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THE POLITICAL ECONOMY OF THE BUDGET

DEVELOPMENT ADVOCATE
PAKISTAN

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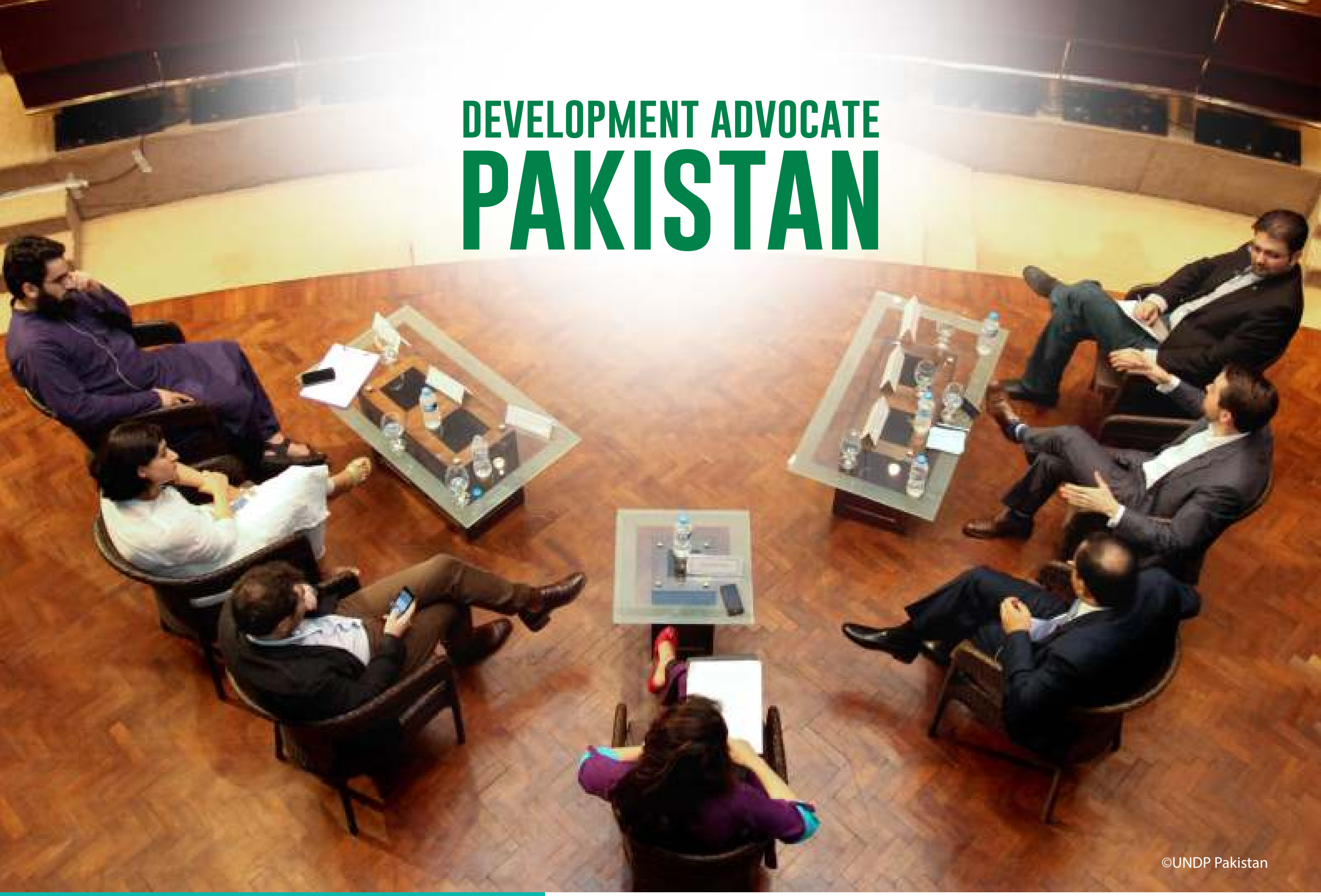

Development Advocate Pakistan provides a platform for the exchange of ideas on key development issues and challenges in Pakistan. Focusing on a specific development theme in each edition, this quarterly publication fosters public discourse and presents varying perspectives from civil society, academia, government and development partners. The publication will make an explicit effort to include the voices of women and youth in the ongoing discourse. A combination of analysis and public opinion articles promote and inform debate on development ideas while presenting up-to-date information.

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Editorial

The budget is one of the most powerful fiscal instruments at the disposal of incumbent governments to implement political commitments and development agendas. The size of the budget, especially for development investment, is usually the sole proxy to judge a government's seriousness of purpose. What is rarely discussed, however, are the critical issues of transparency and accountability in the budget making process. Only a transparent and accountable budget making regime can ensure effectiveness and results.

There are at least three obstacles to improving transparency in the budget making process - weak citizen involvement, limited Parliamentary debate and unavailable or opaque information.

The concept of participatory budgeting does not exist in Pakistan. The municipal budget of Porto Alegre, Brazil is a good example. Around 40,000 people have participated in budget preparation every year since 1999. Why is citizen participation so critical? Because it addresses inequalities and enhances impact. In Porto Alegre, it empowered the low-income segments of the population, raising their voices and prioritizing their needs.

Sewer and water connections in Porto Alegre increased from 75 percent of total households in 1988 to 98 percent in 1997. The number of schools quadrupled and the health and education budgets increased from 13 percent to 40 percent in ten years. The participatory budgeting concept works well at the municipal level and in the presence of a well-functioning local government system - a platform tragically absent in Pakistan.

Like citizen participation, Parliamentary engagement in the budget making process in Pakistan is quite limited. Debates take place for an average 15–20 calendar days. Budget sessions are short, allowing insufficient time for substantive discussion. For example, the federal budget for 2003–04 was passed in just nine hours. The corresponding figure for 2005–06 is 56 hours. India assigns 75 days for Parliamentary discussions and Pakistan would do well to increase its own allotted time. The statutory regulatory order (SRO) regime further curtails Parliamentary oversight and costs the exchequer; the cost of exemptions and concessions through SROs in 2014 alone was around PKR 470 billion. The so-called 'block allocation' of funds for unapproved projects defeats the principles of transparency and generally accounts for a good 20 percent of total estimated development expenditures. The government's decision to do away with SROs is a welcome step to minimizing the executive's discretionary powers and must therefore be implemented in letter and spirit.

The third aspect that could improve transparency in budget making is access to non-technical and easily understandable information. Currently, Parliamentarians have to read numerous bulky technical documents in a short span of time. In addition, the federal government and the four provinces all use different formats for budget documents. For example, Punjab reports the bulk of its education and health budgets under transfers to local government, while other provinces report them under different heads. Some provinces issue white papers on budgets. Others do not. It is, however, encouraging to note that some efforts are being made in this regard. Punjab and Khyber Pakhtunkhwa are trying to improve service delivery outcomes at the sub-national level and have introduced Right to Information acts. Khyber Pakhtunkhwa and Punjab have published a citizens' budget with support from the UK Department for International Development (DFID). In addition to the Right to Information Act, which was supported by UNDP, Khyber Pakhtunkhwa has introduced Right to Service and Conflict of Interest Acts which will help create an environment for transparency and accountability.

The accountability of results also requires considerable effort on the parts of both the federal and provincial governments. Current budgetary processes, through which funds are allocated, disbursed and accounted for, need thorough review and alignment.

Funds disbursement from the federal Public Sector Development Programme (PSDP) or the provincial Annual Development Plans (ADPs) are made through a highly bureaucratic and time consuming process which results in delays and fund lapses. Coupled with too many new, often politically driven projects—the federal PSDP for 2014–15 contains 181 unapproved projects with an estimated cost of PKR 3 trillion—turn the entire development programme into a wish list. Delays in releases dilute the accountability framework, causing friction between the disbursing agencies and their recipients. The former blames the latter for underutilization due to capacity issues, and the latter criticizes the former for highly cumbersome procedures. For example, Sindh was critical of the federal government in the last fiscal year for an PKR 81 billion shortfall in fund transfers. The province claimed this was the reason for its 20 percent reduction in the education budget and its 23 percent reduction in the health budget.

Pakistan uses a process called incremental budgeting, where the budget for a particular ministry/department is enhanced by a given percentage over the last year's budget without any evidence-based criteria (such as past performance and actual need). The good news is that Pakistan has been using the medium-term budgetary framework (MTBF) and output-based budgeting tools since 2005. However, greater political will and institutional capacity are required to implement the MTBF in its true spirit. The mechanism could help set clear targets against which accountability systems could be put in place. Colombia has introduced a results tracking system with a web interface accessible by the general public.

Pakistan must review its budget making process to make it participatory, transparent, accountable and impact oriented. It is imperative to test the concept of a participatory budget at the district or municipal level to give a voice to the poorer segments of society and to enhance the effectiveness and impact of budgets. Achieving the Millennium Development Goals (MDGs) and the government's goals is not just about raising revenues, but also, and more immediately, about how they are allocated, spent and tracked.

Analysis

The political economy of the budget

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Mr. Sabir provided technical assistance to the government of Sindh during the negotiation of the seventh National Finance Commission (NFC) award, was a co-opted member of the Advisory Panel of Economists and a member of the task force that established the Sindh Revenue Service (SRS).

Introduction

The budget is the government's most important policy statement, reflecting the direction of underlying national and provincial policies. It outlines a projection of major revenue sources, public expenditure priorities, the level of overall budget surplus/deficit and sources to finance the budget deficit for the year.

In reality, it is a document that states how much money will be collected from whom and how much will be transferred in kind or cash to whom. Ideally, the money should be collected from the affluent classes and transferred to the poor and vulnerable to effectively perform the redistributive role of the government. However, politics has played an instrumental role in diluting this redistributive role, or even changed the direction of redistribution, altogether. According to Bengali (2014), "[The] budget is a political document where money is taken out of [the] pockets of those who are weak and put into the pockets of those who are powerful. Those who are powerful will not allow money to be taken out of their pockets. Instead, money taken out of the pockets of the poor will be placed in their pockets".[1]

A major reason for this state of affairs is the lack of participatory processes in budget formulation. While there are a few attempts to hear citizens' voices through beneficiary assessment surveys of social services like education and health, there is no formal institutional mechanism that ensures regular engagement. There are several best practices available that ensure citizen participation in budgetary processes, including gender-aware beneficiary assessment surveys, citizen scorecards, opinion polls and citizen comments/feedback through cards or the Internet.

The timing of the budget presentation and finalization is another key factor that minimizes both citizen and Parliamentarian engagement. The federal budget is generally presented in the National Assembly in late May or early June, which in turn is passed by the National Assembly in the last week of June.[2] Parliamentary debate ensues for barely 15–20 calendar days. A general discussion on the budget is held during this period, followed by one on appropriations and another on voting on demands for grants. Even the process of voting on demands for grants requires that each demand not charged be discussed separately for cut motions and be voted on for approval after incorporating them [the cut motions]. Given the quantum of demands, there is insufficient time even for Parliament to debate the budget fully. An examination of budget session durations between FY 2004 and FY 2013 indicates that the budget was passed in just nine hours in FY 2004 (Figure 1). The longest budget session—56 hours—was in FY 2007. Consequently, Parliamentary involvement in the budget is quite limited, with the bulk of time spent on general discussions.

