

Foreign Experiences of Local Budget Management and Use

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ABSTRACT

The article covers significant information about foreign experiences of local budget management and use. Moreover, the latest research on the topic was covered.

Budgetary institutions at the local level serve to allocate community resources consistent with community preferences. The role and budget documents of these institutions have changed significantly in the past two decades. Local budgets have evolved from instruments of planning and financial control to tools of performance measurement, results management, and fiscal discipline. Local budgets now also serve to enhance citizen empowerment and results-based external accountability in the public sector. Citizens want these documents to be complete and accurate accounts of government operations and to be presented in user-friendly formats. Local Budgeting provides a comprehensive guide for local administrators who are involved in designing and implementing budgetary institutions and who wish to improve efficiency and equity in service delivery and to strengthen internal and external accountability. It details principles and practices to improve fiscal management[1]. It reviews techniques available in developing countries for forecasting revenues and expenditures, and it examines institutional arrangements for ensuring transparency and fiscal discipline.

In addition, it outlines some strategies to deal with corruption in local revenue administration. With respect to budgeting, the volume discusses the decisions that need to be made in determining budget format and layout, including the scope of the budget, the degree of transparency of the legal requirements underlying the budget, and the extent to which the budget will emphasize inputs, outputs, and outcomes. Local Budgeting also discusses the role of the capital budget. It details how performance budgeting can serve as a tool for results-based accountability to citizens. It helps the nonspecialist reader learn how to interpret budget documents to discover what the government is doing and how well it is performing its tasks. It highlights approaches to stakeholder inputs in the budget process. Finally, it explores the role of budget execution in ensuring management flexibility while enhancing democratic accountability. Local Budgeting represents a collaborative effort of the Swedish International Development

Cooperation Agency and the World Bank Institute to improve public expenditure management and financial accountability in developing countries, especially in Africa. We hope that policy makers and practitioners will find this volume a useful guide to reforming budgeting institutions.

Local budgetary institutions serve as the medium for determining what local services will be provided and how they will be financed. Transparency of these institutions is critical to ensuring that local governments are responsive to citizen preferences; that they deliver local services efficiently, equitably, and with integrity; and that the electorate can hold them accountable for their service delivery performance. Open and transparent local budgeting is thus viewed as critical to the integrity of the local public sector and to citizens' trust in government. Several techniques can be used to forecast both revenues and expenditures. They range from simple judgmental approaches that rely on the knowledge of experts to more sophisticated multivariate statistical techniques[2]. For forecasts of revenues that are sensitive to economic conditions, statistical forecasting methods may be most appropriate. But statistical analyses require considerably more data and forecaster expertise than the alternatives: time trend analysis and deterministic approaches. In fact, the examples of actual local government forecasting efforts reviewed in the chapter reveal that the most commonly used approaches are deterministic approaches, in which forecasts of revenues or expenditures are based on simple links to variables assumed to directly influence revenues and expenditures.

As fiscal decentralization policies give greater fiscal authority and responsibility to local governments in developing countries, the need for improved budgeting and financial planning will increase. The forecasting techniques discussed in the chapter should, therefore, become increasingly relevant. Local governments in developing countries are facing increasing fiscal strain as cities and their infrastructure requirements expand and revenue growth lags behind. The avenues of response open to local governments are a function of the national environment within which they operate and of their local capacity and institutional arrangements. Country systems that control subnational budgeting should pay attention to the ex ante incentives and ex post consequences that face both borrowers and lenders before the agreement to borrow. Relying on ex ante constraints without consequences after the fact gives irresponsible lenders and borrowers a big incentive to overcome initial obstacles. Relying solely on consequences may allow larger local governments to build up such large debts that the national government will not enforce the consequences. The history of subnational borrowing in newly decentralizing countries suggests that sole reliance on market discipline may not be sufficient to encourage local fiscal discipline. Many conditions must be satisfied if financial markets are to be an effective check on local discipline[3]. These conditions include enforcement of contracts, level playing fields for local governments with other debtors, availability of adequate financial information on governments, no expectations of central government bailouts of lenders, and borrower capacity to respond to market signals. Very few countries meet these conditions. Therefore, fiscal discipline is best supported by rules or by greater central government oversight and control over subnational borrowing.

The budget layout can emphasize legal issues and fiscal controls to help prevent overspending, it can call attention to efficiency or effectiveness issues to improve management, and it can clarify where fiscal discretion lies and hence help hold administrators accountable not only for the funds they receive but also for a given level of performance with those resources. The budget document can be a major tool of accountability to the legislative body or to the press and the public. But typically, the budget cannot accomplish all these tasks equally well at the same time. Officials have to choose which goals are most important to them and orient the budget to achieve those goals; alternatively, they can develop hybrids that attempt to achieve multiple goals, rather than to maximize any one goal. With enhanced emphasis on government accountability for performance, a large body of literature has emerged on performance budgeting and related reforms at the national level. Although performance budgeting owes its origins to innovations in

budgeting reforms at the local level, scant attention has been paid to drawing lessons from these experiences for wider application[4].

To sum up all given information above local-level citizen-centric performance budgeting, a framework introduced in this chapter, is intended as a tool for citizens to demand accountability from their local governments. This tool is pertinent to recent public management reform movements, which emphasize performance accountability and citizen participation. The chapter concludes that performance budgeting is an important tool for citizen empowerment at the local level. However, it must be an integral element of a broader reform package to create a performance culture. In the absence of incentives for both better performance and bottom-up accountability for results, the introduction of performance budgeting may not improve performance accountability.

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