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PUBLIC EXPENDITURE MANAGEMENT IN ASIAN COUNTRIES[(1)]

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ABSTRACT. Expenditure management practices in Asia shows that these vary from the 'still-in-transition' China, to the colonial concerns of compliance in the South Asian countries, to more advanced experiments in Singapore. Budgetary practices in many of these countries are characterized by incremental and bottom-up budgets, across-the-board cuts in times of fiscal stress, and little or no analysis of costs and outputs. At the same time, resource allocation as a percentage of GDP and accrual accounting are being tried in some other countries. The paper suggests that the institutional changes now underway in these countries and the imperative need to control expenditure could bring meaningful changes.

INTRODUCTION

Public expenditure management (PEM) in Asian countries mirrors the wide and diverse range of systems of governance, level of economic development and the geographical spread. It reflects the diversity of philosophies of political, economic and social objectives. Systems of governance, including the principle and practice of resource allocation and expenditure management, are seen in many of these countries as instruments of social engineering and change (Caiden, 1995; 1996).

The spectrum of practices in Asia includes a command economy like China at one end, and one of the most open market economies like Singapore, on the other. China is moving from a command to a market economy, and the transition is reflected in its resource allocation and expenditure management practice. Singapore has introduced many features of the private sector or entrepreneurial resource management in

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its budgetary and expenditure systems. Japan follows what appears to be a highly fragmented and polarized system. The Republic of Korea (South Korea) has recently introduced an integrated approach to expenditure management which is in the process of evolution. Indonesia continues to have a highly centralized system. The system in the Philippines draws upon the institutions and practices of the United States. The South Asian countries of India, Pakistan, Bangladesh, Nepal and Sri Lanka still follow what is basically a colonial system of budget and expenditure management. The Middle East countries follow, in varying degrees, either the British style PEM systems (such as in Jordan and some Gulf countries), or are influenced by the French system of PEM (such as in Syria). In countries of the Former Soviet Union (FSU) (Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan, etc.), institutions of governance, along with their systems and procedures, are in transition. The FSU countries and the countries of the Middle East, and some other countries such as Indonesia and Brunei, are not covered in this paper. It is limited to countries of the Asia-Pacific rim (China, Japan, Korea, Malaysia, Philippines, Singapore and Thailand) and South Asia (India, Pakistan, Bangladesh and Sri Lanka).

ECONOMIC BACKGROUND AND ISSUES

Given the rich diversity of the region in political, economic and social systems, it is difficult to find a common defining theme in public expenditure management in these countries. In the OECD and other developed countries, reduction of the budget deficit, and of consequent borrowing, is a common and overriding concern. In most of the Asian countries, public expenditure is considered as one of the main instruments and stimulants of growth, and social equity and engineering. During the last few years, however, a large number of these countries have started sharing the concern about budget deficits, and in most of these, this concern is driven by the need to attract external flows in the context of global liberalization of the economies and the donor pressures to reduce deficits. Yet, even when faced with large and unsustainable deficits, deficit financing of the budget either through borrowing or through monetization is still considered by many countries to be a legitimate policy option for investment and growth.

By and large the share of public expenditure, as a percentage of GDP, has been rising in these countries. In Singapore, while public expenditure, as a percentage of GDP, has remained at about 13 percent, it has an overall budgetary surplus of about 8 percent of GDP. In Korea, the share of public expenditure has remained at about 26 to 28 percent of GDP. In Indonesia, general government expenditure, defined to include both the central and provincial expenditures has ranged around 38 percent of GDP. In China, due both to revenue and expenditure assignments outside the budget, the ratio of public expenditure to GDP is hard to estimate. This year (fiscal year 1997), however, the Chinese Finance Minister's budget presentation to the National People's Congress continued to emphasize concern over public expenditure, pointing to an unsustainable upward pressure of public spending. Both in Pakistan and the Philippines, the recurrent expenditure has grown at more than 10 percent during the last three years. In Malaysia, public spending has remained at about 32 percent of GDP. In India, recurrent expenditure has been growing between 10 to 17 percent in the last six years. In Japan, public expenditure in 1994 was 36 percent of GDP and has generally ranged around this figure.

In the OECD countries, by comparison, public expenditure has ranged between a high of 69 percent of GDP in Sweden to 34 percent in the United States. One interesting feature of the expenditure profile is that capital expenditure as a ratio of recurrent expenditure in most of these countries, except Thailand and Sri Lanka (where the ratio has remained static), and Malaysia (where capital spending has risen), capital expenditure has, as a ratio, shrunk as recurrent expenditure has risen (See Table 1).

