money should be allocated for each sector and Ministry(Curristine et al., 2007). The Ministry of Finance is responsible for approving this yearly Budget Plan. Once the Budget Plan is approved, Budget Execution begins. This is how the money gets spent; that is, how the money goes from being collected to being used. In modern PFM systems, Budget Execution is done through an IT system called Financial Management Information System (FMIS)(Killick, 2005). Public financial management is critical to improving the quality of public service outcomes. Itaffects how funding is used to address national and local priorities, the availability of resources forinvestment, and the cost-effectiveness of public services(Guthrie, 2005). Also, it is more than likely that the general publicwill have greater trust in public sector organizations if there is strong financial stewardship, accountability,and transparency in the use of public funds. Governments need to get it rightbecause it impacts a broad range of areas including aggregate financial management (fiscalsustainability, resource mobilization, and allocation), operational management (performance, value-for-money, and budget management),

Corresponding Author:-AbduraimovaNigoraRadjabovna
Address:-Doctorate Student of the Academy of Public Administration under the President of the Republic of Uzbekistan.

governance (transparency and accountability), and fiduciary riskmanagement (controls, compliance, and oversight). In addition, effective public financialmanagement is important for decision-making. Accurate financial information is often used as amechanism to support decisions and ensure effective resource allocations(Bisogno & Cuadrado-Ballesteros, 2020). Public financial management is acomplex field with many new initiatives and relatively few successes to date. Implementing public financialmanagement reform is a challenge in all countries, but to successfully mount and execute public financialmanagement projects in resource-constrained countries; public financial management practices adoptedshould be the ones that are both effective and efficient(Lawson et al., 2012).

What is the PFM and why it is important?

PFM refers to the set of laws, rules, systems, and processes used by sovereign nations (and sub-national governments), to mobilize revenue, allocate public funds, undertake public spending, account for funds, and audit results. It encompasses a broader set of functions than financial management and is commonly conceived as a cycle of six phases, beginning with policy design and ending with external audit and evaluation (Olander, 2007). A large number of actors engage in this “PFM cycle” to ensure it operates effectively and transparently, whilst preserving accountability. A strong PFM system is an essential aspect of the institutional framework for an effective state.Effective delivery of public services is closely associated with poverty reduction and growth, and countries with strong, transparent, accountable PFM systems tend to deliver services more effectively and equitably and regulate markets more efficiently and fairly. In this sense, good PFM is a necessary, if not sufficient, condition for most development outcomes.A key element of statehood is the ability to tax fairly and efficiently and to spend responsibly. These are fundamental characteristics of ‘inclusive’ state institutions, which generate trust, promote innovative energies and allow societies to flourish. Improving the effectiveness of a PFM system may generate widespread and long-lasting benefits, and may in turn help to reinforce wider societal shifts towards inclusive institutions, and thus towards stronger states, reduced poverty, greater gender equality, and balanced growth(PEFA, 2016). Even where donor staff does not seek to strengthen PFM systems, they need to understand them because they will often work through them, by providing budget support or climate finance, or with them, by providing project-financed interventions, which are then staffed and maintained through the national budget. In short, PFM matters, and all donor staff need a basic knowledge of PFM. To assess a PFM system, we first need to define its end objectives – the outcomes, by which performance can be measured. It is generally accepted that a PFM system should achieve three objectives, to which we here add a fourth, namely the promotion of accountability and transparency, which is increasingly seen as an objective in itself, because of its close relationship to the notion of inclusive institutions:

1. The maintenance of aggregate fiscal discipline is the first objective of a PFM system: it should ensure that aggregate levels of tax collection and public spending are consistent with targets for the fiscal deficit, and do not generate unsustainable levels of public borrowing
2. Secondly, a PFM system should ensure that public resources are allocated to agreed strategic priorities, in other words, that allocative efficiency is achieved
3. Thirdly, the PFM system should ensure that operational efficiency is achieved, in the sense of achieving maximum value for money in the delivery of services
4. Finally, the PFM system should follow due process and should be seen to do so, by being transparent, with information publicly accessible, and by applying democratic checks and balances to ensure accountability.

