

**A CRITICAL EVALUATION OF THE BUDGETARY PROCESS
FOR PUBLIC EXPENDITURE IN PAKISTAN**

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ABSTRACT

To agree with Pakistan's significant fiscal deficit over the last four decades, budgetary measures have focused on a hard constraint on the total increase in spending and reform of both current and development spending profiles. People from all walks of life have understood the necessity of good state spending administration in the face of harsh budgetary adjustments since the 1970s, when the Pakistani economy was hit by a series of market volatility. Our findings show that in 2013-14, the current expenditure of the provincial governments has grown faster than their federal counterparts. The collection of national income data and the expenditure data from which poverty and income distribution are estimated should be given to the Planning Commission. Recommendations of the planning process is a national development plan that presents political statements, economic reviews, development programs, etc., made by planners.

INTRODUCTION

The high deficits in the 1970s resulted mainly from the increase in oil prices in Saudi Arabia and the Gulf states. The increase in oil prices has increased the trade imbalance, leading to the depreciation of the rupee. This has been a major factor in increasing the debt repayments on domestic debts. The main areas of infrastructural development, as well as the predictors of good transformation programs, have seen an increase in supply. Efficient state spending planning exerts a lot of pressure on government organizations already in existence. The composition of a suitable economic system, the reasonable choice of investments, the proper management of public industry investing, and suitable connections among organizing and budgeting procedures are all as essential, if not more so, than a narrow focus on expenditure budgeting (Hussain, 1979). In Pakistan, the traditional practice is based on "bottom-up" requests from different authorities. Factors relating to the negative implications of budget deficit in terms of macroeconomic uncertainty have encouraged the government to limit overall spending. We offer data on selected components of Pakistan's yearly budget preparation cycle. In Pakistan, governmental expenditures for defense, development, and non-development are handled differently and are subject to distinct standards. The analysis for each type of spending is detailed, as is the interaction between the traditional "bottom-up" and "top-down" techniques.

2. FORMULATION OF THE EXPENDITURE BUDGET IN PAKISTAN

The delicate balance is reconciling the government's overall strict financial limitations on total expenditure with conflicting demands from various groups for various reasons. This part looks at some of the most interesting features of this stage of budgeting in light of contemporary budgetary practices. Government budget procedures differ fundamentally between current (non-development) and development expenditure, as well as expenses for defense and civilian reasons. Different types of expenditures (current or development) and various kinds of spending purposes (public or defense) have the same operational and physical categorization. Because of this fundamental distinction, we will address the budgeting methods for ongoing and research expenditures for domestic purposes and current and development expenditures for defense purposes individually. The difference between current and development expenditure is made based on how the spending affects the economy's productive capability. Because budgeting for development purposes is the responsibility of the Planning Commission and budgeting for current expenditure is the primary responsibility of the Ministry of Financial Services, the concept of development expenditure is useful in separating expenses into the two groups of innovation or impact on the economy for future expenses.

2.1 Development of Public Expenditures

The Ministry of Finance examines and approves annual budgets for various items of the spending provided by other ministries. Estimates of expenditures are divided into two sections. Average spending is included in Part I, which is further split into Section A and Section B. Expenses for Section A items consist of fixed costs that may change from year to year but are not subject to the discretion of the team leader. The entire facility, travel expenses, and contingency spending are all included in this area. The cost of such products does not change significantly during years and must be budgeted for regularly. The expenses in Section B of the spending predictions are subject to significant variations over years. Part II of current expenditures comprises new items of spending that were not previously included in the budget grant approved. The Ministry of Finance's Budget Wing performs a central role in the growth of the annual budget. Every year in October, this Branch publishes a series of Expenditure Call Circulars. The demand letter is sent out at least eight months before the fiscal year for which estimates are being requested. It also demands ministries to report any anticipated reductions from the approved budget allocation. Part I of the budgeting process for the following fiscal year must be completed on paper forms provided by the Auditor Terms in whose circle of account the expenditures are recorded. Several sections of these documents, which are particularly suited for use on a computer, show 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 maintains accounts for all ministries.
- iii. Expenditure projections for the current financial year.
- iv. Estimates for the current year have been updated.
- v. Budget projections for the coming year.

