Factors that Influence the State Expenditure: Comparison of the Maldivian Communities

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Abstract

The literature on public policy is growing as academics and social scientists have studied how public distribution policy or a mixture of policies has been influenced by multi-dimensional factors; that is, how the provision of state expenditures is determined. This article provides a model formation of commonly used multi-dimensional variables by using a structural equation model (SEM) to demonstrate the relationship between policy determinants and major state expenditures for education, health and infrastructure. A sample set of communities from 187 islands in the Maldives that are grouped into three provinces were used in this study. As a beginning argument, the theoretical justification of socio-economics, political factors and social capital factors was determined. Moreover, a model was created and confirmed as fitting into a local context and applicable for estimating the relationship in a clear and valid approach.

Keywords: social capital; multi-dimensional framework; public expenditure; structural equation model (SEM).

1. Introduction

This study focuses on two main issues: 1) confirm the commonly used factors that influence the provision of state wealth and 2) how far is this provision of state wealth equally distributed among the rural Maldives? As the Maldives are still in their infancy as a modern democratic system, this study demonstrates how the state can be shaped and changed to accomplish its objectives by utilizing its human capital more effectively.

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 In other words, this study gives us a glance into local governance and its adequacy for all of the likely reasons. In addition, the scope of these inquiries is intended to study the unequal distributions of public funds among the Maldives' islands using a need-based analysis. The Maldivian political framework is seen through an in-depth lens with the goal that it very well may be a factor in understanding the main forces in electing public authorities. This study reflects how the expansion in public spending would comparatively develop the nation as a whole. Therefore, public spending is the key aspect for realizing the development if that spending is distributed differently in various atolls/provinces depending on the public commitment and influencing power. This report inspects the public capital expenditures in rural areas of the Maldives and seeks to clarify the main factors that determine the allocation of public funding. The previous studies proved that this social capital can be analyzed based on various factors. As for this study, and in order to perceive its vast scope, civil participants in the rural areas were selected at the horizontal level (group level) to understand the power of social capital distribution competency. However, only a few studies have addressed the significance of social capital and its effects on the government's choices. Noticeably, evidence in the case of the Maldives is not considerable, thus restricting this researcher from attaining suitable data for this study. The allocations of resources and public expenditures that we are aware of involve a political discussion that turned out to be increasingly noticeable and tended to follow market demand that hypothetically adjusts the state's choices; for example, the public's commitment and choices became progressively determined by the government [1]. A breakdown of the macro perspectives of overall spending includes the distribution of public goods. This breakdown originates from public policies that include the combined inputs (i.e., understanding the necessities of serving a mass population), processing (i.e., budget finalization discussions) and outputs (i.e., financial policy) of public policy to comprehend what each strategy requires in terms of the allocation of resources as a means of spending [2].

1.1. Recent trends of Maldives Education, Health and Infrastructure Expenditure

The figure 1 below demonstrates, the governmental expenses during 2015 for health, education and infrastructure, including the council budgets for the Atolls [3]. The changes of the Atoll's funds are high and more surprising when the population density (Atoll population, excluding the capital city and commercial islands) is added to the figure in order to see the unequal distribution on a large scale. Although the population is practically the same on all the Atolls, the governmental spending has a very imbalanced distribution. Then the question is what determinants were influencing the decision-making of the government about the decisions on the provision of public funds for the rural Maldives?
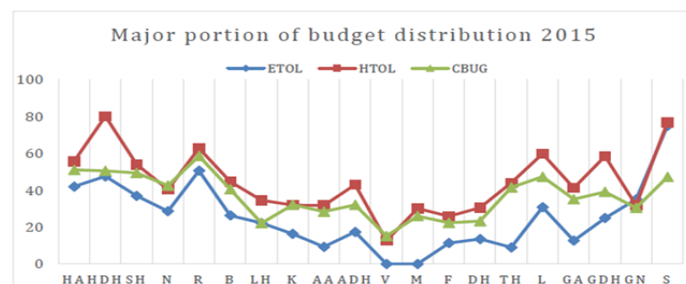
Figure 1: Major portion of budget distribution across Atolls