Ideally, one would assess the PFM system simply by measuring performance against these four objectives. To a degree, this is possible. The achievement of fiscal discipline is straightforward to measure at an international level, and the Open Budget Index (OBI) provides a reasonable proxy for transparency. However, measuring allocative and operational efficiency requires special studies. Some OECD countries and more advanced middle-income countriesundertake these regularly through program evaluations or value for money audits. Some Public Expenditure Reviews (PERs) also address these issues but, in general, such studies are not common in developing countries and their structure rarely allows for easy international comparison(Rakner, 2004).

Literature Review:-

This literature review consists of a review of existing publications by research theorists who have studied issues of reforming PFM, the key elements of such a complex process, which is the issue of PFM, issues of evaluating the effectiveness of PFM, and practitioners in public finance.

To reveal the relevance of the research topic and justify its choice, the following works were used as sources: PEFA 2009, 2016, Curristine et al. 2007, Global Financial Management Leaders Survey 2015.

Thus, in particular, the source of PEFA 2009, 2016, is a methodological guide for assessing the quality of financial management in the public sector, describes its key elements and indicators of evaluation.

The article by Curristine et al. (2007), briefly discusses potential key institutional factors that can contribute to improving the efficiency of the public sector. The authors argue that there is enough evidence that some institutional variables help improve efficiency, mainly: functional and political decentralization to subnational governments; certain human resource management practices; and scale-up operations. However, the most notable conclusion is the lack of empirical data and a systematic assessment of the effect of institutional variables on performance.

Method and study design:-

The purpose of this article is to analyze the effectiveness of public financial management of public resource systems to increase the employment of the population. The main method of this scientific research was to review scientific sources (such as books, journal articles, guidelines, laws, and abstracts) on the topic of the publication. This review was aimed at analyzing, interpreting, and critically evaluating the literature. Sources were synthesized to identify patterns, conflicts, and gaps. As a result, the author of this article shows the state of modern knowledge regarding the problems of research.

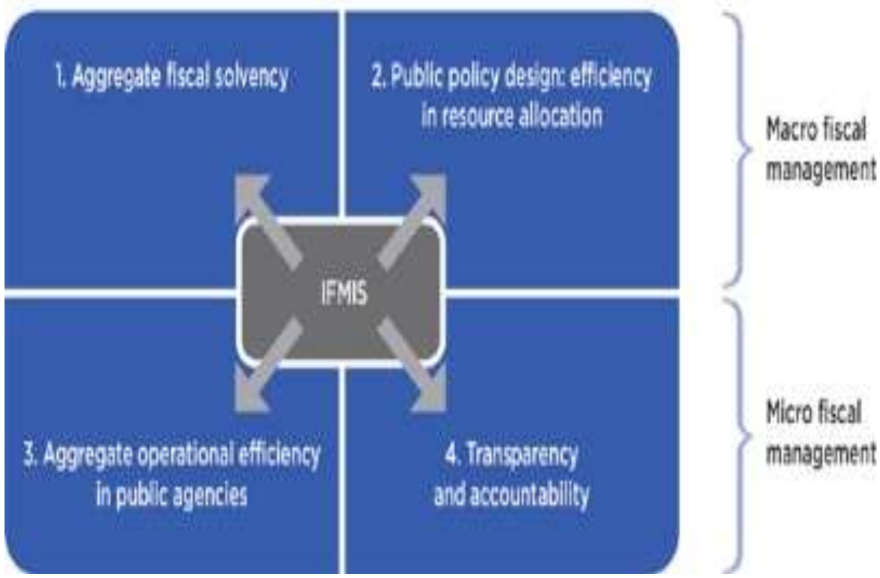
Research questions

Public Financial Management (PFM) has seen rapid innovation over the past decade. Once focused narrowly on budgeting, PFM 's scope has expanded dramatically, drawing new ideas and reforms from all corners of economics, political science, accounting, and public administration. Its evolution has long to run but has already resulted in the emergence of, what the IMF describes as ground-breakingmultidisciplinary public financial management practices.The research paper seeks an answer to the question 'what is the effective public financial management of resources to enhancing people's employment.