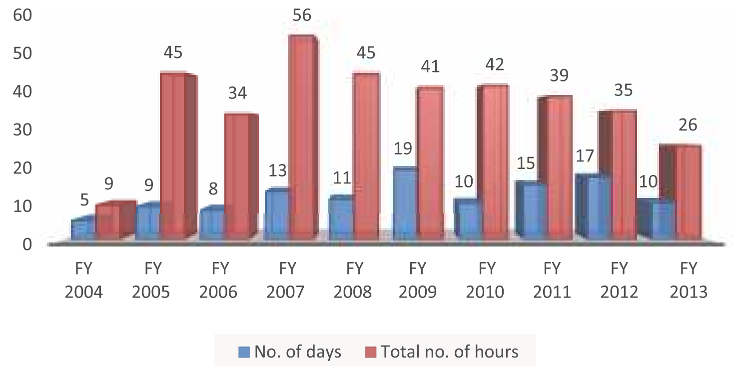


Figure 1: Duration of budget sessions in the National Assembly[2]

The budget document is far too technical; another problem that hinders public participation in the budget making process. Budget documents are not reader-friendly, even for persons with an academic grounding in economics. This makes it possible to hide facts. The federal government and four provinces continue using different formats for budget documents, despite the World Bank's multi-year 'Project to Improve Financial Reporting and Auditing' (PIFRA) to streamline the budgetary classification. It is often challenging to simply find information about social sector spending or a particular budget head. For example, the bulk of the education and health budget in Punjab is reported under transfers to local government as a block allocation without any further disaggregation. This makes it impossible to compare Punjab's education and health budget with that of other provinces. However, a reasonable number of members of the National Assembly participate in budgetary sessions (Figure 2). Although it should be noted that the majority of the discussion is limited to general comments, or put to efforts to ensure that their schemes are placed in the Public Sector Development Plan (PSDP)/Annual Development Plan (ADP), without getting involved in technicalities.

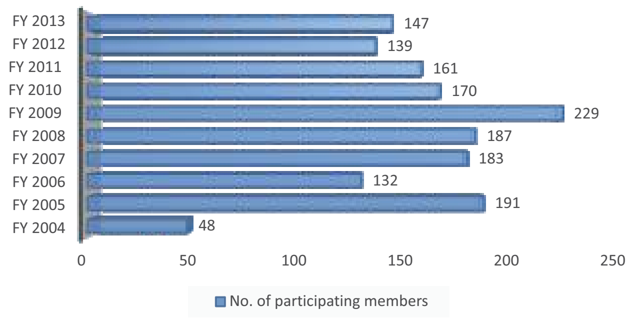


Figure 2: MPA participation in budget sessions in the National Assembly[2]

The political economy of resource mobilization

The correct sequence for formulating a federal budget involves first estimating likely actual revenue generation, determining an acceptable budget deficit and finally setting expenditures. In other words, expenditures can be stretched up to the point of the pre-determined budget deficit rate. In reality, expenditures are determined first, the budget deficit figure is provided by the IMF and the balance is considered the revenue target; it is hardly surprising that revenue targets are never met.

Figure 3 shows the targets and revised estimates of Federal Board of Revenue (FBR) taxes—both direct and indirect—during FY 2013 and FY 2014. It indicates that the FBR missed its tax collection targets by 16 and 9 percent during FY 2013 and FY 2014, respectively. While the major source of FBR revenues is indirect taxes, the shortfall in direct taxes is more pronounced.

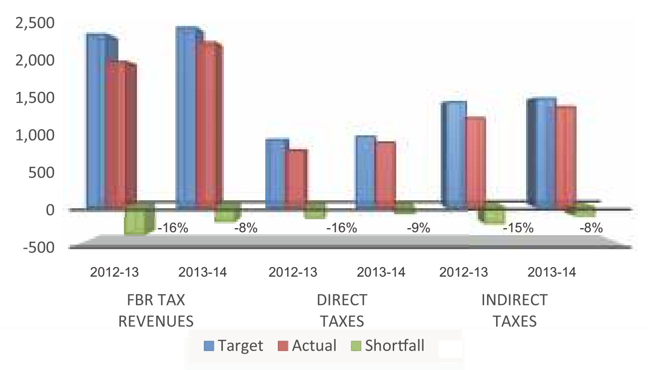


Figure 3: Resource mobilization failures (PKR billion)[3,4]

Care is always taken to avoid tapping those who are powerful, despite optimistic resource mobilization targets. The Carnegie Endowment for International Peace reports that "Fewer than 3 million of Pakistan's 175 million citizens pay any income taxes, and the country's tax-to-GDP ratio is only 9 percent."[5] This is one of the lowest in the world - tax evaders owning billions in assets include wealthy landlords who remain exempt from paying their share, although many are members of the National and provincial assemblies, and enjoy benefits at taxpayer expense. One unfortunate consequence is the exclusion of agricultural income from the tax domain.

Agricultural income tax is a provincial tax, which is said to be a 'difficult' tax to collect. Collection complexities include uncertainty in income due to weather variations, but the major cause is the presence of large landholders in the assemblies, where laws are made and amended. FBR estimates show that the agricultural sector paid the smallest share of taxes in relation to GDP (Figure 4). Tax collection from the agricultural sector is hardly 0.5 percent of its sectoral contribution to GDP. The corresponding figures for manufacturing and services are 28.6 percent and 5.7 percent, respectively. The services sector is also known for tax evasion.

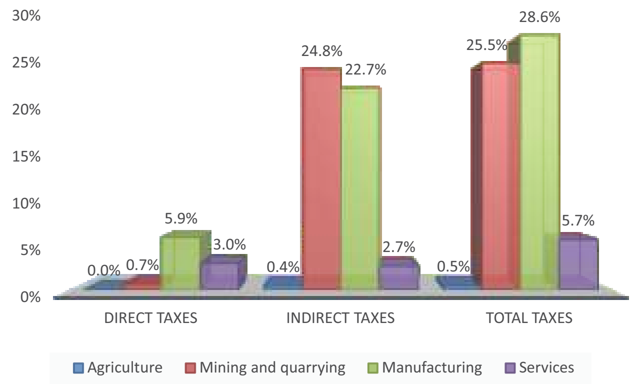


Figure 4: Sector-wise taxes as a percentage of sectoral GDP[6]

The tax system contains numerous loopholes and exemptions. There is a dominant culture of statutory regulatory orders (SROs) that grant exemptions to powerful groups, lobbies and individuals; exemptions are generally granted on political bases. According to Pasha (1997), "There is a strong, entrenched vested interest group behind every major tax exemption or concession. Groups have organized themselves into effective lobbying entities that blatantly demonstrate their power in political terms and seek patronage through party donations and by supporting influential politicians. They have developed credible arguments in favour of retaining these exemptions and fiscal incentives, and how they are actually in the greater national interest".[7]

The political economy of budget formulation

Line ministries and divisions submit their demands for the next year through budget call circulars (BCCs) in September. The use of incremental budgeting means the scope of negotiation in the current budget is limited. Quite simply, ministry/division budgets are allocated on a historical basis. This means last year's figure is added to in the next budget, which results in considerable wastage.

Some negotiations *do* take place to finalize budgets, although these are limited by financial ceilings and allocations against sanctioned posts, and past performance in terms of budget utilization is quite irrelevant. A budget constraint means every entity attempts to maximize its allocation, which can turn the process into a zero-sum game. Allocation increases or decreases in one ministry affect all the others. In other cases, it simply increases budget deficits. The process is very political. Powerful interests work to increase the chances of their own projects being funded. This translates into public policy, where the interests of powerful groups and lobbies adversely affect resource allocation to other socioeconomic sectors. Ex-post changes in the budget have also been known to occur - clear violations of budgetary rules.

Figure 5 presents an interesting example of political considerations after the passing of the budget. It shows three categories of expenditures, namely current expenditures, the PSDP, and other development expenditures and development loans. Historically, the government presents optimistic estimates of development expenditures and conservative estimates of current expenditures. While development expenditures are revised downward, current expenditures are revised upward during budget execution. Consequently, the share of current expenditures increases in revised estimates compared to original estimates. This was exactly the case in FY 2013. While the share of current expenditures increased from 82 percent in budget estimates to 84 percent in revised estimates, the share of both the PSDP and other development expenditures declined. By contrast, FY 2014 saw the share of both the PSDP and current expenditure decline in revised estimates, while the share of other development expenditures increased to roughly 200 percent. A scrutiny of other development expenditures indicates a new entry of PKR 157 billion in revised estimates under the head of the Pakistan Development Fund, which was not presented in the budget estimates. This fund has largely been used to build road networks for the metro bus service in Islamabad and Rawalpindi. It may be inferred that the metro project was rooted in political motivation rather than in economic rationale, since the project was initiated without a PC-1 and without passing through the PSDP procedure.

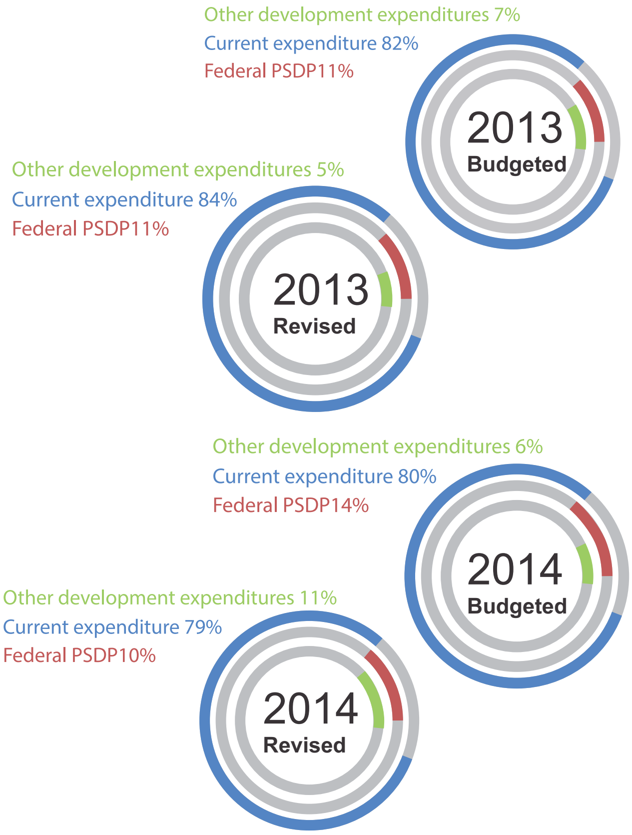


Figure 5: Composition of federal expenditures (%)[3,4]

The political economy of development expenditures

Development expenditures, including the PSDP, manifest themselves in the development priorities of the government and are considered to be the main instrument behind development interventions and the channelizing of budgetary resources towards development projects and programmes. Nonetheless, the development budget is underutilized while the recurrent budget usually overshoots. The main reason is that schemes in the PSDP/ADP are presented prior to PC-1 approval, and, subsequently, some PC-1s are not approved while others are never even presented for approval. What ensues is a struggle between ministerial/departmental secretaries where the test is to present as many new schemes as possible. This competition has two adverse consequences. First, there is an overwhelming presence of new and un-approved schemes. Second, allocations to ongoing schemes decrease. The first results in a reduction in development budgets during budget execution. The second causes substantial throw-forwards. The political consideration behind this process is that governments need to show new projects - the development budget is nothing more than a wish list guided by political considerations. Obviously, it is never fully utilized. The budget for FY 2015 features a federal PSDP containing 181 unapproved schemes worth an estimated PKR 3 trillion. The allocation, however, stands at PKR 93 billion.