The Financial Planners provide Part II predictions to the appropriate ministries for production of New Item Statements once they have been scrutinized and approved along

the lines outlined above. Annual budgets are aggregated in AGPR accounting offices as well as the Ministry of Finance's Budget Wing. They're then double-checked for uniformity and correctness. The current expenditure budget is then printed and submitted to the National Assembly in the form of a funding supply. Four characteristics of the budgetary process need to be highlighted. First, the budgeting process has been decentralized and streamlined with the establishment of the Financial Advisors organization. Second, computerization of the budgetary process since 1983 has facilitated the preparation of budgetary documents. Third, current account expenditure is approved by and large based on past levels of sanctioned and utilized expenditure. Last but not the least, officials connected with budget preparation in the spending agencies tend to inflate the expenditure estimates as a hedge against unscientific pruning of the budget requests by the Financial Advisors and/or the across-the-board cuts frequently applied by the Ministry of Finance.

2.2 Developing the Capital Budget and Annual Development Programme

The Annual Development Programme (ADP) in Pakistan deals with development or capital expenses. Only projects that are incorporated into the Annual Development Programme (ADP) get the funds required for their implementation. At the central and state levels, the Annual Development Programme and the Development Budget have the same context because they both interact with budgetary allocations for each development by sectors and executing agencies that fall within the scope of public sector development projects financed from budgetary resources. The complete procedure's principles are given below.

(a) *Budget and Management and Design Department Circular Letters*

The Financial Department concerns a Workplace Joint statement in October every year laying down the "procedure for submission of Revised Estimates for the outgoing year". The O.M. contains extensive instructions for providing statistical information in many divisions. It also calls for information under various heads. The Programme Section of the Management and Design Department issues a circular letter in October each year regarding the Public Sector Development Programme. The directive requests details of the ADP funded by funding and consumer credit, international borrowings, and internal resources. The timetable for the various steps necessary for the preparation and submission of statistical information is also shown. The circular includes a specimen of the preforms relating to the public sector development program to be completed. The circular letters sent by the Budget and Management and Design Department are intended to satisfy the needs of these two agencies in gathering data for use in the construction plan and development programme, respectively.

(b) *Management and Design Department and Finance Division budget prediction*

In parallel to the process of planning the expenditure budgets, the Management and Design Department and the Finance Division, in consultation with the Provincial Finance Departments, prepare estimates of resources for the coming fiscal year.

The Ministry of Finance's Budget Department releases a circular letter outlining the procedure for submitting updated estimates for the current fiscal year and budget projections for the following fiscal year in respect of federal government receipts

under various headings of receipts. These estimates are scrutinized by the Financial Advisers attached with different Ministries. The Fiscal Department is expected to provide the Ministry of Finance with estimates of foreign aid receipts for the present and next years, as well as real numbers for the previous three years. Estimates for external debt and credits must be accompanied with specifics of projects and aims, and they must be presented individually for each kind of receiving agency (government, regional, or local). There are two phases to funding expenditures that are expected to be incurred within a fiscal year. Estimates are made for both internal and external resources that are anticipated to become available in the next year. It is also determined how much money may be collected through extra taxing methods. The safe limit for deficit financing is calculated by taking into account the country's overall monetary position as well as any agreements the government may have with the IMF and other donor organizations. The estimates of resources provided by the estimating authority are scrutinized at an inter-ministerial conference. Until the funding is released, the amount of the development program is unknown. The Programming Section conducts many internal exercises to create alternative sectoral allocation mixtures.

