

## **A Critical Evaluation of the Budgetary Process for Public Expenditure in Pakistan**

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### **I. INTRODUCTION**

Over the past decade budgetary policies have emphasised a firm restraint on the growth of total expenditure and a restructuring of the profile of both current and development expenditure to deal with a high fiscal deficit in Pakistan. Regarding current expenditure, there has been an increasing emphasis on meeting fully the recurrent cost requirements of completed public investments and on the minimisation of the costly subsidy programmes. Development expenditure has been increasingly directed towards the priority sectors pertaining to physical and social infrastructure and to early completion of the on-going development projects.

Effective public expenditure management places heavy demands on existing government institutions and has a much wider scope than the formulation and implementation of conventional expenditure budgets. The formulation of an appropriate macroeconomic framework, selection of projects on a sound basis, proper designing of public sector investment programmes and appropriate linkages between planning and budgetary processes is as, if not more, important than the narrow focus on expenditure budgeting [Hussain (1979)].

Notwithstanding the importance of these broader aspects of budgetary issues, this paper does not deal with such public expenditure management issues. Instead it concentrates on a description and an analysis of the formulation process of government expenditure budgeting.

The conventional practice in Pakistan in the formulation of expenditure budgets is based on the "bottom-up" demands of various government agencies. Fears regarding the adverse consequences of deficit financing with respect to macro instability have persuaded the government to impose constraints on total expenditure. Donor agencies, especially the International Monetary Fund, have been instrumental in the imposition of 'top-down' constraints on the 'bottom-up' demands.

We present information on selected aspects of the annual budget formulation cycle in Pakistan. The public expenditure on account of Defence, Development and non-Development involves different procedures and are subject to different criteria

in Pakistan. The analysis for each type of expenditure and the interface between the conventional 'bottom-up' and the 'top-down' approaches is discussed at some length.

## **II. FORMULATION OF THE EXPENDITURE BUDGET IN PAKISTAN**

The central thrust of the balancing act between the top-down and the bottom-up approach to budgeting involves a reconciliation between the government's overall tight budgetary limits on aggregate expenditure and the heavy competing demands for different purposes by different organisations. This exercise involves the estimation of resources and their allocation between different items in the expenditure budget. This section explores selected aspects of this stage of budgeting in the context of current practices being followed in the annual budgetary exercise from the initiation of requests by different agencies to specific budget proposals for presentation to the legislature.

There is a basic difference in budgetary practices with respect to current (non-development) and development expenditure and between expenditure for defence and civilian purposes. The functional and object classification for different types of expenditures (current or development) and for different types of uses (civilian or defence) of expenditure, however, is identical. In view of this basic difference, we discuss the budgetary procedures separately for current and development expenditure for civilian uses and current and development expenditure for defence purposes. The distinction between current and development expenditure is based on the type of effect that the expenditure has on the production capacity of the economy. All expenditures that keep intact, enlarge and improve the physical resources of the country and/or improve the knowledge, skill and productivity of the people and encourage efficiency with which available resources are used are defined to be development expenditure. All the remaining expenditure is defined to belong to the category of current expenditure. The definition of development expenditure is helpful in segregating items of expenditure into the two categories of development or current expenditure for budgeting purposes especially because budgeting for the development purposes is the responsibility of the Planning Commission and budgeting for current expenditure is the primary responsibility of the Ministry of Finance.

### **Budget Formulation for Current Expenditure**

The fiscal year in Pakistan runs from July 1 to June 30. The budget estimates for different items of expenditure, prepared by different ministries, are scrutinised and approved by the Ministry of Finance according to a prescribed procedure and time schedule. The budget estimates are prepared in two parts. Part I of the estimates relates to ordinary expenditure which is further sub-divided in Section A and Section B. Expenditure for items in Section A comprises standing charges which may vary from year to year but are not dependent upon the discretion of the

head of the department. Expenditure in this section pertain to permanent establishment, travel allowances and contingent expenditure. Expenditure on such items does not vary much between different years and is to be provided for on a regular basis. Section B of the expenditure estimates contains charges which are subject to material fluctuations between different years. However, items included in it, are not new items of expenditure and have been previously included in the sanctioned budget grant. Part II of current expenditure consists of new items of expenditure which are not previously included in the sanctioned budget grant. Items in this part may also be extensions of existing service commitments or facility previously included in the sanctioned budget grant. Expenses on account of temporary establishments or schemes continued on a yearly basis are included in Part II. Provisions for items in Part II often get a closer scrutiny to justify their inclusion in the expenditure budget.