Another problem in development budgeting is block allocations. These cannot be monitored, so they are primarily used for political patronage. It is the worst practice in terms of efficiency and transparency. In FY 2014, a massive PKR 115 billion was allocated to the 'New Development Initiative', while revised estimates added another PKR 157 billion to the Pakistan Development Fund. Both are block allocations and details of development schemes under this category are not provided in PSDP documents. In addition, the development budget contains regular annual block allocations for Azad Jammu and Kashmir (AJK), Gilgit-Baltistan (GB) and the Federally Administered Tribal Areas (FATA). These block allocations reached PKR 37.7 billion in the budget for FY 2015.

Both block allocations and allocations for unapproved schemes imply that at least 20 percent of the federal development expenditure remains unexplained. This makes the entire development planning process opaque, reduces the development budget's effectiveness and shrinks the scope for monitoring and accountability. There are even PSDP schemes (similar to block allocations) that conveniently omit project names, making monitoring very difficult. For example, allocations for 'various roads' or 'various schools', or allocations for a certain number of unnamed schools or roads are impossible to monitor.

Current expenditure priorities

A large and growing portion of the budget is allocated to debt servicing, every year. This is simply an outcome of allocating resources to unproductive sectors based on political economy considerations in the past and present. According to FY 2015 budget estimates, almost half of current expenditure has been allocated to debt servicing (Figure 6). The combined share of five heads of expenditure—debt servicing, defence, transfer payments, subsidies and civil and military pensions—is likely to reach 92 percent of current expenditure in FY 2015. This reduces the scope for federal government interventions in the social and economic sectors. While education and health are devolved subjects, the federal government continues to provide these services to all areas that fall within the federal domain, including FATA, GB and Islamabad Capital Territory. In addition, the federal government is still responsible for developing curricula, financing higher education and research and development, and accreditation. However, priorities in current expenditures indicate that the federal government has a relatively lukewarm interest in education and health.

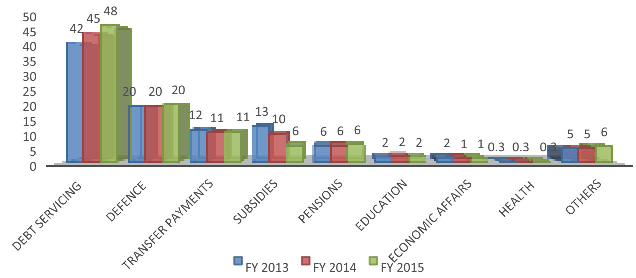
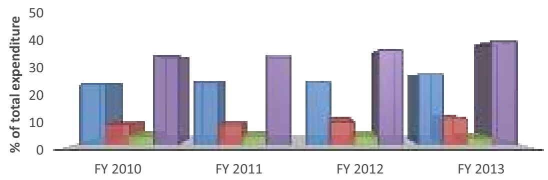


Figure 6: Distribution of federal current expenditures (%)[3,4,8]

Provincial budgetary processes after the 7th NFC award and the 18th Amendment

The provincial governments' role was considerably enhanced after the promulgation of the 7th NFC award and the 18th Constitutional Amendment. The seventh NFC award provided much needed resources for social development by enhancing the provincial share in the divisible pool. This increase in the fiscal resources of provincial governments was expected to be largely diverted to social sector expenditures. As expected, the share of social services in total provincial expenditure increased from 35 percent in FY 2010 to 40 percent in FY 2013 (Figure 7).



	FY 2010	FY 2011	FY 2012	FY 2013
Education	23.6	24.4	24.8	27.5
Health	7.9	7.7	9.1	10.1
Others	3.2	3.0	3.1	2.6
Social sector	34.7	35.1	37.0	40.2

Figure 7: Provincial social sector expenditures as a percentage of total expenditures[9–16]

There were hopes that the 18th Amendment would make the budgetary process participatory and effective. However, a look at the pre- and post-18th Amendment budget making process indicates otherwise. The 18th Amendment has given the provinces more power and money and transferred the bulk of development activity. Thus, the process of budget making at the provincial level will have to be improved far more than the federal budget.

Today, the provinces are simply putting numbers together with little or no conceptualization. The ADP is merely a post office for transferring money into different pockets. The process of planning projects, fitting into certain plans and proper cost-benefit analyses will have to be incorporated. These have *never* existed at the provincial level, but must be brought in, now that development is largely in the provincial domain.

The way forward

Budget sessions must be longer to make the process participatory and effective; it must be presented by March at the latest. This would allow sufficient time for public debate and for Parliamentary committees to scrutinize relevant provisions. Parliamentary capacity issues may arise, but capacity does not develop until a task is actually debated. The Indian example can be replicated in this case, where the Parliamentary budget process spans over 75 days, divided into three phases. It starts with general discussion and is followed by an in-depth scrutiny of the demands for grants for each ministry in their respective standing committees, known as departmentally related committees. Each committee then prepares a detailed report based on its findings and presents them in Parliament for further discussion and approval.[2]

The budget is meant to be an accounting document. Accounting protocols and procedures capable of tracking every rupee, exist, but there is no such practice in Pakistan. First, how money is used is not tracked – interest wanes over the three to four years it takes for actual expenditure figures to be released. Second, expenditures almost never tally with budgetary allocations.

The supplementary budget is presented at the end of the annual budget and considered little more than an annoying formality. There is no Parliamentary discussion on it. After all, the main budget has already been passed and every Parliamentarian just wants to go home. Supplementary budget deviations have been known to reach 300 percent. As a rule, deviations beyond a certain threshold should be returned to the relevant Parliamentary committee for review.

The sequence of formulating a federal budget needs to be corrected to make the budget more realistic. Accommodating the demands of line ministries and divisions is a fiscal challenge that should be performed with economic efficiency and effectiveness in mind, rather than political considerations. The development budget should not be used for political patronage, and both block allocations and unproved schemes should be removed from the PSDP/ADP. PC-1s should be approved prior to inclusion in the PSDP/ADP and the quantum of throw-forwards should be rationalized to ensure the timely completion of ongoing schemes. Finally, the culture of SROs, which are simply loopholes that subvert budget effectiveness, must be discouraged.

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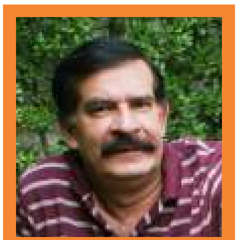
Opinion

Monitoring processes under the medium-term budgetary framework



Sajjad Ahmad Shaikh
Joint Secretary (retired)
Ministry of Finance

Mr. Shaikh has 20 years of experience in policy formulation and analysis, statistical data analysis and social sector development strategies. He has served with the South Asian Association for Regional Cooperation (SAARC), Nepal and UNDP Pakistan, and held numerous posts in the Ministry of Finance.

The government of Pakistan initiated budget preparations using a more structured and scientific approach in 2005 - the medium-term budgetary framework (MTBF). The framework revolves around the principle of enhancing the government's capacity to deliver better services through improved management and oversight, a process known as 'output-based budgeting and monitoring'.

A government's budget is a policy implementation mechanism. The budget reflects how the government intends to implement its policies and programmes. The traditional budget preparation and presentation process is based on inputs, i.e. on the human and material resources required. This system decreases the focus on governance and public policy. It is for this reason that modern budgeting systems have integrated the policy cycle (planning, implementation, monitoring and evaluation) with the budget cycle (fiscal planning, budget preparation, implementation, accounting, reporting and auditing).

This output-based budgeting system requires all government ministries, divisions and departments to prepare a medium-term strategic plan that links planning (expressed in terms of a log-frame methodology) and budgeting processes. The log-frame methodology allows each department to express its goals, outcomes and outputs, and links them with inputs such as budgets, personnel and projects. Performance for each defined output is presented using key performance indicators (KPIs).

The output-based monitoring system requires the government to prepare an annual performance monitoring report. Principal accounting officers are required to address four main queries at the end of each fiscal year. First, the reasons for variations between budget and actual expenditure are sought; these reasons are listed by outputs and inputs. Second, performance levels are assessed using KPIs compared to delivered outputs; any variations must be explained. Third, changes in project costs and/or delivery dates are noted and budget consumption is assessed. Fourth, personnel recruited is tallied and checked against project plans.

Issues in strategic planning and monitoring

Measuring performance in the public sector is considered a difficult task. Most services require customer satisfaction surveys, which are normally not undertaken by the government. Plan preparation suffers from a lack of capacity. Government departments and officials may find it cumbersome to coherently articulate goals, outcomes and outputs. In any case, credibility is low and the *need* for plans does not appear to be particularly great; the Prime Minister's office and the Ministry of Finance change priorities on a regular basis. Over time, this has meant a reduced need for proper planning.

In addition, accountability mechanisms do not exist. Cabinet and Parliamentary standing committees do not usually discuss government performance. This is hardly surprising, as there is currently no legal requirement for output-based budgeting.

Issues in monitoring

Monitoring is currently a pilot activity. Projects' budget wings prepare annual performance monitoring reports. Information from these reports would ideally feed into subsequent budgeting and planning rounds, although this is seldom the case.
Financial information in the Project to Improve Financial Reporting and Auditing (PIFRA) system is not yet deemed reliable. Considerable effort is still required to obtain accurate expenditure figures from departments and their subsidiary offices. There are currently no dedicated entities tasked with monitoring government service delivery within the Ministries of Finance or Planning - the Planning Ministry monitors project progress, only and the Ministry of Finance does not possess the organizational capabilities required to monitor ministry performance. In fact, ministries themselves do not possess a dedicated monitoring function. Instead, low-level staff collects monitoring reports from subordinate offices.

Recommendations

Proper planning is an urgent need. This needs to be coupled with political will. The constant priority shifts in the Prime Minister's office and the Ministry of Finance serve only to discourage planning and the understanding that it does indeed improve processes markedly.

Output-based budgetary processes have already been shown to be effective. They use specific methodologies and tools. However, they are of little use without sufficient capacity and legal support. On the planning front, officials are unable to comprehensively express ideas and objectives. Accurate expenditure figures are required for monitoring, but it has been observed that these are quite difficult to obtain. Capacity building for planning, dedicated entities for monitoring, and accountability measures are clearly the need of the day. Finally, an effective legal framework is required to ensure that such measures are implemented.

SROs: The story of sordid regulatory orders

Sohaib Jamali
Research Editor
The Business Recorder

Mr. Jamali co-founded and oversaw the journalistic functions of the Business Recorder's (BR) independent research wing, 'BR Research'. His areas of interest and research include governance, development- and third-sector affairs, macroeconomic indicator forecasts and corporate sector performance.

