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Editorial

Editorial on Public Financial Management

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EDITORIAL

The Controller General of Accounts (CGA), Department of Expenditure, Ministry of Finance, Government of India, designed and implemented the Public Financial Management System (PFMS), a web-based online software application. PFMS was launched in 2009 with the aim of monitoring funds released under all Government of India Plan schemes and providing real-time reporting of spending at all levels. PFM refers to the set of laws, rules, procedures, and processes that sovereign nations and sub-national governments use to raise revenue, allocate public funds, spend publicly, account for funds, and audit results. It covers a larger set of functions than financial management, and it's usually thought of as a six-phase cycle that starts with policy design and ends with external relations.

Effective public service delivery is linked to poverty reduction and economic growth, and countries with robust, transparent, and accountable public financial management systems tend to deliver services more effectively and equitably, as well as regulate markets more efficiently and fairly. In this sense, good PFM is a necessary but not sufficient condition for the majority of development outcomes. The ability to tax fairly and effectively, as well as spend responsibly, is an important aspect of statehood. These are basic characteristics of 'inclusive' state institutions, which foster trust, promote innovative energies, and allow societies to thrive. Improving the effectiveness of a PFM system can have far-reaching and long-term consequences, contributing to broader social shifts toward inclusive institutions and, as a result, stronger states, lower poverty, higher gender equality and more balanced development.

Even if donor staff has no plans to improve PFM systems, they must understand them because they will often work through or with them, either by providing budget support or climate funding, or by providing project-financed interventions that are then staffed and maintained through the national budget.

The first goal of a PFM system is to maintain aggregate fiscal discipline: it should ensure that aggregate levels of tax collection and public spending are consistent with fiscal deficit targets and do not result in unsustainable levels of public borrowing. Second, a PFM system should ensure that public resources are assigned to strategic priorities that have been agreed upon.

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