(c) Sectoral Distributions Analysis

In light of resource availability, the broad policy guidelines incorporated in the circular letter, and sectoral priorities enunciated in the currently operative Five-Year Plan, the Planning and Development Division's Programming Section, in consultation with the Technical Sections concerned, works out the tentative sectoral allocations in consultation with the Technical Sections concerned. Management and Design Departments serve in a similar capacity to the Planning Commission at the federal level. Sectoral allocations are broken down and sent to federal ministries/divisions, as well as provincial planning and development and finance departments. These departments are in charge of initiating and coordinating the development plan at the regional governments. 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 scrutinized 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 preform which is specially designed for the Inter-Ministerial Priorities Committee. 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 program. The Inter-Ministerial Objectives Panel, which is led by the Additional Secretary (Budget) and attended by all involved agencies, including key stakeholders, resolves the disparity between funding needs imposed on them. The current order of priority is as follows:

- i. On-going projects receive the priority;
- ii. newly approved projects get the second priority;
- iii. foreign aided projects, even if unapproved, get the next highest priority.

Because the focus is on completing ongoing projects, up to 80% of the development budget may have already been committed. Even if they have been approved, small local initiatives, particularly in the social sector, maybe starved of money and remain unimplemented. The Planning Division is primarily in charge of developing and approving Annual Development Programs. The Ministry of Finance incorporates projects selected for funding in the ADP into the Annual Development Budget. Financial Advisers, who are Finance Ministry officials, are involved in the first approval of development projects. During each fiscal year, the Financial Advisers are actively involved in the approval of development projects for finance. They attend the meetings of the Priority Committee to ensure that financial considerations are taken into account before the Priority Committee makes a decision.

2.3 Defense Budget

Well in advance of the financial year, on the dates and in the forms prescribed, the Services Headquarters for different defense forces submit budget estimates to the Secretary, Ministry of Defense. These estimates are submitted within the framework of a long-term Defense Plan. Each annual budget fits into and contributes to the objectives of the long-term Defense Plan. 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 proper scrutiny by the Financial Advisers attached with Defense Division. However, these estimates are considerably aggregated before their presentation to the legislature. The format of the Demand for Grants prepared by officials of the Defense Division is similar to the format adopted in the case of other Ministries for both current and development expenditure. The defense expenditure is also classified according to functions and objects for which expenditure is incurred. The classification scheme prescribed by the Auditor-General applies to all expenditures including expenditures incurred by the Ministry of Defense. Given the tense situation with India, instability in Afghanistan, and the war on terror, it is safe to expect that defense expenditure in Pakistan would show an increase. As a percentage of total expenditure as well as the percentage of GDP, defense expenditure would show an increase.

Finally, it should be noted that the incremental approach to budgeting for current spending is also the norm for the vast majority of development expenditure. The process of connecting general budgetary limitations to departmental budgets is still in its early stages of development. Inter-departmental meetings are used to resolve disputes between top-down financial goals and bottom-up demands. Decisions made in meetings are more a consequence of the members' negotiating strength and negotiation abilities.

3. THE FEDERAL PUBLIC SECTOR DEVELOPMENT PROGRAM (PSDP)

The federal Public Sector Development Programme (PSDP) released Rs.321 billion in 2013-14. The PSDP has been reduced by about 40% in the last year. The government's PSDP's 2014-15 goal has now been set at Rs525 billion. In the same period, the quantity and price of initiatives included in the range of investments to be supported through the

PSDP have increased dramatically. Despite the PSDP's size of Rs660 billion (including corporate self-financing), it will take approximately 12 years on average to finish the work.

Due to the addition of the Bunji Hydro Power Project, the Wapda (power sector) has seen the largest expansion of Rs1,595 billion. New projects have already taken up 31% of the PSDP money. This detour may cause ongoing work to be delayed. The Planning Commission has acquiesced to the significant sprinkling of development resources. The portfolio's size of Rs7,758 billion is far too big in comparison to available resources, which may even be reduced over the year if historical performance is any indication. The Planning Commission has listed a considerable number of initiatives with an 'uncertified status' in PSDP 2014-15. This is a flagrant breach of the proposal evaluation and approval process. The new projects will very certainly be ceremonially approved ex-post. Moreover, it is unclear how the huge portfolios of initiatives' funding will be managed. International assistance contributed Rs102 billion in 2014-15, accounting for 19% of the PSDP budget (excluding self-financing). This will include funding for CPEC projects, nuclear power projects in Chashma, and a huge number of coal-fired power plants. All of these initiatives were included in the PSDP without going through the traditional 'financial closure' process. In 2015-16 and 2016-17, the Medium Term Budgetary Statement leaves little 'fiscal headroom' for further funding of the broader portfolio of projects. The PSDP will have to be increased from its current level of 1.8 percent of GDP (excluding self-financing) to over 3%.