Statutory regulatory orders (SROs) are one of the characteristically unique features of Pakistan's economy. They are tools through which the executive, i.e. the Federal Board of Revenue (FBR), decides the fate of taxation affairs in the country. This bypasses the need for Parliament and the ensuing debate that ought to follow any suggestion to cut or raise taxes, or exemptions and concessions thereof.

In effect, SROs symbolize the twin problem that lies at the very core of Pakistani society: poor governance, including policy-making failures and a weak Parliament. Ironically though, even as they are now being phased out, the very culture and mindset behind the SROs—the lack of transparency and unavailability of material information, not least of exemptions and concessions—is ever-present.

The charge sheet

All SROs are not 'bad', just as all concessions are not bad, as long as they are supported by economic rationale. Other SROs, being procedural in nature, are neither good nor bad. Why, then, has the SRO culture invited such scathing criticism from almost all corners of Pakistan's business and economic community?

There are several reasons for this, the most important of which pertain to the executive bypassing Parliament, when, in fact, it is Parliament that has been constitutionally tasked with the domain of federal taxes.

Interestingly, Parliament itself has almost abdicated its powers of taxation by allowing the FBR to issue taxation orders under different sections of the Income Tax Ordinance, Sales Tax Act and Customs Act. By giving the executive the right to tax, Parliament has, in effect, breached the social contract between the people and their representatives, giving birth to a host of maladies.

The SRO phenomenon creates a lack of transparency as changes in taxes are not routed through the system of Parliamentary oversight. It also disconnects public policy from taxation. The former has far-reaching implications on the socio-political fabric while the latter creates distortions, disincentives and room for corruption in the economy.

The scope and impact of these SROs across the economy can be gauged by the fact that more than 90 percent of the total 7,016 tariff lines of Pakistan customs tariffs are covered under one or more SROs.

Successive governments in recent history have had a penchant for SROs. As a result, the cost of exemptions and concessions has been growing over time, where the bulk of them have been given to a handful of business sectors, leading to distortions in the system

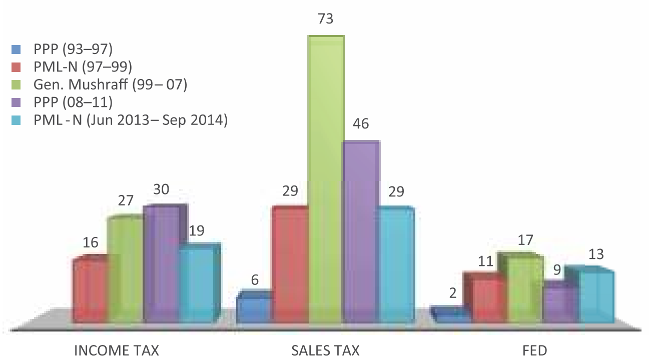


Figure 1: The number of SROs issued during various regimes[1]

Explanatory note: SROs issued under caretaker governments are not shown. The SROs list includes SROs for procedural affairs and those assigning rates of duties and/or amendments/withdrawals or cancellations thereof. The actual position may differ, but the underlying message is unlikely to be significantly different. Customs SROs have not been taken into account due to data comparability issues. All calculations are based on FBR data.

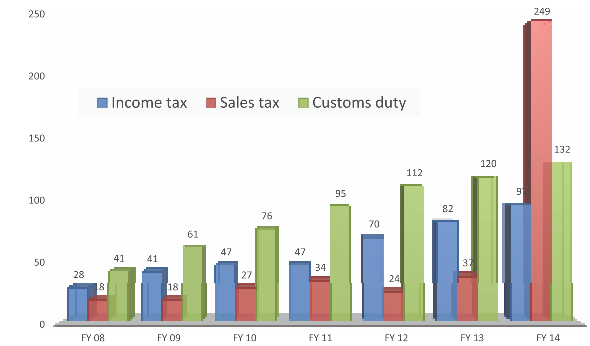


Figure 2: The cost of exemptions and concessions (PKR billion)[2–8]

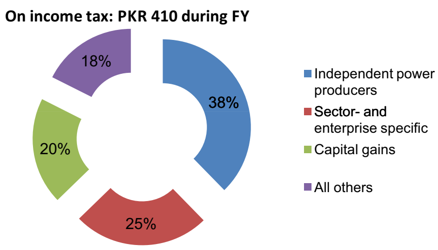
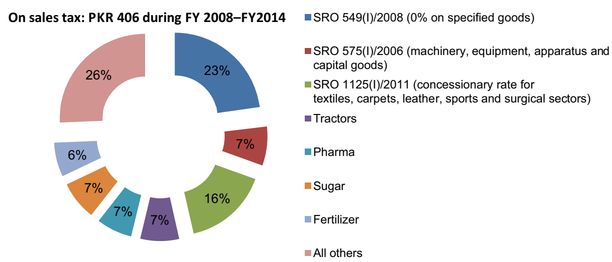
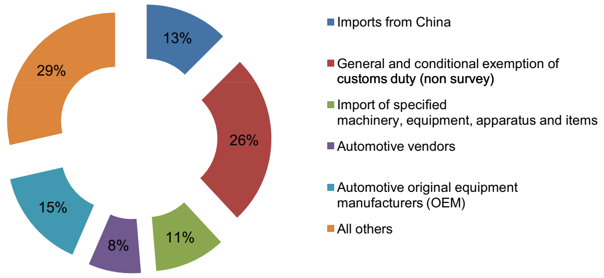


Figure 3: Tax expenditure on account of exemptions and concessions[2–8]



On customs duty: PKR 637 during FY 2008–FY 2014



Explanatory note: Data is patchy across survey documents. For instance, in the case of sales tax, tax expenditure on account of SRO 549(I)/2008—0 percent on specified goods—is only available for FY 2014. Another example from the case of sales tax is that tax expenditure on sugar, which is available only for FY 2012–FY 2013. In the absence of evidence to the contrary, it is assumed that only main items were listed every year, which gives rise to comparability issues across different surveys.

Consider the case of SRO 172 (I)/2013. The Competition Commission of Pakistan (CCP)[9] noted that the aforementioned SRO incentivized persons who violated the law by possessing smuggled/non-duty paid vehicles, and also adversely affected the automobile sector's competitive environment.

Another study conducted by the International Growth Centre (IGC) at the London School of Economics (LSE) noted how some of the exemptions given by SROs were confined to specific users of the product and gave preference to one over the other.[10] For example, the IGC showed how an industrial importer would pay a total import tax of 27.8 percent for a certain product, whereas the same for a commercial importer would be 45.1 percent.

The IGC paper noted "This discriminatory treatment may be enough to preclude commercial imports altogether, and has a number of serious economic costs".[10] First, the system forces producers to import themselves, even if importing may not be their core strength, especially considering that the input requirements of an individual manufacturer may be much less than the quantity needed to import at economical rates.

Second, "by excluding commercial importers from the concessionary customs duty regime, and also subjecting them to higher sales and income withholding taxes, the system therefore discriminates against small and medium enterprises (SMEs) and confers market power on the generally larger firms that are able to negotiate input tariff concessions".[10]

Transparency remains a victim

The government of Pakistan has finally decided to do away with the SRO regime at the behest of the International Monetary Fund (IMF) in recognition of these problems and numerous others.[11] The government had prepared a calendar by the end of May 2014 to eliminate the vast majority of SROs and convert the remainder into regular legislation.

This plan is expected to increase revenues by up to 1.5 percent of GDP with all designated SROs eliminated in no more than three years, where the first stage of SRO elimination is expected to yield about 0.34 percent of GDP in FY 2015. The government has also committed to the IMF that it will approve legislation by the end of December 2015 to permanently prohibit the practice of issuing SROs.

The need to phase SROs out via sudden withdrawal, stems from the complexity of weeding out the 'bad parts' of each SRO. In some cases, many 'good' SROs are linked to 'bad' ones. The problem, however, is differentiating between the two. The FBR is said to be deciding the fate of SROs on the basis of five to six principles.

However, these principles do not exhibit any broader economic rationality. Instead, they are based only on the revenue impacts of an SRO or related operational concerns. For instance, in the case of customs SROs, one principle warrants that the SRO entry be deleted if the import value under that SRO is less than PKR 30 million, annually. Another principle for customs SROs requires that an SRO entry be shifted to tariff on a tariff rate if 20 percent of imports under a certain category of goods fall under that SRO. Conversely, if 80 percent of imports under that category fall under an SRO, the SRO entry would be shifted to tariff on an SRO rate, or to the closest higher tariff slab. Principles of this sort raise the question, do any of these SROs possess any economic wisdom at all?

Unfortunately, as the IGC noted, the FBR does not provide information detailed enough to allow an economic evaluation of each SRO, nor the economic consequences of exemptions and concessions.[10] If it did, some SROs may have been found to have a positive overall impact on the economy at large, including on employment, consumer welfare, factory output and revenue collection.

Yet, the government is removing SROs or incorporating them into tax laws without any economic assessment. A related problem is the fact that tax expenditure on exemptions and concessions reported in the annual *Pakistan Economic Survey* are not only under-reported,[13] but simplistically calculated on the basis of the differential between statutory rates and concessionary rates, leaving the broader economic assessment in the dark.

Similarly, no economic rationale or comparison with the private sector has ever been presented for the exemptions or concessions given to civil and military bureaucracies in the income tax second schedule. According to experts, this is as expensive as SROs, if not more.[13,14] Why is the government cleaning only half the closet?

Lastly, while the SRO reform process has been consultative, it is unfortunate that the phased withdrawal plan has not been shared with stakeholders or been publically disclosed. Some might argue that the plan's secrecy is intended to avoid lobbyist notice.

However, the lobbyists probably already know what the plan is. Publically announcing the plan could have at least created additional pressure to carry it out and ensure that it did not fall prey to the lobbyists, again. Making the plan public would also decrease negative perceptions about transparency, allowing the business community adequate time to plan for the new norm.

In conclusion, one of biggest charges against the SRO culture is the lack of transparency it promotes. The government would do well to address this issue.

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[1] Federal Board of Revenue, "SROs/notifications", (22 September 2014). Available from http://www.fbr.gov.pk/SROs.aspx.

[2] Pakistan, Economic Advisor's Wing, *Pakistan Economic Survey, 2007–8* (Islamabad: Finance Division, 2008).

[3] Pakistan, Economic Advisor's Wing, *Pakistan Economic Survey, 2008–9* (Islamabad: Finance Division, 2009).

[4] Pakistan, Economic Advisor's Wing, *Pakistan Economic Survey, 2009–10* (Islamabad: Finance Division, 2010).

[5] Pakistan, Economic Advisor's Wing, *Pakistan Economic Survey, 2010–11* (Islamabad: Finance Division, 2011).

[6] Pakistan, Economic Advisor's Wing, *Pakistan Economic Survey, 2011–12* (Islamabad: Finance Division, 2012).

[7] Pakistan, Economic Advisor's Wing, *Pakistan Economic Survey, 2012–13* (Islamabad: Finance Division, 2013).

[8] Pakistan, Economic Advisor's Wing, *Pakistan Economic Survey, 2013–14* (Islamabad: Finance Division, 2014).