Barring a couple of exceptions (the most notable being Thailand which has consistently had a budgetary surplus consistently), most Asian countries are caught between declining revenues and spending pressure. In percentage terms, revenues have not shown great buoyancy, while the pressure both on recurrent expenditure and the need for greater capital investment in the economy has grown. As a result, the deficit and borrowing to finance it have also grown. India and the Philippines have both experienced, in the eighties and the early nineties, an unsustainable level of debt/GDP ratio and a severe balance of payment crisis. Other countries such as Korea, Pakistan, Thailand, Sri Lanka and Bangladesh

TABLE 1

Central Governments: Current and Capital Expenditures
(In National Currencies in Billions)

Country	1993		1994		1995		1996 (estimated)		1997 (provisioned)	
	Current	Capital	Current	Capital	Current	Capital	Current	Capital	Current	Capital
Bangladesh	87.8	88.8	97.1	107. 5	108.1	114.6	121.1	111.1	136.7	120.1
China	424.2	121.8	538.5	94.1	652.5	120.2	757.0	142.8	884.7	165.9
India	1,086.8	261.4	1,235.5	309.6	1,418 .0	312.3	1,603.6	343.5	1,834.5	388.7
Indonesia	28,611.9	25,234.2	31,509.3	26,732.1	39,227.8	24,974.1	46,040.3	29,452.7	52,802.5	34,642.9
Malaysia	33.0	8.7	36.2	8.3	37.9	10.5	41.5	12.3	42.4	14.0
Pakistan	273.2	75.8	292.6	71.8	349.6	82.2	416.3	94.2	465.8	85.2
Philippines	226.6	55.7	296.7	52.5	306.0	73.0	350.4	83.7	397.0	101.8
Sri Lanka	102.3	39.4	127.1	43.7	154.2	49.3	172.2	54.5	176.4	55.5
Thailand	367.1	157.7	404.1	209.0	449.0	235.0	510.5	266.7	597.1	305.1

Source: International Monetary Fund (1996, 1997).

experienced an increase in external debt in the seventies and the eighties. In Indonesia, despite oil revenues, deficit has ranged around 25 percent except in 1984 and 1985 when it registered a marginal surplus (Table 2). In all of these countries, except Korea and Thailand, the deficit has reached a level where the need to contain borrowing and to keep the level of investment for sustainable growth has left only one option: to manage public spending better.

In most of these countries, there is no constitutional or legal requirement to contain the deficit within a certain level. In the developed countries, on the other hand, deficit reduction, and a consequent reduction in borrowing, has been the focus of expenditure management, and many countries have, in certain cases by law, adopted targets to contain the level of deficits (under the Maastricht treaty, a deficit to GDP ratio of no greater than 3 percent has been targeted). New Zealand has a target of reducing central government expenditure to 30 percent of GDP by 1998-99. The Australian projection is to reduce the deficit to 1 percent of GDP by 1998, and Canada had a target to contain deficit to 3 percent of GDP by 1996-97. In the Asian countries, by comparison, similar compulsions

TABLE 2
Overall Budgetary Surplus/Deficit (-)

Country	1993	1994	1995
China (in billions of Yuan)	-70.7	-86.5	—
India (in billions of Rupees)	-605.3	616.7	583.8
Korea (in billions of Won)	1,704	984	1,035
Pakistan (in millions of Rupees)	-118,999	-108,591	-89,291
Malaysia (in millions of Ringette)	1,921	7,299	4,920
Japan (in billions of Yen)	-1,973	—	—
Nepal (in millions of Rupees)	-10,359	-7,463	-10,001
Sri Lanka (in millions of Rupees)	-32,084	-49,474	-46,282

Source: International Monetary Fund (1996).

are not seen, and except in Singapore, Malaysia and Thailand, the budget deficit is either rising or has been at constant levels (Malaysia, various years; and Thailand, various years). Thailand (1996) may have a budget deficit in fiscal year 1997, after nine years of budget surplus. In Thailand, however, by law, the budget deficit has to be limited to 20 percent of total public expenditure plus 80 percent of the amount earmarked for payment of principal and interest. In the South Asian countries covered by this paper, budget deficits have risen consistently and have been financed either through external aid or borrowing, or in some cases, by monetizing debt.

One feature of most of these economies (except Japan, Korea and Thailand) continues to be dependence on external aid. A detailed analysis of the budgetary system of these countries reveals that heavy reliance on external aid could result in distortions in budget practices and expenditure management. It could distort expenditure priorities, negatively affect domestic savings, result in fragmentation of budgetary management and accountability by encouraging extra-budgetary institutions, obscure transparency of budgetary operations and, in the process, affect the efficiency of expenditure management.