Ultimately, the 2014-15 federal PSDP indicates a hasty and haphazard inclusion of many big, future initiatives. This was accomplished without proper project planning, permission, or finance. The Ministry of Management and Designing must make it a priority and demand that the proper procedures for evaluation and approval be followed. It must also oppose significant reductions in PSDP releases throughout the fiscal year. It must also guarantee that the execution capability is widely enhanced to match the expected increase in making investments in the coming years.

3.1 Provincial Finances

There are some commonly held perceptions about Provincial governments in Pakistan. First, the joint operations of the four provinces are insignificant in comparison to those of the federal government. Second, that after the generous 7th NFC Award, the Provinces are characterized by the slack fiscal effort, big increases in current expenditure, due to expansion in employment and large pay increases, and choice of exotic projects which do not meet the basic needs of the people. An attempt is made to quantify the size of Provincial governments. On the revenue side, these governments are indeed very small and generate only 7% of the national tax and non-tax revenues. But in terms of expenditure, they are not so small. They account for 42% of the total public service-related (including defense) expenses in the country. The aggregate ADP of the four provincial governments in 2013-14 was Rs 479 billion, compared to Rs 425 billion for the federal government. The 7th NFC Award and the 18th Amendment have aided the development of the size and influence of provincial administrations. Provincial tax collections grew by as much as 29 percent in 2013-14, albeit from a low base. The sales tax on services, which was handed to provincial governments in the 18th Amendment, accounts for over 60% of the rise. The equivalent growth rate for federal taxes in 2013-14 is far lower, at 16 percent.

It's worth noting that the provincial tax-to-GDP ratio has risen from 0.4 percent in 2009-10 (the year before the 7th NFC Award) to over 0.8 percent in 2013-14. In the same period, the federal tax-to-GDP ratio has decreased by 0.2 percent of GDP. As a result, the impression that provinces slashed their budgetary efforts following the 7th NFC Award is incorrect. The Federal government bears the brunt of the inability to raise the national tax-to-GDP ratio.

Provincial governments' current spending grew faster than the federal government's in 2013-14. Khyber Pakhtunkhwa has the greatest growth rate, at 14 percent, followed by Sindh at 8%, Punjab at 6%, and Balochistan at 0%. Many people's opinions about Pakistan's provincial administrations appear to be inaccurate. They are now devoting substantial financial resources to controlling their budgets and avoiding big deficits. These erroneous notions must be dispelled before the 8th NFC Award is discussed, argues Saqib Nasir.

4. THE EXPENSE PLANNING SYSTEM HAS BEEN EVALUATED

We have seen in the previous section that Pakistan has evolved a method in its entirety of public expenditure economics. The existence of the elaborate system notwithstanding fiscal imbalances have worsened over time to an extent that Pakistan had to agree to a stabilization-cum-adjustment program 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 expenses, current expenses, and development expenditure for the period 1981-82 to 1989-90 for the federal government. The difference among budget expenses, both estimated and real represents discrepancies among Aspirations and actions. 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 accounts and under-spending 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 originally 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 coordination, and poor project preparation. Except for 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 program.

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

Years	Total Expenditure			Current Expenditure			Development Expenditure		
	Budget Estimates	Revised Estimates	Actual Estimates	Budget Estimates	Revised Estimates	Actual Estimates	Budget Estimates	Revised Estimates	Actual 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	

5. CONCLUSIONS

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-empt resources away from new development initiatives which may have a higher pay-off. The existing budgetary practice with its emphasis on actual past expenditure rewards agencies based on their absorptive capacity. The budgetary proposals need to be analyzed from the perspective of a program review and informed management practices. The budget agencies should examine the budget requests in terms of demands for extensions and/or reduction in services. 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.