The Budget Wing of the Ministry of Finance plays a leading role in the formulation of budget estimates. This Wing issues a set of Budget Call Circulars in October every year requesting all Federal Ministries and other agencies to prepare and submit revised estimates for the current year and the budget estimates for the next fiscal year. The Budget Call Circular specifies a strict time schedule for the preparation, submission and scrutiny of budget estimates by different actors in the budgetary cycle. Concerned officials in ministries and the subordinate agencies are aware of the recurring nature of the budgetary process and prepare their budget estimates well in advance of the receipt of the budget call letter for submission to the superior officials in the controlling Ministry. After a scrutiny of these estimates, the controlling Ministries submit the budget estimates to the Financial Advisors. The call letter is issued at least eight months prior to the start of the fiscal year for which estimates are called for.

Preparation of the revised estimates each year precedes the preparation of the budget estimates. The Budget Call Circular requires that the revised estimates of expenditure for the current financial year should indicate the source of extra funding, from re-appropriation, from savings from within the sanctioned grant or a supplementary grant if they exceed the sanctioned budget. It further requires that ministries should indicate any projected savings from the sanctioned budget grant.

Part I of the budget estimates for the next financial year are required to be prepared on printed forms supplied by the Accountant General/Comptroller in whose circle of account the expenditure is booked. These forms, specifically designed for use on the computer, contain separate columns to indicate the following:

- (i) Code number and details of the estimates.
- (ii) Actuals for the last 3 years. These actuals are required to be filled in by the Accountant General/Comptroller who maintain accounts for all ministries.
- (iii) Budget estimates for the current year.
- (iv) Revised estimates for the current year.

(v) **Budget estimates for the ensuing year.**

The Circular also requires that among other data the expenditure actuals of the last eight months of the previous year and the first four months of the current financial year should also be included in these forms. The proposed budget estimates for the next year are to be accompanied by details such as nominal rolls, calculation of allowances, honoraria etc. These are to be supported by a comparative statement showing the position of expenditure actuals for the past 5 years, the sanctioned budget grant and the revised estimates for the current fiscal year. The Circular further requires that the budget estimates to be included in the demands for grants and appropriation should show a breakdown of charged and other than charged expenditure indicating Revenue Account expenditure separately from Capital Account expenditure.

At the time of scrutiny of the budget estimates by the Financial Advisers considerable weight is given to past actuals of expenditure. The Circular notes that "the revised estimates, like past actuals, are one of the important factors to be taken into account in preparing the budget estimates for the next year". The decisions for sanctioning levels of expenditure are made largely on the trends of expenditure incurred in the recent past by the concerned agency. However, the proposals for new expenditure are scrutinised on the basis of the justification given by the proposing agencies, the overall resource position and national priorities in the matter of current expenditure. After having accepted the budget estimates, generally with suitable pruning, the Financial Advisers transmit Budget Orders in respect of budget heads of accepted budgets to the respective accounts offices of the Accountant General Pakistan Revenues (AGPR). They send copies of the approved budget orders to the Budget Wing of the Ministry of Finance.

Part II estimates are, after scrutiny and acceptance on the lines stated above, sent by the Financial Advisers to the respective ministries for preparation of New Item Statements. The completed statements, verified by the Financial Advisers, are sent to the Budget Wing of the Ministry of Finance. Copies of New Item Statements are also sent to the respective accounts offices of the Accountant General Pakistan Revenues.

The annual budgets, as accepted by the Financial Advisers and communicated by them through Budget Orders (in respect of Part I) and New Items Statement (in respect of Part II), are consolidated in the accounts offices of AGPR as well as in the Budget Wing, Ministry of Finance. These two agencies consolidate the accepted budget independently and compare their respective aggregates as a cross check for accuracy. Once the consistency check is carried out, the current expenditure budget is ready for printing in the form of a demand for grant for submission to the National Assembly.

