

Public Finance Management

28th Senior Management Course

NIM Peshawar

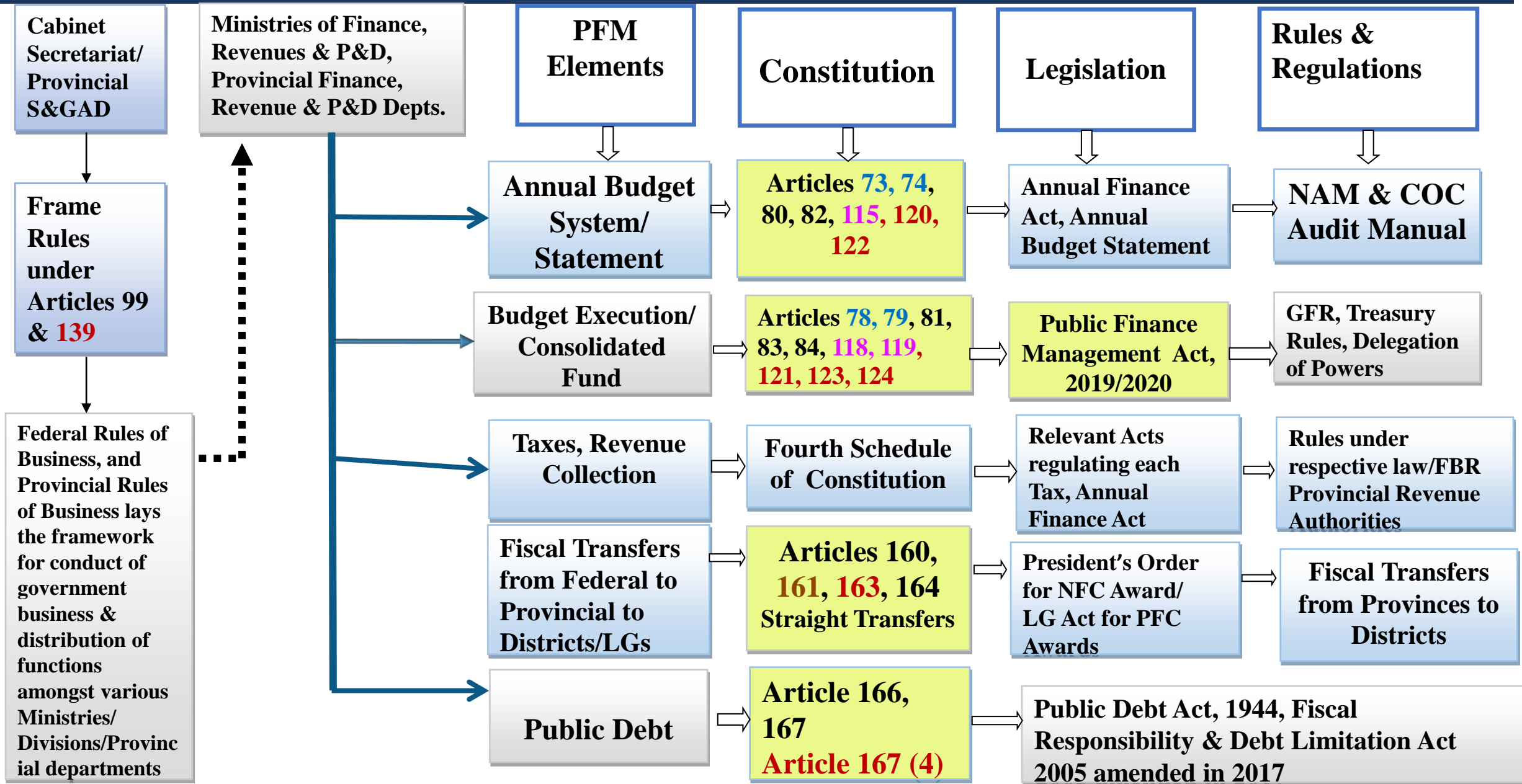
January 12, 2021

Agenda

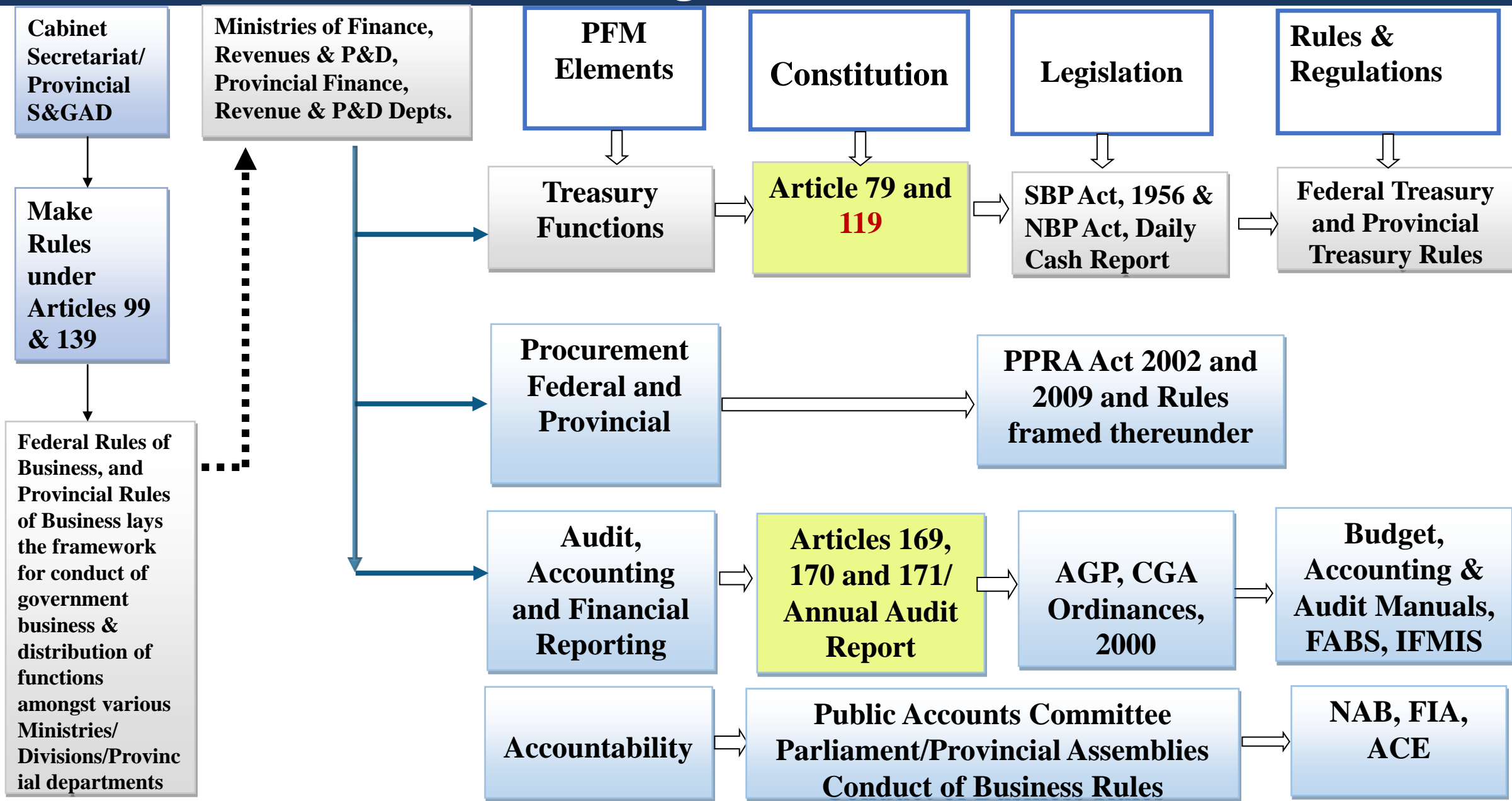
- ❑ Overview of Public Finance in Pakistan
- ❑ Expenditure Budget and the basis of its allocation
- ❑ Prioritizing Expenditure and Re-Allocation within the Budget Grant
- ❑ Challenges and Strategies for improving the financial system
- ❑ Local Resource Generation
- ❑ Public Debt Management
- ❑ Fiscal Federalism, NFC Award, Issues between the federation and the Provinces