Results:-

In practice, the assessment of PFM systems focuses one level down from outcomes – that is on the examination of the institutions, rules, and procedures most likely to ensure the achievement of the key objectives of the PFM system(Pretorius & Pretorius, 2008). This approach provides the conceptual basis for the Public Expenditure & Financial Accountability (PEFA) assessment framework, developed by the IMF and the World Bank in conjunction with the EU, DFID, and other bilateral donors(Ortiz, 2018). It provides a set of 31 high-level indicators, by which to measure the performance of a PFM system. Since 2005, some 300 PEFA assessments have been undertaken of national and sub-national PFM systems in over 100 countries. Despite the inevitable shortcomings of a standardized system of measurement of this kind, the PEFA framework has justifiably gained wide acceptance and, when properly interpreted, provides a good guide to the status of PFM systems. An updated set ofPEFA indicators is to be issued in 2015. Since the late 1990s, DFID and other donors have devoted an unprecedented level of attention to the reform of PFM systems in developing and transition countries. Yet, the results have been mixed. With some exceptions, reform progress has been slow and the benefits elusive. Nevertheless, some countries have been more successful in implementing PFM reforms than others. What explains this difference in performance? And what implications does it have for the design of reforms and for the provision of external support? The first step for any country to achieve its national development objectives is for the public sector to analyze its finances to determine the available medium- and long-term fiscal space to direct resources to its development priorities. Within the available fiscal space, the prioritization of government expenditures should then be guided by the government's policy priorities and careful analyses that show the effectiveness and incidence of different government spending options(Ubaldi, 2013). An IFMIS is a set of sub-systems (modules) that interrelate with each other and which adopt a comprehensive approach to financial management; that is, a set of tools to achieve effective, efficient, and transparent public resource management within a framework for fiscal solvency. From this perspective, an IFMIS should not be viewed as an end in itself, but rather as an instrument that gathers information to support fiscal policy while improving public policy design through efficient resource allocation. As such, under PFM, it will improve the management of public expenditures and strengthen transparency and accountability, as well as macro- and microfiscal policies. Though there are some developing and middle-income countries that have been successful in aligning their available budgetary resources with their stated policy objectives, the relationship between budget allocations and policy priorities is often much less direct. It is not unusual for national development plans or strategies in less developed countries to end up as wish lists, rather than provide a realistic policy framework for prioritizing the public sector's scarce resources. Without a clear statement of government priorities, and typically without any analysis to what extent additional spending on any particular program will help achieve the government's policy objectives, budget formulation processes are either reduced to an exercise of providing all government program with an equal, incremental increase in resources, or exposed to the whim of political forces(et al., 2013).

Relationship Between Macrofiscal and Microfiscal Policy Management and an Integrated Financial Management Information System



Source: Arenas de Mesa and Uña (2012).

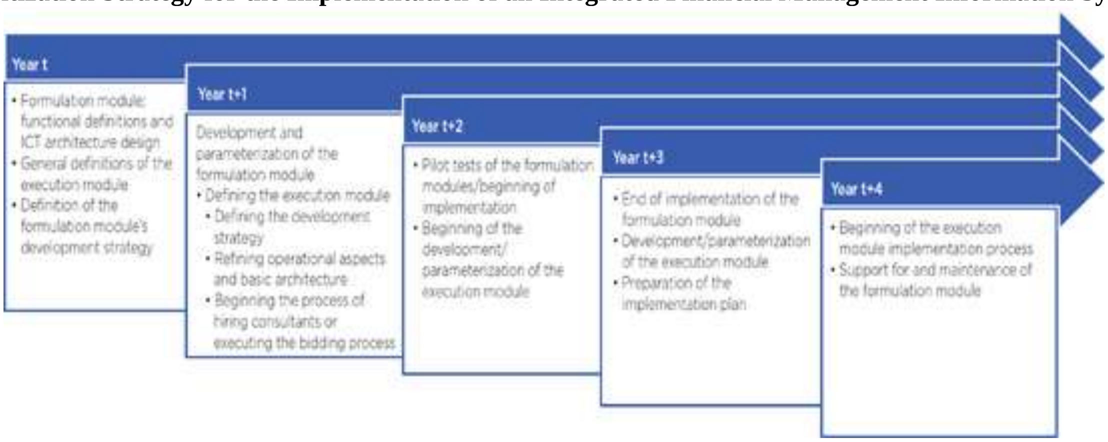
The sound management of the public sector's finances is a cornerstone of good governance and a pre-condition for efficient public service delivery and economic development. Yet, despite considerable efforts by international financial institutions and development agencies to improve public financial management (PFM) in developing and transition countries around the world, such as by introducing results-based budget planning, by making the budget process more transparent and inclusive, or by introducing integrated financial management systems, relatively little is known about the extent to which developing countries efficiently allocate their public finances in line with their stated policy priorities(Pulay & Simon, 2020). Similarly, relatively little is known in most countries about the political economy of the decision-making processes by which budgetary allocations are made.Many of the PFM tools the international PFM community currently uses were designed to assess the adherence of governments to specific PFM processes and procedures, but they provide limited or no guidance in answering whether public-sector finances are spent efficiently to achieve the desired outcomes(Shaturaev, 2021a). Although most budget documents provide a breakdown of spending by organizational unit and/or function, central or local government budget documents often do not provide the necessary level of detail that would allow stakeholders to trace the impact of spending decisions on specific service delivery outcomes. Similarly, few budget documents provide the necessary detail about the vertical allocation of resources (whether between different government levels or to subnational administrative tiers) to ensure that resources flow down to the local level where most public services are delivered.