2. Theoretical underpinning of the concepts

2.1 Socio-economic factor

The most commonly used factors in determining the provision of state wealth are related to socio-economic factors. This article takes its combinations of variables from two aspects: 1) income levels, which is an employment rate from the counter-cyclic theory of Keynes [3] and a long look back at a famous German economist, Wagner, who took public expenditures as a root cause of development initiated by economic activities [4]. On the other hand, social unrest caused by the state's expenditures was well documented in Peacock and Wiseman (1961) and in the iron law of wages by Ricardo (1817). Similarly, lots of empirical evidence supports the provision of public expenditures derived from socio-economic factors, such as general population, gender ratios, number of students and households' income levels were used as variables by Peacock and Wiseman (1961) as contributors to social upheaval. Other research support came from Putnam, Leonardi, and Nanetti (1993); Beugelsdijk and Schaik (2003) and Tsai (2007).

2.2 Political factors

The political factors are mainly taken from public choices and public decision-making theories, which is vitally important for developing nations, as most of the sources of development are initiated and promoted in political debates. Considering the Maldivian political context, three main variables were found to be significantly related. More significantly, community involvement in the decision-making process has proven to strengthen social development, and this involvement generates more positive outcomes according to the mixed scanning model of Etzioni (1967). In political terminology—party membership, representation and activities—should increase the state's expenditures. Also, median voter theory that involves public participation in the electoral process has created mutual benefit agreements between public officials and their voters [5]. The before-and-after effects of the electoral cycle have always been a reason to pump more state funds into the economy [6]. Considering the facts and empirical evidence about the political environment and public participation ultimately leads to raising public expenditures, according to Easton (1953); Peters and Welch (1980); and Nannicini, Stella, Tabellini, and Troiano (2013). This political environment acting as a demand-supply function is also evident in North (1991). Similarly, turning the main stakeholders into voters' and pushing public demand ultimately result in the democratic decisions [7].

2.3 Social capital factors

Even though social capital factors are an emergent concept in policy determinants, they have numerous features that are commonly seen in a Maldivian context. The number of social groups, society-initiated programs and the connections between social groups are mainly discussed as areas in the state's development. Depending on the social interactions and pushing by the public on getting the state to achieve mutual goals, social capital plays a huge role as explained in Bourdieu (1986), Coleman (1994), and Dasgupta and Serageldin (2001). Equally, building trust and sharing information between state and the citizens are the two key factors that stabilize the relationship among and between communities (Coleman J. , 1988; and Putnam, Leonardi, & Nanetti, 1993).

According to the social boundaries theory by Hirschi (2002), a significant improvement in a society is the building of cohesiveness, and therefore by sticking together all sides have a way to influence governmental decisions. In this way, communities can reduce crime and other social ills that might otherwise slow the development of these communities [8]. One of the remarkable empirical works illustrating the social capital phenomena was presented by Knack and Keefer (1997). They explained homogeneous groups relying on trust, confidence, similar education levels, and sharing group norms among the societies are the best performing societies. Also, the government imposing its bureaucracy has been proven to reduce the social bond among these local comminutes [9].

2.4 Major expenditure types

Understanding the nature of a country's development has changed from taking into account revenue generation to a more budgetary controlled mechanism that requires a concentration on the state's expenditures. This is driven and controlled using public policies and the other guiding regulations. In the Maldives, a major portion of the public expenditures is shared by the social service category [10]. For this analysis, three main major expenditure types are selected as the total expenditures for the provinces: education, health and infrastructure (including council budgets). This types are well recognized as the major portion holders of the budget in various studies attempting to understand what influences expenses [11]. One of the remarkable work by the International Development Bank (IDB) also recognized education, health and infrastructural expenditures as the most vital types that a country should provide for long-term development [12]