Overview of Public Finance Management

Constitutional And Legislative Framework for PFM



Constitutional And Legislative Framework for PFM



Institutional Arrangements for PFM

Planning & Budgeting

For Recurrent & Development Budget

Ministry of Finance/Line Ministries; Departments of Finance/Line Departments
Planning Commission/Line Ministries; Planning & Development/Line Departments
Legislative Finance Committees; Approval of Development Budget BY NEC
Approval of Budget by Federal/Provincial Cabinets

Presentation of Federal/Provincial Budgets in the National Assembly/Senate
& respective Provincial Assemblies for approval under the Constitution

Fiscal Transfers

NFC/PFC, NFC Award 2010/PFC Awards
NFC Secretariat, Ministry of Finance
PFC Cells, Provincial Departments of Finance

Debt Management

Ministry of Finance, Provincial Finance Departments, Economic Affairs
Division, State Bank of Pakistan, Debt and Policy Coordination Office

Budget Execution

MOF/Deptt. Of Finance/Line Ministries/Departments; Planning
Commission/Departments for development; FBR/Prov Rev Authorities for
Revenue Collection; SBP/National Bank of Pakistan (designated Treasuries)

Institutional Arrangements for PFM

**Public Sector
Procurement**

**Public Procurement Regulatory Authority at Federal and
Provincial Levels
Procurement by Line Ministries/Departments**

**Accounting
and Reporting**

**Controller General of Accounts (CGA)
Accountant General in each province
District Accounts Offices/Treasuries**

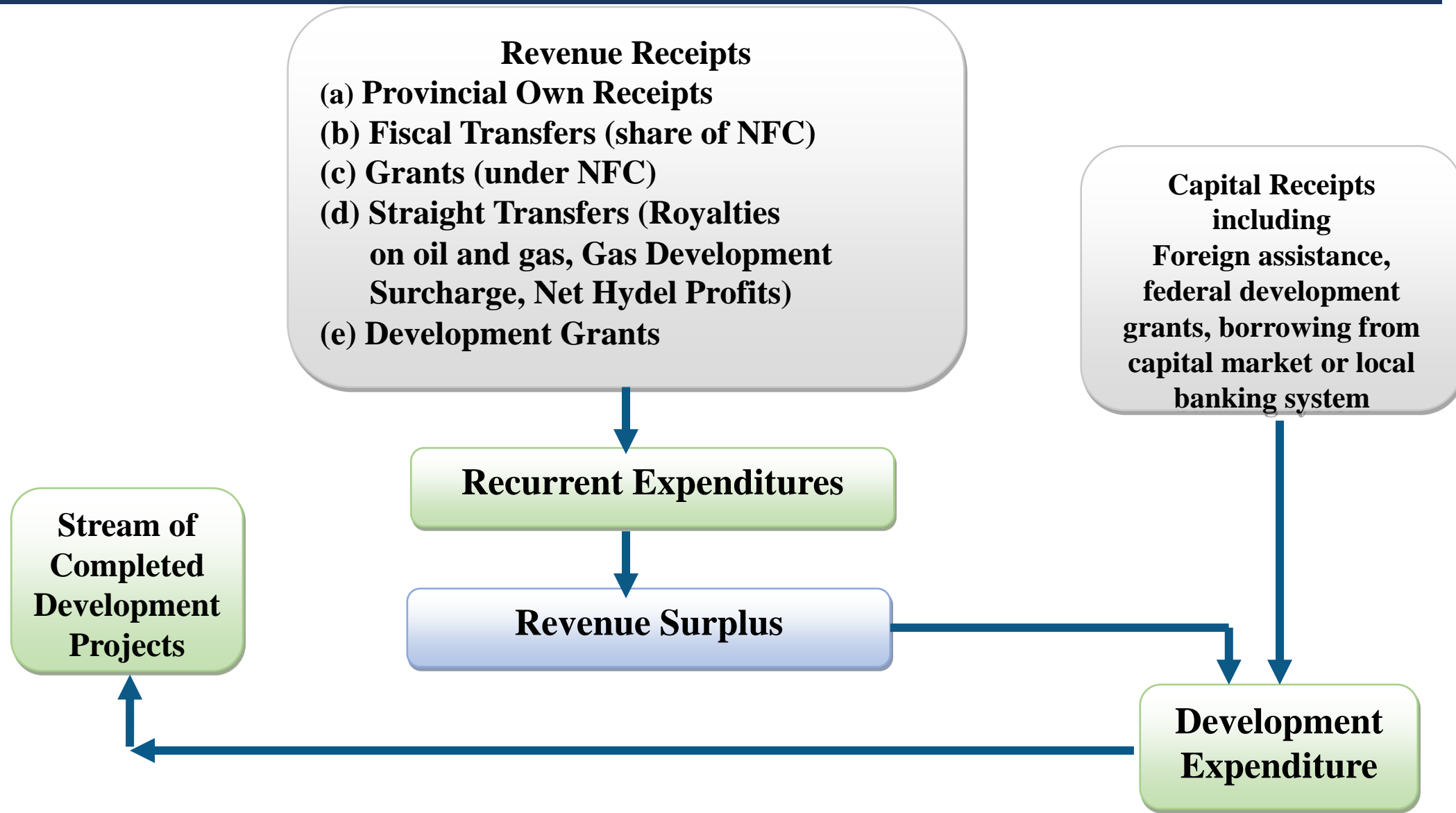
**Independent
Audit**

**Office of the Auditor General of Pakistan (AGP)
Annual Audit Report to the President of Pakistan/
Provincial Governors**

**Legislative
Oversight**

**Audit Reports to be laid before the National Assembly/
Provincial Assemblies
Public Accounts Committees (Parliament, Prov Assemblies)**

Provincial Budget Framework



Expenditure Budget and the basis of its allocation

Expenditure Budget and Basis for Allocation

- ▣ **Zero Based Budgeting**
- ▣ **Program Budgeting**
- ▣ **Commitment Budgeting**
- ▣ **Performance Based Budgeting**
- ▣ **Balanced Budgeting**
- ▣ **Earmarking System**

Expenditure Budget and Basis for Allocation

- ▣ Medium Term Budgetary/Development Framework
- ▣ Budget Manual/ Budget Call Circular
- ▣ Budget Strategy Paper----Cabinet (Fed, Punjab, Sindh, KPK)
- ▣ Medium Term National Debt Strategy
- ▣ Recurrent, Development Revenue, Development Capital
- ▣ Annual Ceilings
- ▣ Incremental
- ▣ SNEs

Prioritizing Expenditure and Re-Allocation within the Budget Grant

Prioritizing Expenditure and Re-Allocation within the Budget Grant

- ▣ Annual Budget Ceilings
- ▣ Ministries have the discretion to prioritize their expenditure, both recurrent and development, within the stipulated ceilings
- ▣ Development Budget is aligned with the Priorities determined in the Development Plan
- ▣ Re-Appropriation
- ▣ Technical Grant
- ▣ Supplementary Grant