INSTITUTIONAL ARRANGEMENTS AND VARIATIONS

The two most important institutions in the area of public expenditure management in most of the Asian countries are the Ministry of Finance (MOF) and the Planning Ministry (Premchand, 1983, 1990). In most cases, the MOF (or the Treasury) determines the overall size of public expenditure that the economy can afford during the fiscal year. This is determined by total resources available (including projected tax and non-tax revenues, external aid, domestic and external borrowing), rate of inflation, and other macroeconomic variables affecting revenues and expenditures. This is, however, an indicative exercise in most cases, and the total spending envelope is determined by pressures from the spending agencies in a bottom-up budget exercise. In the structure of expenditure, the proportion of recurrent expenditure which is committed (salaries and wages, debt service, etc.) remains fixed. The size of capital or developmental investment is determined by the balance available (global spending targets minus recurrent expenditure). In the centrally planned economies, in the global expenditure equation (recurrent expenditure + investment = total available resources), both fixed and investment expenditure are predetermined. The planning institutions lobby for a greater share of budget allocation for capital formation and investment, and generally determine the inter-sector priority within the total capital expenditure. The MOF has little discretion over these expenditures, and its foremost task is to determine the financing of the gap.

There is, however, a noticeable shift in this institutional arrangement. As these economies are beginning to rely more on the market systems, the importance of centralized resource allocation system, and consequently of the planning organizations, for public investment is declining. This has resulted in a shift in institutional balance of powers within the overall system, and two of the financial institutions, the MOF and the Central Bank are becoming more important. This shift in the 'balance of power' is also being institutionalized through the enactment of new fiscal legislation and regulations to vest the MOF with greater powers. In China, for example, the Budget Law of 1994 takes many features from the budget legislation of market economies, the most important being that budgeting is guided by resource constraints, the impact of public expenditure, and more specifically the impact of budget deficit on the markets (World Bank, 1993). The planning organizations are increasingly taking on an advisory rather than decision-making role. This shift can be seen in many countries: in the integration of the Economic Planning Board (EPB) with the Ministry of Finance (MOF) in Korea (1995) in 1994; the diminished role of the Planning Commission in India (1992).

In India, based on the macroeconomic projection, the Planning Commission determines the total level of capital or investment in the public sector in a five-year plan period. Within the five-year global ceilings, it decides the level of capital investment in each year. It also determines the amount of investment in different sectors and transfer of developmental grants to the states. The five-year plan as well as the annual plan are approved by the National Development Council, which is a political body. The MOF determines the overall size of the budget (which includes both recurrent and investment expenditure) and within it, in a more precise exercise, the recurrent budget. The MOF coordinates the investment expenditure with the Planning Commission. The preparation of both the recurrent (or the non-plan) budget and the investment budget are simultaneous processes, although these are brought together at the final stage (India, 1996). Other South Asian countries (Pakistan, Bangladesh, Sri Lanka and Nepal) with minor variations, follow a similar pattern of institutional arrangement.

In China, the budget, both for recurrent and investment expenditures, is formulated by the MOF, though the total size of capital investment and the intersectoral allocations are decided by the planning body. It is finally approved by the National People's Congress. In Japan, the MOF is the agency responsible for the formulation and presentation of the budget to the Diet (Japan, 1996). The Economic Planning Agency (EPA) is another important institution which provides a broad framework of macroeconomic forecast and helps link the budget to the macroeconomic objectives. A large part of investment expenditure in Japan is performed through the Fiscal Investment and Loan Program (FILP), which is a part of the MOF. It utilizes revenues from the Postal savings, pension funds, insurance, etc., for investment in government enterprises. The total expenditure managed by FILP is more than 50 percent (52.3 percent in 1991) of the general budget. The general budget is basically confined to recurrent expenditure and follows a bottom-up approach. However, at an institutional level, the MOF is the sole, and all powerful, authority on all financial matters, including the budget (Shibata, 1993).

Until 1994, Korea had experimented with a variation in the MOF led institutional model. Under this system, the MOF in Korea was in charge of currency management, foreign exchange management, treasury functions, cash management and accounting. The Economic Planning Board (EPB) was in charge of social and economic policy, planning, coordinating, formulating and executing the national budget. In 1994, the EPB was merged with the MOF, to form the Ministry of Economy and Finance (MOEF). It is headed by the Deputy Prime Minister and supervises and controls all government activity. This change was, however, accompanied by a substantial delegation of budgetary powers to the ministries and to facilitate the exercise of those powers, budgetary categories were reorganized from more than 300 to less than 100 (Chu, 1996).

In the Philippines, the institutional arrangement follows the Congressional system of the United States (Soberano and Waldby, 1965).