Technical Expertise

As a nonpartisan policy research organization, the Urban Institute is recognized as a global leader in the analysis of public budgeting, tax policy, and the analysis of public-spending decisions across a range of policy areas and at all levels of government. Our broad technical experience has led us to conclude that instead of relying on a single tool, policymakers and practitioners—in the United States and around the world—should draw from a portfolio of tools to inform public budget choices and to effectively advance evidence-based policies(Shaturaev, 2021b). In addition, our involvement in real-world policy reform has taught us that fiscal policy reforms and budgetary decisions, though informed by evidence-based research, are first and foremost political decisions.Several subthemes and topics define IDG's international expertise in this practice area. These topics within public-sector finance and intergovernmental finance are closely intertwined with IDG's other practice areas (which include service delivery, inclusive governance, and urbanization, and the role of urban local governments).The analysis of public expenditures and

PFM Systems. A prerequisite for the design and implementation of effective policy (development) interventions is to have a solid understanding of the budget processes and financing mechanisms that fund the service or sector under consideration. Urban provides a wide range of fiscal policy analytical services, including assessments of public expenditures, public expenditure and financial accountability reviews, tax simulation modeling, and fiduciary risk assessments.One of the most well-known ways to strengthen the link between budget expenditures and policy results is by the introduction of results-based or performance-based budget processes. The Urban Institute has been a thought-leader in performance-based budgeting in the United States and around the world.Supporting the reform of intergovernmental fiscal relations and the design and implementation of fiscal decentralization. Many developing and transitional countries recognize that the excessively centralized management of public finances often leads to an unresponsive public sector in which spending is inefficient (both in terms of allocative efficiency as well as technical efficiency). Urban has supported countries around the world in designing and implementing fiscal decentralization reforms, including improving the assignment of functional (expenditure) responsibilities; revenue assignments; the analysis, design, and implementation of intergovernmental fiscal transfers; and strengthening local borrowing arrangements.Given the complexity of the execution module, a strategy should be put in place to prioritize the update of the budget formulation module, as in the case of Honduras and Peru; strengthen the role of the project team; and enable them to adjust the consolidation mechanisms, streamline processes, and increase learning concerning the technological innovations necessary to effectively execute module implementation—a more complex feat than that of the budget execution and evaluation module. A project of this complexity will require four to five years to become fully operational, despite the sequential stages. In this light, and to maintain the support of the Ministry of Finance, it is critical that tangible results are demonstrated in the short term (referred to as quick wins). This strategy should make the achievement of objectives easier and define the start of part of the new IFMIS upgrade within the project's second year, with the implementation of the budget formulation module as the first result of this initiative.

Prioritization Strategy for the Implementation of an Integrated Financial Management Information System



Source: Authors' elaboration.