Four characteristics of the budgetary process need to be highlighted. First, with the introduction of the institution of Financial Advisers, the budget-making process has been decentralised and simplified. Prior to the introduction of this

scheme, ministries had to approach the Ministry of Finance for the approval of the budget estimates. Financial Advisers are competent to approve budget estimates on behalf of the Ministry of Finance. Second, computerisation of the budgetary process since 1983 has facilitated the preparation of budgetary documents. Changes at different stages of the approval process are quickly reflected in the budgetary documents. Third, current account expenditure is approved by and large on the basis of past levels of sanctioned and utilised expenditure. Incremental budgeting is not generally an optimal method of resource allocation. Budgeting on the basis of past expenditure punishes frugal spending and rewards extravagant spending behaviour. Last but not the least, officials connected with budget preparation in the spending agencies have a tendency to inflate the expenditure estimates as a hedge against unscientific pruning of the budget requests by the Financial Advisers and/or the across-the-board cuts frequently applied by the Ministry of Finance.

### **The Preparation of the Development Budget and the Annual Development Programme**

The Annual Development Programme (ADP) in Pakistan deals with development or capital expenditure. Only projects that are incorporated in the Annual Development Programme (ADP) get funds required for their implementation.

The Annual Development Programme and the Development Budget at the federal and provincial levels are identical in scope as both of them deal with the financial allocations for each project/programme by sectors and executing agencies falling within the ambit of public sector development projects financed from the budgetary resources. The mechanics of the detailed procedure are described below.

#### *(a) Circular Letters by the Finance and Planning and Development Divisions*

The Finance Division (Budget Wing) issues an Office Memorandum in October each year laying down the "procedure for submission of Revised Estimates for the outgoing year and the Budget Estimates for the ensuing year in respect of Development Expenditure" to all ministries/divisions of the Federal Government, autonomous agencies/corporations. This O.M. provides the detailed guidelines for submitting data/information under various categories/sub-categories along with the schedule and proforma for the submission of data/information relating to total cost with a break-up between the foreign exchange component (with type of loans and grants) and local resources relating to the outgoing year and the budget estimates for the ensuing year. It also calls for information under various heads for purposes of economic classification of the Federal Government's budget.

The Programme Section of the Planning and Development Division issues a Circular letter in October each year regarding the Public Sector Development Programme. The Circular asks information separately for the ADP financed through budgetary resources and the ADP financed through bank credit, foreign

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level of inevitable non-development expenditure both on Revenue and Capital Account. Estimates are then worked out for the resources, both internal and external, that are likely to become available for use in the next year. Besides taking into consideration the revenue and capital receipts anticipated on the basis of existing taxation, the surpluses of different corporations are estimated to obtain the figure of net internal resources. Estimates of external assistance furnished by the Economic Affairs Division are added to the internal resources. The amount of money that can be raised through additional taxation measures is also assessed. The safe limit of deficit financing, taking into consideration the overall monetary situation in the country and the agreement the Government may have with IMF and other donor agencies, is determined. The total size of the ADP is determined after the anticipated non-development expenditure is deducted from the anticipated total availability of resources.

An inter-Ministerial meeting of the Secretaries of Finance, Planning and Economic Affairs Divisions held under the Chairmanship of the Secretary of Finance scrutinises the estimates of resources as prepared by the estimating authorities. An inter-Ministerial meeting held under the Minister for Finance further firms up the resource estimates. After the approval of the Cabinet is solicited for both current expenditure and resources, the tentative size of the Development Programme is fixed for the ensuing year. With the approval at every stage of the hierarchy the size of the development programme becomes relatively more firm. However, it is kept tentative till the budget is announced in order to accommodate any last minute changes in the content or size of the Development Programme and the Budget.

During the period between the issue of circular letter by the Planning and Development Division and the fixation of the tentative size of the development programme some time in February, various internal exercises are carried out by the Programming Section in consultation with different Technical Sections to formulate various mixes of sectoral allocation under alternative sizes of the Development Programme.

### *(c) Determination of Sectoral Allocations*

The Programming Section of the Planning and Development Division in consultation with the Technical Sections concerned works out the tentative sectoral allocations, in the light of the resource availability, the broad policy guidelines incorporated in the circular letter and sectoral priorities enunciated in the currently operative Five-Year Plan. After approval by the Deputy Chairman, Planning Commission, the tentative break-up of sectoral allocations is transmitted to the Federal Ministries/Divisions and the Provincial Planning and Development and Finance Departments respectively.