The Department of Budget and Management (DBM), under the President, is the main agency for the formulation of the budget and presentation to the Congress (Philippines, 1996). The Congress can make amendments to the executive proposals within the overall budget size. The President has the line-item veto power to counter the Congressional amendments. In Thailand, four agencies (National Economic and Social Development Board, the MOF, the Bank of Thailand and the Bureau of Budget in the Prime Minister's Office) play a major role in the budget. In Indonesia, the planning body and the MOF are the main institutions, although the MOF is the core financial institution.

In Singapore, the Treasury (or the Ministry of Finance) remains the single most powerful agency for fiscal management. In 1989-90, the Treasury introduced the Block Vote Budget Allocation System (BVBAS). Under this system, it has delegated total budgetary powers within the overall allocations, to the spending ministries. Budget formulation has become a top-down process. The budget preparation is preceded by a determination of overall affordable size of spending and the how the total expenditure is going to be shared by the spending agencies. Compared to the bottom-up approach, budgeting has become much less contentious. The Treasury allocates a predetermined share of the GDP to the ministries based on the global expenditure envelope. This allocation is done on the basis of a predetermined financing formula which considers national priorities, past expenditure pattern, and long-term development plans of the ministries. Upon receipt of the allocation, the ministries decide the expenditure within programs, activities, cost centers and line items. The delegation of financial power, within the budget allocation, is nearly total. The central bank in most of these countries acts as the banker to the government, managing both its payments and receipts, and in many cases actively manages the internal debt through its operations. The central bank also keeps an updated account and information on the cash position of the government since the main government account resides in the central bank. Both in Japan and China, the central bank performs the treasury functions and maintains government accounts (Tsuji, 1984). In India, the central bank acts as the banker to the government and makes agency arrangements with other private banks for collection of receipts and making payments for government business.

SCOPE OF THE BUDGET

In the South Asian countries, the central budget formulated by the MOF covers the central government's financial operations. The states or the provinces are covered in the central budget only through transfer of central resources by way of grants and associated transfers. Transfers to other levels of the government, as a result of statutory fiscal devolution, are not treated as budgetary transfers. In some cases, such as in India, the budgets of certain entities or areas (certain states or municipal corporations) can be formulated by the MOF and annexed to the central budget, although the MOF has no role in their budget execution. In China, the provincial and the local government budgets are formulated and approved by the provincial and the local People's Congresses but are consolidated at the central level and are approved by the National People's Congress (World Bank, 1993).

In many countries, a large number of extrabudgetary funds and systems exist. Special accounts and funds are a significant feature of the budgets in Japan, Korea, Thailand and China (Japan, 1996; Thailand, 1991). The main budget in Japan is the 'general account budget'. In addition to the general account budget, there are 38 special account budgets, and budgets of 15 government affiliated agencies, which are all presented in the same document to the Diet. The FILP budget, which is formulated by the MOF, is presented to the Diet at the same time as the general and special accounts budgets. The main sources of financing for FILP are the pension funds, the postal savings account and postal insurance. Expenditure met from FILP is for financing the state enterprises, the local governments and the special accounts. The apparently highly fragmented nature of the budget, in reality, is bound together by the strong institutional supervision and control of the MOF.

In China, there are numerous extrabudgetary accounts and funds. Many of these extrabudgetary organizations, funds and accounts are financed from a variety of sources: assignment of specific revenue resources which do not flow to the central treasury, retained profits, other resources such as depreciation funds, fees and charges, local surcharge on taxes such as general sales tax, and local budget surplus. Expenditures met from the extrabudgetary resources are kept outside the government account. Many ministries have their own enterprises which are budget supported but do not contribute to the budgetary revenues. The same situation operates at the level of the provincial and local government. Both the ministries and the local governments own and operate state enterprises. Revenues from these operations are not reflected in the budget and are retained by the local governments outside the budget. The expenditure incurred from these revenues is also kept outside the budget. Apart from the budgetary financing, ministries and enterprises also receive financing from the state-owned banks in certain areas, such as construction and agriculture. Institutional changes are now underway to integrate the various budgetary strands into a consolidated system.

In India, special funds are created both through budgetary transfers and revenue assignments (for example, Road Fund and Petroleum Development Fund). The budgets of these funds are presented to the Parliament either as a part of the main budget or are presented to the Parliament for information (India, various years). In either case, the MOF exercises only indirect control over these budgets which are actually controlled by the individual ministries. Similar arrangements exist in Pakistan and Bangladesh. In Korea, the budget covers only the central government. In 1996, it consisted of a general account and 22 special accounts. In addition, there are 30 other funds which are not a part of the budget. In 1995, local governments were given a greater degree of autonomy, and each local government formulates its regional investment budget in consultation with the MOEF. The central budget may, to some extent, support the regional budgets and plans. As in the case of Japan, the MOEF ensures an integrated process both in the formulation and the execution of the budget.