3. Paper Approach

Analyses in this paper utilize a group comparison statistical technique (AMOS, SEM) to distinguish the contracts among the provinces in the Maldives. This will also clarify which provinces have the greatest effects on the provision of public expenditures based on the observed variables. The model mentioned should be tested by using SEM/AMOS in order to fit the model to the examination. This will assist the researcher with finding the best recommended model that can be precise in analyzing the province-level data that have a major influence on the provision of public funds. The grouping of provinces is primarily done by carefully considering the allocation of the atolls equally for each group. This allocation is as follows: Northern Province (Baa, Lhaviyani, Noonu, Raa, Haa Alif, Haa Dhaalu and Shaviyani atolls), Central Province (Alif Alif, Alif Dhaalu, Kaafu, Dhaalu, Faafu, Meemu and Vaavu atolls), and Southern Province (i.e. Gaafu Alif, Gaafu Dhaalu, Thaa, Laamu, Gnaviyani atolls and Addu City).Variables for this study were tested by factor analysis to stabilize their factor loading and to decide the number of variables that are proportionately correlated as the required by the model. The variable considered were proven to be reliable when they were highly correlated with each another, but still fairly uncorrelated with other variables as the suggested standard (r > .70) by Jolliffe (1973). Following are the explanatory and response variables for this estimation. Since the tool chosen is SEM, a few conditions have to be satisfied to completely appreciate the model. The information gathered was organized into provinces for this paper: Central, Northern and Southern. The paper utilized the informational collection separately for areas used to build up the model's structure. The dependent variables in model are treated as the total expenditure for each province (TEXP). This will combine the cost of the total education expenses and the current costs for schools

and offices given by the state. Likewise, health expenses are for provinces, including the present consumption of medical centers, providing medicines and maintaining the hospital buildings. Lastly, infrastructural cost incorporates a complete spending plan for neighborhood committees, a spending plan allotted for the development of ports, a spending plan for offices approved by the legislature. All the independent variables ought to be consolidated for the model's compliance:

1) All the socio-economic elements, including gender ratio, population density, number of students, average household income level (GR, POP, NST, and AHIL). Astoundingly the referenced variables are likewise projected and settled by Keynes counter-cyclic hypothesis.

2) All the political factors including political representatives, registered political party members, and voter turnout of parliamentary and local councils (PREP, RPM, and VT) should have significant and justified levels of impact to the dependent variables (TEXP). The above clarified factors are likewise anticipated and recognized by Wagner's law to measure the state's expenditures.

3) All the social capital factors, including citizen-initiated projects, linkage of affiliated individuals, sharing information, trust in government, and the cohesiveness of residents (CIP, LAA, SINF, TGOV and COH) ought to have an effect to subordinate factors (TEXP).

Outstandingly, the previously mentioned components are likewise anticipated and clarified as social capital factors by different researchers such as Putnam, Leonardi, and Nanetti, (1993); Coleman (1994); Knack and& Keefer (1997); Uslaner (2002); and Zmerli (2003)
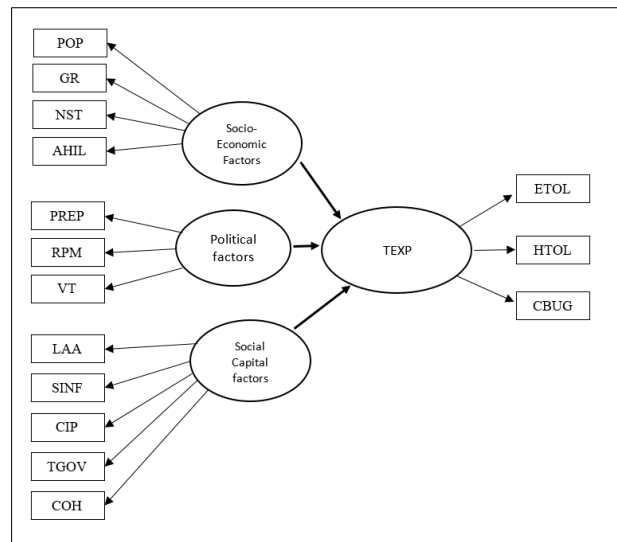

Figure 2: Proposed Structural Path Analysis for Policy Determinants (SAPD)

4. Empirical Results and Discussion

In this model, confirmatory analysis was conducted with the assistance of SEM by utilizing the province-level data sets. In addition, for the revised model after its formulation, a group comparison was carried forward for the

province-level analysis to discover whether there were any contrasts among the provinces that can be taken into account as a significant effect for the provision of public funds.