At the Provincial levels, the preparation of the development programme is initiated and co-ordinated by the Planning and Development Departments in consultation with the Finance Departments, the executing departments, autonomous

agencies and corporations on the basis of guidelines and the size of Development Programme indicated by the Planning and Development Division. In this exercise, the Planning and Development Departments at the provincial levels are the counterparts of the Planning and Development Division at the federal level. They play a role similar to the one played by the Planning Commission at the federal level.

*(d) Scrutiny of the ADP Proposals*

The ADP proposals received from the Federal Ministries/Divisions and autonomous agencies/corporations are scrutinised by the Technical Sections of the Planning and Development Division. After necessary scrutiny they recommend project-wise allocations and send them to the Programming Section along with other relevant project data filled in the prescribed proforma which is specially designed for the Inter-Ministerial Priorities Committee. Before the transmission of the agency proposals to the Planning and Development Division, the estimates are subjected to detailed scrutiny by the Financial Advisers attached with each Ministry/Division and the autonomous agency/corporation. Similarly, the Provincial Planning and Development Departments carry out scrutiny of the ADP proposals submitted by the departments and autonomous agencies/corporations for the provincial development programmes.

Ministries, departments and other sponsoring agencies each year present a list of projects, the development expenditure requirements of which greatly exceed the resource availability. The divergence between the resources and the demand placed on them is resolved by the Inter-Ministerial Priorities Committee which is chaired by Additional Secretary (Budget) and is attended by all concerned agencies including project sponsors. The order of priorities prevailing at the moment are as follows:

- (a) On-going projects receive the first priority;
- (b) new approved projects get the second priority;
- (c) foreign aided projects, even if unapproved, get the next highest priority;  
and
- (d) projects dealing with national emergencies may receive some allocation depending on the nature of the emergency.

The emphasis given to the completion of the on-going projects implies that as much as 80 percent of the development expenditure is already committed. The fact that most of the on-going projects are large federal projects implies that small local projects belonging mostly to the social sectors may be starved of funds and remain unimplemented even if they have been accorded approval. In fact the existing separate system for project appraisal and acceptance in the ADP can and does result in non-approved projects being incorporated in the ADP when approved projects are not allocated funds in the capital budget. Another feature of the divergence between



the authorisation procedure and the ADP procedures relates to the phasing of projects. The PC-1 proforma shows expenditure data by different phases of the projects. This phasing is used in calculating the project's measures of worth and forms the basis of the appraisal. For the purpose of the allocation of funds in the ADP, the Priority Committee evolves its own phasing based on the availability of funds. The Priority Committee does not have access to the information contained in the PC-1 which contains information on which the appraisal of projects was conducted. Since the viability of projects can be extremely sensitive to phasing, the existing practice followed by Priorities Committee makes the exercise of the initial appraisal futile. Drawing together the appraisal and fund allocation procedures should result in the efficient allocation of limited resources.

The meetings of the Priority Committee are in the nature of a hearing. Decisions arrived in the meetings are announced on the spot. The sponsors of the projects who obtain funding are asked to submit revised details of projects in proper budgetary format to the Ministry of Finance and Planning Division within two days of the decisions of the Priority Committee.

The Administrative Divisions are required to prepare the new item statements for the funded projects according to the prescribed budget format and submit the same through the Technical Sections/Programming Section of the Planning and Development Division and the concerned Financial Adviser to the Budget Wing of the Ministry of Finance.

The ADP finalised by the Priorities Committees needs to be approved by the Annual Plan Co-ordination Committee chaired by the Minister of Finance and, finally, by the National Economic Council headed by the Prime Minister. In these forums, only the broad features and the overall framework of the Development Budget is subjected to scrutiny. Modifications, if any, in the project funding are binding and result in changes in the development budget.

The Planning Division is mainly responsible for the formulation and approval of Annual Development Programmes. Projects approved for funding in the ADP are incorporated in the Annual Development Budget by the Ministry of Finance. This Ministry plays a crucial role in the entire process as Financial Advisers, the representatives of the Finance Ministry, are associated with the initial approval of development projects. The Financial Advisers are fully involved in the approval of development projects for funding during each fiscal year. They attend the meetings of the Priority Committee to ensure that financial aspects are duly considered prior to a decision taken by the Priority Committee.