One clear inference can be drawn from these diverse institutional arrangements. The processes are either largely unitary or fragmented. The impact of the latter feature may be cushioned by the somewhat dominant role played by the MOF as in Japan. The main strength of the system lies in the capacity of the institutional framework to manage the process. On the other hand, in India and some other South Asian countries, the process may be more integrated but the institutional arrangement may be more diversified with several focal powers. In the pre-1994 institutional arrangements in Korea, with the focus of financial management on economic development, a clear distinction was made between managerial tasks and economic policy tasks. The MOF was given the task of managing the process: treasury, tax administration, currency and foreign exchange. The formulation of the budget was given to EPB which emerged as a powerful institution. As mentioned earlier, these two institutions were later merged.

BUDGET FORMULATION PROCESS

In a majority of these countries, the recurrent budget is formulated on an incremental basis. Formulation of the investment budget also follows an incremental path for all but new investment. Ongoing activities are retained and allocation is generally increased by factoring in inflation. The process of resource allocation includes negotiations with the ministries on the size of the recurrent budget but this is an annual ritual played by rules well known to all the players: the spending ministries overbid, the MOF imposes an across-the-board cut and gives an inflation-based increase. Even where variants of Planning, Programming, Budgeting Systems (PPBS) have been tried, such as in Malaysia, the emphasis, during the initial years, has been more on the form of PPBS than on the substance. Generally, in most of these countries, including India, Japan and China, budget submissions by the line ministries are made on a bottom-up and incremental basis. The MOF's scrutiny of the budget submission and the subsequent discussion with the line ministries is more by exception (question any unusual item basis) than by analysis. Korea has implemented zero-based budgeting in a modified form compared with the form in which it was practiced in the United States. The level of aggregation and scrutiny has been simplified and reduced. India tried, and abandoned, zero-based budgeting in 1977. In the Philippines, the Congress cannot change the aggregate budget size, but it can change the budget allocations. In reality, the actual budget size is determined by available cash which is monitored and regulated by DBM which effectively decides what activity will be financed and what will not be (Philippines, various years).

None of the countries surveyed, except Singapore, have a predetermined affordable spending target. Most countries start the budget formulation process with macroeconomic projection of revenue targets, inflation rate, and likely borrowing (both domestic and external). In India, the government publishes a paper on the status of the economy which gives the economic policy framework for the coming fiscal year. Although the MOF does have a projection of resources likely to be available, an absolute global limit on spending is not indicated. The budget call circular provides routine guidelines to the spending agencies but given the structure of spending, discretionary spending or any scope for maneuverability is severely limited. Fixed components of the budget, including establishment costs (salaries, maintenance, etc.), debt service and defense expenditure, take up more than 80 percent of the total spending. In order to keep the level of deficit low, the MOF often squeezes the recurrent budget below realistic levels, and this results in distortions and unrealistic budgets because commitments remain unchanged.

The development or investment budget depends upon three factors: the balance from the current account, external aid and financing decisions. In practice, the government is left with only two real choices. Given the pressure of fixed existing commitments, the spending agencies almost always exceed the pre-established spending limits. The budgetary excess is financed generally either through borrowing or monetizing the deficit. In Korea, even though the global spending targets are kept within established limits, the spending agencies try to change the scope of the project once it has been included in the budget. In China, since most of the provinces and the ministries have revenue assignments either through the enterprises owned by them or through specific revenue assignments outside the budget, any fixed global spending limit loses meaning. Through administrative orders in 1994 and later, the Chinese government has sought to limit the revenue assignments and off-budget operations. But these arrangements continue, and have in many cases increased, with both the MOF and the People's Bank of China not being able to discipline the fiscal fragmentation.

Most of the countries follow a multi-year planning horizon—of either three- or five-year for development budgets. This is a general projection of investment and does not correspond to multi-year rolling expenditure planning as is practiced elsewhere. In India, Malaysia, Pakistan (various years) and Bangladesh (various years), the investment planning horizon is five years, in China seven, and in Korea and Japan three years. However, these investment projections do not reflect and translate into expenditure plans. In India, Pakistan, Bangladesh, Malaysia and China, development budgets are separate from the recurrent budgets, while in

Korea and Singapore, these are integrated in the same budget. In China, the MOF had decided in 1992 to formulate a separate capital budget, to include all capital expenditure and which would subsume the construction budgets. Since 1995, China has a 'capital' budget which is more indicative of total capital investment in the economy. Total resources available to a spending unit, however, consist of both budgetary transfers and borrowing from the specialized banks.

