

Charter of Demands Budget Making and Implementation in Pakistan

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Charter of Demands
Budget Making and Implementation in Pakistan

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Acronyms

ADP	Annual Development Program
AGP	Auditor General of Pakistan
CPDI	Centre for Peace and Development Initiatives
DISCOs	Distribution Companies
FBR	Federal Board of Revenue
PIA	Pakistan International Airlines
PIPS	Pakistan Institute of Parliamentary Services
PSM	Pakistan Steel Mills
PWDs	Persons with Disabilities
STA	Single Treasury Account

Preface

Annual budget is an estimation of revenues and expenditures in the next year. It represents government's vision about the economy, how it plans to collect revenues and which would be the priority areas for spending the tax and non-tax revenues. It is expected from a democratic government to prepare, approve and implement its annual budget in a participatory and transparent manner, and ensure that people have opportunities to access relevant information and provide their input. It is also expected from the democratic government to establish a fair tax system that does not burden the disadvantaged and encourages economic activity for creating and sustaining jobs. Similarly, a democratic government must prioritize social and human development in its spending plans. Unfortunately, the annual budgets in Pakistan have often been criticized for serving the interests of the ruling elite, and ignoring the needs of poor and lower middle classes. This situation is not sustainable, as growing inequalities and continued neglect of social and human development run the risk of political backlash and constrained economic growth.

Centre for Peace and Development Initiatives (CPDI) has been working on budget issues since its establishment in 2003. It has consistently raised issues, which needed government's attention for improved and more efficient budget making. It is expected that this Charter of Demand would help in further advancing the cause of reforms, especially after it has been shared with and owned by civil society and other stakeholders.

1. Background

Annual budgeting in Pakistan is mostly done in a traditional manner, as there has been no visible effort to increase efficiency and transparency or to align the budget making, approval, implementation and auditing practices to the needs of a modern democratic state. As for the current budget, typically, the templates of previous years are used to develop budget for the next year, without critically examining the budget structure, key assumptions, performance of institutions, budgetary needs and challenges, and changes in social, economic or technological environment. The relevant ministries generally carry out the budget making exercise in a mechanical manner, as only certain aspects of the budget become subject of high level discussions, while the remaining parts remain on the books as per the previous practice or template. No thorough ministry, department or institution wise scrutiny is carried out to identify budget lines, which may need to be dropped, or to add new ones in the light of ground requirements. The budget needs, as identified by various ministries, organizations or institutions, are usually subject to arbitrary decisions by the Ministry of Finance, which rarely engages in substantive conversations to discuss the needs of various government bodies.

The development budget is also developed in a manner that is exclusive and not consistent with international best practices. The process for selection of projects and budgetary allocations is widely believed to be arbitrary and inefficient, and non-responsive to the needs of diverse people and regions. This explains why certain regions and sections of society keep getting priority over others in development allocations and why certain types of projects take a long time to complete.

Pakistan also lacks a robust budget approval process. Budget is only briefly debated in the full house of the National Assembly and in the Senate's Standing Committee on Finance, Revenue and Economic Affairs. It is not forwarded to other standing committees for their scrutiny and input on draft budgets for each ministry. Media and civil society too get quite a restricted timeframe to analyse the budget proposals after the same are made public. Consequently, most part of the budget gets passed without adequate debate, scrutiny and stakeholders' input.

Budget implementation and auditing processes also remain shrouded in secrecy, as no serious efforts have been made to institutionalize transparency and public feedback mechanisms across the budget cycle. The deficiencies in the budget making and approval stage adversely affect the quality of implementation, especially when approved budget does not adequately provide for day-to-day needs of relevant ministry or organization, and yet senior management expects performance in the prioritized areas. The endemic problem of corruption and inefficiency in governance cannot be addressed without improving the budget process from the stage of its preparation by the relevant ministries to auditing by the office of the Auditor General of Pakistan (AGP).

In view of the importance of annual budget and the fact that the budget making process largely remains inefficient, non-transparent, exclusive and non-responsive to the needs of effective public service delivery and social and equitable development, it is imperative that

wider stakeholders develop and agree on a charter of demand, which is used to advocate for appropriate reforms in the system.

2. Methodology

This Charter of Demand is based on review of relevant literature, experts' inputs and inputs provided by stakeholders. The literature that was reviewed includes documents related to current and development budget, tax system, parliamentary process for budget approval and media reports. Experts, including government officers, have also been consulted or their views have been gathered through their research or media articles. CPDI now plans to share it with civil society organizations and other stakeholders for their feedback and ownership. This document would remain open to new suggestions, which will be scrutinized and, if appropriate, incorporated through an established process.