There is a need to consider the issue of the introduction of performance budgeting in Pakistan. A suitable budgetary classification that measures the performance of 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. They wanted to know whether these projects have gone through feasibility studies and a proper evaluation by the Planning

Commission. There is also a need to curtail too much growth in current expenditure. This is notwithstanding the tension with India, Afghanistan, and the war on terror. The increase in defense expenditure always but especially in the last 10 years or so has been too high. This increase has limited the increase in development expenditure. The increase in the share of provincial and local governments has also been a welcome step. Currently, 52 percent of development expenditure is being spent by provincial governments. This has been possible by the change in Constitution which gives a larger share to provincial governments.

6. SUMMARY, MAIN CONCLUSIONS, AND POLICY RECOMMENDATIONS

In summary, main conclusions and policy recommendations have been presented at the end of each section, we can be brief in this section. The measure of economic growth was argued to assess the economic growth of Gross National Income and Gross Domestic Product. The comparison between countries about different measures of growth required that each country's income and domestic output be converted by multiplying each country's quantity of goods and services with prices prevailing in a particular country like the USA. The optimal exchange rate should be used to compare Pakistan's GDP with the USA. The nominal income estimates by the Statistics Division should be divided by population measured by the Census of Population after its adjustment for any measurement errors that the Census of Population may have. The calculation of income over time in any country needs deflating nominal income with a price index for which base years' prices are used. Different countries' GDP or GNI needs to be adjusted by purchasing power parity of say USA prices. Human development index that is used to adjust the GNI index measures the broader aspects of development. It should be noted that the use of purchasing power parity to compare levels of national income per capita in Pakistan with the USA's per capita income would show a smaller gap between the levels of development in the USA and Pakistan than the level of income differences measured at prevailing market prices for USA and Pakistan. National income includes worker's remittances. Since in Pakistan remittances have been large, the gross national income of Pakistan is larger than its gross domestic product.

6.1 Non-Use of Formal Economic Models in Pakistan

The economic models that Depending on the availability of data and professional staff who understand the working of different models, a country decides on which of the models it can use in its planning exercise. The Harrod-Domar Model is used by almost all countries who plan. This model is used to trace the relationship between growth and capital requirements. The input-output table displays the flow of output from one industry to another. Pakistan has not been able to use this type of model due to the lack of available data or outdated computers. The lack of trained staff in the Planning Division is another factor that explains the non-use of input-output models of planning by the Pakistani Planning Commission. Linear Programming is a technique that helps to achieve goals of income increase to the maximum extent possible keeping in view the resource availability. This has never been the case for Planning Commission. Available input-output tables are with different research institutes. The project appraisal consists of comparing the benefits and costs of different projects. The costs and benefits of a project are discounted to their

present value. If this value is zero or positive, the project gives positive returns and should be considered for implementation and inclusion in the plan. In Pakistan, the project appraisal is done in which Planning Commission plays a central role. CGEs are data-intensive and are constructed from national accounts and survey data. There is a serious problem with the use of this model in Pakistan as shadow prices estimated are not correct. These countries benefitted from planning as they had transformed their economies. East Asian countries' success in planning has also been instrumental in the use of development planning in Pakistan. The analysis of the planning process in countries like South Korea, Taiwan, Malaysia, and India was used. The aggregate model is used in all countries. The sectoral division of output increase in different sectors requires an input-output index which often is not available in developing countries.

6.2 Political Economy in Development Planning

The overall conclusion to the political economy of the development planning is that successful developing countries had required enhanced funding of all sectors, i.e. public, private, and NGOs. Each of the three sectors has weaknesses and strengths. Weaknesses require changes in public policies. A proper balance between these sectors is needed to be introduced in developing countries.

6.3 Budget Provision for Different Sectors

The importance of effective management of public expenditure was noted by the policy-makers when they had faced severe fiscal adjustments during the 1970s when the Pakistani economy like all other countries was faced with a series of external shocks. This has been widely recognized by people in all sections of society including the donors. 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. 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-empt resources away from new development initiatives which may have a higher pay-off. The existing budgetary practice with its emphasis on actual past expenditure rewards agencies based on their absorptive capacity. The budgetary proposals need to be analyzed from the perspective of a program 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 that measures the performance of 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.