Reforming Public Financial Management

IMF Guiding Principles for PFM

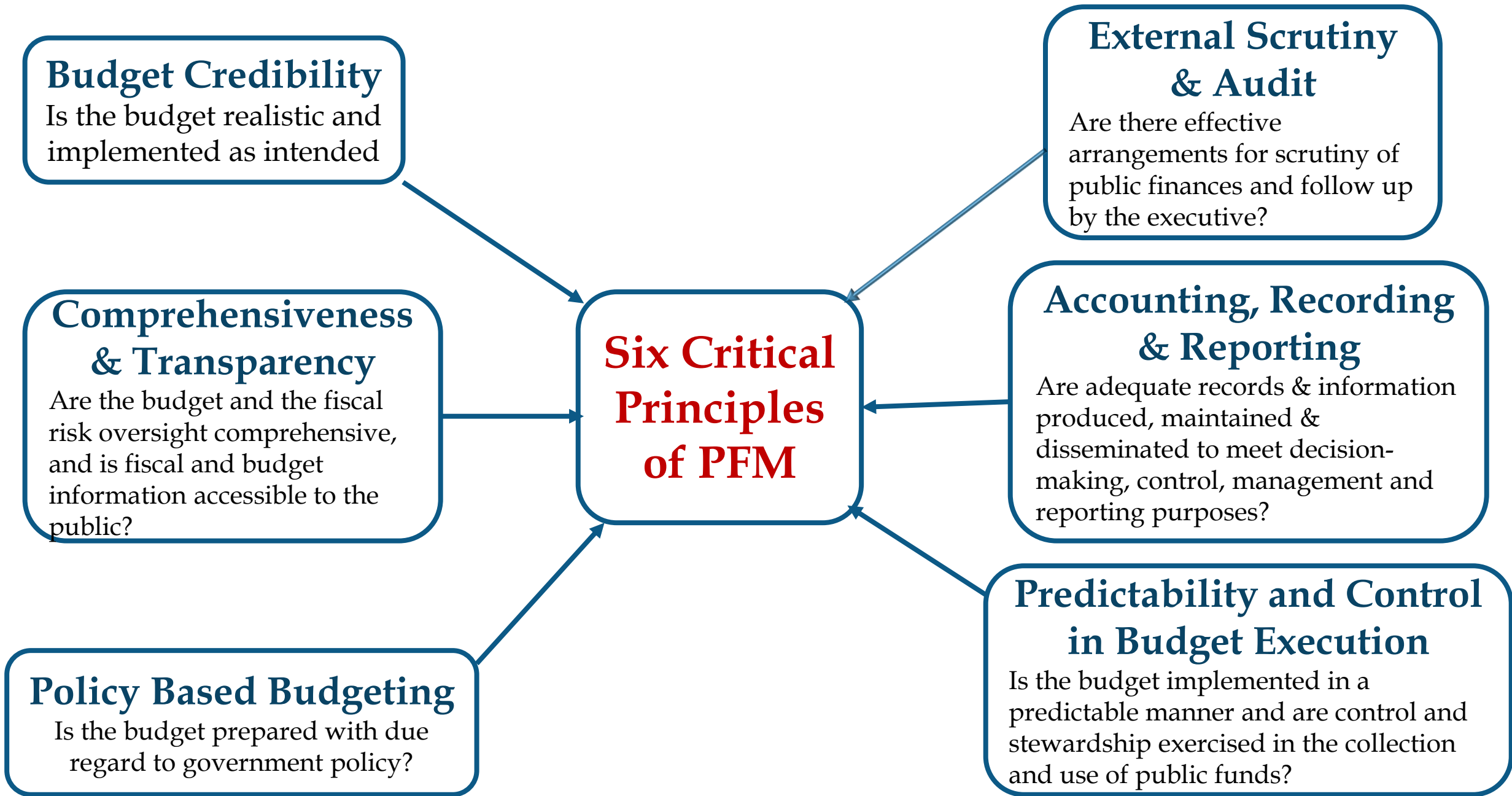
- ▣ Annual Basis-----Article 80, **120**
- ▣ Comprehensiveness-----Article 80, **120**
- ▣ Authoritativeness – -----Article 82, **122**
- ▣ Unity-----Article 80, 81, 82, 120, 121, 122
- ▣ Common Pooling of Revenues – Article 78, **115**
- ▣ Specificity-----Budget Books
- ▣ Balance-----FRDL Act 2005, Primary Balance, Fiscal Balance 3.5%
- ▣ Accountability-----Article 168-171, PACs, NAB, FIA, ACE

IMF Guiding Principles for PFM

- ▣ **Transparency** ————— PFM Act, 2019, and Fiscal Operations
Annual Fiscal Policy Statement
Annual Debt Policy Statement
- ▣ **Stability** ————— Yet to achieve
- ▣ **Performance** ————— MTBF, Not upto the Mark

Key Drivers for Change 1990s-2000s

- ❑ Public sector financial management reforms lagged behind those in the private sector
- ❑ Skills deficit and retention issues
- ❑ Losses and waste in the public sector
- ❑ The need to improve accountability and transparency over public spending for the general public and taxpayer
- ❑ Weak resource allocation
- ❑ Deficiencies in financial data and budget reporting
- ❑ Accounting and auditing systems were antiquated
- ❑ Need to comply with internationally accepted accounting practice
- ❑ Need to strengthen governance in a developing country
- ❑ Need to improve efficiencies and effectiveness in service delivery
- ❑ Weak legislative framework was weak



Challenges to PFM

- ▣ Strengthening the systems, processes and infrastructure for public financial management
- ▣ Developing skills that fulfil the basic job requirement
- ▣ Developing public sector accountants/auditors for the future
- ▣ Improving cooperation between national governments and local and international institutions, e.g. state audit institutions, accountancy bodies, INTOSAI (International Organization of Supreme Audit Institutions)
- ▣ Improving competences through support and development

Challenges to PFM

- ▣ **Credibility and Stability of the Budget, Uncertain Resource Flows**
- ▣ Weak internal controls
- ▣ **Lack of internal audit system**
- ▣ **Breach of FRDL Act**
- ▣ **Absence of FRDL and PFM Law at Provincial levels**
- ▣ Treasury Single Account, Assignment Account, Cash Management
- ▣ **Weak PACs at provincial level**
- ▣ Audit Paras
- ▣ Procedures and Processes delay project implementation

Reforming PFM in Pakistan – PFM Act/PIFRA I & II

- ▣ Budget Strategy Paper – Cabinet, Legislative Standing Committees
- ▣ Plan based expenditure – both Recurrent and Development
- ▣ Laying Statement of Tax Expenditure to the Parliament
- ▣ Medium Term Performance Budget in the Parliament
- ▣ Supplementary Grants to be approved by the ECC/Cabinet
- ▣ Multi-Year Commitment Control System
- ▣ Principles for Delegation of Financial Powers
- ▣ Financial Advisor system de-notified
- ▣ CFAO, Chief Internal Auditor

Reform PFM in Pakistan – PFM Act/PIFRA I & II

- ▣ Cash Management, TSA
- ▣ Regulation of Special Purpose Funds
- ▣ Only technically approved projects be included in PSDP
- ▣ Quality Assurance
- ▣ Enhanced budgetary provision for maintenance of assets
- ▣ Supplementary Grants to be approved by the ECC/Cabinet
- ▣ Mid-Year Budget Development Report to the National Assembly
- ▣ Year-end Government Performance Monitoring Report
- ▣ Detailed Chapter on PSEs
- ▣ Simplification of Procedures and Processes

Resource Generation – Three Tiers

Resource Generation (Federal)