3. Charter of Demands

This Charter of Demands includes ideas for improving and reforming the budget making and implementation process in order to establish a fair and equitable economic system, which is responsive to the needs of all segments of society and is consistent with the requirements of a modern democratic state.

3.1. Budget Making and Approval Process

Since the budget making process largely remains non-transparent and exclusive, it is recommended as below:

3.1.1. Establish an Inclusive Process

The budget making process must ensure broad based consultations with various internal and external stakeholders in different regions across the country. The internal stakeholders may include senior, mid-level and junior officers or officials working in a ministry or organization, while external stakeholders would include those with whom a particular ministry or organization interacts with or whom it works for, for example, contractors, suppliers, consumers of public services and relevant communities. In particular, proactive efforts should be made to reach out to consult women and socially excluded groups (e.g. persons with disabilities, transgender persons and religious minorities) to learn about their problems and needs, and how the same could be addressed on priority basis. Moreover, the government should establish a robust mechanism of documenting and analysing the feedback that it receives from stakeholders, and then incorporating it in the budget proposals.

3.1.2. Ensure Evidence-Based Decision Making

There is a need to promote evidence-based decision making in the context of budget formulation. The ministries and organizations must strengthen their research sections and institute mechanisms for adequately benefiting from research and evidence that is generated on, among others, market conditions and the impact of previous budgets including taxation measures. The evidence produced through scientific research and feedback through stakeholder consultations must provide good basis for balanced and effective policy making.

3.1.3. Establish and Follow Criteria to Avoid Arbitrary Decisions

The ministries and organizations must establish criteria, as far as possible, for developing proposals for taxation or allocating resources against various current and development needs. Such a practice would help in avoiding arbitrary decision making, which mostly serves elite interests and is often inefficient. The criteria based decision-making would also help in promoting transparency and accountability around budgets in Pakistan.

3.1.4. Provide Complete Details of all Budget Heads

The budget documents should provide complete details of all the proposed taxation and expenditure measures in the interest of transparency and serving citizens' right to information guaranteed by Article 19A of the Constitution. Such details should include notes and explanations about objectives, progress, delays, cost escalations and various

other aspects that may be of interest to legislators or citizens. The current practice of parking large amounts of funds under broader categories or heads like “block allocations” or “others” must be discontinued. The budget documents must provide details of funds allocated to each facility or organization to the lowest level (e.g. primary school, dispensary, library, etc.). This would equip local communities with information, which they would be able to use to exercise citizens’ oversight and promote public accountability.

3.1.5. Develop Easy to Understand Documents

Budget documents should be prepared, as far as possible, in a simple and non-technical language so that legislators, media, civil society and citizens could easily understand them for their informed input or scrutiny. In certain cases, it would be appropriate to prepare public versions of technical documents to promote budget literacy and informed debate on budget making and implementation processes. Where appropriate, the budget related terms should be explained through notes for the benefit of non-technical persons.

3.1.6. Produce Documents in Urdu

Most of the budget documents are currently produced in the English language, which is incomprehensible by many legislators and a vast majority of people. This practice makes the budgetary process exclusive, and precludes the possibility of meaningful citizens’ input and scrutiny. It is, therefore, extremely important that all budget documents are produced in Urdu language.

3.1.7. Make Budget Documents Accessible

Budget documents should be made accessible not just in terms of how they are structured and written but also how citizens can access them from anywhere in the country or even from abroad. This may be ensured by disseminating hard copies among libraries and posting soft copies on the website of Ministry of Finance. All other ministries and organizations too must be required to post relevant portions of the budget documents on their respective websites for the information of stakeholders.

3.1.8. Provide Budget Documents in Formats that are Easy to Analyze

All budget documents should be made public in formats such as Excel, which are easy to use for analysis and to independently verify the official statistics and calculations. These documents should also provide adequate information about the expenditures incurred in the previous year as well as about any cost escalations and the reasons thereof.