### **Defence Budget**

Well in advance of the financial year, on the dates and in the forms prescribed, the Services Headquarters for different defence forces submit budget estimates to the Secretary, Ministry of Defence. These estimates are submitted within the framework of a long-term Defence Plan. Each annual budget fits into and contributes to the objectives of the long-term Defence Plan. The estimates are

supported by explanatory memoranda so as to identify the main items of expenditure to enable the Government to examine their justification. In the case of non-recurring expenditure including purchase of stores and capital works, priorities are indicated in the context of the Defence Plan so that if full requirements cannot be met, the needs are known in order of urgency and importance. In respect of stores, proposed purchases are given by main categories. Likewise in respect of capital works, necessary lists including residential and non-residential accommodation are provided. The estimates are prepared in some detail for a proper scrutiny by the Financial Advisers attached with Defence Division. However, these estimates are considerably aggregated before their presentation to the legislature. On the basis of the Budget Demand voted by the National Assembly, the Defence Secretary makes the budget allocations to the three Services, the Ordnance Factories and the Inter-Services Organisations in consultation with the heads of the respective Services. The format of the Demand for Grants prepared by officials of the Defence Division is similar to the format adopted in case of other Ministries for both current and development expenditure. The defence expenditure is also classified according to functions and objects for which expenditure is incurred. The classification scheme prescribed by the Auditor-General is applicable to all expenditure including expenditure incurred by the Ministry of Defence.

In conclusion, it needs to be pointed out that the incremental approach to expenditure budgeting with respect to current expenditure is also a norm for the bulk of development expenditure. The Priority Committee attaches the top-most priority for the completion of on-going schemes which, on the average, each year pre-empt more than 80 percent of development expenditure. Expenditure budgeting as currently being done is on an annual basis. A multi-year perspective for different types of expenditure—current or development, so essential for allocative efficiency, is missing. The conflicts between top-down budgetary targets and the bottom-up demands are reconciled in a series of inter-departmental meetings. Decisions taken in the meetings are more a function of bargaining power and negotiating skills of the participants rather than compulsions arising from a carefully formulated set of criteria that promotes efficiency in resource allocation. The process linking the overall financial limits and the departmental budgets is still in a primitive formative stage and has not gone beyond the imposition of across-the-board cuts and general exhortations to different agents not to propose and/or approve yearly budgets that exceed the previously sanctioned budget by a certain fixed percentage.

### **III. AN EVALUATION OF THE EXPENDITURE MANAGEMENT SYSTEM**

We have seen in the previous section that Pakistan has evolved a comprehensive system of public expenditure budgeting. Existence of the elaborate system notwithstanding fiscal imbalances have worsened over time to an extent that Pakistan had to agree to a stabilisation-cum-adjustment programme with the donors

in 1988. In this section an attempt is made to evaluate the control system to identify shortcomings for corrective policy action.

Table 1 shows data on total expenditure, current expenditure and development expenditure for the period 1981-82 to 1989-90 for the federal government. The difference between budget estimates and actual expenditure represents discrepancies between intentions and actual outcomes. The government has spent more than the planned expenditure on the head of current expenditure for each year. This is so whether we measure the discrepancy of actual expenditure from budget estimates or revised estimates. In six out of eight years, the government has underspent on the head of development expenditure. The summary measure of the accuracy of forecasts, Theil's U, is lower for development expenditure relative to current expenditure. Also, it is important to know that this summary measure for Pakistan is lower than is the case of India where it was found to be 0.50 in case of budget estimates and 0.56 in case of revised estimates for the central government expenditure for the period 1975-76 to 1987-88 [Rao (1991)]. The important point to note, however, is that Pakistan is overspending on current account and underspending on development projects for each year. Undershooting in development expenditure ultimately results in loss of time for the completion of development projects when measured against the previously fixed schedule. In a recent analysis of this issue by the Projects Wing of the central planning agency, it was found that out of 242 large projects during the Sixth Plan, 118 projects were faced with time over-runs compared to the implementation schedules fixed for the projects. The cost over-run for these projects was 22 percent compared to the original approved costs of such projects. The reasons cited by the sponsoring authorities for time and cost over-runs were, in order of importance are: lack of funds, changes in the scope of projects, delays in approval, currency depreciation, delays in land acquisition, delays in award of contracts, lack of inter-agency co-ordination and poor project preparation. Excepting lack of funds and currency depreciation, the remaining factors for cost and time over-runs can be overcome through improved project formulation and efficient project management and progress monitoring arrangements. Lack of funds can be avoided by an improved budgeting system for development expenditure. Increased use of contingency funds for meeting unforeseen obligations arising from factors like currency depreciation should avoid slippages in the execution of the approved development programme.