Tax/Fee/Surcharge	Determination of		Tax Collection & Administration	Share of Revenue (%)		
	Base	Rate		Federal	Provincial	Local
Personal Income and Corporation Taxes (excl. on Agriculture income)	F	F	F*	42.5	57.5	0
Sales Taxes on Goods	F	F	F*	42.5	57.5	0
Custom Duties including export duties on cotton and Jute	F	F	F*	42.5	57.5	0
Excise Duties (excl. opium, liquors, narcotics)	F	F	F*	42.5	57.5	0
Excise Duties on Sugar and Tobacco	F	F	F*	42.5	57.5	0
Capital Value tax on non-immovable assets	F	F	P	100	0	0
Excise duty on natural gas	F	F	F	2	98	0
Royalty on natural gas	F	F	F	2	98	0
Gas Development Surcharge	F	F	F	0	100	0
Royalty on Crude Oil	F	F	F	2	98	0
Hydel Profit on hydro-electricity generated by the Federal Government	F	F	F	0	100	0
Surcharges on Mineral Oil and Electricity	F	F	F	100	0	0
Airport Tax	F	F	F	100	0	0

Resource Generation (Provincial)

Tax/Fee/Surcharge	Determination of		Tax Collection & Administration	Share of Revenue (%)		
	Base	Rate		Federal	Provincial	Local
Provincial						
Agriculture Income Tax ¹	P	P	P	0	100	0
GST (VAT) on Services	P	P	P	0	100	0
Property Tax ²	P	P, L	P, L	0	15	85
Tax on Property Transfers	P	P	P	0	15	85
Motor Vehicle Tax ³	P	P	P	0	100	0
Taxes on Professions, Callings and Trade ⁴	P, L	P, L	P, L	0	100	100
Betterment Tax	P	P	P	0	100	0
Taxes on Cinemas and Hotels	P	P, L	P, L**	0	100	100
Capital Gain Tax ⁵	P	P	P	0	100	0
Entertainment Tax	P	P, L	P, L**	0	100	100
Excise Duties on Opium, Liquor and Narcotics	P	P	P	0	100	0
Stamp Duties	P	P	P	0	100	0
Cotton Fee	P	P	P	0	100	0
Electricity Duty	P	P	P	0	100	0
Court Fee	P	P	P	0	100	0
Education Cess	P	P	P	0	100	0
Tolls on Provincial/District Roads and Bridges	P	P	P	0	100	100
Arms License Fee	P	P	P	0	100	100
Rates on Water Supply, Drainage, Lighting	P	P, L	P, L**	0	100	100
Zakat and Ushr ⁶	P	P	F	0	100	0

Resoruce Generation (Local + PFC)

Tax/Fee/Surcharge	Determination of		Tax Collection & Administration	Share of Revenue (%)		
	Base	Rate		Federal	Provincial	Local
Tax for Construction and maintenance of Public Utility	L	L	L	0	0	100
Taxes on Other than Motor Vehicles	L	L	L	0	0	100
Tax on Advertisements	L	L	L	0	0	100
Tax on Lands not subject to Local Rate	L	L	L	0	0	100
Tax on Hearths	L	L	L	0	0	100
Export Tax	P, L	L	L, N	0	0	100
Tax on Births, Marriages and Feasts	L	L	L	0	0	100
Market Fees	L	L	L	0	0	100
Fees at Fairs, Agriculture Shows	L	L	L	0	0	100
Fees for Specific Services	L	L	L	0	0	0
School Fees and Local Government hospital	L	L	L	0	0	100
Fees on sale of Cattle at Fairs	L	L	L	0	0	100
Conservance Rate	L	L	L	0	0	100
Fee for Erection of Buildings	L	L	L	0	0	100
Fee on Slaughtering of Animals	L	L	L	0	0	100
Surcharge on any Tax Levied by Prov Govt	L	L	L	0	0	100