4.1 Meeting the SEM requirements

To distinguish the outlier in this study, we used Mahalanobis distance from the SPSS and discovered the distance as 2.938 and 33.875 with a mean of 11.989. This is tolerable and good data [13]. As the multi-collinearity is already performed and discovered, these variables hold a higher tolerance level of more than 0.10 and a lower VIF value of less than 10. In addition, the sample size for this estimation was 1,069 cases and the SEM requires 109 sample data, which, for this situation, is all that could possibly be needed to contrast with the variables that we have built in the structure as in the model [14].   With regard to model specification, the model was gone through factor analysis (CFA) and it contains a KMO and Bartlett's test of 0.670. This indicates the sample size is sufficient and the Bartlett's Test of Sphericity is significant, implying that at least two variables are strongly correlated and it is good to create a factor analysis for the model.

4.2 Model identification Stage using SEM

The model needs to be identified by the AMOS due to fitting all the requirements of the SEM. This is a very important aspect in SEM as it will show whether the model is appropriate for carrying out any calculations. If the model is unidentifiable, then no calculations can be conveyed with such a model. Hence, the following steps were taken into consideration to test the model's adaptation. The model was drawn as it is in the AMOS. However, the variables and the correlation predicted was adjusted by including the socio-economic and political factors as recommended by the AMOS software. Below are the outcomes and figure 3 shows the results created by the AMOS for identifying the model after the initial changes.
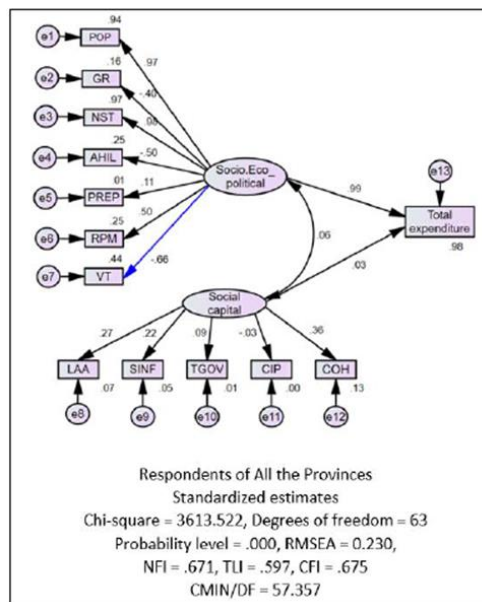
Figure 3: Identified model for estimation

As shown in this model above (Figure 3), it has accomplished the minimization. In this way, to see whether the model fit after three stages was done cautiously. To begin with, the figure was identified with a degree of freedom at 63 and a chi square value of 3613.52; also this level of chi square is high. However, it is suitable compared to the measurement of the degree of freedom. With a probability level at $p < .01$ (0.000), the model appears to have reasonable support for using.The degree of freedom demonstrates a positive figure, which means that the model is over-identified and at a suitable level for the model to convey the estimations as anticipated. For confirming the model, this study additionally examined the model RMSEA to see the absolute fit for the recommended model. The outcomes indicate that the model has less value than 0.08, i.e., RMSEA level of 0.230, which implies the model is not an absolute fit [15]. Though the model is not an absolute fit, it is intended to assess district-level data so this model must be examined for incremental model fit by incorporating Normed Fit Index (NFI), Tucker Lewis Index (TLI), and Comparative Fit Index (CFI). The estimation for this test for Model demonstrates an NFI of 0.671, TLI of 0.597, and CFI of 0.675. As suggested, these values have to be above 0.9. As NFI, TLI, and CFI are extremely near to the expectation, model is reflected as a reasonable fit [16]. However, having a nearer level of NFI, TLI, and CFI implies the model can be improved measurably to be a generally excellent competitive model. Finally, the model needs to experience a parsimonious fit, and the minimum inconsistency for this test was less than 5.0, and this value was a consequence of chi square divided by degree of freedom. Model has minimum parsimonious degree of 57.357 (3613.522/63), and this is extremely high as anticipated when the model has a high chi square. Therefore, the model needs an alteration to fit for the Parsimonious test. There are two more tests that can demonstrates a parsimonious fit: Parsimony Goodness of Fit Index (PGFI) and the Parsimonious Normed Fit Index (PNFI). As the CMIN/DF is a high figure that is too high and so the model is not reasonable fit. At this point there is no compelling reason to do more parsimonious fit tests for this model. Essentially, the model needs more adjustments in order to achieve an adequate fit.