3.2. Budget Approval Process

In a democratic system, the elected representatives of people must approve all budget proposals. In Pakistan, however, the budget approval process remains weak and inadequate, as it does not allow effective and robust parliamentary scrutiny. The following measures can help in strengthening the budget approval process:

3.2.1. Strengthen Budget Research Capacity in the Parliament

Members of the Parliament and parliamentary committees can perform better when they have access to high quality research on various aspects of the annual budget. It is, therefore, important that Parliament takes measures to engage and retain relevant

research expertise and ensure generation of policy papers, which could help members of the Parliament in their parliamentary debates and initiatives. Access to such expertise may be ensured through the Pakistan Institute of Parliamentary Services (PIPS), which already has such a mandate but still has a long way to go for establishing budget analysis capacity.

3.2.2. Train Members of Parliament on Budget Analysis

Most members of the Parliament are not budget experts and, therefore, are unable to understand and analyse it for the purpose of making informed input. This situation calls for a robust training program, whereby members of the Parliament are trained on various aspects of the budget. PIPS is already delivering such trainings but there is a need to further strengthen the effort, especially in terms of identifying members with relevant interest and then providing them opportunities for improving their budget analysis and oversight skills.

3.2.3. Allow Adequate Time for Parliamentary Scrutiny and Approval

The annual budget is normally presented in the Parliament in June each year, and is passed within two to three weeks after (a) debate in the House in the National Assembly, and (b) receiving recommendations from the Senate where it is also discussed in the Standing Committee on Finance, Revenue and Economic Affairs. The National Assembly does not refer the annual budget to standing committees for their review. This process is flawed, as it does not allow adequate time for thorough scrutiny and parliamentary input. It is, therefore, suggested that annual budget should be presented in the Parliament in March, and then should be referred to relevant committees for thorough scrutiny. The relevant committees should review all aspects of the budget proposals for their respective ministry, seek experts inputs where required, and consult stakeholders through public hearings. The standing committees should then prepare reports including recommendations on the annual budget and forward them to the respective House for further debate. The House should also debate the budget thoroughly, allowing adequate time to all members, including backbenchers, for their input. The process must be inclusive and allow adequate time for all perspectives to be adequately presented and considered.

3.3. Taxation System

The taxation system in Pakistan has been a subject of significant criticism including for being unfair, discriminatory and inefficient. It has also been criticized for lacking well thought out and consistent tax laws, which allow space for significant discretion. Such a system may respond to the demands of major and more organized groups but does not have a strong mechanism to reach out to less affluent sections of society. There exists a broad-based consensus that the taxation system needs to reform and, in this regard, the following recommendations needs to be embedded in the reform proposals:

3.3.1. Enact and Implement Taxpayers' Bill of Rights

Taxpayers often complain about taxation system but their grievances are rarely addressed. This situation explains the mistrust that exists between taxpayers and the government, especially FBR, and is largely responsible for poor performance in terms of revenue collection. It is, therefore, recommended that the Federal Government should adopt and

enact a Taxpayers' Bill of Rights, which should comprehensively spell out the taxpayers' rights and how those rights will be protected. Once adopted, the government should also take proactive measures to create awareness about taxpayers' rights. This reform will help in not only addressing the taxpayers' distrust but also in expanding the tax base and improving revenue collection.

3.3.2. Reform Federal Board of Revenue (FBR)

The FBR is widely perceived as an inefficient organization, which lacks public trust, integrity and capacity to collect adequate revenues in a fair manner. It must be reformed on urgent basis, especially in terms of:

- Appropriate incentives for staff to motivate and enable them to work fairly and honestly;
- Establishing a merit based mechanism for recruitment at all levels in the tax administration;
- Effective and criteria based career planning and posting mechanism, which rewards good performance and minimizes decision making under extraneous considerations;
- Introduction of a comprehensive integrity framework, which explicitly states and promotes the conduct expected of staff members, and provides mechanism to address grievances;
- Establishing a robust mechanism for assessing performance, which encourages good performance and weeds out those with poor performance or reputation;
- Building staff capacity to operate in an efficient, competent and professional manner;
- Introducing mechanisms for maximum transparency and citizens' access to information, as required by good governance practices and Article 19A of the Constitution;
- Using modern information technology for internal management of Human Resource (HR), finance and procurements, as well as various types of databases of taxpayers, market developments and potential segments that remain excluded for various reasons; and
- Establishing effective mechanisms to reach out or respond to taxpayers' queries about their individual issues through, for example, a helpline or concerns about the taxation system.