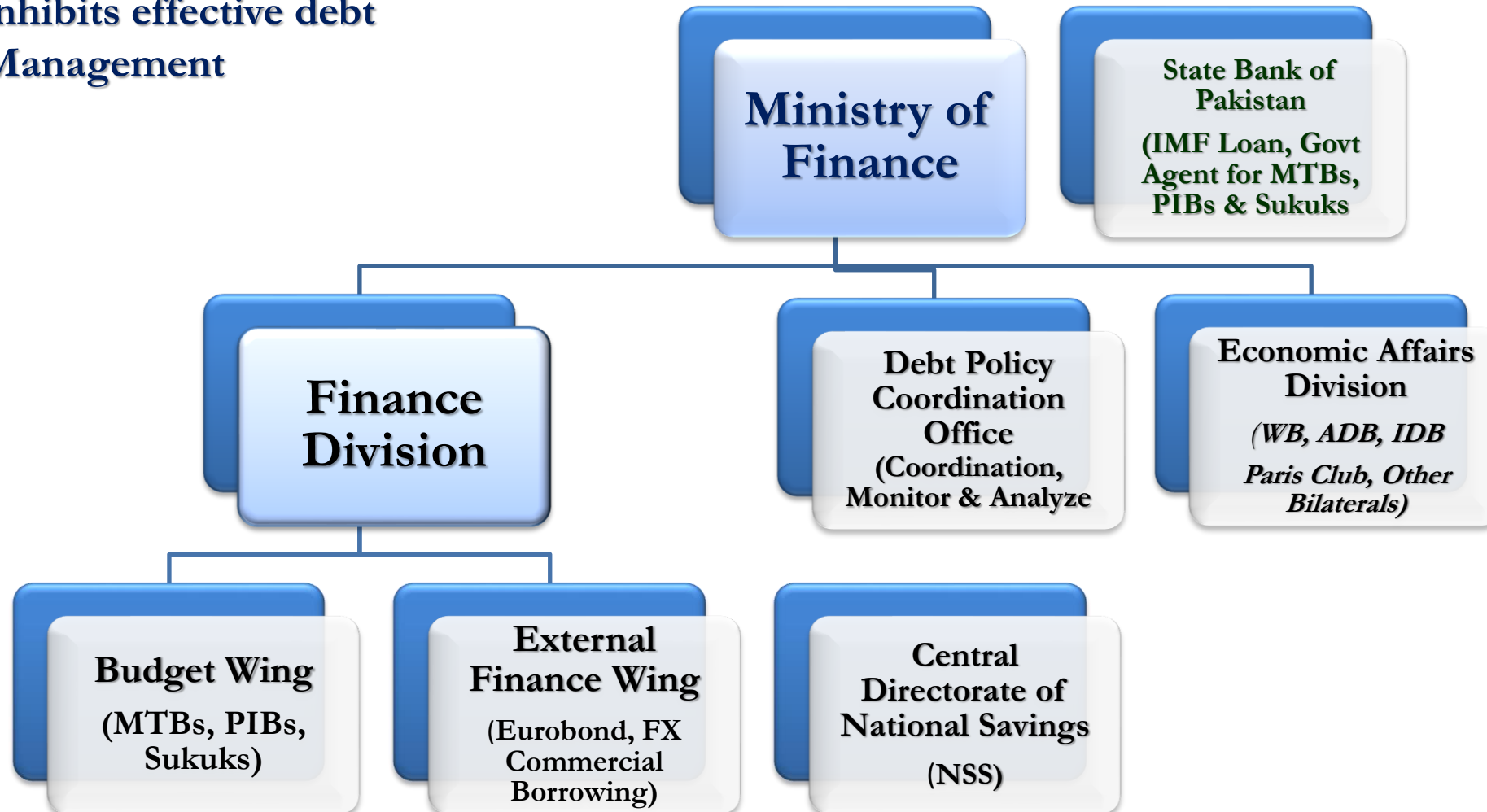
Public Debt Management

Public Debt Management – FRDL Act 2005/2017

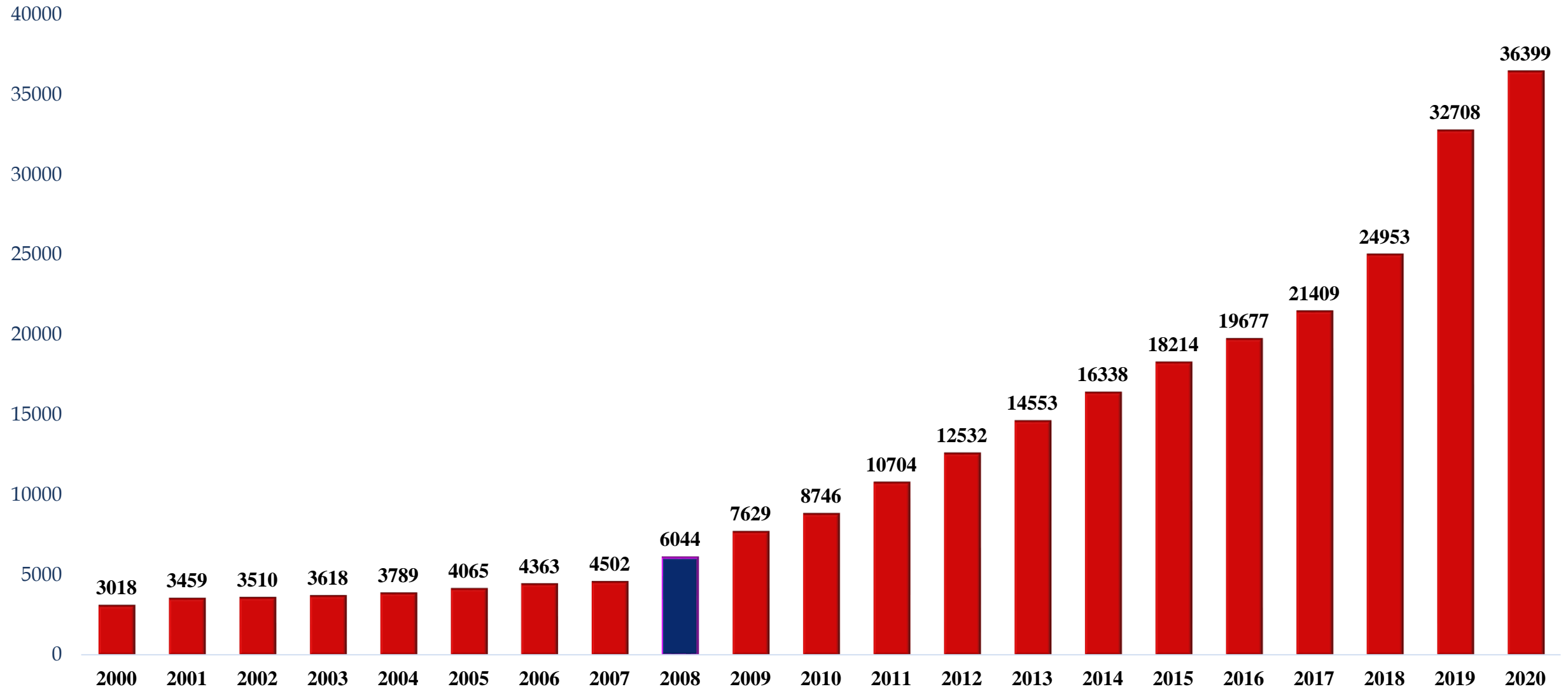
- ▣ Policy Objective: “the Federal Government shall take all appropriate measures to reduce the federal fiscal deficit excluding foreign grants and ration of total public debt to GDP and maintain it within prudent limits thereof.”
- ▣ Fiscal Deficit at 4% of GDP (FY2018-2020) and then 3.5% of GDP
- ▣ Reducing Public debt to 60% by FY2018 and then 50% from FY2024
- ▣ Restricting Sovereign Guarantees to 2.5% of GDP annually
- ▣ Annual Fiscal Policy Statement
- ▣ Annual Debt Policy Statement
- ▣ Debt Policy Coordination Office
- ▣ Absence of FRDL and PFM Law at Provincial level

Public Debt Management: Current Practice

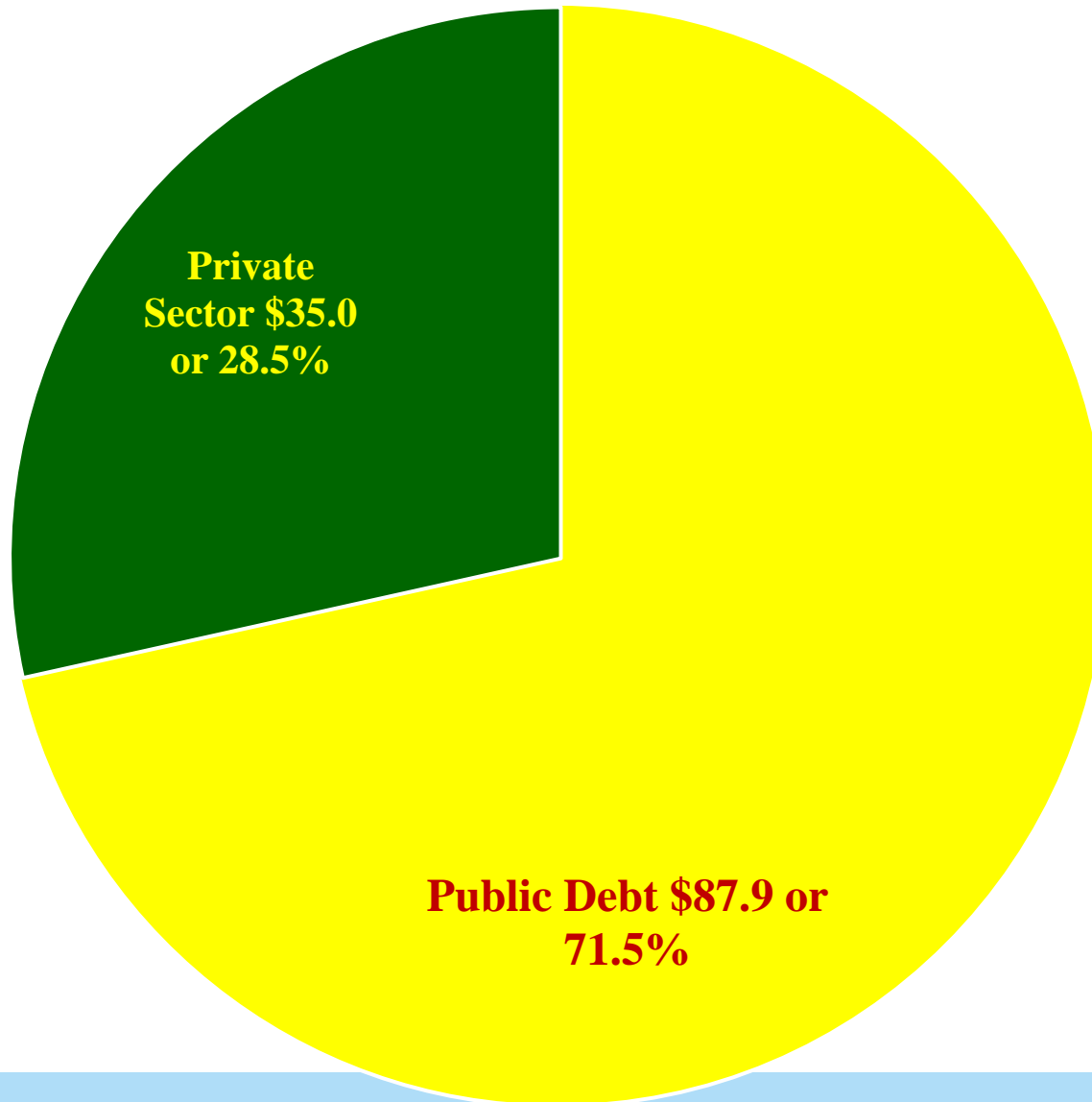
- Institutional fragmentations inhibits effective debt Management