With the exception of Singapore, the recurrent budget which follows an incremental path does not reflect realistically either inflation expectations or other factors (such as an increase in civil service or interest payments) resulting in the forward budget being broadly indicative in nature. Financing for the development budget is guided by factors other than affordability—donor pressure or internal lobbies— and is approved at the highest political level. In the Philippines, the externally financed projects are monitored by a coordination committee. In India, external aid is channeled through the MOF but most of the project implementation is at the state level. Monitoring of these expenditures has been a problem, though in 1996, the MOF introduced a separate expenditure monitoring system for externally financed projects. In Indonesia, the five-year plan ('Repilila') is the principal vehicle for prioritizing the aggregate expenditure. The planning body ('Bappenas') is responsible for investment budget, while the MOF formulates the recurrent budget more or less on an incremental basis.

Development expenditure as a separate exercise, especially if it is externally financed, has two consequences: it distorts the expenditure priority by accommodating counterpart funds for donor financed expenditures on a priority basis, and disregards the infrastructural capacity to absorb the investment. It could starve the recurrent budget, distort spending priorities, result in neglect of existing stock and infrastructure, and thus create hidden arrears in the economy. In order to attract greater donor finance, the budget is based on unrealistic assumptions of growth, spending and returns. Most of the cost and time overruns in the projects, which are a part of the development budgets, can be attributed to the creation of spending needs where none existed. Many countries resort to creative budgeting due to the compulsion to attract external finance. In certain cases, one time sale of assets has been shown as recurrent revenue to show reduced deficit.

EXPENDITURE PLANNING

In most of these countries, development plans become synonymous with expenditure plans, without considering the availability of cash. Most OECD countries follow a medium-term budgetary and an annual expenditure plan. The budgetary plan forecasts global spending targets in the public sector generally over a three-year horizon and the annual expenditure plans conform to the framework of the medium-term plan, which is updated constantly to reflect the macroeconomic environment and policy.

None of these countries except Korea, have a meaningful expenditure plan. Japan has a three-year forward budget but it is highly indicative in nature and cannot be called an expenditure plan. The MOF does not have an annual cash plan though the spending ministries provide a quarterly cash outflow projection within the overall budget allocation, which effectively becomes, in the absence of any decision to the contrary by the MOF, the authorization to spend. Monitoring of available cash is done by the Bank of Japan, which is the banker to the government. In China, the planning horizon spans five years but the plan is expressed in physical terms, and there is no expenditure plan. None of the South Asian countries has an expenditure plan for either the short or the medium term. Korea has a medium-term (three year) expenditure framework and the annual spending targets are guided by the medium-term frame. Changes in the spending priorities are reflected both in the medium term and the annual expenditure plans. In the Philippines, release of cash operates effectively as the budget. The flow of expenditure is monitored in most of these countries with reference to the cash in bank, expenditure reports and information from the central bank. There is no cash flow exercise during the year. In Thailand, there is no medium-term budget or expenditure projection and the budget, as well as expenditure plans, have a one-year horizon. In Indonesia, the budget and the expenditure plans also have a one-year horizon.

In the absence of either expenditure or cash flow planning, restructuring or re-prioritizing the expenditure during the course of the fiscal year is rarely undertaken and the response to the emerging situation is, generally, to seek additional resources through borrowing or imposing across-the-board spending cuts, sequestration of expenditure, deficit financing or through a combination of all three, with attendant economic consequences.

ACCOUNTING AND FINANCIAL REPORTING

All the countries in the region, including Japan and Korea, follow the cash basis of accounting. Singapore has introduced a dual system and accruals are recorded in the computerized accounting data base (SIGMA) for the purpose of monitoring and budget but accounting and financial reports are not on accrual basis. Accruals are used, by the MOF in Singapore, for budget formulation purposes, to determine the existing claims on resources, and for analysis (Premchand, 1996). In the cash-based system, books of accounts record only cash inflows and outflows during the financial year, and the appropriations lapse at the end of the year. The transaction is accounted for when the cash was paid, and not with reference to when the expenditure was incurred, what the future liability of present commitments is, or what resources were used in a particular period of time. Measurement of spending and resource use through cash accounting is limited to ensuring that the money was used for the purpose for which it was appropriated and that it did not exceed the appropriation. Cash accounting does not enable full measure of cost comparison and the analysis of costs between different items, and during different time periods. Accounting and financial reports lack transparency and are incomplete because these are limited only to cash inflows and outflows during the financial year, a complete picture of executive action is not possible. The outflows do not match the costs and the liabilities incurred, nor does accounting data match the economic data. Financial reports in most of these countries consist of an annual report on expenditure measured against the appropriation, a report on revenues, some form of sources and uses of cash report, a statement of liabilities and a statement of assets. Essentially, the reports conform to these formats though the practice and the reporting format varies. In Korea, the government produces a balance sheet but in the absence of accrual accounting the balance sheet gives only partial information.

