

Overview of Public Expenditure Management

Overview of Public Expenditure Management (PEM)

Key concepts, stages, principles, and tools for effective budgeting and spending in the public sector.

1. What Is Public Expenditure Management?

Aspect	Description
Definition	The set of processes, policies, and institutions that determine how public resources are raised, allocated, spent, and evaluated.
Goal	Achieve fiscal sustainability while delivering high-quality public services and promoting economic and social development.
Scope	Includes budgeting, fiscal policy, procurement, cash management, internal controls, performance monitoring, and audit.

2. Core Objectives of PEM

- Fiscal Discipline** – Keep deficits and debt at sustainable levels.
 - Efficiency** – Obtain the maximum output for each unit of input (cost-effectiveness).
 - Effectiveness** – Translate resources into desired outcomes (e.g., reduced poverty, improved health).
 - Equity** – Ensure fair distribution of benefits across regions, income groups, and vulnerable populations.
 - Transparency & Accountability** – Provide clear information on decisions and results, enabling scrutiny by citizens and oversight bodies.
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3. The PEM Cycle (Six-Stage Framework)

Stage	Main Activities	Typical Outputs
1. Policy Formulation	Developing the national budget, setting fiscal rules, and determining expenditure priorities.	Policy documents, budgetary framework, and expenditure priorities.
2. Budget Preparation	Preparing the annual budget, allocating funds to ministries and departments, and setting performance targets.	Annual budget, allocation of funds, and performance targets.
3. Budget Execution	Implementing the budget, managing cash flows, and monitoring expenditures.	Disbursements, cash management reports, and expenditure monitoring reports.
4. Financial Reporting	Preparing financial statements, auditing expenditures, and reporting to the legislature.	Financial statements, audit reports, and reports to the legislature.
5. Performance Monitoring	Tracking progress against performance targets, identifying areas for improvement, and implementing corrective actions.	Performance monitoring reports, corrective action plans, and improvement measures.
6. Evaluation and Review	Evaluating the effectiveness of the PEM cycle, identifying lessons learned, and recommending reforms.	Evaluation reports, lessons learned, and reform recommendations.

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	• Strategic planning (vision, goals)	
1. Budget Preparation	• Revenue forecasting • Expenditure ceilings • Program?based budgeting	Medium?term expenditure framework (MTEF), draft budget documents
2. Budget Approval	• Legislative review • Public consultation • Enactment of the budget law	Approved budget (annual or multi?year)
3. Budget Execution	• Allocation of funds to ministries/agencies • Procurement & contracting • Cash and treasury management	Disbursements, contracts, procurement notices
4. Monitoring & Reporting	• Financial reporting (monthly, quarterly) • Physical/ performance reporting • Variance analysis	Management information system (MIS) reports, dashboards
5. Evaluation & Auditing	• Ex?post evaluation of programs • Internal audit • Supreme audit institution (SAI) review	Evaluation reports, audit opinions, corrective action plans
6. Feedback & Learning	• Legislative/ executive review of findings • Revision of policies, procedures, and capacity?building plans	Updated budgeting guidelines, training modules

4. Budgeting Approaches

Approach	Features	When It's Most Useful
Line?Item Budget	Lists expenditures by categories (salaries, supplies). Simple, strong control over cash.	Small governments, low?capacity environments.
Program/Outcome Budget	Groups resources around programs and expected results. Links spending to objectives.	Reform?oriented settings, donor?supported programs.

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Approach	Features	When It's Most Useful
Performance-Based Budget	Incorporates performance indicators and targets into the allocation formula.	Mature PEM systems seeking efficiency gains.
Zero-Based Budgeting (ZBB)	Every item must be justified from scratch each cycle.	Periods of fiscal consolidation or major restructuring.
Rolling/Continuous Budget	Updates budget estimates throughout the year.	Volatile revenue environments, high-inflation economies.

5. Key Principles & Best Practices

1. **Strategic Alignment** – Budget reflects national development strategies and sectoral plans.
2. **Fiscal Space Analysis** – Assess how much borrowing or tax increase is sustainable before setting ceilings.
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