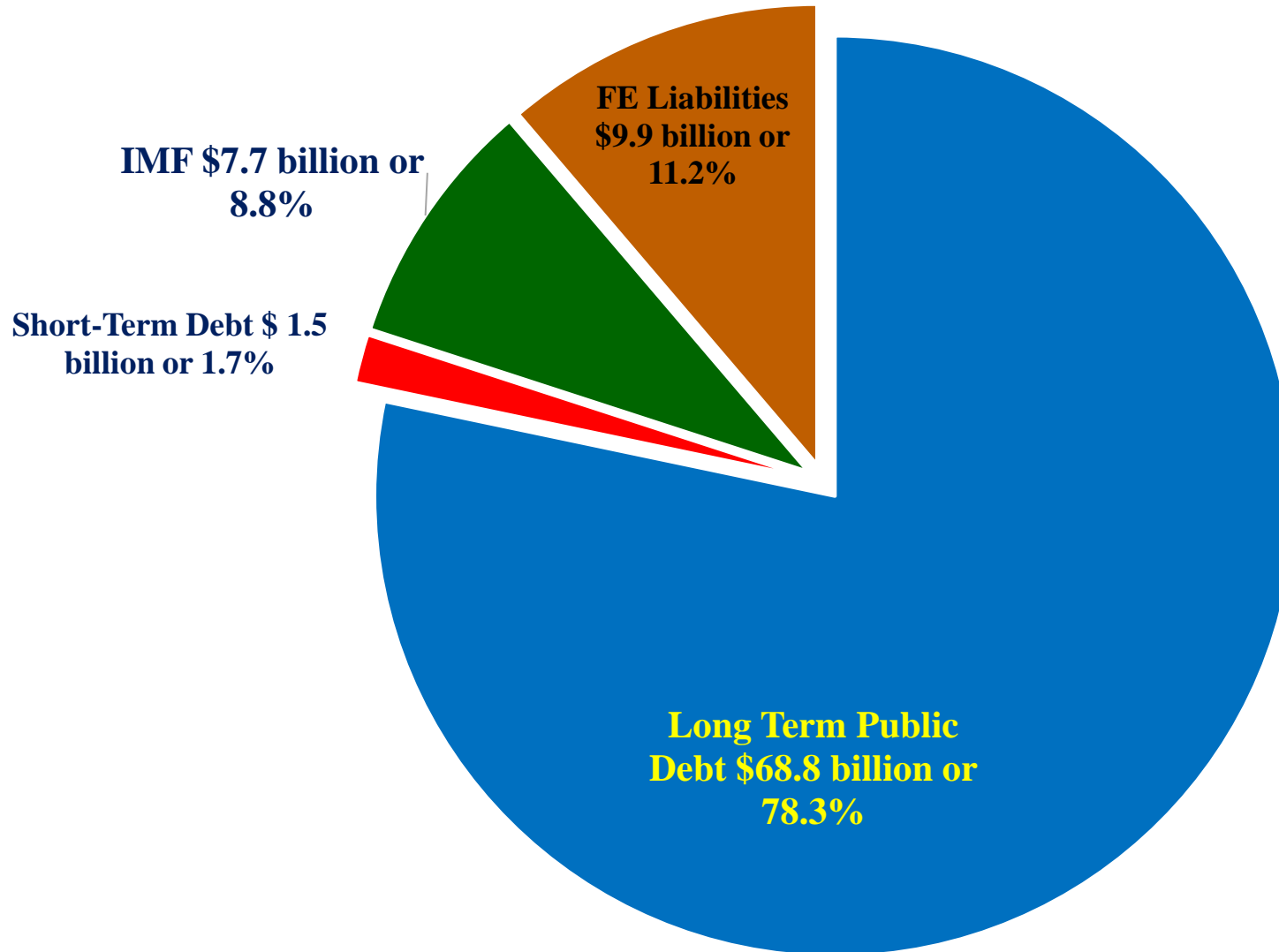
Public Debt Increased 6 times in last 12 years in Rupee Terms (Rs in Billion)



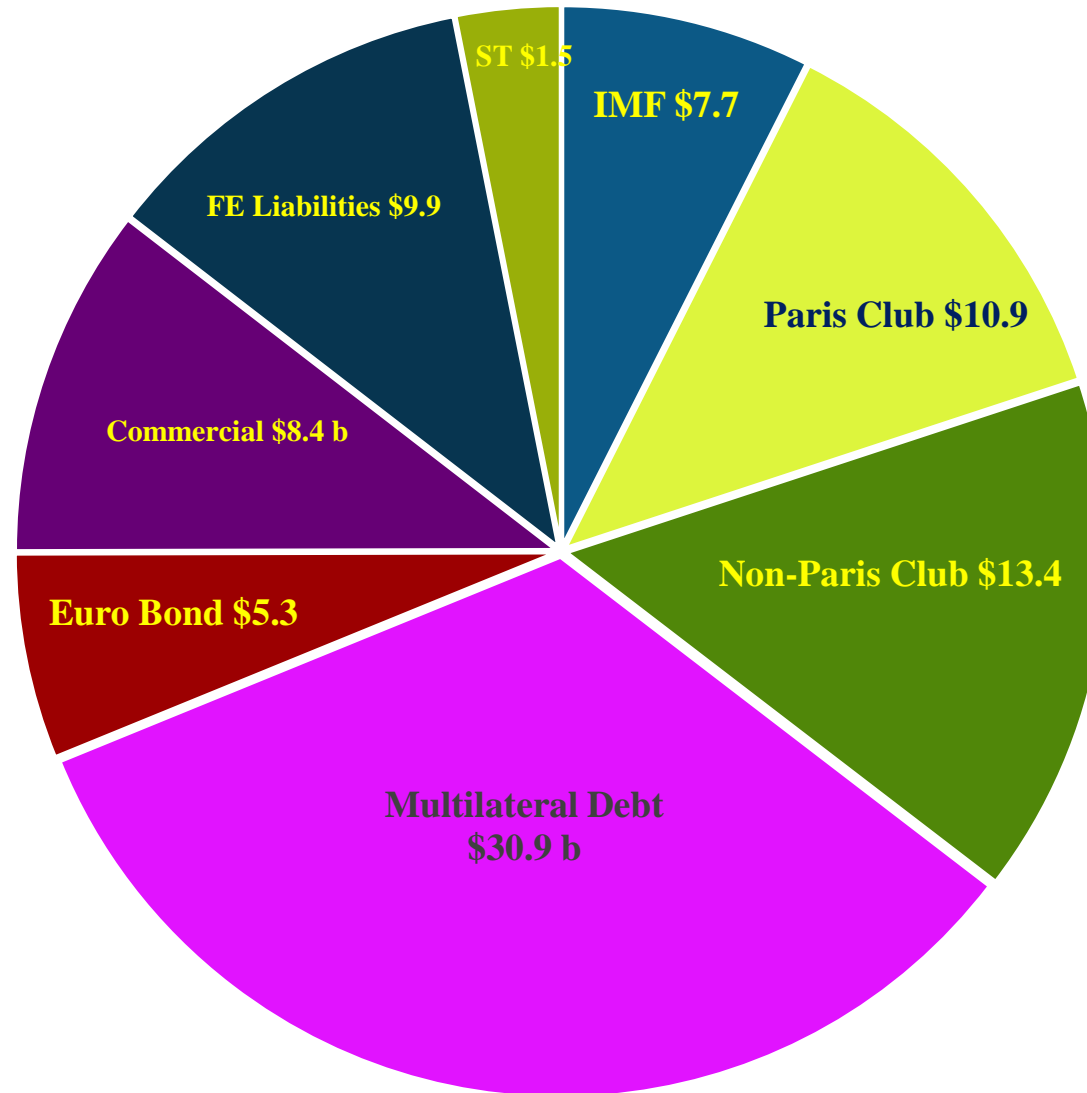
Break-Up of Outstanding External Debt As of End-June 2020--US\$ 112.9 billion (%)