[9] Pakistan, Competition Commission of Pakistan, *Amnesty Scheme for Smuggled/Seized Vehicles* (Islamabad, Competition Commission of Pakistan, 2013). Available from http://goo.gl/xKAAJ5.

[10] Garry Pursell, Ashraf Khan and Saad Gulzar, "Pakistan trade policies: Future directions", Working Paper 11/0361 (London, International Growth Centre, 2011). Available from http://goo.gl/HfZJvD.

[11] See footnote 10 for a good background on how the SRO culture leads to corruption and quasi-licenses.

[12] Business Recorder, "Budget (2014–15): FBR to revise three major concessionary SROs", 22 April 2014. Available from http://goo.gl/LTgMbX.

[13] Business Recorder, "Take the big move, do away with SROs", Dr Hafiz Pasha", 8 September 2014. Available from http://goo.gl/sxU0UQ.

[14] Dr. Ikram ul-Haq, Huzaima and Ikram (tax firm), "tax exemptions and concessions", telephone interview, 20 September 2014.

Binding constraints on development budgets

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Budgeting in Pakistan is an accounting exercise to match revenue and expenditures. The exercise is not geared towards injecting reforms into the overall macroeconomic framework and social policy. One way of preparing the budget is to plan expenditures against expected revenues. Another way is to fix a revenue target against expected expenditures. The third one, which is actually practiced in Pakistan, is to fix a fiscal deficit threshold and attempt to remain within it. This may require matching (slightly) understated expenditures with comparatively overstated revenues. Pakistan has been forced to follow this third option for the last 28 years because of its heavy dependence on various International Monetary Fund (IMF) programmes. The IMF generally requires tight fixation of a fiscal deficit target. The government must commit itself to obtain the next tranche.

Allocations to the Public Sector Development Programme (PSDP) and the Annual Development Plan (ADP) reflect the government's developmental priorities. Governments can be criticized for not allocating enough to health, education and food security, or perhaps allocating too much to debt servicing, civil administration and defence. However, increased allocation would have little or no effect unless allocated funds are released in time and utilized effectively. The federal government distributes funds to the provinces from the federal divisible pool under the National Finance Commission (NFC) award and through special (vertical) allocations. Most social sector development is a provincial responsibility after the 18th Amendment to the Constitution of Pakistan. A blame game has been observed. The federal government believes that the underutilization of development budgets is due to incompetence, inefficiency and a lack of political will on the provincial front. Conversely, provincial governments are of the opinion that underutilization stems from delayed fund releases from the centre.

The budget contains two types of expenditures, current expenditures and the PSDP. Current expenditures cover interest payments, defence affairs and services, pensions, subsidies and running the civil government. The Ministry of Finance followed a fiscal prudence approach during the last budget, linking the release of PKR 200 billion to the achievement of the Federal Board of Revenue's (FBR) revenue target of PKR 2,475 billion. Block allocations are logical; the principle is to curtail expenditures if there is a reduction in income. However, the FBR was unable to achieve its target, and development expenditures suffered as a result. It is natural to speculate on why development matters had to suffer the consequences of the FBR's inefficiencies. However, it is equally important to understand that current expenditures are very inflexible; there is hardly ever any cushion for budget cuts. Thus, development expenditures always suffer in the event of a fiscal shortfall.

The FBR's target for the current fiscal year is the collection of the budgeted PKR 3,945.5 billion from tax and non-tax revenue. If this target is met, the seventh NFC award requires that 57.5 percent of the divisible pool (PKR 1,720 billion) go to the provinces. This would leave PKR 2,225 billion with the federal government as net revenue.

Table 1: Net revenue receipts (budget 2014–15)[1]

Classification	PKR (million)
Tax revenue (A + B)	**3,129,210**
A. FBR taxes	**2,810,000**
- Direct taxes	1,180,000
- Indirect taxes	1,630,000
B. Other taxes	**319,210**
Non-tax revenue	**816,294**
- Property and enterprise	191,992
- Civil administration and other functions	417,453
- Miscellaneous receipts	206,850
Gross revenue receipts	**3,945,504**
Provincial share in gross revenue	1,720,182
Net revenue receipts	**2,225,322**

The federal government would be responsible for current expenditures (PKR 3,130 billion), foreign loan repayments (PKR 333 billion) and development and net lending (PKR 806 billion) (Table 2). The deficit would be bridged by external loans, domestic financing, public debt and public accounts.

Mark-up payments account for 38.26 percent of current expenditures. The figure jumps to 48 percent if foreign loan repayments are included. Defence affairs and services account for another 20.2 percent, and adding military pensions to this figure means they account for 25 percent of current expenditures. Neither of these expenses can be compromised and are already PKR 300 billion more than the net federal revenue. The remaining current expenditures—subsidies, civil pensions, grants and transfers and running the civil government—and all developmental expenditures are met through borrowing.

The PSDP is the primary instrument for providing budgetary resources for development projects and programmes. It is the lubricant of the development engine, but has been slashed many times to reduce the fiscal deficit. The federal government has approved PKR 1,175 billion this year for the PSDP (PKR 525 billion for the federal government and PKR 650 billion for the provinces). The major concern is not the allocation, but the releases and subsequent spending. PSDP funds for the last fiscal year were neither released, nor entirely spent, even after the reduction.

Table 2: Summary of current account expenditures (budget 2014–15)[1]

Classification		PKR (million)
(i)	**Mark-up payment**	**1,325,232**
	- Mark-up on domestic debt	1,224,592
	- Mark-up on foreign debt	100,640
(ii)	**Pension**	
	- Military	
	- Civil	
(iii)	**Defence affairs and services**	**700,148**
	- Defence services	698,259
	- Defence administration	1,889
(iv)	**Grants and transfers**	**370,782**
	- Grants to provinces	32,737
	- Grants to others	338,045
(v)	**Subsidies**	
(vi)	**Running the civil government**	**290,660**
	(i) Salary	
	a) Pay	
	b) Allowance	*107,353*
	(ii) Non-salary	113,089
	(iii) Others	
(vii)	**Provision for pay and pension**	**25,000**
	CURRENT EXPENDITURE (i–vii)	**3,130,071**
(viii)	**Foreign loans repayment**	**333,174**
	TOTAL CURRENT EXPENDITURE *(includes foreign loans repayment)*	

Provincial spending on social sector delivery was also dismal. Both Punjab and Sindh spent a mere 31 percent, each, of their PSDP funds in the first ten months. The corresponding figure for Khyber Pakhtunkhwa and Balochistan was 25 percent, each. The government of Sindh blamed the federal government for this budget underutilization in the last fiscal year. The federal government pointed at provincial inefficiency and incompetence.

This raises questions as to the binding constraints on Pakistan's PSDP and its effective utilization. The following may be an appropriate summary of these constraints:

1. Current expenditures are crowding out development expenditures.
2. The low and stagnant tax-to-GDP ratio cannot support the country's growing development needs.
3. Large overhead costs and unanticipated contingencies increase the costs of approved projects.
4. Compliance with procedures related to the feasibility, appraisal and approval of PSDP/ADP projects is inadequate.
5. Planning departments are not aware of risk analysis and shadow pricing.
6. Planning departments are not allowed sufficient time to process development projects.
7. There is considerable project duplication in PSDP and ADP portfolios, which leads to fiscal resource waste.

The capacity to manage development projects requires urgent attention. This should apply across the government and not just planning departments. Project managers should have an action plan to manage cost and time overruns associated with the usual PSDP cuts. Similarly, project cash flows and benefits should not be vague - updates to these estimates should be a regular feature whenever the priority committee meets in the Finance Division.

The significant 'financial leakages' in the system can be prevented by minimizing project management costs, hiring dedicated project directors (no additional charge to current government servants), rationalizing consultancy charges, reducing contingencies and exempting public sector development projects from the general sales tax (GST).

Finally, some overarching changes may be required to provide course correction to the planning machinery. First, the Planning Commission must strengthen its capacity for monitoring and evaluation (M&E) in terms of human and technical capital. There have been serious M&E gaps and the entire planning system is understaffed and lacking in technical capacity.

Second, planning departments should move towards results-based M&E of projects with an emphasis on outcomes and long-term impacts. Traditional M&E currently in practice involves only overseeing inputs, resource utilization and products acquired at the end. There is little emphasis on gauging impacts or positive results generated.

Third, the throw-forward in the PSDP must be further decreased through alternate financing modes, such as public-private partnerships, built-to-operate-and-transfer and built-to-operate-and-own schemes. The throw-forward can be rationalized if politically driven projects lacking economic justification are avoided, and project duplication across the centre and provinces, is checked.

Fourth, allocation for human development, rather than investing in brick and mortar projects, should be a priority. After all, infrastructure development may be able to push the short-term growth trajectory forward, but it is human development that can guarantee longer term and sustained growth.

Finally, bypassing the Planning Commission in project approvals and awarding anticipatory approvals, must be discouraged. There must be rigorous adherence to feasibility, appraisal and approval processes. Planning departments also need to be innovative in their role. In India's case, a failure to do so resulted in the abolition of the national planning commission.

[1] Pakistan, *Finance Division, Federal Budget 2014–15: Budget in Brief* (Islamabad, Ministry of Finance, 2014). Available from http://goo.gl/4lcDSo.

When discretion rules

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Public sector development spending has been scrutinized by the press for alleged corruption and political patronage since the 1990s. The problem has worsened after additional resources were allocated to the provinces after the seventh National Finance Commission (NFC) award. Federating units suffer from two types of problems. First, they often do not possess sufficient capacity or capability to implement large projects. Second, they may exercise too much discretion, owing to heavy mandates in provincial assemblies.

The throw-forward, or remaining cost of ongoing federal public sector development programme (PSDP) projects currently stands at PKR 4,748 billion. New projects worth PKR 3,500 billion have been added by the government. As things stand, executing these projects will require about 12 years. This figure is likely to increase, given the number of existing projects. The question then is, why has the government initiated so many new projects when there are already multiple existing projects, already approved, but unfunded?

The reason is simple. The philosophy of long-term planning and priority setting in public spending is defied by every new government. New projects can be added to the mix on a whim, leaving old ones on the backburner. Both the Planning Commission and central bank require increased autonomy.

Furthermore, the practice of beginning unplanned projects without cost-benefit analyses and appropriate returns calculations should be discouraged; too many new projects allocated in the fiscal year (FY) 2015 remain unapproved. In addition, funding sources are unclear and foreign assistance covers just one-fifth of FY 2015's PSDP. There are also signs of poor management in granting projects to private companies. The prequalification processes are deemed to be flawed at various instances.

The issue of political patronage is exacerbated when dealing with provincial annual development plans (ADPs).The accounting process is not transparent and discrepancies can be found in provincial budget documents. Attempts are made to legitimize the process by producing documentation and consulting experts and persons involved in the budget process, but the math does not always work.

The problem is not confined to numbers. Entire bureaucracies concentrate on assignments prioritized by chief ministers. This results in remaining works taking far longer to complete than originally planned. Micromanagement by chief ministers reduces the focus of broad administration, skewing both development and operational management.

High block allocation in provincial budgets is practiced at a chief minister's discretion. However, criticism has caused it to fall to PKR 21 billion (six percent of Punjab's ADP) in the current year. Development spending is divided into planned projects across sectors. These are approved after the necessary calculations, approvals and block allocations.