4.3 Estimating the differences between the provinces

To distinguish the province-level analysis, hypotheses are proposed to examine if there are any significant differences within the provinces and which variables are influencing the significant distinction.
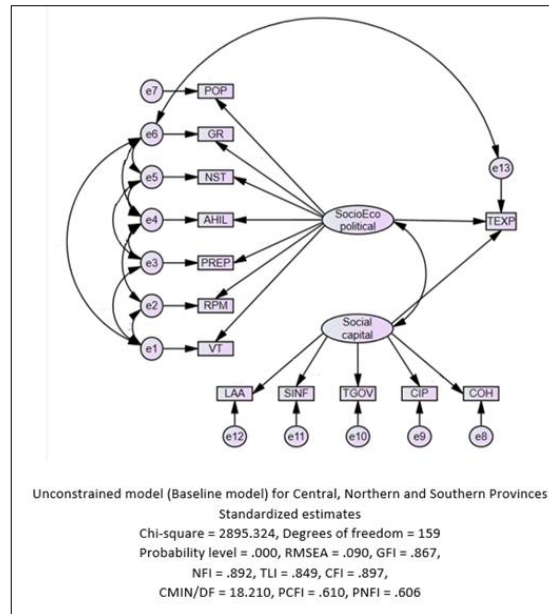
The hypothesis for province-level analysis is:

TEXP = α1 + β1POP + β2GR + β3NST + β4AHIL + β5PREP + β6RPM + β7VT + β8LAA + β9SINF + β10TGOV + β11CIP + β12COH +e

H0 = the influence of socio-economic and political factors towards the provision of total expenditures is moderated by the different provinces

H1= the influence of socio-economic and political factors towards the provision of total expenditures is not moderated by the different provinces

4.3.1 Empirical evidence of unconstrained (Baseline) model for provinces

Unconstrained model (Baseline model) for Central, Northern and Southern Provinces
Standardized estimates
Chi-square = 2895.324, Degrees of freedom = 159
Probability level = .000, RMSEA = .090, GFI = .867,
NFI = .892, TLI = .849, CFI = .897,
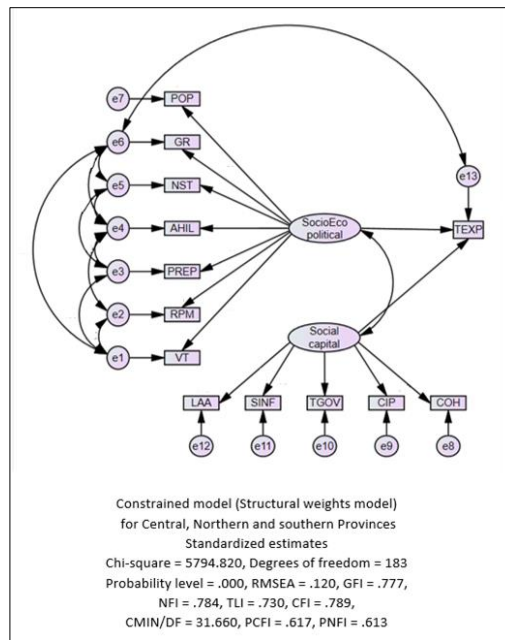CMIN/DF = 18.210, PCFI = .610, PNFI = .606