#### IV. CONCLUSIONS

The importance of effective management of public expenditure against the back drop of severe fiscal adjustments since the 1970s when the Pakistani economy was faced with a series of external shocks, has been widely recognised by people in all sections of society. Public officials, politicians and informed citizens all share the vital importance of drastic improvements in many aspects of the current budgetary practices in this area.

Table 1  
Accuracy of Expenditure Forecasts of Federal Government  
(Budget Estimates, Revenue Estimates and Actuals)

Years	(Rs in Million)								
	Total Expenditure			Development Expenditure					
	Budget Estimates	Revised Estimates	Actuals Estimates	Budget Estimates	Revised Estimates	Actuals Estimates			
1981-82	70637.5	71318.0	70082.9	46173.7	47021.6	46508.0	24463.8	24296.4	23574.9
1982-83	86695.6	89648.1	89107.3	58120.6	63789.2	62902.1	28575.0	25858.9	26205.2
1983-84	100716.7	104368.6	103835.3	72187.7	77885.5	78425.6	28529.0	26483.1	25409.7
1984-85	112260.8	122789.2	119832.1	82118.9	91348.0	89136.4	30141.9	31441.2	30695.7
1985-86	137197.2	143791.1	145854.2	99250.7	10560.7	105757.6	37946.5	38187.4	40096.6
1986-87	154810.3	158762.0	175184.5	107737.5	112274.0	129869.6	47072.8	46488.0	45790.1
1987-88	192042.6	200487.8	210412.9	140471.3	145651.8	159479.0	51571.3	54836.0	52292.1
1988-89	204963.5	207476.3	214666.4	148364.3	151839.4	159394.0	56599.2	55636.9	55272.4
1989-90	225956.4	231793.9	222419.2	162100.4	174104.2	168713.9	63856.0	57689.7	53705.3
% RMSE	25.00	17.55		31.40	99.93		17.49	8.25	
Theil's U	0.03	0.02		0.05	0.14		0.04	0.02	

Pakistan, however, remains wedded to the traditional practice of incremental budgeting for current expenditure. The need to complete the development projects already underway in as short a time as is technically feasible also pre-empts resources away from new development initiatives which may have a higher pay-off. In fact, the existing budgetary practice with its emphasis on actual past expenditure rewards agencies on the basis of their absorptive capacity. The budgetary proposals need to be analysed from the perspective of a programme review and informed management practices. The budget agencies should examine the budget requests in terms of demands for extensions and/or reduction in services.

There is a need to consider the issue of the introduction of performance budgeting in Pakistan. A suitable budgetary classification which measures the performance from different types of expenditure needs to be evolved. The switch to this type of budgeting should be gradual and carefully phased. It should involve all major actors presently involved in various phases of budgeting from the very outset.

The present system of investment programming in Pakistan is being jointly done by the line agencies, sectoral ministries and planning agencies. The Ministry of Finance is also closely associated. The linkage of investment programming with budgeting has a fundamental procedural flaw. The budgetary provision for different projects during the implementation phase neglects the information on phasing of capital expenditure for projects during appraisal. In this context, procedural and policy reforms are needed to ensure that the deviations between phasing of development expenditure for approved projects for appraisal and for implementation phases according to the budgetary provision remain as little as possible.

There is an urgent need to develop analytical institutional capacity in the federal Ministry of Finance and provincial finance departments to enable them to project the expenditure profiles of different programmes in a consistent framework that links expenditures, revenues and other macro variables in the economy. The analytical capacity should be sufficiently strong to analyse and evolve alternative expenditure policy strategies.