In any case, these allocations are dependent on additional federal and provincial resources. They were budgeted by the government of Punjab at PKR 50 billion in FY 2014, but the actual amount spent was just PKR 27 billion. This year's allocation is PKR 40 billion in development initiatives and PKR 15 billion in special initiatives.

Punjab's ADP budget in FY 2014 has a block allocation of roughly PKR 90 billion (40 percent of the revised ADP).This is a large amount and there has been little or no rationale presented to justify its size. This is very important, given that Punjab's development budget has expanded considerably in the last three years and continues to grow; development spending increased from PKR 128 billion in FY 2011 to PKR 224 billion in FY 2014.The figure for FY 2015 is PKR 345 billion.

Political gains tend to supersede socioeconomic benefits and ministerial discretion is usually to blame. Block allocations can be used in times of urgency, but reasons for their use tend to be political in nature. The Lahore Metro Bus project is a case in point. The amount spent far exceeded the original budget and additional funds were diverted from other sectors to complete the project on schedule. In this case, political mileage superseded socioeconomic benefit.

Spending has been skewed towards central Punjab and specifically, Lahore in the past decade or so, a fact resented by the relatively impoverished districts of southern Punjab. Allocation to 11 southern districts was therefore increased from PKR 25 billion (165 percent of total development expense) in FY 2009 to PKR 93 billion (42 percent of total development expense) in FY 2014.

Sindh is no different in its approach and experts believe financial scrutiny is weak in the province. Cost-benefit analyses and computations of returns on projects are often grossly overstated. Block allocations are common as well, and documentary evidence on official provincial portals is not sufficiently detailed.

Provincial authorities in Balochistan are finding it difficult to allocate additional funds from the centre to their respective development budgets. Unapproved and block allocations are much higher in Balochistan. This is likely due to poor planning capability and a lack of capacity to approve projects for higher block allocations rather than for political gain.

Provincial ADPs have increased substantially after the seventh NFC award and the 18th amendment. The federal development budget, however, is shrinking. It is vital that the provinces develop capacity and adhere to certain rules in deploying taxpayer money. This will help create growth momentum and generate employment.

The next NFC award is scheduled for FY 2015. Efforts should be made to create an effective secretariat that helps provinces become fiscally responsible. Funds transferred to the provinces should be based on performance and transparency in spending. The rest should be left to competition. This may well be effective; Khyber Pakhtunkhwa's move to allocate a quarter of its budget to education caused Punjab to increase its own education budget.

Fiscal responsibility and effective budget making processes are essential to growth and development. A combination of competition amongst provinces and checks from the centre may be the answer.

Projecting unrealistic budgetary targets

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Specializing in macroeconomics, money and econometrics, Dr. Khan served as Economic Advisor to the government of Pakistan in 1998. He held multiple posts between 1999 and 2009, including Economic Advisor, Director General, Debt office, Special Secretary to the Finance Minister and Spokesperson on Economic Affairs. He was awarded the *Sitara e Imtiaz* in 2000.

The importance of a prudent fiscal policy cannot be overemphasized. A sound fiscal policy is essential for preventing a macroeconomic crisis and realizing full growth potential and social development. Pakistan witnessed serious macroeconomic imbalances in the 1990s, mainly on account of its fiscal profligacy. The last six to seven years have been characterized by a similar scenario with the same consequences for the economy. The past several decades have seen increasing worldwide acceptance that long-term fiscal discipline is essential for maintaining macroeconomic stability, sustaining higher economic growth, job creation, poverty alleviation and social indicator improvements.

Projecting budgetary targets with a fair degree of accuracy is an essential element of sound fiscal management, and therefore of maintaining fiscal discipline in the country. Pakistan has failed to do so for the last several years and has suffered all of the associated adverse consequences.

Why has Pakistan been setting unrealistic revenue targets for so many years? Why has targeting revenue become an irrelevant budgetary exercise? The answer lies in the manner in which budgets are prepared. Defining the budget deficit as an equation:

BD = R - E……….(1)

where BD is budget deficit, R is revenue and E is expenditure. Making revenue the subject of the equation:

R = E + BD………. (2)

The budget deficit is a negative number because expenditure always exceeds revenue in Pakistan. The government finalizes its expenditure plan while preparing the budget, particularly the Public Sector Development Programme (PSDP). Given the budget deficit target agreed upon with the International Monetary Fund (IMF), it then derives revenue as a residual item. In other words, the revenue target set by the government is invariant with respect to the level of economic activity.

Budget making exercises in Pakistan are therefore expenditure planning exercises. The government finalizes its development spending (PSDP) by ensuring that the projects supported by influential leaders—e.g. the Larkana, Multan and Gujrat Packages—receive adequate funding in the budget. Current expenditures are quite inflexible once the PSDP is finalized. However, power sector subsidies are often grossly understated in the current expenditure.

The budget deficit, a figure agreed upon with the IMF, is subtracted from total expenditure (current spending plus development spending) to obtain the final revenue figure (Equation 2). In other words, revenue is treated as residual rather than dependent on projected economic activity. Interestingly, one speaks of tax-to-gross domestic product (GDP) ratios without realizing that tax target setting has little to do with economic activity levels. The tax-to-GDP ratio remains unchanged by and large, irrespective of economic growth.

Unrealistic revenue targets exacerbate fiscal indiscipline and affect the quality of spending. What are the drawbacks of setting unrealistic revenue targets in the budget? First, provincial resource pictures are distorted when the government fixes unrealistic or overambitious revenue targets. Provincial budgets account for revenues allocated under the National Finance Commission (NFC) award. Since transfers to the provinces are based on *actual* collection—with the exception of Balochistan—overambitious targets set by the Federal Board of Revenue (FBR) inflate provincial revenues, as well. Expenditure plans are actually prepared on the basis of an inflated revenue picture. This means that massive revenue shortfalls begin taking place from day one. It becomes difficult for provinces to roll back or scale down expenditure plans in such a revenue situation. This may lead to fiscal slippages.

Second, the federal government is required to transfer funds to Balochistan under the NFC award on the basis of projected revenue, not actual collection. For example, Balochistan's share was calculated as PKR 133.3 billion on the basis of an unrealistic revenue target of PKR 2,475 billion in the budget for 2013–14. The federal government collected far less than the targeted revenue and likely paid the remainder from its own resources, shrinking them further (Table 1).

Third, it has been observed that the FBR attempts to achieve these unrealistic revenue targets by holding refunds back, forcing commercial entities to pay taxes in advance. Such practices can have serious effects on companies' liquidity and hamper business activities.

Fourth, budget deficit targets set by the IMF force the federal government to release resources in such a way that the provinces are unable to spend this revenue in time. Such a method of resource release is bound to affect social sector spending and Millennium Development Goal (MDG) progress, now that the 18th Amendment to the Constitution of Pakistan has shifted social sector development responsibilities to the provinces.

Table 1: FBR revenue: actual collection vs. budgeted (PKR billion)[1,2]

Fiscal year	Budgeted	Actual collection	Deviation (-) and (+)	Deviation (%)
2000	352	347	-5	-1.4
2001	407	392	-15	-37
2002	414	404	-10	-2.4
2003	459	461	+2	+0.4
2004	510	521	+11	+2.2
2005	590	590	0	0.0
2006	690	713	+23	+3.3
2007	835	847	+12	+1.4
2008	1,000	1,008	+8	+0.8
2009	1,250	1,157	-93	-7.4
2010	1,380	1,329	-51	-3.7
2011	1,667	1,558	-109	-6.5
2012	1,952	1,881	-71	-3.6
2013	2,381	1,946	-435	-18.3
2014	2,475	2,266	-209	-8.4
2015	2,810 *(budgeted)*	2,610 *(estimated)*	-200	-7.1

Fifth, the federal government encourages the provinces to not spend money by giving them a three-month treasury bill interest rate on their cash balances. This is a perverse incentive with long-term implications for human capital and economic growth.

Sixth, the unrealistic revenue target forces the government to cut development spending to achieve the budget deficit target. This compromises the quality of fiscal adjustment.

Seventh, past IMF experience shows that a failure to achieve quarterly tax targets forces the government to take additional tax measures to bridge the shortfall in tax collection, something Pakistanis may remember as the 'mini-budget'. Such an event creates tax anomalies, adversely affecting industry. However, the IMF has not asked for these additional measures, recently.

Forecasting FBR revenue is not a difficult task. However, the quality of FBR staff has deteriorated over time. They lack the technical capability to project revenue, treating it as a residual item in the budget making exercise. There are no ramifications for failing to achieve tax targets; FBR officials have little incentive to achieve them.

However, this was not always the case. FBR officials achieved their targets and performed well and consistently for six years in a row, during the period FY 2003–FY 2008 (Table 1). The staff was professional, the Chairman had been appointed on merit and the political leadership was serious about achieving tax targets. The FBR and the Finance Division used to set the targets on the basis of projected levels of economic activity, using tax elasticity and tax buoyancy. This professionalism and capacity to forecast revenue dissipated when the government changed. The gap between budgeted and actual tax collection continued to widen; PKR 51 billion in FY 2010, PKR 435 billion in FY 2013 and over PKR 200 billion in FY 2014. This trend is likely to continue into FY 2015, as well. Similar deviations have been observed in the federal PSDP (Table 2).

Table 2: Federal PSDP: actual vs. budgeted (PKR billion)[3]

Fiscal year	Budgeted	Actual	Deviation (-) and (+)	Deviation (%)
2009	398	295	-103	-25.9
2010	446	326	-120	-26.9
2011	290	196	-94	-32.4
2012	300	304	4	+1.3
2013	360	388	28	+7.8
2014	540	420	-120	-22.2

Why has Pakistan been consistently failing to achieve tax collection targets? Why have successive governments in the last six to seven years been setting such unrealistic targets?

First, the FBR's capacity to forecast revenues diminished as staff professionalism did. Second, the quality of FBR leadership has declined over the years. Third, frequent changes in the FBR's leadership—six to seven chairmen in as many years—demoralized the rank and file. Fourth, no serious efforts have been made to enhance capacity, particularly that of field staff. Fifth, this lack capacity forced officials to accept targets assigned by the political leadership. Sixth, and most significantly, the manner in which the budget is prepared is nothing more than an expenditure (particularly the PSDP) planning exercise.

The development expenditure is finalized by first ensuring that the projects of influential political leaders are included. Given the current expenditure, the second step is to finalize total expenditure. The next variable, the IMF budget deficit target is known, leaving the revenue figure, which is treated as a residual item. This is perhaps the most important weakness in Pakistan's budget making exercise. It forces the government to set unrealistic revenue targets, perpetuate fiscal indiscipline and cause large increases in public debt.