Figure 4 : Baseline model for central, northern and southern province estimation

At last, the estimation for the model has attained the minimization. Furthermore, the previous estimation to grasp the model fit for northern, central and southern provinces used three steps as mentioned below. The model has a degree of freedom of 159 and a chi-square value of 2895.324, and the level of chi square is suitable with the given degree of freedom. Likewise with P value = 0.000, the model is acceptable [15]. Also, RMSEA for this change for the model is 0.090, and this value is slightly more than 0.08. Nonetheless, numerous researchers have argued the RMSEA range for the model to guarantee a good fit. Most remarkably, a range within 0.05 to 0.10 is a reasonable fit and anything above 0.10 is poor fit (MacCallum, Browne, & Sugawara, 2006). Thus, the GFI= 0.867 is additionally a sign that the model is a reasonable fit for the multi-grouped estimations [15].Next, for the incremental model fit, the baseline model for province-level estimation shows a NFI of 0.892, TLI of 0.849, and CFI of 0.897. All of these values are close to 0.9 as evaluated. As NFI, TLI, and CFI are close to good fit ranges and the values are above the 0.08 range, which is reflected as a good fit model for an incremental fit [16]. Finally, the model needs to use a parsimonious fit, and this value is result of chi square divided by degree of freedom, that is 18.210 (2895.324/159). This is an old technique to distinguish a parsimonious fit. The PNFI and PGFI are used to show the parsimonious fit. Also these test are incorporated into AMOS, SEM programming in the model fit to see the parsimonious fit. Hence, the values of parsimonious test for model II is PNFI = 0.606 and PCFI = 0.610 which are over the acceptable range of greater than 0.50. As a result, the model can considered as good fit [17]. In general, it is a good fit model, thus with the adjustments the model clearly has numerous correlations with the error terms. This, in fact, means there are other variables that can be added to this model, which are unidentified so far with studies used in this research. And unlike mathematics and physics, social science factors cannot be characterized as simple as was anticipated. Moreover, the data are intensely affected by numerous environmental components. Thus, this model is considered as an excellent model for province-level estimations, particularly for the provision of funds in the view of the social capital impacts. The following section demonstrates the estimations of the confirmed model for the national-level data.

Figures 4, represent the unconstrained estimation of northern, central and southern provinces, which have an influence on total expenditure. The figures show that there is a social-eco and political variable (latent) which seven factors and most of these factors have an estimation that is above of 50% (0.50) and excluds political representations (PREP) in the northern province and the gender ratio (GR) from the southern and northern provinces. This implies these two variables can only slightly clarify the impact on the total expenditures.On the contrary, the number of student (NST) and population (POP) have the highest influence (that is above 90%) in explaining the provision of public funds for these provinces. This might be because the decisions-makers are concentrating more on the population in each set to distribute the public funds. The social capital variable is clarified as five different variables and the estimation of these variables are shown above as a weaker clarification than socio-economic factors. Only the cohesiveness among citizens (COH) and linkage among associations (LAA) are reasonable in explaining the provision of public funds. Then the rest of the variables have a significant impact yet less influential power.Finally, the results of total expenditures in the northern province is 98%, central province is 95%, and southern province is 97%, which was explained from the latent variables. That is to say, it is similar as the normal R2 value used in linear regression. This implies that in the Maldives, the distribution of public funds are considered by the political and socio-economic factors, more than the social capital variables.

4.3.2 Empirical Evidence of Constrained (structural weights) model for provinces

Constrained model (Structural weights model)
for Central, Northern and southern Provinces
Standardized estimates
Chi-square = 5794.820, Degrees of freedom = 183
Probability level = .000, RMSEA = .120, GFI = .777,
NFI = .784, TLI = .730, CFI = .789,
CMIN/DF = 31.660, PCFI = .617, PNFI = .613

Figure 5: Structural weights model for central, Northern and southern province estimation

The structural weight model estimation has attained the minimization. Correspondingly, referring to the past estimations, the following three steps were taken to see the difference between northern, central and southern provinces. For the first model, the degree of freedom is 183 and the chi square value is 5794.820. This means that the level of chi square is suitable with the degree of freedom. Furthermore, the P value is 0.000, and this shows that it is an acceptable model [15]. The structural weights show the goodness fit of GFI= 0.777,

RMSEA= 0.120, CFI= 0.789, and TLI = 0.730, which indicates that for the multi-grouped estimations, the model is reasonably fit [15]. Similarly, NFI, CFI, and TLI are close to fit ranges, and the values are close to the range of 0.08, which is considered as a good model fit for the incremental model fit [16]. On the other hand, the PCFI = 0.617 and PNFI = 0.613 are above the ranges that can be indicated as a parsimonious model fit [17].