Even within this framework, the accuracy of financial reports is debatable in many cases. The most reliable reporting systems appear to operate in Singapore, Malaysia and Korea (which rely on a computerized information system), and Thailand. In the South Asian countries, the data are not so reliable. In Bangladesh, for example, there have been wide variations in the expenditure estimates between the World Bank and the government (almost by 20 percent in 1987-88). In India, a large number of government accounting balances tend to be concealed under a 'suspense' account balance, and the accounting figures of the MOF and the Central Bank do not match. The governments in the region thus rely more on the actual expenditure figures given mainly by the central bank.

The main reasons for inaccuracy of the accounting data in these countries are bad bookkeeping, non-recording of transactions, misclassification of transactions, lack of reconciliation of transactions, and 'parking' the transaction details in a suspense account, delayed finalization of accounts, and, bad (sometimes deliberately) accounting practices. In most of the South Asian countries, the use of suspense balances, where money has been spent but could not be brought to an accounting classification, is a big problem. In India (and the practice is not limited to India) for example, one time revenue from the sale of assets of money borrowed from an extrabudgetary fund has been shown as a part of recurrent revenue to meet the IMF or the World Bank budget deficit targets. It must, however, be said that creative accounting is not limited to the countries in Asia.

In countries that have moved towards computerization of payment and accounting systems, notably Singapore, Malaysia, Korea (and to a limited extent the Philippines and Thailand), the reliability of accounting data is far greater. In Singapore, the computerized accounting system is the basis for all monitoring and budgeting. India has moved towards partial computerization. Pakistan and Sri Lanka have pilot projects for computerization of treasury operations. In China, the infrastructure exists for computerization of a single account system and a pilot project is currently underway. In Japan, the Bank of Japan, as the banker to the government, makes all payments and the MOF has updated accounting information at any time.

MANAGEMENT OF CASH

Each country has its own procedure in releasing cash after budget approval. Generally, cash is released in tranches to the spending agencies. One discernable trend in the Asian countries is the earmarking of revenues and the creation of extrabudgetary funds. The rationale appears to be to insulate certain expenditures from revenue and cash fluctuation. It does give the executive a greater degree of financial freedom. In such a situation the normal definition of budget would seem to apply only to recurrent expenditures and to transfers, as is more or less the case in Japan. The pattern of actual release of cash to the spending agencies shows a similar pattern. After the budget is approved, the release of cash is almost automatic in either quarterly or monthly tranches. Some countries, notably Korea, manage cash release according to emerging expenditure needs and priorities. Considering the level of fixed expenditure to discretionary spending, most of the cash is pre-committed and the release of money is pre-determined. None of these countries, with the exception of Singapore and Korea, has any significant form of cash planning (Table 3).

ASIAN RESPONSE TO NEW DIRECTIONS IN EXPENDITURE MANAGEMENT

Some countries, notably New Zealand and Australia, have introduced changes in public expenditure management systems. The new system is characterized by:

- A redefinition of the role of the government and of 'accountability';
- Shrinking role of the governments in the direct expenditure process;
- Government emerges as a purchaser of goods and services from the market;
- Greater emphasis, in the process, on outputs and outcomes than on appropriation controls;
- Evolution of and emphasis on better instruments of cost measurement and allocations through adoption of accrual accounting and commercial cost measurement systems;
- Changing nature of the civil service with emphasis on management and performance contracts rather than on the civil service as a career path; and
- Greater transparency in government operations.

The move towards the new system has been marked by caution even in Korea and Singapore where they have adapted and instituted some

TABLE 3
Pattern of Cash Management

Country	Expenditure	Agency for the Release of Money	Role of Bank	Periodicity of Release
Thailand	No	Department of the Controller General	Central Bank	In three phases
India	No	Controller General of Accounts (MOF)	Reserve Bank of India and Accredited Commercial Banks	Quarterly
Bangladesh	No	Ministry of Finance through the Accounts Officer	Central Bank	Quarterly
Philippines	No	Department of Budget Management	Government Banks	Monthly
Nepal	No	Accountant General (MOF)	District Treasury Officer and the Central Bank	Monthly
Pakistan	No	Ministry of Finance	State Bank of Pakistan	Quarterly
Malaysia		Treasury through the Accountant General	Central Bank	--
Singapore	MOF has expenture plan in aggregate terms	MOF	Central Bank	Budget approval is the authority to spend
Japan	Quarterly expenditure plans	MOF	Central Bank	Quarterly
Republic of Korea		MOF	Central Bank	Monthly