3.3.3. Establish a Regular Citizens' Feedback Mechanism

In the process of developing taxation proposals, FBR consults some major and more organized stakeholders but the ambit of such consultations remains limited and ad hoc. This situation allows some stakeholders to exercise greater access and influence, while others remain excluded or their input does not get similar level of attention or consideration. It is, therefore, important that FBR establishes a mechanism to regularly obtain, analyze and respond to feedback from various stakeholders, including the less affluent ones, at all levels in different regions. The scope of feedback should not be restricted to taxation proposals but also cover various aspects of tax policy

implementation. For this purpose, FBR may designate senior officers to dedicate a day in each week to publicly listen to taxpayers or representatives of various organizations or interest groups, who should be welcome to freely and candidly express their views. All such feedback should be properly documented and analyzed and, as appropriate, used for improving policy development or implementation.

3.3.4. Reduce Dependence on Indirect Taxes

Currently, most of the revenue is collected through indirect taxation measures, which puts disproportionately higher tax burden on the poor and low-income classes. On the other hand, government efforts to collect direct taxes remain inadequate and inefficient and, as a result, a large number of people with huge wealth, income and resources succeed in staying out of the tax net. This state of affairs is unfair and must be rectified to build trust in the system, and to ensure that rich people with their taxable incomes pay their due share of taxes. In the meanwhile, the indirect tax burden must be reduced to provide space for disposal incomes of low income groups to rise with positive effects on their well-being.

3.3.5. End Regional and Sectorial Exemptions

Several geographical regions and sectors of economy remain exempt from different types of taxes, especially income tax. These exemptions are unfair and discriminatory, and cause distortions in the system. It is, therefore, suggested that the government must do away with such exemptions in the context of tax measures. However, if a region or sector needs financial support, the government should provide that through appropriate allocations in the budget including through public sector development program.

3.4. Current Expenditures

Current budget refers to routine expenditures of existing organizations including staff salaries, allowances, travel and communication costs, and repair and maintenance of equipment, furniture, vehicles and buildings. In general, government tries to keep the current expenditures minimal to spare higher amount of funds for development expenditures. The allocations for current expenditures are often made in an arbitrary manner, without keeping in view the legitimate needs of an organization. Following steps needs to be taken to reform the budget allocations and the related process:

3.4.1. Properly Assess Current Budget Needs

Each organization and ministry should properly assess their current budget needs, while keeping in view their previous expenditures, next year needs and market conditions. The needs assessment process must not only consider the internal needs of the organization but also the budgetary requirements for improving quality and reach of its service provision, especially where it is targeted at the poor and socially excluded. It should not be a desk-based exercise but involve consultations with both internal and external stakeholders.

3.4.2. Avoid Arbitrary Cuts

As a common practice, Finance Ministry arbitrarily cuts down the current budget demands by other ministries and organizations. While such cuts may be required in view of overall

budget constraints, it is unfair to do so arbitrarily and without consulting the relevant ministry or organization. It is, therefore, important that appropriate mechanism is established to review the budgetary demands and, if necessary, rationalize the same in consultation with relevant ministry or organization.

3.4.3. Provide Adequate Funds for Current Needs

The current practice of reducing current budget to spare higher amount of funds for development expenditures must be discouraged, as it results in various types of inefficiencies including deterioration of public service delivery, corrupt practices and loss or degradation of assets due to inadequate funds for repairs and maintenance. In fact, it should be top priority of government to keep the existing organizations and facilities (e.g. schools, hospitals, police stations, etc.) adequately resourced and functional, while development program may be financed with spared or additionally mobilized resources. If current budget has to be cut, it should be done in sectors with no bearing for public service delivery or social services. The arbitrary cuts and under-spending on current side largely explains the poor quality of public services and adverse condition of schools, hospitals, police stations and official buildings. Low current allocations also result in public grievances and distrust.

3.5. Development Expenditures

A review of past Annual Development Programs (ADP) as well as of the process that is followed brings to fore a number of avoidable inefficiencies. A brief description of such inefficiencies and how the same can be rectified is presented below:

3.5.1. Establish Criteria for Selection of Development Schemes

Development schemes for inclusion in the annual budget should be identified on the basis of a clearly laid down criteria, which should be widely publicized. As of now, it seems that powerful politicians of ruling part or parties and other influential players can easily get the development schemes of their interest included in the annual development plan. This kind of arbitrary decision making, at times, results in concentration of facilities in certain districts or regions, while needs of other regions remain ignored.

3.5.2. Publicize Proposals for Public Feedback

All proposals for new development projects to be included in the next year annual budget should be made public by the end of February, and people should be invited to make objections or suggestions for improvement. This process should help in identifying any proposals, which may have been submitted in violation of the publicized criteria or at least in prioritizing the identified development schemes.