4.3.3 Comparisons between baseline and structural weights model for provinces

Despite the fact that the SEM reports a similar path diagram with various parameter estimates on the unconstrained model in the above-mentioned diagrams, additional examinations are imperative to be carried out to see more precise and significant differences between the estimates.To represent the distinction among the northern, central and southern provinces, the constrained model and unconstrained model chi square differences are analyzed. Below Table 1 show the chi square test compared.

Table 1: Chi-square differences test for moderation experience

Overall Model	Chi Square	DF	P-value	Reject/Accept Null hypotheses
Unconstrained	2895.324	159		
Fully Constrained	5794.820	183		
Difference	2899.496	24	0.000	Rejected

Table 1 demonstrate that, despite the fact that provinces use same path diagram, as expected in the previous estimations, they have significant differences. Also, this test shows that at least one or more provinces has an immediate discrepancy. This is also the evidence of accepting the alternative hypothesis that was proposed in this paper. However, it is imperative to investigate the path differences among provinces. Hence, the next part of the study will analyze the path-to-path evaluation. This sort of assessment is very common in path analysis and contrasting groups in the path diagrams [18].

4.4 Estimating the path differences in the provinces

Since the study has recognized the significance differences among the provinces, this study takes the next step to identify the path variances among the provinces. As there are two paths in the model (Path A, a socio-economic and political path that connects to the total expenditure and Path B, a social capital path that also connects to the total expenditures), two ways of analysis have been done. Below are the two direct path explorations for the path analysis..

4.4.1 Constraining the Path A: Socio-economic and political factors ☐ Total Expenditure
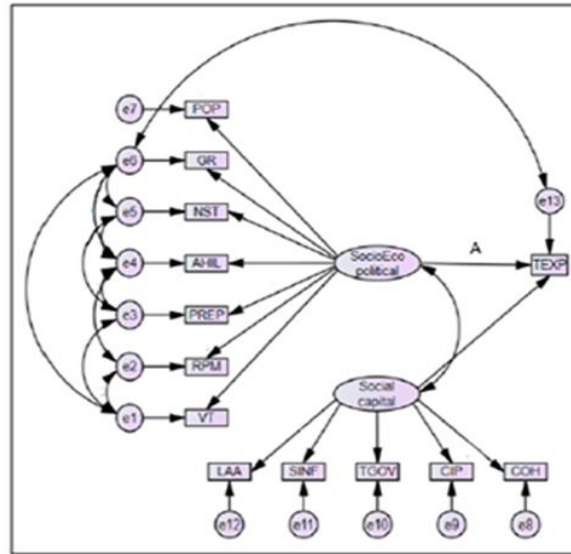
Figure 6: Path A, model for central, northern and southern provinces

Table 2: Path A, constrained and unconstrained comparisons

Model Tests	Unconstrained Values	Constrained Values	Differences
Chi-Square	2895.324	2934.782	39.458
Degree of Freedom	159	161	2
Probability level (P value)	0.000	0.000	0.000
RMSEA	0.090	0.090	
GFI	0.867	0.866	
NFI	0.892	0.891	
TLI	0.849	0.848	
CFI	0.897	0.896	
CMIN/DF	18.210	18.228	
PCFI	0.610	0.616	
PNFI	0.606	0.613	

As show in Figure 6 and demonstrated in Table 2, the comparison among constrained and unconstrained models for path A is clarified. The purpose of the above figure is to look into the chi square and contrast and check whether the difference is significant. Also, the rest of the model fit demonstrates a good fit for both model for the path A. Since, the contrast of the chi square is high and positive, and has the P-value has 0.000 difference, it indicates significantly higher difference between the groups [18]. Thus, for the constrained path A model the chi square is 2934.782 and the thresholds of the chi square shown in the Table 3, so it can be concluded that with 99% confidence, there is a significant difference between the provinces for direct path A: Socio-Economic and Political – Total Expenditure.