elements as a part of their system. In Singapore, the main thrust of the reform has been on the near total delegation of power of financial management to the line ministries after the budget allocation. Budget allocation also follows a transparent objective criterion which is measured as a percentage of the GDP and is formula driven. Under the 'budgeting for results' initiative, the Government of Singapore has established autonomous agencies and many government functions have devolved to these agencies. The budgeting is on an output basis and performance indicators have been developed. Singapore has also adapted many cost accounting practices of the private sector such as unit costing, cost comparisons and quality measurements. However, Singapore is almost alone in these initiatives in the region. Korea has delegated a fair autonomy to the line ministries but has not moved significantly in other directions. In India, the progress has been slow and almost imperceptible, and except for privatization of some state enterprises, little has been done. Other countries of South Asia (Pakistan, Sri Lanka and Nepal) have not significantly moved in this direction. In Pakistan, a major reform currently underway is to move all the treasury functions from the audit department to the Ministry of Finance.

The first response to the new systems has to be to strengthen the basic institutional framework, and a few immediate directions of reform stand out. The duality of expenditure management in the planning body and the MOF has to be integrated in a single budget and expenditure plan for all spending—recurrent and investment. Both budget and expenditure plans should have a medium-term horizon; and slowly governments have to move towards recording accruals as measure of real costs. Other reforms, such as the introduction of agency systems and the divestment of the current government functions, have to evolve in keeping with the social and economic systems and the market institutions of these economies.

The quest for better management of public money in Asia has varied according to political, social and economic philosophy, and in the case of South Asian countries, due to historical compulsions. In the continuum of choices, determination of resource allocation to optimize public goods does not often match the choice of instruments of measurement and control to do so. There is, however, a discernible consciousness that resource allocation and subsequent measurement are parts of the same objective: to get more for less. The quest has been influenced by developments in the more industrial societies and Asian countries have at least seriously flirted with innovations such as PPBS, performance budgets, and zero-based budgets. The next logical step in the process would be a greater awareness of what constitutes 'costs' and 'resources' in the public sector, and a transition from the creed that governments inherently perform better to a belief in the efficiency of markets. But the economic growth of many Asian countries has masked serious flaws in the management of public monies. Hence objective criteria, such as accrual accounting or more efficient procurement of public goods through efficient markets, have not evolved.

The compulsions of an economically interdependent world, especially after the collapse of the Soviet Union, is forcing changes in the institutional frame and in ways of thinking. Central planning organizations are yielding the center stage in resource allocation and management to the MOF. The market reality of having to manage cash flows and debt, control recurrent expenditure and deliver the same amount of public goods at lower cost is placing more responsibilities on the MOF as the core financial institution. But some anachronism still remains. The biggest impetus to reform will come from two sources: the example of other countries in the region, such as Singapore; and the pressure to control expenditure to reduce deficits while ensuring an efficient delivery of goods and services.

CONCLUSION

The recent economic crisis in several Asian countries has raised some critical issues: how will it affect institutional structure and arrangements, especially the relationship of the ministry of finance (MOF) with the spending agencies. As the budgets come under increasing pressure, how will it affect the structure of spending and what impact will it have on budget implementation process. Will it mean greater acceptance of medium-term financial planning, budget decisions and cash management?

Certain directions are clear. As new investments have declined in the immediate term, discretionary expenditures will come under stress. There will be greater pressure on the ministries of finance, as compared with the planning and other line ministries, to maintain budget discipline. This will, in turn, result in a shift in institutional balance. Financial relationship with other levels of the government, off-budget agencies and the public sector are likely to change. Logically, in most countries, MOFs should emerge stronger as a result of this crisis; though in some other countries, it may see some functions, especially budgeting, be moved to more powerful organizations such as the Office of the President.

Most Asian countries will look, with renewed interest, at the experiences in Australia, New Zealand and the United Kingdom, much as Singapore has already done, and determine the relevance of these practices to their respective situations. Each country will adapt the budget and expenditure practice to its institutional system. In the context of the current crisis, some countries in the region will also rethink their institutional framework, as South Korea already seems to be doing. As awareness of resource constraints grows, emphasis on indicators of outputs and better evaluation and monitoring techniques will also grow. There will be greater awareness of the medium-term impact of policy commitments with consequent macroeconomic implications.

NOTES

1. Views expressed in the paper are personal and should in no event be considered as those of the International Monetary Fund.

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