What needs to be done? First, FBR staff capacity needs to be enhanced by inducting professionals and training and retraining existing staff. Second, a chairperson should be appointed on merit for a period of five years to stabilize the organization. This would ideally be someone from within the FBR. Third, the government should treat expenditure rather than revenue as a residual item; finalize the size of the purse, first. The FBR must forecast revenue on the basis of projected economic activity levels—GDP growth—and add non-tax revenue and borrowed resources to the projected budget deficit. Thus, domestic resource mobilization—tax and non-tax revenue at both the federal and provincial levels—and borrowed resources to finance the fiscal deficit, determine the size of the purse available to the government to finance its expenditure plan. With a known purse, it becomes much simpler to finalize expenditure with little chance of slippages. Hence, the only way to inject fiscal discipline into the country is to treat expenditure as a residual budgetary item.

[1] Pakistan, *Finance Division, Pakistan Economic Survey:* various issues (Islamabad, Ministry of Finance).
[2] Pakistan, *Finance Division, Federal Budget: Budget in Brief:* various issues (Islamabad, Ministry of Finance).
[3] Finance Division.

Making budgetary processes more participatory and inclusive:

Challenges and opportunities after the 18th Amendment and the 7th NFC award

Dr. Pervez Tahir
Former Chief Economist of Pakistan

Dr. Tahir has served in various capacities in the Ministry of Finance, Planning and Development Division and Economic Affairs Division. He has lectured at Government College University, Lahore, Quaid-e-Azam University, Islamabad, and Cambridge University, UK. His research interests include poverty and income distribution and economic history.

In 2010, the 18th Amendment to the Constitution allowed substantial autonomy to the provinces, and the 7th National Finance Commission (NFC) award ended federal dominance over resources.

The abolition of the Concurrent List resulted in the devolution of 15 federal ministries comprising 18 divisions, to the provinces. The provinces now have complete control of the social and production sectors, and a larger role in electricity generation, the water sector, ports and natural resources. This increase in the quantum of provincial autonomy accompanied the expansion of Part-II of the Federal Legislative List from 8 to 18 subjects, including electricity. The 18th Amendment also required a permanent secretariat for the Council of Common Interests (CCI) and mandatory quarterly meetings to strengthen this shift from a centralised to participatory federation. Balanced development and regional equity were enshrined as the goals of the participatory federation.

Inclusive of subventions, the provincial share in the divisible pool of federally collected taxes was 48.75 percent before the seventh NFC award. It rose to 57.5 percent, post-NFC. The divisible pool consists of taxes on income, customs duties, sales tax, federal excise duties other than the duty on gas charged at the wellhead, and any other tax levied by the federal government. Under the seventh NFC award, the formula to distribute the provincial share was also changed from the single factor of population to multiple criteria based on population, inverse population density, revenue collection and poverty. As a consequence, the respective shares changed as follows: Punjab, 51.74 percent; Sindh, 24.55 percent; Khyber Pakhtunkhwa, 14.62 percent and Balochistan, 9.09 percent. In addition, the NFC award and Article 161 of the Constitution allow two straight transfers: (i) net proceeds of federal excise duties on natural gas and (ii) net proceeds of royalties on crude oil and natural gas assigned. Finally, there are federal grants on development and non-development accounts. Importantly, Article 160 (3A, B) prohibits rolling the NFC award back, besides subjecting it to Parliamentary oversight.

The 18th Amendment further strengthens provincial finances by allowing them to tax the items deleted from the Federal Legislative List, Part I, and making it clear that sales tax on services lies in the provincial domain. Further, the Amendment permits the provinces to contract both domestic and external debt.

All of these measures have enabled the provinces to allocate greater resources to development than the federal government. However, the spirit of a participatory federation enshrined in the 18th Amendment and the 7th NFC award is taking time for its full reflection in the budget making process. These are driven by technocrats with legislators used as rubber stamps. Their only participation is in the matter of allocating constituency funds, a practice which continues in the absence of participatory local institutions.

Federal level

There is no mentionable change in the budgetary process at the federal level, post 18th Amendment. Driven by the Ministry of Finance, the process for the budget 2014–15, the fifth in the post Amendment and NFC period, began with the issue of the usual budget call letter in the first week of December 2013. It claimed the formulation of output-based budgeting. A budget calendar was appended for various activities and 'responsible stakeholders'. These included the Planning Commission, line ministries, Priorities Committee and Annual Plan Coordination Committee (APCC) for formulation, and the National Economic Council (NEC), Cabinet and Parliament for approval. Bureaucrats and elected politicians are thus the main stakeholders. In effect, the bureaucrats obtain the maximum amount of time they need to prepare revised estimates, budget estimates, medium-term budgets for federal receipts and current and development expenditures. One or two presentations are also made before the Parliamentary committees of the two houses on finance. Their impact on budget thinking and priorities is minimal.

The Ministry of Finance indicates the budget ceilings for development and current expenditure. The line ministries determine their priorities within these ceilings. The exercise is dubbed as 'ministry strategic overview' and 'strategic allocation of ceilings to outputs'. The aggregation of responses across ministries is published in the so-called Green Book as the medium-term budgetary framework (MTBF). The stated aim is to make the public financial management system strategic, results-oriented and accountable. This document was in existence before the 18th Amendment and the 7th NFC award. In fact, no new document has been added. The MTBF focuses exclusively on the federal government. Direct consultation with the provinces is only at the pre-budget finance secretaries' conference, which indicates likely resource availability to the provinces. The provinces are represented in organizations like the APCC and NEC, which are concerned mainly with the federal Public Sector Development Programme (PSDP). There has been less than the required number of meetings to monitor NFC implementation.

Those engaged at the federal level are concerned government officials for budget preparation and elected representatives for approval. Business organisations and professionals are called to ad hoc pre-budget meetings, mainly as listening exercises. There is no formal arrangement to engage citizens, except in June for the pre- and post-budget media frenzy.

Provincial level

Engagement with elected representatives and citizens at the provincial level is even less than at the federal level. In Punjab, the largest province, the process starts as early as August, with 20 dates set for various stages of budget preparation before it is finally presented to the Provincial Assembly for approval. All of these involve linkages between provincial departments and with the federal government, but none with citizens. Provincial legislators acquire the opportunity to debate around ten documents during the short time allowed in June for budget approval. Before the budget, individual members are seen lobbying with ministers and senior bureaucrats for their constituency development projects. There is also an ad hoc committee headed by a member of the National Assembly that determines development programme priorities before the budget is presented. A citizens' budget aimed at improving citizens' access to budgetary information in nontechnical language, has been launched in the current fiscal year. Supported by the UK Department for International Development (DFID) under its Sub-National Governance (SNG) programme, it is claimed that the "document will empower citizens to hold their elected representatives and public officials accountable and thus contribute to good governance." The SNG sees itself as "creating an enabling environment for local problem solving by bringing together local governments, service beneficiaries, and partner programmes…to improve service delivery outcomes." There are, however, no elected local governments in place. The service beneficiaries are being asked to get involved in implementing projects conceived and formulated without their participation.

say that again

"...it is not possible to reach everybody. But we operate under the assumption that elected officials represent citizens. Of course, there are always pressure groups to balance the process out."

Muhammad Jahanzeb Khan

Finance Secretary, government of Punjab

There is a common perception that Pakistan follows an incremental budget making process. This means that budget estimates are based on minor percentage changes over the previous year's budget, rather than on the basis of needs assessments or intended or achieved results that could establish a systematic basis for funds allocation to a particular sector. Do you agree with this? What is your government doing to address this perception?

There are many ways to prepare a budget and incremental budgeting is a well-known one. Others include output-based budgeting and zero-based budgeting. The fact that Punjab uses incremental budgeting is not a perception, but an accepted methodology. But we also examine provincial requirements, particularly the schedule of new expenditure. The process requires assessing and comparing needs in the previous and current year and determining new objectives and resource requirements.

'Incremental' does not simply mean adding to last year's amount. For example, *patwari* salaries are permanent expenses, and are carried forward to the new budget. But police vehicles purchased one year will not necessarily be added to the next. Related expenses do, of course carry forward. In the vehicle example, expenses carried forward would include fuel, maintenance and driver salaries. So it is not entirely incremental. Budget meetings tackle this very issue. Discussions centre on what is really needed and how it is justified.

Budgets are often considered to be heavily driven by technocrats with minimal participation from elected representatives and citizens. How can the budget making process be made more participatory? What actions has the government taken or planned to take to do this?

A pre-budget session takes place in the Punjab Assembly several months before the actual budget is presented. These sessions are designed to bring elected officials' identified priorities forward. These priorities are reflected in the budget after considerable debate. This is one way of bringing the popular view into budget making.

These meetings also convene committees from civil society, academia, development partners and chambers of commerce. The recommendations received culminate in the actual budget. The final budgetary proposals are presented to the Assembly and debated again for 15–20 days by parliamentarians who give suggestions and critique the budget. Any changes deemed worthy are incorporated into the final budget.

Punjab is home to approximately 100 million people; it is not possible to reach everybody. But we operate under the assumption that elected officials represent citizens. Of course, there are always pressure groups to balance the process out. These include groups like teacher associations and the Pakistan Medical Association. The process is not perfect, but it certainly is the best one, currently.

What are the key reasons for the under allocation and utilization of social sector development budgets? Do you think there are capacity and/or structural issues at the departmental level that hamper the timely release of funds to the concerned departments? How can these issues be addressed?

I do not believe we are really under-allocating. Health and education are two major expenditures in the provincial budget and their allocations are quite substantial. The real issue is how effectively these services are utilized. There are capacity and management constraints; departments have issues of timely procurement, human resources and service provision.

Department employees are not always aware of modern management practices, which is why fund utilization is often delayed. We are trying to introduce reforms to improve processes. One such effort will be increased transparency by making budgets available online.

Fund utilization practices vary by department and district. Some are simply more effective. Certainly, utilization practices could be improved, but for the moment, I believe they are adequate.

Has the 18th Amendment had any impact on the budget making process at the federal and provincial levels? What key challenges and opportunities emerged after the 18th Constitutional Amendment and 7th National Finance Commission (NFC) award?

The Amendment does not affect the budget-making process; it just means some functions have been devolved to the provinces. The federal government will fund devolved functions for the remainder of the NFC, but the provinces will have to use their own resources after that. That will be the real challenge.

The seventh NFC award increased provincial revenues. There was previously a degree of fiscal autonomy that allowed provinces to collect general sales tax (GST) on services; something the provinces were already entitled to, but had asked the Federal Board of Revenue (FBR) to do so on their behalf. This responsibility now rests with the provinces - provincial fiscal autonomy is much greater, now. But provincial responsibility has also increased. The real test will be in the next award. Will the provinces be able to continue providing these services?

Youth Voices

Ms. Saima

"District and local governments should have full fiscal control. Needs assessments should be conducted at the local level where the issues of real people can be addressed, especially those of women and youth."

"Public empowerment is vital. However, this is not possible as long as parliament has no youth and/or women representatives. There should be a proper forum for interaction between electoral and elected representatives for making budgets. Education ensures social responsibility. Women and youth should be educated and financially assisted to empower them socially and economically."

Hafiz Saadat

Hassan Arshad

"'Citizen budgets' are those where non-elected citizens play a role in deciding the fate of funds. Committees can be formed where potential development works are assessed for their relevance to ordinary people and overseen to ensure transparency in public spending. Campaigns highlighting the significance of women and youth, with an aim to creating the realization that meaningful progress is impossible in a society that oppresses women and suppresses youth, are essential."