Many studies have extensive international experience in the strengthening of local government finances, including the introduction of improved planning, budgeting, and financial management systems at the local level, and the improvement of own-source revenue collections and local borrowing practices.

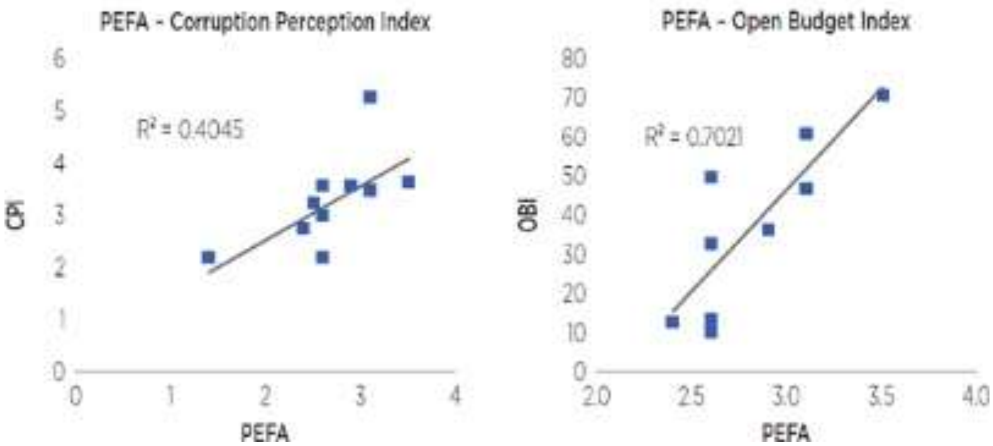
Discussion:-

Recent research and evaluation suggest that three critical ingredients are needed for successful PFM reform:

1. Leadership – a strong political and technical commitment, clear communication and coordination of reform, and a widening group of reform leaders who manage fears, expectations, and differences of opinion
2. Policy space for developing appropriate reforms – a thorough understanding of the context, a focus on the functionality of the system and not just the form, and teams and organizations that experiment and take risks, interrogating both the problem and the proposed solutions
3. Adaptive, iterative, and inclusive processes – where monitoring, learning, and adaptation are key.

While these lessons may seem obvious in retrospect, evidence suggests that many past donor interventions to support PFM reform have ignored them – attempting to drive reform from the outside and imposing 'blueprint solutions' inappropriate to the context. Many governments, unwilling or unable to engage in genuine reform processes, have often bought into this charade, pretending to adopt reforms but in reality adopting form rather than function. Current research on PFM issues focuses on understanding better the approaches and techniques that can help to avoid this. The selected readings seek to provide an introduction to this literature. Several of the readings are also relevant to an understanding of how to successfully support civil service reform, a closely related issue because weak public administration systems usually engender weak PFM systems(et al., 2011).A growing number of empirical studies have highlighted the positive relationship between PFM and fiscal transparency, fiscal outcomes, and the perception of fiscal solvency. While significant steps were made during the 1990s to improve financial data transparency, the 2008 financial crisis showed that advanced economies also had weaknesses in the scope of information relating to their financial situation prospects and the associated risks. Furthermore, a direct relationship exists between the higher evaluation scores of Public Expenditure and Financial Accountability (PEFA) indicators, the Corruption Perception Index (CPI), and the Open Budget Index (OBI).

Relationship Between Public Expenditure and Financial Accountability Indicators and the Corruption Perception and Open Budget Indices



Conclusion:-

The conducted research allowed the formulation of the following conclusions:

1. Due to the specifics of public sector organizations, not all the traditional tools used in financial management in commercial organizations are applicable in the PFM;
2. The effectiveness of public organizations is difficult to measure and cannot always be measured by quantitative indicators;
3. Public sector organizations need to be more open to new technologies and innovations, they have to be used wisely.

Financial management in the public sector is a conservative type of professional activity. Not immediately responds to innovations and changes. In addition, the use of new technologies and tools requires a large number of approvals with different units. Ultimately, for their application to become possible, financial resources are needed, the rationale of which requires effort and time. But only using modern technologies and approaches, while not losing the classical professional knowledge and skills required in this field of professional activity, we will be able to answer all the challenges that specialists who are involved in the PFM have to face.

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