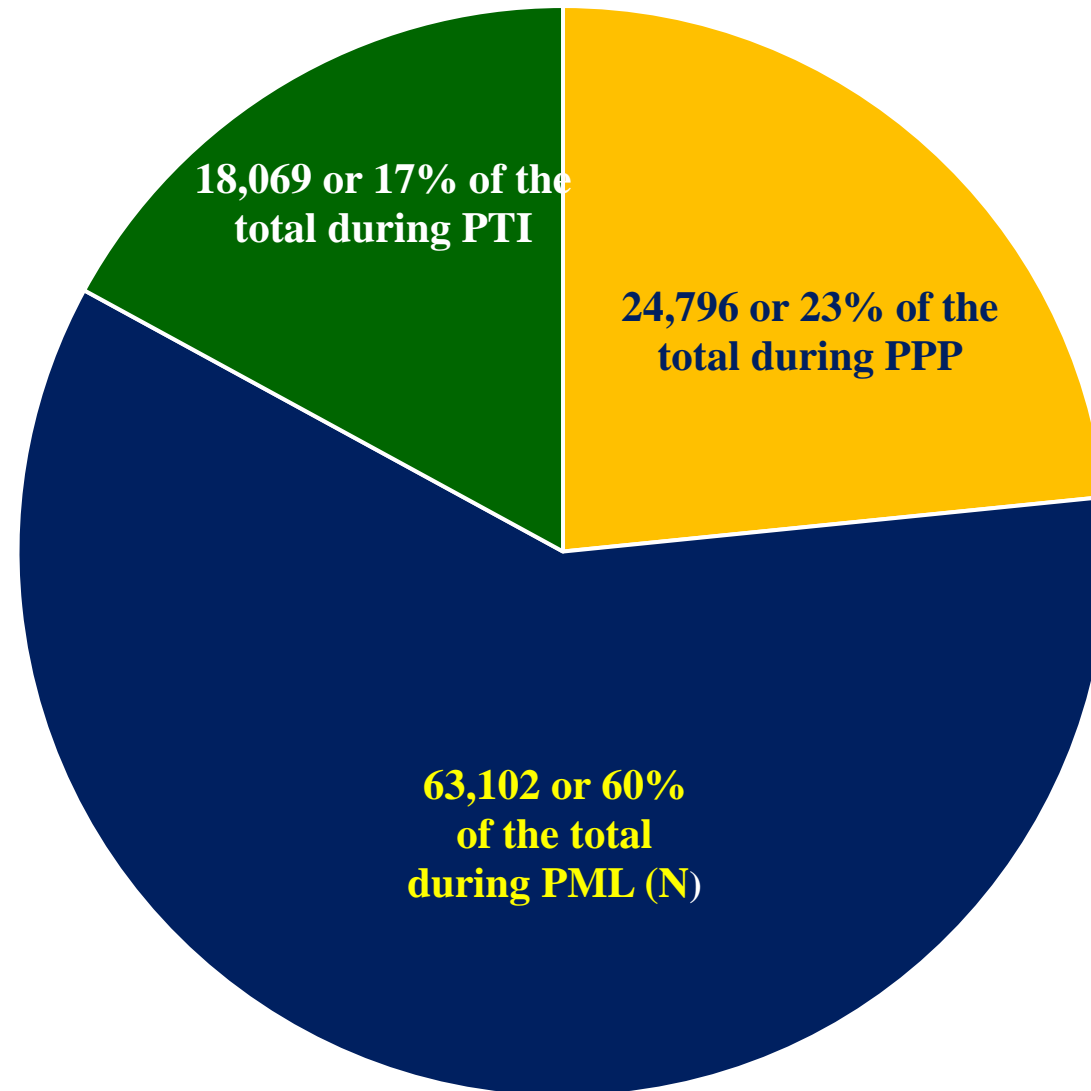
Break-Up of Outstanding External Public Debt As of End-June 2020-US\$ 112.9billion (%)



Break-Up of Outstanding External Public Debt As of End-June 2020--US\$ 87.9 billion



FEA Contract since 2009---US\$ 106 billion (%)