"As the creators and controllers of budgets, governments can provide access to the information required by civil society to understand fiscal policies and performance. By improving the quality and presentation of budget information, officials can enable non-expert audiences to become more informed and thoughtful about budgets and government, and more realistic in their expectations."

Maheen Hussain

Youth Voices

Ata Rehman Zaki

"The budget must have provisions for technical and home industry courses for women. Unemployment after education is also a serious issue. The education budget should incorporate mechanisms that help young people find work after their education."

"Engaging citizens in matters of national development, such as the budget, increases people's trust in government. The education sector requires much greater funding, although money is not the sole concern. The government should look into partnerships with NGOs, as well."

Mirza Bilal Ahmed Temuri

Nida Haroon

"Fostering citizen participation requires that budget information be accessible. The manner in which it is presented should be easy to understand, keeping layman knowledge in mind. In addition, the rationale and thought process behind the budget should be communicated to citizens. Civil society input should be considered, as well."

"All budget documents should be understandable and accessible. The government should ensure that anyone who wishes to access the budget can do so."

Ms. Sidra

Interview

Sirajul Haq

Former Finance Minister, Khyber Pakhtunkhwa

> **say that again**
>
> *"...the 18th Amendment has not been fully implemented...many departments were devolved to the provinces, but the amount the federal government used to spend on these departments was not actually transferred...this explains why such departments are over burdened."*

There is a common perception that Pakistan follows an incremental budget making process. This means that budget estimates are based on minor percentage changes over the previous year's budget, rather than on the basis of needs assessments or intended or achieved results that could establish a systematic basis for funds allocation to a particular sector. Do you agree with this? What is your government doing to address this perception?

"Budget" means making expenditures in accordance with income. Income is always specified. There has never been an instance where a department's revenue, through taxes and releases from the centre, has surpassed budget outlay projections. Income typically shrinks and expenditures surpass estimates; a gross imbalance.

However, the latest budget was more focused on the needs of the people. We increased the welfare budget and reduced administrative and government expenses. We increased development allocations and decreased non-development ones. All of this was based on proper needs assessments.

Budgets are often considered to be heavily driven by technocrats with minimal participation from elected representatives and citizens. How can the budget making process be made more participatory? What actions has the government taken or planned to take to do this?

This is true, but not in the case of Khyber Pakhtunkhwa. We consulted with all relevant stakeholders. We discussed all expenditure heads in detail, except, of course, salaries and pensions, where major changes are not really possible. These deliberations were very useful and all accepted suggestions were incorporated into the budget.

What are the key reasons for the under allocation and utilization of social sector development budgets? Do you think there are capacity and/or structural issues at the departmental level that hamper the timely release of funds to the concerned departments? How can these issues be addressed?

The budget is divided into three sections, namely welfare, administration and development. We made a concerted effort to increase allocations to welfare and development.

The Finance Department has a set procedure for releases from the centre. They are made in instalments for six months on the basis of progress reports submitted to the Finance Department. The Finance Department releases all funds until the ninth month of the fiscal year. After that, the departments themselves decide how to utilize their funds. The more efficient ones utilise more money.

Has the 18th Amendment had any impact on the budget making process at the federal and provincial levels? What key challenges and opportunities emerged after the 18th Constitutional Amendment and 7th National Finance Commission (NFC) award?

I believe the 18th Amendment has not been fully implemented. For example, many departments were devolved to the provinces, but the amount the federal government used to spend on these departments was not actually transferred to the provinces. This explains why such departments are overburdened.

The NFC was a great achievement and the credit goes to the Pakistan People's Party. However, I believe there is considerable room for improvement. It strikes me as strange that the NFC is discussed so infrequently. Technocrats from all provinces/regions are represented in other countries, including India. A new, often better, award is issued when the current economic plan expires. The system works well in India - technocrats are well represented and perform detailed needs assessments for their provinces.

In Pakistan's case, I believe that poverty and backwardness need to be accorded greater resources. The priority is currently on population.

Youth Voices

Saadia Qasim Shah

Empowerment at the lower administrative levels allows people affected by fund allocation decisions to help make those very decisions. The role of women, minorities and youth must be encouraged in local decision making. The subject of education is also important. The government needs to spend on both education quantity and quality.

Citizens' participation in the budget making process can be ensured through pre-budget forums in assemblies, chambers of commerce, press clubs, trade unions and communities. The best recommendations should be accommodated in budget proposals. Special allocations should be made for vocational training and skill development for women and youth.

Madiha Gul

Fazle Raheem

The Finance Department should consult with civil society, the business community, trade associations, the media and security commissions through pre-budget seminars. The government should collect data and conduct assessments on the needs of women and youth. The finding should be considered during budget preparation.

Pakistan is a gerontocracy that ignores the potential role of youth. Parliamentary standing committees should ensure that policies are based on need and evidence, through a consultative process. Policies aimed at women and youth need to be issue based and result oriented, and therefore informed by disaggregated data and analysis.

Tauseefur Rahman

Interview

Mir Khalid Langau

Advisor on Finance to the Chief Minister of Balochistan

> ### say that again
> *"There have been no major problems of under allocation, although there may have been some issues of resource scarcity. The government of Balochistan has ensured that the education and health sectors remain immune to this problem."*

There is a common perception that Pakistan follows an incremental budget making process. This means that budget estimates are based on minor percentage changes over the previous year's budget, rather than on the basis of needs assessments or intended or achieved results that could establish a systematic basis for funds allocation to a particular sector. Do you agree with this? What is your government doing to address this perception?

I cannot say that I agree. This perception may have been accurate 4–5 years ago. The budget making process and its associated procedures is elaborate and well-defined and followed in its true spirit. Annual budget statements are prepared in full consultation with concerned sectors. The most important pre-budget activity is ascertaining needs through departments, elected representatives and common people in seminars. The honourable Chief Minister of Balochistan himself arranges frequent department conferences to help ascertain specific demands.

Elected representatives are thoroughly engaged in the budget making process. Regular pre-budget seminars are held at the divisional and provincial levels, allowing the public to identify its own needs. This medium also ensures that the public is aware of available resources.

Budgets are often considered to be heavily driven by technocrats with minimal participation from elected representatives and citizens. How can the budget making process be made more participatory? What actions has the government taken or planned to take to do this?

The government of Balochistan is making efforts to ensure that the annual budget statement is prepared through participatory processes. Technocrats' involvement in framing the budget does not mean public representatives are uninvolved. The cabinet holds regular marathon rounds to frame principles and budget details. Opposition leaders are also invited to regular budget meetings to offer inputs. In addition, pre-budget seminars are held at the lower levels to obtain firsthand knowledge of people's needs and problems. This has been in practice for the last two years.

What are the key reasons for the under allocation and utilization of social sector development budgets? Do you think there are capacity and/or structural issues at the departmental level that hamper the timely release of funds to the concerned departments? How can these issues be addressed?

There have been no major problems of under allocation, although there may have been some issues of resource scarcity. The government of Balochistan has ensured that the education and health sectors remain immune to this problem. The only cases where under utilization may have been an issue were where due diligence was done to avoid wastage and misappropriation. There is no doubt that there is room for improvement—capacity enhancement—but for the most part, development sector utilization has been satisfactory.

The Planning and Development Department is reviewing existing procedures and regularizing meetings to improve funds releases to executing departments.

Has the 18th Amendment had any impact on the budget making process at the federal and provincial levels? What key challenges and opportunities emerged after the 18th Constitutional Amendment and 7th National Finance Commission (NFC) award?

So far, the 18th Amendment has only served to increase Balochistan's financial burdens - we are still waiting for opportunities. Certainly, the seventh NFC resulted in enhanced federal transfers, but about 76 percent of funds are spent on pay and pensions, that is PKR 102.8 billion of PKR 135.1 billion. The Balochistan Revenue Authority is being functionalized to tap opportunities created by the 18th Amendment, but the tax base is very narrow and we do not expect any substantial gains. In addition, any financial space available for development is due mainly to premature internal loan retirement.

Youth Voices

Syed Tauseef Gillani

There is no citizen participation in budgets, though this can be remedied by the formation of a budget making process board with civil society representation. Women and youth empowerment are very important and programmes floated by the departments of Women Development and Youth Affairs should be considered very seriously in the budget.

The majority of the national budget is allocated to defence. In Balochistan, sectors tasked with providing basic needs go unnoticed by the authorities. There is far too much corruption in the system and allocation is not transparent. Budgetary allocations to women's education should be increased.

Rubena Ibrahim Zehri

Saeed Ahmed Shaikh

Civil society representation in the budget making process would increase the chances of having a truly 'citizens' budget' Substantial portions need to be earmarked for the construction of schools and provision of education facilities to help women and youth meet modern challenges and play a role in society.

Balochistan's tribal society and low literacy rate mean that people have little or no knowledge of government policy. Nonetheless, it is the government's responsibility to solicit advice from all stakeholders. It would be wise to consult the departments of Women Development and Youth Affairs to address the issues of women and youth empowerment.

Ms. Arbelan

Interview

Mr. Sohail Rajput

Finance Secretary,
Government of Sindh

There is a common perception that Pakistan follows an incremental budget making process. This means that budget estimates are based on minor percentage changes over the previous year's budget, rather than on the basis of needs assessments or intended or achieved results that could establish a systematic basis for funds allocation to a particular sector. Do you agree with this? What is your government doing to address this perception?

I believe this perception is incorrect. There are two portions in any budget, a development budget and a non-development budget. It is not even possible to use incremental budgeting in the preparation of development budgets because the mechanism involves different development schemes that are recommended by public representatives like members of the provincial assemblies. These elected representatives present their development schemes in light of the needs and requirements of their respective constituencies. They are in a better position to assess such needs and the government of Sindh simply follows their recommendations. The Finance Department of Sindh also arranges briefings for elected representatives so that development schemes can be identified. On the other hand, the government of Sindh *does* use incremental budgeting processes for non-development budgets, factoring in inflation rates and increases in electricity rates and other utilities.

Budgets are often considered to be heavily driven by technocrats with minimal participation from elected representatives and citizens. How can the budget making process be made more participatory? What actions has the government taken or planned to take to do this?

This is an incorrect observation. As I said earlier, we prepare budgets according to the recommendations of elected representatives. The budget is a political document; how can we separate elected representatives from this important process? After all, the budget is passed in the assembly.

What are the key reasons for the under allocation and utilization of social sector development budgets? Do you think there are capacity and/or structural issues at the departmental level that hamper the timely release of funds to the concerned departments? How can these issues be addressed?

Despite facing a financial crisis, the government of Sindh has always provided funds in a timely manner, especially funds for the social sector.

Has the 18th Amendment had any impact on the budget making process at the federal and provincial levels? What key challenges and opportunities emerged after the 18th Constitutional Amendment and 7th National Finance Commission (NFC) award?

The government of Sindh has suffered considerably after the 18th Amendment and the devolution of various departments. We took the devolved departments over, along with their staff and their massive expenditures. But we did not receive sufficient resources from the federal government to meet this challenge. The government is facing problems in running health and education programmes due to a lack of funds. We are now waiting for the next NFC award.

say that again

"We prepare budgets according to the recommendations of elected representatives."