## REFERENCES

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**Comments on  
"A Critical Evaluation of the Budgetary  
Process for Public Expenditure in Pakistan"**

The paper provides an excellent description of the institutional set-up in the Federal Government for preparing the budget. It is an effort in the desired direction. The paper also provides an economic perspective to government functionaries who would benefit from it to understand the intricacies involved in budget-making. The author has made a remarkable contribution in the sense that with it the long over due demand of the Government functionaries involved in budget formulation has been met.

After having described the institutional set-up, the author points out his dissatisfaction with the existing budget-making process and recommends that the existing system, which according to his opinion is incremental budgeting, should be replaced with performance budgeting. Before reaching that conclusion he has used the Theil U Coefficient to check the accuracy of the budgetary forecasts for evaluating the effectiveness of the budgetary system. He found the coefficient to be low in Pakistan. It is interesting to know that this coefficient is much lower as compared to that in India. This finding seems to contradict the author's conclusion of dissatisfaction with the existing budgetary system in Pakistan.

The paper has a dichotomy: it describes the institutional set-up but suggests to replace one technique of budgeting with another technique of budgeting. Concentrating over the suggestion, it is in the fitness of things to mention that Pakistan had decided as far back as 1965 to adopt *programme and performance budgeting*. The technique has been further improved and in recent years even *Zero Based Budgeting*, considered to be superior to *performance budgeting*, has been adopted. Leaving aside the dichotomy of the conclusion with the substantive analysis of the paper, the main theme selected by the author is indeed complex and is not easy to capture comprehensively.

There are certain areas which are important in the set-up which could not be mentioned in the paper. Before the Government formally takes up the preparation of the budget, interaction with the private sector takes place. It is institutionalised under an *Advisory Council of the Ministry of Finance* on which Industry, Agriculture, Trade, Labour, Economists and Tax Experts are represented. This, in fact, is a starting step in the institutional set-up. The Principal Accounting Officer, a head of the Ministry, has been delegated numerous powers for re-appropriation, i.e. reallocation. There are inter-ministerial forums both at senior officers and Cabinet level. For selection of new projects, reordering priorities among programmes and sectors and for the re-allocation of resources, there exist important forums which include the Departmental Development Working Party, Central

Development Working Party and the Economic Coordination Committee of the Cabinet. Consultation with the Provincial Governments and autonomous bodies is also done. There is also a Debt Management Committee which looks into the issue of raising loans from various sources. A part of the resource gap is financed through deficit financing. That part is discussed for inclusion in the Annual Credit Plan by the National Consultative Credit Council. There are many more checks and balances in the system at different levels.

Guidelines and criteria which guide the decisions of government functionaries and at different stages of budget-making are laid down. This is a long process and could not be covered by simply saying that the 'Top down' and 'Bottom-up' approaches are reconciled. No doubt it is basic to every financial and economic decision-making but budgeting-making is much more than that.

One who reads the paper genuinely expects that it should make suggestions for improving the institutional set-up. The suggestions for substituting one technique with another is not at all called for. Just to complete the task of the paper, I would suggest that the new budgetary equation between the Provinces and the Federation as established under the 1991 Award of the National Finance Commission needs to be emphasised. Besides the Government is implementing structural reforms. Autonomous bodies like WAPDA, Railway and T & T are now outside the budget. They have to finance their development expenditure from their own resources. The new budgetary system is to be evolved to ensure that these autonomous bodies which, despite being excluded, would continue to be a part of the public sector observe the fiscal discipline. The government has replaced some old budgetary instruments with new ones like the auctioning of treasury bills. The system is to be evolved to ensure that the new instruments are efficiently and judiciously applied. The Senate of Pakistan has voiced its intent to play a more positive role in budgetary decision-making that needs to be attended to. "Supplementaries" which are inherently budget distortive additionalities need to be made a part of concerted and orchestrated fiscal system. Last but not the least is the need for reforms for raising a 'Budget Cadre' both at the Federal and Provincial level with specialisation in budget making as it is a technical subject and cannot be conveniently handled by non-technical officials.

To conclude, despite many shortcomings, the paper is a welcome attempt in the field of budget-making. It is unique in the sense that it would be welcomed equally by researchers and government functionaries not fully conversant with the economists jargon.

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