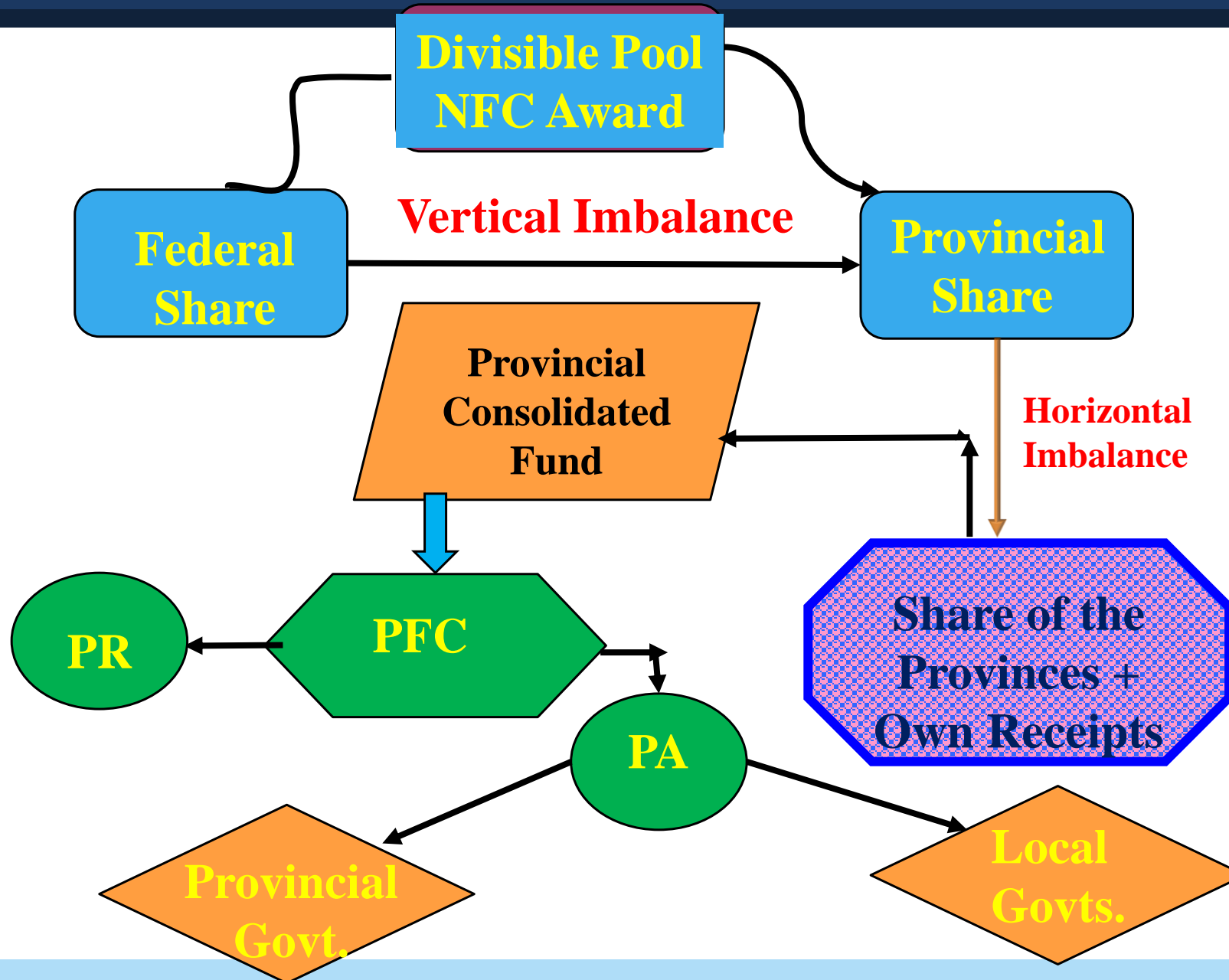


DEBT SERVICING (%)

Year	Debt Service/ Revenue	Interest Service/ Revenue	Debt Service/ GDP	External Debt Servicing US\$ M	External Debt Servicing as % of Exports	External Debt Servicing as % of Foreign Exchange Earnings	External Debt Servicing as % of GDP
2010	40.4	30.9	5.6	3,095	15.7	8.1	1.7
2011	41.0	31.0	4.7	2,687	10.6	5.6	1.3
2012	40.0	31.2	5.1	2,251	9.1	4.7	1.0
2013	40.5	33.3	5.4	2,612	20.6	12.9	1.1
2014	40.1	31.6	5.8	2,810	23.0	13.7	1.1
2015	40.4	33.2	5.8	3,211	18.0	10.2	1.2
2016	35.9	28.4	5.5	4,294	20.7	10.4	1.5
2017	38.3	27.3	5.9	6,437	29.6	15.7	2.1
2018	37.3	28.7	5.6	5,977	25.0	13.7	2.0
2019	47.1	34.2	5.4	9,478	38.3	20.8	3.2
2020	48.0	34.5	5.6	12,859	52.1	26.8	

National Finance Commission

Distribution of Divisible Pool



Revenue Sharing Formula

Year of Award	Federal: Provincial Ratio	Factors for Horizontal Distribution	Punjab %	Sindh %	NWFP KPK %	Balochistan %
Neiyamar Upto 1952	P: Sales Tax P:50% of Income Tax	Population				
Raisman 1952	ST: 50:50	Population	31	12.6	8.0	2.8
1961	30:70	46% to WP				
1964	35:65	46% to WP				
1970	20:80	Population	56.50	23.50	15.50	4.50
1974	20:80	Population	60.25	12.50	13.39	3.86
1979 (M)	Inconclusive	Interim Award	57.97	23.34	13.39	5.30
1985 (M)	Inconclusive	Interim Award				
1990	20:80	Population	57.88	23.28	13.54	5.30
		Special Grants				

Revenue Sharing Formula

Year of Award	Federal: Provincial Ratio	Factors for Horizontal Distribution	Punjab %	Sindh %	NWFP KPK %	Balochistan %
1995	Inconclusive	Interim Award				
1996	62.5 : 37.5	Population	57.88	23.28	13.54	5.30
		Matching Grants-Special Grants	500	500	100 3130	100 4080
2000 (M)	Inconclusive	Interim Award				
2006 (M)	55:45	Interim Award	57.36	23.71	13.82	5.11
		Special Grants	3050	5830	9710	9160
2010	42.5 : 57:5	Population: 82 Poverty : 10.3 Fiscal Effort: 5 Area: 2.7	51.74	24.55	14.62	9.09
2015/2020	Inconclusive	Interim Award				

Logjam in NFC

- **Composition of NFC**
- **Perpetual Federal Fiscal Deficit since 2010 and rising debt**
- **No further fiscal space to share with the provinces**
- **Demand for 4% [FATA, GB, and AJK] and 3% [Security purposes]**
- **Provinces are hedging against any federal attempt to reduce their share**
- **Protecting Vertical and horizontal Resource Distribution Criteria under the Constitution**
- **Federal PSDP continue including provincial projects creating distortions**
- **Aligning provincial expenditure to national priorities**

Thank You

Budget Manual

- ▣ Formed a committee that drafted a Budget Manual
- ▣ The Manual was finalized in Dec 2019 and notified on FD website and forwarded to all stakeholders
- ▣ It provides processes, calendar, roles and responsibilities and templates for forms, reports, etc.
- ▣ Based on the requirements in the Budget Manual – ‘Budget Call Circular 2020-21’ has been issued to all PAOs

Budget Strategy Paper

Budget Strategy Paper

- To be approved by Cabinet by 15th March and uploaded on FD website – Section 3
- Will contain medium-term macro-fiscal framework, budget revenue and expenditure policy priorities, fiscal space analysis, fiscal risks, and indicative budget ceilings to be forward to all PAOs
- Work is in progress to prepare the strategy paper

Treasury Single Account

- ❑ Cash Mgt & TSA Policy 2019-29 (Cabinet approved in May 2019)
- ❑ Draft Cash Mgt and TSA Rules, 2019 – prepared and circulated for comments to SBP, CGA, FD, NBP, etc.
- ❑ TSA Implementation Team: Chair: AFSB. Members: Budget Wing, Military Finance, SBP, DPCO, NBP, CGA and AGP
- ❑ Team requested data on all govt bank accounts and balances till 30th Sept from SBP, which carried out a survey with scheduled banks
- ❑ Data: 56,458 accounts amounting to deposits of Rs.1.17 trillion
- ❑ IMF Fiscal Affairs Dept provided TA (report available) on TSA implementation

Cash Forecasting

- Objective: Improve availability of cash, manage cash buffer with SBP (Federal Consolidated Fund), and revamp funds release and ways and means
- First step: Ways and means clearance done away with for Q1-Q3 for development projects
- Second step: Two groups formed:
 - **Cash management working group:** Chair: Joint Secretary – Budget. Members: SBP, CDNS, FBR, CDNS, CGA, EAD, EF and Exp Wings
 - **Cash coordination committee:** Chair: FS. Member: FD (different wings), SBP, and FBR (overseeing the working group)

Macro-Fiscal Unit

- ▣ Deliberations are underway on formation of a macro-fiscal unit (also referred as 'Fiscal Policy Unit') in FD
- ▣ Role options can include: Formulation of Revenue policy, Macro-Fiscal Forecasting, Medium-Term Budgetary Framework (MTBF), formulation of Budget Strategy Paper and ceilings, etc.
- ▣ The unit can either be housed within existing Wings of FD or a separate wing can be established
- ▣ Budget Wing has advertised 6 posts (MP-I) scale. Macroeconomists, Financial Mgt Experts, Treasurer, Actuary, etc.

IFMIS

- Proposal of conversion of CGA MIS into a 'company' - being reviewed and finalized
- Regular meetings being held to improve data gathering (from various organizations) and reporting through SAP system
- Studies conducted for IFMIS connectivity with Pak PWD, PPOD, Pakistan Railways, and CDNS
- Discussions on 'moving to accruals' and preparation of roadmap underway in CGA