6.4 Investment Programming in Pakistan

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 the phasing of capital expenditure for

projects during appraisal. The Federal Ministry of Finance and provincial finance agencies must urgently build the analytical institutional ability to project the spending profiles of various programs in a coherent framework that connects expenses, incomes, and other macroeconomic factors. The intellectual competence should be powerful enough to study and develop different policy methods for spending.

6.5 Structure of Planning

The structure of planning in Pakistan as noted above was based on the experiences of other countries. Pakistan should learn from developing countries like South Korea which have kept top officials in planning being close to the President. They have otherwise reduced the number of staff working in the planning agencies. South Korea and Taiwan have kept their relationships with the research organizations and had got useful research done by research institutions. Pakistan should give the research projects to PIDE and other organizations after determining its requirements of research. Planning Commission should strengthen its research section as it was during the 1960s. Later on, the research section in Planning Commission has become an ineffective research section. Planning Commission should strengthen the poverty cell and publish its research on poverty and income distribution. Causing a delay in making its findings available to people on the asking of Ministry of Finance as was the practice previously is very wrong. This delay should never occur in the future. The collection of national income data and the expenditure data from which poverty and income distribution are estimated should be given to the Planning Commission. The Finance Ministry does not have trained staff to get the job done properly by the Bureau of Statistics who have been good at the collection of proper data but need continuous guidance from the Planning Commission to new data requirements. The Ministry of Finance and Economic Affairs currently deals with donors about aid and loans. While this seems okay, there is a need of entrusting the technical work on these aspects to

*Uhuhe Planning Division who have trained staff to get this work done better than it is being done presently by the Ministry of Finance.

6.6 Recent Recruitment in Planning Commission

It is extremely good that the current Deputy Chairman has recruited a Chief Economist and about 10 or so senior officials in Planning Commission. It is also important that Planning Commission has prepared a long-range planning framework to be implemented by 2025. It is important to revise the three-year Development Framework and make it a five-year development plan which should be evaluated in one year. This revision is called interim evaluation of the Plan. The Deputy Chairman should decide that in the future one-year development programs would never be prepared and approved in the absence of a five-year development plan. Such a plan needs to be prepared no matter what type of government is formed after the next elections. It is also important that recently recruited staff in the Planning Commission and the senior staff in other sections who have been promoted based on their length of service rather than training and work experience should undergo training for policymaking. There is a need to train the research staff in Planning Commission from the world's best universities as was the practice during the 1960s.

The research to be done for Planning Commission needs to cover the preparation of the input-output table, macroeconomic models for the economy, and linear programming model of growth. Deputy Chairman has to comment on many issues of the economy in the Cabinet and with donors and professional groups in Pakistan and abroad. For this lot of research work needs to be done. If Planning Commission can do this research, it is fine. Otherwise, Research Division in the Planning Commission should get the research done from research organizations in Pakistan and outside Pakistan. It should submit the main conclusions of the research to the Deputy Chairman.

The result of the planning process is a national (regional) development plan that presents a blueprint for the economy over five years of the planning exercise. It should be noted that plans are not only guided by economic analysis but are also a political statement by planners as they also present the goals of plans. A common pattern of a plan is that after the presentation of national goals by the planners, targets to national income, employment, investment, exports, and poverty reduction are announced. The conversion of a three-year development programme into a five-year plan by the Planning Commission is needed to be done. This plan should deal with the power crisis, tax reforms to raise more resources, Islamic economics issues specific to Pakistani requirements, and increasing the savings rate to finance higher levels of investment. These topics need to be presented as special papers in the Five Year Plan. The papers need to be prepared by the professional staff who have previous experience with these issues. Vice-Chancellor PIDE can be asked to prepare a paper on Islamic economics. He should be assisted by the Islamic economic section of the State Bank of Pakistan. The State Bank is doing a lot of work on the Islamic system, especially in other Islamic countries. Their section on Islam should work with PIDE. The section in the State Bank has information on important steps taken to Islamize parts of the economy.

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