3.5.3. Prioritize Completion of Ongoing Schemes

Priority should be given to complete the ongoing projects in the shortest possible duration of time. This would mean adequate allocation of funds for relatively smaller number of projects. The existing practice of minimal allocations for a large number of approved as

well as un-approved projects is highly inefficient, as it results in long delays, cost overruns and huge opportunity costs to the detriment of the people in the respective region.

3.5.4. Focus on Human and Social Sector Development

The criteria for selection of development projects must prioritize human and social development in an equitable manner across regions. It must also emphasize adequate allocations for facilities or programs, which cater to the needs of women and socially excluded groups like persons with disabilities (PWDs), transgender persons and religious minorities. Moreover, the criteria should take into consideration existing disparities and inequalities across regions or across population groups within regions, and prioritize financing of projects that help in addressing such disparities.

3.6. Budget Management

The Federal Government lacks an institutional capacity to assess financial needs, manage cash and efficiently utilize budget, which often results in loss of precious resources and taxpayers' money. Following steps may be taken for more efficient budget management:

3.6.1. Enhance Budget Management Capacity

Efficient budget management requires an appropriate legal framework, access to latest data, proper feedback mechanisms, evidence-based decision-making, technical expertise and use of latest online technology. However, relevant ministries face challenges on almost all of these counts, and must take steps to build their capacity.

3.6.2. Ensure Efficient Utilization of Loans

Pakistan has extensive reliance on domestic and foreign loans to finance budget deficit and annual development programs. If efficiently utilized, these loans can help in improving infrastructure and productive capacity. However, these loans are often obtained without thorough analysis of whether their intended objective and utilization will really contribute to human and social development or in enhancing productivity. This lack of proper planning and loans utilization capacity often necessitates new loans to primarily repay the previous loans and, hence, liabilities continue to increase without simultaneously enhancing productivity and exports. It also occasionally happens that inefficient utilization of agreed loans results in commitment charges by donors or premature termination of agreements involving financial costs. Therefore, Government of Pakistan needs to review and strengthen its loan management and utilization capacity.

3.6.3. Single Treasury Account

It is generally more efficient for a country to use a Single Treasury Account (STA) to meet financial needs of all government ministries and organizations. The relevant constitutional and legal provisions in Pakistan also require government to manage its cash through STA. However, it appears that, along the way, various governments have created too many exceptions, which have resulted inefficient cash management. In many cases, funds are transferred to commercial bank accounts maintained by various organizations, which may remain unspent for considerable time, while government is meanwhile compelled to borrow from State Bank of Pakistan (SBP) or commercial banks on higher interest rates.

Such cash flow issues can be managed better and cost of loans be reduced if government strictly implements the STA.

3.6.4. Reduce Wasteful Expenditures

Currently, significant amount of taxpayers' money is wasted on various inefficiently managed state enterprises including Pakistan Steel Mills (PSM), Pakistan International Airlines (PIA) and power distribution companies (DISCOs). The Federal Government needs to finance the losses of such companies, largely because of incompetence of past or current managements. This situation needs to be rectified through appropriate steps to save funds, which must be directed towards human and social development.

4. Conclusions

This Charter of Demands offers a compilation of demands based on literature review, expert inputs and consultations with some stakeholders. It can be further improved in the light of any additional ideas that may be identified in the course of future consultations. It is expected that, when implemented, these recommendations can substantially contribute to the cause of more efficient, participatory, transparent and accountable budgetary process. In the meanwhile, it would serve as a tool for engaging relevant government institutions and policy community to debate the budget related challenges and present ideas for reforms for collective good of people in Pakistan.

Centre for Peace and Development Initiatives (CPDI) is an independent, non-partisan and a not-for-profit civil society organization working on issues of peace and development in Pakistan. It is registered Under Section 42 of the Companies Ordinance, 1984 (XLVII of 1984). It was established in September 2003 by a group of concerned citizens who realized that there was a need to approach the issue of peace and development in a an integrated manner. CPDI is a first initiative of its kind in Pakistan. It seeks to inform and influence public policies and civil society initiatives through research-based advocacy and capacity building in order to promote citizenship, build peace and achieve inclusive and sustainable development. Areas of special sectoral focus include promotion of peace and tolerance, rule of law, transparency and access to information, budget watch, media watch and legislative watch and development.



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