Table 3: Chi-square thresholds for experience as a moderator

Chi square thresholds	
90% Confidence	2899.93
95% Confidence	2901.32
99% Confidence	2904.53

4.4.2 Constraining the Path B: Social capital factors ⯈ Total Expenditure
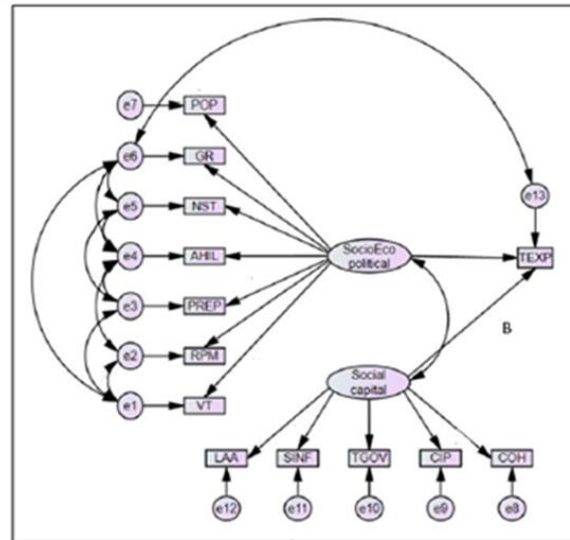

Figure 7: Path B, model for central, northern and southern provinces

Table 4: Path B, Constrained and Unconstrained model comparisons

Model Tests	Unconstrained Values	Constrained Values	Differences
Chi-Square	2895.324	2963.193	67.869
Degree of Freedom	159	161	2
Probability level (P value)	0.000	0.000	0.000
RMSEA	0.090	0.090	
GFI	0.867	0.861	
NFI	0.892	0.890	
TLI	0.849	0.847	
CFI	0.897	0.895	
CMIN/DF	18.210	18.405	
PCFI	0.610	0.616	
PNFI	0.606	0.612	

As demonstrated in table 4 and in Figure 7, the comparison among constrained and unconstrained model path B is clarified. The purpose of Table 6.8 is see the difference of chi square and see whether the difference is significant. In addition, it demonstrates the good fit for constrained and unconstrained model Path A. As the chi square has 67.869 differences of high and positive with the p-value difference of 0.000, it indicates the significance is highly different among the sets [18]. Thus, for constrained path A model the chi square is 2963.193 and is more than the chi square threshold (shown in Table 3), it can be decided that there is significant difference of 99% confidence level among the provinces for the path B: Social Capital Factors – Total Expenditure.

5. Conclusion

At last, the paper was patented to confirm the commonly used factors that influence the provision of state wealth and 2) to understand, how far is this provision of state wealth equally distributed among the rural Maldives. As demonstrated in the above assessments, the provinces have a significant differences among them. Also, the test

demonstrates that at least one province has a significant level of inconsistency. Similarly, the combination of both path A and path B is significant. Thus, this is clear proof of accepting the alternative hypothesis that was proposed in this paper. It implies both path A and path B show significant difference among the provinces. It also indicates that each group of individuals in every province have set a one-of-a-kind factor combination for the increments of the total expenditures by the nation.

6. Recomondations

The Maldives ought to guarantee the reasonable arrangement of state distribution, all through the nation as opposed to focusing on its focal central city. As the study indicated plainly, the cross-country is unequally diverse in their operations. Yet, it is important for the Maldives to have a focal service to education, health and infrastructure (i.e. a central ministry). This would make the services progressively responsible and in charge of overseeing approaches viably. however, as a result of the region's scattered geographic nature, numerous offices at the common and district levels will be required to direct and deal with the strategies. Furthermore, the model demonstrated that concentrating on social capital and other political activities supports the state development atlarge. Developing and creating human capital should not be exclusive to communal agencies; it additionally requires urgent government consideration in state-financed approaches. Further, it is essential for government authorities with different capacities to appropriate spending among state-subsidized projects and private division endeavors.

Acknowledgements

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